B46124

# Financial Report 2015

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04/11/2016

University of Southern Indiana

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# Supplementary Information



**Additional copies of this report may be obtained from:**

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

# Board of Trustees 2014–2015

Trustees of the University gather before the May 2015 commencement ceremony. Left to Right: Ira G. Boots, Brenden J. Davidson ’15, Amy W. MacDonell, Linda L. M. Bennett, Ted C. Ziemer Jr., Jeffrey L. Knight, W. Harold Calloway



# University Officers 2014–2015

# Message from the President

Dr. Linda L. M. Bennett
*President*

The University of Southern Indiana is celebrating its 50th anniversary. Fifty years ago our founders imagined an institution that would educate generations of students who would improve not only the community, but the world—and that's just what we've done.

In 1965, 412 students attended opening of classes at the newly established Indiana State University Evansville (or ISUE). In fall 2015, total USI enrollment, including undergraduate, dual credit and graduate students, reached 10,701, and we saw the largest incoming freshman class in recent years. These students come from almost every county in the State of Indiana, plus 36 states across this nation, and more than 69 countries around the world.

We attract some of this state's finest students, while keeping our cost at a point that continues our long tradition of affordability. The size of this year's incoming class, and the student performance indicators, ranking among the highest our history has seen, solidify our place as an institution of excellence in Indiana higher education.

The transformation of ISUE to USI and the phenomenal growth of the University is the result of strong support across this region. As a public institution, USI was created to serve a public good, a larger purpose that strengthens communities. This year, we can boast more than 37,000 alumni who not only are making an impact here in the Tri-state, but across the United States and around the world. It is humbling to see just how far our reach has extended in our first 50 years.

In addition to our 50th anniversary, we are wrapping up our five-year strategic plan and we have embarked on a process to create a new strategic plan to carry us into the coming years. The public trust of our resources is a matter we have always taken very seriously, from our accessible and affordable academic programs to our direct involvement with the development of this region and state. I hope that as you review this report, it is evident that as we celebrate our history and the accomplishments of the past 50 years, we are also planning for a future that is just as vibrant and full of promise.

Linda L. M. Bennett

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

# Message From The Vice President and Treasurer

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

I am pleased to present the University of Southern Indiana's audited financial report for the fiscal year ended June 30, 2015. These financial statements have been audited by the Indiana State Board of Accounts and their report, which is an unmodified opinion, appears on pages 4 and 5. The University of Southern Indiana continues to set the affordability and efficiency standard for Indiana higher education.

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

As an institution consistently generating revenues exceeding expenditures throughout its entire history, with no deferred maintenance, a pricing strategy allowing flexibility, and located in and heavily supported by a state that is itself fiscally strong, the University is certainly well positioned for the future. The State of Indiana continued its support of the University of Southern Indiana with the 2015-17 Biennial Budget. The University received increases in operating appropriations for the two-year period totaling approximately $960,000 and nearly $2 million in repair and rehabilitation funds during the same period. We continue to be recognized favorably by credit rating agencies such as Moody's Investor Services and Standard and Poor's as detailed in the Management Discussion and Analysis section of the financial report, demonstrating their confidence in our financial position and future.

The next iteration of our strategic planning process is expected to be completed in early 2016, providing an opportunity to review our past successes and to look for future opportunities. This process will seek to align resources with the focuses and priorities of the University. Resources will be directed toward new and emerging programs which best meet the wants and needs of our students. Efforts will continue to deliver quality programs and services at reasonable costs, allowing our students to be competitive in a global market upon graduation.

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

Steve Bridges
*Vice President for Finance and Administration*
*and Treasurer*

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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of University of Southern Indiana (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the Table of Contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Southern Indiana Foundation (Foundation), a component unit of the University as discussed in Note 1, which represents 100 percent of the 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 of 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 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 our 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 aggregate discretely presented component unit of the University, as of June 30, 2015 and 2014, and the respective changes in financial position, where applicable, and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 17 to the financial statements, in fiscal year 2015, the University adopted new accounting guidance GASB Statement 68 *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

### Other Matters

*Required Supplementary Information*

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

*Other Information*

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

The Board of Trustees and University Officers, Message from the President, Message from the Vice-President and Treasurer, Five Year Comparative Data, and Enrollment by Counties 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 November 5, 2015, 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

November 5, 2015

# Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University of Southern Indiana (the University or USI) during the fiscal year ended June 30, 2015, and compares that performance with data from prior fiscal periods. It is designed to focus on current activities, resulting changes and currently known facts. It is intended to answer questions that may result from the review of the information presented in the financial statements and to better explain the financial position of the University. The information presented in the financial statements, the notes to the financial statements, and the discussion and analysis are the responsibility of management.

## Using the Annual Report

This annual report consists of a series of financial statements prepared from an entity-wide focus in accordance with the Governmental Accounting Standards Board Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities.* These statements focus on the financial condition, the results of operations and the cash flows of the University as a whole. During the 2015 fiscal year, the University implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions,* and the related GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Previously, retirement benefits offered to employees through the Public Employees' Retirement Fund (PERF) administered by the Indiana Public Retirement System (INPRS) were presented only in the *Notes to Financial Statements*. With the advent of GASB Statement 68 and GASB Statement 71, the University must recognize a liability for its share of future retirement benefits and record other related transactions based largely on information provided annually to the University by INPRS. Additional information about the impact of the new standards on the various financial statements may be found below.

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

## Statement of Net Position

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

STATEMENT OF NET POSITION CONDENSED

| Year Ended June 30 (in thousands) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Current Assets | $ 53,707 | $ 57,183 | $ 58,438 |
| Noncurrent Assets: | | | |
| Capital assets, net of depreciation | 180,635 | 181,264 | 174,595 |
| Other non-current | 60,689 | 55,312 | 56,184 |
| **Total Assets** | **$295,031** | **$293,759** | **$289,217** |
| Hedging Derivative Instruments | $ 1,736 | $ 1,915 | $ 2,084 |
| Pension Benefits | 1,288 | | |
| **Total Deferred Outflow of Resources** | **$ 3,024** | **$ 1,915** | **$ 2,084** |
| Current Liabilities | $ 23,833 | $ 23,111 | $ 23,247 |
| Noncurrent Liabilities | 123,792 | 127,574 | 135,837 |
| **Total Liabilities** | **$147,625** | **$150,685** | **$159,084** |
| Pension Benefits | $ 1,112 | | |
| **Total Deferred Inflow of Resources** | **$ 1,112** | | |
| Net Position: | | | |
| Net investment in capital assets | $ 65,511 | $ 56,486 | $ 45,158 |
| Restricted–expendable | 192 | 1,405 | 3,141 |
| Unrestricted | 83,615 | 87,098 | 83,918 |
| **Total Net Position** | **$149,318** | **$144,989** | **$132,217** |

## Assets

Current assets at June 30, 2015, consist predominantly of cash and cash equivalents, short-term investments, receivables net of allowances, and inventory in addition to lesser-valued resources like prepaid expenses and accrued interest that are grouped together and listed under the term “Other”. Noncurrent assets include capital assets net of depreciation, long-term investments and deposits with bond trustee.

Total assets increased $1.3 million (.4 percent) in 2015 compared to a $4.5 million (1.6 percent) increase in 2014 and a $6.1 million (2.2 percent) increase in 2013. The current-year activity is summarized by the following events.

- The value of long-term investments grew by $5.4 million. Short-term investments of $2.7 million and cash and cash equivalents of $1.4 million were converted to long-term investments in an effort to generate additional investment income. Additionally, interest income of $821,000 was reinvested, and an unrealized gain of $454,000 was recorded to reflect market values at June 30.
- Accounts receivable, net of allowances, declined by $102,000. An increase in student receivables of $687,000 was offset by a $754,000 decline in external receivables due from other sources. A $36,000 increase to the allowance for uncollectible student receivables accounted for the remaining decrease.
- Funds due from the State of Indiana of $3.5 million include $898,000 in appropriations previously held in reserve by the governor and $2.6 million for student financial assistance.
- Net capital assets declined by $628,000 as depreciation expense of $13.2 million outpaced the value of new assets which were capitalized during the year.

## Deferred Outflow of Resources

University contributions of $1.3 million to the Public Employees’ Retirement Fund (PERF) during 2015 were recognized as a deferred outflow of resources as required by GASB Statement 68 and GASB Statement 71. Additional information about this item may be found in Note 10 of the *Notes to Financial Statements*.

Series 2006 and Series 2008A hedgeable financial derivatives are presented as a deferred outflow of resources as required by GASB Statement 63. The deferred outflow provides an accumulated fair market value valuation of the swaps as of June 30, 2015. The valuation decreased by $178,000 in 2015 compared to a decrease of $170,000 in 2014 and a decrease of $815,000 in 2013. The change in value for 2015 indicates an improved swap position. Detailed information regarding these financial derivatives can be found in Note 5 of the *Notes to Financial Statements*.

## Liabilities

Current liabilities at June 30, 2015, are primarily composed of accrued payroll, related benefits and deductions along with the current portion of bonds payable. Also included are accounts payable, debt interest payable, unearned revenues and other miscellaneous liabilities. Noncurrent liabilities are predominately bonds payable, other postemployment benefits and the University’s share of the net pension liability for the Public Employees’ Retirement Fund (PERF). Also included are derivative instruments-interest rate swaps for Series 2006 and Series 2008A hedgeable financial derivatives, compensated absences, termination benefits, unamortized bond premium and miscellaneous other long-term liabilities. Total liabilities decreased $3.1 million (2 percent) in 2015 compared to an $8.4 million decrease (5.3 percent) in 2014 and an increase of $3.4 million (2.2 percent) in 2013. Activities that influenced this change include the following:

- Accrued payroll, related benefits and deductions increased $464,000 in 2015 compared to a $148,000 increase in 2014 and a $475,000 decrease in 2013. The increase in 2015 resulted from the following events:
  - — Wages payable increased by $199,000
  - — Benefits payable increased by $61,000
  - — Taxes and other withholdings increased by $90,000
  - — The current portion of compensated absences increased by $121,000
  - — Miscellaneous payroll-related liabilities decreased by $7,000
- Total notes, bonds and leases payable decreased by $11.3 million during 2015. Noncurrent bonds payable dropped $11.5 million while the current portion of bonds payable rose by $285,000. See Note 6 in *Notes to Financial Statements* for details on debt related to capital assets.
- The liability for other postemployment benefits increased by $2.9 million.
- The addition of the net pension liability for PERF increased noncurrent liabilities by $5.1 million.

## Deferred Inflow of Resources

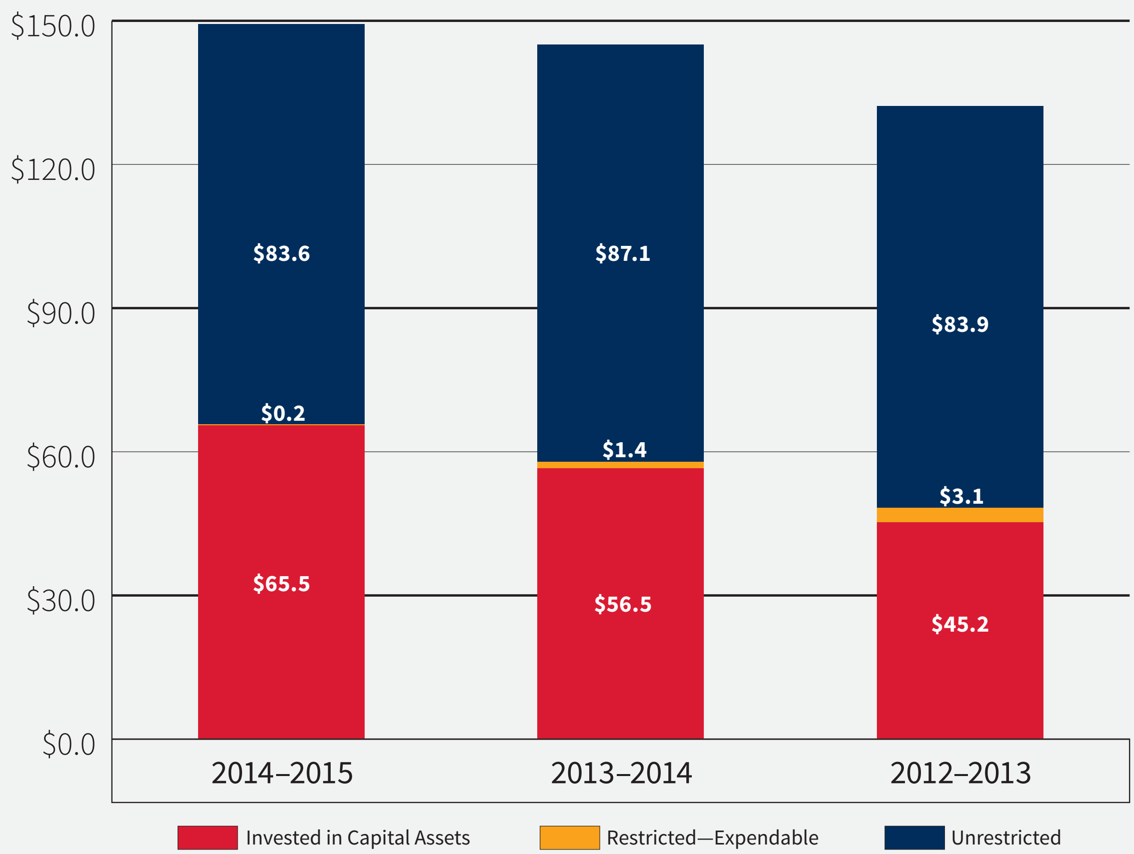
Based on information provided by the Indiana Public Retirement System, the University recorded a $1.1 million deferred inflow of resources, which equates to its share of the annual change in net pension liability for the Public Employees’ Retirement Fund as required by GASB Statement 68 and GASB Statement 71. The change in net pension liability includes activities prior to the measurement date for the liability, which was June 30, 2014. Additional information about the net pension liability may be found in Note 10 of the *Notes to Financial Statements*.

