AGENDA

FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

November 3, 2016

1. REVIEW OF AUDITED FINANCIAL STATEMENTS

A report will be presented on the audited financial statements for the fiscal year ending June 30, 2016 (Attachment A).

2. REPORT OF CHANGE ORDERS ISSUED BY VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

A summary of construction change orders approved by the vice president for Finance and Administration (Attachment B) will be reviewed.

3. APPROVAL OF CONSTRUCTION CHANGE ORDERS

A construction change order requiring approval of the committee will be reviewed (Attachment C).

Approval of the change order in Attachment C is recommended.

University Of Southern Indiana
Statement of Net Position
As of June 30, 2016 and 2015

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

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

University of Southern Indiana
Statement of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2016 and 2015

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

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

University Of Southern Indiana
Statement of Cash Flows
As of June 30, 2016 and 2015

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

		2016		2015
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:				
Operating loss	$	(74,675,835)	$	(66,030,564)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:				
Depreciation expense		13,350,787		13,166,463
Provision for uncollectible accounts		1,714,915		35,534
Changes in assets, liabilities, and deferred resources:				
Operating receivables		(2,182,432)		7,755
Inventories		402,732		(97,764)
Other assets		(145,573)		34,811
Accounts payable		801,444		784,830
Unearned revenue		(169,532)		(110,640)
Deposits held for others		4,688		(27,198)
Employee and retiree benefits		2,160,673		1,008,631
Loans to students		(26,065)		-
Net cash used by operating activities:	**$**	**(58,764,198)**	**$**	**(51,228,142)**

Noncash Transactions				
Unrealized gain/(loss) on short-term investments	$	30,403	$	13,638
Unrealized gain/(loss) on long-term investments		78,956		(433,393)
Equipment		660,151		157,944
Capital lease		(660,151)		(157,944)
Net noncash transactions	**$**	**109,359**	**$**	**(419,755)**

NOTE 1 – Summary of Significant Accounting Policies

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

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

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

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

Accounting Methods and Policies

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

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

Capital Assets Accounting Policies

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

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

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

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

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

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

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

Net Position

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

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

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

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

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

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

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

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

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

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

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

The University prepares its financial statements according to the standards set by the Governmental Accounting Standards Board (GASB). During the 2015-2016 fiscal year, the University applied GASB Statement 72, *Fair Value Measurement and Application*, portions of GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement*

68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* and GASB Statement 79, *Certain External Investment Pools and Pool Participants*, as required.

Change in Accounting Estimate

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

NOTE 2 – Component Units

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

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

During the fiscal year ended June 30, 2016, the University recognized $9,700,426 in direct and indirect support from the USI Foundation for both restricted and unrestricted purposes. Complete financial statements, including explanatory notes, for the USI Foundation can be obtained from the 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, 2016, the bank balances of the University's operating demand deposit accounts were $24,205,619, of which $617,482 was covered by federal depository insurance. The remaining balance was insured by the Public Deposit Insurance Fund, which covers all public funds held in approved Indiana depositories. None of these funds were exposed to custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or collateral securities that are in the possession of an outside party.

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

			Maturities (in Years)			
Investment Type	**Market Value**	**Type %**	**Less than 1 year**	**1 – 5 years**	**6 – 10 years**	**More than 10 years**
Certificates of deposit	$29,775,462	38.6%	$15,470,202	$14,305,260		
U S Treasury & agency securities	47,325,063	61.4%	1,604,143	39,068,051	6,415,741	237,128
Totals	**$77,100,525**	100.0%	**$17,074,345**	**$53,373,311**	**$6,415,741**	**$237,128**
Maturity %	100.0%		22.2%	69.2%	8.3%	0.3%

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

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

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

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

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

NOTE 4 – Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs. GASB Statement 72, *Fair Value Measurement and Application,* established a hierarchy of inputs to measure fair value. The hierarchy includes the following three levels.

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

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

Level 3 Unobservable inputs for an asset or liability

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

FAIR VALUE MEASUREMENTS

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

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

NOTE 5 – Derivative Instruments

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

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

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

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

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

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

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

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

Termination Risk — The University or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The University 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 – Accounts Receivable

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

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

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.

