MINUTES

JOINT
FINANCE/AUDIT COMMITTEE & ACADEMIC AFFAIRS AND ENROLLMENT MANAGEMENT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

November 2, 2017

The Finance/Audit Committee and the Academic Affairs and Enrollment Management Committee of the University of Southern Indiana Board of Trustees met in joint session on Thursday, November 2, 2017, in the Griffin Center on campus. Present were Finance/Audit Committee Chair Ronald D. Romain ’73; Academic Affairs and Enrollment Management Committee Chair Kenneth L. Sendelweck ’76; and Trustees Harold Calloway; John M. Dunn; Jeffrey L. Knight; Anjali Patel ’19; Ellis S. Redd and Ted Ziemer Jr. Trustee Amy MacDonell was absent. Also in attendance were President Linda L. M. Bennett; Provost Ronald S. Rochon; Vice President for Finance and Administration Steven J. Bridges ’89 M’95; Vice President for Government and University Relations Cynthia S. Brinker; Vice President for Enrollment Management Andrew W. Wright; and Vice President for Development David A. Bower.

Finance/Audit Committee Chair Ron Romain called the joint meeting to order at 9:05 a.m.

1. REVIEW OF AUDITED FINANCIAL STATEMENTS

Mr. Romain called on Vice President Bridges, who reported the financial statements summarized in Attachment A have been approved by the Indiana State Board of Accounts. Mr. Bridges introduced University Controller and Assistant Treasurer Jeffrey Sickman for a report.

Mr. Sickman began with an overview of financial performance in 2017 and discussed details in the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, noting that the statements under review do not include USI Foundation information as it is legally a separate entity. He stated in 2017 USI’s net position increased by $6.7 million, with an increase of $5.2 million in total assets, and a decrease of $2.4 million in total liabilities.

Mr. Sickman discussed the Governmental Accounting Standards Board (GASB) and the impact of the GASB 75 adjustment for 2018. He explained the GASB 75 is the future expected liability of retirement benefits and the GASB 75 adjustment of $12 million would result in an estimated beginning balance of $158 million for 2018.

In conclusion, Mr. Sickman gave an overview of USI’s 2018 financial outlook noting continued improvement in net position through asset growth and debt reduction. He stated USI would continue to monitor the effect of the proposed London Interbank Offered Rate (LIBOR) elimination which is a derivative instrument tied to the interest rates of bond issues.

Mr. Sickman reviewed the launch of the Financial CARE Team in 2018, an initiative that will aid in the management of receivables through proactively identifying students in financial distress then linking them to resources that would assist with debt payment.

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

Mr. Romain called on Vice President Bridges, who reviewed the construction change orders in Attachment B.

3. ACADEMIC PARTNERSHIPS UPDATES

Academic Affairs and Enrollment Management Committee Chair Sendelweck called on Dr. Ronald S. Rochon, provost, who introduced Mr. Britt Nichols, senior vice president of strategic management at Academic Partnerships to give an overview of current trends in online instruction, and Deans Mohammed Khayum and Ann White to give updates regarding USI’s MBA and RN to BSN online programs. Dr. Jack Smothers, Master of Business Administration Director and Dr. Jeri Burger, Chair of RN Completion Program, also were introduced by the Provost to answer questions specific to each of the online programs.

Mr. Nichols began his report showing the current trends with digital disruption, the change that occurs when new digital technologies and business models affect the value proposition of existing goods and services, in which online education falls under. He noted online programs have continued to grow at a rate of 10.2 percent since 2012, where on campus enrollments have declined 5.1 percent. Mr. Nichols outlined the factors most important to fully-online students with price being most important and brand being the least. He noted USI is competitively priced at $12,900 for the MBA program and $8,910 for the RN-BSN program.

Mr. Nichols discussed the factors needed to unlock the potential of attracting online student populations including: high-quality, affordable programs; career-relevant portfolio of high demand programs including specializations; removal of barriers to admission; fast response times for communications and admission enrollment processes; and asynchronous, accredited online programs with six to eight starts per year. He noted 1,200 US universities offer fully online degrees. USI and Academic Partnerships 2017-2018 market strategy focused on three goals, optimizing existing levers and expand for growth, expanding content to increase organic leads, and engaging students utilizing video and other tools to increase conversation. He concluded by showing geographic maps plotting enrollments, applications and inquiries by state.

Dr. Mohammed Khayum, dean of the Romain College of Business, gave an update on USI's online MBA program. He noted enrollment has grown from 89 to 395 students since August 2016. Projected enrollment for the end of year three is 433 students. Dr. Khayum pointed out that 65 percent of MBA students are between the ages of 25 and 39, and the gender composition is relatively equal between male and female. Most of the student population is located in the Midwest region and are enrolled in the general MBA concentration.

Dr. Ann White, dean of the College of Nursing and Health Professions, reported that after two starts the online RN-BSN has 77 students enrolled in the program. She noted the students enrolled are mostly women, but is seeing significant increases in male enrollment. There is a trend of younger students with over 65 percent falling within the 21 to 40 year old range. In conjunction with that, almost 64 percent of those students have held their RN license between one to five years, making the clinical component of the program essential in maintaining and meeting the BSN competencies. She concluded with an overview of future online opportunities including a Bachelor of Science in Respiratory Therapy and a Master of Science in Nursing.

There being no further business, Chair of Academic Affairs and Enrollment Management Committee Ken Sendelweck adjourned the meeting at 10:23 a.m.

University Of Southern Indiana
Statement of Net Position
As of June 30, 2017 and 2016

		2017		2016
ASSETS				
Current Assets				
Cash and cash equivalents	$	17,641,471	$	26,801,969
Short term investments		20,375,311		17,074,345
Accounts receivable, net		10,172,146		11,505,058
Due from the State of Indiana		671,424		3,496,055
Inventories		1,550,701		1,370,569
Deposits with bond trustee		8,018,871		-
Other current assets		2,009,103		862,809
Total current assets	$	60,439,027	$	61,110,805
Noncurrent Assets				
Long-term investments	$	64,090,712	$	60,026,180
Deposits with bond trustee		106,120		416,861
Capital assets, net		180,762,147		178,605,172
Total noncurrent assets	$	244,958,979	$	239,048,213
Total Assets	**$**	**305,398,006**	**$**	**300,159,018**
DEFERRED OUTFLOW OF RESOURCES				
Hedging derivative instruments	$	1,215,237	$	1,897,793
Deferred outflow of resources related to pensions		3,405,907		3,491,997
Total deferred outflow of resources	$	4,621,144	$	5,389,790
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	1,760,803	$	2,091,778
Accrued payroll, benefits, and deductions		6,544,838		7,306,433
Notes, bonds, and leases payable		8,664,611		10,427,995
Debt interest payable		690,057		951,968
Unearned revenue		1,406,893		1,311,185
Other current liabilities		593,547		688,632
Total current liabilities	$	19,660,749	$	22,777,991
Noncurrent Liabilities				
Notes, bonds, and leases payable	$	90,037,044	$	90,563,824
Derivative instruments--interest rate swap		1,215,237		1,897,793
Other postemployment benefits		17,487,663		15,605,114
Compensated absences and termination benefits		2,959,029		2,610,390
Net pension liability		7,449,403		7,749,103
Other noncurrent liabilities		21,663		23,126
Total Noncurrent liabilities	$	119,170,039	$	118,449,350
Total Liabilities	**$**	**138,830,788**	**$**	**141,227,341**
DEFERRED INFLOW OF RESOURCES				
Deferred inflow of resources related to pensions	$	1,131,279	$	943,768
NET POSITION				
Net investment in capital assets	$	81,770,230	$	77,194,649
Restricted				
Expendable				
Capital Project		6,668,424		507,456
Debt Service		120,460		416,861
Scholarship, research, and other		36,489		109,734
Unrestricted		81,461,480		85,148,999
Total Net Position	**$**	**170,057,083**	**$**	**163,377,699**

