

Kuali Foundation, Inc.

Auditor's Report and Financial Statements

June 30, 2013 and 2012

Kuali Foundation, Inc.

June 30, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Kuali Foundation, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of Kuali Foundation, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kualu Foundation, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of contributions receivable listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Indianapolis, Indiana
December 4, 2013

Kuali Foundation, Inc.
Statements of Financial Position
June 30, 2013 and 2012

Assets

| | 2013 | 2012 |
|--|---------------|---------------|
| Cash and cash equivalents | \$ 3,199,103 | \$ 5,055,075 |
| Investments | 3,250,000 | - |
| Accounts receivable | 75,200 | 79,817 |
| Contributions receivable - fair value option | 21,291,934 | 14,082,710 |
| Prepaid expenses and other assets | 32,563 | 28,835 |
| Total assets | \$ 27,848,800 | \$ 19,246,437 |

Liabilities and Net Assets

Liabilities

| | | |
|---------------------------------------|------------|--------------|
| Accounts payable and accrued expenses | \$ 791,722 | \$ 1,036,718 |
| Deferred income | 701,595 | 614,404 |
| Total liabilities | 1,493,317 | 1,651,122 |

Net Assets

| | | |
|----------------------------------|---------------|---------------|
| Unrestricted | 1,079,028 | 869,284 |
| Temporarily restricted | 25,276,455 | 16,726,031 |
| Total net assets | 26,355,483 | 17,595,315 |
| Total liabilities and net assets | \$ 27,848,800 | \$ 19,246,437 |

Kuali Foundation, Inc.
Statements of Activities
Years Ended June 30, 2013 and 2012

| | 2013 | | Total |
|---|---------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | |
| Revenue and Support | | | |
| In-kind contributions | | | |
| Kuali Financial System | \$ - | \$ 230,000 | \$ 230,000 |
| Kuali Coeus | - | 450,000 | 450,000 |
| Kuali RICE | - | 1,965,000 | 1,965,000 |
| Kuali Student | - | 11,732,000 | 11,732,000 |
| Kuali Mobility | - | 732,000 | 732,000 |
| Kuali People Management for the Enterprise (KPME) | - | 1,345,000 | 1,345,000 |
| Total in-kind contributions | <u>-</u> | <u>16,454,000</u> | <u>16,454,000</u> |
| Project partner dues | | | |
| Kuali Financial System | - | 1,598,750 | 1,598,750 |
| Kuali Coeus | - | 677,079 | 677,079 |
| Kuali RICE | - | 498,750 | 498,750 |
| Kuali Student | - | 1,460,000 | 1,460,000 |
| Kuali OLE | - | 2,171,000 | 2,171,000 |
| Kuali Ready | - | 182,000 | 182,000 |
| Kuali Mobility | - | 200,000 | 200,000 |
| Kuali Travel | - | - | - |
| Kuali CGBR | - | - | - |
| Kuali UXI | - | 925,000 | 925,000 |
| Kuali KPME | - | 120,000 | 120,000 |
| Total project partner dues | <u>-</u> | <u>7,832,579</u> | <u>7,832,579</u> |
| Project services - Kuali Ready | <u>-</u> | <u>680,208</u> | <u>680,208</u> |
| Other contributions and contract services | <u>-</u> | <u>1,392,182</u> | <u>1,392,182</u> |
| Total gross contribution revenue | - | 26,358,969 | 26,358,969 |
| Change in fair value | <u>-</u> | <u>1,201</u> | <u>1,201</u> |
| Total net contribution revenue | <u>-</u> | <u>26,360,170</u> | <u>26,360,170</u> |
| Kuali Days | 533,399 | - | 533,399 |
| Kuali Coeus User Conference | - | - | - |
| Kuali Community Workshop | 83,027 | - | 83,027 |
| Membership dues | 1,298,967 | - | 1,298,967 |
| Interest and other income | 8,871 | 17,227 | 26,098 |
| Total revenue | <u>1,924,264</u> | <u>26,377,397</u> | <u>28,301,661</u> |
| Net assets released from restrictions | <u>17,439,890</u> | <u>(17,439,890)</u> | <u>-</u> |
| Total revenue and other support | <u>19,364,154</u> | <u>8,937,507</u> | <u>28,301,661</u> |
| Expenses | | | |
| Project expenses | | | |
| Kuali Financial System | 1,565,453 | - | 1,565,453 |
| Kuali Coeus | 2,086,894 | - | 2,086,894 |
| Kuali RICE | 2,265,038 | - | 2,265,038 |
| Kuali Student | 8,579,625 | - | 8,579,625 |
| Kuali OLE | 829,846 | - | 829,846 |
| Kuali Ready & Ready Project Services | 715,157 | - | 715,157 |
| Kuali Mobility | 239,138 | - | 239,138 |
| Kuali Travel | - | - | - |
| Kuali CGBR | 188,618 | - | 188,618 |
| Kuali UXI | 12,136 | - | 12,136 |
| Kuali KPME | 755,630 | - | 755,630 |
| Total project expenses | <u>17,237,535</u> | <u>-</u> | <u>17,237,535</u> |
| Foundation expenses | 1,324,313 | - | 1,324,313 |
| Write-off of previous commitments and allowance | - | 387,083 | 387,083 |
| Kuali Days expenses | 455,304 | - | 455,304 |
| Kuali Coeus User Conference expenses | - | - | - |
| Kuali Community Workshop expenses | 137,258 | - | 137,258 |
| Total expenses | <u>19,154,410</u> | <u>387,083</u> | <u>19,541,493</u> |
| Change in Net Assets | <u>209,744</u> | <u>8,550,424</u> | <u>8,760,168</u> |
| Net Assets, Beginning of Year | <u>869,284</u> | <u>16,726,031</u> | <u>17,595,315</u> |
| Net Assets, End of Year | <u>\$ 1,079,028</u> | <u>\$ 25,276,455</u> | <u>\$ 26,355,483</u> |