NOTE 7 – Debt Related to Capital Assets

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

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

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

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

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

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

Annual Debt Service Requirements

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

NOTE 8 – Lease Obligations

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

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

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

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

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

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

NOTE 9 - Compensated Absence Liability
Vacation leave and similar compensated absences (such as sick leave) based on past service are accrued as a liability as earned. The liability is measured at the salary rate in effect at the balance sheet date, and additional amounts are accrued for all required salary-related payments due a terminating or retiring employee. The salary-related payments subject to this accrual include the University's share of Social Security and Medicare taxes, as well as the University's contributions to a defined benefit pension plan.

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

NOTE 10 – Termination Benefits Liability
GASB Statement No. 47, *Accounting for Termination Benefits,* requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of USI's regular full-time faculty and administrative staff who have been employed in an eligible position prior to January 1, 1999, who have 15 or more consecutive years of service, and who are age 60 or older may receive early-retirement benefits upon request. These benefits include a lump-sum retirement service pay calculated as a percent of final-year salary based on length of service, not to exceed 25 percent, and continued contribution to retirement annuity contracts through the end of the fiscal year in which the retiree reaches age 66. Salaries are assumed to increase at a rate of 1.8 percent annually for purposes of

calculating this liability.

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

NOTE 11 – Retirement Plans

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

Defined Contribution Retirement Plan

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

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

- Amended the defined contribution plan to allow for a fixed employer contribution of 11 percent of appointment salary, effective July 1, 2014.
- Included a grandfather clause that allows the following two groups to continue to receive the current 11 percent/15 percent contribution:
  - Retired employees who began an early retirement benefit period before or on July 1, 2014, for the remainder of the post-retirement contribution period; and
  - Disabled retired employees determined to be eligible for post-retirement benefits under the Long-Term Disability plan in place through December 31, 2013, with the Standard,

for disabilities that are determined to have begun in 2013 or earlier, even if approved after 2013, for the length of such disability period.

- Provided a special one-time base salary increase to all full-time faculty and administrators hired on or before June 30, 2014, and to written offers for full-time faculty and administrators extended on or before March 6, 2014, equal to the amount of the University contribution decrease on their June 30, 2014, salary, plus the faculty or administrator's actual Social Security tax (if any) and Medicare tax on that one-time basis salary increase.

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

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

Defined Benefit Retirement Plan

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

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

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

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

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

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

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

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

Year ended June 30:	
2016	420,026
2017	420,026
2018	211,228
2019	326,648
2020	-
Thereafter	-
Total	1,377,928

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

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

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

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

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

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

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

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

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

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

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

In 2005, the Indiana General Assembly passed legislation that required employers who chose to freeze participation in PERF to pay their share of the pension plan's unfunded liability. The University's share of this liability was $347,008 which was paid in full on June 27, 2016.

NOTE 12 – **Risk Management**

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

The University has two health care plans available for new enrollment of full-time benefit-eligible employees; one of these plans is also available to retirees. A third health care plan is only available to retirees. All of the plans are funded under a cost-plus arrangement whereby the University is billed for actual claims paid by the insurer on behalf of the covered participants plus administrative fees. For fiscal year ended on June 30, 2016, the University's contribution to these health care plans totaled

$11,156,411 for 1,074 employees and $1,717,042 for 363 retirees. For the same period, employees and retirees made contributions totaling $2,704,711 and $629,212 respectively.

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

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

NOTE 13 - VEBA Trust

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

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

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

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

NOTE 14 - Other Postemployment Benefits (OPEB)

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

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

Annual OPEB Cost and Net OPEB Obligation. The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The 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.

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

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

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

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

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

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

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

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

Changes to Retiree 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 15 – Functional Expenditures

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

FUNCTION	SALARIES & WAGES	BENEFITS	SCHOLAR-SHIPS	UTILITIES	SUPPLIES & OTHER SVCS	DEPREC-IATION	2016 TOTAL	2015 TOTAL
Instruction	$31,394,059	$10,679,005			$2,978,673		$45,051,737	$43,162,654
Academic Support	6,074,421	2,575,614			5,061,800		13,711,835	11,383,124
Student Services	4,955,623	2,232,396			2,709,651		9,897,670	8,795,999
Institutional Support	8,599,920	4,989,353			4,330,367		17,919,640	18,853,539
Operation & Maintenance of Plant	3,780,286	2,330,571		4,481,604	3,938,149		14,530,610	12,795,970
Depreciation						13,350,787	13,350,787	13,166,463
Student Aid	13,600	6,619	7,406,676				7,426,895	7,489,920
Public Service	1,517,595	507,874			1,073,728		3,099,197	3,159,109
Research	36,095	2,991			71,308		110,394	204,788

