

Completion With a Purpose

USA Funds 2014 Annual Report



Support from USA Funds keeps students like KaSaundra Kane on track for college and career. See Page 6.



Table of Contents

Page 1	Executive Message: Completion With a Purpose
Page 2	Innovative Approach Aims to Close Skills Gap
Page 6	Expansion Bolsters College- and Career-Readiness
Page 10	Coaching Steers Students to On-Time Graduation
Page 14	Colleges Turn to Powerful Default Prevention Tool
Page 19	Financial Highlights
Page 20	Corporate Directory



To see videos and other materials from this report online, use your smartphone to access this code. Or visit annualreports.usafunds.org.



William D. Hansen (left), USA Funds president and CEO, and Ike G. Batalis, USA Funds chairman, discuss how USA Funds is advancing Completion With a Purpose. Page 1.

Executive Message: Completion With a Purpose

During the past year, USA Funds® launched a series of innovative projects to support our organization's new focus on Completion With a PurposeSM. We have begun to build a more purposeful path for America's students to and through college and on to rewarding careers and successful lives.

Through philanthropic activities, thought leadership, and programs and services, USA Funds is tackling the following critical challenges facing higher education and the nation's workforce:

- ♦ Approximately 40 percent of students who begin four-year degree programs fail to complete those programs within six years, according to data from the U.S. Department of Education.
- ♦ Approximately 50 percent of college graduates are unemployed or underemployed following graduation, according to research by the Federal Reserve Bank of New York.
- ♦ Among 4,900 former college students surveyed by McKinsey & Company, 50 percent would have chosen other academic programs or other colleges if they could do it all over again.

USA Funds invests in initiatives to help students clear the hurdles to successful completion of their education programs. We support innovative new methods of delivering higher education to reduce the cost and time for students to attain high-quality credentials and competencies. We are strengthening the linkages between educational outcomes and the needs of the workforce. USA Funds also promotes improved access to relevant data to support better higher education and workforce decisions by students and their parents, policymakers, employers and educators.

This annual report chronicles some of our initial steps to promote Completion With a Purpose, including the following activities:

- ♦ We are funding a major national initiative through the U.S. Chamber of Commerce to change the dialogue between employers and educators and address the skills gap — the gap between the skills graduates take with them from campus and the needs of employers.
- ♦ USA Funds' support will expand Jobs for America's Graduates — a proven model for improving high school graduation and college- and career-readiness — in four states: Delaware, Michigan, Missouri and Nevada.
- ♦ Working with the Indiana Commission for Higher Education, USA Funds is funding a program to increase the graduation rates of lower-income students in the state. With our support, more than 2,000 of Indiana's 21st Century Scholars will receive individual coaching and support to help them persist to graduation.
- ♦ Working with the California Community Colleges Chancellor's Office, we are making available to that state's community colleges a powerful tool for promoting successful student loan repayment.

These examples highlight a robust agenda that USA Funds is aggressively pursuing to change the landscape for higher education and workforce development. Working with our partners in state government, in the workplace, on campus, and with other like-minded nonprofit organizations, we have begun building a new pathway to success for our nation's students. ▽

Innovative Approach Aims to Close Skills Gap

A ccording to the head of the U.S. Chamber of Commerce Foundation, the U.S. economy is plagued by too many people without jobs and too many jobs without people. A persistent gap between job-seeker skills and expectations and employer needs creates unnecessary expense, lost opportunities and frustration for individuals and business owners. Meanwhile, approximately half of recent college graduates are either unemployed or working in jobs that don't require the education they paid dearly to obtain.

"It's no small task, but we really want to transform the way education and training is delivered and how employers engage with these systems," McKernan says.

To further the initiative, the U.S. Chamber of Commerce Foundation in 2014 convened a series of regional meetings, published a white paper detailing its Talent Pipeline Management model, and conducted a national meeting of employers, educators and policy experts. One of the



One way that Darlene Miller of Permac Industries addresses her company's need for qualified employees is by maintaining close relationships with nearby colleges.


In support of its strategic focus on Completion With a Purpose, USA Funds is underwriting a national initiative through the U.S. Chamber of Commerce Foundation to address this skills gap. John McKernan, former governor of Maine and current president of the U.S. Chamber of Commerce Foundation, says the goal of the initiative is to recast the relationship between employers and educators as one between customers for and suppliers of talent.

participants was Darlene Miller, owner and CEO of Permac Industries, a precision machining company that employs 30 people outside Minneapolis.

From her own business experience and interaction with industry colleagues, and through her service on the President's Council on Jobs and Competitiveness, Miller believes the skills gap is a critical issue that needs to be addressed.



**Julian Alssid of College for America believes
the Talent Pipeline Management initiative will advance
schools that help students prepare for good jobs.**



“The biggest challenge
is shifting the mindset
to a longer-term view
of talent.”

— Greg Bashore, Alcoa

"From day one it's been a challenge finding skilled machinists, particularly as our company progressed and grew," Miller says. "It's a constant battle finding people with the skills to add value on the job. It's the number one complaint we hear during trade association meetings."

