UNIVERSITY OF SOUTHERN INDIANA

Financial Report 2016

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Additional copies of this report may be obtained from:

Controller and Assistant Treasurer, Business Office
Orr Center, Room 027
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712-3597
Telephone: 812-464-1967
or from the website at *www.usi.edu/busoff/annualreport.asp*

Board of Trustees 2015–2016

Trustees of the University gather before the May 2016 commencement ceremony. Left to Right: Ira G. Boots, John M. Dunn, Kenneth L. Sendelweck, W. Harold Calloway, Linda L. M. Bennett, Ronald D. Romain, Evan K. Stieler, Jeffrey L. Knight

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Chair
Evansville, Indiana

W. Harold Calloway, 2018
Vice Chair
Evansville, Indiana

Ira G. Boots, 2016
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Amy L. MacDonell, 2018
Secretary
Indianapolis, Indiana

John M. Dunn, 2018
Evansville, Indiana

Ronald D. Romain, 2016
Evansville, Indiana

Kenneth L. Sendelweck, 2016
Jasper, Indiana

Evan K. Stieler, 2017
Newburgh, Indiana

Ted C. Ziemer, Jr., 2019
Evansville, Indiana

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President

Steven J. Bridges
Vice President for Finance and Administration and Treasurer

Cynthia S. Brinker
Vice President for Government and University Relations

Ronald S. Rochon
Provost

Andrew W. Wright
Vice President for Enrollment Management

Message from the President

Dr. Linda L. M. Bennett
President

At the beginning of this year, we launched a new five-year strategic plan—only the second such plan in the University's 50 year history. During our first strategic plan process, we reflected on what makes our community unique, and how we could continue to develop. We came together to think about our mission and vision. The work from that process was so solid that we found no need to revisit our mission and vision statements this time around. Both are visible and serve as a guide to strategic priorities for the coming years.

What we are doing now is collectively thinking about the environment for higher education; how it has changed, and the role of an institution such as USI in addressing those changes and anticipating state, national and international trends. We began by conducting an environmental scan and, from that process, along with interaction with constituents both on and off campus, identified three goals.

1. Excellence in Learning for the Entire USI Community—to recruit and retain outstanding students, we must be intentional in how faculty, staff and the community continue to learn and develop.
2. Access and Opportunity by Design—intentional design of collaborative and diverse opportunities among students, faculty and staff by generating greater access between our expertise and talents and the organizations with whom we partner.
3. Purposeful and Sustainable Growth—dynamic growth in student enrollment, in full-time faculty, in programs particularly with a focus on graduate education, in reputation and in geographic reach.

These three goals serve as the primary focus points for our strategic plan and help to frame the strategies and metrics for that plan as it moves forward. What we're finding is evidence that by engaging in the process of developing and implementing an institutional strategic plan, we've encouraged and empowered offices around campus to develop strategies and plans for their units. That amounts to a change in thinking and culture that will drive our strategy over the next five years.

We've begun with a simple set of metrics for each priority. As the initiatives surrounding our three strategic priorities develop, we'll continue to enhance them and to monitor our progress. We know that data can disprove assumptions but, I'm also a fan of a great story. Data need case studies, individual voices, to lend depth and texture to the impact of our work.

Whether we use data or narratives, we need to remember that we are transforming lives, and that the work of our strategic plan has a grand purpose: to educate in ways that are lasting, and prepare individuals to continue to learn and live wisely. We already have a strong reputation for educating learners of all ages and, as we look to the future, we're embodying our tagline, *"Knowledge for Life."* The coming years are going to be exciting!

Linda L. M. Bennett, Ph.D.
President

Message From The Vice President and Treasurer

To the President and the Board of Trustees of the University of Southern Indiana:

I am pleased to present the University of Southern Indiana's audited financial report for the fiscal year ended June 30, 2016. These financial statements have been audited by the Indiana State Board of Accounts, and their report, which is an unmodified opinion, appears on pages 4 and 5. The University of Southern Indiana continues to provide a quality educational experience while setting the affordability standard for Indiana higher education.

Steven J. Bridges
Vice President for Finance and Administration and Treasurer

Operationally, revenues continued to exceed expenditures as has been the case throughout our entire history, and even during these times of growing challenges in the higher education sector. Strong financial stewardship of resources has been a hallmark since our founding and continues today. Because it has no deferred maintenance, maintains a pricing strategy which allows flexibility, and resides in a fiscally strong state that is supportive of the institutional mission, the University is certainly well positioned for the future and able to react to challenges. Credit rating agencies, as detailed in the Management Discussion and Analysis section of the report, continue to recognize the financial strength of the University, demonstrating their confidence in our financial position and future.

In 2016, the University launched its second strategic plan, which will be coupled with an updated master planning process. These combined efforts help to focus our efforts to create financial and efficiency synergies to maximize resource utilization. Resources and facilities are being directed toward new and emerging programs, which best meet the wants and needs of our students. These efforts allow us to continue to deliver quality programs and services at reasonable costs, with students' interests and success foremost in the process.

This report is a complete and permanent record of the financial status of the University of Southern Indiana for the period stated therein.

Steve Bridges
Vice President for Finance and Administration and Treasurer

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF UNIVERSITY OF SOUTHERN INDIANA, EVANSVILLE, INDIANA

Report on the Financial Statements

We have audited the financial statements of the business-type activities and discretely presented component unit of University of Southern Indiana (University), a component unit of the State of Indiana, as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the Table of Contents.

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 opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Southern Indiana Foundation (Foundation), a component unit of the University as discussed in Note 1, which represents 100 percent of the total assets, net assets, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 University'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 University'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 opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of the University's Proportionate Share of the Net Pension Liability, the Schedule of University Contributions, and the Notes to Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Board of Trustees, University Officers, Message from the President, Message from the Vice President and Treasurer, Five-Year Comparative Data, and Home Counties of USI Students-Fall 2015, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Board of Trustees, University Officers, Message from the President, Message from the Vice President and Treasurer, Five-Year Comparative Data, and Home Counties of USI Students-Fall 2015 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University's internal control over financial reporting and compliance.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

October 26, 2016

Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University of Southern Indiana (the University or USI) during the fiscal year ended June 30, 2016, and compares that performance with data from prior fiscal periods. It is designed to focus on current activities, resulting changes, and currently known facts. It is intended to answer questions that may result from the review of the information presented in the financial statements and to better explain the financial position of the University. The information presented in the financial statements, the notes to the financial statements, and the discussion and analysis are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements prepared from an entity-wide focus in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities.* These statements focus on the financial condition, the results of operations, and the cash flows of the University as a whole. During the 2015-2016 fiscal year, the University applied GASB Statement 72, *Fair Value Measurement and Application*, portions of GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* and GASB Statement 79, *Certain External Investment Pools and Pool Participants*, as required.

A key question to ask about the University's finances is whether the institution as a whole improved or declined as a result of the financial activities from the fiscal year. The answer is found in the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Discussion and analysis of each of these statements are presented in the following pages.

Statement of Net Position

The Statement of Net Position presents the value of the assets, liabilities, and net position at the end of the fiscal year as well as deferred inflows of resources and deferred outflows of resources which affect the net position of the University. It is prepared under the accrual basis of accounting: revenues and expenses, and their impact on assets and liabilities, are recognized when service is provided or received by the University, regardless of when cash is exchanged. Assets and liabilities are classified as current (accessible or payable in one year or less) or noncurrent (accessible or payable beyond one year). Net position is categorized in one of three ways: net investment in capital assets, restricted for specific purposes, or unrestricted, and it is one indicator of current financial health. The increases or decreases in net position that occur over time indicate improvements or deteriorations of the University's financial condition.

STATEMENT OF NET POSITION CONDENSED

Year Ended June 30 (in thousands)	2016	2015	2014
Current Assets	$ 61,111	$ 53,707	$ 57,183
Noncurrent Assets:			
Capital assets, net of depreciation	178,605	180,635	181,264
Other non-current	60,443	60,689	55,312
Total Assets	$300,159	$295,031	$293,759
Hedging Derivative Instruments	$ 1,898	$ 1,736	$ 1,915
Pension Benefits	3,492	1,288	
Total Deferred Outflow of Resources	$ 5,390	$ 3,024	$ 1,915
Current Liabilities	$ 22,778	$ 23,833	$ 23,111
Noncurrent Liabilities	118,449	123,792	127,574
Total Liabilities	$141,227	$147,625	$150,685
Pension Benefits	$ 944	$ 1,112	
Total Deferred Inflow of Resources	$ 944	$ 1,112	
Net Position:			
Net investment in capital assets	$ 77,195	$ 65,511	$ 56,486
Restricted–expendable	1,034	192	1,405
Unrestricted	85,149	83,615	87,098
Total Net Position	$163,378	$149,318	$144,989

Assets

Current assets at June 30, 2016, consist predominantly of cash and cash equivalents, short-term investments, receivables net of allowances, and inventory in addition to lesser-valued resources like prepaid expenses and accrued interest that are grouped together and listed under the term "Other." Noncurrent assets include capital assets net of depreciation, long-term investments, and deposits with bond trustee.

Total assets increased $5.1 million (1.7 percent) in 2016 compared to a $1.3 million (.4 percent) increase in 2015 and a $4.5 million (1.6 percent) increase in 2014. The current-year activity is summarized by the following events.

- The value of cash and equivalents grew by $8.7 million. The University experienced an increase in bond calls near the end of the fiscal year as the interest-rate environment experienced uncertainty, resulting in short-term investments decreasing by $1.8 million and long-term investments decreasing by $543,000. Those dollars and cash generated from revenues were placed in interest-bearing accounts and reinvested in short-term investments with maturities of less than 90 days, which are classified as cash equivalents on the Statement of Net Position.
- Accounts receivable increased by $2.4 million. The majority of the increase ($2 million) stems from gifts due to the University from the USI Foundation for construction of the USI Performance Center and the Griffin Center. This increase was offset partially by an increase in the allowance for uncollectible accounts, resulting in a net increase of $712,000 for the fiscal year.
- Net capital assets declined by $2 million as depreciation expense of $13.3 million outpaced the value of new assets which were capitalized during the year.

Deferred Outflow of Resources

Deferred outflow of resources increased by $2.4 million due primarily to a $2.2 million increase in deferred outflow of resources related to pensions, which rose from $1.3 million in 2015 to $3.5 million in 2016. Additional information about this item may be found in Note 11 of the *Notes to Financial Statements.*

Liabilities

Current liabilities at June 30, 2016, are primarily composed of accrued payroll, related benefits and deductions along with the current portion of bonds payable. Also included are accounts payable, debt interest payable, unearned revenues, and other miscellaneous liabilities. Noncurrent liabilities are predominately bonds payable, other postemployment benefits, and the University's share of the net pension liability for the Public Employees' Retirement Fund (PERF). Also included are derivative instruments-interest rate swaps for Series 2006 and Series 2008A hedgeable financial derivatives, compensated absences, termination benefits, unamortized bond premium, and miscellaneous other long-term liabilities. Total liabilities decreased $6.4 million (4.3 percent) in 2016 compared to a $3.1 million decrease (2 percent) in 2015 and an $8.4 million decrease (5.3 percent) in 2014. Activities that influenced this change include the following factors.

- Accrued payroll, related benefits, and deductions increased $455,000 in 2016, which is consistent with the $464,000 increase in 2015 following a $148,000 increase in 2014.
- Total notes, bonds and leases payable decreased by $11.3 million during 2016. Noncurrent bonds payable dropped $10.3 million while the current portion of bonds payable declined by $1.2 million. See Note 7 in Notes to Financial Statements for details on debt related to capital assets.
- The liability for other postemployment benefits increased by $1.8 million.
- Net pension liability for PERF increased noncurrent liabilities by $2.6 million.

Deferred Inflow of Resources

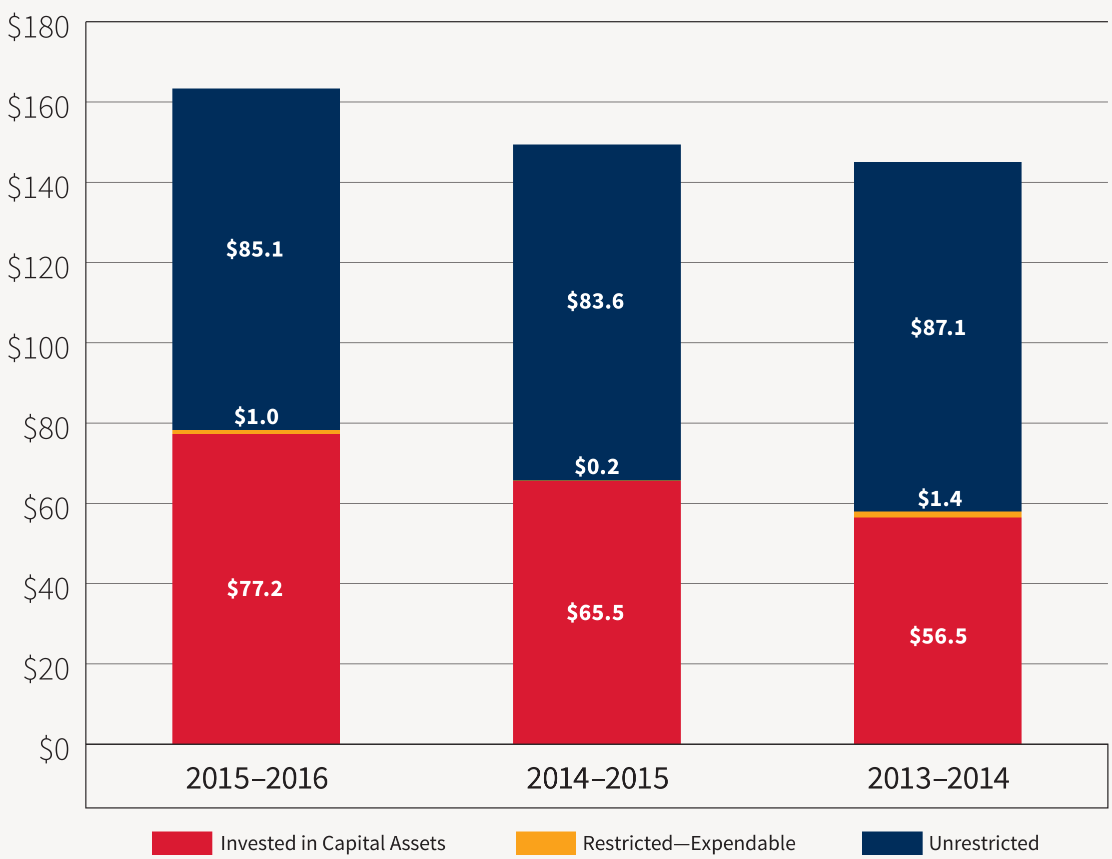
Deferred inflow of resources declined by $168,000 (15 percent) from $1.1 million in 2015 to $944,000 in 2016 based on information provided by the Indiana Public Retirement System. The amounts reflect the University share of the annual change in net pension liability for the Public Employees' Retirement Fund as required by GASB Statement 68 and GASB Statement 71. Additional information about the net pension liability may be found in Note 11 of the *Notes to Financial Statements.*

Net Position

Net Position at June 30, 2016, is $14.1 million greater than on June 30, 2015. Net investment in capital assets increased $11.6 million; restricted expendable assets increased $842,000; and unrestricted assets increased $1.5 million. Unrestricted assets equal $85.1 million and comprise 52 percent of total net position. Of the total unrestricted amount, $78.2 million has been internally designated as follows.

