

Indiana State University

Financial Report

2015-2016



Indiana State
University



Table of Contents

Indiana State University Financial Report 2015-2016

Message from the President	3
Letter of Transmittal	6
Independent Auditor’s Report.....	7
Management’s Discussion and Analysis.....	9
Indiana State University—Statement of Net Position	21
Indiana State University—Statement of Revenues, Expenses, and Changes in Net Position	22
Indiana State University—Statement of Cash Flows.....	23
Indiana State University Foundation—Consolidated Statement of Financial Position	24
Indiana State University Foundation—Consolidated Statement of Activities.....	25
Indiana State University Foundation—Consolidated Statement of Cash Flows.....	26
Notes to Financial Statements	27
Required Supplementary Information	54
Home Counties of Indiana State University Students.....	55
Board of Trustees and University Administration	56



Message from the President

Greetings on behalf of the Trustees, Faculty, Administration and Students of Indiana State University:

The past year has been a memorable one for Indiana State University as the institution kicked off a five-year celebration of its Sesquicentennial, marking the years between its founding in 1865 and the opening of its doors in 1870.

Indiana State was created as the Indiana State Normal School, a public institution designed to prepare teachers for the common schools of Indiana. Over the past 150 years, the small school that began with a class of 21 students has grown into a modern university with more than 13,500 students pursuing bachelor's, master's and doctoral degrees in the Bayh College of Education, the Scott College of Business, and the colleges of Arts and Sciences, Health and Human Services, Technology and Graduate and Professional Studies.

The Sesquicentennial Era celebration began with a fundraising gala which raised more than \$200,000 for need-based scholarships. During the dinner, a \$1,000,000 gift from the Gayle and Bill Cook Foundation to support improvements to historic campus facilities also was announced. The highlight of the evening came during the dessert reception when the newly restored stained glass dome in Normal Hall was unveiled for the first time. A \$16 million renovation of the former library building brought it back to its former grandeur along with modern conveniences such as air conditioning, elevators, ADA-accessible bathrooms, etc. Normal Hall is now the home of the University College and the Center for Student Success and has rapidly become a favorite study space for our students.

Indiana State remains a leader in preparing teachers for the constantly evolving world of education. Through its **B**ayh College of **E**ducation **S**cholars to **T**eachers (BEST) program, Indiana State is providing a unique educational experience for pre-service teachers that includes leadership, professional development, community engagement, and experiential learning opportunities. BEST scholars participate in local, state, national and global activities throughout their time at Indiana State culminating with the requirement of student teaching in a diverse cultural setting either abroad, in one of the Navajo Nation schools, or in another culturally diverse setting in the United States.

Indiana State is also home to the Indiana Principal Leadership Institute (IPLI). Created with bipartisan support from the Indiana General Assembly in 2013, the institute is a two-year experience that addresses the professional needs of Indiana public school principals with an emphasis on student success. To date more than 160 principals have participated along with more than 200 teachers impacting nearly 123,000 students throughout Indiana.

The BEST and IPLI programs are among the many achievements of "The Pathway to Success" strategic plan which has guided decision-making across the University for the past eight years and came to a successful conclusion this summer. The plan focused on enrollment and student success, experiential learning, community engagement, distinctive programs, diversifying revenue and attracting and retaining great employees. Through the hard work of hundreds of faculty and staff, Indiana State has made great strides towards its strategic goals. A few of these achievements are:

- A 30 percent growth in enrollment, reaching the highest level in the university's history in fall 2015. Hoosier enrollments have also grown dramatically, bucking a statewide trend of declining resident headcount at many sister institutions.



- Implementation of a four-year Graduation Guarantee which ensures students can graduate on time.
- Growth in Hoosier degree production of 34 percent and growth in Hoosier at-risk degree production of 62 percent.
- A 14 percent improvement in on-time degree completion for Indiana residents attending Indiana State.
- Significant experiential learning component incorporated as a requirement into 100 percent of ISU's degree programs.
- Achieving national recognition for community engagement which has become a significant part of Indiana State's culture. Every student is involved in service learning and in helping our community (and others) achieve a better quality of life. This past year, our students contributed more than 1.2 million hours of service, a feat that has ranked ISU in the top three in the nation for five years in a row by the Washington Monthly College Guide. In 2015, Indiana State led all national universities in the overall service category in the rankings which measure the value institutions provide on factors such as social mobility, hours of service, use of federal work-study dollars for local non-profits, etc.
- This spring, Indiana State also was named the inaugural recipient of the Engaged Campus Award from Indiana Campus Compact. The award honors institutions that demonstrate their ability to improve communities by providing students with a "well-rounded, thoughtful, challenging and just education" that teaches them civic and social responsibility.
- Indiana State has also been named to the President's Higher Education Honor Roll for Community Service every year since its inception.
- ISU's distinctive programs initiative was expanded to include the Bayh College of Education Scholars to Teachers (BEST) program along with the Community School of the Arts; Center for Global Engagement; Networks Financial Institute; Institute for Community Sustainability; Center for Genomic Advocacy, Center for Unmanned Systems and Human Capital Development, and Rural Health Entrepreneurship Development Institute.
- New degree programs were developed in high demand and innovative fields including numerous healthcare-related programs, genomics advocacy, and unmanned systems, as well as several online programs.
- The University first comprehensive fundraising campaign concluded successfully by raising more than \$86 million.
- A new compensation system helped make significant improvements in faculty and staff salaries which are now competitive with peer institutions.
- A 62 percent increase in African American and Hispanic faculty was achieved.
- African American and Hispanic enrollments grew by 87 percent.
- More than \$300 million in major campus projects were completed including renovations of historic structures to serve as the new homes for the Bayh College of Education, the Scott College of Business and University College along with upgrading of student housing, renovated facilities for a new welcome center and the career center, and a new track and field.
- Indiana State's partnerships with third-party developers has driven the revitalization of downtown Terre Haute and the riverfront.
- New resource centers, programs and training have been developed to help create an environment of inclusive excellence for all students, faculty, and staff.

Despite our enrollment growth, Indiana State has held the line on expenses. Tuition increases have been at or below the CPI, and our faculty and staff have become more efficient by 29 and 43 percent respectively since 2008 as they teach, advise and provide services to more students. Innovative efforts by our faculty such as utilizing free open educational resources when possible have also saved our students significant textbook costs.

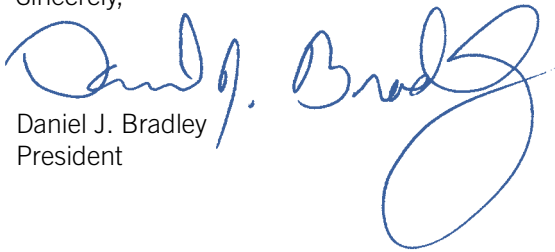
With the conclusion of "*The Pathway to Success*," Indiana State has launched its new strategic plan, "*There's More to Blue*." Building upon the successes listed above, the new plan has even more aggressive goals that include increasing enrollment to 16,000 by 2022, improving six-year graduation rates to 50 percent (significantly above the national average for like institutions), narrowing the gap between graduation rates for Pell and non-Pell students, embedding the career-readiness certificate into all degree programs, increasing the impact of our community service efforts, developing additional distinctive programs to provide unique experiences for our students,

continuing to improve the efficiency of our employees, significant strengthening of our private fundraising, and continued diversification of our faculty and staff.

As Indiana State's Sesquicentennial Era Celebration continues, we take pride in the special niche our university serves in Indiana's higher education system. The majority of our students come from Indiana and remain in our state after graduation to work, raise their families and contribute to their communities. Many of our students come from low-income households with 53 percent qualifying for Pell grants. Many are the first in their families to attend college. Data shows that individuals from low-income backgrounds have a much more difficult time completing their degrees despite their level of academic preparedness. Indiana State is committed to helping our students achieve their educational goals and earn the degrees that will literally transform their lives and the quality of life for their families. Ours is a noble, much-needed and challenging mission which we embrace wholeheartedly.

On behalf of Indiana State, I would like to express our sincere gratitude for the support we receive from the State of Indiana. Providing access to higher education is an investment that not only transforms individuals' lives, but one that contributes mightily to workforce development, the state's economy, and the quality of living offered in our communities. We are pleased to continue to partner with the State of Indiana and its citizens in fulfilling this mission.

Sincerely,



Daniel J. Bradley
President



Letter of Transmittal

Dear President Bradley and Trustees of Indiana State University:

Following is Indiana State University's audited financial report for the year ended June 30, 2016. This annual report reflects Indiana State University's commitment to excellence in higher education and faithful stewardship of public funds. As Indiana State University celebrates its 150th anniversary, its mission of teaching, experiential learning, and community engagement transforms the lives of its students.

University management is responsible for the accuracy and completeness of the information as presented, including all disclosures. The financial statements are prepared in accordance with guidelines established by the Governmental Accounting Standards Board (GASB) and audited by the Indiana State Board of Accounts. The unmodified audit opinion, the most favorable outcome of the audit process, is shown on pages 7 and 8 of this report.

The Management's Discussion and Analysis (MD&A) provides a narrative introduction and overview of the basic financial statements, as well as information regarding the financial position and results of operations of the University for the 2015-16 fiscal year. The MD&A can be found on pages 9 through 20 followed by financial statements and accompanying notes.

We are deeply grateful to the State of Indiana for its longstanding commitment to higher education and support of Indiana State University, and are ever mindful of our responsibilities to students, faculty, staff, citizens, and the Indiana General Assembly to prudently manage that financial support.

Sincerely,



Diann E. McKee
Senior Vice President for Finance and
Administration and University Treasurer



Independent Auditor's Report



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 INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

Report on the Financial Statements

We have audited the financial statements of the business-type activities and the discretely presented component unit of Indiana State University (University), a component unit of the State of Indiana, as of and for the years 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 Indiana State 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, Schedule of Indiana State University's Proportionate Share of the Net Pension Liability Public Employees' Retirement Fund (PERF), and the Schedule of Indiana State University's Contributions Public Employees' Retirement Fund (PERF) 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 Message from the President, Letter of Transmittal, Home Counties of ISU Students (Fall 2015), Board of Trustees and University Administration are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Message from the President, Letter of Transmittal, Home Counties of ISU Students (Fall 2015), Board of Trustees and University Administration 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 the 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

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Indiana State University (the University) for the fiscal years ended June 30, 2016 and 2015, along with comparative financial information for the fiscal year ended June 30, 2014. This overview complies with Governmental Accounting Standards Board (GASB) principles, GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and the notes that follow this section.

Indiana State University is a research intensive, residential institution offering instruction at the associate, bachelor, master, and doctoral levels. The University offers a diverse range of degree programs through a framework of 43 departmental units in five academic colleges and various divisions. Located in Terre Haute, Indiana, with 13,584 students, Indiana State University is a significant economic engine for the Wabash Valley and the State of Indiana.

Using the Financial Statements

The University's financial report includes three financial statements: (1) the Statement of Net Position; (2) the Statement of Revenues, Expenses, and Changes in Net Position; and (3) the Statement of Cash Flows.

The Statement of Net Position provides a summary view of the assets, liabilities, deferred inflows and outflows, and net position of the University and classifies assets and liabilities as either current or non-current. Current assets include those that may be used to support regular ongoing operations, such as cash and cash equivalents, accounts receivable, and inventories. Deferred outflows of resources are items that represent a decrease in net position applicable to a future reporting period. Current liabilities are those items which are estimated to become due and payable within the next fiscal year. Non-current assets include capital assets, certain receivables, and long-term investments. Non-current liabilities include long-term bonds and notes payable. Deferred inflows of resources represent an increase of net position applicable to a future reporting period.

The Statement of Revenues, Expenses, and Changes in Net Position summarizes financial performance for the year and explains the changes in the year-end net position.

The Statement of Cash Flows reconciles the beginning and ending balances of cash and cash equivalents and identifies all sources and uses of cash during the fiscal year.