## Net Position

Net Position at June 30, 2015, is $4.3 million greater than on June 30, 2014. Net investment in capital assets increased $9 million; restricted expendable assets decreased $1.2 million; and unrestricted assets decreased $3.5 million. Unrestricted assets equal $83.6 million and comprise 56 percent of total net position. Of the total unrestricted amount, $74.2 million has been internally designated as follows:

- $21.1 million reserve for equipment and facilities maintenance and replacement
- $15.8 million reserve for University benefits
- $13.7 million reserve for auxiliary systems
- $4.4 million reserve for working capital and outstanding encumbrances
- $9.1 million reserve for academic operations and initiatives
- $2.7 million reserve for insurance and equipment
- $7.4 million reserve for medical premiums

ANALYSIS OF NET ASSETS (IN MILLIONS)




## Statement of Revenues, Expenses and Changes in Net Position

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

Activities are reported as either operating or non-operating. Student fees and revenues from auxiliary enterprises are the major sources of operating income. Operating income is reduced by discounts and allowances for scholarships, room and board.

Discounts and allowances are institutional resources provided to students as financial aid up to and equal to the amounts owed by the students to the institution.

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

| STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION CONDENSED | | | |
|---|---|---|---|
| Year Ended June 30 (in thousands) | 2015 | 2014 | 2013 |
| Total operating revenues | $ 76,261 | $ 78,020 | $ 75,853 |
| Total operating expenses | (142,292) | (140,209) | (144,298) |
| Operating losses | (66,031) | (62,189) | (68,445) |
| Net non-operating revenues/(expenses) | 76,506 | 74,764 | 69,687 |
| Income before other revenues, expenses, gains or losses | 10,475 | 12,575 | 1,242 |
| Capital gifts, grants and appropriations | 698 | 197 | 584 |
| **Increase (decrease) in net position** | **$ 11,173** | **$ 12,772** | **$ 1,826** |

## Revenues

Operating revenues decreased $1.8 million (2.3 percent) compared to a $2.2 million (2.9 percent) increase in 2014 and a $2.6 million (3.6 percent) increase in 2013. The 2015 decrease is comprised of the following significant elements.

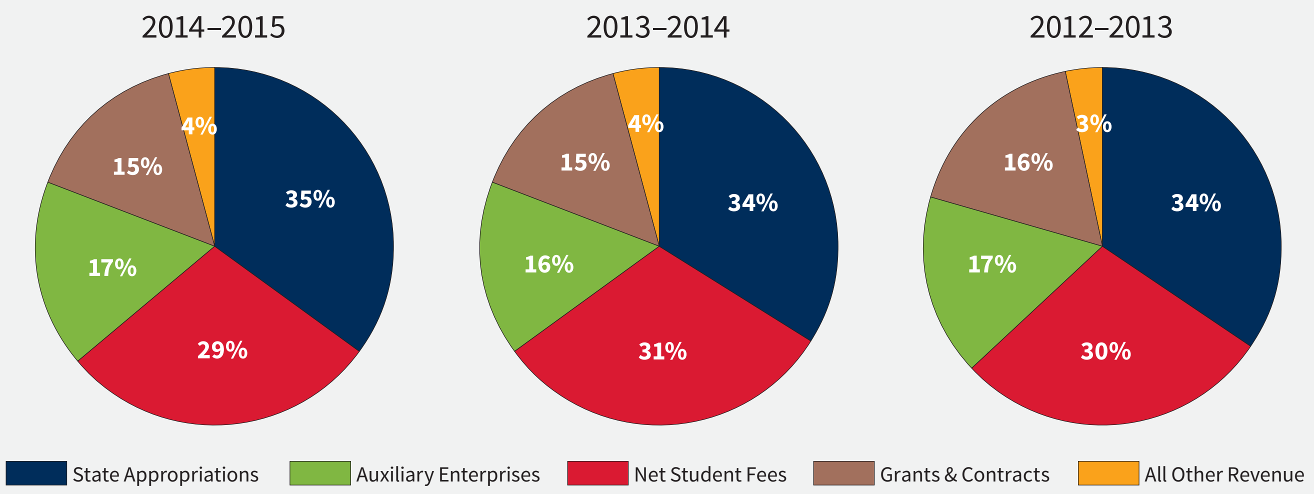
- Net student fee revenue decreased from $48.2 million in 2014 to $45.4 million in 2015. Although student fees increased by $1.4 million, scholarship discounts and allowances increased by $4.2 million, resulting in a net reduction for 2015.
- Auxiliary income increased from $25.8 million in 2014 to $26.6 million in 2015. The increase stemmed from a 4.9 percent increase in housing revenues, a 6 percent increase in dining revenues, and an 8.7 percent increase in parking income. These increases were offset partially by a 5.2 percent decline in campus store revenues.
- Operating grants and contracts increased by $348,000 with state and local grants increasing $447,000, non-government grants increasing $70,000, and federal operating grants declining $169,000.
- Other operating revenue declined by $121,000.

Non-operating revenues increased 2 percent for the fiscal year ended June 30, 2015, compared to a 3.9 percent decrease in 2014. The 2015 increase resulted from the following factors:

- State appropriations increased $534,000 from $54.4 million in 2014 to $54.9 million in 2015. The increase in operating funding resulted from the University's performance related to the State of Indiana funding model that uses performance metrics to determine funding levels.
- Gift income increased 11.2 percent from $2.5 million in 2014 to $2.8 million in 2015 due to an increase in scholarship dollars awarded by the USI Foundation.
- Non-operating grants and contracts increased by $578,000. State and local grants increased by $341,000, and nongovernmental grants increased $300,000 while federal grants decreased by $63,000.

Total revenues (operating, non-operating and other) increased $304,000 in 2015. The graph below shows the composition of the University's revenue for fiscal years 2013-2015.

REVENUE SOURCES



## Expenses

Operating expenses increased $2.1 million (1.5 percent) in 2015 compared to a decrease of $4.1 million (2.8 percent) in 2014. The increase in operating expenses was driven by increases in supplies and other services and salaries and wages netted against decreases in employee benefits and scholarship expenses. Changes to operating expenses during 2015 include the following:

- Compensation (salaries, wages and benefits) comprised 58.4 percent of total operating expenses and decreased .4 percent from 2014. Salaries and wages increased $2.8 million, but benefit expenses decreased $3.2 million due to benefit changes approved by the Board of Trustees and implemented for the 2015 fiscal year.
- Student financial aid declined by $3.4 million for a 31.3 percent decrease. The decrease is a result of a $4.2 million increase in the computed scholarship discounts and allowances for 2015. When the scholarship discounts and allowances are added to the aid expense, students received $28.9 million in 2015 compared to $28.1 million in 2014.
- Supplies and other services expense increased by $5.7 million (20.8 percent) compared to an $8.4 million (23.7 percent) decrease in 2014. Increases were predominantly in the area of capital outlay as numerous capital projects were completed in 2015. Increases in several expense categories such as $512,000 for honoraria and professional services, $169,000 for advertising, $263,000 for hospitality and public relations, $237,000 for computer software maintenance, $698,000 for building repairs, $471,000 for non-capital equipment, $146,000 for the transitional insurance fee required by the Affordable Care Act, and other, smaller increases account for the collective increase compared to last year. While the increase is noteworthy compared to 2014, the total of $32.9 million is less than the $35.7 million in supplies and other services recorded in 2013, and it is in line with the 3-year average of $31.9 million.
- Depreciation increased $217,000 or 1.7 percent in 2015 compared to $580,000 or 4.7 percent in 2014.

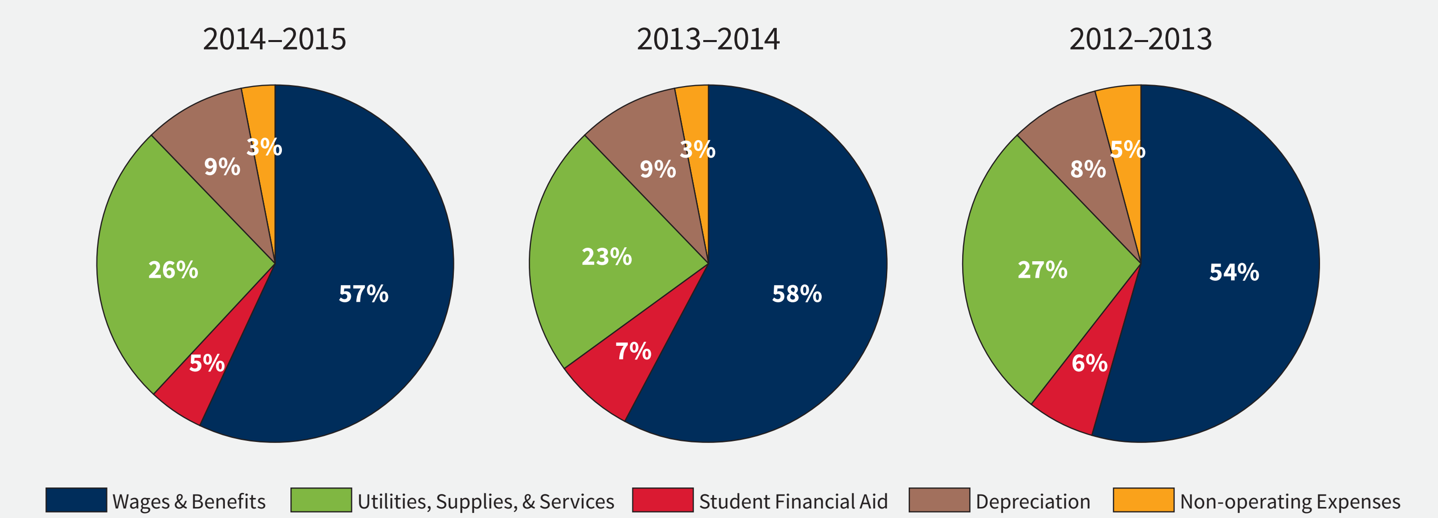
Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures decreased $181,000 in 2015. In 2014, those costs declined by $1.7 million.

Total expenses (operating and non-operating) increased $1.9 million in fiscal year 2015 compared to a $6.1 million decrease in fiscal year 2014 and a $4.4 million increase in 2013. The composition of total expenses for all three years is depicted by major categories in the graph below.

## Change in Net Position

The difference between annual revenues and expenses causes an increase or decrease to net position. For fiscal year ending June 30, 2015, net position increased $11.2 million, after the change in accounting principle related to the implementation of GASB 68, compared to a $12.8 million increase for the fiscal year which ended June 30, 2014. Total revenues and total expenses increased during fiscal year 2015.

EXPENSE PURPOSES



## Statement of Cash Flows

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

This statement identifies the sources and uses of cash and equivalents throughout the fiscal year and informs the user how much cash was used by or provided by the following activities: operating, noncapital financing, capital financing and investing. The chart below shows the University's sources, uses and changes in cash and cash equivalents for fiscal years 2013-2015:

| STATEMENT OF CASH FLOWS | | | |
|---|---|---|---|
| Year Ended June 30 (in thousands) | 2015 | 2014 | 2013 |
| Net cash (used) provided by | | | |
| Operating activities | $(51,228) | $(48,288) | $(53,418) |
| Noncapital financing activities | 76,176 | 78,448 | 76,693 |
| Capital financing activities | (27,474) | (26,326) | (23,010) |
| Investing activities | (1,359) | (6,659) | (6,693) |
| Net increase (decrease) in cash | $ (3,885) | $ (2,825) | $ (6,428) |

### Operating activities

- Cash used by operating activities increased $2.9 million in 2015 compared to a $5.1 million decrease from 2013 to 2014.
- Student fees and auxiliary enterprises provided the largest inflow in cash for all fiscal years.
- Payments to employees (wages and benefits) and suppliers caused the largest outflow of cash for all fiscal years.

### Noncapital financing activities

- Cash provided by noncapital financing activities decreased $2.3 million in 2015 compared to a $1.8 million increase from 2013 to 2014.
- State appropriations provided the largest cash inflow in all fiscal years.

### Capital financing activities

- Cash used by capital financing activities increased $1.1 million in 2015 compared to a $3.3 million increase in 2014.
- Capital gifts from the USI Foundation generated the largest cash inflow in 2015. Construction draws from Series K-1 bond proceeds held by trustee for the Teaching Theatre project generated the largest cash inflow in 2014. Proceeds from refunding Series H and Series I along with the issuance of Series K-1 generated the largest cash inflow in 2013.
- Principal and interest paid on capital debt generated the largest cash outflow in 2013 and 2015 while purchases of capital assets created the largest outflow of cash in 2014.

### Investing activities

- Cash used by investing activities decreased $5.3 million during 2015 compared to a $35,000 decrease in 2014.
- Proceeds from sales and maturities of investments increased $14.5 million in 2015 compared to a $7.1 million decrease in 2014. Interest income earned on investments also increased $183,000 from 2014 to 2015.
- Cash used for purchases of investments increased $9.3 million in 2015 following a $7.6 million decrease from 2013 to 2014.

### Summary of Statement of Cash Flows

For the year ended June 30, 2015, more cash was used for operating activities and by capital financing activities, and less cash was provided by noncapital financing activities and used by investing activities than in the previous fiscal year. As a result of these activities, the University decreased its cash position by $3.9 million, ending the fiscal year with a cash balance of $18.1 million.