- $22.8 million reserve for equipment and facilities maintenance and replacement
- $16.8 million reserve for University benefits
- $11.7 million reserve for auxiliary systems
- $5.5 million reserve for working capital and outstanding encumbrances
- $9.7 million reserve for academic operations and initiatives
- $2.7 million reserve for insurance and equipment
- $8.9 million reserve for medical premiums

ANALYSIS OF NET ASSETS (IN MILLIONS)



Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the fiscal year. The statement illustrates how financial activities of the University during the previous two years affected the net position of the University.

Activities are reported as either operating or non-operating. Student fees and revenues from auxiliary enterprises are the major sources of operating income. Operating income is reduced by discounts and allowances for scholarships, room, and board. Discounts and allowances are institutional resources provided to students as financial aid up to and equal to the amounts owed by the students to the institution.

An important point to recognize on this financial statement is that state appropriations and non-exchange governmental and corporate grants are required to be classified as non-operating revenues. This creates large operating deficits for public universities which rely heavily on state funding and governmental grants to meet their missions and goals. A truer measure of fiscal year net income is the amount shown on the statement as "Income before other revenues, expenses, gains, or losses."

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION CONDENSED			
Year Ended June 30 (in thousands)	2016	2015	2014
Total operating revenues	$ 75,285	$ 76,261	$ 78,020
Total operating expenses	(149,961)	(142,292)	(140,209)
Operating losses	(74,676)	(66,031)	(62,189)
Net non-operating revenues/(expenses)	82,399	76,506	74,764
Income before other revenues, expenses, gains or losses	7,723	10,475	12,575
Capital gifts and grants	6,337	698	197
Increase (decrease) in net position	$ 14,060	$ 11,173	$ 12,772

Revenues

Operating revenues declined marginally by $976,000 (1.3 percent) in 2016 compared to a $1.8 million (2.3 percent) decrease in 2015 and a $2.2 million (2.9 percent) increase in 2014. The 2016 decrease is comprised of the following significant elements.

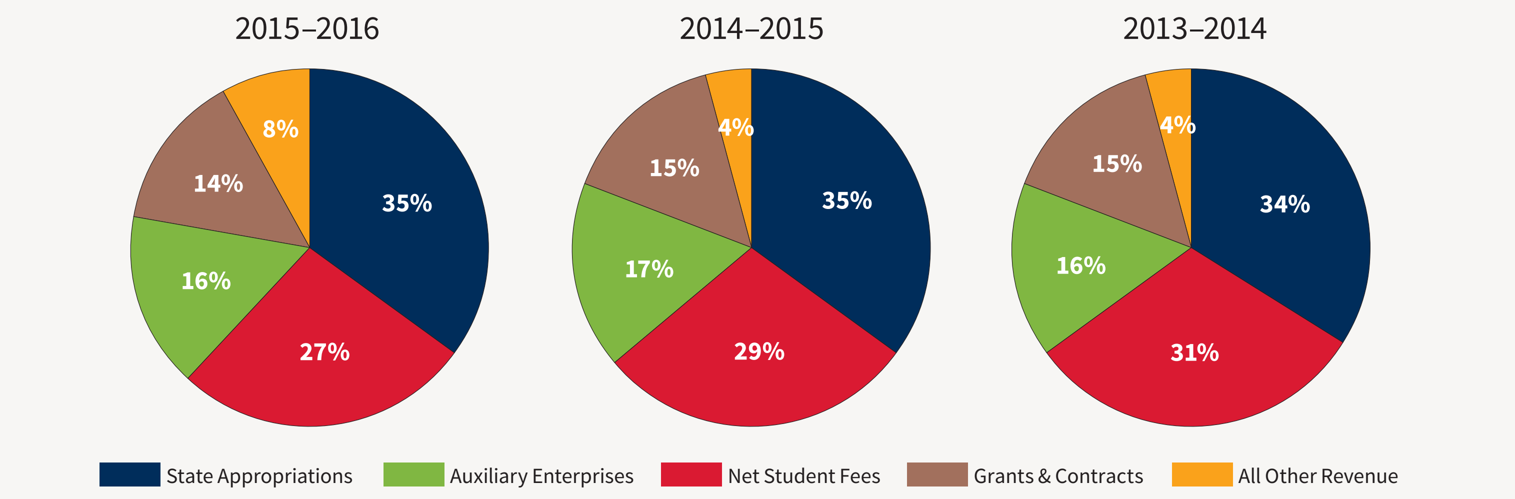
- Net student fee revenue decreased slightly from $45.4 million in 2015 to $44.6 million in 2016 due to an increase in scholarship discounts and allowances.
- Auxiliary income was stable, decreasing slightly by $200,000 from $26.6 million in 2015 to $26.4 million. Increases of 9.1 percent in housing revenues, 3.4 percent in dining revenues, and 3.5 percent in parking revenues were offset by a 14.1 percent decrease in Campus Store revenues.
- Operating grants declined by $122,000 while other operating revenues increased by $140,000.

Non-operating revenues increased 7.7 percent for the fiscal year ended June 30, 2016, after a 2 percent gain in 2015 and 3.9 percent increase in 2014. The 2016 increase was comprised of the following significant elements.

- State appropriations increased from $54.9 million in 2015 to $59.3 million in 2016.
- Gift income increased 18.5 percent from $2.7 million in 2015 to $3.3 million in 2016 due to an increase in scholarship awards and other support from the USI Foundation.
- Non-operating grants and contracts increased by $209,000. State and local grants increased by $456,000, predominantly due to an increase in student financial aid from the State of Indiana. Nongovernmental grants increased $178,000, but federal grants decreased by $425,000, primarily due to a decline in federal financial aid.

Total revenues (operating, non-operating, and other) increased $9.9 million in 2016. The graph below shows the composition of the University's revenue for fiscal years 2014-2016.

REVENUE SOURCES



Expenses

Operating expenses increased $7.7 million (5.4 percent) in 2016 compared to an increase of $2.1 million (1.5 percent) in 2015 and a decrease of $4.1 million (2.8 percent) in 2014. Increases in supplies and other services, salaries and wages, and benefits netted against slight decreases in student financial aid and utility costs. Specifically, the growth in operating expenses during 2016 was driven by the following key elements.

- Compensation, which includes salaries, wages, and benefits, comprised $86.7 million (57.8 percent) of total operating expenses and increased 4.3 percent from 2015. Salaries and wages grew by less than 2 percent, and benefits costs increased by 10.5 percent due mainly to an increase in the net obligation for other postemployment benefits (OPEB).
- Supplies and other services increased by $4.2 million (12.9 percent) compared to a $5.7 million (20.8 percent) increase in 2015 and an $8.4 million (23.7 percent) decrease in 2014. This category includes but is not limited to classroom and lab supplies, software, facility maintenance, equipment maintenance, and non-capital equipment. Dollars expended in this category fell from $57.6 million in 2015 to $47.9 million in 2016. However, because fewer purchases met the University criteria for capitalization, the amount for the line item increased because more disbursements were recognized as expenses rather than as assets and depreciated over time.

Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures decreased $636,000 in 2016. In 2015, those costs declined by $181,000.

Total expenses (operating and non-operating) increased $7 million in 2016 after growing by $1.9 million in 2015 and declining by $6.1 million in 2014. The composition of total expenses for all three years is depicted by major categories in the graph below.

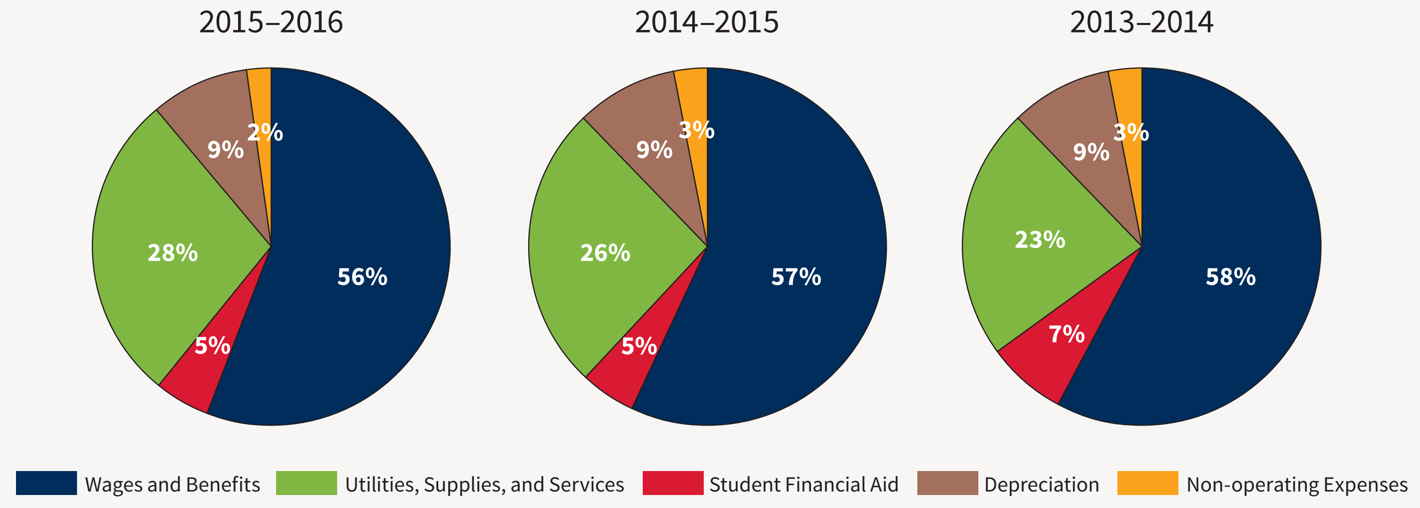
Capital Grants and Gifts

Capital grants and gifts increased by $5.6 million in 2016 following a $500,000 increase in 2015 and a $387,000 decline in 2014. Gifts from the USI Foundation for construction of the USI Performance Center and the Griffin Center produced the growth in 2016.

Change in Net Position

The difference between annual revenues and expenses causes an increase or decrease to net position. For the fiscal year ending June 30, 2016, net position increased by $14.1 million following an $11.2 million increase in 2015 and a $12.8 million increase in 2014. Total revenues and total expenses increased during 2016.

EXPENSE PURPOSES



Statement of Cash Flows

The Statement of Cash Flows provides additional information about the financial health of the University by helping the user assess the ability to generate future cash flows, the ability to meet obligations as they come due, and the need for external financing.

This statement identifies the sources and uses of cash and equivalents throughout the fiscal year and informs the user how much cash was used by or provided by the following activities: operating, noncapital financing, capital financing, and investing. The chart below shows the University's sources, uses, and changes in cash and cash equivalents for fiscal years 2014-2016.

STATEMENT OF CASH FLOWS			
Year Ended June 30 (in thousands)	2016	2015	2014
Net cash (used) provided by			
Operating activities	$(58,764)	$(51,228)	$(48,288)
Noncapital financing activities	84,707	76,176	78,448
Capital financing activities	(20,988)	(27,474)	(26,326)
Investing activities	3,795	(1,359)	(6,659)
Net increase (decrease) in cash	$ 8,750	$ (3,885)	$ (2,825)

Operating activities

- Cash used by operating activities increased $7.5 million in 2016 compared to a $2.9 million increase in 2015 and a $5.1 million decrease in 2014.
- Student fees and auxiliary enterprises generated the largest inflow of cash for all fiscal years.
- Payments to employees, which include salaries, wages, and benefits, and payments to suppliers used the most cash in all fiscal years.

Noncapital financing activities

- Cash provided by noncapital financing activities increased by $8.5 million in 2016 following a decrease of $2.3 million in 2015 and a $1.8 million increase from in 2014.
- State appropriations provided the largest inflow of cash in all fiscal years followed by non-capital gifts and grants.

Capital financing activities

- Cash used by capital financing activities decreased by $6.5 million in 2016 following an increase of $1.1 million in 2015 and a $3.3 million increase in 2014.
- Capital gifts from the USI Foundation generated the largest cash inflow in 2016 and 2015. In 2014, construction draws from Series K-1 bond proceeds held by trustee for the Performance Center project generated the largest cash inflow.
- Principal and interest paid on capital debt generated the largest cash outflow in 2016 and 2015 while purchases of capital assets created the largest outflow of cash in 2014.

Investing activities

- Investing activities provided $3.8 million in cash during 2016 after using $1.4 million in 2015 and $6.7 million in 2014.
- Proceeds from sales and maturities of investments increased from $38.7 million in 2015 to $46.8 million in 2016. Interest earned on investments also increased from $821,000 to $894,000 between the two years.
- Cash used for purchases of investments increased $3 million in 2016 following a $9.3 million increase in 2015 and a $7.6 million decrease in 2014.

Summary of Statement of Cash Flows

For the year ended June 30, 2016, more cash was used for operating activities, less cash was used by capital financing activities, more cash was provided by noncapital financing activities, and more cash was provided by investing activities compared to the previous fiscal year. As a result of these activities, the University increased its cash position by $8.7 million, ending the fiscal year with a cash balance of $26.8 million.

Factors Impacting Future Periods

The University of Southern Indiana completed its first strategic plan in 2015 and is now beginning a second strategic plan. The first plan concluded with improvements in enrollment, increased graduation rates, improved student retention, and continued financial strength despite growing challenges in the higher education sector. The second planning process involved a faculty led method of gathering opinions among constituents and framing the future in such an innovative manner that the process was published in the January–March 2015 issue of *Planning for Higher Education Journal*. Three firmly focused goals and enhanced measurement efforts will provide the foundation for the newest 2016-2020 plan and drive the future direction for USI. The new goals are excellence in learning for the entire USI community, access and opportunity by design, and purposeful and sustainable growth.

The fall of 2016 produced an overall enrollment increase of 28 students compared to fall of 2015. Graduate enrollment reached an all-time high at 1,068 up 180 students or a 20 percent increase. A large portion of the increase is attributed to the new Romain College of Business online Master of Business Administration Program. The academic profile of incoming freshman again set institutional records with the average grade point average of 3.37 percent on a 4.0 scale, up from 3.27 just a year earlier. For the third straight year, tri-state area high school valedictorians made USI one of their top two college choices. Graduation rates increased three percent for the 2010 freshman cohort compared to the entering class from just four years earlier. Freshman retention rates increased eight percent in seven years indicating that the stronger academic profile of students combined with increased support services and quality learning is paying dividends.

At its September 1, 2016, Board of Trustees meeting, the Board approved the 2017-2019 Operating and Capital Improvement Budget Request that was then presented to the Indiana Commission for Higher Education (ICHE) on September 8, 2016. The operating budget, developed using performance funding metrics created by the ICHE, shows USI eligible for funding related to increases in overall degree completion, at-risk degree completion, student persistence and on-time graduation rates. If the metrics are funded at the levels recommended by ICHE, the University would receive nearly $2.9 million for improved performance. The 2017-2019 Capital Improvement Budget request seeks bonding authority of $41 million for one capital project with three elements, a phase II classroom expansion and renovation of the Physical Activities Center (PAC), construction of a permanent facility for the University's Public Safety Department, and relocation of the pool. The capital improvement request also included more than $3.7 million for general repair and rehabilitation for the biennium. The budgeting process continues with prioritized recommendations by the Indiana Commission for Higher Education based upon all requests submitted and then moves to the legislative process in January 2017 for final funding decisions.