The Governmental Accounting Standards Board (GASB) requires the inclusion of financial statements for all significant University component units. As of June 30, 2016 the Indiana State University Foundation is the only component unit to be included. The Foundation is a nonprofit organization that is subject to reporting guidelines governed by the Financial Accounting Standards Board (FASB); accordingly, certain revenue recognition criteria and presentation features are different from established GASB standards. No modifications have been made to the Indiana State University Foundation's financial information in the University's financial reporting presentation for these differences.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, liabilities and deferred inflows and outflows. The difference between total assets, total liabilities, and total deferred inflows and outflows is the net position, which is one measure of the financial condition of the University. Changes in net position are an indicator of whether the overall financial condition has improved or declined during the year. Assets, liabilities, and deferred inflows and outflows are generally measured at historical values in accordance with generally accepted accounting principles. One notable exception is investments, which are recorded at fair market value as of the date of the financial statements. A summarized comparison of the University's assets, liabilities, deferred inflows and outflows, and net position at June 30, 2016, 2015 and 2014 is as follows:

Statement of Net Position (in millions)	2016	2015	2014
Current assets	\$ 56.9	\$ 61.3	\$ 66.0
Non-current assets:			
Deposits with bond trustee	0.1	0.1	0.1
Notes receivable, net	3.6	4.1	4.5
Other long-term investments	122.3	111.1	115.9
Net OPEB asset	19.3	18.1	16.3
Capital assets, net	466.3	444.2	384.0
Other assets	0.6	0.7	0.7
Total assets	\$ 669.1	\$ 639.6	\$ 587.5
Deferred outflows of resources	\$ 7.7	\$ 2.6	\$ 1.9
Current liabilities	\$ 40.8	\$ 38.7	\$ 32.3
Non-current liabilities	200.2	174.9	146.7
Total liabilities	\$ 241.0	\$ 213.6	\$ 179.0
Deferred inflows of resources	\$ 2.7	\$ 3.3	\$ 1.7
Net position	\$ 433.1	\$ 425.3	\$ 408.7

Assets and Deferred Outflows of Resources

Current assets consist primarily of cash, operating investments, and accounts receivable. Non-current assets consist primarily of capital assets net of depreciation, long-term investments, notes receivable net of allowance, and the net other post-employment benefit (OPEB) asset. Deferred outflows of resources reflect deferred outflows related to early debt retirement and pensions. Total assets increased by \$29.5 million in 2016 as compared to a \$52.1 million increase in 2015. This represents a 4.6 percent increase in 2016 and an 8.9 percent increase in 2015. The current year activity is summarized below:

- Short-term investments declined by \$6 million as long-term investments increased by \$11.2 million. Of the \$25.1 million of cash and cash equivalents, \$14.1 million represents Housing and Dining System Revenue Bonds, Series 2016 proceeds to be used for the renovation of Cromwell Hall.
- Other accounts receivable grew by \$0.5 million due to an increase in receivables from the ISU Foundation.
- The change in state receivable was related to a two percent reserve that was withheld from the operational appropriation in 2014 to make up for shortfalls in State revenues. This revenue was recognized in 2015 and received by the University in 2016.
- The net OPEB asset increased by \$1.2 million to reflect changes in the actuarial valuation related to a zero increase in the University's share of post 65 Medicare eligible retiree premiums for the 2016 calendar year.

- Capital assets increased by \$22.1 million. This growth reflects the completion of several capital projects including Normal Hall, Blumberg Hall, and the Dede Plaza renovations.

Deferred outflows of resources increased to \$7.7 million in 2016 from \$2.6 million in 2015 and \$1.9 million in 2014. The University's contribution of \$2.2 million to the Public Employees' Retirement Fund (PERF) during 2016 was recognized as a deferred outflow of resources as required by GASB Statements No. 68 and 71. An additional \$5.1 million of deferred outflow of resources related to PERF was recognized and details can be reviewed in Note 16 of the accompanying Notes to Financial Statements.

A Voluntary Employee Benefit Association (VEBA) Trust was established by the University in 1998 to set aside funds for post-retirement health and life insurance benefits and provide for investment of these assets. The fund assets cannot revert to the University and therefore the financial statements do not reflect the value of these assets. As of June 30, 2016, the value of the Trust assets was \$85.1 million. The outstanding actuarial accrued liability for post-retirement benefits as of June 30, 2016 is \$63.3 million resulting in a positive funded ratio of 134.5 percent.

Liabilities and Deferred Inflows of Resources

Current liabilities include accounts payable, accrued compensation, unearned revenue, and the current portion of long-term debt. Non-current liabilities consist primarily of the non-current portion of long-term debt, net pension liability and advances from the federal government. Deferred inflows of resources consist of the service concession arrangement with Sodexo and inflows related to pensions. Total liabilities increased \$27.4 million in 2016 as compared to a \$34.6 million increase in 2015. This represents a 12.8 percent increase in 2016 and a 19.3 percent increase in 2015. Key changes in current year liabilities are as follows:

- Accounts payable decreased by \$2.6 million due to a reduction of \$2 million in construction payables from fiscal year 2015.
- Accrued payroll and deductions increased by \$0.6 million as a result of additional compensation expense.
- Other current liabilities grew by \$0.5 million reflecting increased medical claims.
- Bonds payable increased by \$23 million to reflect the issuance of Housing and Dining System Revenue Bonds, Series 2015 and Series 2016.
- Net pension liability increased \$6 million due to reported changes provided by the State of Indiana for the Public Employees' Retirement Fund (PERF).

Deferred inflows of resources decreased \$0.6 million from 2015. This includes \$0.2 million of amortization of the service concession arrangement with Sodexo and a \$0.4 million reduction of deferred inflows related to pensions as provided by the Indiana Public Retirement System.

The University contributes to retirement plans for faculty and staff. Faculty and exempt staff participate in a defined contribution plan administered by TIAA-CREF resulting in no outstanding pension liability for the University. Non-exempt staff participate in a defined benefit plan administered by the State of Indiana. As mentioned above, the net pension liability as of June 30, 2016 is \$15.5 million for this group of employees.

Capital and Debt Activities

An important element in the continuing quality of academic programs, research activities, and student residential life is the sustained commitment to the development and renewal of the University's capital assets. The University continues to implement its Campus Master Plan with new construction, renovation, and modernization of existing facilities. Please refer to Note 3 in the Notes to the Financial Statement for activities in capital assets, including additions and deletions of capital assets in the current fiscal year.



An artist rendering of the Health and Human Services Building addition.

Mills Hall Renovation—Completed for fall 2015 occupancy, the project was the first phase of a comprehensive renovation of Sycamore Towers. The Mills Hall renovation of approximately 100,000 square feet of residence hall space provides up to 366 beds. The project was capitalized in 2016 with an overall cost of \$19.5 million.

Normal Hall—Work was completed in late summer 2015 on the Normal Hall renovation, the oldest academic building on campus, which houses the University College and Center for Student Success. The \$16.4 million project was funded by the State of Indiana and capitalized in 2016. The renovation included the restoration of the building's original features of a grand staircase and stained-glass dome and the creation of new classroom and mentoring and tutoring areas.

Blumberg Hall—Completed for fall 2016 occupancy, this project was the second phase of a comprehensive renovation of Sycamore Towers. The Blumberg Hall renovation upgraded living and learning spaces and provided a total of 366 beds. The overall cost of the project is estimated at \$20.8 million with \$17.3 million expended through 2016.

Dede Plaza—Work was completed in late summer of 2016 on the renovation of Dede Plaza, originally constructed in 1989. The project included replacement of pavers and concrete sidewalks, construction of a new seat wall around the fountain, additional planting beds and upgrades to an existing seating terrace. The project was capitalized in 2016 with an overall cost of \$1.5 million, which was funded by private gifts and interest income.

Health and Human Services Building—Work began in the summer of 2016 on the construction, expansion, renovation and equipping of the University's facility for the College of Health and Human Services. Work will include major upgrades to building systems, reconfiguring of interior spaces to enable academic programs to function more efficiently, and the construction of an approximately 87,000 square foot addition to the facility. This will allow the college to house new academic programs and accommodate existing programs now housed elsewhere on the Indiana State campus. The project has a total estimated cost of \$64 million, of which \$4.1 million has been expended through 2016, and is scheduled for completion in March 2019. The project is funded through the issuance of Student Fee Bonds, Series R which are fee-replaced bonds reimbursed by the State of Indiana issued September 2016 (see Note 19 of the accompanying Notes to the Financial Statements).

Cromwell Hall—The renovation of Cromwell Hall is the third phase of a comprehensive renovation of Sycamore Towers. The renovated facility, comprising of approximately 100,468 square feet of residence hall space, will provide approximately 366 beds. The overall cost of the Cromwell Hall renovation project is estimated at \$20.1 million, of which \$4 million will be funded from Housing and Dining System reserves and \$16.1 million from the proceeds of Indiana State University Housing and Dining System Revenue Bonds, Series 2016. Expenditures incurred through 2016 totaled \$1.1 million. The project is expected to be completed for fall 2017 occupancy.

The University continues to work assertively to manage its financial resources efficiently, including the issuance of debt to finance capital projects. Indiana State University Housing and Dining System Revenue Bonds, Series 2015 and Series 2016, issued during fiscal year 2016, had underlying credit ratings of (A-1) from Moody's and (AA-) from Fitch Ratings. Both Moody's and Fitch Ratings assigned a stable outlook to the Series 2015 and Series 2016 bonds, listing consistent positive University operating performance, enrollment related revenue growth, prudent financial management, and solid balance sheet resources.

Net Position

Net position represents the residual value of the University's assets and deferred outflows after liabilities and deferred inflows are deducted. The University's net position at June 30, 2016, 2015 and 2014 are summarized in the table that follows:

Net Position (in millions)	2016	2015	2014
Net investment in capital assets	\$ 290.9	\$ 278.2	\$ 255.0
Restricted			
Non-expendable	0.6	0.7	0.7
Expendable	5.3	6.1	5.6
Unrestricted	136.3	140.3	147.4
Total net position	\$ 433.1	\$ 425.3	\$ 408.7

Net investment in capital assets reflects the University's capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of these assets. Net investment in capital assets increased \$12.7 million in 2016 and \$23.2 million in 2015 for a total increase of \$35.9 million since 2014. This reflects renovation of University housing (Mills Hall and Blumberg Hall), academic buildings (Normal Hall), and athletic facilities (Gibson Track and Field Complex).

Restricted net position is subject to externally imposed restrictions governing its use. Restricted non-expendable net position is funds held for scholarships and fellowships. Restricted expendable net position includes funds for research, loans, and funds limited to construction and renovation.

Although unrestricted net position is not subject to externally imposed stipulations, all of the University's unrestricted net position has been internally designated for various ongoing needs of the University, including debt service, capital projects, University initiatives, benefit claims, technology improvements, and academic and administrative activities.

Unrestricted net assets declined \$4 million in 2016 and \$7.1 million in 2015 for a total decline of \$11.1 million since 2014. This is a result of using Housing and Dining reserves to fund 20 percent of the Sycamore Towers renovation projects as well as equipping these renovations and 500 Wabash with case goods (beds, desks, etc.). University reserves were also used for the demolition of Statesman Towers.

Statement of Revenues, Expenses, and Changes in Net Position

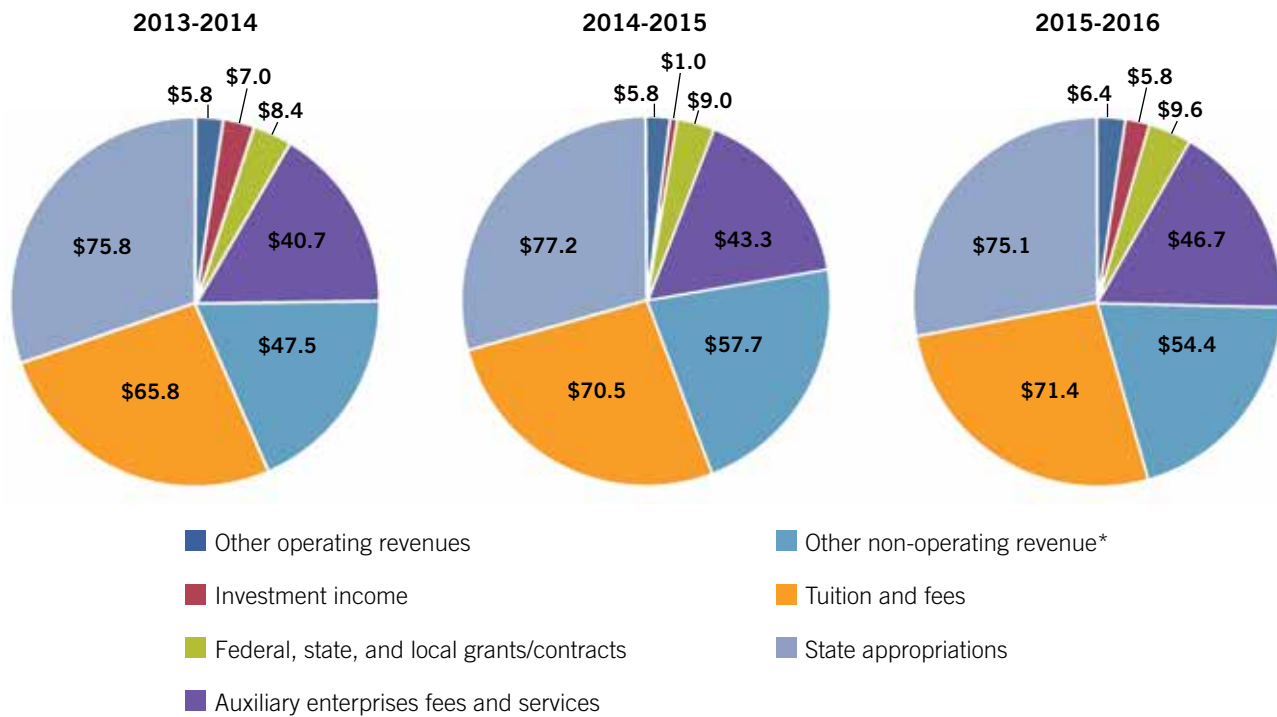
The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net position for the years ended June 30, 2016, 2015 and 2014 is as follows:

Revenue, Expenses, and Changes in Net Position (in millions)	2016	2015	2014
Operating revenues			
Tuition and fees, net	\$ 71.4	\$ 70.5	\$ 65.8
Grants and contracts	9.6	9.0	8.4
Auxiliary enterprises fees and services, net	46.7	43.3	40.7
Other revenues	6.4	5.8	5.8
Total operating revenue	\$ 134.1	\$ 128.6	\$ 120.7
Operating expenses	(255.3)	(232.5)	(227.6)
Operating loss	\$ (121.2)	\$ (103.9)	\$ (106.9)
Non-operating revenues (expenses)			
State appropriations	\$ 75.1	\$ 77.2	\$ 75.8
Investment income, net	5.8	1.0	7.0
Non-operating grants and contracts	44.0	41.4	38.8
Capital appropriations	5.7	11.9	2.5
Capital grants and gifts	0.4	0.1	1.8
Other non-operating revenues and expenses	4.3	4.3	4.1
Interest on capital asset related debt	(6.3)	(5.0)	(4.8)
Net non-operating and other revenues	\$ 129.0	\$ 130.9	\$ 125.2
Increase in net position	\$ 7.8	\$ 27.0	\$ 18.3
Net position, beginning of year	\$ 425.3	\$ 408.7	\$ 390.4
Prior period adjustment for change in accounting principle	\$ -	\$ (10.4)	\$ -
Net position, end of year	\$ 433.1	\$ 425.3	\$ 408.7

One of the University's greatest strengths is its diverse stream of revenues that supplement student fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. To supplement student tuition the University will continue to aggressively seek funding from all possible sources consistent with its mission and will direct the financial resources realized from these efforts to fund University operating priorities.