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, 2017 and 2016

		2017		2016
REVENUES				
Operating Revenues				*Reclass**
Student fees	$	70,253,620	$	67,160,394
Scholarship discounts and allowances		(24,434,934)		(22,523,773)
Grants and contracts		2,121,487		2,004,112
Auxiliary enterprises		28,560,779		26,410,386
Room and board discounts and allowances		(811,070)		(29,930)
Other operating revenues		2,852,746		2,263,897
Total operating revenues	$	78,542,628	$	75,285,086
EXPENSES				
Operating Expenses				
Salaries and wages	$	63,403,236	$	60,811,952
Benefits		26,856,863		25,898,473
Student financial aid		7,518,308		7,406,676
Utilities		5,574,125		5,390,599
Supplies and other services		39,401,716		37,102,434
Depreciation		13,579,006		13,350,787
Total operating expenses	$	156,333,254	$	149,960,921
Operating loss	$	(77,790,626)	$	(74,675,835)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	$	54,051,765	$	55,241,808
Gifts		3,419,324		3,285,325
Federal grants and contracts		12,564,307		12,367,381
State/Local grants and contracts		9,202,081		9,126,728
Nongovernmental grants and contracts		919,021		769,196
Investment income (net of investment expense of $68,103 and $65,887 for 2017 and 2016)		131,247		1,405,474
Interest on capital asset related debt		(3,217,324)		(3,836,822)
Bond issuance costs		(232,791)		-
Other non-operating revenues/(expenses)		(46,109)		(50,952)
Net non-operating revenues (expenses)	$	76,791,521	$	78,308,138
Income before other revenues, expenses, gains or losses	$	(999,105)	$	3,632,303
Capital appropriations	$	7,668,289	$	4,091,049
Capital grants and gifts		10,200		6,336,294
Total other revenues	$	7,678,489	$	10,427,343
Increase in net position	$	6,679,384	$	14,059,646
NET POSITION				
Net position - beginning of year	$	163,377,699	$	149,318,053
Net position - end of year	**$**	**170,057,083**	**$**	**163,377,699**

**See Note 19 in the Notes to Financial Statements*

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, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		*Reclass**
Tuition and fees	$ 46,302,404	$ 46,212,349
Grants and contracts	2,004,420	2,206,631
Payments to suppliers	(39,962,011)	(36,353,168)
Payments for utilities	(5,574,125)	(5,390,598)
Payments to employees	(63,403,801)	(60,684,752)
Payments for benefits	(25,412,804)	(23,410,090)
Payments for scholarships	(7,518,308)	(7,406,676)
Loans issued to students and employees	-	(26,065)
Collection of loans to students and employees	4,730	-
Auxiliary enterprises receipts	27,927,064	26,519,477
Sales and services of educational depts.	841,443	782,803
Other receipts (payments)	2,713,266	(1,214,109)
Net cash used by operating activities	**$ (62,077,722)**	**$ (58,764,198)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$ 54,051,765	$ 55,241,809
Gifts and grants for other than capital purposes	25,403,794	27,701,400
Other non-operating receipts (payments)	(45,895)	90,518
Net cash provided by noncapital financing activities	**$ 79,409,664**	**$ 83,033,727**
Cash Flows from Capital Financing Activities		
Proceeds from capital debt	$ 39,445,000	$ -
Capital appropriations	10,311,833	1,674,265
Capital grants and gifts	10,200	6,336,294
Bond financing costs	(278,899)	(50,952)
Purchase of capital assets	(15,536,379)	(10,660,504)
Principal paid on capital debt	(39,033,870)	(11,926,199)
Interest paid on capital debt and leases	(6,380,132)	(4,390,012)
Deposits with trustees	(7,708,131)	(297,423)
Net cash used by capital financing activities	**$ (19,170,378)**	**$ (19,314,531)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	$ 40,751,455	$ 46,800,692
Interest on investments	718,855	894,129
Purchase of investments	(48,792,372)	(43,900,085)
Net cash used by investing activities	**$ (7,322,062)**	**$ 3,794,736**
Net increase (decrease) in cash	$ (9,160,498)	$ 8,749,734
Cash – beginning of year	26,801,969	18,052,235
Cash – end of year	**$ 17,641,471**	**$ 26,801,969**

		2017		2016
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:				
Operating loss	$	(77,790,626)	$	(74,675,835)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:				
Depreciation expense		13,579,006		13,350,787
Provision for uncollectible accounts		(61,055)		1,714,915
Changes in assets, liabilities, and deferred resources:				
Operating receivables		2,275,992		(2,182,432)
Inventories		(180,132)		402,732
Other assets		(1,063,212)		(145,573)
Accounts payable		(1,141,759)		801,444
Unearned revenue		95,708		(169,532)
Deposits held for others		(1,463)		4,688
Employee and retiree benefits		2,205,089		2,160,673
Loans to students		4,730		(26,065)
Net cash used by operating activities:	**$**	**(62,077,722)**	**$**	**(58,764,198)**

Noncash Transactions				
Unrealized gain/(loss) on short-term investments	$	(31,956)	$	30,403
Unrealized gain/(loss) on long-term investments		(534,067)		78,956
Equipment		199,602		660,151
Capital lease		(199,602)		(660,151)
Bonds payable -- LT and ST Series J		3,458,558		-
Bonds payable -- LT and ST Series L		(3,458,558)		-
Net noncash transactions	**$**	**(566,023)**	**$**	**109,359**

**See Note 19 in the Notes to Financial Statements*

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

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.

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 Revenues, Expenses and Changes in Net Position to prevent the double counting of expenses and the recognition of self-generated revenue.

Restricted and Unrestricted Resources

If both restricted and unrestricted resources are available to be expended for the same purpose or project, the determination of the funding source is made based on relevant facts and circumstances. The fund order is decided on a case-by-case basis.

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, payments for scholarships, and depreciation of capital assets.

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.

Cash and Cash Equivalents
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
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.

Inventory
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.

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 on capital assets, net of accumulated depreciation for current-year activity and accumulated depreciation on the various classes of assets.

The Historic New Harmony buildings are not depreciated due to the age of the buildings. However, the buildings have a historic value so they are maintained. The process for maintaining these buildings is the same as it would be for any other building that the University owns.

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, 2017.

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 $2,859,175. The currently known value is not included in the capitalized asset value at June 30, 2017.

Net Pension Liability

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.

Deferred Outflows and Deferred Inflows

Deferred outflows of resources is a consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net assets that is applicable to a future reporting period.

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.

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

<u>Unrestricted net position</u> 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.

Component Unit
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.

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, 2017, the University recognized $3,568,589 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 2 – Deposits 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, 2017, the bank balances of the University's operating demand deposit accounts were $12,127,220, of which $846,367 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.

Investments – The University's investments at June 30, 2017, 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	33,562,439	39.74%	16,339,209	17,223,230	-	-
Agency securities	47,993,319	56.82%	4,030,229	39,022,579	4,747,810	192,701
U.S. Treasury securities	2,910,265	3.44%	5,874	2,904,391	-	-
Totals	**$84,466,023**	**100%**	**$20,375,312**	**$59,150,200**	**$4,747,810**	**$192,701**
Maturity %	100.0%		24.12%	70.03%	5.62%	0.23%

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 $84.5 million invested, $50.9 million in U.S. 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. All 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 24 percent of investments in 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 $84.5 million in investments, $54.7 million are rated Aaa by Moody's Investors Service. The other $29.8 million in investments are unrated. The unrated investments include Certificates of Deposit and other Treasury and Agency securities without ratings.

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 certificate of deposits and repurchase agreements as valued at the end of the preceding month. At June 30, 2017, the University is in compliance with that policy.

Investments not explicitly guaranteed by the U.S. government are subject to disclosure if any one issuer represents five percent or more of total investments. The $2.9 million invested in U.S. Treasury Securities are the only investments explicitly guaranteed. The following investments are neither guaranteed nor insured by the full faith and credit of the U.S. Treasury:

Bank	Certificates of Deposit	Percentage of CDs	US Agency Securities	Total	Percentage of Total
Banterra Bank	1,017,126	3%	-	**1,017,126**	**1%**
Boonville Fed Savings	936,066	3%	-	**936,066**	**1%**
Evansville Commerce Bank	2,001,751	6%	-	**2,001,751**	**2%**
Fifth Third Bank	3,882,036	12%	31,475,633	**35,357,669**	**43%**
First Federal Savings Bank	2,439,997	7%	-	**2,439,997**	**3%**
First Financial Bank	4,024,214	12%	-	**4,024,214**	**5%**
First Security Bank	4,016,010	12%	-	**4,016,010**	**5%**
German American Bank	4,724,350	14%	2,269,587	**6,993,937**	**8%**
J P Morgan	1,650,211	5%	-	**1,650,211**	**2%**
Legence Bank	2,309,645	7%	-	**2,309,645**	**3%**
Lynnville National Bank	445,807	1%	-	**445,807**	**1%**
Old National Bank	3,269,010	10%	8,720,155	**11,989,165**	**15%**
PNC Bank	800,007	2%	4,005,192	**4,805,199**	**6%**
Regions Bank	754,169	2%	1,522,752	**2,276,921**	**3%**
United Fidelity Bank	1,292,040	4%	-	**1,292,040**	**2%**
Total	**33,562,439**	**100%**	**47,993,319**	**81,555,758**	**100%**

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 3 – 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, 2017.