One way that Miller addresses her company's need for qualified employees is by maintaining close relationships with three nearby technical and community colleges. All three participate in the Right Skills Now program, which provides fast-track training for employment in manufacturing.

Small businesses like Permac Industries aren't alone in their struggles with the skills gap. Alcoa needs to find talent to sustain a global array of 200 operations engaged in everything from refining and smelting to producing highly engineered products such as structural components for the F-35 fighter jet and the body panels of the Ford F-150 pickup truck. Greg Bashore, Alcoa's global director of talent acquisition and workforce development, says that many employers need a "mindset shift" in the way they address their workforce needs.

"Today a lot of employers look at what I call just-in-time staffing," Bashore says. "The biggest challenge is shifting the mindset to a longer-term view of talent in thinking about how I build a broader supply or pipeline of talent, so it's ready when I need it and where I need it."

One of the innovative steps Alcoa has taken to address its needs for a skilled workforce is to reorganize its corporate

foundation under its human resources department.

Bashore notes the structure allows Alcoa to identify key talent gaps for its businesses and then work through foundation programs and partners to support broader education and skill development programs in the communities in which it operates.

Julian Alssid, chief workforce strategist for College for America, believes the Talent Pipeline Management model will forge new partnerships that will allow educators and employers to work more closely together.

"Under the supply chain concept, employers know who their trusted suppliers are," Alssid says. "When they go looking to fill jobs, they go to providers who are tried and true. This puts positive pressure on education providers. This pressure will push higher education to a place where those schools that help students find good jobs are going to prevail."

College for America at Southern New Hampshire University provides competency- and project-based online learning programs to employees whose lack of a postsecondary credential hampers their career advancement.

During the next two years, the U.S. Chamber of Commerce Foundation will develop and disseminate practical applications of the Talent Pipeline Management model. Alcoa's Bashore believes that work will be critical to the success of the model. "It will give everybody the opportunity to replicate what good looks like," he says. ▽



At a U.S. Chamber of Commerce Foundation national meeting, employers discussed challenges finding qualified employees. Pictured are (from left): moderator Cheryl Oldham, U.S. Chamber of Commerce Foundation; Miller; Ellyn Shook, Accenture; Bashore; and Danny Vargas, VARCom Solutions LLC.

Expansion Bolsters College- and Career-Readiness

Talk to participants in Jobs for America's Graduates, and several common themes emerge.

They've developed confidence. They've discovered leadership skills they didn't know they possessed. They've strengthened

In 2014 USA Funds awarded \$3.55 million in grants to extend JAG programming to more than 3,100 students in 74 locations in those areas during the next three years. These grants support one of USA Funds' Completion With a Purpose



Laurie Fuski (left) and Randy Holmes of Delaware's Jobs for America's Graduates program work to eliminate barriers to student success in school and the workplace.

their communication skills. They've learned to persevere in the face of difficulty.

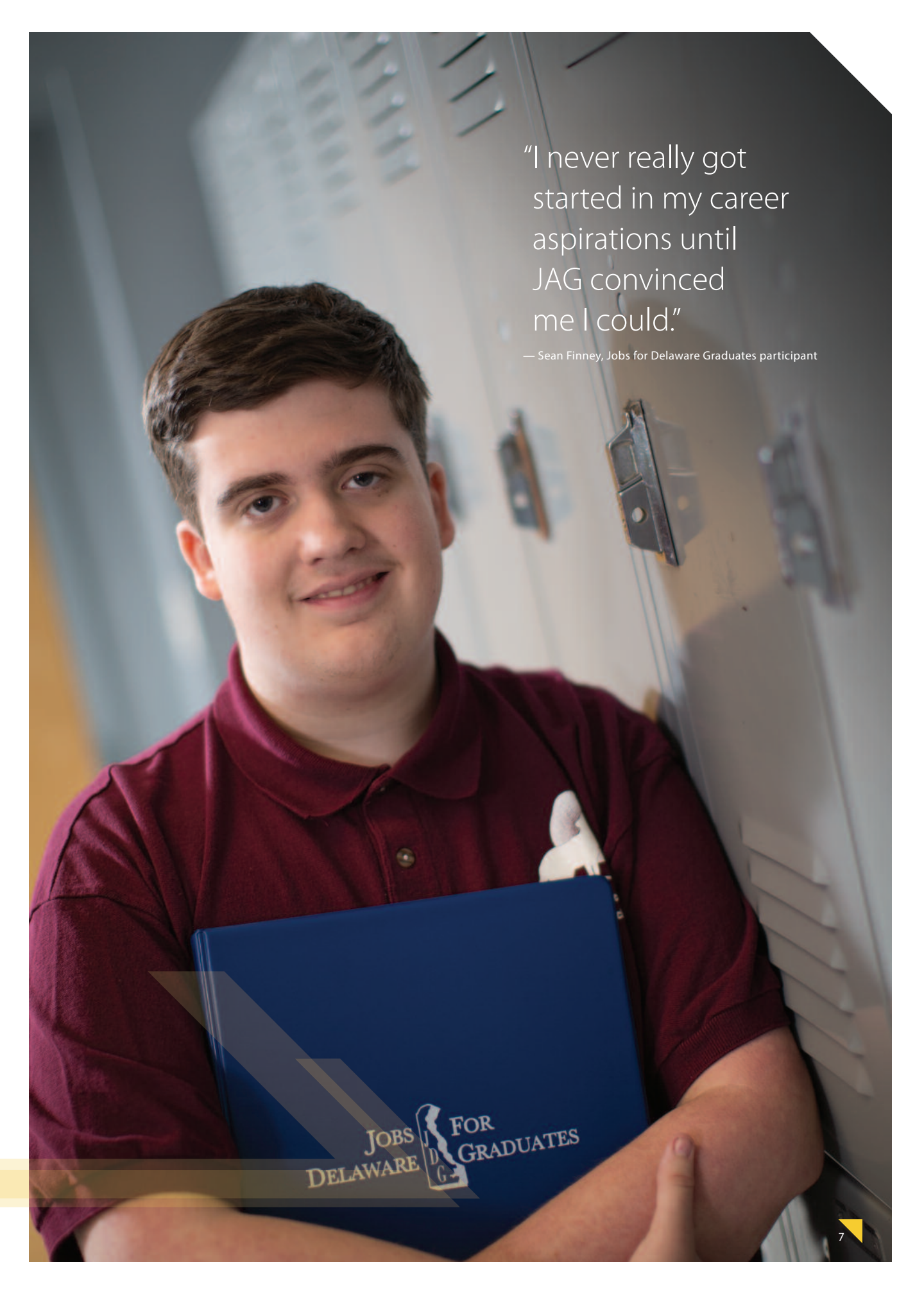
They've enhanced their chances of succeeding in high school, college and careers.