Auxiliary Enterprises	4,440,353	2,574,050		908,995	16,938,758		24,862,156	23,280,123
TOTAL	**$60,811,952**	**$25,898,473**	**$7,406,676**	**$5,390,599**	**$37,102,434**	**$13,350,787**	**$149,960,921**	**$142,291,689**

NOTE 16 – Construction in Progress
Construction in progress at year-end totals $5.1 million (see capital assets table below). Projects under construction include the renovation of the Technology Center; the renovation of the 2nd and 3rd floors and an upgrade of the electrical in the Information Technology server room in the Orr Center; renovation of the Saletta and Marshall apartment buildings and the Fairs Residence Life Center in the McDonald West student housing complex and the Welsh, Schricker, Branigin and Townsend apartment buildings in the O'Daniel North student housing complex; replacement of the exterior steps for student apartment buildings; replacement of the carpet in Newman Hall and the renovation of the offices in the Governor and Ruston halls in student housing; an advising center in the College of Liberal Arts; renovation of the VP of Enrollment Management offices; renovation of the Chick-Fil-A/Steak-N-Shake areas and Suites 205/206, as well as cone repairs, in the University Center building; repairs and improvements to the Creative and Print Services building; renovation of the Wright Administration building main lounge; renovation of the Rice Library lower level kitchen; improvements to parking lot A and B; replacement of building façade sealant; installation of additional drainage for parking lot K and raised campus pedestrian crosswalks; repairs and replacement of the roofs of the Physical Plant Services building, the Orr Center and the Science Center penthouse; an upgrade of the energy management system; and in New Harmony, the replacement of the Atheneum roof; repairs to the Schnee-Ribeyre-Elliott building; the repair and replacement of the roof of the Lichtenberger building; repairs to the Cooper Shop building; and the installation of a dock at the Murphy Auditorium. The total expended to date on the projects is $4.2 million, and the estimated additional cost to complete them is $5.7 million.

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

NOTE 17 – Capital Assets, Net of Accumulated Depreciation
The table below displays the increase in total capital assets from $348 million at July 1, 2015, to $358.3 million on June 30, 2016. Gross capital assets, less accumulated depreciation of $179.7 million, equal net capital assets of $178.6 million at June 30, 2016.