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	$33,562,439	$33,562,439		
U.S. Treasury securities	2,910,265	2,910,265		
Agency securities	44,951,893		$44,951,893	
Agency mortgage securities	3,041,426		3,041,426	
Total investments	**$84,466,023**	**$36,472,704**	**$47,993,319**	
Derivative Instruments				
Interest rate swap	(1,215,237)		$(1,215,237)	
Total derivative instruments	**$(1,215,237)**	**-**	**$(1,215,237)**	

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, 2017.

NOTE 4 – Derivative Instruments

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2017, classified by type and the fair value changes of those derivative instruments are as follows.

		Change in Fair Value		**Fair Value at June 30, 2017**	
Derivative Instrument	**Type**	**Amount**	**Classification**	**Amount**	**Current Notional**
Series 2006	Cash flow hedge: Pay-fixed interest rate swap	$319,391	Derivative Instrument Interest Rate Swap	$(664,091)	$4,696,543
Series 2008A	Cash flow hedge: Pay-fixed interest rate swap	$363,165	Derivative Instrument Interest Rate Swap	$(551,146)	$7,875,000

As of June 30, 2017, 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, 2017, 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	$4,696,543	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	$7,875,000	7/1/2008	10/1/2021	65% of 3 mo. USD-LIBOR-BBA w/ -1 day look back, 79.0 bps	A3

The following schedule outlines fiscal year maturities of hedging derivative net cash flows and related interest expense.

Fiscal Year Ending	Series 2006		Series 2008A		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2018	$346,281	$213,334	$300,000	$308,171	$646,281	$521,505	$1,167,786
2019	362,488	196,882	300,000	296,261	662,488	493,143	1,155,631
2020	379,452	179,661	1,800,000	269,464	2,179,452	449,125	2,628,577
2021	397,209	161,633	2,375,000	182,372	2,772,209	344,005	3,116,214
2022	415,797	142,762	3,100,000	55,580	3,515,797	198,342	3,714,139
2023-2027	2,389,740	398,338	-	-	2,389,740	398,338	2,788,078
2028-2032	405,576	9,470	-	-	405,576	9,470	415,046
Total	**$4,696,543**	**$1,302,080**	**$7,875,000**	**$1,111,848**	**$12,571,543**	**$2,413,928**	**$14,985,471**

Credit Risk —The fair value of the hedging derivative instruments is in a liability position as of June 30, 2017, with Series 2006 having a balance of $664,091 and Series 2008A having a balance of $551,146. 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 affect 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 5 – Accounts Receivable

The following schedule summarizes accounts receivable at June 30, 2017, compared to the previous fiscal year.

		2017		**2016**
Student receivables	$	8,541,649	$	8,844,271
Auxiliary enterprises		1,013,890		1,299,519
Grants and contracts		1,358,834		682,418
Capital grants and gifts		470,758	-	2,045,835
Other		1,504,559		1,411,612
Current accounts receivable, gross		12,889,690		14,283,655
Allowance for uncollectible accounts		(2,717,544)		(2,778,597)
Current accounts receivable, net	$	10,172,146	$	11,505,058

Additionally, the University has a receivable of $671,424 due from the State of Indiana. It is shown as a separate line item on the Statement of Net Position.

NOTE 6 – Debt Related to Capital Assets

Bonds Payable – Outstanding bonds payable at June 30, 2017, total $100,626,543 and are identified in the following schedule:

						June 30, 2017		
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%*	0.73%	2019	4,700,000	1,100,000	21,390	**1,121,390**
Series 2006, Recreation & Fitness Center	2006	4.67%	4.67%	2028	7,250,000	4,696,543	1,302,080	**5,998,623**
Series J, Business and Engineering Center	2009	3.45% to 3.70%	3.45%	2019	50,185,000	7,005,000	435,627	**7,440,627**
Series K-1, Teaching Theatre	2012	2.00% to 4.00%	3.00%	2032	12,300,000	9,685,000	3,371,000	**13,056,000**
Series K-3, Refund Series H and I	2012	1.90%	1.90%	2023	42,840,000	26,865,000	1,631,673	**28,496,673**
Series L-1, Health Professions Center 3rd Floor	2017	2.90%	2.90%	2036	8,050,000	8,050,000	2,543,675	**10,593,675**
Series L-2, Refund Series J	2017	2.15%	2.15%	2026	21,440,000	21,440,000	2,881,158	**24,321,158**
Series L-3, Refund Series J	2017	2.65%	2.65%	2028	9,955,000	9,955,000	2,723,512	**12,678,512**
Auxiliary System Bonds								
Series 2003, Student Housing Facilities	2003	3.00% to 4.50%	4.00%	2024	8,005,000	3,955,000	739,315	**4,694,315**
Series 2008A, Student Housing Facilities	2008	3.97%	3.97%	2021	9,800,000	7,875,000	1,111,848	**8,986,848**
Total					**$174,525,000**	**$100,626,543**	**$16,761,278**	**$117,387,821**

*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, Series K-1 and K-3 of 2012, and Series L-1, L-2, and L-3 of 2017 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 and Series 2008A, 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 0 and 10 percent. The rate in effect at June 30, and the rate used to calculate the future debt service requirements, was .93 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
2017-18	8,531,281	2,608,616	11,139,897
2018-19	8,882,488	2,479,446	11,361,934
2019-20	10,614,452	2,211,367	12,825,819
2020-21	11,707,209	1,884,429	13,591,638
2021-22	12,650,797	1,535,102	14,185,899
2022-27	31,299,740	4,585,684	35,885,424
2027-32	13,660,576	1,256,774	14,917,350
2032-37	3,280,000	199,860	3,479,860
Total	**$100,626,543**	**$16,761,278**	**$117,387,821**

NOTE 7 – Series L-1 Bond Issue

On May 10, 2017, the University of Southern Indiana issued $8,050,000 in student fee revenue Series L-1 bonds with an all-in true interest cost of 2.97 percent. Net proceeds from the bond issue are to be used to fund $8 million in additions and renovations to the third floor of the Health Professions Center. Annual debt service payments of approximately $530,000 are scheduled through October 2036.

NOTE 8 – 2017 Refunding Bond Issue

On May 10, 2017 the University of Southern Indiana issued $31,395,000 in Series L-2 and Series L-3 student fee bonds with a weighted average interest rate of 2.44 percent to advance refund $28,340,000 of outstanding fixed rate Series J student fee bonds with an average interest rate of 4.88 percent. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series J bond. As a result, the bond is considered to be defeased and the liability for the bond has been removed from the Statement of Net Position. The University of Southern Indiana in effect reduced its aggregate debt service payment by $3,458,558 over the next 12 years and realized an economic gain (difference between the present values of the old and new debt service payments) of $2,424,484.

NOTE 9 – 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 2.3 percent annually for purposes of calculating this liability.

USI has 29 retirees currently receiving early-retirement benefits, 13 of whose benefits stop after this fiscal year, and four more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $383,976 at June 30, 2017. Of that amount, $191,862 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 $192,114 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

NOTE 10 - 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 $3,062,098 and $2,697,438 for June 30, 2017 and 2016, respectively. The current year change represents a $391,222 increase in accrued vacation; a $65,650 decrease in sick leave liability; a $24,906 increase in Social Security and Medicare taxes; a $11,059 increase in Public Employees' Retirement Fund (PERF) contributions; and a $3,123 increase in Teacher's Insurance and Annuity Association (TIAA-CREF) contributions. During the fiscal year, $318,969 was paid out to terminating employees. Payout for terminating employees in fiscal year 2017-18 is expected to decrease approximately 50 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $295,183 of the total compensated absence liability is classified as a current liability under accrued payroll, benefits and deductions, and the remaining $2,766,915 is classified as a noncurrent liability.

NOTE 11 – Lease Obligations

The University spent $221,002 and $219,853 on operating leases as of June 30, 2017 and 2016, 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, 2017, compared to the previous fiscal year.

Operating Lease Payments	2017	2016
Off-campus facilities	$ 173,713	$ 162,866
Equipment	34,130	43,988
Vehicles	13,159	12,999

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. The gross amount of assets recorded for these capital leases is $668,853, with accumulated depreciation of $269,834, as of June 30, 2017.

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
2018	$133,330	$ 86,053
2019	120,543	
2020	113,859	
2021	33,497	
2022	-	
Total future minimum payments	$401,229	$ 86,053
Less interest	(1,434)	
Total principal payments outstanding	$399,795	

NOTE 12 – 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 $5,829,383 to these programs in fiscal year 2016-17, which represents approximately 9.2 percent of the total University payroll and 11.1 percent of the benefit-eligible employees' payroll for the same period.