"I didn't want to think about the long term because I didn't think it would end well for me," says Sean Finney. "I never really got started in my career aspirations until JAG convinced me I could."

Finney, 17, is a participant in Jobs for Delaware Graduates. JDG is one of the four state- and metropolitan-area-based JAG organizations — along with those in Missouri and in Detroit and Las Vegas — that plan to expand with the help of USA Funds.

strategies: assisting students through key transitions in the education-to-employment pathway, for example, graduation from high school.

JAG is a national program that aims to help at-risk students graduate from high school prepared to pursue postsecondary education or training or obtain employment. The JAG model includes classroom instruction, employability skills training, mentoring, career guidance and support, summer employment assistance, student-led leadership development, job and postsecondary education placement services, and 12 months of follow-up after high school graduation.

A young man with short brown hair, wearing a maroon polo shirt, is smiling and looking towards the camera. He is holding a blue folder with both arms. The folder has a logo that reads "JOBS FOR DELAWARE GRADUATES" with a small map of Delaware in the center. The background consists of a row of white school lockers with silver handles. The lighting is soft and even.

"I never really got started in my career aspirations until JAG convinced me I could."

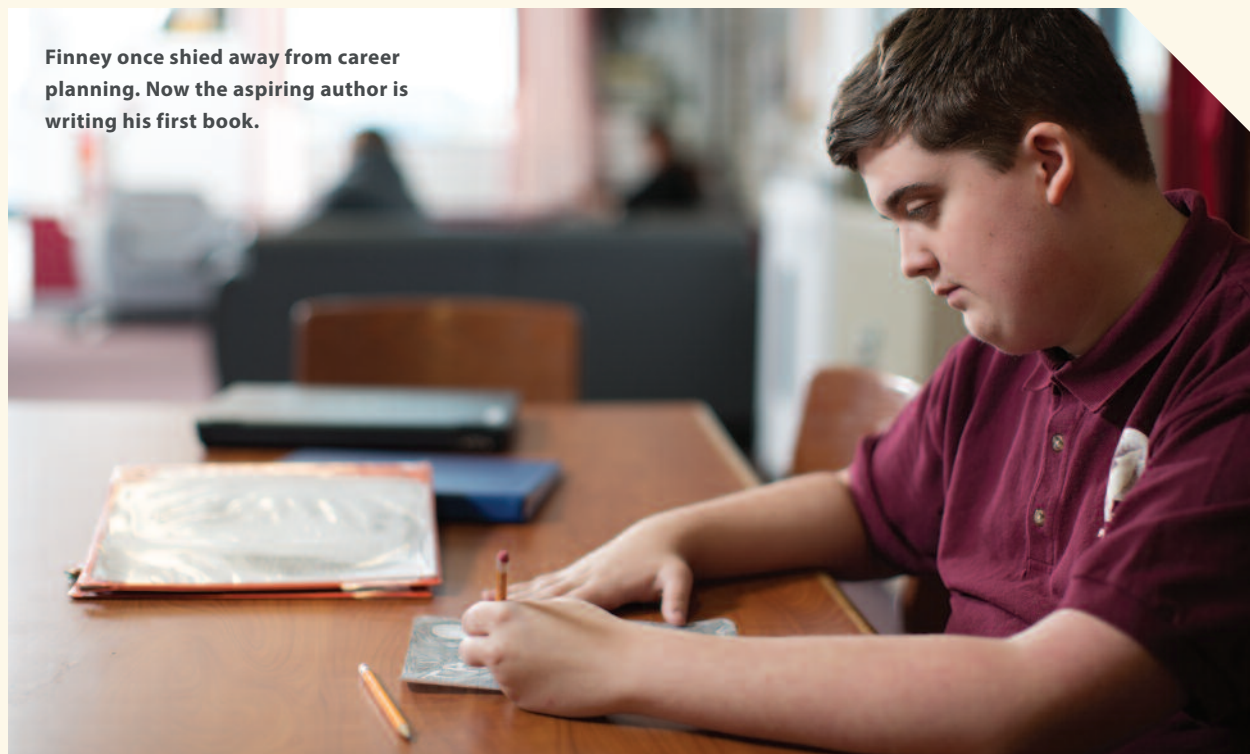
— Sean Finney, Jobs for Delaware Graduates participant