The following is a comparative graphic illustration of revenues by source (both operating and non-operating) for the years ending June 30, 2016, 2015 and 2014, which are used to fund the University's ongoing activities. As the following charts indicate, tuition and state appropriations remain the primary sources of funding for the University's academic programs. It should be noted that significant recurring sources of the University's revenues, including state appropriations, are considered non-operating revenues.

Revenue by Source (in millions)



* Includes non-operating grants and contracts (federal and state student assistance), other non-operating revenues and capital revenues

Operating revenues have increased by \$13.4 million since 2014. This is a result of growth in both tuition and fees and auxiliary enterprises due to record enrollment in the last three years. The 2016 increase of \$5.5 million is comprised of the following:

- Net tuition and fee income grew by \$0.9 million as a result of increased enrollment which reached an all-time high of 13,584 students in fall 2015. A large percentage of ISU students receive financial aid which is related to a \$2.6 million growth in scholarship allowance. Program fees also grew as the number of students in graduate health-related studies increased. Growth in flight school participants and in program fees helped offset a decline in the Department of Correction program.
- Net auxiliary enterprises fees and services revenue increased by \$3.4 million. This reflects growth in housing and dining income due to increased occupancy from the 500 Wabash Housing lease and the Mills Hall renovation.
- Grants and contracts increased \$0.6 million largely due to an increase of \$0.3 in student assistance from the ISU Foundation.
- Other operating revenues grew by \$0.6 million due to increases in revenues from Community School of the Arts fees, Early Childhood Education Center fees and a reimbursement from the Missouri Valley Conference for equipment purchases.

Non-operating revenues decreased by \$0.6 million in 2016 and increased by \$5.8 million in 2015 for a total increase of \$5.2 million since 2014. This is attributed to the growth of \$5.2 million of non-operating grants and contracts over this three year period consisting of federal and state aid that corresponds to enrollment increases. Significant changes in non-operating revenues in 2016 were as follows:

- State appropriations decreased by \$2.1 million. This is related to a \$1.3 million operational appropriation (a two percent reserve withheld in 2014 to cover shortfalls in State revenues that were recognized by the University in 2015) and a \$1 million reduction in fee replaced (debt service) appropriation.



- Investment income increased by \$4.8 million as bond prices recovered during the year.
- Non-operating grants and contracts revenue grew by \$2.6 million to reflect increased state and federal aid related to enrollment growth.
- Capital appropriations decreased by \$6.2 million as the Normal Hall renovation, funded by the State of Indiana, was completed in 2016.

A comparative summary of the University's expenses for the years ended June 30, 2016, 2015 and 2014 is as follows:

Operating and Non-Operating Expenses (in millions)	2016	2015	2014
Operating			
Compensation and employee benefits	\$ 146.5	\$ 133.8	\$ 133.0
Supplies and expenses	70.6	62.3	57.9
Utilities	9.3	10.3	12.3
Scholarships and fellowships	11.8	11.0	9.9
Depreciation	17.0	15.1	14.5
Total operating expenses	\$ 255.2	\$ 232.5	\$ 227.6
Non-operating			
Interest on capital asset related debt	\$ 6.3	\$ 5.0	\$ 4.8
Other non-operating expenses	0.2	0.2	0.3
Total non-operating expenses	\$ 6.5	\$ 5.2	\$ 5.1
Total expenses	\$ 261.7	\$ 237.7	\$ 232.7

Total operating expenses increased by \$27.6 million from \$227.6 million in 2014 to \$255.2 million in 2016. The increase of \$22.7 million of operating expense from 2015 to 2016 is attributed to the following:

- Compensation and employee benefits increased by \$12.7 million from 2015. This reflects a 2 percent wage increase, growth in instructional salaries as a result of increased student enrollment, an increase in the Net Pension Liability (PERF), growth in medical claims, and increased student employment.
- Supplies and expenses grew in fiscal year 2016 by \$8.3 million. This includes the purchase of case goods for the Mills Hall, 500 Wabash and University Apartments projects. This also reflects upgrades to the University network system, as well as increases in student meal costs, advertising and travel expenses.

- Utilities expense decreased by \$1 million from 2015 due to a reduction in electricity usage as well as a reduction in price and usage of natural gas. The University has entered into hedge contracts to purchase natural gas as a cost avoidance strategy.
- Scholarships and fellowships expense grew by \$0.8 million for 2016 reflecting the continued growth in enrollment.
- Depreciation expense increased \$1.9 million for 2016 to reflect the capital additions of Mills Hall, Normal Hall, and campus security camera systems.

Non-operating expenses increased \$1.3 million from 2015 to 2016. Interest on capital asset related debt increased \$1.3 million due to new bond issues for student housing and the long-term lease for the 500 Wabash student housing building.

Indiana State University continues to make market-competitive compensation and employee benefits a top priority. These expenses represent 57 percent of total University operating expense.

In addition to their natural (object) classification (expenditure type), it is also beneficial to the reader to review operating expenses by the nature of the University division incurring the expense. A summary of the University's expenses by functional classification for the years ended June 30, 2016, 2015 and 2014 is as follows:

Expenses by Function (in millions)	2016	2015	2014
Operating			
Instruction	\$ 76.9	\$ 74.5	\$ 71.5
Research	10.0	9.3	9.8
Public service	3.9	3.7	2.9
Institutional and academic support	47.0	38.0	41.7
Student services	15.9	13.6	13.3
Operation of plant	30.9	31.4	27.1
Scholarships	13.3	12.4	11.2
Auxiliary enterprises	40.3	34.5	35.6
Depreciation	17.0	15.1	14.5
Total functional operating expenses	\$ 255.2	\$ 232.5	\$ 227.6

Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by identifying the major sources and uses of cash. The statement assists the reader in evaluating the entity's ability to generate future net cash flows to meet obligations as they come due. Below is a comparative summary of the Statement of Cash Flows for the years ended June 30, 2016, 2015 and 2014:

Statement of Cash Flows (in millions)	2016	2015	2014
Net cash (used) provided by:			
Operating activities	\$ (100.0)	\$ (91.6)	\$ (91.6)
Non-capital financial activities	124.0	121.5	118.9
Capital financing activities	(22.9)	(43.8)	(25.3)
Investing activities	1.0	9.1	(2.5)
Net increase (decrease) in cash and cash equivalents	\$ 2.1	\$ (4.8)	\$ (0.5)



ES

MISSISSIPPI STATE



REMO

For the year ended June 30, 2016, the University used more cash for operating activities, more cash was provided by non-capital financing activities, less cash was used for capital financing activities and less cash was provided by investing activities. The University experienced a \$2.1 million increase in cash and cash equivalents in 2016 and a \$4.8 million decrease in 2015 for an overall decrease of \$2.7 million since 2014. Highlights of major changes in 2016 are discussed below:

Operating activities

- Cash used by operating activities increased from \$91.6 million in 2015 to \$100 million in 2016.
- Cash provided by tuition and fees and auxiliary enterprises comprise 87 percent of inflows from operating activities, and grew by \$1.5 million and \$3.8 million, respectively, due to growth in enrollment and the addition of student housing capacity.
- Payments to employees and for employee benefits make up 61 percent of outflows of cash for operating activities. These payments increased by \$8.7 million in 2016 due to a 2 percent across-the-board compensation increase and an increase in payments for corresponding benefits. Also included was an increase in medical claims paid and an increase in student employment.
- Payments to suppliers grew by \$5.2 million due to costs incurred for case goods for resident hall projects, an update to the University network system and increased student meal costs, advertising and travel expenditures.

Non-capital financing activities

- Cash provided by non-capital financing activities increased by \$2.5 million.
- Cash received from non-operating grants and contracts increased by \$3 million. This increase is due to an additional \$2 million in funds received for non-operating state grants and an increase of \$1 million in funds received for non-operating federal grants.
- State appropriations make up 62 percent of net cash provided by non-capital financing activities.

Capital financing activities

- Cash used by capital financing activities decreased by \$20.9 million.
- Capital appropriations decreased by \$8 million. The Normal Hall renovation, cash funded by the State of Indiana, was completed in 2016. The majority of the funds received for the renovation were recognized in 2015.
- Proceeds from bond issues increased by \$11.5 million. New bond issues in 2016 resulted in cash receipts of \$16.6 million for Housing & Dining, Series 2015 and \$16.1 million for Housing Dining, Series 2016. Cash receipts from new bonds in 2015 were \$21.2 million.
- Cash paid for capital assets increased from \$42.6 million to \$44.1 million in 2016.
- Principal and interest paid on capital debt and leases decreased by \$19.8 million. In 2015, principal and interest totaling \$21 million was paid using the proceeds from Student Fee Bond, Series Q, to refund Series K, Series L and a portion of Series M. This was offset by principal and interest paid for a new bond issue, Housing & Dining, Series 2015, and the commencement of lease payments for the 500 Wabash facility.

Investing activities

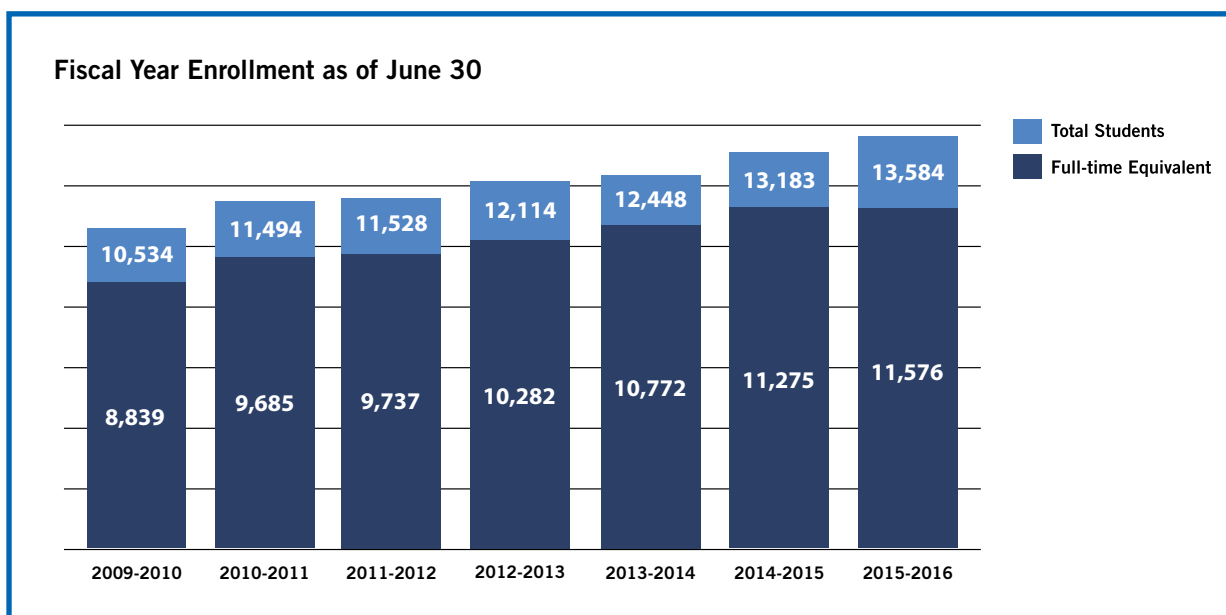
- Cash provided by investing activities was \$1 million in 2016 compared to \$9.1 million in 2015. Cash provided in 2015 was higher because the University redeemed certificates of deposits purchased with bond proceeds in 2015 which were used for capital projects.

Economic Factors that Will Affect the Future

The University is providing an environment that both challenges and educates students. With an emphasis on experiential learning and community engagement activities, Indiana State University graduates are prepared for future leadership roles in their communities.

Indiana State University fall 2016 enrollment remained stable at 13,565 which is the second largest in the University's history. Indiana State saw an increase in graduate, transfer and distance students. ISU has set an enrollment target of 16,000 students by 2022 with a large percentage of these new students being distance students. The University has set a goal that distance degrees awarded will

double by the end of the next six years. Additionally, the University has set a goal of graduating low income students at the same rate as compared to the University as a whole.