Defined Contribution Retirement Plan

Faculty and Administrators Eligible employees may participate in the TIAA-CREF Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA-CREF, or another university-sponsored retirement plan, for at least one year prior to eligible employment at USI. The University contributed $4,654,401 to this plan for 645 participating employees for fiscal year ending June 30, 2017, and $4,452,137 for 633 participating employees for fiscal year ending June 30, 2016. The annual payroll for this group totaled $43,753,841 and $41,243,071 for fiscal years ending June 30, 2017 and 2016 respectively.

Support Staff For newly hired staff, the USI Board of Trustees approved a new defined contribution plan on March 6, 2014. The new plan applies only to new hired support staff in regular assignments with a 50 percent or greater schedule with an employment date on or after July 1, 2014, and no prior PERF-eligible employment with the University. The new plan was established with TIAA-CREF, with the same immediate vesting and other features of the defined contribution plan for faculty and administrators, but with a fixed employer contribution of seven percent of compensation and using the PERF definition of eligible compensation. The University contributed $94,484 to this plan for 77 participating employees for fiscal year ending June 30, 2017, and $39,734 to this plan for 48 participating employees for the fiscal year ending June 30, 2016. The annual payroll for this group totaled $1,349,766 and $567,624 for fiscal years ending June 30, 2017 and 2016 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 *www.tiaa-cref.org*.

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, 2016; however, eligible members received a one-time check (a.k.a. 13th check) in September 2015. 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, 2014, and who was entitled to receive a monthly benefit on July 1, 2015.

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 $1,080,498 for 274 employees participating in PERF during the 2016-17 fiscal year and $1,170,301 for 318 employees participating during 2015-16. 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, 2017, the University reported a liability of $7,449,403 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 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, 2016 the University’s proportion was 0.16 percent, which was a decrease of 0.03 percent from its proportion measured as of June 30, 2015. For the year ended June 30, 2017, the University recognized pension expense of $(26,099). At June 30, 2017, 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	166,895	13,751
Changes in assumptions	328,674	-
Net difference between projected and actual earnings on pension plan investments	1,638,466	419,149
Changes in proportion and differences between the University's contributions and proportionate share of contributions	191,374	698,379
The University's contributions subsequent to the measurement date	1,080,498	-
Total	$ 3,405,907	$ 1,131,279

$1,080,498 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, 2018. 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:	
2017	359,567
2018	184,936
2019	451,363
2020	198,264
2021	-
Thereafter	-
Total	1,194,130

Actuarial assumptions. The total pension liability in the June 30, 2016 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
Cost of Living Increases	1 percent per year in retirement

Mortality rates were based on the RP-2014 Total Data Set Mortality Tables, with Social Security generational improvements from 2006 based on the Social Security Administration's 2014 Trustee Report.

The actuarial assumptions used in the June 30, 2016 valuation were adopted by the INPRS Board in April 2016. The majority of the actuarial assumptions and methods are based on plan experience from July 1, 2010 through June 30, 2014, and were first used in the June 30, 2015 valuation.

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

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Public Equity	22%	5.7%
Private Equity	10	6.2
Fixed Income- Ex Inflation-Linked	24	2.7
Fixed Income- Inflation-Linked	7	0.7
Commodities	8	2.0
Real Estate	7	2.7
Absolute Return	10	4.0
Risk Parity	12	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	10,699,106	7,449,403	4,748,408

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.

In 2015, 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 13 – **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 are insured by commercial insurance subject to various deductibles. Life and disability insurance are handled through fully insured commercial policies. No liability exists at the balance sheet date for unpaid claims.

The University did not have a significant reduction in insurance coverage from coverage in the prior year. Additionally the University did not have any settlements exceeding insurance coverage for any of the prior three years.

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, 2017, the University's contribution to these health care plans totaled $11,361,318 for 1,014 employees and $1,752,900 for 403 retirees. For the same period, employees and retirees made contributions totaling $2,622,337 and $671,711 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, 2017, 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 2015-16 and 2016-17 fiscal years are as follows.

Fiscal Year	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2015-16	$3,183,264	$10,577,323	$(9,993,816)	$3,766,771
2016-17	$3,766,771	$9,821,068	$(10,185,547)	$3,402,292

NOTE 14 - 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. The University did not contribute institutional funds to the VEBA 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, 2017, follows.

VEBA TRUST	**MARKET**
Fund balance at July 1, 2016	$20,443,219
Reinvested net earnings	382,198
Net gain/(loss) on sales of trust investments	334,645
Less: Management fees and taxes	(51,479)
Net change in market value	1,519,814
Fund balance at June 30, 2017	**$22,628,397**

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 15 - 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. For the fiscal year ended June 30, 2017, USI contributed $1,964,014 to the plan for current premiums (approximately 75 percent of total premiums). Plan members receiving benefits contributed $671,048, or approximately 25 percent of the total premiums, through their required contributions, which for health insurance and dental insurance ranged from $121.41 to $568.28 per month for single coverage and $242.82 to $1,575.65 for retiree and dependent(s) 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.

	2015	2016	2017
Annual required contribution	$4,890,274	$3,995,717	$3,995,717
Interest on net OPEB obligation	631,857	801,966	905,097
Adjustment to annual required contribution	(781,050)	(929,220)	(1,054,251)
Annual OPEB cost	4,741,081	3,868,463	3,846,563
Contributions made	(1,808,154)	(2,090,356)	(1,964,014)
Increase (decrease) in net OPEB obligation	2,932,927	1,778,107	1,882,549
Net OPEB obligation, beginning of year	10,894,080	13,827,007	15,605,114
Net OPEB obligation, end of year	$13,827,007	$15,605,114	$17,487,663

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
6-30-2015	$4,741,081	38.1%	$13,827,007
6-30-2016	$3,868,463	54.0%	$15,605,114
6-30-2017	$3,846,563	51.1%	$17,487,663

Funded Status and Funding Progress. As of June 30, 2017, the plan was 39 percent funded. The actuarial accrued liability (AAL) for benefits was $58,063,799, and the actuarial value of assets was $22,628,397, resulting in an unfunded actuarial accrued liability (UAAL) of $35,435,402. The covered payroll (annual payroll of active employees covered by the plan) was $56,102,135, and the ratio of the UAAL to covered payroll was 63 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; and an annual healthcare cost trend rate of 9 percent for medical and 5 percent for dental initially, reduced by decrements of 0.5 percent annually to an ultimate rate of 5 percent for medical and dental decreasing by 0.25 percent annually to an ultimate rate of 3 percent. Both rates include a 3 percent inflation assumption. Retiree contributions are assumed to increase according to healthcare trend rates. 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 a closed basis over a 30-year period.

Note 16 – 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	2017 TOTAL	2016 TOTAL
Instruction	$32,245,259	$10,926,457			$3,013,490		$46,185,206	$45,051,737
Academic Support	6,176,601	2,422,765			4,468,864		13,068,230	13,711,835
Student Services	5,545,991	2,359,953			2,925,654		10,831,598	9,897,670
Institutional Support	9,102,305	6,061,542			3,873,679		19,037,526	17,919,640
Operation & Maintenance of Plant	3,838,416	2,030,246		4,576,820	5,179,177		15,624,659	14,530,610
Depreciation						13,579,006	13,579,006	13,350,787
Student Aid			7,518,308		396		7,518,704	7,426,895
Public Service	1,673,528	484,505			1,074,543		3,232,576	3,099,197
Research	58,380	5,212			203,444		267,036	110,394
Auxiliary Enterprises	4,762,756	2,566,183		997,305	18,662,469		26,988,713	24,862,156
TOTAL	**$63,403,236**	**$26,856,863**	**$7,518,308**	**$5,574,125**	**$39,401,716**	**$13,579,006**	**$156,333,254**	**$149,960,921**

NOTE 17 – Construction in Progress
Construction in progress at year-end totals $15.2 million. (See capital assets table below.)