The University of Southern Indiana Foundation *Campaign USI: Elevating Excellence* came to a close at the end of June, with total gift commitments reaching $57.1 million, $7.1 million over the campaign goal of $50 million. The $2 million Fuquay Welcome Center, a result of the capital campaign, had its ribbon cutting on September 1, 2016. This building will serve as a focal point for more than 200,000 annual visitors to campus with construction beginning late fall 2016.

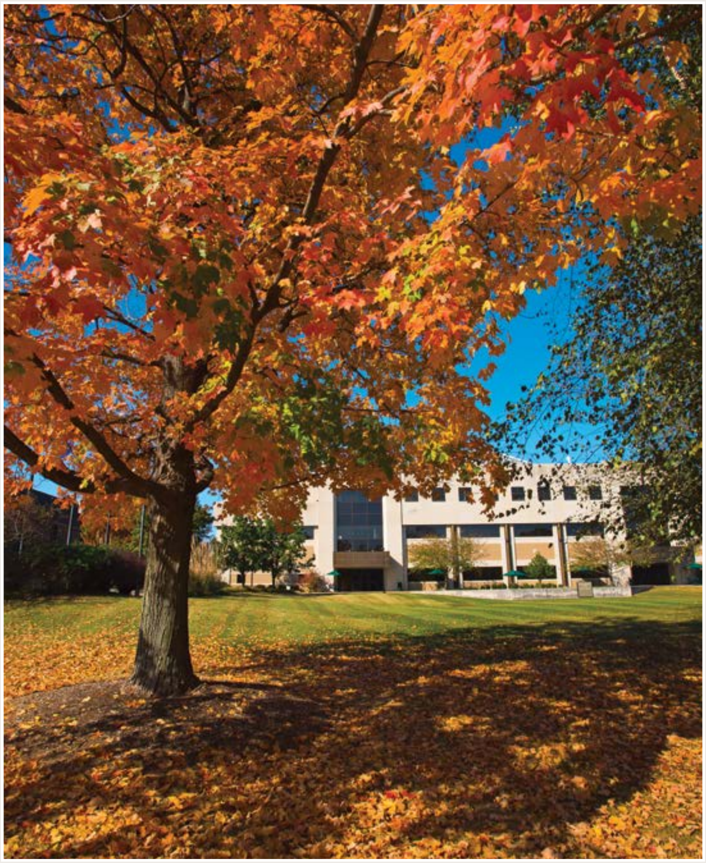
The University also has begun the process to update its ten-year master plan which was last completed in 2006. The focus of the 2016 master planning process will be to integrate the strategic and enrollment objectives into a plan that will support those activities while continuing to be strong financial stewards of University and State resources. The exercise will not only review new facility needs but review the efficiency of existing facilities. The plan development will include constituents from across campus, alumni, and external stakeholders. The final product will provide USI an integrated campus plan that will support the strategic roadmap for the future and continue what has been a culture of strong collaborative planning since its founding in 1965.

Two new engineering degrees were approved by the Board of Trustees this fiscal year which will serve to add interest in a discipline that experienced a 35 percent increase in freshman engineering students for the fall of 2016. The manufacturing engineering degree is the first of its kind in the state of Indiana and one of approximately 20 programs in the country. These new programs mark the first time USI has offered named degrees within the field.

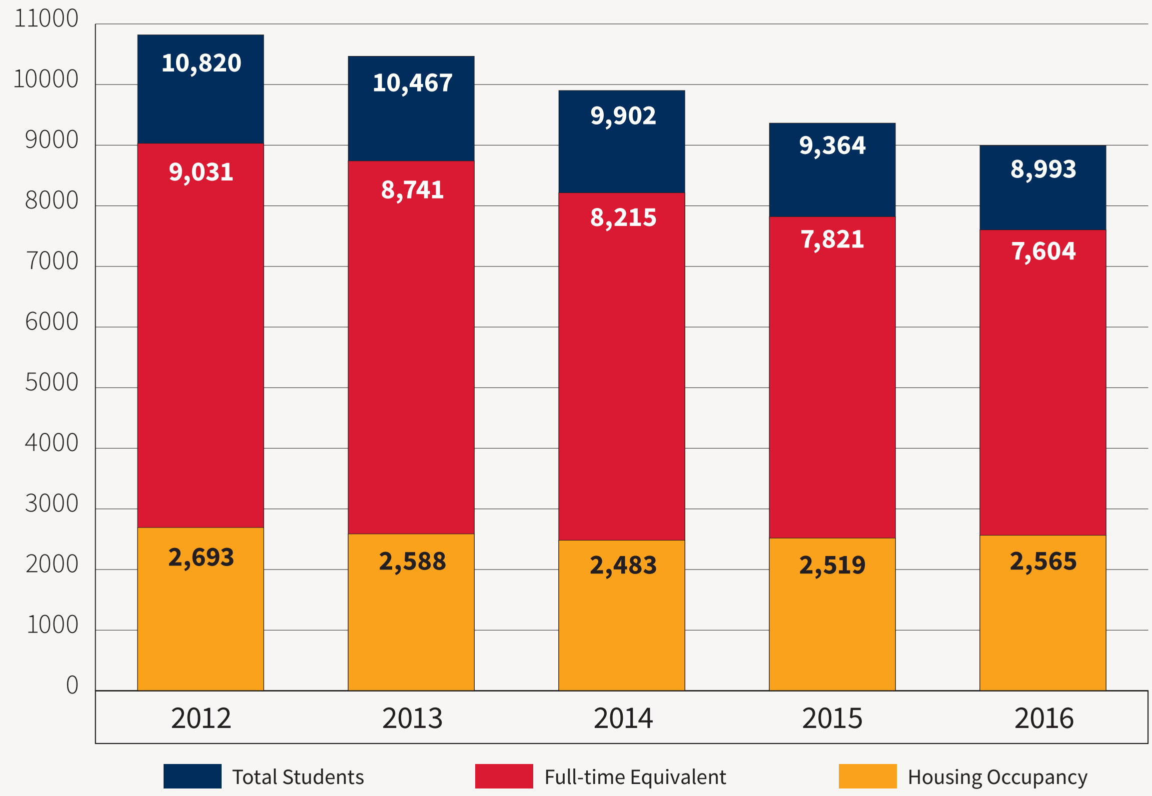
Construction has begun on the Multi-institutional Academic Health and Science Research Center in downtown Evansville. The State of Indiana provided USI cash funding of $6 million for this project. The project and partnership between USI, Indiana University, the University of Evansville and the city of Evansville is expected to be completed and in use by fall 2018. Completion of this project will provide additional opportunities for USI students at that facility, but it also will allow USI to renovate and expand the Health Professions Center currently occupied by the IU School of Medicine using bonding authority of nearly $8 million granted by the General Assembly. Planning and some early work is expected to begin in the spring of 2017 after the issuance of the $8 million in bonds. Phase I of the $16 million cash funded Physical Activities Center (PAC) is expected to begin in the spring of 2017 as well.

The University continued its history of generating revenues exceeding expenditures, has no deferred maintenance, a pricing strategy allowing flexibility, and located in a state that ended the year with an annual budget surplus slightly over $50 million and more than $2 billion in reserves. The State of Indiana currently has received the highest credit rating possible, AAA, from all three credit rating agencies. USI currently carries an A1 rating on student fee debt and an A2 rating on auxiliary system debt from Moody's Investors Service with a favorable outlook.

The increase in total enrollment, another large incoming freshman class with impressive academic credentials, the emergence of the new strategic plan, and a master planning process with careful stewardship of financial resources as a core value illustrates a clear vision for the future of the University of Southern Indiana. It replaces an institutionally-focused headcount model with a student-centered approach that emphasizes academic quality and achievement. Deliberate and sustainable growth with student success and academic excellence are beginning to present positive results as measured by key metrics. Housing occupancy has been consistently in excess of 90 percent for the past five-year period, and that trend continued on the first day of classes in the current year. The following graph illustrates enrollment and housing occupancy for the five-year period 2012 to 2016.



ENROLLMENT AND HOUSING FOR YEAR ENDING JUNE 30



Statement of Net Position

As of June 30	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 26,801,969	$ 18,052,235
Short-term investments	17,074,345	18,902,650
Accounts receivable, net	11,505,058	10,793,509
Due from the State of Indiana	3,496,055	3,476,074
Inventories	1,370,569	1,773,302
Other current assets	862,809	708,981
Total current assets	$ 61,110,805	$ 53,706,751
Noncurrent Assets		
Long-term investments	$ 60,026,180	$ 60,569,327
Deposits with bond trustee	416,861	119,437
Capital assets, net	178,605,172	180,635,304
Total noncurrent assets	$239,048,213	$241,324,068
Total Assets	**$300,159,018**	**$295,030,819**
DEFERRED OUTFLOW OF RESOURCES		
Hedging derivative instruments	$ 1,897,793	$ 1,736,130
Deferred outflow of resources related to pensions	3,491,997	1,287,758
Total deferred outflow of resources	$ 5,389,790	$ 3,023,888
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,091,778	$ 1,781,875
Accrued payroll, benefits, and deductions	7,306,433	6,851,521
Notes, bonds, and leases payable	10,427,995	11,690,759
Debt interest payable	951,968	1,466,745
Unearned revenue	1,311,185	1,480,717
Other current liabilities	688,632	561,484
Total current liabilities	$ 22,777,991	$ 23,833,101
Noncurrent Liabilities		
Notes, bonds, and leases payable	$ 89,987,610	$ 99,990,894
Unamortized bond premium	576,214	614,628
Derivative instruments–interest rate swap	1,897,793	1,736,130
Other postemployment benefits	15,605,114	13,827,007
Compensated absences and termination benefits	2,610,390	2,483,423
Net pension liability	7,749,103	5,121,057
Other noncurrent liabilities	23,126	18,438
Total noncurrent liabilities	$118,449,350	$123,791,577
Total Liabilities	**$141,227,341**	**$147,624,678**
DEFERRED INFLOW OF RESOURCES		
Deferred inflow of resources related to pensions	$ 943,768	$ 1,111,976
NET POSITION		
Net investment in capital assets	$ 77,194,649	$ 65,511,481
Restricted		
Expendable		
Capital Project	507,456	—
Debt Service	416,861	119,438
Scholarship, research, and other	109,734	72,275
Unrestricted	85,148,999	83,614,859
Total Net Position	**$163,377,699**	**$149,318,053**

The accompanying Notes to the Financial Statements are an integral part of this statement.

Component Unit

University of Southern Indiana Foundation

Consolidated Statements of Financial Position

Year Ended June 30	2016	2015
ASSETS		
Cash	$ 800,344	$ 923,585
Accounts and interest receivable	84,012	95,468
Contributions receivable, net	8,018,256	7,965,219
Prepaid expenses	19,007	18,175
Investments	98,198,301	103,220,173
Cash value of life insurance	519,016	500,841
Beneficial interest in charitable remainder trusts	715,813	756,368
Beneficial interest in perpetual trusts	3,851,755	3,899,466
Beneficial interest in Community Foundation	57,701	60,979
Life interest in real estate	—	371,425
Real estate held for investment	2,471,215	2,471,215
Real estate held for sale	305,306	—
Land	225,468	225,468
Buildings, net of accumulated depreciation; 2016 – $409,879, 2015 – $369,662	336,378	376,595
Property management deposits	4,725	4,200
Total assets	$115,607,297	$120,889,177
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 32,668	$ 32,293
Deposits	4,725	4,200
Deferred income	5,120	1,380
Payable to related parties	2,876,778	483,090
Use obligation of life interest	—	222,283
Annuities payable	1,789,002	1,899,935
Total liabilities	4,708,293	2,643,181
Net Assets		
Unrestricted	13,937,049	14,637,893
Temporarily restricted	52,700,482	61,354,409
Permanently restricted	44,261,473	42,253,694
Total net assets	110,899,004	118,245,996
Total liabilities and net assets	$115,607,297	$120,889,177

Statement of Revenues, Expenses and Changes in Net Position

Fiscal Year Ended June 30	2016	2015
REVENUES		
Operating Revenues		
Student fees	$ 67,160,394	$ 66,832,306
Scholarship discounts and allowances	(22,523,773)	(21,427,644)
Grants and contracts	2,004,112	2,126,224
Auxiliary enterprises	26,410,386	26,638,156
Room and board discounts and allowances	(29,930)	(31,827)
Other operating revenues	2,263,897	2,123,910
Total operating revenues	$ 75,285,086	$ 76,261,125
EXPENSES		
Operating Expenses		
Salaries and wages	$ 60,811,952	$ 59,680,657
Benefits	25,898,473	23,431,438
Student financial aid	7,406,676	7,466,626
Utilities	5,390,599	5,671,356
Supplies and other services	37,102,434	32,875,149
Depreciation	13,350,787	13,166,463
Total operating expenses	$149,960,921	$ 142,291,689
Operating loss	$ (74,675,835)	$ (66,030,564)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$ 59,332,857	$ 54,948,306
Gifts	3,285,325	2,773,686
Federal grants and contracts	12,367,381	12,792,764
State/Local grants and contracts	9,126,728	8,669,976
Nongovernmental grants and contracts	769,196	591,358
Investment income (net of investment expense of $65,887 and $64,608 for 2016 and 2015)	1,405,474	1,254,071
Interest on capital asset related debt	(3,836,822)	(4,468,738)
Other non-operating revenues/(expenses)	(50,952)	(55,282)
Net non-operating revenues (expenses)	$ 82,399,187	$ 76,506,141
Income before other revenues, expenses, gains or losses	$ 7,723,352	$ 10,475,577
Capital grants and gifts	$ 6,336,294	$ 697,867
Increase in net position	$ 14,059,646	$ 11,173,444
NET POSITION		
Net position – beginning of year	$149,318,053	$ 144,988,945
Prior period adjustment for change in accounting principle	—	(6,844,336)
Net position – end of year	$163,377,699	$ 149,318,053

The accompanying Notes to the Financial Statements are an integral part of this statement.