## Factors Impacting Future Periods

The outlook for the University of Southern Indiana continues to be strong despite the changing landscape of higher education as the 2015 Indiana General Assembly continued to show its support for the University. For the 2015-17 Biennial Budget, the University received increases to its operating appropriation for both years of the biennium due to its continued success under the performance funding model. The University will receive an increase of .6 percent for fiscal year 2016 and a 1.6 percent increase in fiscal year 2017 compared to the 2015 appropriation. All public higher education institutions in Indiana were asked to reduce operating draws by 2 percent in fiscal year 2015, but those funds were restored when State revenue forecasts exceeded expectations. In addition to the operating funds, the General Assembly approved nearly $2 million for repair and rehabilitation projects during the same period. Furthermore, the State provided $6 million in cash for USI's portion of the Multi-institutional Academic Health and Science Research Center with the Indiana University School of Medicine in downtown Evansville. Not only will the partnership with IU provide additional opportunities for USI students at that facility, but it will allow USI to renovate and expand the Health Professions Center currently occupied by the IU School of Medicine using bonding authority of nearly $8 million granted by the General Assembly. This initiative will create opportunities for new programs in the College of Nursing and Health Professions and allow for growth and expansion of existing programs which are already thriving and recognized nationally by *US News* and others for their excellence.

The University is well-positioned for the future as an institution consistently generating revenues exceeding expenditures throughout its entire history, with no deferred maintenance, a pricing strategy allowing flexibility, and located in a state that ended the year with an annual budget surplus of $210 million and more than $2 billion in reserves. The State of Indiana currently has received the highest credit rating possible, AAA, from all three credit rating agencies. Indiana is one of only eleven states to receive this distinction. USI currently carries an A1 rating on student fee debt and an A2 rate on auxiliary system debt from Moody's Investors Service with a favorable outlook.

In addition to these factors, the University of Southern Indiana Foundation is approaching the conclusion of its highly successful $50 million capital campaign with $49.9 million of the goal raised to date. The effects of the campaign will be visible quickly through two projects funded primarily by campaign contributions. Construction is underway on The Griffin Center, a 12,700 square-foot $5.75 million conference center, and the Fuquay Welcome Center, which is in the design phase, will serve as a focal point for visitors to campus. The campaign also focuses on student scholarships and funds for faculty that will benefit prospective students and academic endeavors.

At its November 2014 meeting, the Board of Trustees approved a $16 million project to renovate the Physical Activities Center. In 2013, the General Assembly appropriated cash funds to facilitate the project. The construction will mark the first major update of that building and bring it in line with other facilities on campus.

The Board approved the architectural firm to design the project at its April 2015 meeting with construction slated to begin in 2016. During the construction, the University expects to relocate classes to other buildings on campus and move athletic events to off-campus facilities.

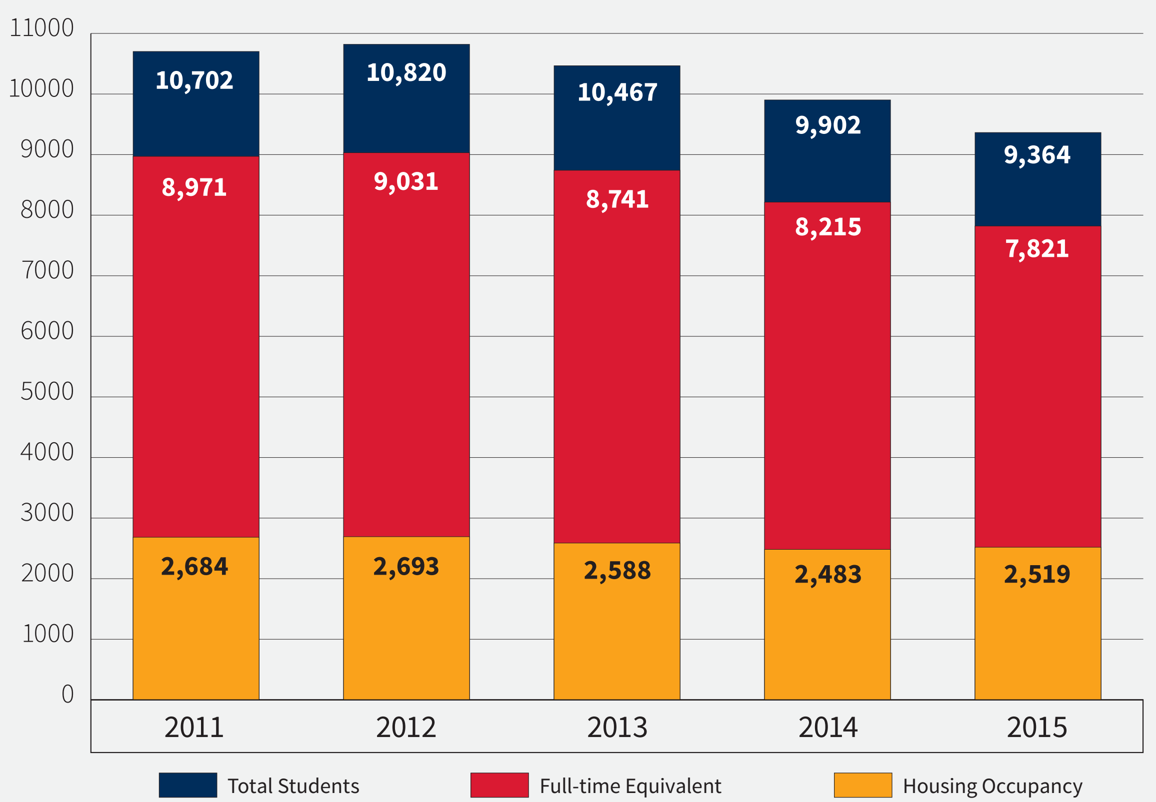
The University welcomed its largest incoming freshman class in two years during the fall of 2015. Nearly 1,700 first-time-in-college students enrolled, making it the largest class since the 2014 academic year. Of those students, nearly 54 percent earned college credit while in high school. Additionally, the incoming class boasted the strongest credentials in its history. Average high school GPAs for incoming freshmen continue to rank among the highest the University has seen at 3.27 on a 4.0 scale. Once again, USI was among the top two college choices for Tri-state area high school valedictorians, and student satisfaction surveys continue to show USI as a first choice for students across the State.

The University will unveil its next strategic plan in early 2016. The plan will continue some of the initiatives of the current plan and build on its successes. With the new strategic plan as its roadmap, the institution will undertake a strategic program review of all academic and administrative programs beginning in fiscal year 2016. This review will seek to align resources with the focuses and priorities of the University as a whole.

When possible, resources will be redirected toward new and emerging programs which have the greatest potential for student recruitment, retention, and success. This initiative complements the performance-based funding model employed by the State of Indiana to emphasize student achievement, and it will help to ensure both the academic and financial health of the University into the future.

The large incoming freshman class with impressive academic credentials, the emergence of the next strategic plan, and the careful stewardship of financial resources illustrates a clear vision for the future of the University of Southern Indiana. It replaces an institutionally-focused headcount model with a student-centered approach that emphasizes academic quality and achievement. Total enrollment for academic years ending 2011 through 2015 reflects a decrease of 12.5 percent; full-time equivalents for the same period decreased 12.8 percent. Full-time students represent 83 percent of the total student population. Housing occupancy has been consistently in excess of 90 percent for the past five-year period, and that trend continued on the first day of classes in the current year despite the enrollment decline. The following graph illustrates enrollment and housing occupancy for the five-year period 2011 to 2015.

## ENROLLMENT FOR YEAR ENDING JUNE 30



# Statement of Net Position

| As of June 30 | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 18,052,235 | $ 21,936,804 |
| Short-term investments | 18,902,650 | 21,644,606 |
| Accounts receivable, net | 10,793,509 | 10,895,313 |
| Due from the State of Indiana | 3,476,074 | — |
| Inventories | 1,773,302 | 1,675,538 |
| Deposit with bond trustee | — | 265,212 |
| Other current assets | 708,981 | 765,416 |
| Total current assets | $ 53,706,751 | $ 57,182,889 |
| Noncurrent Assets | | |
| Long-term investments | $ 60,569,327 | $ 55,192,997 |
| Deposit with bond trustee | 119,437 | 119,368 |
| Capital assets, net | 180,635,304 | 181,263,730 |
| Total noncurrent assets | $241,324,068 | $236,576,095 |
| **Total Assets** | **$295,030,819** | **$293,758,984** |
| **DEFERRED OUTFLOW OF RESOURCES** | | |
| Hedging derivative instruments | $ 1,736,130 | $ 1,914,508 |
| Pension benefits | 1,287,758 | — |
| Total deferred outflow of resources | $ 3,023,888 | $ 1,914,508 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 1,781,875 | $ 1,404,211 |
| Accrued payroll, benefits, and deductions | 6,851,521 | 6,387,804 |
| Notes, bonds, and leases payable | 11,690,759 | 11,422,849 |
| Debt interest payable | 1,466,745 | 1,504,123 |
| Unearned revenue | 1,480,717 | 1,591,357 |
| Other current liabilities | 561,484 | 800,046 |
| Total current liabilities | $ 23,833,101 | $ 23,110,390 |
| Noncurrent Liabilities | | |
| Notes, bonds, and leases payable | $ 99,990,894 | $111,537,489 |
| Unamortized bond premium | 614,628 | 673,785 |
| Derivative instruments-interest rate swap | 1,736,130 | 1,914,508 |
| Other postemployment benefits | 13,827,007 | 10,894,079 |
| Compensated absences and termination benefits | 2,483,423 | 2,508,660 |
| Net pension liability | 5,121,057 | — |
| Other noncurrent liabilities | 18,438 | 45,636 |
| Total noncurrent liabilities | $123,791,577 | $127,574,157 |
| **Total Liabilities** | **$147,624,678** | **$150,684,547** |
| **DEFERRED INFLOW OF RESOURCES** | | |
| Pension benefits | $ 1,111,976 | — |
| **NET POSITION** | | |
| Net investment in capital assets | $ 65,511,481 | $ 56,485,861 |
| Restricted | | |
| Expendable | | |
| Capital Project | — | 1,165,400 |
| Debt Service | 119,438 | 119,368 |
| Scholarship, research, and other | 72,275 | 119,774 |
| Unrestricted | 83,614,859 | 87,098,542 |
| **Total Net Position** | **$149,318,053** | **$144,988,945** |

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

# Component Unit

## University of Southern Indiana Foundation

## Consolidated Statements of Financial Position

| Year Ended June 30 | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 923,585 | $ 1,461,508 |
| Accounts and interest receivable | 95,468 | 71,696 |
| Contributions receivable, net | 7,965,219 | 4,301,085 |
| Prepaid expenses | 18,175 | 118,551 |
| Investments | 103,220,173 | 99,516,754 |
| Cash value of life insurance | 500,841 | 403,565 |
| Beneficial interest in charitable remainder trusts | 756,368 | 780,615 |
| Beneficial interest in perpetual trusts | 3,899,466 | 3,959,521 |
| Beneficial interest in Community Foundation | 60,979 | 64,555 |
| Life interest in real estate | 371,425 | 371,425 |
| Real estate held for investment | 2,471,215 | 2,471,215 |
| Land | 225,468 | 225,468 |
| Buildings, net of accumulated depreciation; 2015 – $369,662, 2014 – $311,146 | 376,595 | 435,110 |
| Property management deposits | 4,200 | 4,125 |
| Total assets | $120,889,177 | $114,185,193 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities | | |
| Accounts payable | $ 32,293 | $ 50,580 |
| Deposits | 4,200 | 3,050 |
| Deferred income | 1,380 | 525 |
| Payable to related parties | 483,090 | 680,321 |
| Use obligation of life interest | 222,283 | 246,213 |
| Annuities payable | 1,899,935 | 2,088,144 |
| Total liabilities | 2,643,181 | 3,068,833 |
| Net Assets | | |
| Unrestricted | 14,637,893 | 14,440,126 |
| Temporarily restricted | 61,354,409 | 56,920,378 |
| Permanently restricted | 42,253,694 | 39,755,856 |
| Total net assets | 118,245,996 | 111,116,360 |
| Total liabilities and net assets | $120,889,177 | $114,185,193 |

# Statement of Revenues, Expenses and Changes in Net Position

| Fiscal Year Ended June 30 | 2015 | 2014 |
|---|---|---|
| **REVENUES** | | |
| Operating Revenues | | |
| Student fees | $ 66,832,306 | $ 65,416,903 |
| Scholarship discounts and allowances | (21,427,644) | (17,215,063) |
| Grants and contracts | 2,126,224 | 1,778,263 |
| Auxiliary enterprises | 26,638,156 | 25,822,633 |
| Room & board discounts and allowances | (31,827) | (27,275) |
| Other operating revenues | 2,123,910 | 2,244,499 |
| Total operating revenues | $ 76,261,125 | $ 78,019,960 |
| **EXPENSES** | | |
| Operating Expenses | | |
| Salaries & Wages | $ 59,680,657 | $ 56,840,465 |
| Benefits | 23,431,438 | 26,642,962 |
| Student financial aid | 7,466,626 | 10,862,701 |
| Utilities | 5,671,356 | 5,698,582 |
| Supplies and other services | 32,875,149 | 27,215,142 |
| Depreciation | 13,166,463 | 12,949,474 |
| Total operating expenses | $142,291,689 | $140,209,326 |
| Operating loss | $ (66,030,564) | $ (62,189,366) |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| State appropriations | $ 54,948,306 | $ 54,414,192 |
| Gifts | 2,773,686 | 2,495,498 |
| Federal grants and contracts | 12,792,764 | 12,856,111 |
| State and local grants and contracts | 8,669,976 | 8,328,714 |
| Nongovernmental grants and contracts | 591,358 | 290,778 |
| Investment income (net of investment expense of $64,608 and $64,852 for 2015 and 2014) | 1,254,071 | 1,082,796 |
| Interest on capital asset-related debt | (4,468,738) | (4,638,389) |
| Other non-operating expenses | (55,282) | (66,179) |
| Net non-operating revenues | $ 76,506,141 | $ 74,763,521 |
| Income before other revenues, expenses, gains, or losses | $ 10,475,577 | $ 12,574,155 |
| Capital grants and gifts | $ 697,867 | $ 197,413 |
| Increase in net position | $ 11,173,444 | $ 12,771,568 |
| **NET POSITION** | | |
| Net position – beginning of year | $144,988,945 | $132,217,377 |
| Prior period adjustment for change in accounting principle | (6,844,336) | — |
| **Net position – end of year** | **$149,318,053** | **$144,988,945** |