Projects under construction include the renovation of the Technology Center; replacement of the exterior steps for student apartment buildings; replacement of the carpet in Newman Hall, the renovation of the offices in the Governors and Ruston halls and the interior renovation of Hendricks East in student housing; installation of a Simplex fire alarm system in O'Daniel North and access control doors in the residence halls; renovation of the Chick-Fil-A/Steak-N-Shake areas, Suites 205/206, as well as, cone repairs, in the University Center; renovation of the Dean's Suite in the Liberal Arts Center; renovation of the VP of Enrollment Management offices, the Registrar Office and the Financial Aid Conference Room in the Robert D. Orr Center; expansion of the Human Resources office in the Byron C. Wright Administration Building; repairs and improvements to the Publishing Services Center; safety improvements to the Children's Learning Center; upgrade to an LED lighting system in the existing Physical Activities Center (PAC), as well as expansion and renovation of the PAC; improvements to the lighting in parking lots A, B and C; replacement of the roofs of the Science Center penthouse and Arts Center buildings; installation of additional parking for the Applied Engineering Center; an upgrade of the energy management system, as well as energy use improvements for the David L. Rice Library HVAC system and rebuilding of the air handling system in the Science Center; installation of ADA interior locks; modernization of the fire alarm systems in the Science Center, Byron C. Wright Administration Building and the Robert D. Orr Center; remodeling of the third floor of the Health Professions Center; the construction of a welcome/visitors center; and in New Harmony, repairs to the Schnee-Ribeyre-Elliott building and the installation of a dock at the Murphy Auditorium. The total expended to date on the projects is $9.2 million and the estimated additional cost to complete them is $27.1 million.

In addition, the University spent $6 million for the construction of a Multi-Institutional Academic Health

Science and Research Center (MIAHSRC) in collaboration with Indiana University, the University of Evansville, and Evansville HealthRealty, LLC. USI will occupy approximately 18,000 square feet of the facility located in downtown Evansville and assume ownership of the space at or after all building construction has been completed.

A project in design is the installation of an LED lighting system in Carter Hall in the University Center. The amount expended to date on this project totals $8,028, and the project has a total estimated remaining cost of approximately $164,473.

NOTE 18 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $358.3 million at July 1, 2016, to $371.8 million on June 30, 2017. Gross capital assets, less accumulated depreciation of $191 million, equal net capital assets of $180.8 million at June 30, 2017.

	Balance June 30,2016	Additions	Deletions	Balance June 30,2017
Capital Assets Not Being Depreciated				
Land	$ 5,018,004	$ 95,681	$ -	$ 5,113,685
Construction in Progress	5,123,798	14,363,510	(4,302,777)	15,184,531
Total Capital Assets Not Being Depreciated	**$ 10,141,802**	**$ 14,459,191**	**$ (4,302,777)**	**$ 20,298,216**
Capital Assets Being Depreciated				
Land Improvements	$ 14,316,499	$ 673,962	$ -	$ 14,990,461
Infrastructure	8,072,046	117,560	-	8,189,606
Educational Buildings	180,764,605	1,407,217	-	182,171,822
Auxiliary Buildings	115,889,848	1,972,335	-	117,862,183
Equipment	24,747,892	1,433,418	(1,944,288)	24,237,022
Library Materials	3,725,087	28,458	(377,217)	3,376,328
Capital Lease Equipment	668,853	-	-	668,853
Total Capital Assets Being Depreciated	**$ 348,184,830**	**$ 5,632,950**	**$ (2,321,505)**	**$ 351,496,275**
Total Capital Assets	**$ 358,326,632**	**$ 20,092,141**	**$ (6,624,282)**	**$ 371,794,491**
Less Accumulated Depreciation				
Land Improvements	$ (8,657,556)	$ (737,600)	$ -	$ (9,395,156)
Infrastructure	(2,632,911)	(190,820)	-	(2,823,731)
Educational Buildings	(83,027,630)	(6,321,075)	-	(89,348,705)
Auxiliary Buildings	(61,830,741)	(4,135,432)	-	(65,966,173)
Equipment	(20,253,717)	(1,948,313)	1,916,834	(20,285,196)
Library Materials	(3,182,842)	(137,924)	377,217	(2,943,549)
Capital Lease Equipment	(136,063)	(133,771)	-	(269,834)
Total Accumulated Depreciation	**$ (179,721,460)**	**$ (13,604,935)**	**$ 2,294,051**	**$ (191,032,344)**
Net Capital Assets Being Depreciated	**$ 168,463,370**	**$ (7,971,985)**	**$ (27,454)**	**$ 160,463,931**
Total Net Capital Assets	**$ 178,605,172**	**$ 6,487,206**	**$ (4,330,231)**	**$ 180,762,147**

During fiscal year 2017, the University incurred $45,717 in interest costs related to the ownership of capital assets. Of this total, $36,277 was charged as interest expense and $9,440 was capitalized.

NOTE 19 – Reclassify 2016 Financial Information

Reclassifications have been made to the Statement of Cash Flows and the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2016 for comparative purposes. Appropriations from the State of Indiana for capital repair and rehabilitation projects that were previously reported as non-operating revenues have been reclassified as capital appropriations. There was no change in total revenues, expenses, cash assets, or net position as the result of these reclassifications.

Details of the reclassifications appear in the table below.

	June 30, 2016 as reported	Reclassification	June 30, 2016 as reclassified
Statement of Cash Flows			
Cash Flows from Noncapital Financing Activities			
State appropriations	$ 56,916,074	$ (1,674,266)	$55,241,808
Cash Flows from Capital Financing Activities			
Capital appropriations	-	1,674,266	1,674,266
Statement of Revenues, Expenses and Changes in Net Position			
Non-operating Revenues			
State appropriations	59,332,857	(4,091,049)	55,241,808
Other Revenues			
Capital appropriations	-	4,091,049	4,091,049

University of Southern Indiana
Fiscal Year Ended June 30, 2017

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, 2017, 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.

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)	**2017**	**2016**	**2015**
Current Assets	$ 60,439	$ 61,111	$ 53,707
Noncurrent Assets:			
Capital assets, net of depreciation	180,762	178,605	180,635
Other non-current	64,197	60,443	60,689
Total Assets	$305,398	$300,159	$295,031
Hedging Derivative Instruments	$ 1,215	$ 1,898	$ 1,736
Pension Benefits	3,406	3,492	1,288
Total Deferred Outflow of Resources	$ 4,621	$ 5,390	$ 3,024
Current Liabilities	$ 19,661	$ 22,778	$ 23,833
Noncurrent Liabilities	119,170	118,449	123,792
Total Liabilities	$138,831	$141,227	$147,625
Pension Benefits	$ 1,131	$ 944	$ 1,112
Total Deferred Inflow of Resources	$ 1,131	$ 944	$ 1,112
Net Position:			
Net investment in capital assets	$ 81,770	$ 77,195	$ 65,511
Restricted – expendable	6,825	1,034	192
Unrestricted	81,462	85,149	83,615
Total Net Position	$170,057	$163,378	$149,318

Assets

Current assets at June 30, 2017, consist of cash and cash equivalents, short-term investments, amounts due from the State of Indiana, receivables net of allowances, inventory, and deposits with bond trustee 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 $5.2 million (1.7 percent) in 2017 compared to a $5.1 million (1.7 percent) increase in 2016 and a $1.3 million (.4 percent) increase in 2015. The current-year activity is summarized by the following events.

- The value of cash and equivalents decreased by $9.2 million. This decline relates directly to the $3.3 million increase in short-term investments and the $4.1 million increase in long-term investments as the University shifted more of its cash resources into investments to generate additional interest income. Moreover, the University elected to invest $2.3 million from its cash reserves in additional repair and rehabilitation projects within student housing. Cash from all other sources increased by $500,000.
- The amount due from the State of Indiana at June 30, 2017, decreased by $2.8 million as the result of a change in the timing and amount of reimbursement claims submitted to the State for capital projects.
- Accounts receivable decreased by $1.4 million. One-time gifts due to the University from the USI Foundation for construction of the USI Performance Center and the Griffin Center totaled $2 million at June 30, 2016, resulting in gross receivables of $14.3 million for fiscal year 2016. Receivables outstanding at June 30, 2017, compare favorably to the $11.9 in gross receivables

outstanding at June 30, 2015. Receivables from all other sources increased by $600,000 during the 2016-17 fiscal year.

- Deposits with bond trustee increased by $7.7 million as the University received proceeds related to the issuance of student fee revenue Series L-1 bonds for the expansion and renovation of the third floor of the Health Professions Center.
- Net capital assets increased by $2.2 million. Depreciation expense of $13.6 million outpaced the value of new assets that were capitalized during the year. However, construction in progress increased by $10.1 million due in part to $6 million recorded for the construction of the University's portion of the Multi-Institutional Academic Health Science and Research Center in downtown Evansville.
- Other current assets increased by $1.1 million primarily due to an increase in prepaid expenses associated with computer software expenses paid during the 2016-17 fiscal year for future periods.

Deferred Outflow of Resources

Deferred outflow of resources decreased by $769,000 primarily due to a decline in the fair value of the derivative instruments associated with the Series 2006 and Series 2008A bonds as outlined in Note 4 in the *Notes to Financial Statements*. In 2016, deferred outflow of resources increased by $2.4 million, $2.2 million of which related to an increase in contributions to the Indiana Public Employees Retirement Fund.