Component Unit

University of Southern Indiana Foundation

Consolidated Statements of Activities

Year Ended June 30	2016	2015
REVENUES AND OTHER SUPPORT		
Contributions	$ 4,756,502	$ 8,869,694
Grants	166,424	218,571
Change in value of split-interest agreements	(153,522)	(107,950)
Change in split-interest life interest	222,283	23,930
Rental income (loss), net	6,617	(25,117)
Miscellaneous income	242,361	213,997
Total revenues and other support	5,240,665	9,193,125
EXPENSES		
Programs – University of Southern Indiana		
Scholarships and awards	2,236,281	2,110,577
Educational grants and academic enhancements	1,148,888	1,299,256
Athletic support	136,421	87,316
Other University support	742,804	572,041
Capital projects	6,336,294	655,184
Community outreach	12,442	20,680
Total program services	10,613,130	4,745,054
Management and general	653,176	578,171
Fundraising	441,015	323,532
Uncollectible pledge loss	53,962	5,278
Total expenses	11,761,283	5,652,035
OTHER CHANGES		
Investment income (loss), net	(748,975)	3,525,076
Change in value of beneficial interest in trusts and Community Foundation	(51,989)	(66,131)
Mineral royalty income	22,534	43,688
Impairment loss on property held for sale	(66,119)	—
Gain on cash value of life insurance	18,175	85,913
Total other changes	(826,374)	3,588,546
CHANGE IN NET ASSETS	(7,346,992)	7,129,636
NET ASSETS, BEGINNING OF YEAR	118,245,996	111,116,360
NET ASSETS, END OF YEAR	$110,899,004	$118,245,996

Statement of Cash Flows

Year Ended June 30	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 46,212,349	$ 44,714,378
Grants and contracts	2,206,631	1,886,856
Payments to suppliers	(36,353,168)	(32,651,801)
Payments for utilities	(5,390,598)	(5,671,356)
Payments to employees	(60,684,752)	(59,482,055)
Payments for benefits	(23,410,090)	(22,157,692)
Payments for scholarships	(7,406,676)	(7,466,625)
Collection of loans to students	(26,065)	—
Auxiliary enterprises receipts	26,519,477	26,773,676
Sales and services of educational depts.	782,803	683,109
Other receipts (payments)	(1,214,109)	2,143,368
Net cash used by operating activities	$(58,764,198)	$(51,228,142)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 56,916,074	$ 54,050,121
Gifts and grants for other than capital purposes	27,701,400	22,308,411
Other non-operating receipts (payments)	90,518	(182,010)
Net cash provided by noncapital financing activities	$ 84,707,992	$ 76,176,522
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital grants and gifts	$ 6,336,294	$ 697,867
Bond financing costs	(50,952)	(55,283)
Purchase of capital assets	(10,660,504)	(12,380,094)
Principal paid on capital debt	(11,926,199)	(11,436,628)
Interest paid on capital debt and leases	(4,390,012)	(4,565,273)
Deposits with trustees	(297,423)	265,143
Net cash used by capital financing activities	$(20,988,796)	$(27,474,268)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 46,800,692	$ 38,723,447
Interest on investments	894,129	821,270
Purchase of investments	(43,900,085)	(40,903,398)
Net cash used by investing activities	$ 3,794,736	$ (1,358,681)
Net increase (decrease) in cash	$ 8,749,734	$ (3,884,569)
Cash – beginning of year	18,052,235	21,936,804
Cash – end of year	$ 26,801,969	$ 18,052,235

Statement of Cash Flows–continued

Year Ended June 30	2016	2015
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (74,675,835)	$ (66,030,564)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Depreciation expense	13,350,787	13,166,463
Provision for uncollectible accounts	1,714,915	35,534
CHANGES IN ASSETS, LIABILITIES, AND DEFERRED RESOURCES:		
Operating receivables	(2,182,432)	7,755
Inventories	402,732	(97,764)
Other assets	(145,573)	34,811
Accounts payable	801,444	784,830
Unearned revenue	(169,532)	(110,640)
Deposits held for others	4,688	(27,198)
Employee and retiree benefits	2,160,673	1,008,631
Loans to students	(26,065)	—
Net cash used by operating activities:	$(58,764,198)	$(51,228,142)

Year Ended June 30	2016	2015
NONCASH TRANSACTIONS		
Unrealized gain/(loss) on short-term investments	$ 30,403	$13,638
Unrealized gain/(loss) on long-term investments	78,956	(433,393)
Equipment	660,151	157,944
Capital lease	(660,151)	(157,944)
Net noncash transactions	$ 109,359	$ (419,755)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Component Unit

University of Southern Indiana Foundation

Consolidated Statements of Cash Flows

Year Ended June 30	2016	2015
OPERATING ACTIVITIES		
Change in net assets	$ (7,346,992)	$ 7,129,636
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net realized gain on sale of investments	(2,094,385)	(3,970,481)
Impairment loss on property held for sale	66,119	—
Increase in cash value of life insurance	(18,175)	(97,276)
Loss on beneficial interest investments	91,544	87,878
Contribution of investments and real estate, net	(691,212)	(1,338,005)
Depreciation	40,217	58,515
Amortization of use obligation of life interest	(2,016)	(23,930)
Release of use obligation of life interest	(220,267)	—
Unrealized loss on investments	4,924,926	2,724,484
Changes in		
Accounts and interest receivable	11,456	(23,772)
Contributions receivable	(53,037)	(3,664,134)
Prepaid expenses	(832)	100,376
Accounts payable and payable to related parties	2,394,063	(215,518)
Deposits	—	1,075
Annuities payable	(110,933)	(188,209)
Deferred income	3,740	855
Net cash provided by (used in) operating activities	(3,005,784)	581,494
INVESTING ACTIVITIES		
Purchase of investments	(19,462,557)	(21,455,808)
Sales and maturities of investments	22,345,100	20,336,391
Net cash provided by (used in) investing activities	2,882,543	(1,119,417)
Decrease in Cash	(123,241)	(537,923)
Cash, Beginning of Year	923,585	1,461,508
Cash, End of Year	$ 800,344	$ 923,585

Notes to Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

The University of Southern Indiana was established in 1985 as described in the Indiana Code (IC 21-24-1 through IC 21-24-4-1). The University is managed by a nine-member board of trustees whose members are appointed by the governor. The board must include at least one alumnus, one resident of Vanderburgh County, and one full-time student in good standing. Each member must be a citizen of the United States and a resident of the State of Indiana. Trustees serve four-year terms with varying expiration dates with the exception of the student trustee, who serves a term of two years.

The University is a special-purpose governmental entity which has elected to report as a business-type activity using proprietary fund accounting, following standards set forth by the Governmental Accounting Standards Board (GASB). The financial reporting emphasizes the entity as a whole rather than the individual fund groups – unrestricted, designated, auxiliary, restricted, loans, agency, and plant funds – that comprise the whole.

The University also is considered a component unit of the State of Indiana. As such, the University is financially integrated with the State and depends on annual appropriations from the State to maintain quality service to students and to deliver quality programs. The University must receive authorization from the State before undertaking major capital projects. As a component unit, public higher education institutions, as a group, will be discretely presented on the Comprehensive Annual Financial Report issued annually by the State of Indiana.

The University includes the University of Southern Indiana Foundation, Inc. as a component unit as defined by GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement 61, *The Financial Reporting Entity: Omnibus*. The Foundation is a private nonprofit organization that reports under the standards of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Accounting Methods and Policies

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

- Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.
- Restricted revenues and receivables resulting from non-exchange transactions are recognized when all applicable eligibility requirements are met. Resources received before eligibility requirements are met are recorded as unearned revenues.
- Revenue from major sources is susceptible to accrual if the amount is measurable.
- Internal service activity, referred to as chargeback income/expense, has been eliminated from the statement of activities to prevent the double-counting of expenses and the recognition of self-generated revenue.

Capital Assets Accounting Policies

The University capitalizes equipment with a cost of $5,000 or more. Building components, land improvements, infrastructure, and computer software are capitalized if costs exceed $50,000. All capitalized assets have a useful life greater than two years. Library materials are capitalized using the group method. Periodicals and subscriptions are expensed as incurred. Renovations to buildings and other improvements are capitalized if costs are greater than $50,000 and the renovation meets one of the following criteria:

- Increases the capacity (applies to buildings only)
- Increases the useful life
- Increases the operating efficiency

The University records depreciation for all capital assets with the exception of land and historical sites. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful life of each capital asset group is as follows:

- Building components (shell, roof, utilities, and internal) – 8-50 years
- Computer Software – 3 years
- Equipment – 3-10 years
- Infrastructure – 25 years
- Land improvements – 15 years
- Library materials – 10 years

Capital assets are removed from the records at the time of disposal. See Note 17 in the *Notes to Financial Statements* for current-year activity and accumulated depreciation on the various classes of assets.

The University owns a collection of museum exhibit items located in Historic New Harmony. The collection consists of 2,800 objects that are primarily 19th century decorative arts, furniture, prints, medical equipment, and textiles. The collection consists of both donated and purchased items. Historic New Harmony does not place a monetary value on the collection because the museum is organized as a public trust which acts as a steward for the public in collecting, protecting, preserving, and interpreting objects. A well-documented inventory is maintained, but the value is unknown and therefore not included in the capitalized asset value at June 30, 2016.

The University owns a permanent art collection whose primary function and aim is education in accordance with one element of the University's mission: to enhance the cultural awareness of its students, faculty, staff, and the citizens of southwestern Indiana. The collection consists of both donated and purchased items. Some of the donated pieces were received without appraised values. Collection pieces which have been appraised or otherwise valued total $2,747,050. The currently-known value is not included in the capitalized asset value at June 30, 2016.

Net Position

Net position represents the difference between all other elements in the Statement of Net Position, and it includes three components.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and outstanding debt. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of the assets are included in this component.

Restricted net position—expendable consists of resources which the University is legally or contractually obligated to use in accordance with restrictions imposed by parties external to the institution.

Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources which do not qualify for classification as net investment in capital assets or restricted net position-expendable.

Operating Revenues and Expenses

Operating revenues of the University consist of student fees, exchange grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. Operating expenses include payments to suppliers for goods and services, employee wages and benefits, and payments for scholarships.

Non-operating Revenues and Expenses

Non-operating revenues of the University consist of state appropriations, gifts, non-exchange grants and contracts, and investment income. Non-operating expenses include interest on capital asset related debt, bond issuance costs, and annual bond management fees.

Other Disclosures

The Statement of Cash Flows is presented using the direct method, and it identifies the sources and uses of both cash and cash equivalents during the fiscal year. Cash equivalents are investment instruments, typically certificates of deposits and repurchase agreements, which have an original maturity date of 90 days or less.

Investments are recognized in the accounting records at cost on the date of purchase. For financial statement presentation, they are reported at the market value in effect on June 30 of the current fiscal year. Unrealized gain or loss is included with interest income on the Statement of Revenues, Expenses, and Changes in Net Position.

Prepaid expenses and inventories of materials and supplies are considered expenditures when used. The inventory on hand at the end of the fiscal year is valued using a perpetual system, and cost is determined using the first-in, first-out method of inventory accounting.

Inventories of retail merchandise are considered expenditures when purchased. The value of the inventory on hand at the end of the fiscal year is based on a physical count. Cost is determined using the retail or weighted average method of accounting.

For the purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement Fund (PERF) and additions to/deductions from PERF's fiduciary net position have been determined on the same basis as they are reported by PERF. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms.

The University prepares its financial statements according to the standards set by the Governmental Accounting Standards Board (GASB). During the 2015-2016 fiscal year, the University applied GASB Statement 72, *Fair Value Measurement and Application*, portions of GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement 79, *Certain External Investment Pools and Pool Participants*, as required.

Change in Accounting Estimate

The University changed its method for computing the allowance for uncollectible accounts during 2015-2016. The previous method computed the allowance as a percentage of revenues for the current fiscal year by estimating the portion of those revenues which would become uncollectible in the following fiscal year. While the University retained this method as part of the calculation, it added consideration for student accounts with amounts due beyond the standard University collection process of two years. Previously, student accounts were deemed current receivables if students were making regular payments against past due balances. An analysis showed that, while students were making payments, the likelihood of receiving full payment in some cases was remote. As a result, the estimate for uncollectible accounts was recalculated to take these circumstances into consideration and more accurately state the value of net receivables.

NOTE 2 – Component Units

The University of Southern Indiana Foundation is a legally separate, tax-exempt entity formed in 1969 to provide support for the University of Southern Indiana and its faculty and students, to promote educational, scientific, charitable, and related activities and programs exclusively for the benefit of the University and its students. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs.

The majority of the resources that the Foundation holds and invests, and the income generated by those resources, are restricted to the activities of the University by the donors.

Because these resources can only be used by or for the benefit of the University, the USI Foundation is considered a component unit of the University, and its audited financial statements and notes are discretely presented in the University financial report.

During the fiscal year ended June 30, 2016, the University recognized $9,700,426 in direct and indirect support from the USI Foundation for both restricted and unrestricted purposes. Complete financial statements, including explanatory notes, for the USI Foundation can be obtained from the Vice President for Finance and Administration at 8600 University Boulevard, Evansville, IN 47712.

NOTE 3 – Cash and Investments

Under authority granted by IC 21-24-3, the Board of Trustees authorizes management to invest in obligations of the U.S. Treasury and U.S. government agencies, certificates of deposit, repurchase agreements, money market mutual funds, savings, and negotiable order-of-withdrawal accounts. Investments with Indiana institutions are limited to those banks, savings banks, and savings and loan institutions that provide deposit insurance for university funds under Indiana statutes by the Public Deposit Insurance Fund, in addition to the amounts insured by agencies of the United States government—Federal Deposit Insurance Corporation/ Savings Association Insurance Fund (FDIC/SAIF). Investments with non-Indiana institutions must be insured by agencies of the U.S. government to the maximum statutory amount of $250,000.

Deposits – At June 30, 2016, the bank balances of the University's operating demand deposit accounts were $24,205,619, of which $617,482 was covered by federal depository insurance. The remaining balance was insured by the Public Deposit Insurance Fund, which covers all public funds held in approved Indiana depositories. None of these funds were exposed to custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or collateral securities that are in the possession of an outside party.

Cash equivalents and investments – The University's investments at June 30, 2016, are identified in the table below.

Investment custodial credit risk – This is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University investment policy does not contain legal or policy requirements which limit exposure to custodial credit risk for deposits or investments, but preference is given to Indiana institutions based on the additional insurance coverage provided by the State. Of the almost $103.9 million invested, $47.3 million in U.S. government securities are held in the name of the nominee bank and insured by policies of the financial institution or guarantees of the U.S. government. There are more than $23.2 million in repurchase agreements registered in the University's name and backed by the implicit guarantee of the U.S. government. All cash in the money market accounts and the certificates of deposit are insured by FDIC/SAIF, the Public Deposit Insurance Fund, or collateral as required by federal regulations.

Interest rate risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's investment policy does not address exposure to fair value losses arising from changes in interest rates, but the investment objective is to obtain the highest revenue while maintaining safety and insuring adequate liquidity for institutional needs. To that end, management maintained 42 percent of investments in cash equivalents and short-term investments to be in a position to take advantage of the best rates in a timely fashion as well as sustaining adequate cash flow for operating needs.

INVESTMENTS

			Investment Maturities (in Years)			
Investment Type	Market Value	Type %	Less than 1 year	1–5 years	6–10 years	More than 10 years
Certificates of deposit	29,775,462	38.6%	$15,470,202	$14,305,260		
U.S. Treasury and agency securities	47,325,063	61.4%	1,604,143	39,068,051	6,415,741	237,128
Totals	$77,100,525	100%	$17,074,345	$53,373,311	$6,415,741	$237,128
Maturity %	100%		22.2%	69.2%	8.3%	0.3%

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy for credit risk. Of the total U.S. government securities listed in the table above, $44.7 million are invested in government-sponsored enterprises that are neither guaranteed or insured by the full faith and credit of the U.S. Treasury, and, therefore have more credit risk than any direct obligation of the U.S. Treasury.

Concentration of credit risk – This is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy limits the investments in any one Indiana institution to 25 percent of the total portfolio of cash, certificate of deposits, and repurchase agreements as valued at the end of the preceding month. Operating funds which are invested in overnight repurchase agreements as part of the cash management program are excluded from the 25 percent limit. At June 30, 2016, the University is in compliance with that policy.

Foreign currency risk – This is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University investment policy does not authorize global investments. Therefore, it is not exposed to foreign currency risk.

NOTE 4 – 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. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs. GASB Statement 72, *Fair Value Measurement and Application*, established a hierarchy of inputs to measure fair value. The hierarchy includes the following three levels.

