University of Southern Indiana Foundation

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2016 and 2015

BKD LLP
CPAs & Advisors

University of Southern Indiana Foundation
June 30, 2016 and 2015

Contents

BKD LLP
CPAs & Advisors

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Independent Auditor's Report on Consolidated Financial Statements and Supplementary Information

Board of Directors
University of Southern Indiana Foundation
Evansville, Indiana

We have audited the accompanying consolidated financial statements of the University of Southern Indiana Foundation, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Southern Indiana Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating information as of and for the year ended June 30, 2016 (with comparative totals for 2015), as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

Evansville, Indiana
October 4, 2016

University of Southern Indiana Foundation

Consolidated Statements of Financial Position

June 30, 2016 and 2015

Assets

	2016	2015
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

	2016	2015
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

University of Southern Indiana Foundation
Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions	$ 185,739	$ 2,404,845	$ 2,165,918	$ 4,756,502
Grants	-	166,424	-	166,424
Change in value of split-interest agreements	-	(97,933)	(55,589)	(153,522)
Change in split-interest life interest	-	222,283	-	222,283
Rental income (loss), net	(4,508)	11,125	-	6,617
Miscellaneous income	89,842	152,519	-	242,361
Reclassification of donor intent	(1,118)	(4,297)	5,415	-
Net assets released from restrictions	9,968,372	(9,968,372)	-	-
Total revenues and other support	10,238,327	(7,113,406)	2,115,744	5,240,665
Expenses				
Programs – University of Southern Indiana				
Scholarships and awards	2,236,281	-	-	2,236,281
Educational grants and academic enhancements	1,148,888	-	-	1,148,888
Athletic support	136,421	-	-	136,421
Other University support	742,804	-	-	742,804
Capital projects	6,336,294	-	-	6,336,294
Community outreach	12,442	-	-	12,442
Total program services	10,613,130	-	-	10,613,130
Management and general	651,253	1,923	-	653,176
Fundraising	441,015	-	-	441,015
Uncollectible pledge loss	-	52,754	1,208	53,962
Total expenses	11,705,398	54,677	1,208	11,761,283
Other Changes				
Investment income (loss), net	743,693	(1,423,708)	(68,960)	(748,975)
Change in value of beneficial interest in trusts and Community Foundation	-	(14,192)	(37,797)	(51,989)
Mineral royalty income	22,534	-	-	22,534
Impairment loss on property held for sale	-	(66,119)	-	(66,119)
Gain on cash value of life insurance	-	18,175	-	18,175
Total other changes	766,227	(1,485,844)	(106,757)	(826,374)
Change in Net Assets	(700,844)	(8,653,927)	2,007,779	(7,346,992)
Net Assets, Beginning of Year	14,637,893	61,354,409	42,253,694	118,245,996
Net Assets, End of Year	$ 13,937,049	$ 52,700,482	$ 44,261,473	$110,899,004

See Notes to Consolidated Financial Statements

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	$ 132,119	$ 6,276,394	$ 2,461,181	$ 8,869,694
	-	218,571	-	218,571
	-	(88,607)	(19,343)	(107,950)
	-	23,930	-	23,930
	(25,117)	-	-	(25,117)
	87,012	126,985	-	213,997
	-	(3,888)	3,888	-
	4,387,874	(4,387,874)	-	-
	4,581,888	2,165,511	2,445,726	9,193,125
	2,110,577	-	-	2,110,577
	1,299,256	-	-	1,299,256
	87,316	-	-	87,316
	572,041	-	-	572,041
	655,184	-	-	655,184
	20,680	-	-	20,680
	4,745,054	-	-	4,745,054
	578,171	-	-	578,171
	323,532	-	-	323,532
	-	5,247	31	5,278
	5,646,757	5,247	31	5,652,035
	1,218,948	2,213,322	92,806	3,525,076
	-	(25,468)	(40,663)	(66,131)
	43,688	-	-	43,688
	-	-	-	-
	-	85,913	-	85,913
	1,262,636	2,273,767	52,143	3,588,546
	197,767	4,434,031	2,497,838	7,129,636
	14,440,126	56,920,378	39,755,856	111,116,360
	$ 14,637,893	$ 61,354,409	$ 42,253,694	$118,245,996

University of Southern Indiana Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	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

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:

	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.

	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:

	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
	$ 8,018,256	$ 7,965,219

Note 3: Investments and Investment Return

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

	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
	$ 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:

	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 (losses) 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:

	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:

	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
	$ 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, 2016 and 2015, are restricted to:

	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
	$ 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.

	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
	$ 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:

	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:

	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

University of Southern Indiana Foundation

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

	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:

	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 Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
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, measured at net asset value (A)	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	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2015				
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, measured at net asset value (A)	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.