Indiana State has set a goal of increasing the first-year retention rate. At the same time, the University will seek to increase its four-year graduation rate and its six-year graduation rate. The implementation of a new series of success initiatives includes a focus on juniors and seniors through a program targeting those at risk due to financial reasons and reducing the load of some freshman advisors and creating less burdensome paths for students without a need for a high level of advisement.

The State of Indiana utilizes various performance funding metrics to determine a portion of state support for higher education. The majority of these metrics focus on degree completion. It is therefore critical to continue implementation of student success and degree completion initiatives. The University has formed an integrated team from Academic Affairs, Enrollment Management and Communications and Marketing to dramatically increase enrollment in degree completion and distance-delivered programs.

The University received bonding authority from the Indiana General Assembly of \$75 million for a renovation and expansion of the Hulman Center (\$37.5 million of which is eligible for fee replacement). The University anticipates issuing additional student fee bonds during calendar year 2017 to finance the fee replaced portion of Hulman Center. The remaining \$37.5 million non-fee replaced expansion of Hulman Center, which will also be utilized by Vigo County, the City of Terre Haute, and the Convention and Visitors Bureau of Terre Haute as convention space, will be financed by these public entities.

In September 2016, Indiana State University announced its new strategic plan—*There's More to Blue*—that will guide the University through 2021. The plan has six main goals and a number of initiatives for each goal. The goals are as follows:

- Goal 1: Student success
- Goal 2: Experiential learning and career readiness
- Goal 3: Community engagement and civic responsibility
- Goal 4: Distinctive programs and experiences
- Goal 5: Resources and institutional effectiveness
- Goal 6: Employee success

An updated Master Facilities Plan will be released in December 2016.

Indiana State University's management is confident that the University's financial condition is strong and will meet all foreseeable economic requirements.

Indiana State University

Statement of Net Position

As of June 30, 2016 and June 30, 2015 *(Dollars in Thousands)*

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 25,075	\$ 22,960
Short-term investments	9,137	15,155
Accrued interest	896	1,289
Accounts receivable (net of allowance of \$6,846 for 2016 and \$6,187 for 2015)	12,274	11,943
Other accounts receivable	1,843	1,323
Grants receivable	1,220	1,319
State receivable	—	1,364
Notes receivable, current portion	4,354	3,977
Prepaid expenses	2,069	1,910
Inventories	71	19
Total current assets	\$ 56,939	\$ 61,259
Non-current Assets		
Endowment investments —held in trust	\$ 620	\$ 689
Deposits with bond trustee	154	94
Notes receivable, non-current portion (net of allowance of \$881 for 2016 and \$811 for 2015)	3,579	4,125
Other long-term investments	122,257	111,066
Net OPEB Asset	19,268	18,065
Capital assets (net of accumulated depreciation of \$275,877 for 2016 and \$275,895 for 2015)	466,279	444,261
Total non-current assets	\$ 612,157	\$ 578,300
TOTAL ASSETS	\$ 669,096	\$ 639,559
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on early retirement of debt	\$ 400	\$ 512
Deferred outflows related to pensions	7,312	2,135
Total deferred outflows of resources	\$ 7,712	\$ 2,647
LIABILITIES		
Current liabilities		
Accounts payable	\$ 5,675	\$ 8,255
Accrued payroll and deductions	3,744	3,108
Unearned revenue	5,415	5,425
Funds held in custody for others	1,135	836
Other current liabilities	6,004	5,468
Bonds payable	11,970	9,280
Compensated absences & termination benefits	3,811	3,565
Lease payable	1,574	1,559
Debt interest payable	1,445	1,200
Total current liabilities	\$ 40,773	\$ 38,696
Non-current liabilities		
Bonds payable	\$ 147,610	\$ 127,293
Compensated absences and termination benefits	293	533
Lease payable	29,324	30,028
Net pension liability	15,538	9,494
Advances from Federal Government	7,454	7,513
Total non-current liabilities	\$ 200,219	\$ 174,861
TOTAL LIABILITIES	\$ 240,992	\$ 213,557
DEFERRED INFLOWS OF RESOURCES		
Deferred service concession arrangement	\$ 1,213	\$ 1,456
Deferred inflows related to pensions	1,501	1,898
Total deferred inflows of resources	\$ 2,714	\$ 3,354
NET POSITION		
Net investment in capital assets	\$ 290,926	\$ 278,169
Restricted for:		
Non-expendable:		
Scholarships and fellowships	620	689
Expendable:		
Research and other grants	594	343
Loans	2,133	2,164
Capital projects	2,494	3,574
Unrestricted	136,335	140,356
TOTAL NET POSITION	\$ 433,102	\$ 425,295

The accompanying notes to financial statements are an integral part of this statement.

Indiana State University
Statement of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2016 and June 30, 2015 *(Dollars in Thousands)*

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Tuition and fees	\$ 114,886	\$ 111,506
Scholarship allowances for tuition and fees	(42,701)	(40,150)
Other allowances	(791)	(847)
Net tuition and fees	71,394	70,509
Federal grants and contracts	6,124	6,086
State and local grants and contracts	113	133
Non-governmental grants and contracts	3,350	2,835
Auxiliary enterprises fees and services	58,380	53,939
Scholarship allowances for room and board	(11,323)	(10,248)
Other allowances	(403)	(419)
Net auxiliary enterprises fees and services	46,654	43,272
Other operating revenues	6,424	5,842
Total operating revenues	<u>\$ 134,059</u>	<u>\$ 128,677</u>
 EXPENSES		
Compensation and employee benefits	\$ 146,536	\$ 133,838
Supplies and expenses	70,640	62,343
Utilities	9,332	10,267
Scholarships and fellowships	11,795	10,976
Depreciation	16,979	15,115
Total operating expenses	<u>\$ 255,282</u>	<u>\$ 232,539</u>
Operating loss	\$ (121,223)	\$ (103,862)
 NON-OPERATING REVENUES (EXPENSES)		
State appropriations	\$ 75,133	\$ 77,157
Gifts	400	259
Investment income (net of investment expenses of \$482 for 2016 and \$470 for 2015)	5,756	990
Interest on capital asset related debt	(6,283)	(4,965)
Non-operating grants and contracts	43,967	41,365
Other non-operating revenues	4,156	4,289
Other non-operating expenses	(189)	(248)
Net non-operating revenues	<u>\$ 122,940</u>	<u>\$ 118,847</u>
Income before other revenues, expenses, gains, or losses	\$ 1,717	\$ 14,985
Capital appropriations	\$ 5,680	\$ 11,947
Capital grants and gifts	<u>\$ 410</u>	<u>\$ 90</u>
Total other revenues	<u>\$ 6,090</u>	<u>\$ 12,037</u>
Increase in net position	<u>\$ 7,807</u>	<u>\$ 27,022</u>
 NET POSITION		
Net position—beginning of year	\$ 425,295	\$ 408,684
Prior period adjustment for change in accounting principle	—	(10,411)
Restated net position at beginning of year	<u>\$ 425,295</u>	<u>\$ 398,273</u>
Net position—end of year	<u>\$ 433,102</u>	<u>\$ 425,295</u>

The accompanying notes to financial statements are an integral part of this statement.

Indiana State University

Statement of Cash Flows

For the Years Ended June 30, 2016, and June 30, 2015 *(Dollars in Thousands)*

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 71,493	\$ 69,960
Grants and contracts	9,257	9,237
Auxiliary enterprises	46,711	42,898
Payments to suppliers	(81,584)	(76,419)
Payments to employees	(74,539)	(70,606)
Payments for benefits	(68,659)	(63,939)
Payments to students	(10,027)	(9,370)
Loans issued to students	(966)	(970)
Student loans collected	1,372	1,238
Other receipts	6,924	6,389
Net cash used by operating activities	\$ (100,018)	\$ (91,582)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 76,497	\$ 75,793
Direct loan program receipts	22,079	22,353
Direct loan program disbursements	(22,079)	(22,353)
Non-operating grants and contracts	44,103	41,152
Gifts and other non-operating income	3,423	4,577
Net cash provided by non-capital financing activities	\$ 124,023	\$ 121,522
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	\$ 5,680	\$ 13,703
Capital gifts and grants received	—	847
Proceeds from bond issue	32,720	21,178
Costs of issuance	(291)	(248)
Cash paid for capital assets	(44,136)	(42,646)
Principal and interest paid on capital debt and leases	(16,851)	(36,640)
Net cash used by capital financing activities	\$ (22,878)	\$ (43,806)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 2,892	\$ 12,800
Income from investing activities	2,880	4,039
Purchase of investments	(4,783)	(7,801)
Net cash provided by investing activities	\$ 989	\$ 9,038
Net increase (decrease) in cash and cash equivalents	\$ 2,116	\$ (4,828)
Cash and cash equivalents—beginning of year	\$ 22,959	\$ 27,787
Cash and cash equivalents—end of year	\$ 25,075	\$ 22,959
<hr/>		
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	\$ (121,223)	\$ (103,862)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	\$ 16,979	\$ 15,115
Other non-cash adjustments	\$ 3,556	\$ (2,012)
Changes in assets and liabilities		
Accounts receivable	\$ (331)	\$ (4,290)
Grants receivable	99	67
Notes receivable, current	(377)	(269)
Inventories	(52)	143
Prepaid expenses	(159)	(249)
Accounts payable	(217)	77
Accrued payroll and deductions	636	269
Unearned revenue	(10)	4,324
Funds held in custody for others	299	(203)
Other current liabilities	536	(507)
Compensated absences and termination benefits	246	(185)
Net cash used by operating activities	\$ (100,018)	\$ (91,582)
Non-cash transactions		
Equipment	\$ 55	\$ 30,267
Capital lease	\$ (55)	\$ (30,267)

Indiana State University Foundation, Inc. and Affiliate
Consolidated Statement of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and equivalents	\$ 2,981,798	\$ 2,652,276
Contributions receivable, net	3,394,501	4,150,519
Due from Indiana State University	82,050	207,899
Other assets	784,181	987,430
Property held for future use	109,452	109,452
Investment in joint ventures	1,002,467	1,025,423
Investments	59,250,270	62,910,038
Investments held in split-interest agreements	738,042	699,005
Beneficial interest in remainder trusts	666,462	610,873
Property and equipment, net	732,932	1,183,800
Beneficial interest in perpetual trusts	<u>1,005,124</u>	<u>1,023,863</u>
TOTAL ASSETS	<u>\$ 70,747,279</u>	<u>\$ 75,560,578</u>
LIABILITIES		
Accounts payable	\$ 202,516	\$ 356,575
Due to Indiana State University	2,391,302	1,618,994
Line of credit	2,298,296	2,401,838
Notes payable	6,842,380	7,150,645
Split-interest agreement obligations	1,016,424	1,048,773
Refundable advances	<u>58,378</u>	<u>57,473</u>
Total liabilities	<u>12,809,296</u>	<u>12,634,298</u>
NET ASSETS		
Unrestricted	(4,219,429)	(1,417,851)
Temporarily restricted	19,948,554	22,269,786
Permanently restricted	<u>42,208,858</u>	<u>42,074,345</u>
Total net assets	<u>57,937,983</u>	<u>62,926,280</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 70,747,279</u>	<u>\$ 75,560,578</u>

Indiana State University Foundation, Inc. and Affiliate
Consolidated Statement of Activities

Years Ended June 30, 2016 and 2015

2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 820,662	\$ 2,296,994	\$ 837,645	\$ 3,955,301
Investment return				
Interest and dividends	416,203	840,965	41,452	1,298,620
Net realized and unrealized gains (losses)	(1,554,906)	(1,600,433)	(288,952)	(3,444,291)
Total investment return	(1,138,703)	(759,468)	(247,500)	(2,145,671)
Non-gift income	173,099	768,783	—	941,882
Change in value of split-interest agreements	27,799	69,931	(31,237)	66,493
Service fee income—Indiana State University	1,971,012	—	—	1,971,012
Endowment administration and gift assessments fee	560,589	(560,753)	(1,086)	(1,250)
	2,414,458	1,815,487	557,822	4,787,767
Net assets released from restrictions	4,457,921	(4,457,921)	—	—
Reclassification of donor restriction	102,107	109,667	(211,774)	—
Reclassification of donor intent	—	211,535	(211,535)	—
Total revenues, gains and other support	<u>6,974,486</u>	<u>(2,321,232)</u>	<u>134,513</u>	<u>4,787,767</u>
EXPENSES				
Scholarships and awards	1,498,183	—	—	1,498,183
Restricted and designated expenditures	3,019,353	—	—	3,019,353
Total program services	4,517,536	—	—	4,517,536
Foundation operations	1,750,282	—	—	1,750,282
Sycamore operations	149,673	—	—	149,673
Development and president	2,263,673	—	—	2,263,673
Alumni affairs	294,073	—	—	294,073
Bad debt expense	493,000	—	—	493,000
Loss on disposal of art collection	307,827	—	—	307,827
Total expenses	<u>9,776,064</u>	<u>—</u>	<u>—</u>	<u>9,776,064</u>
CHANGE IN NET ASSETS	(2,801,578)	(2,321,232)	134,513	(4,988,297)
NET ASSETS, Beginning of Year	(1,417,851)	22,269,786	42,074,345	62,926,280
NET ASSETS, End of Year	<u>\$ (4,219,429)</u>	<u>\$ 19,948,554</u>	<u>\$ 42,208,858</u>	<u>\$ 57,937,983</u>