Liabilities

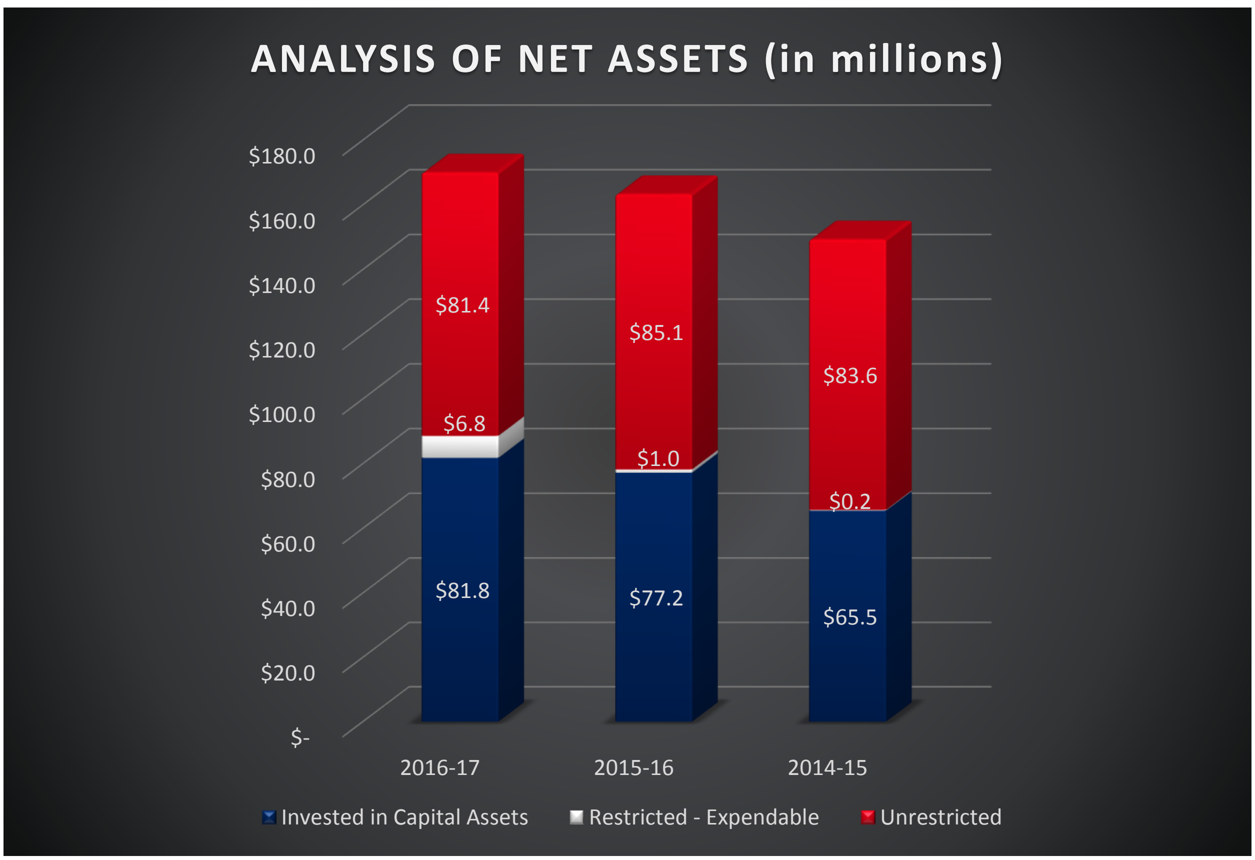
Current liabilities at June 30, 2017, are primarily composed of accrued payroll, related benefits and deductions along with the current portion of bonds payable. Also included are accounts payable, the current portion of leases payable, debt interest payable, unearned revenues, and other miscellaneous 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 leases payable, derivative instruments-interest rate swaps for Series 2006 and Series 2008A hedgeable financial derivatives, compensated absences, termination benefits, and miscellaneous other long-term liabilities. Total liabilities decreased $2.4 million (1.7 percent) in 2017 compared to a $6.4 million decrease (4.3 percent) in 2016 and a $3.1 million decrease (2 percent) in 2015. The following factors contributed to the liability reduction in 2017.

- Accrued payroll, related benefits, and deductions decreased $762,000 due mainly to a decline in the current liabilities recorded for compensated absences and termination benefits coupled with a decline in amounts due to TIAA for employee retirement benefits at June 30.
- Total notes, bonds and leases payable decreased by $2.3 million during 2017. Noncurrent bonds payable decreased by $327,000 while the current portion of bonds payable declined by $1.8 million in part due to the issuance of Series L bonds, which included $8 million in new debt and a partial refunding of Series J. A decrease of $133,000 in leases payable accounts for the remaining change.
- The liability for other postemployment benefits increased by $1.9 million.
- The decline in the fair value of derivative instruments associated with the Series 2006 and Series 2008A bonds noted above resulted in $683,000 decrease to the corresponding liability.
- Net pension liability for PERF decreased noncurrent liabilities by $300,000.

Deferred Inflow of Resources
Deferred inflow of resources for pension benefits increased slightly from $944,000 in 2016 to $1.1 million in 2017 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. See Note 12 of the *Notes to Financial Statements* for additional information about the net pension liability of the University. This increase follows a slight decrease of $168,000 from 2015 to 2016.

Net Position
Net Position at June 30, 2017, is $6.7 million greater than on June 30, 2016. Net investment in capital assets increased $4.6 million; restricted expendable assets increased $5.8; and unrestricted assets decreased $3.7 million. Unrestricted assets equal $81.5 million and comprise 48 percent of total net position. Of the total unrestricted amount, $76.7 million has been internally designated as follows.

- $23.8 million reserve for equipment and facilities maintenance and replacement
- $14.9 million reserve for University benefits
- $9.9 million reserve for auxiliary systems
- $5.1 million reserve for working capital and outstanding encumbrances
- $10.4 million reserve for academic operations and initiatives
- $2.7 million reserve for insurance and equipment
- $9.9 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)	**2017**	**2016**	**2015**
Total operating revenues	$ 78,542	$ 75,285	$ 76,261
Total operating expenses	(156,333)	(149,961)	(142,292)
Operating losses	(77,791)	(74,676)	(66,031)
Net non-operating revenues/(expenses)	76,792	78,308	76,506
Income before other revenues, expenses, gains, or losses	(999)	3,632	10,475
Capital appropriations	7,668	4,091	
Capital grants and gifts	10	6,337	698
Increase (decrease) in net position	$ 6,679	$ 14,060	$ 11,173

Revenues

Operating revenues increased by $3.3 million (4.3 percent) in 2017 compared to a $976,000 (1.3 percent) decrease in 2016 and a $1.8 million (2.3 percent) decrease in 2015. The 2017 increase was driven by the following factors.

- Net student fees increased from $44.6 million in 2016 to $45.8 million in 2017. Scholarship discounts and allowances grew from $22.5 million to $24.4 million due to an increase in institutional scholarships, but those increases were offset by a $3.1 million increase in gross student fees.
- Net revenues from auxiliary enterprises grew to $27.7 million, an increase of $1.4 million compared to 2016. Housing revenues increased by 3.4 percent. Dining revenues climbed by 13.1 percent as the University added Chick-fil-A, Steak 'n Shake, and sushi to campus in fall 2016.