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

# Component Unit

## University of Southern Indiana Foundation

## Consolidated Statements of Activities

| Year Ended June 30 | 2015 | 2014 |
|---|---|---|
| **REVENUES AND OTHER SUPPORT** | | |
| Contributions | $ 8,869,694 | $8,665,988 |
| Grants | 218,571 | |
| Change in value of split-interest agreements | (107,950) | (91,541) |
| Change in split-interest life interest | 23,930 | 13,732 |
| Rental loss, net | (25,117) | (34,117) |
| Miscellaneous income | 213,997 | 248,578 |
| Total revenues and other support | 9,193,125 | 8,802,640 |
| **EXPENSES** | | |
| Programs – University of Southern Indiana | | |
| Scholarships and awards | 2,110,577 | 1,836,997 |
| Educational grants and academic enhancements | 1,299,256 | 594,791 |
| Athletic support | 87,316 | 68,694 |
| Other University support | 572,041 | 519,792 |
| Capital projects | 655,184 | 2,500 |
| Community outreach | 20,680 | 9,980 |
| Total program services | 4,745,054 | 3,032,754 |
| Management and general | 578,171 | 589,514 |
| Fundraising | 323,532 | 344,278 |
| Uncollectible pledge loss | 5,278 | 10,495 |
| Total expenses | 5,652,035 | 3,977,041 |
| **OTHER CHANGES** | | |
| Investment income, net | 3,525,076 | 14,556,486 |
| Change in value of beneficial interests in trusts | (66,131) | 350,476 |
| Mineral royalty income | 43,688 | 77,914 |
| Gain on cash value of life insurance | 85,913 | 78,496 |
| Total other changes | 3,588,546 | 15,063,372 |
| **CHANGE IN NET ASSETS** | 7,129,636 | 19,888,971 |
| **NET ASSETS, BEGINNING OF YEAR** | 111,116,360 | 91,227,389 |
| **NET ASSETS, END OF YEAR** | $118,245,996 | $111,116,360 |

# Statement of Cash Flows

| Year Ended June 30 | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ 44,714,378 | $ 46,691,037 |
| Grants and contracts | 1,886,856 | 1,906,145 |
| Payments to suppliers | (32,651,801) | (27,959,784) |
| Payments for utilities | (5,671,356) | (5,698,582) |
| Payments to employees | (59,482,055) | (56,691,543) |
| Payments for benefits | (22,157,692) | (23,493,661) |
| Payments for scholarships | (7,466,625) | (10,862,701) |
| Collection of loans to students | — | 2,217 |
| Auxiliary enterprises receipts | 26,773,676 | 25,640,288 |
| Sales and services of educational depts. | 683,109 | 900,815 |
| Other receipts (payments) | 2,143,368 | 1,276,903 |
| Net cash used by operating activities | $ (51,228,142) | $ (48,288,866) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | $ 54,050,121 | $ 54,414,192 |
| Gifts and grants for other than capital purposes | 22,308,411 | 23,971,101 |
| Other non-operating receipts (payments) | (182,010) | 63,008 |
| Net cash provided by noncapital financing activities | $ 76,176,522 | $ 78,448,301 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | | |
| Capital grants and gifts | 697,867 | 285,442 |
| Bond financing costs | (55,283) | (66,179) |
| Purchase of capital assets | (12,380,094) | (18,843,374) |
| Principal paid on capital debt | (11,436,628) | (11,920,804) |
| Interest paid on capital debt and leases | (4,565,273) | (4,817,713) |
| Deposits with trustees | 265,143 | 9,036,663 |
| Net cash used by capital financing activities | $ (27,474,268) | $ (26,325,965) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | $ 38,723,447 | $ 24,273,201 |
| Interest on investments | 821,270 | 638,420 |
| Purchase of investments | (40,903,398) | (31,570,421) |
| Net cash used by investing activities | $ (1,358,681) | $ (6,658,800) |
| Net increase (decrease) in cash | $ (3,884,569) | $ (2,825,330) |
| Cash – beginning of year | 21,936,804 | 24,762,134 |
| Cash – end of year | $ 18,052,235 | $ 21,936,804 |

# Statement of Cash Flows–continued

| Year Ended June 30 | 2015 | 2014 |
|---|---|---|
| **RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:** | | |
| Operating loss | $ (66,030,564) | $ (62,189,366) |
| **ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:** | | |
| Depreciation expense | 13,166,463 | 12,949,474 |
| Provision for uncollectible accounts | 35,534 | 74,566 |
| **CHANGES IN ASSETS, LIABILITIES, AND DEFERRED RESOURCES:** | | |
| Operating receivables | 7,755 | (1,719,555) |
| Inventories | (97,764) | (452,040) |
| Other assets | 34,811 | 13,389 |
| Accounts payable | 784,830 | (144,539) |
| Unearned revenue | (110,640) | 22,169 |
| Deposits held for others | (27,198) | 4,659 |
| Employee and retiree benefits | 1,008,631 | 3,150,160 |
| Loans to students | — | 2,217 |
| Net cash used by operating activities: | $ (51,228,142) | $(48,288,866) |

| | | |
|---|---|---|
| **NONCASH TRANSACTIONS** | | |
| Unrealized gain/(loss) on short-term investments | $13,638 | $(53,054) |
| Unrealized gain/(loss) on long-term investments | (433,393) | (821,124) |
| Equipment | 157,944 | 774,644 |
| Capital lease | (157,944) | (774,644) |
| Net noncash transactions | $ (419,755) | $ (874,178) |

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

# Notes to Financial Statements

## NOTE 1 – Summary of Significant Accounting Policies

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

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

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

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

### Accounting Methods and Policies

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

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

### Capital Assets Accounting Policies

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

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

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

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

Capital assets are removed from the records at the time of disposal. See Note 16 in the ***Notes to Financial Statements*** for current-year activity and accumulated depreciation on the various classes of assets.

The University owns a collection of museum exhibit items located in Historic New Harmony. The collection consists of 2,800 objects that are primarily 19th century decorative arts, furniture, prints, medical equipment and textiles. The collection consists of both donated and purchased items. Historic New Harmony does not place a monetary value on the collection because the museum is organized as a public trust which acts as stewards for the public in collecting, protecting, preserving and interpreting objects. A well-documented inventory is maintained, but the value is unknown and therefore not included in the capitalized asset value at June 30, 2015.

The University owns a permanent art collection whose primary function and aim is education in accordance with one element of the University's mission: to enhance the cultural awareness of its students, faculty, staff, and the citizens of southwestern Indiana. The collection consists of both donated and purchased items. Some of the donated pieces were received without appraised values. Collection pieces which have been appraised or otherwise valued total $2,561,308. The currently-known value is not included in the capitalized asset value at June 30, 2015.

## Net Position

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

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

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

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

## Operating Revenues and Expenses

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

## Non-operating Revenues and Expenses

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

## Other Disclosures

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

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

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

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

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

The University prepares its financial statements according to the standards set by the Governmental Accounting Standards Board (GASB). During the 2014-2015 fiscal year, the University applied GASB Statement 68, ***Accounting and Financial Reporting for Pensions***, and GASB Statement 71, ***Pension Transition for Contributions Made Subsequent to the Measurement Date***, as required.

## NOTE 2 – Component Units

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

The majority of the resources that the Foundation holds and invests, and the income generated by those resources, are restricted to the activities of the University by the donors. Because these resources can only be used by or for the benefit of the University, the USI Foundation is considered a component unit of the University, and its audited financial statements are discretely presented in the University financial report.

During the year ended June 30, 2015, the USI Foundation distributed $2,987,300 in direct and indirect support to the University for both restricted and unrestricted purposes. Complete financial statements, including explanatory notes, for the USI Foundation can be obtained from the Office of the Vice President for Finance and Administration at 8600 University Boulevard, Evansville, IN 47712.

## NOTE 3 – Cash and Investments

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

**Deposits** – At June 30, 2015, the bank balances of the University's operating demand deposit accounts were $15,496,897, of which $404,581 was covered by federal depository insurance. The remaining balance was insured by the Public Deposit Insurance Fund, which covers all public funds held in approved Indiana depositories. None of these funds were exposed to custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or collateral securities that are in the possession of an outside party.

**Cash equivalents and investments** – The University's cash equivalents and investments at June 30, 2015, are identified in the table below.

INVESTMENTS

| | | | Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|---|
| Investment Type | Market Value | Type % | Less than 1 year | 1–5 years | 6–10 years | More than 10 years |
| Money market accounts | $ 3,526,433 | 4% | $ 3,526,433 | | | |
| Repurchase agreements | 14,525,801 | 15% | 14,525,801 | | | |
| Certificates of deposit | 31,124,677 | 32% | 17,666,924 | 13,457,753 | | |
| U.S. Treasury and agency securities | 48,347,300 | 49% | 1,235,726 | 34,549,674 | 12,323,334 | 238,566 |
| Totals | $97,524,211 | 100% | $36,954,884 | $48,007,427 | $12,323,334 | $238,566 |
| Maturity % | 100% | | 38% | 49% | 13% | 0% |

**Investment custodial credit risk** – This is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University investment policy does not contain legal or policy requirements which limit exposure to custodial credit risk for deposits or investments, but preference is given to Indiana institutions based on the additional insurance coverage provided by the State. Of the almost $97.5 million invested, $48.3 million in U.S. government securities are held in the name of the nominee bank and insured by policies of the financial institution or guarantees of the U.S. government. There are more than $14.5 million in repurchase agreements registered in the University's name and backed by the implicit guarantee of the U.S. government. All cash in the money market accounts and the certificates of deposit are insured by FDIC/SAIF, the Public Deposit Insurance Fund or collateral as required by federal regulations.

**Interest rate risk** – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's investment policy does not address exposure to fair value losses arising from changes in interest rates, but the investment objective is to obtain the highest revenue while maintaining safety and insuring adequate liquidity for institutional needs. To that end, management maintained 38 percent of investments in cash equivalents and short-term investments to be in a position to take advantage of the best rates in a timely fashion as well as sustaining adequate cash flow for operating needs.

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy for credit risk. Of the total U.S. government securities listed in the table above, $46.4 million are invested in government-sponsored enterprises that are neither guaranteed nor insured by the full faith and credit of the U.S. Treasury, and, therefore have more credit risk than any direct obligation of the U.S. Treasury.

**Concentration of credit risk** – This is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy limits the investments in any one

Indiana institution to 25 percent of the total portfolio of cash, certificate of deposits and repurchase agreements as valued at the end of the preceding month. Operating funds which are invested in overnight repurchase agreements as part of the cash management program are excluded from the 25 percent limit. At June 30, 2015, the University is in compliance with that policy.

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

## NOTE 4 – Accounts Receivable

The following schedule summarizes accounts receivable at June 30, 2015, compared to the previous fiscal year. Additionally, the University has a receivable of $3.5 million due from the State of Indiana. It is shown as a separate line item on the Statement of Net Position.

ACCOUNTS RECEIVABLE

| | 2015 | 2014 |
|---|---|---|
| Student receivables | $ 9,222,393 | $ 8,534,931 |
| Auxiliary enterprises | 1,094,237 | 1,285,434 |
| Grants and contracts | 622,075 | 636,114 |
| Other | 918,487 | 1,466,983 |
| Current accounts receivable, gross | 11,857,192 | 11,923,462 |
| Allowance for uncollectible accounts | (1,063,683) | (1,028,149) |
| Current accounts receivable, net | $10,793,509 | $10,895,313 |

## NOTE 5 – Derivative Instruments

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2015, classified by type and the fair value changes of those derivative instruments are as follows.

As of June 30, 2015, the University determined that both pay-fixed interest rate swaps met the criteria for effectiveness. The pay-fixed, receive-variable interest rate swaps are designed to synthetically fix the cash flows on the variable rate bonds. The fair value of the interest rate swaps was estimated based on the present value of their estimated future cash flows.

| CHANGE IN FAIR VALUE | | | FAIR VALUE AT JUNE 30, 2015 | | |
|---|---|---|---|---|---|
| Derivative Instrument | Type | Amount | Classification | Amount | Current Notional |
| Series 2006 | Cash flow hedge: Pay-fixed interest rate swap | $ 70,877 | Derivative Instrument Interest Rate Swap | $(869,592) | $5,343,351 |
| Series 2008A | Cash flow hedge: Pay-fixed interest rate swap | $107,500 | Derivative Instrument Interest Rate Swap | $(866,538) | $8,450,000 |

The following table displays the objectives and terms of the University's hedging derivative instruments outstanding at June 30, 2015, along with the credit rating of the associated counterparty.

| Type | Objective | Current Notional | Effective Date | Maturity Date | Terms | Counterparty Credit Rating |
|---|---|---|---|---|---|---|
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the Series 2006 Bonds | $5,343,351 | 1/1/2008 | 1/1/2028 | 65% of 3 mo. USD-LIBOR-BBA | A3 |
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the Series 2008 Bonds | $8,450,000 | 7/1/2008 | 10/1/2021 | 65% of 3 mo. USD-LIBOR-BBA w/- 1 day look back, 79.0 bps | A3 |

**Credit Risk** –The fair value of the hedging derivative instruments is in a liability position as of June 30, 2015, with Series 2006 having a balance of $869,592 and Series 2008A having a balance of $866,538. Because both of the derivative instruments and the debts being hedged are with the same counterparty, there is no credit risk exposure. The fair value of the derivative instruments would simply be netted against the payoff of the debts.

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

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

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

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

## NOTE 6 – Debt Related to Capital Assets

Bonds Payable – Outstanding bonds payable at June 30, 2015, total $111,435,107 and are identified in the following schedule.