| 2012 | | |
|--------------|---------------------------|---------------|
| Unrestricted | Temporarily Restricted | Total |
| \$ - | \$ 1,155,833 | \$ 1,155,833 |
| - | 1,350,000 | 1,350,000 |
| - | 785,000 | 785,000 |
| - | 4,000,000 | 4,000,000 |
| - | 639,500 | 639,500 |
| - | 180,000 | 180,000 |
| - | 8,110,333 | 8,110,333 |
| - | 609,167 | 609,167 |
| - | 3,724,891 | 3,724,891 |
| - | 430,833 | 430,833 |
| - | 816,093 | 816,093 |
| - | 81,811 | 81,811 |
| - | 20,000 | 20,000 |
| - | 25,000 | 25,000 |
| - | 50,000 | 50,000 |
| - | 148,985 | 148,985 |
| - | - | - |
| - | - | - |
| - | 5,906,780 | 5,906,780 |
| - | 504,542 | 504,542 |
| 98,150 | 1,288,020 | 1,386,170 |
| 98,150 | 15,809,675 | 15,907,825 |
| - | (927,714) | (927,714) |
| 98,150 | 14,881,961 | 14,980,111 |
| 519,267 | - | 519,267 |
| - | 118,029 | 118,029 |
| 69,292 | - | 69,292 |
| 1,128,758 | - | 1,128,758 |
| 17,463 | - | 17,463 |
| 1,832,930 | 14,999,990 | 16,832,920 |
| 18,092,217 | (18,092,217) | - |
| 19,925,147 | (3,092,227) | 16,832,920 |
| 1,521,616 | - | 1,521,616 |
| 2,945,278 | - | 2,945,278 |
| 2,397,513 | - | 2,397,513 |
| 6,436,631 | - | 6,436,631 |
| 1,993,296 | - | 1,993,296 |
| 794,348 | - | 794,348 |
| 644,262 | - | 644,262 |
| 522,000 | - | 522,000 |
| 369,626 | - | 369,626 |
| - | - | - |
| 639,006 | - | 639,006 |
| 18,263,576 | - | 18,263,576 |
| 922,714 | - | 922,714 |
| 40,000 | 1,890,864 | 1,930,864 |
| 428,391 | - | 428,391 |
| 102,999 | - | 102,999 |
| 166,018 | - | 166,018 |
| 19,923,698 | 1,890,864 | 21,814,562 |
| 1,449 | (4,983,091) | (4,981,642) |
| 867,835 | 21,709,122 | 22,576,957 |
| \$ 869,284 | \$ 16,726,031 | \$ 17,595,315 |