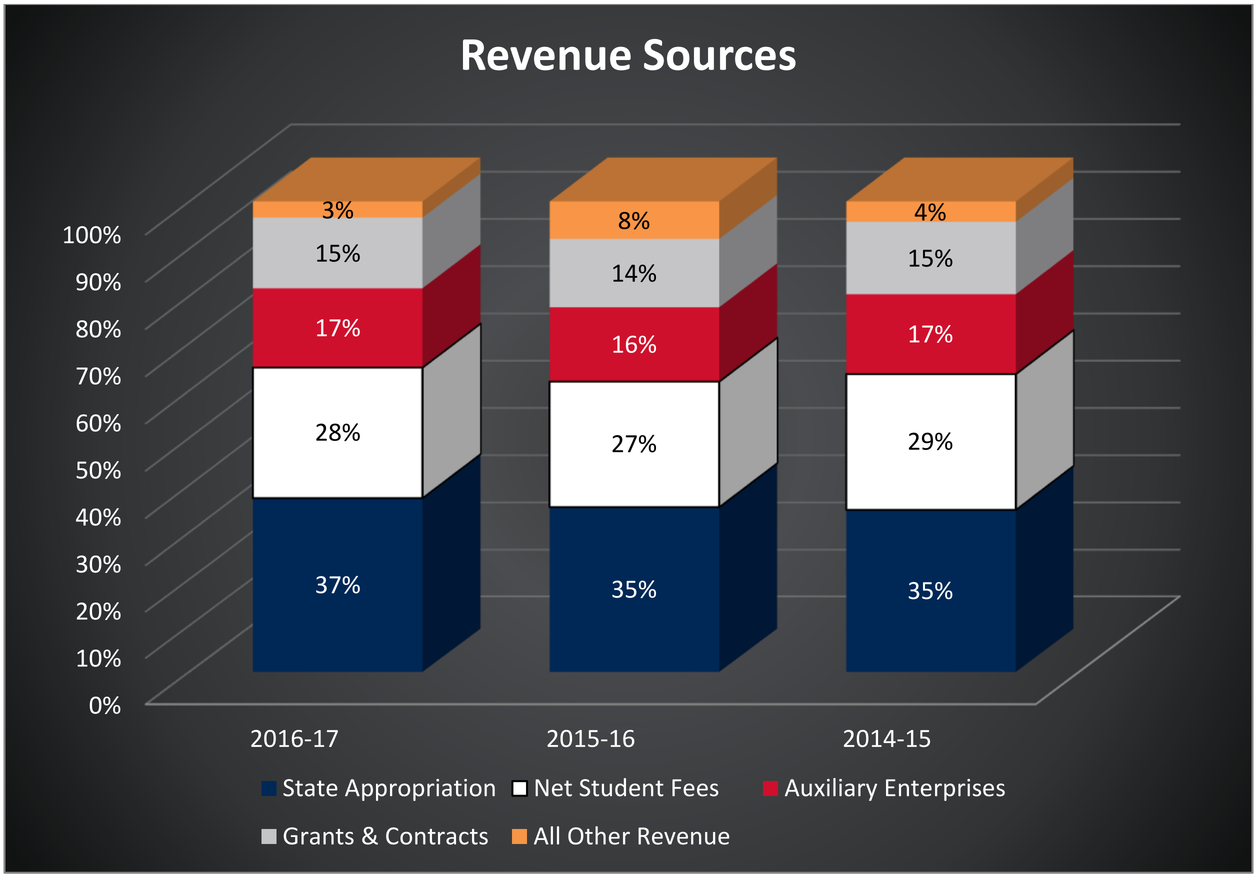
Income from transportation and parking fees increased by 3.7 percent while Campus Store revenues rose 17.5 percent due to strong growth in technology sales.

- Operating grants increased by $117,000 while other operating revenues increased by $589,000 due primarily to one-time partial reimbursements of insurance and construction expenses.

Non-operating revenues decreased by 2.3 percent for the fiscal year ended June 30, 2017, after a 1.4 percent gain in 2016 and 2 percent increase in 2015. The following elements contributed to the slight decline in 2017.

- State appropriations decreased from $55.2 million in 2016 to $54.1 million.
- Non-operating gift income from the USI Foundation rose to $3.4 million, an increase of $134,000 from 2016.
- Non-operating grants and contracts grew by more than $422,000. The growth occurred mainly from funding sources other than student financial assistance.
- Investment income totaled $875,000 for the year, but net investment income dropped from $1.4 million to $131,000 due to an increase in unrealized losses from 2016 to 2017. Unrealized losses occur when the market value of an investment is less than its book value. In 2016, investment income of $942,000 was enhanced by a $529,000 unrealized gain because the market value of University investments at June 30, 2016, exceeded their book value. In the current year, rising interest rates and a growing equity market had an adverse effect on the value of fixed-income income securities and resulted in an unrealized loss based on the market value of University investments on June 30, 2017.

Total revenues (operating, non-operating, and other) decreased by $1.4 million in 2017. The graph below shows the composition of the University's revenue for fiscal years 2015-2017. Note that it includes revenues classified as capital appropriations, capital gifts, and capital grants described below.

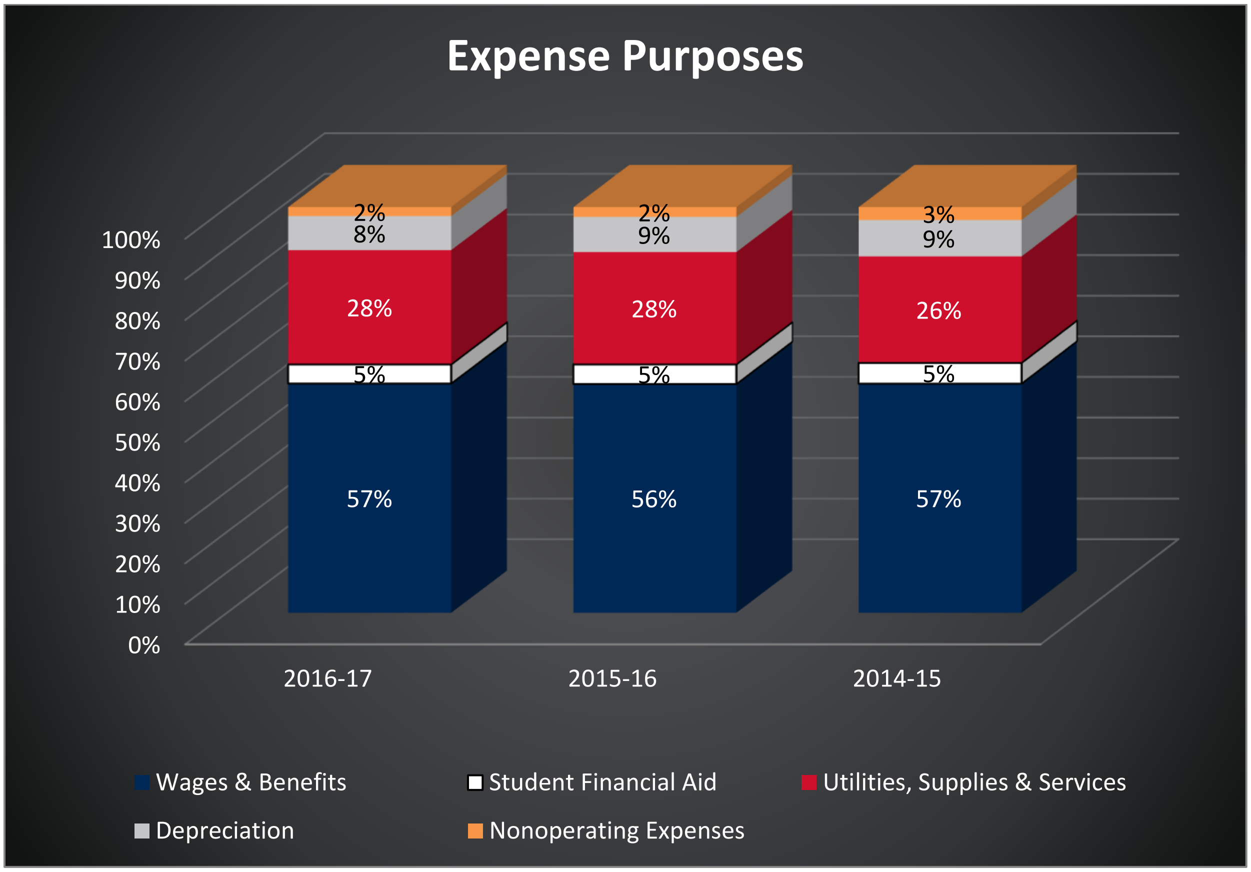


Expenses
Operating expenses increased $6.4 million (4.3 percent) in 2017 compared to a $7.7 million (5.4 percent) increase in 2016 and a $2.1 million (1.5 percent) increase in 2015. Specifically, the following expenses contributed to the current-year increase.

- Compensation, which includes salaries, wages, and benefits, comprised $90.3 million (57.7 percent) of total operating expenses and increased $3.5 million (4 percent) from 2016. Salaries and wages accounted for $2.6 million of the increase while benefits represented the remaining $958,000.
- Supplies and other services increased by $2.3 million (6.2 percent) compared to a $4.2 million (12.9 percent) increase in 2016 and a $5.7 million (20.8 percent) increase in 2015. This category includes but is not limited to contracted and professional services, classroom and lab supplies, software, access fees for electronic databases and publications, travel, facility maintenance, equipment maintenance, and non-capital equipment. In 2017, management elected to utilize $2.3 million from reserves to fund repair and rehabilitation projects in student housing.
- All other operating expenses categories increased by $523,000 collectively.

Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures decreased by $391,550 in 2017 after decreases of $636,000 and $181,000 in 2016 and 2015, respectively. The trend is driven by a decline in debt interest costs as the University has refunded debt to take advantage of lower interest rates over time.

Total expenses (operating and non-operating) increased by $6 million after growing by $7 million in 2016 and by $1.9 million in 2015. The composition of total expenses for all three years is depicted by major categories in the graph below.