2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 1,413,823	\$ 3,034,781	\$ 809,389	\$ 5,257,993
Investment return				
Interest and dividends	556,164	1,098,383	42,918	1,697,465
Net realized and unrealized gains (losses)	457,089	(1,881,722)	(251,144)	(1,675,777)
Total investment return	1,013,253	(783,339)	(208,226)	21,688
Non-gift income	509,134	806,107	(571)	1,314,670
Change in value of split-interest agreements	(14,640)	26,714	676,487	688,561
Service fee income—Indiana State University	1,940,280	—	—	1,940,280
Endowment administration and gift assessments fee	513,061	(681,973)	168,912	—
	5,374,911	2,402,290	1,445,991	9,223,192
Net assets released from restrictions	5,482,747	(5,482,747)	—	—
Reclassification of donor restriction	—	(317,794)	317,794	—
Reclassification of donor intent	—	—	—	—
Total revenues, gains and other support	<u>10,857,658</u>	<u>(3,398,251)</u>	<u>1,763,785</u>	<u>9,223,192</u>
EXPENSES				
Scholarships and awards	1,172,690	—	—	1,172,690
Restricted and designated expenditures	4,166,342	—	—	4,166,342
Total program services	5,339,032	—	—	5,339,032
Foundation operations	1,663,523	—	—	1,663,523
Sycamore operations	155,161	—	—	155,161
Development and president	2,402,634	—	—	2,402,634
Alumni affairs	278,125	—	—	278,125
Bad debt expense	500,000	—	—	500,000
Loss on disposal of art collection	—	—	—	—
Total expenses	<u>10,338,475</u>	<u>—</u>	<u>—</u>	<u>10,338,475</u>
CHANGE IN NET ASSETS	519,183	(3,398,251)	1,763,785	(1,115,283)
NET ASSETS, Beginning of Year	(1,937,034)	25,668,037	40,310,560	64,041,563
NET ASSETS, End of Year	<u>\$ (1,417,851)</u>	<u>\$ 22,269,786</u>	<u>\$ 42,074,345</u>	<u>\$ 62,926,280</u>

Indiana State University Foundation, Inc. and Affiliate

Consolidated Statement of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u> <u>(As Restated)</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (4,988,297)	\$ (1,115,283)
Items not requiring (providing) cash		
Depreciation and amortization	140,340	139,015
Provision (credit) for uncollectible contributions receivable	493,000	487,683
Net realized and unrealized losses on investments	3,444,291	1,675,777
Loss on sale of property and equipment	307,827	—
Gain on sale of property held for future use	—	(49,016)
Contributions restricted for long-term investment	(837,645)	(809,389)
Net change in value of split-interest agreements	(87,033)	(739,304)
Changes in		
Contributions receivable	263,018	282,400
Due from Indiana State University	125,849	29,601
Other assets	203,249	80,426
Accounts payable	(154,059)	266,491
Due to Indiana State University	772,308	(655,137)
Net cash used in operating activities	<u>(317,152)</u>	<u>(406,736)</u>
INVESTING ACTIVITIES		
Purchase of investments	(13,125,274)	(19,977,059)
Sales and maturities of investments	13,343,409	18,988,816
Proceeds from property and equipment held for future use	21,904	180,000
Purchase of property and equipment	<u>(19,203)</u>	<u>(30,014)</u>
Net cash provided by (used in) investing activities	<u>220,836</u>	<u>(838,257)</u>
FINANCING ACTIVITIES		
Borrowings on line of credit	2,740,750	—
Repayments of line of credit	(2,844,292)	(1,348,162)
Proceeds from issuance on note payable	—	1,250,000
Repayments of note payable	(308,265)	(306,608)
Proceeds from contributions restricted for investments in permanent endowment	<u>837,645</u>	<u>809,389</u>
Net cash provided by financing activities	<u>425,838</u>	<u>404,619</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	329,522	(840,374)
Cash and Cash Equivalents, Beginning of Year	<u>2,652,276</u>	<u>3,492,650</u>
Cash and cash Equivalents, End of Year	<u>\$ 2,981,798</u>	<u>\$ 2,652,276</u>

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2016

Note 1. Summary of Significant Accounting Policies

Indiana State University (the University), a publicly supported, comprehensive, doctoral granting University, serves the State of Indiana, the nation, and the international community by generating and disseminating knowledge in the humanities, arts, social sciences, scientific, and professional disciplines through instruction and research. The University is governed by a nine-member Board of Trustees, appointed by the Governor.

The accompanying financial statements of the University are prepared in accordance with generally accepted accounting standards as prescribed by the Governmental Accounting Standards Board (GASB) in Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. Since the University is a component unit of the State of Indiana, it is included in the Comprehensive Annual Financial Report of the State.

A. Reporting Entity

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. These Statements amend GASB Statement No. 14, *The Financial Reporting Entity* to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the University as the primary government, and the Indiana State University Foundation as a discretely presented component unit. This component unit is further described in Section N.

B. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. The financial statements of the University have been prepared on the accrual basis, including depreciation expense relating to capital assets. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-University transactions have been eliminated to avoid double counting of these transactions. Examples of these would include sales between University departments or internal loans between funds.

C. Cash Equivalents

The University considers all highly liquid investments with a maturity date of three months or less to be cash equivalents. The University invests operating cash in investments with varying maturities.

For purpose of liquidity classification, investments maturities are evaluated as of the financial statement date.

D. Investments

Investments in securities are reported on the financial statements at fair value as of the date of the financial statements. Investments with maturity of less than one year are reported as current assets, with the remaining investments reported as non-current assets.

E. Inventories

Inventories are carried at the lower of cost or market value and on the first-in, first-out (FIFO) basis.

F. Capital Assets

Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition. Moveable equipment costing \$5,000 with a useful life of more than one year and building improvements that exceed \$100,000 and extend the life of the building are capitalized. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is reported using the straight-line method of depreciation over the estimated useful life of the asset. Capital assets and related accumulated depreciation are removed from the records at the time of disposal. Art Objects are recorded either at cost or fair market value at the time of acquisition, but are not depreciated because these assets tend to appreciate in value over time.

Minimum Capitalization Value and Useful Life by Asset Types		
Asset Types	Capitalization Threshold	Useful Life
Moveable equipment	\$5,000	5 to 10 years
Vehicles and machinery	5,000	4 to 10 years
Software and computer equipment	5,000	5 years
Buildings and related components	100,000	15 to 100 years
Land improvements and infrastructure	100,000	10 to 20 years
Library books and audio visual aids	1	20 years
Art objects	1	Not depreciated

G. Scholarship Discounts and Other Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or non-governmental programs, are recorded as non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount. Other allowances include the allowance for bad debt, which will be recorded as a reduction to the appropriate revenue.

H. Net Position

University resources are classified for financial reporting purposes into four net position categories:

Net investment in capital assets: This represents the University's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets.



Restricted net position, non-expendable: Non-expendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net position, expendable: Restricted expendable net position include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. Substantially all unrestricted net position is designated for academic programs and initiatives, capital purposes, and general operations of the University.

I. Compensated Absences

Liabilities for compensated absences are recorded for vacation leave based on actual amounts earned as of the statement of net position date. Employees may accrue vacation benefits up to a maximum of 300 hours, which is payable upon termination. The accompanying Statement of Net Position reflects an accrual for the amounts earned and ultimately payable for such benefits at the end of the fiscal year.

J. Net Pension Liability and Related Items

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 of the Indiana 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. Indiana Public Retirement System financial reports have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on institutional student loans.

L. Non-Operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, including state appropriations and investment income. Non-operating revenues include any grant that meets the definition of a non-exchange transaction, for which the University has administrative duties. This would include Pell Grant, SEOG, and any State Grant that the University has to determine eligibility, even if the eligibility requirements are set forth by Federal or State agencies.



M. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for a particular expenditure, University management may select the most appropriate funding source based on individual facts and circumstances. The University does not require funds be expended in a particular order, and the decision on what fund order is used is made on a case-by-case basis.

N. Component Units

The Indiana State University Foundation is a legally separate, tax-exempt component unit of Indiana State University. Indiana State University Foundation, Inc. was incorporated on March 10, 1921. The Foundation was organized to promote educational purposes and receive contributions primarily for the benefit of Indiana State 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 44 member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. The majority of resources that the Foundation holds and invests, and the income generated by these assets, are restricted to the activities of the University by its donors. Because these resources can only be used for the activities of the University, the ISU Foundation is considered a component unit of the University, and its audited financial statements are discretely presented in the University's financial statements.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. 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 reporting presentation for these differences.

During the years ended June 30, 2016 and June 30, 2015 the Foundation distributed \$5,710,000 and \$5,278,000, respectively, to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 30 North 5th Street, Terre Haute, IN 47809.

O. New Accounting Pronouncements

Effective with the fiscal year 2015, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement established accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. Implementation of this standard required a restatement to beginning net position in fiscal year 2015, recognition of a net pension liability, and recognition of pension related deferred inflows and deferred outflows. The University reported a \$10.4 million change in accounting principal adjustment to Unrestricted Net Position in the prior year to comply with GASB 68. More information about the University's retirement plans can be found in Note 16.

Effective with the fiscal year 2016, the University implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. Additional fair value investment disclosures were required by this statement and can be found in Note 2.

Note 2. Cash and Investments

The University maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed in the Statement of Net Position under cash and cash equivalents, short-term investments, long-term investments, deposits with bond trustee, or endowment investments-held in trust, depending on the nature of the investment.



Cash and Investments

Cash & Investments (Dollars in Thousands)	2016	2015
Cash on hand	\$ 95	\$ 94
Deposits with financial institutions	13,208	1,651
Investments	143,785	148,124
	\$ 157,088	\$ 149,869

Authorization for investment activity is stated in Indiana Code Title 21, Article 21, Chapter 3, Section .3. Additionally, IC 30-4-3.5 (Indiana Prudent Investor Act) requires that the Board of Trustees of the University to act "as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust." It also requires that management decisions be made "in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the trust." The Board holds responsibility to assure the assets are prudently invested in a manner consistent with this investment policy. The Board has delegated the day-to-day responsibilities for overseeing the investment program to the Senior Vice President for Finance and Administration and University Treasurer.

The University's current investment policy was approved by the Board of Trustees on May 7, 2010 and implemented in September 2010. The objective of the Investment Policy is to adequately provide for the liquidity needs of the University while maximizing the opportunity to increase yield on investments. The investment structure is divided into three liquidity tiers to provide for income maximization while meeting the daily liquidity requirements of the University. In order to supply sufficient day-to-day operating liquidity, Tier I is invested in money market securities and liquidity reserves. Tier II is invested in limited duration securities to provide for a sufficient level of reserves in case of unanticipated liquidity needs; yet provide for a level of incremental return over Tier I. Tier III is invested for income maximization while taking on appropriate levels of risk.

Authorized investments include US Treasury, US Government Agency or Instrumentality, Mortgage-Backed Securities, Asset-Backed Securities, Taxable Municipal Bonds, Non-Benefit Responsive GIC's, Money Market Instruments and Funds, Corporate Investment Grade Bonds, Corporate High Yield Bonds, and Non-US Dollar Debt. Credit Quality and Market Value percentages are established for each investment manager portfolio.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that increases in market interest rates will adversely decrease the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University and its investment managers limit its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the University's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table showing the distribution of Indiana State University's investments by maturity:

University Investments and Maturities at June 30, 2016 (Dollars in Thousands)					
Investment Type	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Cash on hand (petty cash)	\$ 95	\$ 95	\$ -	\$ -	\$ -
Demand deposits	13,208	13,208	-	-	-
Money market funds	11,773	11,773	-	-	-
Commercial paper	1,495	1,495	-	-	-
Certificates of deposit	3,964	2,500	956	508	-
Asset-backed securities	7,032	387	4,548	1,820	277
Collateralized mortgage obligations	9,341	1,242	2,692	1,427	3,980
Corporate bonds	47,867	3,046	22,051	14,460	8,310
Corporate stock	147	-	-	-	147
Government agencies	10,685	63	4,822	3,912	1,888
Mortgage-backed securities	9,439	-	1,120	1,365	6,954
Municipal notes and bonds	1,305	76	615	251	363
Treasury notes and bonds	38,042	255	18,571	11,009	8,207
Foreign notes and bonds	2,075	73	1,419	252	331
Endowment investments held in trust	620	-	-	-	620
	\$ 157,088	\$ 34,213	\$ 56,794	\$ 35,004	\$ 31,077

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The University's investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided).

Highly Sensitive Investments (Dollars in Thousands)	Fair Value at Year End
Mortgage-backed & asset-backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of the securities and makes the fair values of these securities highly sensitive to changes in interest rates.	\$16,471
Callable bonds. These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affects the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates.	\$16,258

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Credit risk is addressed in the University Investment Policy, approved May 7, 2010. Credit risk guidelines are established for each investment manager. The policy stipulates the percentage of each manager's fixed income portfolio that must be rated Aa or better at the time of purchase. These percentages range from 65 percent to 100 percent. Presented below is the actual Moody's rating at year end for each investment type.