JOBS
DELAWARE FOR
GRADUATES

KaSaundra Kane became a participant in the Delaware JAG organization, JDG, during her junior year at Mount Pleasant High School in Wilmington, Del. Now an 18-year-old senior,

stronger. Now I feel I can make a true difference and help America grow better,” says Shelton, a 17-year-old senior at Eldorado High School in Las Vegas.

Finney once shied away from career planning. Now the aspiring author is writing his first book.



she credits JDG for helping her to develop into the leader she has become — even in the face of tragedy.

When Kane’s brother was murdered during her first year in her state’s JAG program, she relied on the support of her JAG specialist to help her channel her emotions into making a difference in the lives of others. She helped to start a mentoring program at an elementary school.

“Even though I know I probably could have started a mentoring program, I wouldn’t have had the confidence to do it without JDG,” says Kane, who is state reporter for the Delaware Career Association, a JDG organization.

She plans to attend Morgan State University in Baltimore in the fall to prepare to become a school guidance counselor, and hopes to earn a doctoral degree in psychology one day.

Zandra Shelton, a JAG student from Las Vegas, also credits the program for helping her stay on track with her plans for the future, even as she battled family struggles.

“When I felt like the whole world was down on me, I realized through my JAG specialist that, no, it was making me

Shelton’s plan for improving the nation? She wants to be speaker of the U.S. House of Representatives.

Cultivating dreams like those of Shelton and others is one of the most gratifying parts of being a JAG specialist, say those who have held that position. JAG’s classroom specialists work to eliminate any barriers that JAG students might have to succeeding in school and the workplace.

The specialists’ efforts help make JAG a valuable asset not only to students, but to entire communities, says Laurie Fuski, a former JAG classroom specialist in Delaware who now is a supervisor for 12 specialists.

Nationally, an average of 91 percent of JAG participants have received a high school or GED diploma. Nearly 80 percent of JAG participants pursue postsecondary education or training, are employed, or enlist in military service following high school graduation.

“I like that we are helping not just the school and not just the student, but also the community, by helping students to be productive citizens. When you hear from students about their

grades or when they get a job, there's a lot of satisfaction," Fuski says. "You're doing something that matters."

Finney, the junior at Positive Outcomes Charter School in Camden, Del., who once avoided thinking of his future, now says his state's JAG has helped him to understand he can be "part of something bigger." The program has transformed him from a student who let his Asperger's Syndrome dictate his

outlook to a JDG state president who looks past the developmental disorder to regularly lead school and statewide activities.

He plans to attend college and become a book author or news reporter. He's already writing his first book.

"JAG," Finney says, "helped me become the best I can be." ▼

JAG student KaSaundra Kane (right) calls classroom specialist Holmes a "support system."



Coaching Steers Students to On-Time Graduation

Loretta Stewart can imagine it now.

She's walking across the stage, grabbing that college degree she'll be the first in her family to receive, ready to take the next steps toward a career as a pharmacist.

Now a sophomore majoring in chemistry, Stewart received individual coaching as a first-year student at Indiana State. That same type of coaching currently is in place in the state of Indiana's 21st Century Scholars Program at three colleges.

"My coach was something like a conscience."


— Loretta Stewart, 21st Century Scholar



"I will be so proud of myself," she says.

But first Stewart has to stay on track in her bachelor's degree work at Indiana State University. A one-on-one coaching program has helped her get the right start.

As part of its support for innovation in college and career preparation, in 2014 USA Funds provided a \$2.4 million grant to support coaching for 2,500 first-year students through the 21st Century Scholars Program at three schools: Indiana State, Indiana University-Purdue University Indianapolis, and Ivy Tech Community College. The 21st Century Scholars Program

A woman with short brown hair, smiling, stands outdoors. She is wearing a white collared shirt under a blue V-neck cardigan with gold buttons, and black trousers. Her hands are clasped in front of her. In the background, there is a large fountain with water spraying upwards, surrounded by trees with green and autumn-colored foliage. The scene is brightly lit, suggesting a sunny day.