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date

Level 2 Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly

Level 3 Unobservable inputs for an asset or liability

The table below presents value of University deposits and investments as reported in the accompanying Statement of Net Position at fair valuation on a recurring basis and their level within the fair-value hierarchy at June 30, 2016.

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. The University utilizes the market-based valuation approach in accordance with GASB Statement 72. Valuation techniques did not change significantly during the fiscal year ended June 30, 2016.

FAIR VALUE MEASUREMENTS				FAIR VALUE AT JUNE 30, 2016
		Fair Value Measurement Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Certificates of deposit	$29,775,462	$29,775,462		
U.S. Treasury securities	2,662,176	2,662,176		
Agency securities	41,861,119		$41,861,119	
Agency mortgage securities	2,801,768		2,801,768	
Total investments	**$77,100,525**	**$32,437,638**	**$44,662,887**	
Derivative Instruments				
Interest rate swap	$(1,897,793)		$(1,897,793)	
Total derivative instruments	**$(1,897,793)**		**$(1,897,793)**	

NOTE 5 – Derivative Instruments

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2016, classified by type and the fair value changes of those derivative instruments are as follows.

As of June 30, 2016, the University determined that both pay-fixed interest rate swaps met the criteria for effectiveness. The pay-fixed, receive-variable interest rate swaps are designed to synthetically fix the cash flows on the variable rate bonds. The fair value of the interest rate swaps was estimated based on the present value of their estimated future cash flows.

DERIVATIVE INSTRUMENTS

Derivative Instrument	Type	Change in Fair Value	Classification	Fair Value at June 30, 2016	Current Notional
Series 2006	Cash flow hedge: Pay-fixed interest rate swap	$(113,891)	Derivative Instrument Interest Rate Swap	$(983,482)	$5,027,341
Series 2008A	Cash flow hedge: Pay-fixed interest rate swap	$ (47,773)	Derivative Instrument Interest Rate Swap	$(914,311)	$8,175,000

The following table displays the objectives and terms of the University's hedging derivative instruments outstanding at June 30, 2016, along with the credit rating of the associated counterparty.

Type	Objective	Current Notional	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2006 Bonds	$5,027,341	1/1/2008	1/1/2028	65% of 3 mo. USD-LIBOR-BBA	A3
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2008 Bonds	$8,175,000	7/1/2008	10/1/2021	65% of 3 mo. USD-LIBOR-BBA w/- 1 day look back, 79.0 bps	A3

Credit Risk —The fair value of the hedging derivative instruments is in a liability position as of June 30, 2016, with Series 2006 having a balance of $983,482 and Series 2008A having a balance of $914,311. Because both of the derivative instruments and the debts being hedged are with the same counterparty, there is no credit risk exposure. The fair value of the derivative instruments would simply be netted against the payoff of the debts.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely impact the fair market value of the derivative instruments. On a pay-fixed, receive-variable interest rate swap, the University will be negatively impacted by the lower rate environment, which will decrease the fair market values of its derivative instrument. The derivative instrument for Series 2006 fixes the hedged debt at 4.67 percent, and Series 2008A is fixed at 3.97 percent.

Basis Risk—Basis risk is the risk that the University may lose cash flows because of the differences in the indexes upon which the derivative instrument and the item it hedges are based. The University is not exposed to basis risk since both derivative instruments and the associated debts being hedged are based on the three-month LIBOR index.

Termination Risk—The University or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The University also is exposed to termination risk if the student fee or auxiliary bonds are prepaid or partially prepaid. This risk is only to the extent the notional amount of the swap transactions exceeds the remaining amount after the prepayment.

Rollover Risk—Rollover risk is the risk that the maturity of the derivative instrument is shorter than the maturity of the associated debt. Since both the derivative instruments and the debt being hedged have identical maturity dates, there is no rollover risk to the University.

NOTE 6 – Accounts Receivable

The schedule to the right summarizes accounts receivable at June 30, 2016, compared to the previous fiscal year.

Additionally, the University has a receivable of $3.5 million due from the State of Indiana. It is shown as a separate line item on the Statement of Net Position.

ACCOUNTS RECEIVABLE

	2016	2015
Student receivables	$ 8,844,271	$ 9,222,393
Auxiliary enterprises	1,299,519	1,094,237
Grants and contracts	682,418	622,075
Capital grants and gifts	2,045,835	—
Other	1,411,612	918,487
Current accounts receivable, gross	14,283,655	11,857,192
Allowance for uncollectible accounts	(2,778,597)	(1,063,683)
Current accounts receivable, net	$11,505,058	$10,793,509

NOTE 7 – Debt Related to Capital Assets

Bonds Payable – Outstanding bonds payable at June 30, 2016, total $99,882,341 and are identified in the following schedule.

SCHEDULE OF BONDS AND NOTES PAYABLE

	Issue Date	Interest Rate	Current Year Rate	Maturity Date	Original Issue Amount	June 30, 2016 Principal Outstanding	June 30, 2016 Interest Outstanding	June 30, 2016 Total Outstanding
Student Fee Bonds								
Series G, Recreation & Fitness Center	1999	0.00% to 10.00%*	0.23%	2019	4,700,000	1,400,000	20,720	**1,420,720**
Series 2006, Recreation & Fitness Center	2006	4.67%	4.67%	2028	7,250,000	5,027,341	1,531,131	**6,558,472**
Series J, Business and Engineering Center	2009	2.50% to 5.00%	4.54%	2028	50,185,000	37,510,000	14,592,143	**52,102,143**
Series K-1, Performance Center	2012	2.00% to 4.00%	4.00%	2032	12,300,000	10,125,000	3,748,000	**13,873,000**
Series K-3, Refund Series H and I	2012	1.90%	1.90%	2023	42,840,000	30,975,000	2,181,153	**33,156,153**
Auxiliary System Bonds								
Series 2003, Student Housing Facilities	2003	3.00% to 4.50%	3.85%	2024	8,005,000	4,360,000	917,921	**5,277,921**
Series 2008A, Student Housing Facilities	2008	3.97%	3.97%	2021	9,800,000	8,175,000	1,431,929	**9,606,929**
Series 2011A, Student Housing Facilities	2011	1.63%	1.63%	2016	11,550,000	2,310,000	18,826	**2,328,826**
Total					$146,630,000	$99,882,341	$24,441,823	$124,324,164

*This bond is a variable interest bond with weekly rates. The rate listed above is the average rate paid during the fiscal year.

The University of Southern Indiana Student Fee Bonds Series G of 1999, Series J of 2009, and Series K-1, and K-3 of 2012 are secured by a pledge and first lien on student fees. Student Fee Bonds Series 2006 are secured by a pledge and junior lien on student fees.

The University of Southern Indiana Auxiliary System Revenue Bonds, Series 2003; Auxiliary System Revenue Bonds, Series 2008A; and Auxiliary System Revenue Bonds, Series 2011A are secured by a pledge of and parity first lien on the net income from the Auxiliary System (student housing, parking facilities, and dining services), any insurance proceeds, amounts held in the debt service funds or project funds, and investment income thereon.

Student fee bond Series G is a variable rate bond currently bearing interest at weekly rates ranging between zero and 10 percent. The rate in effect at June 30, and the rate used to calculate the future debt service requirements, was .56 percent. All the other bonds are term or serial with fixed annual rates as identified in the preceding table. Annual debt service requirements through maturity for bonds and notes payable are presented in the chart on the following page.

ANNUAL DEBT SERVICE REQUIREMENTS

Fiscal Year	Total Bond Principal	Total Bond Interest	Total Debt Service
2016-17	$10,360,798	$ 3,526,635	$ 13,887,433
2017-18	8,261,281	3,279,841	11,541,122
2018-19	8,572,488	3,056,384	11,628,872
2019-20	10,294,452	2,798,920	13,093,372
2020-21	10,727,209	2,461,605	13,188,814
2021-26	34,707,901	7,567,699	42,275,600
2026-31	15,388,212	1,687,339	17,075,551
2031-33	1,570,000	63,400	1,633,400
Total	$99,882,341	$24,441,823	$124,324,164

NOTE 8 – Lease Obligations

The University spent $219,853 and $200,837 on operating leases as of June 30, 2016 and 2015, respectively. These leases are included in supplies and other services on the Statement of Revenues, Expenses, and Changes in Net Position. The following schedule summarizes the types of operating lease payments at June 30, 2016, compared to the previous fiscal year.

OPERATING LEASE PAYMENTS

	2016	2015
Off-campus facilities	$ 162,866	$ 153,517
Equipment	43,988	33,793
Vehicles	12,999	13,527

The University also has lease agreements with Xerox Corporation for the use of copiers that are substantively lease-purchases. These capital lease obligations are included in the Statement of Net Position. Accumulated depreciation for these capital leases totaled $136,063 as of June 30, 2016.

The expense resulting from amortization of assets recorded under capital leases is included with depreciation expense on the Statement of Revenues, Expenses and Changes in Net Position.

Future minimum scheduled lease payments under these agreements are illustrated in the following schedule.

FUTURE MINIMUM LEASE PAYMENTS

Fiscal year ending June 30	Capital Leases	Operating Leases
2017	$134,492	$59,876
2018	133,330	
2019	120,543	
2020	113,859	
2021	33,497	
Total future minimum payments	$535,721	$59,876
Less interest	(2,456)	
Total principal payments outstanding	$533,265	

NOTE 9 – Compensated Absence Liability

Vacation leave and similar compensated absences (such as sick leave) based on past service are accrued as a liability as earned. The liability is measured at the salary rate in effect at the balance sheet date, and additional amounts are accrued for all required salary-related payments due a terminating or retiring employee. The salary-related payments subject to this accrual include the University's share of Social Security and Medicare taxes, as well as the University's contributions to a defined benefit pension plan.

The total cumulative compensated absence liability is $2,697,438 and $2,648,171 for June 30, 2016 and 2015, respectively. The current year change represents a $51,673 increase in accrued vacation; a $1,608 decrease in sick leave liability; a $3,830 increase in Social Security and Medicare taxes; and a $4,628 decrease in Public Employees' Retirement Fund (PERF) contributions. During the fiscal year, $229,052 was paid out to terminating employees. Payout for terminating employees in fiscal year 2016-17 is expected to increase approximately 64 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $374,507 of the total compensated absence liability is classified as a current liability under accrued payroll, benefits and deductions, and the remaining $2,322,932 is classified as a noncurrent liability.

NOTE 10 – Termination Benefits Liability

GASB Statement No. 47, *Accounting for Termination Benefits*, requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of USI's regular full-time faculty and administrative staff who have been employed in an eligible position prior to January 1, 1999, who have 15 or more consecutive years of service, and who are age 60 or older may receive early-retirement benefits upon request. These benefits include a lump-sum retirement service pay calculated as a percent of final-year salary based on length of service, not to exceed 25 percent, and continued contribution to retirement annuity contracts through the end of the fiscal year in which the retiree reaches age 66. Salaries are assumed to increase at a rate of 1.8 percent annually for purposes of calculating this liability.

USI has 23 retirees currently receiving early-retirement benefits, five of whose benefits stop after this fiscal year, and eleven more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $693,976 at June 30, 2016. Of that amount, $406,518 is expected to be paid out during the following fiscal year and is classified as a current liability under accrued payroll, benefits and deductions, and the remaining $287,458 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

NOTE 11 – Retirement Plans

Substantially all regular employees of the University are covered by either the *Teachers Insurance and Annuity Association-College Retirement Equities Fund Retirement Plan* (TIAA-CREF) or by the *Public Employees' Retirement Fund* (PERF). The TIAA-CREF plan is an IRC 403(b) defined contribution plan; PERF is a defined benefit plan under IRC 401(a) and a state plan described in IC 5-10.2 and 5-10.3. The University contributed $5,662,172 to these programs in fiscal year 2015-16, which represents approximately 9.3 percent of the total University payroll and 11.3 percent of the benefit-eligible employees' payroll for the same period.

Defined Contribution Retirement Plan

Faculty and Administrators – Eligible employees may participate in the TIAA-CREF Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA-CREF, or another university-sponsored retirement plan, for at least one year prior to eligible employment at USI. The University contributed $4,452,137 to this plan for 633 participating employees for fiscal year ending June 30, 2016, and $4,298,562 for 634 participating employees for fiscal year ending June 30, 2015. The annual payroll for this group totaled $41,243,071 and $40,482,839 for fiscal years ending June 30, 2016 and 2015 respectively.

To address the anticipated continued increase in retirement plan costs, management created a benefits study group to review the retirement plan for faculty and administrators and to develop recommendations for changes. As a result, the following revisions, subject to any provisions or limitations required by the Internal Revenue Code, were approved by the USI Board of Trustees on March 6, 2014.

- Amended the defined contribution plan to allow for a fixed employer contribution of 11 percent of appointment salary, effective July 1, 2014.
- Included a grandfather clause that allows the following two groups to continue to receive the current 11 percent/15 percent contribution:
  - Retired employees who began an early retirement benefit period before or on July 1, 2014, for the remainder of the post-retirement contribution period; and
  - Disabled retired employees determined to be eligible for post-retirement benefits under the Long-Term Disability plan in place through December 31, 2013, with the Standard, for disabilities that are determined to have begun in 2013 or earlier, even if approved after 2013, for the length of such disability period.
- Provided a special one-time base salary increase to all full-time faculty and administrators hired on or before June 30, 2014, and to written offers for full-time faculty and administrators extended on or before March 6, 2014, equal to the amount of the University contribution decrease on their June 30, 2014, salary, plus the faculty or administrator's actual Social Security tax (if any) and Medicare tax on that one-time basis salary increase.

Support Staff – For newly hired staff, the USI Board of Trustees approved a new defined contribution plan on March 6, 2014. The new plan applies only to new hired support staff in regular assignments with a 50 percent or greater schedule with an employment date on or after July 1, 2014, and no prior PERF-eligible employment with the University. The new plan was established with TIAA-CREF, with the same immediate vesting and other features of the defined contribution plan for faculty and administrators, but with a fixed employer contribution of seven percent of compensation and using the PERF definition of eligible compensation. The University contributed $39,734 to this plan for 48 participating employees for fiscal year ending June 30, 2016, and $1,902 to this plan for two participating employees for the fiscal year ending June 30, 2015. The annual payroll for this group totaled $567,624 and $28,438 for fiscal years ending June 30, 2016 and 2015 respectively.

TIAA-CREF issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing Teachers Insurance and Annuity Association-College Retirement Equities Fund, 730 3rd Avenue, New York, NY 10017-3206, or via its website at www.tiaa-cref.org.

Defined Benefit Retirement Plan

Plan description – Support staff in eligible positions and who worked at least half-time and who were hired on or before July 1, 2014, participated in the Public Employees' Retirement Plan (PERF), a retirement program administered by the Indiana Public Retirement System, an agency of the State of Indiana. As part of GASB Statement 67, PERF changed from an agent to a cost-sharing, multiple-employer defined benefit plan effective July 1, 2013 based on 35 IAC 21-1-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). Benefit provisions are established and/or amended by the State of Indiana. The Indiana Public Retirement System (INPRS) issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for PERF participants. That report may be obtained at www.in.gov/inprs/annualreports.htm.

Benefits provided – PERF provides retirement, disability, and death benefits. Employees were eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit part of the plan after 10 years of employment.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to $2,000 are included as part of the member's annual compensation.