SCHEDULE OF BONDS AND NOTES PAYABLE

| | Issue Date | Interest Rate | Current Year Rate | Maturity Date | Original Issue Amount | June 30, 2015 Principal Outstanding | Interest Outstanding | Total Outstanding |
|---|---|---|---|---|---|---|---|---|
| Student Fee Bonds | | | | | | | | |
| Series D, Health Professions Center | 1993 | 2.25% to 5.80% | 5.80% | 2015 | $ 24,678,101 | $ 236,756 | $ 598,244 | **$ 835,000** |
| Series G, Recreation & Fitness Center | 1999 | 0.00% to 10.00%* | 0.15% | 2019 | 4,700,000 | 1,700,000 | 8,100 | **1,708,100** |
| Series 2006, Recreation & Fitness Center | 2006 | 4.67% | 4.67% | 2028 | 7,250,000 | 5,343,351 | 1,775,195 | **7,118,546** |
| Series J, Business and Engineering Center | 2009 | 2.50% to 5.00% | 3.00% | 2028 | 50,185,000 | 39,585,000 | 16,528,143 | **56,113,143** |
| Series K-1, Teaching Theatre | 2012 | 2.00% to 4.00% | 3.00% | 2032 | 12,300,000 | 10,550,000 | 4,140,175 | **14,690,175** |
| Series K-2, Refund Series I | 2012 | 1.25% | 1.25% | 2015 | 3,545,000 | 1,195,000 | 7,469 | **1,202,469** |
| Series K-3, Refund Series H and I | 2012 | 1.90% | 1.90% | 2023 | 42,840,000 | 35,005,000 | 2,807,963 | **37,812,963** |
| Auxiliary System Bonds | | | | | | | | |
| Series 2003, Student Housing Facilities | 2003 | 3.00% to 4.50% | 3.75% | 2024 | 8,005,000 | 4,750,000 | 1,111,636 | **5,861,636** |
| Series 2008A, Student Housing Facilities | 2008 | 3.97% | 3.97% | 2021 | 9,800,000 | 8,450,000 | 1,763,672 | **10,213,672** |
| Series 2011A, Student Housing Facilities | 2011 | 1.63% | 1.63% | 2016 | 11,550,000 | 4,620,000 | 75,306 | **4,695,306** |
| Total | | | | | $174,853,101 | $111,435,107 | $28,815,903 | $140,251,010 |

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

The University of Southern Indiana Student Fee Bonds Series D of 1993, Series G of 1999, Series J of 2009, and Series K-1, K-2, and K-3 of 2012 are secured by a pledge and first lien on student fees. Student Fee Bonds Series 2006 are secured by a pledge and junior lien on student fees.

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

Student fee bond Series G is a variable rate bond currently bearing interest at weekly rates ranging between zero and 10 percent. The rate in effect at June 30, and the rate used to calculate the future debt service requirements, was .15 percent. All the other bonds are term or serial with fixed annual rates as identified in the preceding table. Annual debt service requirements through maturity for bonds and notes payable are presented in the following chart.

| ANNUAL DEBT SERVICE REQUIREMENTS | | | | |
|---|---|---|---|---|
| Fiscal Year | Bonds | Total Principal | Total Interest | Total Debt Service |
| 2015-16 | $ 11,552,766 | $ 11,552,766 | $ 4,389,250 | $ 15,942,016 |
| 2016-17 | 10,360,798 | 10,360,798 | 3,520,895 | 13,881,693 |
| 2017-18 | 8,261,281 | 8,261,281 | 3,275,331 | 11,536,612 |
| 2018-19 | 8,572,488 | 8,572,488 | 3,053,104 | 11,625,592 |
| 2019-20 | 10,294,452 | 10,294,452 | 2,797,279 | 13,091,731 |
| 2020-25 | 41,050,840 | 41,050,840 | 9,030,396 | 50,081,236 |
| 2025-30 | 19,032,482 | 19,032,482 | 2,608,648 | 21,641,130 |
| 2030-33 | 2,310,000 | 2,310,000 | 141,000 | 2,451,000 |
| Total | $111,435,107 | $111,435,107 | $28,815,903 | $140,251,010 |

## NOTE 7 – Lease Obligations

The University spent $200,837 and $142,634 on operating leases as of June 30, 2015 and 2014, respectively. These leases are included in supplies and other services on the Statement of Revenues, Expenses and Changes in Net Position. The following schedule summarizes the types of operating lease payments at June 30, 2015, compared to the previous fiscal year.

| OPERATING LEASE PAYMENTS | | |
|---|---|---|
| | 2015 | 2014 |
| Off-campus facilities | $ 153,517 | $ 97,575 |
| Equipment | 33,793 | 31,339 |
| Vehicles | 13,527 | 13,720 |

The University also has lease agreements with Xerox Corporation for the use of copiers that are substantively lease-purchases. These capital lease obligations are included in the Statement of Net Position.

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

| FUTURE MINIMUM LEASE PAYMENTS | | |
|---|---|---|
| Fiscal year ending June 30 | Capital Leases | Operating Leases |
| 2016 | $138,290 | $48,253 |
| 2017 | 42,547 | |
| 2018 | 32,839 | |
| 2019 | 20,052 | |
| 2020 | 13,368 | |
| Total future minimum payments | $247,096 | $48,253 |
| Less interest | (549) | |
| Total principal payments outstanding | $246,547 | |

## NOTE 8 – Compensated Absence Liability

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

The total cumulative compensated absence liability is $2,648,171 and $2,467,486 for June 30, 2015 and 2014, respectively. The current year change represents a $160,824 increase in accrued vacation; a $3,265 increase in sick leave liability; a $12,553 increase in Social Security and Medicare taxes; and a $4,044 increase in Public Employees' Retirement Fund (PERF) contributions. During the fiscal year, $297,721 was paid out to terminating employees. Payout for terminating employees in fiscal year 2015-16 is expected to increase approximately 57 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $466,306 of the total compensated absence liability is classified as a current liability under accrued payroll, benefits and deductions and the remaining $2,181,865 is classified as a noncurrent liability.

## NOTE 9 – Termination Benefits Liability

GASB Statement 47, *Accounting for Termination Benefits*, requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of USI's regular full-time faculty and administrative staff who have been employed in an eligible position prior to January 1, 1999, who have 15 or more consecutive years of service, and who are age 60 or older may receive early-retirement benefits upon request. These benefits include a lump-sum retirement service pay calculated as a percent of final-year salary based on length of service, not to exceed 25 percent, and continued contribution to retirement annuity contracts through the end of the fiscal year in which the retiree reaches age 66. Salaries are assumed to increase at a rate of 1.8 percent annually for purposes of calculating this liability.

USI has 23 retirees currently receiving early-retirement benefits, seven of whose benefits stop after this fiscal year, and seven more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $576,720 at June 30, 2015. Of that amount, $275,162 is expected to be paid out during the following fiscal year and is classified as a current liability under accrued payroll, benefits and deductions, and the remaining $301,558 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

## NOTE 10 – Retirement Plans

Substantially all regular employees of the University are covered by either the *Teachers Insurance and Annuity Association-College Retirement Equities Fund Retirement Plan* (TIAA-CREF) or by the *Public Employees' Retirement Fund* (PERF). The TIAA-CREF plan is an IRC 403(b) defined contribution plan; PERF is a defined benefit plan under IRC 401(a) and a state plan described in IC 5-10.2 and 5-10.3. The University contributed $5,588,222 to these programs in fiscal year 2014-15, which represents approximately 9.4 percent of the total University payroll and 11.3 percent of the benefit-eligible employees' payroll for the same period.

### Defined Contribution Retirement Plans

*Faculty and Administrators* – Eligible employees may participate in the TIAA-CREF Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA-CREF, or another university-sponsored retirement plan, for at least one year prior to eligible employment at USI. The University contributed $4,298,562 to this plan for 634 participating employees for fiscal year ending June 30, 2015, and $5,172,941 for 616 participating employees for fiscal year ending June 30, 2014. The annual payroll for this group totaled $40,482,839 and $37,814,557 for fiscal years ending June 30, 2015 and 2014 respectively.

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

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

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

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

## Defined Benefit Retirement Plan

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

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

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

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

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

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

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

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

*Contributions* – The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. There are two parts to this plan: an annuity savings plan to which members contribute 3 percent of their salary and a cost-sharing multiple-employer defined benefit plan to which the University contributed 11.2 percent of the employee's salary this fiscal year. The University contributed $1,287,758 for 370 employees participating in PERF during the 2014-15 fiscal year and $1,352,111 for 443 employees participating during 2013-14. These contribution amounts include the 3 percent member portion, which the University has elected to pay on behalf of its employees.

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

At June 30, 2015, the University reported a liability of $5,121,057 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The University's proportion of the net pension liability was based on wages reported by employers relative to the collective wages of the plan. At June 30, 2014 the University's proportion was .19 percent, which was a decrease of .005 percent from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the University recognized pension expense of $(1,899,061). At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

**DEFERRED RESOURCES**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | — | $ 22,980 |
| Changes in assumptions | — | — |
| Net difference between projected and actual earnings on pension plan investments | — | 995,243 |
| Changes in proportion and differences between the University's contributions and proportionate share of contributions | 38,379 | 132,132 |
| The University's contributions subsequent to the measurement date | 1,287,758 | — |
| Total | $1,326,137 | $1,150,355 |

$1,287,758 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

| YEAR ENDED JUNE 30 | |
|---|---|
| 2015 | $ (282,162) |
| 2016 | (282,162) |
| 2017 | (282,162) |
| 2018 | (265,490) |
| 2019 | — |
| Thereafter | — |
| Total | $(1,111,976) |

*Actuarial assumptions* – The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

| | |
|---|---|
| Inflation | 3 percent |
| Salary Increases | 3.25-4.50 percent, including inflation |
| Investment rate of return | 6.75 percent, net of investment expense, including inflation |
| Cost of Living Increases | 1 percent per year in retirement |

Mortality rates were based on the 2013 IRS Static Mortality Tables projected five years with Scale AA.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005–June 30, 2010. The interest rate/investment return and mortality assumptions were updated for the June 30, 2012 valuation.

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

**ASSET RATE OF RETURN**

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Public Equity | 22.5% | 6% |
| Private Equity | 10 | 7.7 |
| Fixed Income – Ex Inflation-Linked | 22 | 2.1 |
| Fixed Income – Inflation-Linked | 10 | 0.5 |
| Commodities | 8 | 2.5 |
| Real Estate | 7.5 | 3.9 |
| Absolute Return | 10 | 1.8 |
| Risk Parity | 10 | 4.3 |
| Total | 100.0% | |

*Discount rate* – The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the Board, and contributions required by the State of

Indiana (the non-employer contributing entity) would be made as stipulated by State statute. Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

| PROPORTIONATE SHARE OF NET PENSION LIABILITY | | | |
|---|---|---|---|
| | 1% Decrease (5.75%) | Discount Rate (6.75%) | 1% Increase (7.75%) |
| University's proportionate share of the net pension liability | $8,221,047 | $5,121,057 | $2,494,564 |

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

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

## NOTE 11 – Risk Management

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

The University has three health care plans available for new enrollment of full-time benefit-eligible employees plus one plan frozen to new participants; two of these plans are available to retirees. All of the plans are funded under a cost-plus arrangement whereby the University is billed for actual claims paid by the insurer on behalf of the covered participants plus administrative fees. For fiscal year ended on June 30, 2015, the University's contribution to these health care plans totaled $11,024,807 for 1,073 employees and $1,652,891 for 338 retirees. For the same period, employees and retirees made contributions totaling $2,538,503 and $574,589 respectively.

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

| CHANGE IN CLAIM LIABILITY | |
|---|---|
| Beginning liability, June 30, 2014 | $ 3,875,142 |
| Claims incurred | 9,188,456 |
| Claims paid | (9,880,334) |
| Ending liability, June 30, 2015 | $ 3,183,264 |

## NOTE 12 – VEBA Trust

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

The University does not anticipate that the VEBA Trust will pay for all post-retirement benefits. Instead, funds from the trust will be used to reduce the increasing burden of such expenses on the current operating funds during future years. A summary of the activity in the trust for the year ending June 30, 2015, follows.

| VEBA TRUST | Market |
|---|---|
| Fund balance at July 1, 2014 | $19,187,049 |
| Transfer from University reserves | 150,000 |
| Reinvested net earnings | 352,400 |
| Net gain/(loss) on sales of trust investments | 404,645 |
| Less: Management fees and taxes | (49,036) |
| Net change in market value | 213,657 |
| **Fund balance at June 30, 2015** | **$20,258,715** |

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

## NOTE 13 – Other Postemployment Benefits (OPEB)

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

*Funding Policy* – The contribution requirements are established and may be amended by the USI Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For the fiscal year ended June 30, 2015, USI contributed $1,808,154 to the plan, including $1,658,154 for current premiums (approximately 74 percent of total premiums), and $150,000 to prefund benefits. Plan members receiving benefits contributed $574,589, or approximately 26 percent of the total premiums, through their required contributions for medical insurance coverage.