Linda Maule of Indiana State University says
coaching helps students navigate the
challenges of college.

Indiana State University's Joshua Powers expects an increase in the retention of 21st Century Scholars next year.



enlisted San Francisco-based InsideTrack to provide coaching to bolster the on-time college completion rates of students in Indiana's early promise scholarship program.

The coaching is part of a larger redesign of 21st Century Scholars, which provides income-eligible students the opportunity to earn up to four years of paid tuition at an Indiana college.

While the 25-year-old program says its students have outpaced their peers in accessing college, they lag behind Indiana's overall full-time college population in earning a two- or four-year degree on time. About 15 percent of 21st Century Scholars receive an associate degree in two years or a bachelor's degree in four.

"Going to college without fulfilling the dream of completing college is a hollow victory," says Teresa Lubbers, Indiana commissioner for higher education. "Leaving school with no credential — and often with debt — is a very unfavorable situation. We need these students to succeed."

Indiana State University in Terre Haute, Ind., piloted InsideTrack coaching for first-year students during the 2013-2014 academic year. Among the students who received coaching were 21st Century Scholars.

"The coaching has helped students to increase self-efficacy, to work against that sense of not belonging, of being an imposter," says Linda Maule, dean of Indiana State's University College program for first-year students. "InsideTrack coaching

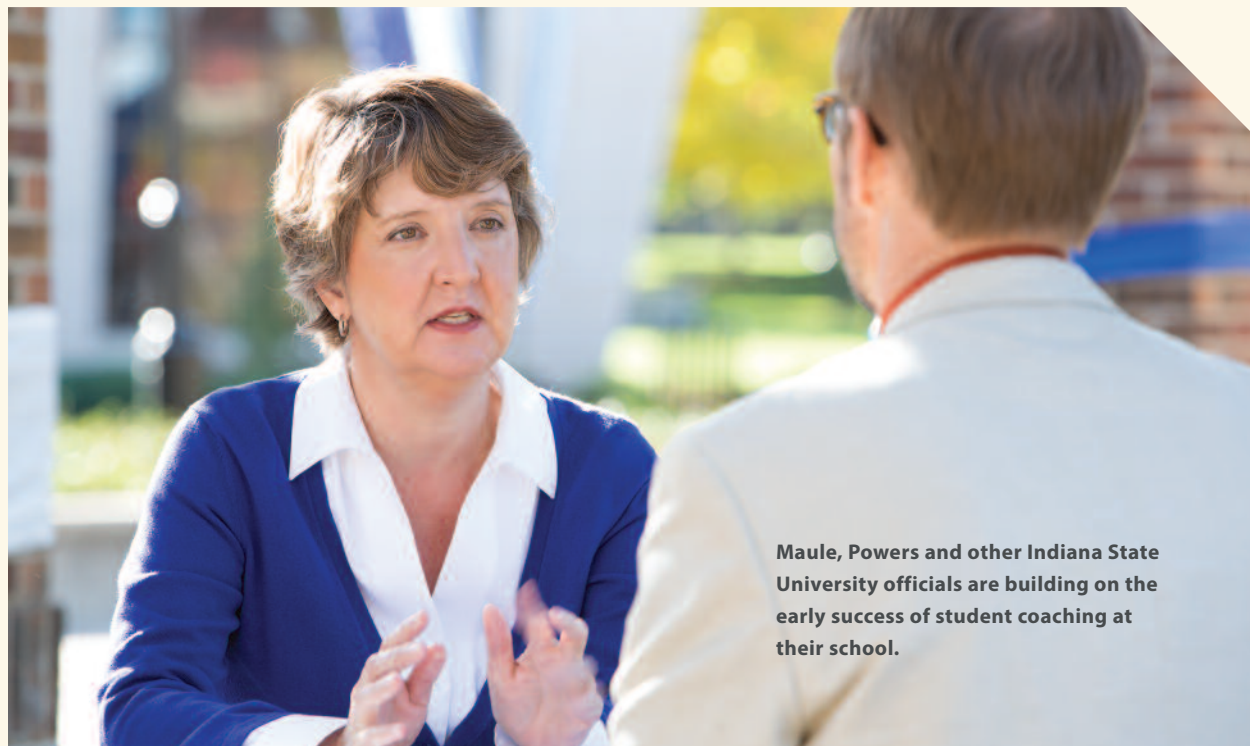
helps students develop cognitive and emotional skills to navigate a complex system on their own.”

Stewart, the Indiana State student, is a 21st Century Scholar who believes that coaching is the reason she remains on pace to graduate on time. Without it, she says, she’d still be prone to procrastinate, unsure where to go for on-campus help, and unaware of some of the steps to receive financial aid.

“If not for the coaching, I’d be trying to retake the classes I failed my freshman year,” says Stewart, a 20-year-old Indianapolis native.