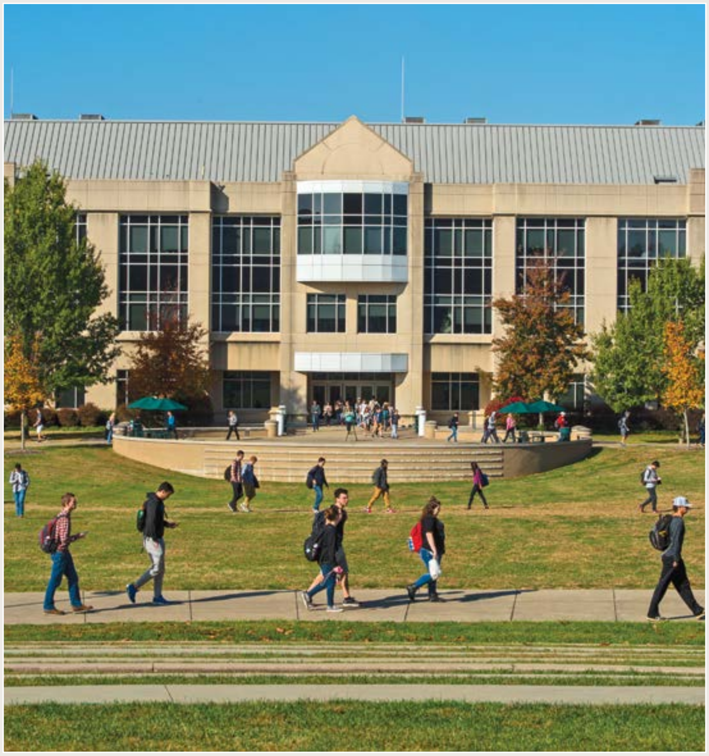
A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2014; however, eligible members received a one-time check (a.k.a. 13th check) in September 2013. The amount of the one-time check ranged from $150 to $450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is $180 per month, or the actuarial equivalent. The death benefit payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits.

Contributions – The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. There are two parts to this plan: an annuity savings plan to which members contribute 3 percent of their salary and a cost-sharing multiple-employer defined benefit plan to which the University contributed 11.2 percent of the employee's salary this fiscal year. The University contributed $1,170,301 for 318 employees participating in PERF during the 2015-16 fiscal year and $1,287,758 for 370 employees participating during 2014-15. These contribution amounts include the 3 percent member portion, which the University has elected to pay on behalf of its employees.



Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the University reported a liability of $7,749,103 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The University's proportion of the net pension liability was based on wages reported by employers relative to the collective wages of the plan. At June 30, 2015 the University's proportion was 0.19 percent, which was a decrease of 0.005 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the University recognized pension expense of $255,598. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

DEFERRED RESOURCES

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 332,628	$ 16,026
Changes in assumptions	655,060	—
Net difference between projected and actual earnings on pension plan investments	1,306,595	728,774
Changes in proportion and differences between the University's contributions and proportionate share of contributions	27,413	198,968
The University's contributions subsequent to the measurement date	1,170,301	—
Total	$3,491,997	$943,768

$1,170,301 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

YEAR ENDED JUNE 30

2016	$ 420,026
2017	420,026
2018	211,228
2019	326,648
2020	—
Thereafter	—
Total	$1,377,928

Actuarial assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	2.50-4.25 percent, including inflation
Investment rate of return	6.75 percent, net of investment expense, including inflation
Cost of Living Increases	1 percent per year in retirement

Mortality rates were based on the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report.

The actuarial assumptions used in the June 30, 2015 valuation were based on an assumption study performed in April 2015 .

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table.

ASSET RATE OF RETURN

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	22.5%	5.3%
Private Equity	10	5.6
Fixed Income – Ex Inflation-Linked	22	2.1
Fixed Income – Inflation-Linked	10	0.7
Commodities	8	2.0
Real Estate	7.5	3.0
Absolute Return	10	3.9
Risk Parity	10	5.0
Total	100.0%	

Discount rate – The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the Board, and contributions required by the State of Indiana (the non-employer contributing entity) would be made as stipulated by State statute. Based on those assumptions, each defined benefit pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 6.75 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate.

PROPORTIONATE SHARE OF NET PENSION LIABILITY

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability	$11,430,592	$7,749,103	$4,692,796

Basis of Accounting – The financial statements of INPRS have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations. Investments are reported at fair value.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by INPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Other information – To address the anticipated continued increase in retirement plan costs, management created a benefits study group to review the retirement plan for support staff and to develop recommendations for changes. Because PERF benefits are provided under provisions of Indiana Code, the University has determined that such benefits must continue to be provided for existing eligible support staff and for any re-hired support staff member who was in a PERF-eligible position during a previous period of employment. For newly hired staff, the USI Board of Trustees approved a new defined contribution plan on March 6, 2014. The new plan applies only to newly hired support staff in regular assignments with a 50 percent or greater schedule with an employment date on or after July 1, 2014, and no prior PERF-eligible employment with the University.

In 2015, the Indiana General Assembly passed legislation that required employers who chose to freeze participation in PERF to pay their share of the pension plan's unfunded liability. The University's share of this liability was $347,008 which was paid in full on June 27, 2016.

NOTE 12 – Risk Management

The University is exposed to various risks of loss: torts; errors or omissions; theft, damage to property or destruction of assets; vehicle losses; job-related illness or injuries to employees; and natural disasters. The University manages these risks through a combination of risk retention and risk transfer, or the purchase of commercial insurance. Property insurance for buildings and contents and other special form coverage is subject to a deductible of $25,000 per occurrence. There is a minimum deductible of $100,000 for earthquake and then a 2% of loss deductible (per unit) for building, contents and business income; a minimum deductible of $50,000 for flood for each loss; and a $50,000 minimum deductible for "Windstorm" meaning wind, wind-driven rain or hail. Educators' legal liability has a $50,000 retention for each wrongful acts claim. General liability, commercial crime, workers' compensation, commercial auto, and medical malpractice, as well as life and disability insurance, are insured by commercial insurance subject to various deductibles. No liability exists at the balance sheet date for unpaid claims.

The University has two health care plans available for new enrollment of full-time benefit-eligible employees; one of these plans is also available to retirees. A third health care plan is only available to retirees. All of the plans are funded under a cost-plus arrangement whereby the University is billed for actual claims paid by the insurer on behalf of the covered participants plus administrative fees. For fiscal year ended on June 30, 2016, the University's contribution to these health care plans totaled $11,156,411 for 1,074 employees and $1,717,042 for 363 retirees. For the same period, employees and retirees made contributions totaling $2,704,711 and $629,212 respectively.

The University assumes the risk for medical claims exceeding the maximum expected cost but has mitigated the additional risk by purchasing specific stop loss coverage for active employees' individual claims over $225,000. The University also has established a reserve to cover a significant portion of the aggregate liability beyond 125 percent of expected claims. The liability for medical claims incurred but not reported at June 30, 2016, is based on an average monthly claim multiplied by the plan provider's average turnaround time from when claims are incurred to when claims are submitted to USI for payment. Changes in the balance of claims liabilities during the 2014-15 and 2015-16 fiscal years are as follows.

CHANGE IN CLAIM LIABILITY

Fiscal Year	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2014–15	$3,875,142	$ 9,188,456	$(9,880,334)	$3,183,264
2015–16	$3,183,264	$10,577,323	$(9,993,816)	$3,766,771

NOTE 13 – VEBA Trust

The University established a Voluntary Employees' Benefit Association (VEBA) Trust for the purpose of providing medical, dental, and life insurance benefits to employees who retire after attaining age 60 with at least ten years of service and to employees who retire under the Rule of 85. Historically, the trust has been funded from three sources: University contributions and reserves designated by the Board of Trustees for this purpose, employee payroll deductions for post-retirement benefits, and retiree contributions for medical insurance premiums. In 2013, management elected to discontinue contributions from employees and retirees in anticipation of changes to retiree insurance coverage. As a result, contributions were funded exclusively from University operating funds during the most recent fiscal year.

The University does not anticipate that the VEBA Trust will pay for all post-retirement benefits. Instead, funds from the trust will be used to reduce the increasing burden of such expenses on the current operating funds during future years. A summary of the activity in the trust for the year ending June 30, 2016, follows.

VEBA TRUST

	Market
Fund balance at July 1, 2015	$20,258,715
Transfer from University reserves	150,000
Reinvested net earnings	383,029
Net gain/(loss) on sales of trust investments	448,881
Less: Management fees and taxes	(49,475)
Proceeds from litigation	550
Net change in market value	(748,481)
Fund balance at June 30, 2016	**$20,443,219**

Funds that are placed into the trust cannot revert to the University under any circumstances; therefore, the financial statements of the University do not include the value of these assets.

NOTE 14 – Other Postemployment Benefits (OPEB)

Plan Description – The USI Voluntary Employees' Benefit Association (VEBA) Trust is a single-employer defined benefit healthcare plan administered by the Old National Trust Company. The VEBA Trust was established for the purpose of providing medical and dental benefits to eligible retirees and their spouses. The USI Board of Trustees has the authority to establish or amend the benefit provisions of the plan. Old National Trust Co. does not provide a stand-alone financial report of the USI VEBA Trust, but the plan assets and financial activity are included as part of its publicly-available audited financial report. That report may be obtained by writing to Old National Bancorp, One Main Street, Evansville, IN 47708, or by calling 800-731-2265.

Funding Policy – The contribution requirements are established and may be amended by the USI Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For the fiscal year ended June 30, 2016, USI contributed $2,719,568 to the plan, including $2,569,568 for current premiums (approximately 80 percent of total premiums), and $150,000 to prefund benefits. Plan members receiving benefits contributed $629,212, or approximately 20 percent of the total premiums, through their required contributions for medical insurance coverage.

Annual OPEB Cost and Net OPEB Obligation – The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The table on the following page shows the components of the USI VEBA Trust's annual OPEB cost for the last three fiscal years, the amount actually contributed to the plan, and changes in the net OPEB obligation to the plan.

ANNUAL OPEB COST AND OBLIGATION	2014	2015	2016
Annual required contribution	$ 4,890,274	$ 4,890,274	$ 3,995,717
Interest on net OPEB obligation	450,491	631,857	801,966
Adjustment to annual required contribution	(540,169)	(781,050)	(929,220)
Annual OPEB cost	4,800,596	4,741,081	3,868,463
Contributions made	(1,673,610)	(1,808,154)	(2,090,356)
Increase (decrease) in net OPEB obligation	3,126,986	2,932,927	1,778,107
Net OPEB obligation, beginning of year	7,767,094	10,894,080	13,827,007
Net OPEB obligation, end of year	**$10,894,080**	**$13,827,007**	**$15,605,114**

The USI VEBA's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three fiscal years are as follows.

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6-30-2014	$4,800,596	34.9%	$10,894,080
6-30-2015	$4,741,081	38.1%	$13,827,007
6-30-2016	$3,868,463	54.0%	$15,605,114

Funded Status and Funding Progress – As of June 30, 2016, the plan was 35 percent funded. The actuarial accrued liability (AAL) for benefits was $58,063,799, and the actuarial value of assets was $20,443,219, resulting in an unfunded actuarial accrued liability (UAAL) of $37,620,580. The covered payroll (annual payroll of active employees covered by the plan) was $53,503,718, and the ratio of the UAAL to covered payroll was 70 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the most recent actuarial study evaluation, which was for July 1, 2015, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns (7 percent) on the asset classes held in the VEBA Trust and the expected USI internal rate of return (3 percent) on general assets. The actuarial value of VEBA Trust assets for the purposes of determining the annual recommended contribution is the market value of the assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount on an open basis over a 30-year period.

Other assumptions that have factored into the actuarial evaluations to date are based on the University's plan for retiree insurance eligibility. Under the current plan, full-time, benefits-eligible employees who retire from the University with 10 years of service and who are at least age 60, as well as those who meet the rule of 85 or who become totally disabled as designated by the long-term disability insurer, are entitled to continue medical, dental, and life insurance benefits under the terms of the plans during the period of retirement or disability. An annual healthcare cost trend rate has been assumed for each benefit. The rates range from 9 percent in fiscal year 2014 and declines annually until they reach 4.5 percent in fiscal year 2031. Retiree contributions are assumed to increase according to these rates.

Changes to Retiree Health Care Plans – To address the anticipated continued increase in retiree healthcare costs outlined in the actuarial report, management created a benefits study group to review retiree benefit plans and to develop recommendations for changes to those plans. As a result, the following revisions, subject to any provisions or limitations required by the Internal Revenue Code, were approved by the USI Board of Trustees on March 6, 2014.

- End retiree medical, dental, and life insurance coverage for all employees who are hired on or after July 1, 2014.
- Continue a life insurance benefit at retirement or disability retirement for all full-time, benefit-eligible employees who were hired on or before June 30, 2014.
- Continue the option of medical and dental insurance at retirement for all full-time, benefit-eligible employees hired on or before June 30, 2014, whose age plus years of service on July 1, 2014, equaled or exceeded 57 points, or whose benefits-eligible service as of that date was 10 or more years, and for any disabled retiree whose beginning date of disability was on or before June 30, 2014.
- End the option of medical and dental insurance at retirement for all full-time, benefits-eligible employees whose age plus years of service as of July 1, 2014, was less than 57 points and whose benefits-eligible service as of that date was less than 10 years.

NOTE 15 – Functional Expenditures

Operating expenses are reported by natural classification on the face of the Statement of Revenues, Expenses, and Changes in Net Position. Some users of the financial statements have a need to know expenses by functional classification, either for trend analysis or for comparison to other higher education institutions. This information is presented in the table below.

FUNCTIONAL EXPENDITURES

Function	Salaries and Wages	Benefits	Scholar-Ships	Utilities	Supplies and Other Svcs	Depreciation	2016 Total	2015 Total
Instruction	$31,394,059	$10,679,005			$ 2,978,673		$ 45,051,737	$ 43,162,654
Academic Support	6,074,421	2,575,614			5,061,800		13,711,835	11,383,124
Student Services	4,955,623	2,232,396			2,709,651		9,897,670	8,795,999
Institutional Support	8,599,920	4,989,353			4,330,367		17,919,640	18,853,539
Operation and Maintenance of Plant	3,780,286	2,330,571		4,481,604	3,938,149		14,530,610	12,795,970
Depreciation						13,350,787	13,350,787	13,166,463
Student Aid	13,600	6,619	7,406,676				7,426,895	7,489,920
Public Service	1,517,595	507,874			1,073,728		3,099,197	3,159,109
Research	36,095	2,991			71,308		110,394	204,788
Auxiliary Enterprises	4,440,353	2,574,050		908,995	16,938,758		24,862,156	23,280,123
TOTAL	$60,811,952	$25,898,473	$7,406,676	$5,390,599	$37,102,434	$13,350,787	$149,960,921	$142,291,689

NOTE 16 – Construction in Progress

Construction in progress at year-end totals $5.1 million (see capital assets table below). Projects under construction include the renovation of the Arts Center; the renovation of the 2nd and 3rd floors and an upgrade of the electrical in the Information Technology server room in the Orr Center; renovation of the Saletta and Marshall apartment buildings and the Fairs Residence Life Center in the McDonald West student housing complex and the Welsh, Schricker, Branigin and Townsend apartment buildings in the O'Daniel North student housing complex; replacement of the exterior steps for student apartment buildings; replacement of the carpet in Newman Hall and the renovation of the offices in the Governor and Ruston halls in student housing; an advising center in the College of Liberal Arts; renovation of the VP of Enrollment Management offices; renovation of the Chick-Fil-A/Steak-N-Shake areas and Suites 205/206, as well as cone repairs, in the University Center building; repairs and improvements to the Creative and Print Services building; renovation of the Wright Administration building main lounge; renovation of the Rice Library lower level kitchen; improvements to parking lot A and B; replacement of building façade sealant; installation of additional drainage for parking lot K and raised campus pedestrian crosswalks; repairs and replacement of the roofs of the Physical Plant Services building, the Orr Center and the Science Center penthouse; an upgrade of the energy management system; and in New Harmony, the replacement of the Atheneum roof; repairs to the Schnee-Ribeyre-Elliott building; the repair and replacement of the roof of the Lichtenberger building; repairs to the Cooper Shop building; and the installation of a dock at the Murphy Auditorium. The total expended to date on the projects is $4.2 million, and the estimated additional cost to complete them is $5.7 million.