Kuali Foundation, Inc.
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|--|--------------|----------------|
| Operating Activities | | |
| Change in net assets | \$ 8,760,168 | \$ (4,981,642) |
| Change in | | |
| Accounts receivable | 4,617 | 58,600 |
| Contributions receivable | (7,209,224) | 2,885,727 |
| Prepaid expenses and other assets | (3,728) | (1,195) |
| Accounts payable and deferred revenues | (157,805) | 268,645 |
| Net cash provided by (used in) operating activities | 1,394,028 | (1,769,865) |
| Investing Activity - (purchase) maturity of certificates of deposit | (3,250,000) | 3,250,000 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,855,972) | 1,480,135 |
| Cash and Cash Equivalents, Beginning of Year | 5,055,075 | 3,574,940 |
| Cash and Cash Equivalents, End of Year | \$ 3,199,103 | \$ 5,055,075 |

Kuali Foundation, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

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.

The Foundation manages its projects based upon cash and in-kind commitments by project partners, and those commitments are reflected in Memorandum of Understanding documents that have a defined period. Because those Memorandum of Understanding documents are cyclical in nature, there will be a cyclical impact on the Foundation's net assets each fiscal year.

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, 2013 and 2012, cash equivalents consisted of certificates of deposit.

At June 30, 2013, the Foundation's cash accounts exceeded federally insured limits by approximately \$3,300,000.

Investments and Investment Return

Investments consist of certificates of deposit, which are carried at cost plus accrued interest.

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, 2013 and 2012

Deferred Income

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 statements 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. The majority of contributions are recognized through partnership agreements (project partner dues) 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.

Write-off of previous commitments occurs when a partner is not able to or has indicated they will not fulfill their original commitment. In 2013 and 2012, write-offs of in-kind contributions totaled \$283,333 and \$1,590,364, respectively, and write-offs of project partner dues, memberships and subscriptions totaled \$103,750 and \$340,500, respectively.

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.

Related Parties

In the normal course of business, the Foundation enters into exchange transactions with companies that are owned by or employ members of the Foundation's Board of Directors, collectively referred to hereafter as Related Parties. During the years ended June 30, 2013 and 2012, exchange transactions executed with these related parties consisting primarily of consulting services totaled approximately \$1,200,000 and \$1,600,000, respectively.

Kuali Foundation, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

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 2010.

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.

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 statements 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 the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Kuali Foundation, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

Note 2: Investments

Investments at June 30 consisted of the following:

| | <u>2013</u> | <u>2012</u> |
|-------------------------|--------------|-------------|
| Certificates of deposit | \$ 3,250,000 | \$ - |

Total investment return, including interest on certificates of deposit, is comprised of the following:

| | <u>2013</u> | <u>2012</u> |
|-----------------|-------------|-------------|
| Interest income | \$ 8,634 | \$ 11,361 |

As of June 30, 2012, the investments are classified as cash and cash equivalents, because most of the certificates of deposit were purchased with a shorter term. During this fiscal year, the Foundation reviewed alternative investment strategies and, therefore, purchased certificates of deposit with shorter terms until a final decision was made with regard to investment strategies. In 2013, funds were reinvested in certificates of deposit with varying term lengths, including longer terms.