InsideTrack reports that the retention rate for 21st Century Scholars who received coaching last school year was 5.9 percent higher than the retention rate for 21st Century Scholars who did not receive coaching.

Through the 21st Century Scholars coaching initiative, Indiana State wants to build on the early successes of its coaching efforts, continue to evaluate the impact of the work, and adapt the school’s student support services as needed. InsideTrack projects an increase of 10 to 15 percent in the college completion rates of 21st Century Scholars served through the coaching program.



Maule, Powers and other Indiana State University officials are building on the early success of student coaching at their school.

Instead, she passed those classes, earning 34 credit hours her freshman year. She continues to abide by the lessons her InsideTrack coach taught her during her first year on campus.

That willingness to continue with the behaviors learned during phone and in-person coaching sessions — even after the coaching ends — is the goal, says Felicia Wetzel, an InsideTrack coach who assisted Stewart.

During one-on-one meetings, coaches and students talk about academic, social and other concerns and establish plans for addressing any issues that arise. The coaches then follow up with students regarding any actions those students were to take.

“My coach was something like a conscience,” Stewart says. “I learned that no one else was going to do this for me. I was going to have to stay focused and committed.”

The three schools involved this year will continue next academic year using the additional tuition revenue and state funding that would result from the anticipated improvement in student retention.

“The anticipation is that we will see a noticeable bump in retention next year,” says Joshua Powers, Indiana State associate vice president for student success. “The resources of USA Funds are extraordinarily important in making that happen. They are jump-starting a process that should pay dividends for years to come.” ▼

Colleges Turn to Powerful Default Prevention Tool

When the U.S. Department of Education began measuring student loan default rates by three-year cohorts of borrowers, instead of two-year cohorts, Francisco Tostado expected his school's default rate to increase.

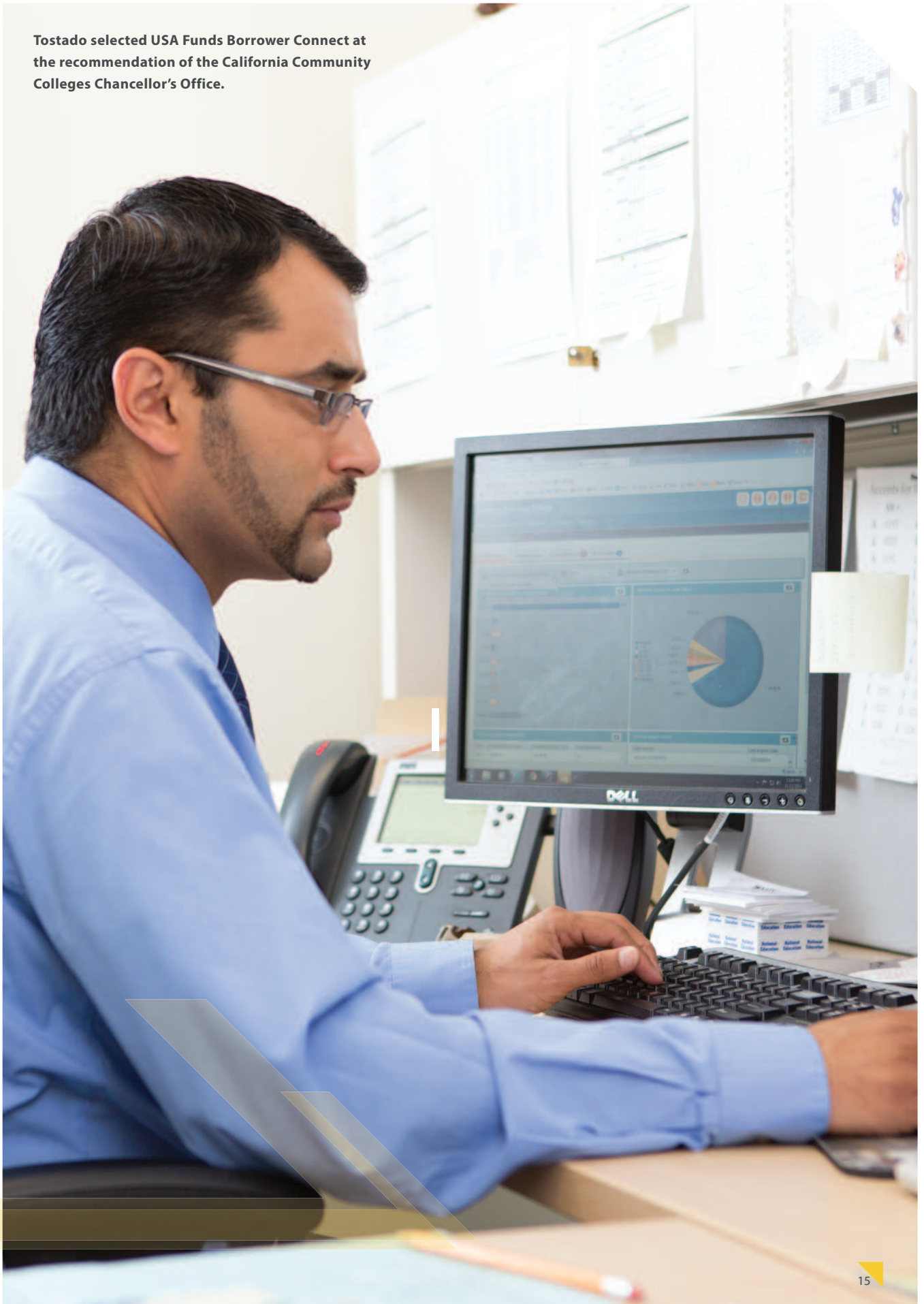
Monterey Peninsula College in California, where Tostado is director of student financial services, began a campus-wide approach to default prevention. And now that comprehensive effort has a new tool: USA Funds Borrower Connect™.