Moody's Rating Scale (Dollars in Thousands)						
Investment Type	Fair Value	AAA	Aa	A	B or Lower	Not Rated
Cash on hand (petty cash)	\$ 95	\$ -	\$ -	\$ -	\$ -	\$ 95
Demand deposits	13,208	-	-	-	-	13,208
Money market funds	11,773	-	-	-	-	11,773
Commercial paper	1,495	-	-	-	-	1,495
Certificates of deposit	3,964	-	-	-	-	3,964
Asset-backed securities	7,032	3,217	182	-	-	3,633
Collateralized mortgage obligations	9,341	4,241	-	852	46	4,202
Corporate bonds	47,867	875	3,774	11,630	29,668	1,920
Corporate stock	147	-	-	-	-	147
Government agencies	10,685	7,321	-	-	145	3,219
Mortgage-backed securities	9,439	400	-	-	-	9,039
Municipal notes and bonds	1,305	356	694	-	255	-
Treasury notes and bonds	38,042	38,042	-	-	-	-
Foreign notes and bonds	2,075	-	-	41	421	1,613
Endowment investments held in trust	620	-	-	-	-	620
	\$ 157,088	\$ 54,452	\$ 4,650	\$ 12,523	\$ 30,535	\$ 54,928

Concentration of Credit Risk

The investment policy of the University contains no limitations on the amount that can be invested in any one issuer. At June 30, 2016 the University did not have investments in any one issuer (other than U.S. Treasury securities and mutual funds) that equaled five percent or more of total University investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the University will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Indiana State University's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than preference will be given to Indiana institutions because of additional insurance coverage provided by the State. Of the University's investments, \$38,042,000 in U.S. Treasury Notes and Bonds, \$10,685,000 in U.S. Government Agencies and \$11,773,000 of the Money Market funds invested in U.S. Government-backed funds are held by a trust department not in the University's name.

As of June 30, 2016 Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to \$250,000 by FDIC and in excess of \$250,000 by the Indiana Public Deposits Fund. Certificates of Deposits of \$502,000 are also covered under the Indiana Public Deposits Fund, as they were invested in Indiana financial institutions.



The University has less than four percent of investments that are made up of foreign currency; therefore, the University's exposure to foreign currency risk is insignificant.

Fair Value Measurements

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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. The University's investments are composed of assets valued using Level 1 or Level 2 inputs. A Level 1 input is a quoted price for identical assets or liabilities in an active market. Level 2 inputs consist of observable prices for similar assets or liabilities in active or inactive markets and inputs other than quoted prices that are observable for the asset or liability. Endowment investments held in trust are included in a pool of investments that use a mix of Level 1 and Level 2 inputs, and are thus reported at Level 2, the lowest level. The University's fair value measurements of reoccurring investments as of June 30, 2016 are presented below.

University Investments by Fair Value Level (Dollars in Thousands)				
Investment Type	Fair Value	Level 1	Level 2	Cash
Cash on hand (petty cash)	\$ 95	\$ -	\$ -	\$ 95
Demand deposits	13,208	-	-	13,208
Money market funds	11,773	-	11,773	-
Commercial paper	1,495	-	1,495	-
Certificates of deposit	3,964	-	3,964	-
Asset-backed securities	7,032	-	7,032	-
Collateralized mortgage obligations	9,341	-	9,341	-
Corporate bonds	47,867	-	47,867	-
Corporate stock	147	147	-	-
Government agencies	10,685	-	10,685	-
Mortgage-backed securities	9,439	-	9,439	-
Municipal notes and bonds	1,305	-	1,305	-
Treasury notes and bonds	38,042	-	38,042	-
Foreign notes and bonds	2,075	-	2,075	-
Endowment investments held in trust	620	-	620	-
	\$ 157,088	\$ 147	\$ 143,638	\$ 13,303

Note 3. Capital Assets

(Dollars in Thousands)	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 32,945	\$ 1,117	\$ -	\$ 34,062
Works of art	1,817	70	-	1,887
Construction in progress	38,983	38,790	(48,648)	29,125
Total assets not being depreciated	\$ 73,745	\$ 39,977	\$ (48,648)	\$ 65,074
Capital assets being depreciated				
Infrastructure	\$ 35,090	\$ -	\$ -	\$ 35,090
Land improvements	30,689	3,911	(1,775)	32,825
Buildings	466,739	42,856	(15,712)	493,883
Equipment	81,989	4,213	(3,445)	82,757
Capital lease assets	31,903	55	-	31,958
Leasehold improvements	-	568	-	568
Total capital assets depreciated	\$ 646,410	\$ 51,603	\$ (20,932)	\$ 677,081
Less accumulated depreciation				
Infrastructure	\$ (33,150)	\$ (262)	\$ -	\$ (33,412)
Land improvements	(17,522)	(1,372)	1,775	(17,119)
Buildings	(161,910)	(10,579)	12,246	(160,243)
Equipment	(62,977)	(3,332)	2,990	(63,319)
Lease amortization	(335)	(1,353)	-	(1,688)
Leasehold improvements amortization	-	(95)	-	(95)
Total accumulated depreciation	\$ (275,894)	\$ (16,993)	\$ 17,011	\$ (275,876)
Total capital assets being depreciated, net	\$ 370,516	\$ 34,610	\$ (3,921)	\$ 401,205
Total capital assets, net	\$ 444,261	\$ 74,587	\$ (52,569)	\$ 466,279

A breakdown of significant projects included in construction in progress as of June 30, 2016 is shown below:

Construction Work in Progress (Dollars in Thousands)	
Project	June 30, 2016
Blumberg Hall Renovation	\$ 18,090
College of Nursing, Health and Human Services Renovation	4,204
Cromwell Hall Renovation	1,630
Science Building	803
Gillum Hall	570
Gibson Track Restrooms	536
Other Miscellaneous Projects	3,292
Total	\$ 29,125

Note 4. Long-Term Liabilities

Long-term liabilities of the University consist of bonds and notes payable, capital leases payable, compensated absences, and other liabilities.

The changes in long-term liabilities are as shown below:

(Dollars in Thousands)	Balance July 1, 2015	Additions	Reductions	Balance July 1, 2016	Current Portion
Bonds payable, net	\$ 136,573	\$ 33,071	\$ 10,064	\$ 159,580	\$ 11,970
Lease payable	31,587	55	744	30,898	1,574
Compensated absences and termination benefits	4,098	124	118	4,104	3,811
Advances from Federal Government	7,513	-	60	7,453	-
Total long-term liabilities	\$ 179,771	\$ 33,250	\$ 10,986	\$ 202,035	\$ 17,355
Bond redemption reserve (matured unpaid bonds and coupons)					53
Total long-term liabilities- current portion					\$ 17,408





Note 5. Bonds Payable

Indiana State University is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing the construction of student housing, athletic facilities, parking, and academic facilities. The outstanding bond principal indebtedness consists of the following issues.

(Dollars in Thousands)	Original Face Value	Issue Date	Interest Rate	Final Maturity Dates	Principal Outstanding June 30, 2016	Principal Outstanding June 30, 2015
Student Fee Bonds						
Series M	\$ 30,510	2007	4.0-5.0%	2033	\$ 27,035	\$ 28,810
Series N	9,560	2010	1.0-6.64%	2030	7,355	7,750
Series O	8,695	2011	2.0-5.0%	2031	7,040	7,385
Series P	4,570	2014	2.18%	2021	3,765	4,020
Series Q	19,690	2015	2.58%	2033	15,805	19,375
Housing and Dining Revenue Bonds						
Series 2009	13,730	2009	3.0-6.38%	2027	9,655	10,350
Series 2010	9,140	2010	1.43-5.41%	2027	6,665	7,175
Series 2012	28,740	2013	2.7-5.0%	2038	26,985	27,765
Series 2014	16,405	2014	2.0-5.0%	2034	15,130	15,715
Series 2015	16,270	2015	3.0-5.0%	2035	15,510	N/A
Series 2016	14,135	2016	3.0-5.0%	2036	14,135	N/A
Parking Revenue Bond						
Series 2012	\$ 4,000	2012	1.72%	2017	\$ 3,505	\$ 3,635
Bonds					152,585	131,980
Premium					6,995	4,593
Total					\$ 159,580	\$ 136,573

Student Fee Bonds are secured by a pledge of student fees. The Indiana General Assembly authorizes a specific state appropriation known as “fee replacement” to the University for the purpose of reimbursing a portion of the debt service payments for certain academic facilities, including classrooms, laboratories, and other academic support facilities. The outstanding balances eligible for fee replacement appropriations, as of June 30, 2016 and 2015 are \$7,541,000 and \$8,501,000, respectively.

Housing and Dining Revenue Bonds are secured by a pledge of housing and dining net income. As of June 30, 2016 and 2015, total net pledged income was approximately \$8,491,000 and \$10,535,000, respectively. The Parking Revenue Bond is secured by a pledge of parking system net income. As of June 30, 2016 and 2015, total net pledged income of the parking system was approximately \$1,292,000 and \$1,273,000, respectively.

In prior years, Indiana State University defeased certain serial bonds by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust accounts and liability for the defeased bonds are not included in the financial statements of Indiana State University.

The University issued \$16,270,000 of Housing and Dining System Revenue Bonds, Series 2015 on August 6, 2015 and \$14,135,000 of Housing and Dining System Revenue Bonds, Series 2016 on June 29, 2016. See Note 7 for details.

Debt Service Requirements (Dollars in Thousands)			
Fiscal Year	Principal Bonds	Interest Bonds	Total
2017	\$ 11,595	\$ 6,193	\$ 17,788
2018	8,240	5,979	14,219
2019	8,575	5,639	14,214
2020	8,925	5,269	14,194
2021	11,680	4,836	16,516
2022-2026	43,315	17,953	61,268
2027-2031	34,495	8,096	42,591
2032-2036	22,410	2,545	24,955
2037-2038	3,350	164	3,514
Total	152,585	56,674	209,259
Net unamortized premium	6,995	-	6,995
Total	\$ 159,580	\$ 56,674	\$ 216,254

Note 6. Service Concession Arrangements

In July 2010, Indiana State University entered into a contract with Sodexo Services of Indiana Limited Partnership to provide food services for ISU's students, faculty, staff and invited guests for a term of 11 years. Included in the agreement was a commitment by Sodexo to provide equipment and facility enhancements of up to \$2,900,000 to construct the Sycamore Banquet Center inside the Hulman Memorial Student Union, with contributions by the University of approximately \$800,000. Construction was completed and the Banquet Center was put into use in April 2012.

Food services for the Banquet Center will be provided by Sodexo, and the Banquet Center will remain an asset of the University. Due to the nature of this agreement, whereas Sodexo is the operator and ISU is the transferor, it has been classified as a service concession arrangement. The Sycamore Banquet Center has been classified as a capital asset with an offsetting deferred inflow of resources. Over the life of the contract, ISU will amortize the deferred inflow of resources, while recognizing auxiliary revenue each year. If the agreement expires, terminates, or is amended in a way that has an adverse impact on Sodexo, ISU will be liable for the unamortized portion of Sodexo's investment.

Deferred Service Concession Arrangement (Dollars in Thousands)	
Deferred Service Concession Arrangement - June 30, 2015	\$ 1,456
Revenue recognition for the fiscal year 2016	(243)
Deferred Service Concession Arrangement- June 30, 2016	\$ 1,213

Note 7. Bond Issues

Housing and Dining Revenue Bonds, Series 2015

On August 6, 2015, the University issued \$16,270,000 of Housing and Dining Revenue Bonds, Series 2015. This issue was tax-exempt with a True Interest Cost (TIC) of 3.455 percent. The bond proceeds of \$16,781,000, which included \$511,000 of net bond premium less insurance cost and underwriter's discount of \$181,000, netted \$16,600,000 to be used for the Blumberg Hall project.



Blumberg Hall

This renovation is the second phase of a comprehensive renovation of Sycamore Towers. The Blumberg Hall renovation project will be comprised of renovating 100,468 square feet of residence hall space in the 12-story tower and will include installation of new lighting, doors, HVAC, and fire suppression systems. The renovated facility will provide a total of 366 beds. The overall cost of the Blumberg Hall renovation project is estimated at \$20.9 million, of which \$4.15 million will be funded from Housing and Dining System reserves and \$16.6 million with proceeds of the Series 2015 bonds. The project is expected to be completed for fall 2016 occupancy.

Housing and Dining Revenue Bonds, Series 2016

On June 29, 2016, the University issued \$14,135,000 of Housing and Dining Revenue Bonds, Series 2016. This issue was tax-exempt with a True Interest Cost (TIC) of 2.707 percent. The bond proceeds of \$16,289,000, which included \$2,154,000 of net bond premium less insurance cost and underwriter's discount of \$189,000, netted \$16,100,000 to be used for the Cromwell Hall project.

Cromwell Hall

The project consists of the renovation of Cromwell Hall as the third phase of the comprehensive renovation of Sycamore Towers. The renovated facility will provide 366 beds and is part of a systematic upgrading of residence hall facilities to provide living and learning spaces that are attractive to prospective and returning students. The overall cost of the Cromwell Hall renovation is estimated at \$20.1 million, of which \$4 million will be funded from Housing and Dining system reserves and \$16.1 million with proceeds of the Series 2016 Bonds. The project is expected to be completed for fall 2017 occupancy.

Note 8. Lease Payable

Indiana State University has entered into capital lease agreements for equipment and facilities. The University has a five-year lease agreement with Ricoh USA, Inc. to lease copiers and printers for the campus effective July 1, 2015. As of January 8, 2014, the University entered into a lease agreement with 500 Wabash Housing, LLC to lease floors 2-5 of the 500 Wabash Avenue building to be used for student housing. The lease commencement date was July 15, 2015. The lease term is 30 years with an option to purchase.