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

| | <u>Temporarily Restricted 2013</u> | <u>2012</u> |
|----------------------------|--|----------------------|
| Due within one year | \$ 14,720,075 | \$ 9,474,772 |
| Due in one to five years | 7,558,125 | 5,595,405 |
| | <u>22,278,200</u> | <u>15,070,177</u> |
| Less: Change in fair value | (986,266) | (987,467) |
| | <u>\$ 21,291,934</u> | <u>\$ 14,082,710</u> |

Discount rates ranged from 0.18% to 0.95% and from 0.23% to 1.07% for 2013 and 2012, respectively, which reflects an estimate of the rates a market participant would demand for bearing the uncertainty in such cash flows.

The Foundation provides an allowance for uncollectible accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Kuali Foundation, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

Contributions receivable designated for specific purposes are as follows:

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Kuali Financial System | \$ 2,595,466 | \$ 2,459,103 |
| Kuali Coeus | 2,729,935 | 3,957,748 |
| Kuali RICE | 1,623,441 | 766,072 |
| Kuali Student | 11,079,387 | 6,184,205 |
| Kuali OLE | 1,212,334 | 183,772 |
| Kuali Ready and Kuali Ready project services | 151,681 | 151,168 |
| Kuali KPME | 1,015,981 | 380,642 |
| Kuali UXI | 310,838 | - |
| Kuali Mobility | 572,871 | - |
| | <u>\$ 21,291,934</u> | <u>\$ 14,082,710</u> |

Massachusetts Institute of Technology (MIT) had previously developed an electronic research administration software system known as MIT Coeus and has administered the Coeus Consortium to further the development of Coeus for the benefit of all members of the Consortium.

MIT indicated they intend to cease operating the Coeus Consortium. As such, the Foundation has developed a new version of the software, named Kuali Coeus, and is delivering it open source under the aegis and licensing structure of the Foundation.

MIT and the Foundation entered into a transitioning and support agreement, which provides for MIT and the Foundation assisting the transition of members to Kuali Coeus. As part of this agreement, the Foundation will remit to MIT payment for support provided to MIT Coeus members during the transition period. In accordance with Kuali's revenue recognition policy, the Foundation has recognized contributions from transitioning members at the time the related Memo of Understanding (MOU) was signed. At June 30, 2013 and 2012, a liability of \$275,504 and \$43,805, respectively, was recorded under the support agreement for services provided in fiscal years 2013 and 2012, respectively. In fiscal years 2013 and 2012, \$680,357 and \$549,456, respectively, was received and remitted to or included as a payable at year end to MIT for transitioning members and is included within the Kuali Coeus project expenses on the statements of activities.

Kuali Foundation, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

Note 4: Net Assets

Temporarily Restricted Net Assets

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

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Kuali Financial System | \$ 3,693,788 | \$ 3,393,952 |
| Kuali Coeus | 3,109,431 | 4,094,089 |
| Kuali RICE | 1,863,177 | 1,050,760 |
| Kuali Student | 11,493,285 | 6,414,502 |
| Kuali OLE | 2,210,080 | 915,295 |
| Kuali Ready and Kuali Ready project services | 151,681 | 151,168 |
| Kuali Mobility | 694,762 | 19,181 |
| Kuali CGBR | 31,611 | 220,878 |
| Kuali UXI | 898,702 | - |
| Kuali KPME | 1,129,938 | 466,206 |
| | <u>\$ 25,276,455</u> | <u>\$ 16,726,031</u> |

Note 5: 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.

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Purpose restrictions accomplished | | |
| Kuali Financial System | \$ 1,583,137 | \$ 1,536,939 |
| Kuali Coeus | 2,094,377 | 3,054,827 |
| Kuali RICE | 2,268,132 | 2,401,366 |
| Kuali Student | 8,594,648 | 6,450,602 |
| Kuali OLE | 833,064 | 1,998,335 |
| Kuali Ready and Kuali Ready project services | 865,208 | 541,343 |
| Kuali Mobility | 240,291 | 645,318 |
| Kuali Travel | - | 452,403 |
| Kuali CGBR | 189,267 | 369,626 |
| Kuali UXI | 12,136 | - |
| Kuali KPME | 759,630 | 641,458 |
| | <u>\$ 17,439,890</u> | <u>\$ 18,092,217</u> |

Kuali Foundation, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

Note 6: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

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, 2013 and 2012:

| | Fair Value Measurements Using | | | |
|--------------------------|--------------------------------------|---|--|--|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Contributions receivable | | | | |
| As of June 30, 2013 | \$ 21,291,934 | \$ - | \$ - | \$ 21,291,934 |
| As of June 30, 2012 | \$ 14,082,710 | \$ - | \$ - | \$ 14,082,710 |

Kuali Foundation, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

Following is a description of the valuation methodologies and inputs used for assets 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 pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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.