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

| ANNUAL OPEB COST AND OBLIGATION | 2013 | 2014 | 2015 |
|---|---|---|---|
| Annual required contribution | $4,379,913 | $ 4,890,274 | $ 4,890,274 |
| Interest on net OPEB obligation | 306,573 | 450,491 | 631,857 |
| Adjustment to annual required contribution | (355,220) | (540,169) | (781,050) |
| Annual OPEB cost | 4,331,266 | 4,800,596 | 4,741,081 |
| Contributions made | (1,849,922) | (1,673,610) | (1,808,154) |
| Increase (decrease) in net OPEB obligation | 2,481,344 | 3,126,986 | 2,932,927 |
| Net OPEB obligation, beginning of year | 5,285,750 | 7,767,094 | 10,894,080 |
| **Net OPEB obligation, end of year** | **$7,767,094** | **$10,894,080** | **$13,827,007** |

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

| Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6-30-2013 | $4,331,266 | 42.7% | $ 7,767,094 |
| 6-30-2014 | $4,800,596 | 34.9% | $10,894,080 |
| 6-30-2015 | $4,741,081 | 38.1% | $13,827,007 |

## SCHEDULE OF FUNDING PROGRESS FOR THE USI VEBA TRUST RETIREE HEALTHCARE BENEFIT PLAN

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) – Projected Unit Credit Method (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|---|---|---|---|---|---|---|
| 6-30-2013 | $16,204,569 | $46,266,049 | $30,061,480 | 35.02% | $47,623,860 | 63.12% |
| 6-30-2014 | $19,187,049 | $54,936,503 | $35,749,454 | 34.93% | $49,585,343 | 72.10% |
| 6-30-2015 | $20,258,715 | $54,936,503 | $34,677,788 | 36.88% | $52,553,540 | 65.99% |

*Funded Status and Funding Progress* – As of June 30, 2015, the plan was 37 percent funded. The actuarial accrued liability (AAL) for benefits was $54,936,503, and the actuarial value of assets was $20,258,715, resulting in an unfunded actuarial accrued liability (UAAL) of $34,677,788. The covered payroll (annual payroll of active employees covered by the plan) was $52,553,540, and the ratio of the UAAL to covered payroll was 66 percent.

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

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

In the most recent actuarial study evaluation, which was for July 1, 2013, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns (7 percent) on the asset classes held in the VEBA Trust and the expected USI internal rate of return (3 percent) on general assets. The actuarial value of VEBA Trust assets for the purposes of determining the annual recommended contribution is the market value of the assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount on an open basis over a 30-year period.

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

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

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

## NOTE 14 – Functional Expenditures

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

FUNCTIONAL EXPENDITURES

| Function | Salaries and Wages | Benefits | Scholar-Ships | Utilities | Supplies and Other Svcs | Depreciation | 2015 Total | 2014 Total |
|---|---|---|---|---|---|---|---|---|
| Instruction | $30,902,988 | $ 9,251,052 | | | $ 3,008,614 | | $ 43,162,654 | $ 42,484,373 |
| Academic Support | 5,775,682 | 1,782,667 | | | 3,824,775 | | 11,383,124 | 12,630,146 |
| Student Services | 4,603,599 | 1,652,667 | | | 2,539,733 | | 8,795,999 | 8,167,410 |
| Institutional Support | 8,443,161 | 6,985,161 | | | 3,425,217 | | 18,853,539 | 16,990,186 |
| Operation and Maintenance of Plant | 3,835,471 | 1,215,782 | | 4,643,177 | 3,101,540 | | 12,795,970 | 12,163,784 |
| Depreciation | | | | | | 13,166,463 | 13,166,463 | 12,949,474 |
| Student Aid | 13,156 | 5,646 | 7,466,626 | | 4,492 | | 7,489,920 | 11,750,472 |
| Public Service | 1,568,325 | 411,634 | | | 1,179,150 | | 3,159,109 | 2,969,550 |
| Research | 101,367 | 6,510 | | | 96,911 | | 204,788 | 370,375 |
| Auxiliary Enterprises | 4,436,908 | 2,120,319 | | 1,028,179 | 15,694,717 | | 23,280,123 | 19,733,556 |
| TOTAL | $59,680,657 | $23,431,438 | $7,466,626 | $5,671,356 | $32,875,149 | $13,166,463 | $142,291,689 | $140,209,326 |

## NOTE 15 – Construction in Progress

Construction in progress at year-end totals $4.5 million (see capital assets table below). Projects under construction include the Griffin Conference Center; renovation of the lower level of the Science Center; renovation of the Technology Center; renovation of the Matthews, Hovey and Willard apartment buildings in the McDonald East student housing complex and the Boon apartment building in the O'Daniel South student housing complex; an upgrade of the energy management system; renovation of the VP of Enrollment Management offices; the first phase of the renovation of the Orr Center, as well as renovation of the 2nd and 3rd floors of the Orr Center; renovation of office space in the Science Center for Disability Resources; repairs and improvements to the Creative and Print Services building; an advising center in the College of Liberal Arts; and repairs to the Schnee-Ribeyre-Elliott building in New Harmony. The total expended to date on the projects is $4.4 million, and the estimated additional cost to complete them is $6.9 million.

Projects in design include a visitors center; expansion and renovation of the Physical Activities Center (PAC); improvement of the drainage on the varsity soccer field; replacement of the roofs on the Mount apartment building in the McDonald East student housing complex and on the Leslie and Welsh apartment buildings in the O'Daniel North student housing complex; improvements to parking lot B; and the installation of a dock at the Murphy Auditorium and repairs to the Cooper Shop, both located in New Harmony. Amounts expended to date on the projects total $48,102 and the projects have a total estimated remaining cost of approximately $18.4 million.

## NOTE 16 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $335.9 million at July 1, 2014, to $348 million on June 30, 2015. Gross capital assets, less accumulated depreciation of $167.3 million, equal net capital assets of $180.6 million at June 30, 2015.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

| Capital Assets | Balance June 30, 2014 | Additions | Deletions | Balance June 30, 2015 | Accumulated Depreciation | Net Capital Assets |
|---|---|---|---|---|---|---|
| Land | $ 4,825,455 | $ 122,938 | $ 2,500 | $ 4,945,893 | | $ 4,945,893 |
| Land Improvements | 13,680,854 | 460,928 | | 14,141,782 | 7,968,513 | 6,173,269 |
| Infrastructure | 7,743,705 | 328,341 | | 8,072,046 | 2,429,323 | 5,642,723 |
| Educational Buildings | 160,576,509 | 18,667,040 | | 179,243,549 | 76,841,558 | 102,401,991 |
| Auxiliary Buildings | 105,634,445 | 2,821,047 | 20,160 | 108,435,332 | 58,042,799 | 50,392,533 |
| Equipment | 22,184,584 | 2,228,257 | 292,680 | 24,120,161 | 18,445,660 | 5,674,501 |
| Library Materials | 3,837,145 | 45,662 | 123,778 | 3,759,029 | 3,108,070 | 650,959 |
| Capital Lease Equipment | 774,644 | 99,879 | 142,856 | 731,667 | 485,591 | 246,076 |
| Construction in Progress | 16,626,287 | 9,687,005 | 21,805,933 | 4,507,359 | | 4,507,359 |
| Totals | $335,883,628 | $34,461,097 | $22,387,907 | $347,956,818 | $167,321,514 | $180,635,304 |

## NOTE 17 – Beginning Net Position Restatement

The beginning net position balance at July 1, 2014, was adjusted by $6,844,336 to record the University's opening net pension liability for the State of Indiana Public Employees' Retirement Fund as required by GASB Statement 68, which took effect for the 2015 fiscal year. This restatement impacted both the Statement of Net Position (SNP) and the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The 2015 unrestricted net position on the SNP was modified by this amount, and the 2015 beginning net position balance on the SRECNP was changed by the same amount. June 30, 2014 amounts have not been restated to reflect the impact of GASB 68 because the information is not available to calculate the impact on pension expense for the fiscal year ending June 30, 2014. Additional information about PERF and the requirements of GASB Statement 68 may be found in Note 10 of the ***Notes to Financial Statements***.

## NOTE 18 – Subsequent Event

On May 6, 2015, the State of Indiana passed HB1466 related to the Public Employees' Retirement Fund (PERF) effective July 1, 2015. The law applies to employers who elected to discontinue participation in PERF for new employees prior to the effective date of the law, and it requires those employers to pay PERF for the unfunded actuarial accrued liability (UAAL) associated with employees who remain in the plan. As discussed in Note 10 – Retirement Plans, support staff with a 50 percent or greater schedule with an employment date on or after July 1, 2014, and no prior PERF-eligible employment with the University participate in a deferred contribution plan with TIAA-CREF. Employees hired prior to this date and employees with prior PERF-eligible employment with the University continue to participate in PERF. Therefore, this law applies to the University.

The portion of the pension liability for employees who remain in PERF will be calculated by the Indiana Public Retirement System (INPRS). Because the financial statements and accompanying notes already reflect the UAAL for the University, no additional liability or disclosure is required.

# Notes to Consolidated Financial Statements

University of Southern Indiana Foundation June 30, 2015 and 2014

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

### *Nature of Operations*

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

### *Principles of Consolidation*

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

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### *Cash*

The Foundation considers all liquid investments not classified with investments and with original maturities of three months or less to be cash equivalents. At June 30, 2015 and 2014, the Foundation did not have any cash equivalents.

At June 30, 2015, the Foundation's cash accounts exceeded federally insured limits by approximately $27,000.

### *Contributions Receivable – Deferred Gifts*

During 2015, the Foundation received certain irrevocable pledges to be paid from individual estates or more commonly referred to as deferred gifts. These contribution receivables are recorded as either temporarily or permanently restricted revenues based on the intent of the donor. The amounts were recorded at gross, less allowances for an estimate of amounts that may be uncollectible and a discount based on expected mortality of the individuals and overall credit risks. The allowance for uncollectible contributions was based on a combination of qualitative factors, including mortality, relationship to the Foundation and University, historical contribution levels and history of gifting to the Foundation. The discount rates ranged from 3.62% to 5.59%.

### *Investments and Investment Return*

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments. Investment return is presented net of fees.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Investments in real estate are recorded at the fair market value when donated or at the lower of cost or market if purchased. The properties held for investment are not depreciated.

### *Property and Equipment*

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

### *Long-Lived Asset Impairment*

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

No asset impairment was recognized during the year ended June 30, 2015 and 2014.

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those which use by the Foundation has been limited by donors to a specific time period or purpose. Unconditional promises to give that are due in future periods and are not permanently restricted are classified as temporarily restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case, the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

***Contributed Services***

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

No amounts have been reflected in the consolidated financial statements for donated services because the Foundation generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific assistance programs, solicitations and various committee assignments.

***Income Taxes***

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in U.S. federal and state jurisdictions. With a few exceptions, the Foundation is no longer subject to U.S. federal and state examinations by tax authorities for years before 2011.

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on actual direct expenditures and other methods.

***Reclassifications***

Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

## NOTE 2 – Contributions Receivable

Contributions receivable at June 30, 2015 and 2014, consisted of the following:

CONTRIBUTIONS RECEIVABLE

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

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

| CONTRIBUTIONS RECEIVABLE | | | |
|---|---|---|---|
| | 2014 | | |
| | Temporarily Restricted | Permanently Restricted | Total |
| Due within one year | $ 1,156,685 | $335,194 | $ 1,491,879 |
| Due in one to five years | 1,877,107 | 563,920 | 2,441,027 |
| Due in five or more years | 534,033 | — | 534,033 |
| | 3,567,825 | 899,114 | 4,466,939 |
| Less | | | |
| Allowance for uncollectible contributions | 17,000 | — | 17,000 |
| Unamortized discount | 114,002 | 34,852 | 148,854 |
| Total | $ 3,436,823 | $864,262 | $ 4,301,085 |

The discount rates ranged from 1.14% to 2.29% for 2014. Approximately 36% of the contributions receivable at June 30, 2014, were due from two donors.

Contributions receivable designated for specific purposes and with time restrictions at June 30, 2015 and 2014, were as follows:

| SPECIFIC CONTRIBUTIONS RECEIVABLE | | |
|---|---|---|
| | 2015 | 2014 |
| Scholarships and awards | $2,075,840 | $ 953,795 |
| Educational grants and academic enhancements | 1,052,429 | 767,525 |
| Athletic support | 120,395 | 158,085 |
| Other University support | 2,544,840 | 1,521,314 |
| Capital projects | 1,852,259 | 768,064 |
| Community outreach | 193 | 289 |
| Time restrictions | 319,263 | 132,013 |
| Total | $7,965,219 | $4,301,085 |

## NOTE 3 – Conditional Gifts

As of June 30, 2014 the Foundation recorded two deferred conditional promises to give related to its capital campaign, *Campaign USI: Elevating Excellence*. These deferred conditional promises to give totaled $3,000,000, of which $282,458 was recognized as contributions receivable as of June 30, 2014.

In August 2014, one of the deferred conditional gift agreements was superseded by a new gift agreement that changed the $2,500,000 gift commitment from a deferred conditional pledge to an outright pledge. During the year ended June 30, 2015, the previously recorded contributions receivable associated with the former $2,500,000 deferred conditional pledge was reversed and the total amount of the outright pledge was recorded as contributions receivable. The outright pledge is scheduled to be paid in full by the donor no later than December 15, 2020.

In September 2014, the second deferred conditional gift agreement was superseded by a new gift agreement that changed the $500,000 gift commitment from a deferred conditional pledge to a commitment from a donor-advised fund. During the year ended June 30, 2015, the previously recorded contributions receivable associated with the former $500,000 deferred conditional pledge was reversed. The value of the donor-advised fund commitment was not recorded as contributions receivable because donor-advised funds cannot make pledges nor can they pay on a pledge for an individual. The donor may only advise the donor-advised fund administrator as to which charities to contribute. Contribution revenue is recognized when the Foundation receives distributions from the donor-advised fund. The commitment is scheduled to be fulfilled no later than December 31, 2015.

## NOTE 4 – Investments and Investment Return

Investments at June 30, 2015 and 2014, consisted of the following:

| INVESTMENTS | | |
|---|---|---|
| | Market | |
| | 2015 | 2014 |
| Short-term investments | $2,394,571 | $2,432,660 |
| U.S. Treasury securities | 3,041,925 | 2,247,098 |
| Corporate debt securities | 4,082,125 | 4,042,975 |
| Common stocks | 12,642,939 | 14,578,313 |
| Mutual funds | | |
| Fixed income | 15,855,867 | 15,956,473 |
| International | 17,710,807 | 16,983,106 |
| Large cap | 37,833,742 | 34,339,697 |
| Small cap | 7,065,979 | 6,230,031 |
| Alternative investment – private investment fund | 2,592,218 | 2,706,401 |
| Total | $103,220,173 | $99,516,754 |

Included in the Foundation's investments above are investments subject to split-interest agreements with a fair market value of $84,835 and $85,569 as of June 30, 2015 and 2014, respectively.