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

University of Southern Indiana
Fiscal Year Ended June 30, 2016

Management's Discussion and Analysis

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

Using the Annual Report

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

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

Statement of Net Position

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

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

Assets

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

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

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

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

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

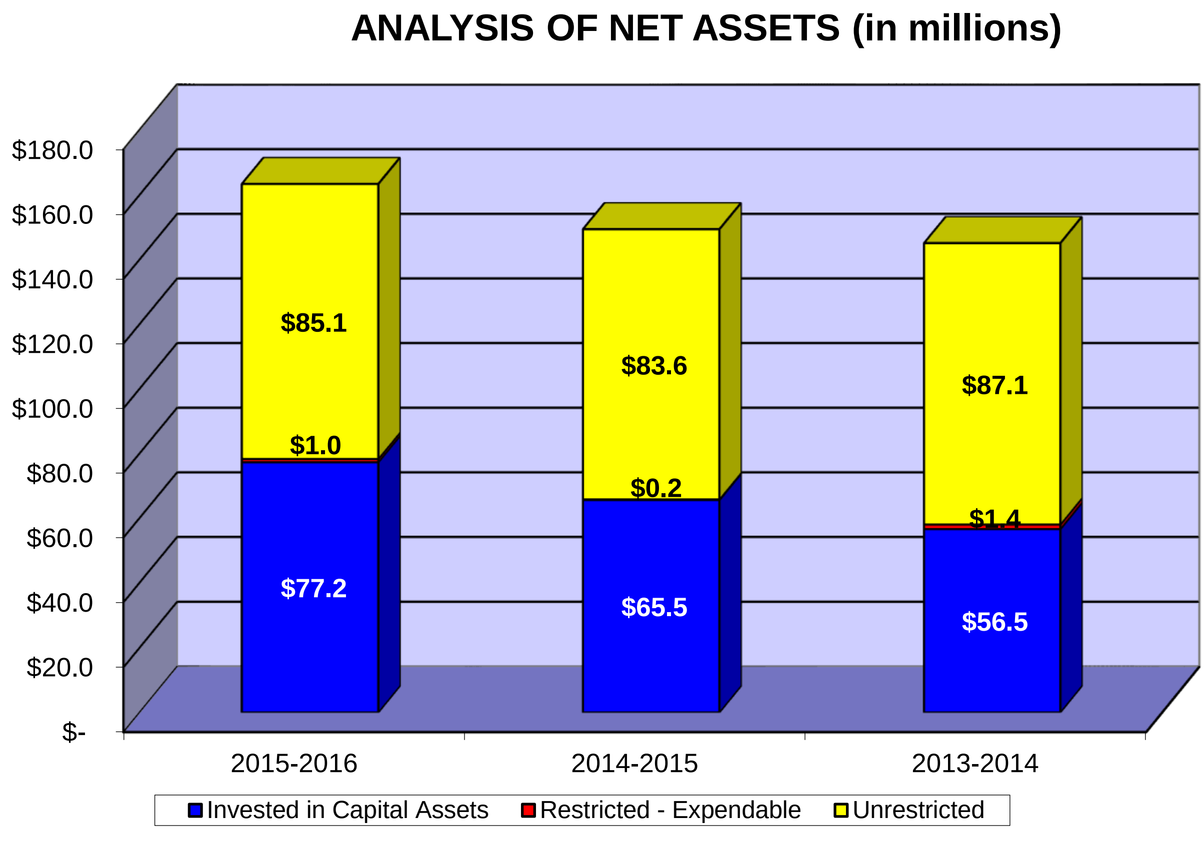
- Accrued payroll, related benefits, and deductions increased $455,000 in 2016, which is consistent with the $464,000 increase in 2015 following a $148,000 increase in 2014.
- Total notes, bonds and leases payable decreased by $11.3 million during 2016. Noncurrent bonds payable dropped $10.3 million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

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

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

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

- $2.7 million reserve for insurance and equipment
- $8.9 million reserve for medical premiums



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”.

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

Revenues

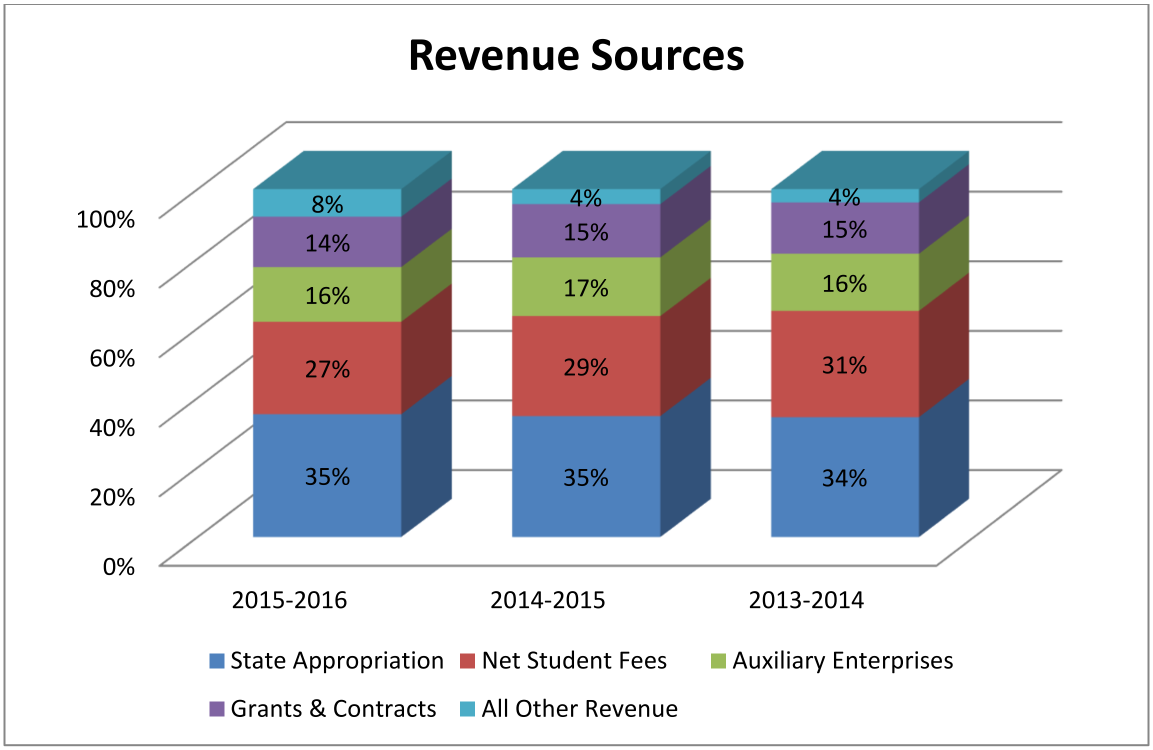
Operating revenues declined marginally by $976,000 (1.3 percent) in 2016 compared to a $1.8 million (2.3 percent) decrease in 2015 and a $2.2 million (2.9 percent) increase in 2014 The 2016 decrease is comprised of the following significant elements.