"Because their default rates were so high, a lot of colleges were walking away from the federal loan program. But we believe federal loans are a benefit to students who need them," says Tostado. "We have to make students aware that it is their responsibility to pay the loans back, and USA Funds Borrower Connect definitely is a time-saving way to contact students to let them know what to do."

Francisco Tostado of Monterey Peninsula College — shown with colleague Danielle Hodgkins — implemented comprehensive default prevention.



Tostado selected USA Funds Borrower Connect at the recommendation of the California Community Colleges Chancellor's Office.



Tostado says USA Funds Borrower Connect is part of an effort he hopes will be “a win for our students and a win for our school.” Shown here are MPC students Deliyah Murphy (left) and Brett Shane.



Monterey Peninsula College offers 110 associate degree and certificate programs to 15,000 students. The school began using USA Funds Borrower Connect in 2014, after the California Community Colleges Chancellor's Office began recommending the tool to the system's 112 schools — particularly those that, like MPC, have cohort default rates between 20 and 29 percent.

USA Funds Borrower Connect is an award-winning Web-based tool that automates borrower communication to promote successful student loan repayment. In 2014 USA Funds enhanced the service, offering predictive analytics to identify borrowers at highest risk of default.

At MPC, Tostado and another financial aid staff member dedicated to default prevention have enlisted USA Funds Borrower Connect to broaden the scope of their borrower contact.

USA Funds Borrower Connect is guiding the school's efforts to conduct earlier outreach to borrowers. Tostado plans monthly contact with delinquent borrowers through letters and emails. “I think if we're persistent in contacting students, we can help them understand they are personally responsible for the money they borrow and that there are consequences if they default,” he says.

Along with ramping up its borrower communication efforts, MPC's campus-wide default prevention strategy includes messages about student loans and other financial aid in the school's “introduction to college” courses. Financial aid staff also stress the responsibilities of borrowing during student orientation and with students who fail to meet federal standards for satisfactory academic progress. And Tostado and his seven-member financial aid team encourage students to borrow as little as possible while they are at MPC.

Tostado hopes to lower MPC's cohort default rate to 15 percent or below. But he says the ultimate goal is to change the mindset of MPC's borrowers.

“We hope it will make a big shift in what students understand about what borrowing entails,” he says.

The California Community Colleges Chancellor's Office is spearheading a system-wide initiative to help ensure that more borrowers stay out of student loan delinquency and default. As part of that effort, the Chancellor's Office is providing the system's colleges with its recommendations on default prevention services based on the schools' needs and cohort default rates. The office is helping to fund the colleges' use of those recommended tools.

“We’re contacting borrowers earlier
in repayment without creating a
major change in our workload.”

— Francisco Tostado, Monterey Peninsula College



"USA Funds Borrower Connect is an integral piece of our default prevention initiative," says Rhonda Mohr, a dean in the Chancellor's Office Student Services and Special Programs Division. "It has all the functionality we were looking for — the ability to help with contact campaigns, tracking cohort default rates, and tracking delinquency and number of days delinquent. It's clear and easy to use."

Tostado says it's that ease of use that has made USA Funds Borrower Connect a good fit for his school.

"We're contacting borrowers earlier in repayment without

creating a major change in our workload," he says. "We can easily track students at earlier stages of delinquency, and if we can connect with them early on, that will be a tremendous benefit."

"For students to get an education and repay their loans is a win for our students and a win for our school." ▼



In 2014 Tostado began working with Chris Jordan of USA Funds to address default prevention.