Total investment return at June 30, 2015 and 2014, was comprised of the following:

| INVESTMENT RETURN | | |
|---|---|---|
| | 2015 | 2014 |
| Interest and dividend income | $2,475,315 | $2,143,084 |
| Investment management fees | (198,047) | (141,108) |
| | 2,277,268 | 2,001,976 |
| Net realized and unrealized gains on investments reported at fair value | 1,247,808 | 12,554,510 |
| | $3,525,076 | $14,556,486 |

### *Alternative Investments*

Except as described below, the fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30, 2015 and 2014, consist of the following:

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

| 2014 | | | | |
|---|---|---|---|---|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Private equity funds (A) | $2,706,401 | $867,000 | N/A | N/A |

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

Accordingly, the value of the investment in the underlying partnership is generally increased by additional contributions to the underlying partnership and the partner's share of net earnings from the underlying partnership investment.

## NOTE 5 – Beneficial Interest in Trusts

The Foundation is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the Foundation has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $3,899,466 and $3,959,521, which represents the fair value of the trusts' assets at June 30, 2015 and 2014, respectively. The gain (loss) from these trusts for 2015 and 2014 was $(62,554) and $344,967, respectively.

The Foundation has been named a secondary beneficiary in certain charitable remainder trusts administered by outside parties. Upon termination of the trusts, the Foundation will receive the assets remaining in the trusts. Prior to termination of the trusts and transfer of assets, the Foundation records the present value of the estimated residual benefits as assets. At June 30, 2015 and 2014, the residual benefits were valued at $756,368 and $780,615, respectively. The gain (loss) from these trusts for 2015 and 2014 was $(24,247) and $69,353, respectively.

## NOTE 6 – Line of Credit

The Foundation has a $2,697,000 bank line of credit expiring in December 2020. At June 30, 2015, there were no borrowings against this line. The line is collateralized by a gift agreement between the Foundation and a donor, as more fully described in Note 12. Interest varies with one-month London Interbank Offered Rate plus 1.80% and is payable annually.

## NOTE 7 – Annuities Payable

The Foundation has been the recipient of several gift annuities, which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value and are recorded in temporarily or permanently restricted funds in accordance with the donor restrictions. The Foundation has recorded a liability at June 30, 2015 and 2014, in the temporarily restricted funds of $371,245 and $400,222, respectively, and in the permanently restricted funds of $1,528,690 and $1,687,922, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from approximately 1% to 8%.

## NOTE 8 – Net Assets

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at June 30, 2015 and 2014, are available for the following purposes or periods:

| TEMPORARILY RESTRICTED NET ASSETS | 2015 | 2014 |
|---|---|---|
| Scholarships and awards | $29,805,292 | $29,330,775 |
| Educational grants and academic enhancements | 14,130,209 | 14,240,793 |
| Athletic support | 973,280 | 1,013,919 |
| Other University support | 8,529,835 | 7,468,395 |
| Capital projects | 7,181,006 | 4,304,737 |
| Community outreach | 415,698 | 429,747 |
| For periods after June 30 | 319,089 | 132,012 |
| Total | $61,354,409 | $56,920,378 |

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

***Permanently Restricted Net Assets***

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

| PERMANAENTLY RESTRICTED NET ASSETS | 2015 | 2014 |
|---|---|---|
| Investment in perpetuity, the income of which is expendable to support | | |
| Scholarships and awards | $27,249,814 | $25,455,135 |
| Educational grants and academic enhancements | 7,688,948 | 7,217,019 |
| Other University support | 7,314,932 | 7,083,702 |
| Total | $42,253,694 | $39,755,856 |

***Net Assets Released From Restrictions***

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

| NET ASSETS RELEASED FROM RESTRICTIONS | | |
|---|---|---|
| | 2015 | 2014 |
| Purpose restrictions released | | |
| Scholarships and awards | $1,949,902 | $1,743,784 |
| Educational grants and academic enhancements | 1,237,115 | 540,733 |
| Athletic support | 87,316 | 68,694 |
| Other University support | 437,677 | 398,105 |
| Capital projects | 655,184 | 2,500 |
| Community outreach | 20,680 | 9,980 |
| Total | $4,387,874 | $2,763,796 |

## NOTE 9 – Endowment

The Foundation's endowment consists of approximately 400 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the ***State of Indiana Prudent Management of Institutional Funds Act*** (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily

restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

During 2015, the Foundation's governing body changed its policy with respect to the presentation of endowment funds that are temporarily restricted and have been Board-designated as endowed funds. For preceding years, only unrestricted Board-designated endowment funds were presented as endowed funds based on the Foundation's initial interpretation of accounting principles generally accepted in the United States of America. The fair value of the temporarily restricted Board-designated endowment funds was $15,797,999 as of July 1, 2014 and is shown as temporarily restricted Board-designated endowment net assets, beginning of year in the 2015 changes in endowment assets calculation.

The composition of net assets by type of endowment fund at June 30, 2015 and 2014, was:

| COMPOSITION OF NET ASSETS BY ENDOWMENT | | | | |
|---|---|---|---|---|
| 2015 | | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ — | $22,968,690 | $38,442,378 | $61,411,068 |
| Board-designated endowment funds | 9,263,670 | 16,029,608 | — | 25,293,278 |
| Total endowment funds | $9,263,670 | $38,998,298 | $38,442,378 | $86,704,346 |
| 2014 | | | | |
| Donor-restricted endowment funds | $ — | $23,051,027 | $35,908,164 | $58,959,191 |
| Board-designated endowment funds | 9,212,026 | — | — | 9,212,026 |
| Total endowment funds | $9,212,026 | $23,051,027 | $35,908,164 | $68,171,217 |

Changes in endowment net assets for the years ended June 30, 2015 and 2014, were:

## CHANGES IN ENDOWMENT NET ASSETS

| 2015 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $9,212,026 | $23,051,027 | $35,908,164 | $68,171,217 |
| Temporarily restricted Board-designated endowment net assets, beginning of year | — | 15,797,999 | — | 15,797,999 |
| **Total endowment net assets, beginning of year** | **9,212,026** | **38,849,026** | **35,908,164** | **83,969,216** |
| Investment return | | | | |
| Investment income | 528,760 | 4,373,650 | 199,083 | 5,101,493 |
| Net depreciation | (281,914) | (2,330,038) | (106,277) | (2,718,229) |
| **Total investment return** | **246,846** | **2,043,612** | **92,806** | **2,383,264** |
| Contributions | — | 301,751 | 2,461,181 | 2,762,932 |
| Appropriation of endowment assets for expenditure | (195,202) | (2,214,897) | — | (2,410,099) |
| Reclassification of donor intent | — | (3,888) | 3,888 | — |
| Other changes – uncollectible pledge loss | — | (1,236) | (31) | (1,267) |
| Other changes – change in value of split-interest life interest | — | 23,930 | — | 23,930 |
| Other changes – change in value of split-interest agreements | — | — | (23,630) | (23,630) |
| | (195,202) | (1,894,340) | 2,441,408 | 351,866 |
| **Endowment net assets, end of year** | **$9,263,670** | **$38,998,298** | **$38,442,378** | **$86,704,346** |

| 2014 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $7,906,648 | $14,793,775 | $33,600,002 | $56,300,425 |
| Investment return | | | | |
| Investment income | 357,796 | 2,253,597 | 133,214 | 2,744,607 |
| Net appreciation | 1,086,335 | 6,846,201 | 389,998 | 8,322,534 |
| **Total investment return** | **1,444,131** | **9,099,798** | **523,212** | **11,067,141** |
| Contributions | — | 110,518 | 1,868,341 | 1,978,859 |
| Appropriation of endowment assets for expenditure | (138,753) | (946,232) | — | (1,084,985) |
| Reclassification of donor intent | — | (6,832) | 6,832 | — |
| Other changes – uncollectible pledge loss | — | — | (2,914) | (2,914) |
| Other changes – change in value of split-interest agreements | — | — | (87,309) | (87,309) |
| | **(138,753)** | **(842,546)** | **1,784,950** | **803,651** |
| **Endowment net assets, end of year** | **$9,212,026** | **$23,051,027** | **$35,908,164** | **$68,171,217** |

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2015 and 2014, consisted of:

## DONOR-RESTRICTED ENDOWMENT FUNDS

| | 2015 | 2014 |
|---|---|---|
| Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA | $38,442,378 | $35,908,164 |
| Temporarily restricted net assets – portion of perpetual endowment funds subject to a time restriction under SPMIFA – with purpose restrictions | $38,998,298 | $23,051,027 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature, if any, are reported in unrestricted net assets and such amounts were immaterial to the overall financial statements for 2015 and 2014. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

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

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income, such as dividends and interest) and capital appreciation (depreciation) (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's spending policy goals include maintaining reasonable inflation-adjusted spending into the future, providing for sufficient asset growth after spending to preserve the inflation-adjusted value of the assets and smoothing spending on a quarterly basis rather than vary it with short-term changes in interest rates and asset values. The Foundation sets the spending level to balance current need with growth for the future. The current spending rate is 4.5% calculated on a rolling twelve-quarter average market value of each endowment fund. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

## NOTE 10 – Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

***Recurring Measurements***

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015 and 2014:

## FAIR VALUE MEASUREMENTS

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

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| June 30, 2014 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Short-term investments and cash | $ 2,432,660 | $ 2,432,660 | $ — | $ — |
| U.S. Treasury securities | 2,247,098 | — | 2,247,098 | — |
| Corporate debt securities | 4,042,975 | — | 4,042,975 | — |
| Common stocks | 14,578,313 | 14,578,313 | — | — |
| Mutual funds | | | | |
| Fixed income | 15,956,473 | 15,956,473 | — | — |
| International | 16,983,106 | 16,983,106 | — | — |
| Large cap | 34,339,697 | 34,339,697 | — | — |
| Small cap | 6,230,031 | 6,230,031 | — | — |
| Private investment fund | 2,706,401 | — | — | 2,706,401 |
| | $99,516,754 | $90,520,280 | $6,290,073 | $2,706,401 |
| Beneficial interest in charitable remainder trusts | $ 780,615 | $ — | $780,615 | $ — |
| Beneficial interest in perpetual trusts | $ 3,959,521 | $ — | $3,959,521 | $ — |
| Beneficial interest in Community Foundation | $ 64,555 | $ — | $64,555 | $ — |

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2015. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include short-term investments and cash equivalents, common stocks and mutual funds. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified as Level 3 of the hierarchy and include a private investment fund. See the table below for inputs and valuation techniques used for Level 3 securities.

The value of certain investments, classified as a private investment fund, is determined using net asset value (or its equivalent) as a practical expedient. The Foundation does not expect to be able to redeem its investments with the investee within 12 months after the reporting date and, therefore, the investments are categorized as Level 3.

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

***Beneficial Interest in Charitable Remainder Trusts***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

***Beneficial Interest in Perpetual Trusts***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

***Beneficial Interest in Community Foundation***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

***Level 3 Reconciliation***

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

RECURRING FAIR VALUE BALANCE

| | Private Investment Fund |
|---|---|
| Balance, July 1, 2013 | $2,139,998 |
| Total realized and unrealized gains and losses included in other changes in net assets | 322,065 |
| Net investment income | (1,662) |
| Purchases | 246,000 |
| Balance, June 30, 2014 | 2,706,401 |
| Total realized and unrealized gains and losses included in other changes in net assets | 73,628 |
| Net investment income | (1,811) |
| Purchases | 60,000 |
| Sales | (246,000) |
| Balance, June 30, 2015 | $2,592,218 |

Level 3 realized and unrealized gains and losses included in investment income in the change in net assets for the years ended June 30 are reported in the consolidated statements of activities as follows:

REALIZED AND UNREALIZED GAINS AND LOSSES

| | 2015 | 2014 |
|---|---|---|
| Total gains | $71,817 | $320,403 |
| Change in unrealized gains relating to assets still held at the consolidated statement of financial position date | $73,628 | $322,065 |

***Unobservable (Level 3) Inputs***

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

UNOBSERVABLE INPUTS

| | Fair Value | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| June 30, 2015 | | | | |
| Private investment fund | $2,592,218 | Net asset value | NAV | N/A |
| June 30, 2014 | | | | |
| Private investment fund | $2,706,401 | Net asset value | NAV | N/A |

***Fair Value of Financial Instruments***

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated statements of financial position.

***Cash***

The carrying amount approximates fair value.