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

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

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

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



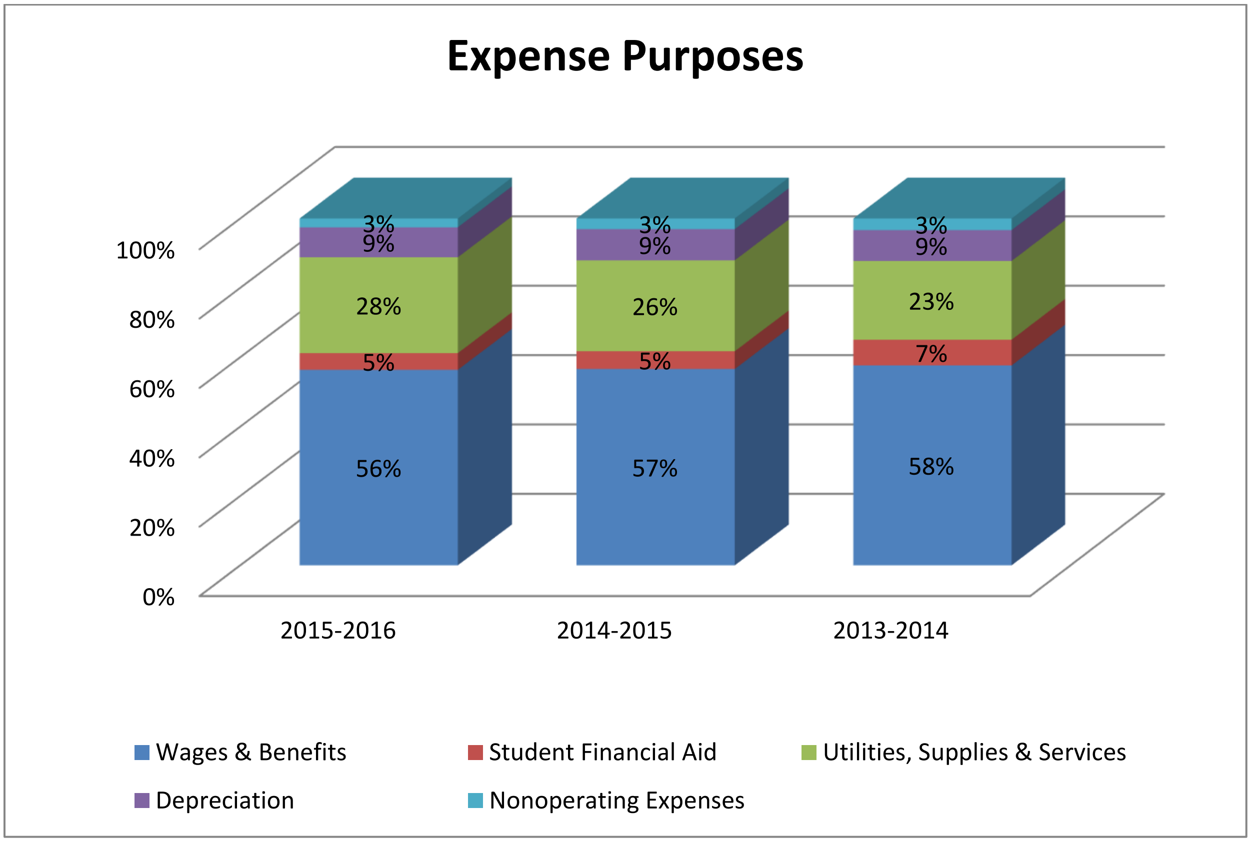
Expenses

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

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

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

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



Capital Grants and Gifts

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

Change in Net Position

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

Statement of Cash Flows

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

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

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

Operating activities

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

Noncapital financing activities

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

Capital financing activities

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

Investing activities

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

Summary of Statement of Cash Flows

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

Factors Impacting Future Periods

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

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

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

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

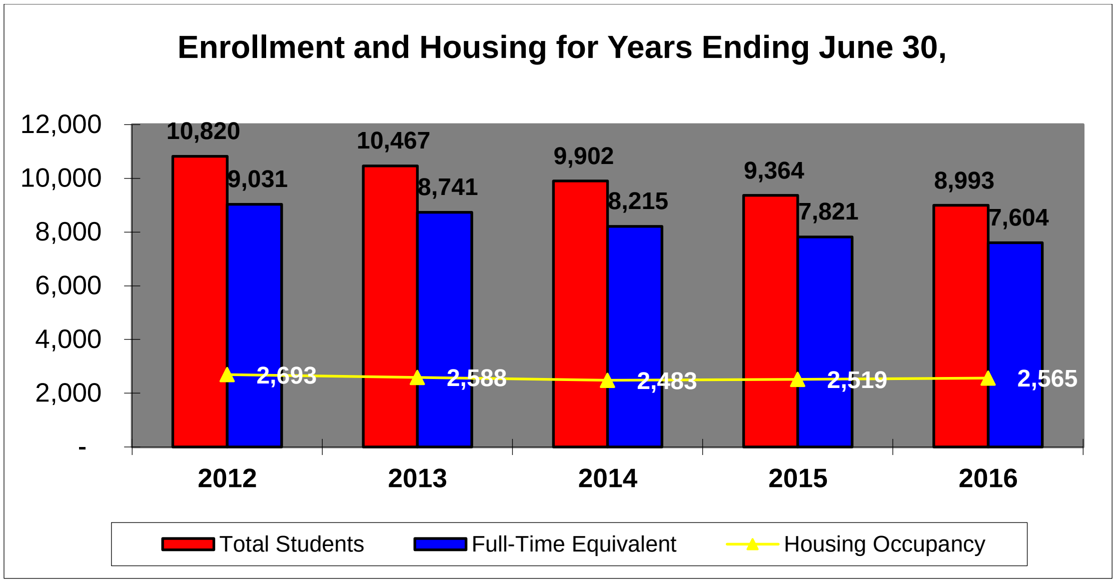