Supplementary Information

University of Southern Indiana Foundation

Consolidating Schedule of Financial Position Information

June 30, 2016

(With Comparative Totals for 2015)

	2016			
	University of Southern Indiana Foundation	Southern Indiana Higher Education Holdings, LLC	Eliminations	Total
Assets				
Cash	$ 66,468	$ 733,876	$ -	$ 800,344
Accounts and interest receivable	78,914	5,098	-	84,012
Contributions receivable, net	8,018,256	-	-	8,018,256
Prepaid expenses	19,007	-	-	19,007
Investments	98,198,301	-	-	98,198,301
Cash value of life insurance	519,016	-	-	519,016
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
Life interest in real estate	-	-	-	-
Real estate held for investment	434,510	2,036,705	-	2,471,215
Real estate held for sale	305,306	-	-	305,306
Investment in Southern Indiana Higher Education Holdings, LLC	3,131,367	-	(3,131,367)	-
Land	46,413	179,055	-	225,468
Buildings, net of accumulated depreciation; 2016 – $409,879, 2015 – $369,662	154,892	181,486	-	336,378
Property management deposits	1,875	2,850	-	4,725
Total assets	$ 115,599,594	$ 3,139,070	$ (3,131,367)	$ 115,607,297
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 27,815	$ 4,853	$ -	$ 32,668
Deposits	1,875	2,850	-	4,725
Deferred income	5,120	-	-	5,120
Payable to related parties	2,876,778	-	-	2,876,778
Use obligation of life interest	-	-	-	-
Annuities payable	1,789,002	-	-	1,789,002
Total liabilities	4,700,590	7,703	-	4,708,293
Net Assets				
Unrestricted	13,937,049	3,131,367	(3,131,367)	13,937,049
Temporarily restricted	52,700,482	-	-	52,700,482
Permanently restricted	44,261,473	-	-	44,261,473
Total net assets	110,899,004	3,131,367	(3,131,367)	110,899,004
Total liabilities and net assets	$ 115,599,594	$ 3,139,070	$ (3,131,367)	$ 115,607,297

2015
Total
$ 923,585
95,468
7,965,219
18,175
103,220,173
500,841
756,368
3,899,466
60,979
371,425
2,471,215
-
-
225,468
376,595
4,200
$ 120,889,177
$ 32,293
4,200
1,380
483,090
222,283
1,899,935
2,643,181
14,637,893
61,354,409
42,253,694
118,245,996
$ 120,889,177

University of Southern Indiana Foundation

Consolidating Schedule of Activities Information

June 30, 2016 and 2015

(With Comparative Totals for 2015)

	2016			
	Unrestricted			
	University of Southern Indiana Foundation	Southern Indiana Higher Education Holdings, LLC	Eliminations	Total
Revenues and Other Support				
Contributions	$ 185,739	$ -	$ -	$ 185,739
Grants	-	-	-	-
Change in value of split-interest agreements	-	-	-	-
Change in split-interest life interest	-	-	-	-
Rental income (loss), net	2,187	(6,695)	-	(4,508)
Miscellaneous income	89,842	-	-	89,842
Reclassification of donor intent	(1,118)	-	-	(1,118)
Net assets released from restrictions	9,968,372	-	-	9,968,372
Total revenues and other support	10,245,022	(6,695)	-	10,238,327
Expenses				
Programs – University of Southern Indiana				
Scholarships and awards	2,236,281	-	-	2,236,281
Educational grants and academic enhancements	1,148,888	-	-	1,148,888
Athletic support	136,421	-	-	136,421
Other University support	742,804	-	-	742,804
Capital projects	6,336,294	-	-	6,336,294
Community outreach	12,442	-	-	12,442
Total program services	10,613,130	-	-	10,613,130
Management and general	651,253	-	-	651,253
Fundraising	441,015	-	-	441,015
Uncollectible pledge loss	-	-	-	-
Total expenses	11,705,398	-	-	11,705,398
Other Changes				
Investment income (loss), net	742,153	1,540	-	743,693
Change in value of beneficial interest in trusts and Community Foundation	-	-	-	-
Mineral royalty income	-	22,534	-	22,534
Impairment loss on property held for sale	-	-	-	-
Net income of subsidiary	17,379	-	(17,379)	-
Gain on cash value of life insurance	-	-	-	-
Total other changes	759,532	24,074	(17,379)	766,227
Change in Net Assets	$ (700,844)	$ 17,379	$ (17,379)	$ (700,844)

			2015
Temporarily Restricted	Permanently Restricted		
University of Southern Indiana Foundation	University of Southern Indiana Foundation	Total	Total
$ 2,404,845	$ 2,165,918	$ 4,756,502	$ 8,869,694
166,424	-	166,424	218,571
(97,933)	(55,589)	(153,522)	(107,950)
222,283	-	222,283	23,930
11,125	-	6,617	(25,117)
152,519	-	242,361	213,997
(4,297)	5,415	-	-
(9,968,372)	-	-	-
(7,113,406)	2,115,744	5,240,665	9,193,125
-	-	2,236,281	2,110,577
-	-	1,148,888	1,299,256
-	-	136,421	87,316
-	-	742,804	572,041
-	-	6,336,294	655,184
-	-	12,442	20,680
-	-	10,613,130	4,745,054
1,923	-	653,176	578,171
-	-	441,015	323,532
52,754	1,208	53,962	5,278
54,677	1,208	11,761,283	5,652,035
(1,423,708)	(68,960)	(748,975)	3,525,076
(14,192)	(37,797)	(51,989)	(66,131)
-	-	22,534	43,688
(66,119)	-	(66,119)	-
-	-	-	-
18,175	-	18,175	85,913
(1,485,844)	(106,757)	(826,374)	3,588,546
$ (8,653,927)	$ 2,007,779	$ (7,346,992)	$ 7,129,636