Financial Highlights

Operating Fund (in thousands)

	FY 2013	FY 2014
Total Assets	\$1,179,323	\$1,288,047
Total Liabilities	\$332,483	\$256,555
Net Assets	\$846,840	\$1,031,492
Total Revenue	\$554,267	\$599,426
Excess Revenue Over Expenses	\$160,614	\$171,147

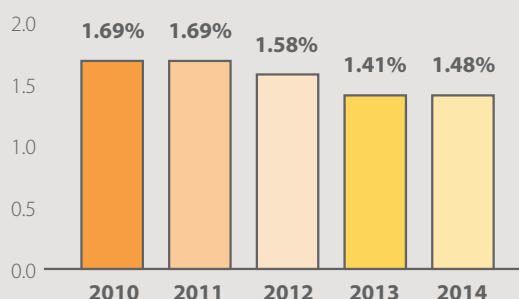
The Agency Operating Fund includes USA Funds-owned assets that may be applied to a wide range of initiatives in support of financial aid-related activities. USA Funds' total operating assets include \$193 million and \$157 million as of Sept. 30, 2013, and Sept. 30, 2014, respectively, in assets held in trust on behalf of the Federal Reserve Fund.

Federal Reserve Fund (in millions)

	FY 2013	FY 2014
Total Reserves	\$193	\$157
Total Loan Guarantees Outstanding	\$61,619	\$56,824
Reserve Ratio	0.31%	0.28%

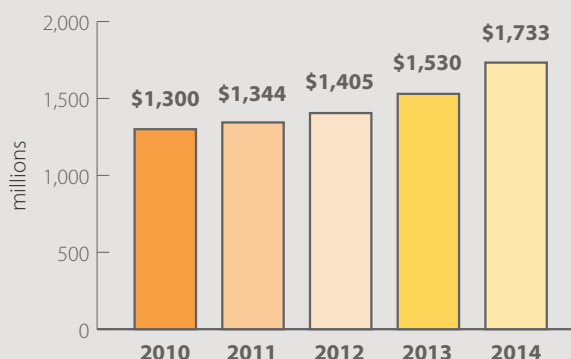
The Federal Reserve Fund consists of federally owned resources managed by USA Funds to pay lender claims and support default prevention efforts in USA Funds' role as a guarantor of federal student loans. As a guarantor of federal education loans, USA Funds is required to maintain reserves equal to at least 0.25 percent of the value of its outstanding loan guarantees.

Annual Default Rate FY 2010–2014



The annual default rate compares the dollars in default on loans guaranteed by USA Funds against the dollar value of all USA Funds-guaranteed loans in repayment at the start of the year.

Default Recoveries FY 2010–2014



During fiscal 2014, USA Funds' default recovery efforts collected more than \$1.7 billion, of which more than \$1 billion was remitted to the federal government. This figure excludes \$125 million in collections from Internal Revenue Service federal tax refund offset. ▼

Corporate Directory

Board of Trustees

Ike G. Batalis

*Chairman, USA Funds
President and Chief Executive Officer
Batalis and Associates LLC
Bluffton, S.C.*

The Rev. E. William Beauchamp, C.S.C.

*President Emeritus
University of Portland
Portland, Ore.*

Marlene V. Coulis

*President
Coulis Consulting
Chicago*

Blake E. Devitt

*Retired Senior Audit Partner
Ernst & Young LLP
Sanibel, Fla.*

Marshall C. Grigsby

*President and Chief Executive Officer
Grigsby and Associates LLC
Silver Spring, Md.*

William D. Hansen

*President and Chief Executive Officer
USA Funds
Indianapolis*

Michael D. King *(effective Jan. 1, 2015)*

*Vice President and General Manager,
Global Education Industry
IBM
Los Angeles*

Norman Lefstein *(through Dec. 31, 2014)*

*Professor of Law and Dean Emeritus
Indiana University
Robert H. McKinney School of Law
Indianapolis*

Erik I. Moreno

*Senior Vice President,
Corporate Development
Fox Networks Group
Los Angeles*

Ilene H. Nagel

*Leader, Higher Education Practice
Russell Reynolds Associates
Santa Barbara, Calif.*

William R. Neale

*Partner
Krieg DeVault LLP
Indianapolis*

Ernest J. Newborn II

*Senior Vice President, General Counsel
and Secretary
USI Inc.
Valhalla, N.Y.*

Edward R. Schmidt

*President
Silver Creek Partners LLC
Zionsville, Ind.*

Executive Management

William D. Hansen

President and Chief Executive Officer

David B. Boodt

*Executive Vice President and
General Counsel*

Carol D'Amico

*Executive Vice President
National Engagement and Philanthropy*

Stephen C. Ham

*Executive Vice President and
Chief Financial Officer*

Mark L. Pelesh

*Executive Vice President
Corporate and Business Development*

Credits and Acknowledgments

Editorial

Trisha Turner and **Robert Murray**

Design

Scott Meyer

Photography and Video

Stephen Hill Photography

Printing

Metropolitan Printing Service Inc.

Independent Auditors

Ernst & Young LLP, Indianapolis

We gratefully acknowledge the individuals and organizations that allowed us to quote, video record and photograph them for this report.

For additional copies of the 2014 USA Funds Annual Report, please write to: Manager, Corporate Communications; USA Funds; P.O. Box 6028; Indianapolis, Indiana, 46206.

Completion With a PurposeSM

www.usafunds.org

USA Funds® is a nonprofit corporation that works to enhance postsecondary education preparedness, access and success by providing and supporting financial and other valued services.