Projects in design include a welcome/visitors center; expansion and renovation of the Physical Activities Center (PAC); the renovation of the third floor of the Health Professions building; and the reduction of the University's energy use. Amounts expended to date on the projects total $943,853 and the projects have a total estimated remaining cost of approximately $25.7 million.

NOTE 17 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $348 million at July 1, 2015, to $358.3 million on June 30, 2016. Gross capital assets, less accumulated depreciation of $179.7 million, equal net capital assets of $178.6 million at June 30, 2016.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

Capital Assets	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Accumulated Depreciation	Net Capital Assets
Land	$ 4,945,893	$ 72,111		$ 5,018,004		$ 5,018,004
Land Improvements	14,141,782	174,717		14,316,499	8,657,556	5,658,943
Infrastructure	8,072,046			8,072,046	2,632,911	5,439,135
Educational Buildings	179,243,549	1,521,056		180,764,605	83,027,630	97,736,975
Auxiliary Buildings	108,435,332	7,604,988	150,472	115,889,848	61,830,741	54,059,107
Equipment	24,120,161	950,579	322,848	24,747,892	20,253,717	4,494,175
Library Materials	3,759,029	44,025	77,967	3,725,087	3,182,842	542,245
Capital Lease Equipment	731,667	499,529	562,343	668,853	136,063	532,790
Construction in Progress	4,507,359	9,862,399	9,245,960	5,123,798		5,123,798
Totals	$347,956,818	$20,729,404	$10,359,590	$358,326,632	$179,721,460	$178,605,172

Component Unit University of Southern Indiana Foundation

Notes to Consolidated Financial Statements June 30, 2016 and 2015

NOTE 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, Southern Indiana Higher Education Holdings, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Operational income of the subsidiary is minimal.

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

The Foundation considers all liquid investments not classified with investments and with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, the Foundation did not have any cash equivalents.

At June 30, 2016, the Foundation's cash accounts did not exceed federally insured limits.

Contributions Receivable – Deferred Gifts

During 2016 and 2015, the Foundation received certain irrevocable pledges to be paid from individual estates or more commonly referred to as deferred gifts. These contribution receivables are recorded as either temporarily or permanently restricted revenues based on the intent of the donor. The amounts were recorded at gross, less allowances for an estimate of amounts that may be uncollectible and a discount based on expected mortality of the individuals and overall credit risks. The allowance for uncollectible contributions was based on a combination of qualitative factors, including mortality, relationship to the Foundation and University, historical contribution levels and history of gifting to the Foundation. The discount rates ranged from 3.40% to 5.59%.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investments in private investment funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investment. 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 fair market value when donated or at the lower of cost or market if purchased. The properties held for investment are not depreciated.

Property and Equipment

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

Long-Lived Asset Impairment

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

Impairment loss of $66,119 was recognized for real estate held for sale for the year ended June 30, 2016. Fair value was determined based on the expected selling price of the property less selling costs. No asset impairment was recognized during the year ended June 30, 2015.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those which 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 consolidated statements 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.

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.

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.

NOTE 2 – Contributions Receivable

Contributions receivable at June 30, 2016 and 2015, consisted of the following:

CONTRIBUTIONS RECEIVABLE	2016		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 1,069,600	$ 637,132	$ 1,706,732
Due in one to five years	1,849,329	1,317,755	3,167,084
Due in five or more years	3,893,000	4,584,850	8,477,850
	6,811,929	6,539,737	13,351,666
Less			
Allowance for uncollectible contributions	952,420	1,416,850	2,369,270
Unamortized discount	1,065,339	1,898,801	2,964,140
	$ 4,794,170	$ 3,224,086	$ 8,018,256

The discount rates ranged from 1.14% to 5.59% for 2016. Approximately 32% of the contributions receivable at June 30, 2016, were due from two donors.

CONTRIBUTIONS RECEIVABLE	2015		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 1,213,428	$ 558,763	$ 1,772,191
Due in one to five years	2,938,424	1,040,910	3,979,334
Due in five or more years	2,893,000	3,295,000	6,188,000
	7,044,852	4,894,673	11,939,525
Less			
Allowance for uncollectible contributions	613,920	1,018,000	1,631,920
Unamortized discount	974,521	1,367,865	2,342,386
	$ 5,456,411	$2,508,808	$ 7,965,219

The discount rates ranged from 1.14% to 5.59% for 2015. Approximately 38% of the contributions receivable at June 30, 2015, were due from two donors.

Contributions receivable designated for specific purposes and with time restrictions at June 30, 2016 and 2015, were as follows:

SPECIFIC CONTRIBUTIONS RECEIVABLE	2016	2015
Scholarships and awards	$2,744,302	$2,075,840
Educational grants and academic enhancements	1,394,879	1,052,429
Athletic support	64,803	120,395
Other University support	2,144,038	2,544,840
Capital projects	1,347,181	1,852,259
Community outreach	2,467	193
Time restrictions	320,586	319,263
Total	$8,018,256	$7,965,219

NOTE 3 – Investments and Investment Return

Investments at June 30, 2016 and 2015, consisted of the following:

INVESTMENTS	Market	
	2016	2015
Short-term investments	$ 3,548,465	$ 2,394,571
U.S. Treasury securities	3,108,173	3,041,925
Corporate debt securities	3,549,410	4,082,125
Common stocks	12,993,483	12,642,939
Mutual funds		
Fixed income	19,285,864	15,855,867
International	14,780,865	17,710,807
Large cap	32,438,817	37,833,742
Small cap	6,490,604	7,065,979
Alternative investment – private investment fund	2,002,620	2,592,218
Total	$98,198,301	$103,220,173

Included in the Foundation's investments above are investments subject to split-interest agreements with a fair market value of $80,384 and $84,835 as of June 30, 2016 and 2015, respectively.

Total investment return for the years ended June 30, 2016 and 2015, was comprised of the following:

INVESTMENT RETURN	2016	2015
Interest and dividend income	$2,297,958	$2,475,315
Investment management fees	(209,793)	(198,047)
	2,088,165	2,277,268
Net realized and unrealized gains on investments reported at fair value	(2,837,140)	1,247,808
	$ (748,975)	$3,525,076

Alternative Investments

Except as described below, the fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at June 30, 2016 and 2015, consist of the following:

ALTERNATIVE INVESTMENTS

2016	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds (A)	$2,002,620	$906,000	N/A	N/A

2015	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds (A)	$2,592,218	$807,000	N/A	N/A

(A) This category includes a private equity fund the primary objective of which is to enable certain qualified investors to participate in closed-end private investment partnerships managed by a management company. These investments are subject to a lock-up period of 10 to 14 years and are subject to general partner approval with respect to transferability. The fund uses the NAV of the underlying funds as a practical expedient to determine the fair value of its investments. Accounting principles generally accepted in the United States of America permits, as a practical expedient, a reporting entity to measure the fair value of an investment on the basis of net asset value of the investment if the NAV of the investment is calculated in a manner consistent with the measurement principles of an investment company.

Accordingly, the value of the investment in the underlying partnership is generally increased by additional contributions to the underlying partnership and increased or decreased by the partner's share of net earnings (losses) from the underlying partnership investment and capital distributions.

NOTE 4 – Beneficial Interest in Trusts

The Foundation is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the Foundation has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $3,851,755 and $3,899,466, which represents the fair value of the trusts' assets at June 30, 2016 and 2015, respectively. The loss from these trusts for 2016 and 2015 was $(48,711) and $(62,554), respectively.

The Foundation has been named a secondary beneficiary in certain charitable remainder trusts administered by outside parties. Upon termination of the trusts, the Foundation will receive the assets remaining in the trusts. Prior to termination of the trusts and transfer of assets, the Foundation records the present value of the estimated residual benefits as assets. At June 30, 2016 and 2015, the residual benefits were valued at $715,813 and $756,368, respectively. The loss from these trusts for 2016 and 2015 was $(40,555) and $(24,247), respectively.

NOTE 5 – Line of Credit

The Foundation has a $2,697,000 bank line of credit expiring in December 2020 with a local financial institution to fund the construction costs of the Griffin Center. Repayment of the line of credit will be made by gift commitment payments from the donor. The line is collateralized by a gift agreement between the Foundation and a donor. Interest varies with one-month London Interbank Offered Rate plus 1.80% and is payable annually. A clause barring recourse to the Foundation is included in the financing agreement. Any recourse on the line of credit will be made exclusively against the donor's assets. As of June 30, 2016, no draws on the line of credit have been taken by the Foundation.

NOTE 6 – Annuities Payable

The Foundation has been the recipient of several gift annuities, which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value and are recorded in temporarily or permanently restricted funds in accordance with the donor restrictions. The Foundation has recorded a liability at June 30, 2016 and 2015, in the temporarily restricted funds of $355,503 and $371,245, respectively, and in the permanently restricted funds of $1,433,499 and $1,528,690, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from approximately 1% to 8%.

NOTE 7 – Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015, are available for the following purposes or periods:

TEMPORARILY RESTRICTED NET ASSETS	2016	2015
Scholarships and awards	$28,083,651	$29,805,292
Educational grants and academic enhancements	13,613,443	14,130,209
Athletic support	861,542	973,280
Other University support	7,010,229	8,529,835
Capital projects	2,405,643	7,181,006
Community outreach	410,897	415,698
For periods after June 30	315,077	319,089
Total	$52,700,482	$61,354,409

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

Permanently Restricted Net Assets

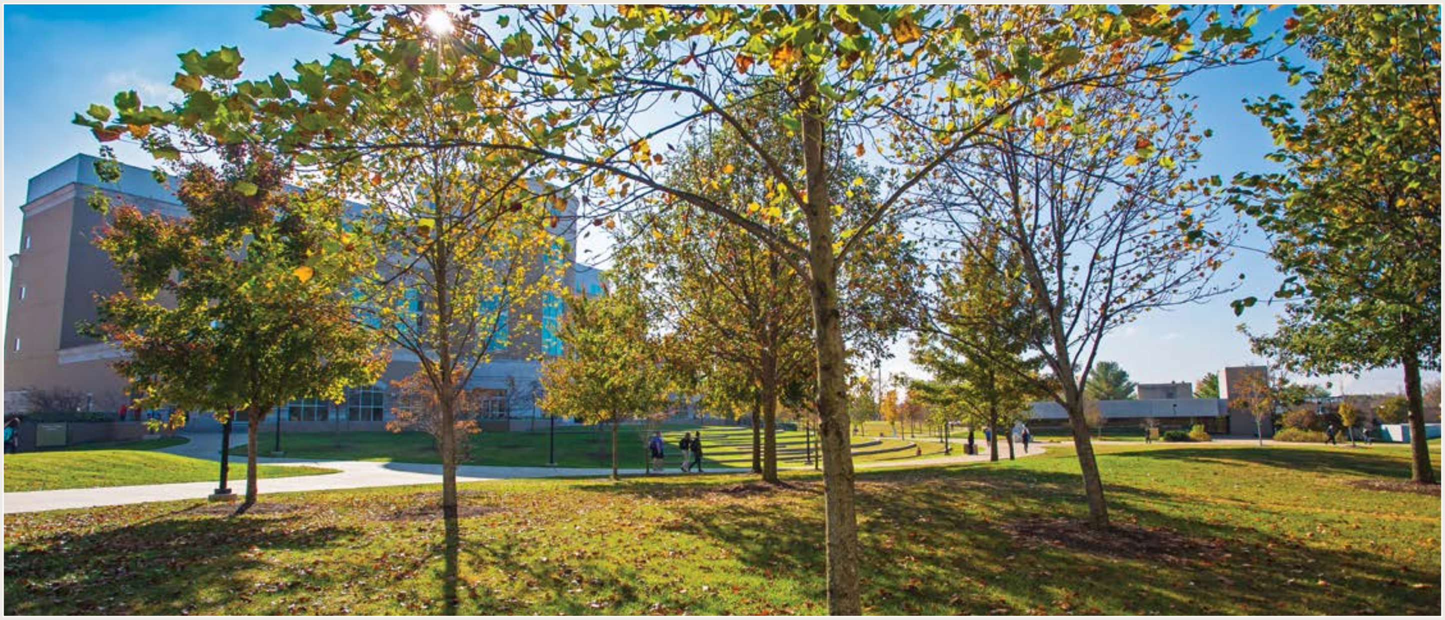
Permanently restricted net assets at June 30, 2015 and 2014, are restricted to:

PERMANAENTLY RESTRICTED NET ASSETS	2016	2015
Investment in perpetuity, the income of which is expendable to support		
Scholarships and awards	$28,327,013	$27,249,814
Educational grants and academic enhancements	8,216,870	7,688,948
Other University support	7,717,590	7,314,932
Total	$44,261,473	$42,253,694

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.