Capital Appropriations

Capital appropriations increased from $4 million in 2016 to $7.7 million in 2017. Of the $7.7 million, $6 million related to funding from the State of Indiana for the Multi-Institutional Academic Health and Science Research Center in collaboration with Indiana University, the University of Evansville, and Evansville HealthRealty, LLC. The University did not recognize any revenues from capital appropriations during 2015.

Capital Grants and Gifts

Capital grants and gifts decreased from $6.3 million in 2016 to $10,000 in 2017. In 2015, capital grants and gifts increased by $500,000 from the previous year. Gifts from the USI Foundation for construction of the USI Performance Center and the Griffin Center produced the extraordinary 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, 2017, net position increased by $6.7 million following increases of $14.1 million in 2016 and $11.2 million in 2015. During 2017, total revenues decreased slightly, and total expenses increased.

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 2015-2017.

STATEMENT OF CASH FLOWS **Year ended June 30** (in thousands)	**2017**	**2016**	**2015**
Net cash (used) provided by			
Operating activities	$(62,078)	$(58,764)	$(51,228)
Noncapital financing activities	79,410	83,034	76,176
Capital financing activities	(19,170)	(19,315)	(27,474)
Investing activities	(7,322)	3,795	(1,359)
Net increase (decrease) in cash	$ (9,160)	$ 8,750	$ (3,885)

Operating activities

- Cash used by operating activities increased $3.3 million in 2017 compared to increases of $7.5 million in 2016 and $2.9 million in 2015.
- 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 decreased by $3.6 million in 2017 compared to an increase of $6.9 million in 2016 and a decrease of $2.3 million in 2015.
- 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 $144,000 after decreasing by $8.2 million in 2016 and increasing by $1.1 million in 2015.
- Proceeds from the issuance of Series L bonds produced the largest inflow of cash in 2017. Capital gifts from the USI Foundation generated the largest cash inflow in 2016 and 2015.
- Principal and interest paid on capital debt generated the largest cash outflow in all three years, including 2017, which included the partial refunding of Series J bonds.

Investing activities

- Investing activities used $7.3 million in cash during 2017 after providing $3.8 million during 2016 and using $1.4 million during 2015.
- Proceeds from sales and maturities of investments decreased from $46.8 million in 2016 to $40.8 million in 2017 following an increase of $8.1 million from 2015 to 2016. Interest earned on

investments dipped as well from $894,000 in 2016 to $719,000 in 2017 after an increase of $73,000 from 2015 to 2016.

- Cash used for purchases of investments increased, rising to $48.8 million in 2017 compared to $43.9 million in 2016. This growth follows a $3 million increase in 2016 and a $9.3 million increase in 2015.

Summary of Statement of Cash Flows
For the year ended June 30, 2017, more cash was used for operating activities, less cash was used by capital financing activities, more cash was used by investing activities, and less cash was provided by noncapital financing activities compared to the previous fiscal year. As a result of these activities, the University decreased its cash position by $9.2 million, ending the fiscal year with a cash balance of $17.6 million, which is similar to its ending cash position of $18.1 million in 2015.

Factors Affecting Future Periods
After nine years as president and 15 total years with the University of Southern Indiana, Dr. Linda L.M. Bennett announced her plans to retire effective June 30, 2018. During a special meeting on October 4, 2017, the USI Board of Trustees named the presidential search committee, which will be led by Board Chair Harold Calloway. The committee will work with an executive search firm for the national search with anticipated completion by spring 2018.

The University of Southern Indiana 2016-2020 strategic plan is underway with three overarching goals: excellence in learning for the entire USI community, access and opportunity by design, and purposeful and sustainable growth. As part of purposeful and sustainable growth, the division of Finance and Administration is leading a cross-functional initiative to form a Financial CARE Team to connect students with financial issues to resources across campus and within the local community to improve student retention and success while helping the University maintain its commitment to affordable education. Resources might include scholarships, emergency assistance, employment options, and additional payment plan options. The initiative is expected to launch in spring 2018 with full implementation in fall 2018 for the 2018-19 academic year.

In fall 2017, the University welcomed the largest number of graduate students in the University's 52-year history. Overall masters and doctoral program enrollment increased by 22.5 percent over the previous year. The growth occurred across multiple programs, including a variety of concentration areas in the accelerated MBA program, as well as full-time programs offered through all four of USI's colleges. Along with the growth in graduate students, USI continues to see growth in incoming freshmen. The University enrolled 1,722 students in college for the first time, a 2.2 percent increase from fall 2016, and the average high school GPA for incoming freshmen was 3.36 on a 4.0 scale. Total USI enrollment increased 340 students from the last academic year to 11,033 for the 2017 fall semester, which includes students in undergraduate and graduate degree programs and 2,016 students enrolled in USI's College Achievement Program (CAP) classes in 27 high schools across Indiana. CAP has a long tradition of successfully enabling many students to graduate from college in four years or less.

The 2017 Indiana General Assembly authorized $41 million in bonding authority to the University for the Physical Activity Center -- Classroom Expansion and Renovation – Phase II. In September 2017, the USI Board of Trustees approved a resolution authorizing the president of the University to proceed with obtaining the necessary approvals for the project. The University has submitted a request for consideration of the project by the Indiana Commission for Higher Education Budget and Productivity Committee at its November 2017 meeting and approval of the project by the Commission for Higher

Education at its December 2017 meeting. Then, the University will request approval from the State Budget Agency in 2018. The project is eligible for funding on July 1, 2018. Phase I of the project is underway and scheduled to be completed in fall 2018.

The University continues with its master planning process with a focus 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 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. The study is considering a wide variety of factors, including but not limited to projected enrollment growth, space utilization, the condition of existing space, campus-wide space needs, and strategies for student housing and dining. The planning phase of the project is scheduled to conclude by November 2017 with a presentation of results and recommendations to the USI Board of Trustees in spring 2018.

The Board of Trustees approved a Doctor of Education (Ed.D.) program to be offered through the Pott College of Science, Engineering and Education at its March 2017 meeting. The program is in the process of final approval with the Higher Learning Commission following approval by the Indiana Commission for Higher Education. According to the Indiana Department of Workforce Development, the demand for school administrators in Indiana is projected to grow by 9.5 percent over the next 10 years, and short employment durations of superintendents inhibit a school district's ability to build a unifying educational vision. The new program seeks to help fill administrator vacancies by preparing qualified leaders and enabling those leaders to do more in their positions.

Construction continues 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 its portion of the project. The project and partnership between USI, Indiana University, University of Evansville, and Evansville HealthRealty, LLC, is expected to be completed and in use by fall 2018. Completion of this project will allow USI to renovate and expand the Health Professions Center currently occupied by the Indiana University School of Medicine. Proceeds from the issuance of Series L-1 bonds were used to begin renovations on available space in spring 2017, and the remaining space will be renovated when the School of Medicine moves to the new facility.

The University is monitoring developments related to the announcement in July 2017 that the London Interbank Offered Rate (LIBOR) will be replaced by the end of 2021. As outlined in Note 4 of *Notes to Financial Statements*, the derivative instruments associated with the Series 2006 and Series 2008A bonds use LIBOR as their index. Because the debt associated with the Series 2008A bonds will be repaid by October 2021, the University expects minimal impact. However, the debt associated with the Series 2006 bonds requires greater attention because those bonds do not mature until January 2028. As a result, the University will continue to consult bond counsel, municipal advisors, and other experts to assess the potential financial impact to the institution stemming from the change and to explore opportunities for risk mitigation if necessary.

The University continues its history of strong financial performance. The institution has no deferred maintenance and maintains a pricing strategy that allows flexibility. Further, the University is supported by a state that ended the fiscal year with a budget surplus of $42 million and $1.78 billion in reserves. The State of Indiana currently has received the highest credit rating possible, AAA, from all three credit rating agencies. Currently, USI 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.

These factors and the data presented in this 2017 Financial Report demonstrate that the University of Southern Indiana is well positioned to fulfill its vision to shape the future through learning and innovation and to achieve its mission as an engaged learning community that advances education and knowledge, enhances civic and cultural awareness, and fosters partnerships through comprehensive outreach programs.

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

HEALTH PROFESSIONS CENTER: CLASSROOM RENOVATION/EXPANSION

Empire Contractors

CO-006	Additional electrical work	$ 21,521

PHYSICAL ACTIVITIES CENTER RENOVATION

Empire Contractors

CO-004	Installation of fire system sprinklers to Kinesiology area	$ 18,768
CO-005	Toilet automatic electrical eye flush valves	$ 7,485
CO-006	Changing roof drain lines to PVC	($ 10,930)