Fair value determinations for Level 3 measurements of securities are the responsibility of the finance department office. The finance department challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Level 3 Reconciliation

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

| | Contributions Receivable |
|---|-------------------------------------|
| Balance, July 1, 2011 | \$ 16,968,437 |
| Contributions | 14,017,113 |
| Net payments | (14,084,262) |
| Write-off of previous commitments | (1,890,864) |
| Change in fair value included in the change in net assets | (927,714) |
| Balance, June 30, 2012 | 14,082,710 |
| Contributions | 24,286,579 |
| Payments | (16,691,473) |
| Write-off of previous commitments | (387,083) |
| Change in fair value included in the change in net assets | 1,201 |
| Balance, June 30, 2013 | \$ 21,291,934 |

Unobservable (Level 3) Inputs

The following presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements. Contributions receivable have a fair value at June 30, 2013 of \$21,291,934, measured using a valuation technique of discounted cash flow. The unobservable inputs and the rates are as follows: Discount rate ranging from 0.18% to 0.95% for June 30, 2013 and a probability of default range of 1-3 MOU's per year.

Kuali Foundation, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

Note 7: The Fair Value Option

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 3 and 6 for additional disclosures regarding fair value of each of the statements of financial position line items listed in the preceding paragraph.

Note 8: Functional Expenses

Total expenses by functional classification are as follows:

| | 2013 | 2012 |
|------------------------|----------------------|----------------------|
| Program expenses | \$ 19,368,770 | \$ 21,632,270 |
| Management and general | 172,723 | 182,292 |
| | <u>\$ 19,541,493</u> | <u>\$ 21,814,562</u> |

Note 9: 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:

Fair Value of Contributions Receivable

Fair value of contributions receivable was estimated by the Foundation based on the present value of the payments to be received as well as the estimation of the collectability of the specific receivable balances.

Current Economic Conditions

The current economic situation continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large 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.