***Contributions Receivable***

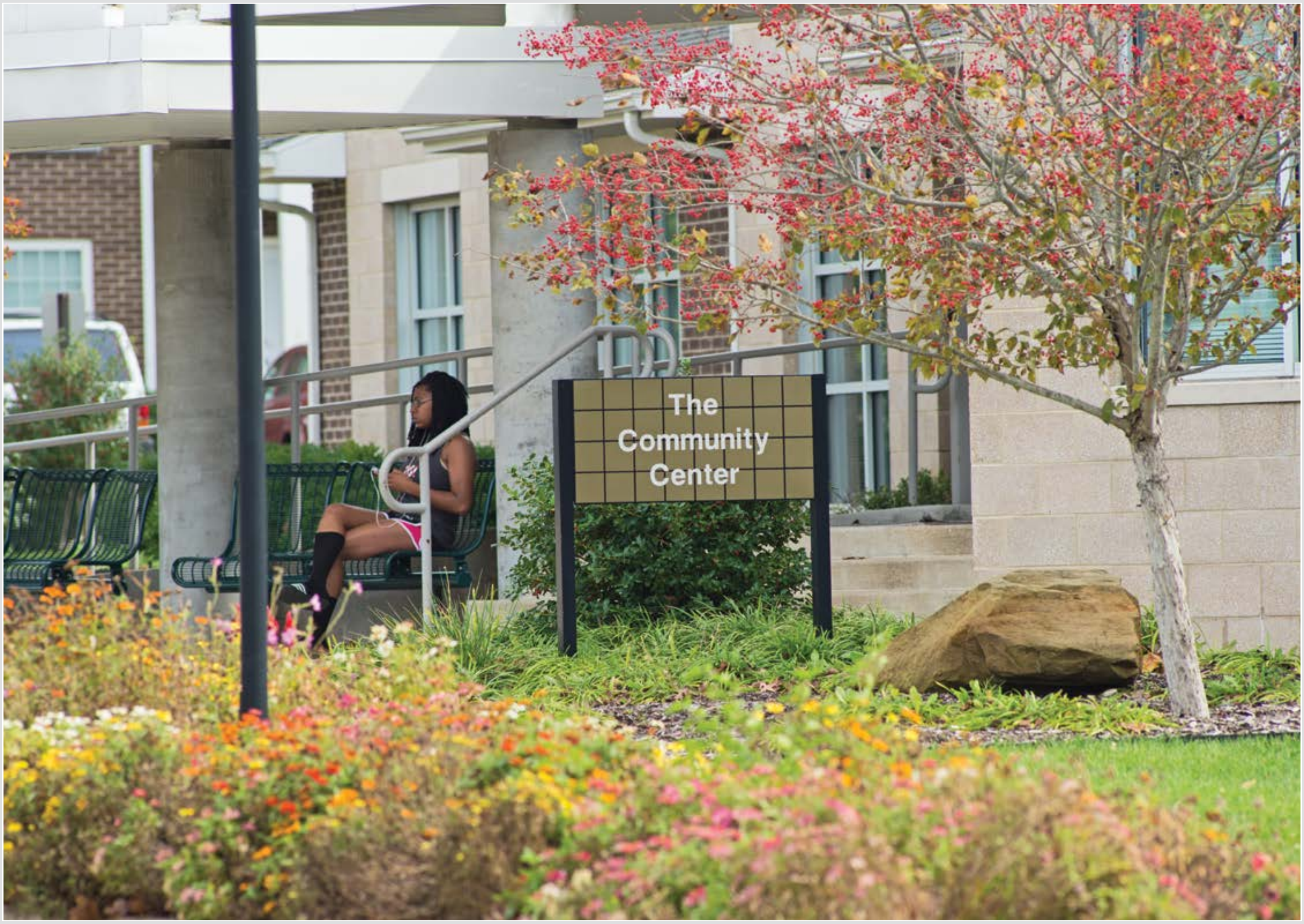
Fair value is estimated at the present value of the future payments expected to be received.

***Annuities Payable***

Fair values of the annuity obligations are based on a calculation of discounted cash flows of the annuity or other payments under such obligations.

ANNUITIES

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Cash | $923,585 | $923,585 | $1,461,508 | $1,461,508 |
| Contributions receivable | $7,965,219 | $7,965,219 | $4,301,085 | $4,301,085 |
| Investments | $103,220,173 | $103,220,173 | $99,516,754 | $99,516,754 |
| Beneficial interest in charitable remainder trusts | $756,368 | $756,368 | $780,615 | $780,615 |
| Beneficial interest in perpetual trusts | $3,899,466 | $3,899,466 | $3,959,521 | $3,959,521 |
| Beneficial interest in Community Foundation | $60,979 | $60,979 | $64,555 | $64,555 |
| Financial liabilities | | | | |
| Annuities payable | $1,899,935 | $1,899,935 | $2,088,144 | $2,088,144 |



## NOTE 11 – Related-Party Transactions

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

The Foundation paid an annual administrative fee of $420,000 and $374,100 to the University for the years ended June 30, 2015 and 2014, respectively, for accounting, computer, administrative and other miscellaneous services provided to the Foundation by University personnel.

Amounts due to the University for approved program expenditures, which are included in payable to related parties as of June 30, 2015 and 2014, were $483,090 and $680,321, respectively.

## NOTE 12 – Significant Estimates, Concentrations and Commitments

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Contributions***

In 2015 and 2014, approximately 42% and 35% of all contributions were received from two donors and one donor, respectively.

***Contributions Receivable – Deferred Gifts***

The Foundation has recorded contribution pledges for deferred gifts of $5,868,000, of which $1,618,920 was reserved as an allowance for uncollectible amounts and $2,035,580 was recorded as a discount based on estimated discount rates for each individual pledge for a net pledge receivable amount of $2,213,500. The estimated allowances for uncollectible amounts and discounts are based on factors that could change in the near term and for which such changes could materially affect the amount reported in the consolidated financial statements.

***Commitments***

The Foundation has committed up to $2,000,000 to the University of Southern Indiana for the construction and outfitting of the USI Performance Center (formerly the USI Teaching Theatre). The first funding installment of approximately $652,000 was paid in August 2014 with subsequent installments due upon receipt of invoices from the University. The expected payment for the year ending June 30, 2016 is approximately $515,000. The funding source for this commitment is designated contributions for the USI Performance Center and unrestricted distributions from the Henry Ruston President's Endowment.

The Foundation has committed $5,000,000 to the University of Southern Indiana for the construction and outfitting of the Griffin Center, a conference center on the University campus. Construction began in the latter part of 2014 and is expected to be completed in May 2016. Funding for this project is through an individual $5,000,000 gift commitment to the Foundation's capital campaign, *Campaign USI: Elevating Excellence*. This gift commitment will be satisfied no later than December 15, 2020. Since construction of the conference center will occur in advance of full payment of the gift commitment, the Foundation has secured a line of credit with a local financial institution to cover the construction costs of the facility with repayment of the line of credit to be made by gift commitment payments from the donor. The gift commitment will be used as collateral for the line of credit and the donor will be obligated to make annual gift commitment payments of at least the annual amount of the line of credit payment requirements until the gift commitment is fully satisfied and the line of credit is paid in full. A clause barring recourse to the Foundation is included in the financing agreement. Any recourse on the line of credit will be made exclusively against the donor's assets. As of October 2015, no draws on the line of credit have been taken by the Foundation. Payments to the University are due upon receipt of invoices from the University. As of October 2015, no invoices have been received from the University.

The Foundation has committed up to $2,000,000 to the University of Southern Indiana for the construction and outfitting of a welcome center on the University campus. The project is in the planning stage and construction dates have not been established as of October 2015. Funding for this project is through individual gift commitments to the Foundation's capital campaign, *Campaign USI: Elevating Excellence*, designated for the welcome center. $1,500,000 of the gift commitments will be satisfied no later than December 31, 2015, with the balance to be satisfied no later than June 30, 2018. All payments against this commitment are due upon receipt of invoices from the University.

## NOTE 13 – Risks and Uncertainties

***Investments***

The Foundation invests in various investment securities. Investment securities, as well as beneficial interests in trusts, are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and beneficial interests, it is at least reasonably possible that changes in the values of investment securities and beneficial interests will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

## NOTE 14 – Subsequent Events

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

# Public Employee's Retirement Plan

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

### Public Employee's Retirement Plan

***Last 2 Fiscal Years****

| | 2014 | 2013 |
|---|---|---|
| University's proportion of the net pension liability (asset) | 0.19% | 0.20% |
| University's proportionate share of the net pension liability (asset) | 5,121,057 | 6,844,336 |
| University's covered-employee payroll | 9,514,281 | 9,594,423 |
| University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 53.82% | 71.34% |
| Plan fiduciary net position as a percentage of the total pension liability | 84.29% | 78.79% |

*The amounts presented for each fiscal year were determined as of 6/30/14

## SCHEDULE OF UNIVERSITY CONTRIBUTIONS

### Public Employee's Retirement Plan

***Last 2 Fiscal Years***

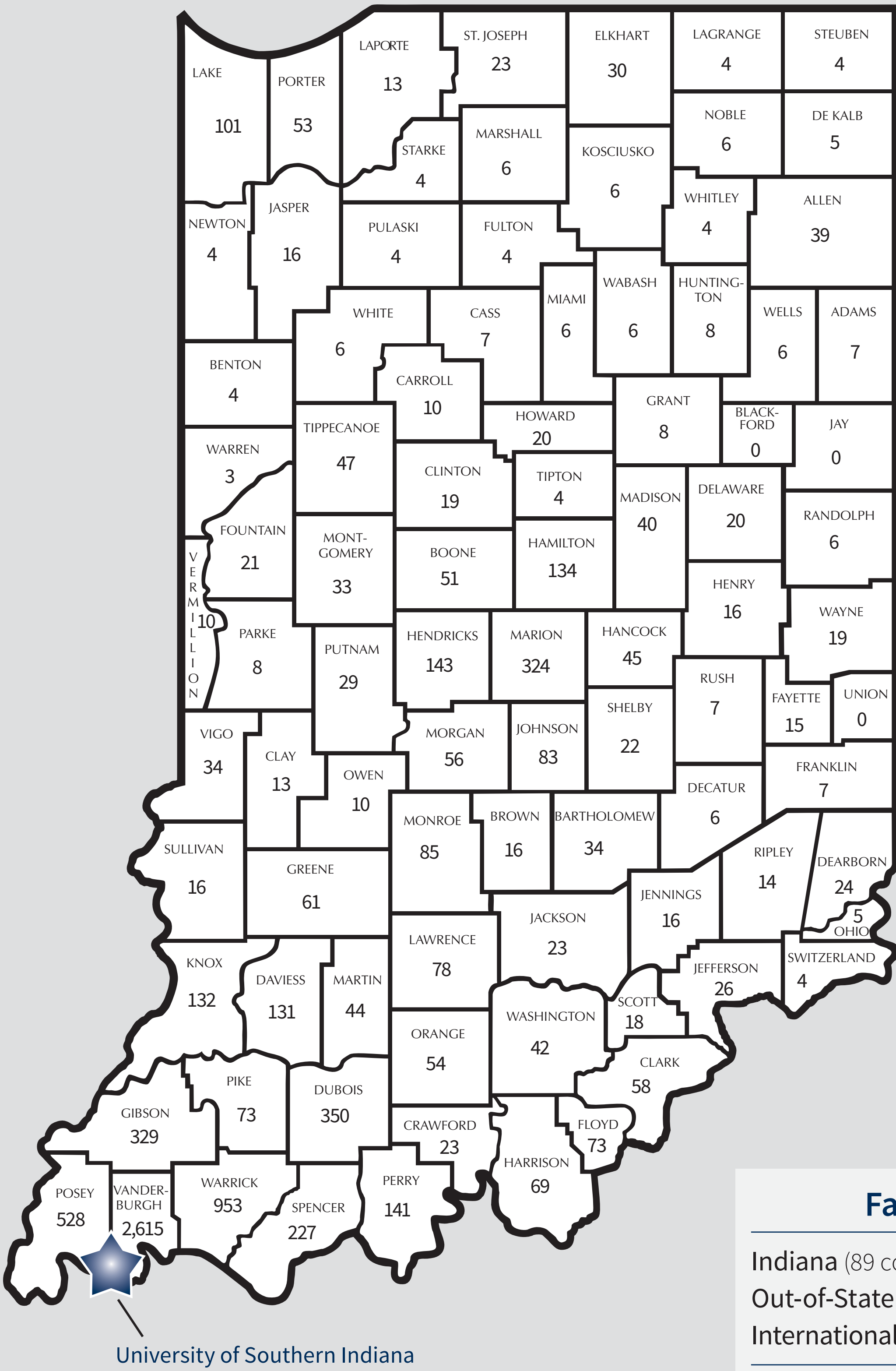
| | 2014 | 2013 |
|---|---|---|
| Contractually required contribution | 1,059,754 | 921,537 |
| Contributions in relation to the contractually required contribution | (1,059,754) | (921,537) |
| Contribution deficiency (excess) | - | - |
| University's covered-employee payroll | 9,514,281 | 9,594,423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

# Supplementary Information

| FIVE-YEAR COMPARATIVE DATA | 2014–15 | 2013–14 | 2012–13 | 2011–12 | 2010–11 |
|---|---|---|---|---|---|
| **Enrollment (Fall Semester)** | | | | | |
| Total students | 9,364 | 9,902 | 10,467 | 10,820 | 10,702 |
| Undergraduates | 8,414 | 8,913 | 9,498 | 9,871 | 9,846 |
| Women | 5,825 | 6,078 | 6,473 | 6,575 | 6,403 |
| African American | 419 | 433 | 496 | 637 | 585 |
| Other minority | 431 | 433 | 637 | 478 | 477 |
| International | 225 | 244 | 219 | 188 | 196 |
| Age 25 plus | 2,201 | 2,474 | 2,614 | 2,655 | 2,565 |
| Indiana residents | 7,903 | 8,361 | 8,856 | 9,272 | 9,255 |
| Full-time equivalent | 7,822 | 8,215 | 8,741 | 9,031 | 8,971 |
| **Degrees Granted (Academic Year)** | | | | | |
| Doctorate | 16 | 16 | 18 | 14 | 15 |
| Masters | 283 | 297 | 416 | 244 | 280 |
| Baccalaureate | 1,618 | 1,626 | 1,700 | 1,531 | 1,353 |
| Associate | 79 | 86 | 80 | 82 | 76 |
| **Faculty (Fall Semester)** | | | | | |
| Full-time | 334 | 323 | 331 | 309 | 314 |
| Percentage tenured | 36 | 35 | 33 | 39 | 37 |
| Part-time (FTE) | 153 | 163 | 175 | 163 | 159 |
| FTE students/FTE faculty | 16.1 | 16.9 | 17.3 | 19.1 | 19.0 |

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

# Home Counties of USI Students (Fall 2014)




| Fall 2014 | |
|---|---|
| Indiana (89 counties) | 7,901 |
| Out-of-State (35 states) | 1,238 |
| International (35 countries) | 225 |
| **Total Enrollment** | **9,364** |

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

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

UNIVERSITY OF SOUTHERN INDIANA
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