These capital lease obligations are included in the Statement of Net Position and future scheduled payments under these agreements are illustrated in the schedule below. The University records lease amortization as depreciation expense on the Statement of Revenues, Expenses and Changes in Net Position.

Fiscal Year	Lease Payments		
	Equipment	Facilities	Total
2017	\$ 373	\$ 1,201	\$ 1,574
2018	373	1,535	1,908
2019	373	1,535	1,908
2020	-	1,535	1,535
2021-2025	-	7,675	7,675
2026-2030	-	7,675	7,675
2031-2035	-	7,675	7,675
2036-2040	-	7,675	7,675
2041-2045	-	7,675	7,675
Total minimum lease payments	\$ 1,119	\$ 44,181	\$ 45,300
Less: Amount representing interest	(47)	(14,355)	(14,402)
Present value of minimum lease payments	\$ 1,072	\$ 29,826	\$ 30,898

Note 9. Termination Benefits Liability

The Governmental Accounting Standards Board (GASB), Statement No. 47, *Accounting for Termination Benefits*, requires the University to recognize an expense and liability for voluntary termination benefits, such as early-retirement incentives. This expense is recognized when an offer is accepted and the amount of the benefit can be estimated.

The ISU Board of Trustees approved a Retirement Severance Plan for eligible faculty and staff on February 18, 2010. Under the Retirement Severance Plan, employees must be age 62 or older and have 20 years of service to retire from Indiana State University. The severance payments available under the plan are 60 percent for those employees with 15 years or more of service at December 31, 2010, and 40 percent for employees with less than 15 years of service at December 31, 2010. New employees hired on or after March 1, 2010 would be eligible for a 25 percent severance pay at retirement.

A total of 15 employees enrolled in the program during the 2016 fiscal year at a cost of \$529,000 and 11 employees enrolled during the 2015 fiscal year at a cost of \$391,000. Total termination benefits liability reported at June 30, 2016 was zero and \$118,000 at June 30, 2015.

Note 10. Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; and health and other medical benefits provided to employees and their dependents. The University handles these risks of loss through combinations of risk retention and commercial insurance. For buildings and contents, the University has risk retention of \$100,000 per occurrence. The maximum liability to the University for job-related illnesses or injuries is \$350,000 per occurrence.

The University retains the risk for medical benefits up to a stop-loss provision of \$250,000 per member. Accrued liabilities for unpaid medical claims, as of June 30, 2016 are included in current other liabilities. The liability is based on 25 percent of actual claims paid during the year, which



represents a three-month average turnover period for claims processing. Changes in the balance of claims liabilities during the 2016 fiscal year are as follows:

(Dollars in Thousands)	2016	2015
Unpaid medical claims- July 1	\$ 4,496	\$ 4,513
Claims incurred	18,783	18,018
Claims paid	(17,984)	(18,035)
Unpaid medical claims- June 30	\$ 5,295	\$ 4,496

Note 11. Litigation

The University has been named as a defendant in a number of lawsuits. For most of these lawsuits, the final outcome cannot be determined and management is of the opinion that any ultimate outcome will not have a material effect upon the University's financial position.

Note 12. Funds Held in Custody for Others

Funds held in custody for others consist of \$1,135,000 and \$836,000 at June 30, 2016 and 2015, respectively. These funds are held for other agencies (student and faculty organizations) and unapplied student payments.

Note 13. Pollution Remediation Obligation

To comply with GASB Statement No. 49, *Accounting and Reporting for Pollution Remediation Obligations*, the University must report a liability for an obligating event. An obligating event occurs when the University commences or legally obligates itself to commence pollution remediation. During fiscal year 2016 and in prior years, Indiana State University voluntarily obligated itself to remediate pollution in Cromwell Hall and other buildings. As of June 30, 2016 these projects had not been completed, leaving an outstanding obligation of \$115,000 which is classified as a current other liability. The outstanding obligation as of June 30, 2015 was \$103,000.

Note 14. Natural Classifications with Functional Classifications

The University's operating expenses by functional classification were as follows:

Natural Classifications							
Years Ended June 30, 2016 and June 30, 2015							
(Dollars in Thousands)							
Functional Classification	Compensation and Benefits	Supplies and Expenses	Utilities	Scholarships and Fellowships	Depreciation	2016 Total	2015 Total
Instruction	\$ 68,816	\$ 8,075	\$ -	\$ -	\$ -	\$ 76,891	\$ 74,500
Research	5,926	4,081	-	-	-	10,007	9,320
Public service	2,300	1,605	-	-	-	3,905	3,713
Academic support	13,952	5,506	-	-	-	19,458	17,406
Student services	11,111	4,764	-	-	-	15,875	13,613
Institutional support	16,860	10,783	-	-	-	27,643	20,606
Operation of plant	9,950	11,896	9,042	-	-	30,888	31,376
Scholarships	1,517	-	-	11,795	-	13,312	12,405
Auxiliary enterprises	16,104	23,930	290	-	-	40,324	34,485
Depreciation	-	-	-	-	16,979	16,979	15,115
Total	\$ 146,536	\$ 70,640	\$ 9,332	\$ 11,795	\$ 16,979	\$ 255,282	\$ 232,539

Note 15. Hedge Contracts

Indiana State University has entered into forward contracts with EDF, Energy Services to purchase natural gas at a specified time in the future at a guaranteed price. This allows the University to plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible the market price before or at the specified time to purchase natural gas may be lower or higher than the price at which the University is committed to buy.

Note 16. Retirement Plans

Authorization

Authorization to establish retirement plans is stated in Indiana Code Title 21, Article 21, Chapter 3, and Section 3.

Faculty and Exempt Staff

Faculty and executive/administrative/professional employees of the University participate in a non-contributory, defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equity Fund (CREF). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. Contributions and plan participant data for fiscal years 2016 and 2015 are displayed below.

TIAA-CREF Contributions (Dollars in Thousands)	2016	2015
University Contributions to Plan	\$ 7,144	\$ 6,712
Total Participating Employee Annual Salaries	\$ 71,444	\$ 67,112
Employee and Retiree Plan Participants	1,003	962

Non-exempt Staff

Plan Description

Regular clerical and service staff are provided with pensions through the Public Employees' Retirement Fund (PERF). PERF is a cost sharing, multiple-employer defined benefit plan administered by the Indiana Public Retirement System (INPRS). PERF was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code IC 5-10.2, IC 5-10.3, and IC 5-10.5. There are two parts to the plan: an annuity savings plan and a monthly defined benefit pension. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after ten years of service. The INPRS issues a publicly available financial report that can be obtained at www.in.gov/inprs/annualreports.htm.

Benefits Provided

PERF provides retirement, disability and survivor benefits. To be eligible for 100 percent of the pension component a member must reach age 65 with 10 years of service, or age 60 with 15 years of service, or age 55 and whose age plus number of years of service is at least 85. Pension benefits for 100 percent normal retirement are calculated at 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. Cost of living adjustments (COLA) are granted by the Indiana General Assembly on an ad hoc basis. Five years of service is required for disability benefits in which the benefits are calculated the same as normal retirement. Upon the death in service of a member with 15 or more years of service, a survivor benefit may be paid to the surviving spouse or surviving dependent children.

Contribution Required

Contributions to PERF are determined by INPRS Board of Trustees in accordance with IC 5-10.2-2-11. The funding policy provides for employer contributions that are sufficient to fund pension benefits, which are actuarially determined. The University was required to contribute 11.2 percent of employees' gross earnings to the defined benefit plan in fiscal years 2016 and 2015. Employees are required to contribute three percent of covered payroll to their annuity savings account. The University has the option to contribute this on their behalf and elected to do so in both years presented. Contributions and plan participant data for fiscal years 2016 and 2015 are displayed below.

PERF Contributions (Dollars in Thousands)	2016	2015
University Contributions to PERF Plan	\$ 2,202	\$ 2,055
University Contributions to Annuity Savings Accounts	\$ 589	\$ 551
Total Participating Employee Annual Salaries	\$ 18,855	\$ 18,273
Employee Plan Participants	568	564

Pension Liabilities

For the fiscal years ending June 30, 2016 and June 30, 2015, the University reported liabilities of \$15,538,000 and \$9,494,000, respectively, 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, 2014. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the contribution of all participating state entities, actuarially determined. At June 30, 2015 the University's portion was .38 percent.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

Indiana State University recognized pension expense of \$2,664,000 during fiscal year 2016 and \$901,000 for fiscal year 2015. The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(Dollars in Thousands)	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 667	\$ 32	\$ -	\$ 42
Net difference between projected and actual investment earnings on pension plan investments	2,620	1,461	-	1,845
Change of assumptions	1,313	-	-	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	510	8	80	11
Contributions subsequent to the measurement date	2,202	-	2,055	-
	\$ 7,312	\$ 1,501	\$ 2,135	\$ 1,898

The University reported \$2,202,000 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. All other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized in pension expense as follows:

Amortization of Deferred Outflows/(Inflows) of Resources- Debit/(Credit) (Dollars in Thousands)	
2016	\$ 1,193
2017	1,193
2018	568
2019	655
2020	-
Thereafter	-
Total	\$ 3,609



Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation Rate:	2.25%
Salary Increases:	2.50%-4.25% including inflation
Experience Study Date:	Period of 4 years ended June 30, 2014
Investment Rate of Return:	6.75%, net of investments expense, including inflation
Actuarial Cost Method:	Entry Age Normal (Level Percent of Payroll)
Cost of Living Increases:	1.0%
Mortality:	RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2016

The long-term return expectation for PERF has been determined by using a building-block approach. 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 projected inflation rate, and adding the expected return from rebalancing uncorrelated assets classes.

	Target Asset Allocation	Geometric Basis
		Long-Term Expected Real Rate of Return
Public Equity	22.5%	5.3%
Private Equity	10.0%	5.6%
Fixed Income- Ex Inflation-Linked	22.0%	2.1%
Fixed Income- Inflation-Linked	10.0%	0.7%
Commodities	8.0%	2.0%
Real Estate	7.5%	3.0%
Absolute Return	10.0%	3.9%
Risk Parity	10.0%	5.0%

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 that plan member contributions will be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board and contributions required by the State of Indiana would be made as stipulated by state statute. Based on those assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate

Net pension liability is sensitive to changes in the discount rate. The following presents the University's proportionate share of net pension liability calculated using the discount rate of 6.75 percent, as well as what the University's 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.

Discount Rate Sensitivity-Liability/(Asset) (Dollars in Thousands)		
1% Decrease (5.75%)	Current (6.75%)	1% Increase (7.75%)
\$ 22,921	\$ 15,538	\$ 9,410



Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued INPRS financial report which is available at www.in.gov/inprs/annualreports.htm. Refer to Note 1, Section J for information regarding the INPRS basis of accounting.

Note 17. VEBA Trust

The University established a Voluntary Employees' Benefit Association (VEBA) trust, with an independent trustee, for the purpose of providing retiree medical benefits for retired employees of Indiana State University and their dependents that become eligible upon accruing the required years of service. Approval from the IRS for the tax-exempt status of the trust was received on March 2, 1999.

The trust is funded from reserves set aside in previous years paid by the University, contributions, employee payroll deductions for post-retirement benefits, and reinvested net earnings. Beginning January 1, 2014, the University activated the VEBA Trust. In fiscal year 2015, the University was reimbursed 75 percent of both pre-65 and post-65 retirement medical insurance premiums paid. A summary of the activity in the trust for the year ending June 30, 2016 is as follows:

Dollars in Thousands	
Market value at July 1, 2015	\$ 83,921
Reimbursement of University retirement expenses	(2,240)
Reinvested net earnings	3,295
Less: management fees	(257)
Realized gain on sale of investments	1,284
Unrealized loss on decrease in market value	(881)
Market value at June 30, 2016	\$ 85,122

These funds cannot under any circumstances revert to the University; therefore, the financial statements of the University do not include the value of these assets. The following charts show the actual diversification of the VEBA investments.

VEBA Investment Policy Guideline Diversification			
Asset Class	Target	Minimum	Maximum
Equity	60.0%	55.0%	65.0%
Fixed Income	40.0%	35.0%	45.0%
Actual VEBA Investment Diversification (Dollars in Thousands)			
	Actual \$	Actual %	
Domestic-Equity-Passive	\$ 21,934	25.8%	
Domestic-Equity-Active	5,629	6.6%	
International Equity	11,889	14.0%	
Global Unconstrained Equity	3,092	3.6%	
Fixed Income	34,045	40.0%	
Hedge Strategies	4,128	4.8%	
Inflation Hedging	4,405	5.2%	
Total	\$ 85,122	100.0%	

Note 18. Other Post-Employment Benefits

Plan Description

Beginning January 1, 2010, Indiana State University selected AmWins Group Benefits to administer the post-65 retiree medical plan. This plan replaced the self-insured program for retirees with an insurance policy for which the University's cost is based on premiums instead of claims. All retirees, after reaching the age of 65, are required to participate in the fully insured plan in order to retain the retirement medical benefit. The University's cost is \$224 per month for each plan participant including dental insurance coverage. Retirees pay \$104 or \$197 per month directly to AmWins, depending on the prescription drug plan option taken. This group of post-65 retirees retains dental coverage through Delta Dental of Indiana and life insurance through the Symetra Life Insurance Company.