Supplementary Information

Kuali Foundation, Inc.
Schedule of Contributions Receivable
June 30, 2013

| | 2013 | | | | | | | | | |
|--------------------------------|----------------------|------------------------------|---------------------|---------------------|----------------------|---------------------|-------------------|-------------------|-------------------|---------------------|
| | Totals | Kuali Financial System | Kuali Coeus | Kuali RICE | Kuali Student | Kuali OLE | Kuali Ready | Kuali Mobility | Kuali UXI | Kuali KPME |
| In-Kind Contributions | | | | | | | | | | |
| Due within one year | \$ 8,706,500 | \$ 527,500 | \$ 540,000 | \$ 840,000 | \$ 5,667,500 | \$ - | \$ - | \$ 399,000 | \$ - | \$ 732,500 |
| Due within two years | 5,645,208 | 395,000 | 360,000 | 460,000 | 4,060,000 | - | - | 100,000 | - | 270,208 |
| Due within three years | 52,500 | - | 22,500 | 30,000 | - | - | - | - | - | - |
| | <u>14,404,208</u> | <u>922,500</u> | <u>922,500</u> | <u>1,330,000</u> | <u>9,727,500</u> | <u>-</u> | <u>-</u> | <u>499,000</u> | <u>-</u> | <u>1,002,708</u> |
| Project Partner Dues | | | | | | | | | | |
| Due within one year | 6,013,575 | 984,167 | 1,383,739 | 333,450 | 1,616,136 | 1,113,000 | 158,500 | 100,000 | 275,000 | 49,583 |
| Due within two years | 1,840,417 | 810,000 | 530,000 | 35,000 | 250,000 | 155,000 | - | - | 50,000 | 10,417 |
| Due within three years | 20,000 | - | 20,000 | - | - | - | - | - | - | - |
| | <u>7,873,992</u> | <u>1,794,167</u> | <u>1,933,739</u> | <u>368,450</u> | <u>1,866,136</u> | <u>1,268,000</u> | <u>158,500</u> | <u>100,000</u> | <u>325,000</u> | <u>60,000</u> |
| | 22,278,200 | 2,716,667 | 2,856,239 | 1,698,450 | 11,593,636 | 1,268,000 | 158,500 | 599,000 | 325,000 | 1,062,708 |
| Less: Change in fair value | <u>(986,266)</u> | <u>(121,201)</u> | <u>(126,304)</u> | <u>(75,009)</u> | <u>(514,249)</u> | <u>(55,666)</u> | <u>(6,819)</u> | <u>(26,129)</u> | <u>(14,162)</u> | <u>(46,727)</u> |
| Total contributions receivable | <u>\$ 21,291,934</u> | <u>\$ 2,595,466</u> | <u>\$ 2,729,935</u> | <u>\$ 1,623,441</u> | <u>\$ 11,079,387</u> | <u>\$ 1,212,334</u> | <u>\$ 151,681</u> | <u>\$ 572,871</u> | <u>\$ 310,838</u> | <u>\$ 1,015,981</u> |

Kuali Foundation, Inc.
Schedule of Contributions Receivable
June 30, 2012

2012

| | Totals | Kuali Financial System | Kuali Coeus | Kuali RICE | Kuali Student | Kuali OLE | Kuali Ready | Kuali KPME |
|--------------------------------|-----------------------------|------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|--------------------------|--------------------------|
| In-Kind Contributions | | | | | | | | |
| Due within one year | \$ 5,964,347 | \$ 665,000 | \$ 451,000 | \$ 320,000 | \$ 4,121,784 | \$ - | \$ - | \$ 406,563 |
| Due within two years | 2,855,833 | 648,333 | 450,000 | 150,000 | 1,607,500 | - | - | - |
| Due within three years | 650,000 | 365,000 | 285,000 | - | - | - | - | - |
| | <u>9,470,180</u> | <u>1,678,333</u> | <u>1,186,000</u> | <u>470,000</u> | <u>5,729,284</u> | <u>-</u> | <u>-</u> | <u>406,563</u> |
| Project Partner Dues | | | | | | | | |
| Due within one year | 3,510,425 | 507,000 | 1,506,120 | 264,431 | 883,420 | 196,287 | 153,167 | - |
| Due within two years | 1,506,239 | 274,167 | 1,188,739 | 35,000 | - | - | 8,333 | - |
| Due within three years | 583,333 | 175,000 | 358,333 | 50,000 | - | - | - | - |
| | <u>5,599,997</u> | <u>956,167</u> | <u>3,053,192</u> | <u>349,431</u> | <u>883,420</u> | <u>196,287</u> | <u>161,500</u> | <u>-</u> |
| | <u>15,070,177</u> | <u>2,634,500</u> | <u>4,239,192</u> | <u>819,431</u> | <u>6,612,704</u> | <u>196,287</u> | <u>161,500</u> | <u>406,563</u> |
| Less: Change in fair value | <u>(987,467)</u> | <u>(175,397)</u> | <u>(281,444)</u> | <u>(53,359)</u> | <u>(428,499)</u> | <u>(12,515)</u> | <u>(10,332)</u> | <u>(25,921)</u> |
| Total contributions receivable | <u><u>\$ 14,082,710</u></u> | <u><u>\$ 2,459,103</u></u> | <u><u>\$ 3,957,748</u></u> | <u><u>\$ 766,072</u></u> | <u><u>\$ 6,184,205</u></u> | <u><u>\$ 183,772</u></u> | <u><u>\$ 151,168</u></u> | <u><u>\$ 380,642</u></u> |