The University has also begun the process to update its ten-year master plan which was last completed in 2006. The focus of the 2016 master planning process will be to integrate the strategic and enrollment objectives into a plan that will support those activities while continuing to be strong financial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

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

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

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

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


Enrollment and Housing for Years Ending June 30,
12,000
10,000
8,000
6,000
4,000
2,000
-
10,820
9,031
2,693
10,467
8,741
2,588
9,902
8,215
2,483
9,364
7,821
2,519
8,993
7,604
2,565
2012
2013
2014
2015
2016
Total Students
Full-Time Equivalent
Housing Occupancy

Summary of Construction Change Orders
Authorized by the Vice President for Finance and Administration

ARTS CENTER SKYLIGHT REPLACEMENT

Deig Bros. Lumber and Construction Co, Inc.

CO-005	Repairs to Roof Area Above Skylight	$ 14,304

CHICK-FIL-A/STEAK ’N SHAKE

Danco Construction

CO-001	MEP Additional Work (removing add. Drains/sinks, additional electrical work)	$ 17,325
CO-002	GC Additional Work (tile changes, add. Counter brackets, drywall work and painting)	$ 9,950

APARTMENT RENOVATION – SALETTA, MARSHALL AND WELSH

Deig Brothers

CO-002	Plumbing Changes, T&M Work, Recalibrating of PTAC Units, etc.	$ 18,055

Summary of Construction Change Order Recommended for Authorization

APARTMENT RENOVATION – SALETTA, MARSHALL, WELSH

Deig Brothers

CO-001	Replaced four sets of exterior stairs, added access panels, added cabinetry, Replaced extra flooring, etc.	$ 88,592