Retirees under the age of 65 will continue participation in the Indiana State University Healthcare Plan for active employees until age 65 is attained. This plan is a single-employer defined benefit healthcare plan administrated by Cigna for medical coverage, Delta Dental of Indiana for dental coverage, Express-Scripts for prescription coverage, and Symetra life insurance. The plan provides medical, dental and life insurance for eligible retirees and their spouses. Active employees are eligible for the plan provided they retire after attaining age 62 with at least 20 years of service. Surviving spouses may continue in the plan until remarriage or death. Employees hired after January 1, 2005 or employees or their spouses who had not enrolled in the ISU health plan before January 1, 2005 are not eligible for the plan. The Indiana State University Board of Trustees has the authority to establish and amend provisions to the University plan.

Funding Policy

For the fiscal year ended June 30, 2016 the total contribution to the plan was \$3.8 million, with the University contributing \$3.6 million for current premiums. The University activated the VEBA Trust as of January 1, 2014, and has been reimbursed for 75 percent of the medical premiums paid for both pre-65 and post-65 retirees during fiscal year 2016. The total amount reimbursed was \$2.24 million. Plan members receiving benefits contributed \$0.2 million, based on the required contribution rates as follows:

Participants' Monthly Contributions			
	Wellness Incentive and Tobacco Free	Incentive and Tobacco Surcharge	No Wellness and Tobacco Surcharge
Under Age 65			
Employee Rates - Monthly	\$183.00	\$233.00	\$263.00
Employees	\$466.00	\$516.00	\$566.00
Employees Below 200% of Federal Poverty Level			
Employees	\$125.00	\$175.00	\$205.00
Employees/Spouses	\$297.00	\$347.00	\$397.00
Age 65 and over (AmWins-Nebco fully insured)			
Option 1	\$104.00	\$208.00	
Option 2	\$197.00	\$394.00	

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), 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 30 years. The following table shows the components of the University's annual OPEB cost for fiscal years 2014, 2015, and 2016, the amount actually contributed to the plan, and changes in the University's net OPEB obligation to the plan.

GASB 45 ARC and Annual Expense (Dollars in Thousands)	2014	2015	2016
Annual required contribution	\$ 101	\$ -	\$ -
Interest on net OPEB obligation	(854)	(980)	(1,084)
Adjustment to annual required contribution	1,034	1,187	1,312
Annual OPEB cost	\$ 281	\$ 207	\$ 228
Contributions made	\$ (2,370)	\$ (1,945)	\$ (1,431)
Decrease in net OPEB obligation	\$ (2,089)	\$ (1,738)	\$ (1,203)
Net OPEB obligation (asset) beginning of year	\$ (14,238)	\$ (16,327)	\$ (18,065)
Net OPEB obligation (asset) end of year	\$ (16,327)	\$ (18,065)	\$ (19,268)



The University's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for the fiscal years ending are as follows:

(Dollars in Thousands)				
Year Ending	Annual OPEB		Percentage of	
	Cost	Cost Contributed	Annual OPEB	Net OPEB Asset
6/30/2016	\$ 228	626.2%	\$ 19,268	
6/30/2015	\$ 207	941.9%	\$ 18,065	
6/30/2014	\$ 281	842.5%	\$ 16,327	

Funded Status and Funding Progress

As of June 30, 2016, the most recent actuarial valuation date, the plan was 134.5 percent funded. The actuarial accrued liability for benefits was \$63.3 million, and the actuarial value of assets was \$85.1 million, resulting in an overfunded actuarial accrued liability (UAAL) of \$21.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$39.4 million. The ratio of the UAAL to covered payroll was (-55.4) percent which indicates the OPEB plan is over 100 percent funded at fiscal year end June 30, 2016.

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 below, shows multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Three-Year Trend Information (Dollars in Thousands)

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/16	\$ 85,123	\$ 63,298	\$ (21,824)	134.5%	\$ 39,400	(55.4%)
6/30/15	\$ 83,921	\$ 64,311	\$ (19,610)	130.5%	\$ 38,252	(51.3%)
6/30/14	\$ 83,292	\$ 60,027	\$ (23,265)	138.8%	\$ 42,804	(54.4%)

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.



Actuarial Assumptions

Valuation and measurement date	June 30, 2016
Participant data	July 2015
Discount rate	6%
Mortality	SOA RPH-2014 Total Dataset Mortality Table fully generational using scale MP-2014
Payroll Growth	3% per year increase was used to model future employees salary increases
Healthcare Trend Rates	2% per year increase to model future increases in the Federal Poverty Limit

Healthcare Trend Rates

FYE	Medical/Rx		Dental
	Pre-65	Post-65	
2017	8.50%	6.75%	4.50%
2018	8.00%	6.50%	4.50%
2019	7.50%	6.25%	4.50%
2020	7.00%	6.00%	4.50%
2021	6.50%	5.75%	4.50%
2022	6.00%	5.50%	4.50%
2023	5.50%	5.25%	4.50%
2024+	5.00%	5.00%	4.50%

Methods

Actuarial cost method	Projected Unit Credit with linear proration to decrement age
Assets method	Market value
Amortization method	Level dollar amount over thirty years based on an open group
Accounting method	Unit credit
Actuarial gains/losses	Reflected immediately in cost method

Note 19. Subsequent Events

Indiana State University Student Fee Bonds, Series R

Indiana State University issued \$83,845,000 in Student Fee Bonds, Series R on September 15, 2016. These bonds will be used to finance the construction and renovation of a facility for the College of Health and Human Services and the refunding of Series M and O. The proceeds of the Series R bonds included a principal amount of \$83,845,000 plus bond premium of \$14,399,234. The construction project has an estimated cost of \$64,000,000. Work commenced in July 2016 and is scheduled for completion in March 2019. The refunding of Series M and Series O will use approximately \$33,698,812 of the bond proceeds.

Required Supplementary Information

**Schedule of Indiana State University's Proportionate Share of the
Net Pension Liability
Public Employees' Retirement Fund (PERF)
Last 10 Fiscal Years*
(Dollars in Thousands)**

	Measurement Date as of June 30		
	2015	2014	2013
Proportion of the net pension liability (asset)	0.38%	0.36%	0.36%
Proportionate share of the net pension liability (asset)	\$ 15,538	\$ 9,494	\$ 12,387
Covered-employee payroll	\$ 18,273	\$ 17,638	\$ 17,364
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	85.0%	53.8%	71.3%
Plan fiduciary net position as a percentage of the total pension liability	77.3%	84.3%	78.8%

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

**Schedule of Indiana State University's Contributions
Public Employees' Retirement Fund (PERF)
Last 10 Fiscal Years*
(Dollars in Thousands)**

	Fiscal Year		
	2015	2014	2013
Contractually required contribution	\$ 2,047	\$ 1,976	\$ 1,672
Contributions in relation to the contractually required contribution	\$ (2,047)	\$ (1,976)	\$ (1,672)
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered-employee payroll	\$ 18,273	\$ 17,638	\$ 17,364
Contributions as a percentage of covered- employee payroll	11.2%	11.2%	9.6%

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

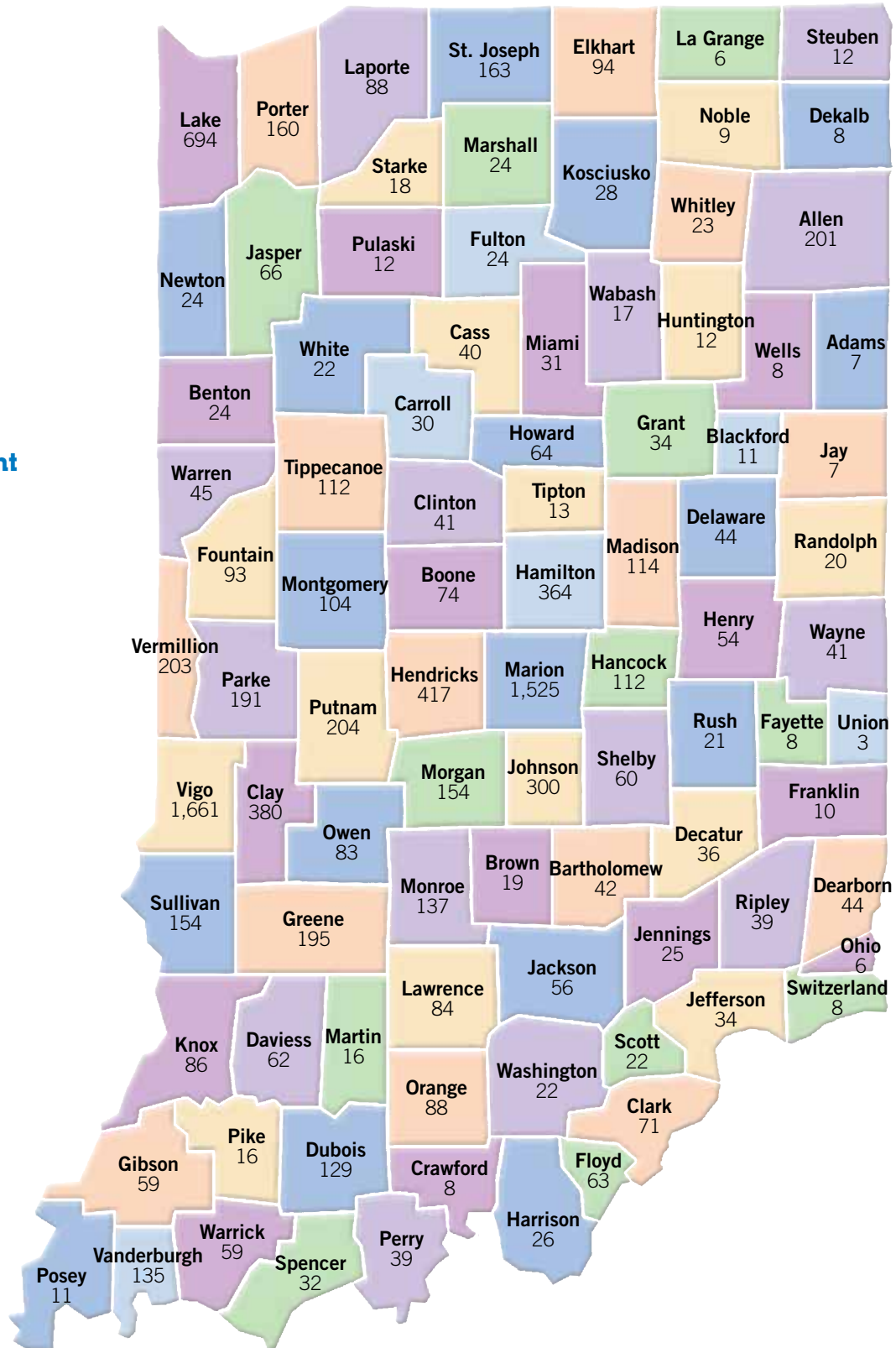
Home Counties of Indiana State Students (Fall 2015) Unaudited

Indiana
(92 counties)
10,235

Out-of-State
(48 states)
2,292

International
(80 countries)
1,057

Total Enrollment
13,584



Board of Trustees and University Administration

Board of Trustees

as of June 30, 2016

David Campbell

Chair
Indianapolis, Indiana
Term Expires 2019

Edward Pease

Vice Chair
Terre Haute, Indiana
Term Expires 2017

Tanya R. Bell

Secretary
Brownsburg, Indiana
Term Expires 2016

Robert Baesler

Assistant Secretary
Terre Haute, Indiana
Term Expires 2017

Jeff Taylor

Finance Committee Chair
Carmel, Indiana
Term Expires 2017

Kathleen G. Cabello

Indianapolis, Indiana
Term Expires 2019

Haley Gravely

Greenwood, Indiana
Term Expires 2017

Randall Minas

Culver, Indiana
Term Expires 2016

Kimberly Oliphant Smith

Indianapolis, Indiana
Term Expires 2019

University Officials

as of June 30, 2016

Daniel Bradley

President of the University

Michael Licari

Provost and Vice President for
Academic Affairs

Diann McKee

Senior Vice President for Finance and
Administration/University Treasurer

John Beacon

Senior Vice President for Enrollment
Management, Marketing, and
Communications

Willie Banks, Jr.

Vice President for Student Affairs

Nancy Rogers

Vice President for University
Engagement

Additional copies of the 2016 Financial Report may be obtained from:

Office of the Controller
Parsons Hall, room P115
Indiana State University
Terre Haute, Indiana 47809

812-237-3513
www.indstate.edu/controller/

For Additional Information:

Admissions

Office of Admissions
John W. Moore Welcome Center
318 North Sixth Street
Indiana State University
Terre Haute, Indiana 47809
812-237-2121
1-800-GO-TO-ISU
admissions@indstate.edu

Alumni

Alumni Association
30 North Fifth Street
Terre Haute, Indiana 47809
1-800-258-6478
alumni@indstatefoundation.org

Foundation

ISU Foundation
30 North Fifth Street
Terre Haute, Indiana 47809
812-514-8400
1-800-242-1409



Office of the Controller
Parsons Hall, Room P115
Indiana State University
Terre Haute, Indiana 47809

812-237-3513
www.indstate.edu/controller/