NET ASSETS RELEASED FROM RESTRICTIONS	2016	2015
Purpose restrictions released		
Scholarships and awards	$2,105,156	$1,949,902
Educational grants and academic enhancements	1,049,325	1,237,115
Athletic support	136,421	87,316
Other University support	333,334	437,677
Capital projects	6,336,294	655,184
Community outreach	7,842	20,680
Total	$9,968,372	$4,387,874



NOTE 8 – Endowment

The Foundation's endowment consists of approximately 400 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, 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, 2016 and 2015, was:

COMPOSITION OF NET ASSETS BY ENDOWMENT

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ —	$19,301,842	$40,503,886	$59,805,728
Board-designated endowment funds	8,861,471	17,501,637	—	26,363,108
Total endowment funds	**$8,861,471**	**$36,803,479**	**$40,503,886**	**$86,168,836**

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ —	$22,968,690	$38,442,378	$61,411,068
Board-designated endowment funds	9,263,670	16,029,608	—	25,293,278
Total endowment funds	**$9,263,670**	**$38,998,298**	**$38,442,378**	**$86,704,346**

Changes in endowment net assets for the years ended June 30, 2016 and 2015, were:

CHANGES IN ENDOWMENT NET ASSETS

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$9,263,670	$38,998,298	$38,442,378	$86,704,346
Investment return				
Investment income	375,862	2,623,365	149,407	3,148,634
Net depreciation	(570,747)	(4,133,113)	(218,367)	(4,922,227)
Total investment return	**(194,885)**	**(1,509,748)**	**(68,960)**	**(1,773,593)**
Contributions	25,000	2,231,568	2,165,918	4,422,486
Appropriation of endowment assets for expenditure	(232,314)	(2,763,600)	—	(2,995,914)
Reclassification of donor intent	—	(3,897)	5,415	1,518
Other changes – uncollectible pledge loss	—	—	(1,208)	(1,208)
Other changes – change in value of split-interest life interest	—	(149,142)	—	(149,142)
Other changes – change in value of split-interest agreements	—	—	(39,657)	(39,657)
	(207,314)	(685,071)	2,130,468	1,238,083
Endowment net assets, end of year	**$8,861,471**	**$36,803,479**	**$40,503,886**	**$86,168,836**

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	9,212,026	38,849,026	35,908,164	83,969,216
Investment return				
Investment income	528,760	4,373,650	199,083	5,101,493
Net depreciation	(281,914)	(2,330,038)	(106,277)	(2,718,229)
Total investment return	**246,846**	**2,043,612**	**92,806**	**2,383,264**
Contributions	—	301,751	2,461,181	2,762,932
Appropriation of endowment assets for expenditure	(195,202)	(2,214,897)	—	(2,410,099)
Reclassification of donor intent	—	(3,888)	3,888	—
Other changes – uncollectible pledge loss	—	(1,236)	(31)	(1,267)
Other changes – change in value of split-interest life interest	—	23,930	—	23,930
Other changes – change in value of split-interest agreements	—	—	(23,630)	(23,630)
	(195,202)	(1,894,340)	2,441,408	351,866
Endowment net assets, end of year	**$9,263,670**	**$38,998,298**	**$38,442,378**	**$86,704,346**

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2016 and 2015, consisted of:

DONOR-RESTRICTED ENDOWMENT FUNDS

	2016	2015
Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	$40,503,886	$38,442,378
Temporarily restricted net assets – portion of perpetual endowment funds subject to a time restriction under SPMIFA – with purpose restrictions	$36,803,479	$38,998,298

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 accounting principles generally accepted in the United States of America, deficiencies of this nature, if any, are reported in unrestricted net assets and such amounts were immaterial to the overall financial statements for 2016 and 2015. These deficiencies, if any, resulted from unfavorable market fluctuations that occurred after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

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

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income, such as dividends and interest) and capital appreciation (depreciation) (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 12-quarter average market value of each endowment fund. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

NOTE 9 – Disclosures About Fair Value of Assets and Liabilities

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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present 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, 2016 and 2015:

FAIR VALUE MEASUREMENTS

		Fair Value Measurements Using		
June 30, 2016	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Short-term investments and cash	$ 3,548,465	$ 3,548,465	$ —	$ —
U.S. Treasury securities	3,108,173	—	3,108,173	—
Corporate debt securities	3,549,410	—	3,549,410	—
Common stocks	12,993,483	12,993,483	—	—
Mutual funds				
Fixed income	19,285,864	19,285,864	—	—
International	14,780,865	14,780,865	—	—
Large cap	32,438,817	32,438,817	—	—
Small cap	6,490,604	6,490,604	—	—
Private investment fund	2,002,620	—	—	—
	$98,198,301	$89,538,098	$6,657,583	—
Beneficial interest in charitable remainder trusts	$ 715,813	$ —	$ 715,813	$ —
Beneficial interest in perpetual trusts	$ 3,851,755	$ —	$3,851,755	$ —
Beneficial interest in Community Foundation	$ 57,701	$ —	$57,701	$ —

		Fair Value Measurements Using		
June 30, 2015	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Short-term investments and cash	$ 2,394,571	$ 2,394,571	$ —	$ —
U.S. Treasury securities	3,041,925	—	3,041,925	—
Corporate debt securities	4,082,125	—	4,082,125	—
Common stocks	12,642,939	12,642,939	—	—
Mutual funds				
Fixed income	15,855,867	15,855,867	—	—
International	17,710,807	17,710,807	—	—
Large cap	37,833,742	37,833,742	—	—
Small cap	7,065,979	7,065,979	—	—
Private investment fund	2,592,218	—	—	—
	$ 103,220,173	$93,503,905	$7,124,050	$ —
Beneficial interest in charitable remainder trusts	$ 756,368	$ —	$756,368	$ —
Beneficial interest in perpetual trusts	$ 3,899,466	$ —	$3,899,466	$ —
Beneficial interest in Community Foundation	$ 60,979	$ —	$60,979	$ —

(A) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

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. There have been no significant changes in the valuation techniques during the year ended June 30, 2016.

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 and cash equivalents, common stocks and mutual funds. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified as Level 3 of the hierarchy. There were no Level 3 investments held by the Foundation.

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.

NOTE 10 – Related-Party Transactions

The University and the Foundation are related parties that are not financially interrelated organizations. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University. Program services, as reflected in the consolidated statements of activities, are entirely for the University.

The Foundation paid an annual administrative fee of $464,400 and $420,000 to the University for the years ended June 30, 2016 and 2015, respectively, for accounting, computer, administrative and other miscellaneous services provided to the Foundation by University personnel.

Amounts due to the University for approved program expenditures and approved construction commitments, as further described below included in payable to related parties as of June 30, 2016 and 2015, were $2,876,778 and $483,090, respectively.

As of June 30, 2016, construction of the USI Performance Center was completed and the remaining balance of $757,411 of the approximately $2,000,000 commitment to the University for the construction and outfitting of the USI Performance Center was recorded as a payable to related parties. Funding for this project is designated contributions for the USI Performance Center and unrestricted annual distributions from the Henry Ruston President's Endowment. Full payment of this liability is expected to occur by June 30, 2020.

As of June 30, 2016, construction of the Griffin Center was completed and the remaining balance of $1,238,424 of the approximately $5,000,000 commitment to the University for the construction and outfitting of the Griffin Center was recorded as a payable to related parties. Funding for this project is through gift commitments to the Foundation's capital campaign, *Campaign USI: Elevating Excellence,* which are expected to be satisfied no later than December 15, 2020. Full payment of this liability is expected to occur by December 31, 2020.

NOTE 11 – Significant Estimates, Concentrations and Commitments

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

For the years ended June 30, 2016 and 2015, approximately 34% and 42%, respectively, of all contributions were received from three donors and two donors, respectively.

Contributions Receivable – Deferred Gifts

As of June 30, 2016 and 2015, respectively, the Foundation has recorded contribution pledges for deferred gifts of $8,238,000 and $5,868,000, of which $2,338,770 and $1,618,920 were reserved as an allowance for uncollectible amounts and $2,723,760 and $2,035,580 were recorded as a discount based on estimated discount rates for each individual pledge for a net pledge receivable amount of $3,175,470 and $2,213,500. The estimated allowances for uncollectible amounts and discounts are based on factors that could change in the near term and for which such changes could materially affect the amount reported in the consolidated financial statements.

Commitments

The Foundation has committed approximately $2,000,000 to the University for the construction and outfitting of the Fuquay Welcome Center on the University campus. Construction is expected to begin in January 2017 with completion expected in March 2018. Funding for this project is through individual gift commitments to the Foundation's capital campaign, *Campaign USI: Elevating Excellence*, designated for the Fuquay Welcome Center. $1,785,000 of the gift commitments have been satisfied as of June 30, 2016, with the balance to be satisfied no later than June 30, 2018. All payments against this commitment are due upon receipt of invoices from the University.

NOTE 12 – Risks and Uncertainties

Investments

The Foundation invests in various investment securities. Investment securities, as well as beneficial interests in trusts, are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and beneficial interests, it is at least reasonably possible that 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.

NOTE 13 – Subsequent Events

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

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

USI VEBA Trust Retiree Healthcare Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) – Projected Unit Credit Method (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6-30-2014	$19,187,049	$54,936,503	$35,749,454	34.93%	$49,585,343	72.10%
6-30-2015	$20,258,715	$54,936,503	$34,677,788	36.88%	$52,553,540	65.99%
6-30-2016	$20,443,219	$58,063,799	$37,620,580	35.21%	$53,503,718	70.31%

SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Public Employees' Retirement Plan

Last 3 Fiscal Years*

Fiscal Year	University's proportion of the net pension liability (asset)	University's proportionate share of the net pension liability (asset)	University's covered-employee payroll	University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.19%	$7,749,103	$9,112,942	85.03%	77.30%
2014	0.19%	$5,121,057	$9,514,281	53.82%	84.29%
2013	0.20%	$6,844,336	$9,594,423	71.34%	78.79%

SCHEDULE OF UNIVERSITY CONTRIBUTIONS

Public Employees' Retirement Plan

Last 3 Fiscal Years*

Fiscal Year	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	University's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2015	$1,015,471	($1,015,471)	—	$9,112,942	11.14%
2014	$1,059,754	($1,059,754)	—	$9,514,281	11.14%
2013	$ 921,537	($ 921,537)	—	$9,594,423	9.60%

*Schedule is intended to show information for the last 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information

Public Employees' Retirement Plan

Changes in assumptions: an assumption study was performed in April 2015 resulting in an update to the following assumptions.

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from an age-based table ranging from 3.25% to 4.50% to an age-based table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scall AA to the RE-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projections included in the Social Security Administration's 2014 Trustee Report
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2017

Source: Indiana Public Retirement System
Public Employees' Retirement Fund
Report on Allocation of Pension Amounts
For the Year Ended June 30, 2015

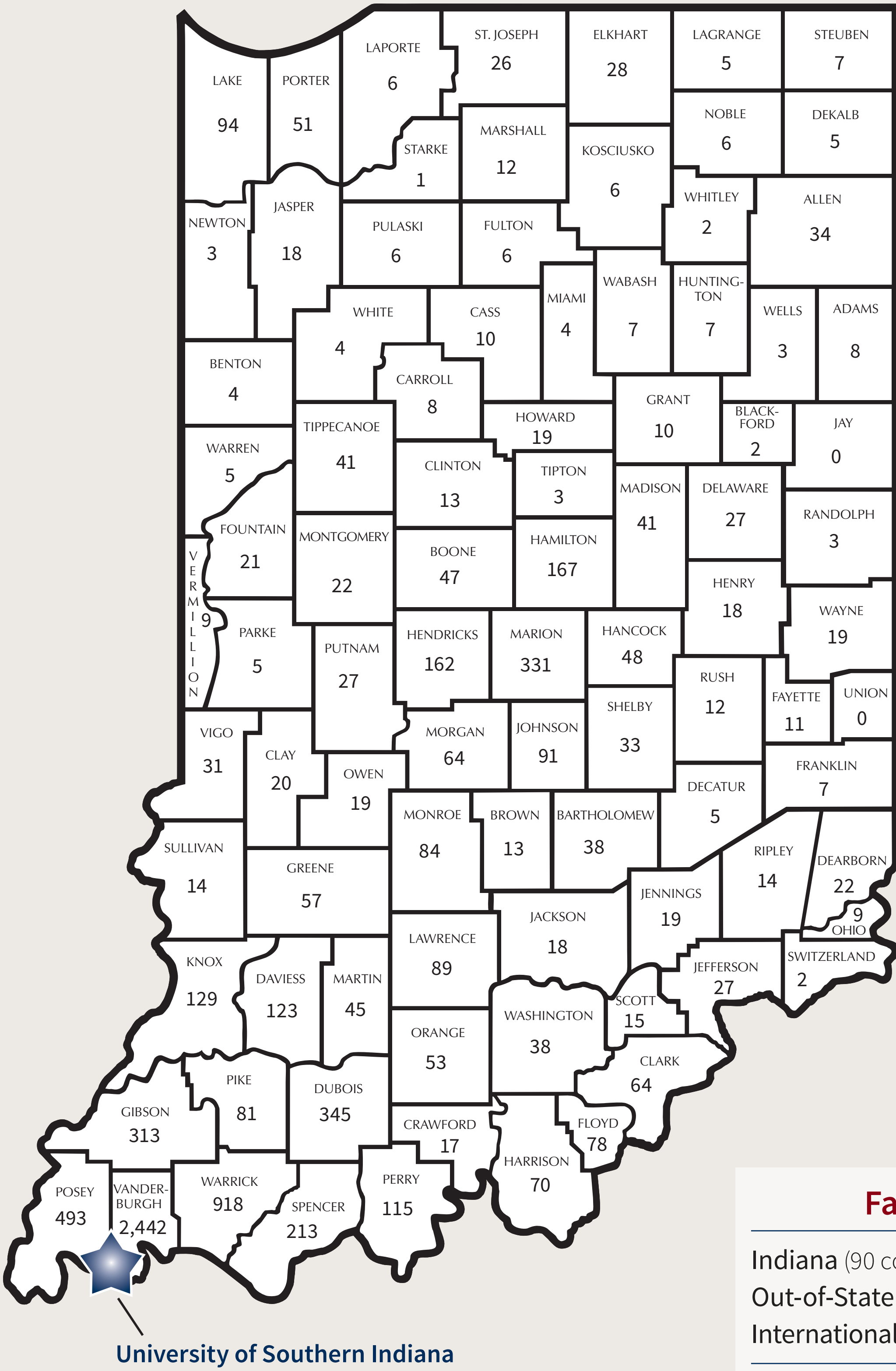
Additional Information about the University

FIVE-YEAR COMPARATIVE DATA

	2015–16	2014–15	2013–14	2012–13	2011–12
Enrollment (Fall Semester)					
Total students	9,029	9,364	9,902	10,467	10,820
Undergraduates	8,130	8,414	8,913	9,498	9,871
Women	5,654	5,825	6,078	6,473	6,575
African American	389	419	433	496	637
Other minority	572	431	433	637	478
International	220	225	244	219	188
Age 25 plus	1,943	2,201	2,474	2,614	2,655
Indiana residents	7,661	7,903	8,361	8,856	9,272
Full-time equivalent	7,668	7,822	8,215	8,741	9,031
Degrees Granted (Academic Year)					
Doctorate	20	16	16	18	14
Masters	271	283	297	416	244
Baccalaureate	1,576	1,618	1,626	1,700	1,531
Associate	63	79	86	80	82
Faculty (Fall Semester)					
Full-time	313	334	323	331	309
Percentage tenured	39	36	35	33	39
Part-time (FTE)	160	153	163	175	163
FTE students/FTE faculty	16.2	16.1	16.9	17.3	19.1

This information is presented as additional data and is not subject to the audit opinion expressed by the Indiana State Board of Accounts.

Home Counties of USI Students (Fall 2015)



Fall 2015

Indiana (90 counties)	7,661
Out-of-State (36 states)	1,148
International (43 countries)	220
Total Enrollment	**9,029**

It is the policy of the University of Southern Indiana to be in full compliance with all federal and state non-discrimination and equal opportunity laws, orders and regulations relating to race, color, religion, sex (including pregnancy), national origin, age, disability, genetic information, sexual orientation, gender identity or veteran status. Questions or concerns should be directed to the Affirmative Action Officer/Title IX Coordinator, USI Human Resources Department, University of Southern Indiana, 8600 University Boulevard, Evansville, Indiana 47712.

The Disabled Student Services program is provided to help students overcome or compensate for obstacles related to a physical, emotional, or learning disability. Resources include a reader/taping service, test accomodations service, tutors, sign language interpreter service, notetaker supplies, literature, and personal assistance. Program staff work with all offices to insure that reasonable and approriate accommodations are provided to students with disabilities. A detailed brochure is available from the Counseling Center. Students requesting services must register with the Disabled Student Services program in the Counseling Center at least 60 days prior to date needed.

UNIVERSITY OF SOUTHERN INDIANA®

8600 University Boulevard
Evansville, Indiana 47712

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