MINUTES

FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

November 1, 2018

The Finance/Audit Committee of the University of Southern Indiana Board of Trustees met on Thursday, November 1, 2018, in the University Center on campus. Present were Committee Chair Kenneth Sendelweck ’76 and Trustees Christine Keck and Anjali Patel ’19. Trustee Ted Ziemer, Jr. was absent. Also in attendance were President Ronald S. Rochon; Vice President for Finance and Administration Steven J. Bridges ’89 M’95, Vice President for Development David A. Bower, and Vice President for Marketing and Communications Kindra L. Strupp.

Chair Sendelweck called the meeting to order at 9:22 a.m.

1. REVIEW OF AUDITED FINANCIAL STATEMENTS

Mr. Sendelweck called on Vice President Bridges, who reported the financial statements summarized in Attachment A provide an opportunity for the Committee to review last year’s business operations and the financial position of the University. Mr. Bridges introduced University Controller and Assistant Treasurer Jeffrey Sickman for a report.

Mr. Sickman began with an overview of financial performance in 2018 including the audit opinion received from the State Board of Accounts. He noted three positive outcomes including; an unmodified audit opinion for the financial audit, no deficiencies detected for internal controls, and the schedule of expenditures of federal awards was fairly stated in all material respects in relation to the financial statements. Mr. Sickman 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 2018 USI’s net position increased by $12.7 million, with an increase of $14.3 million in total assets, and a decrease of $665,000 in total liabilities.

Mr. Sickman discussed the Governmental Accounting Standards Board (GASB) and the implementation of the GASB 75 and 85 statements. He explained the actual GASB statement 75 impact and Ending Net Position. The ending balance, June 30, 2018, was $182.7 million.

In conclusion, Mr. Sickman gave an overview of USI’s 2019 financial outlook noting the changes in University leadership, the $41 million bond issue for Phase II of the PAC expansion and renovation, capitalization of Phase I of PAC expansion and renovation and Fuquay Welcome Center, effects of enrollment trends, and lastly the next phase of the Student Financial Wellness project.

2. APPROVAL OF RECOMMENDATION TO AUTHORIZE SALE OF UNIVERSITY PROPERTY

Chair Sendelweck called on Vice President Bridges to discuss the resolution authorizing the sale of three New Harmony properties and the appointment of two appraisers presented in Attachment B. Mr. Bridges explained that these are properties the University has been holding but not fully utilizing. Mr. Bridges noted returning these properties to the tax rolls of New Harmony would assist the community as the University is tax exempt. The sale proceeds would be used towards activities that further the mission of the University in New Harmony.

On a motion by Ms. Keck, seconded by Ms. Patel, a recommendation to the Board of Trustees to authorize the sale of university property was approved.

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

Mr. Sendelweck called on Vice President Bridges, who reviewed the construction change orders related to the PAC arena construction in Attachment C.

There being no further business, Chair Sendelweck adjourned the meeting at 9:55 a.m.

University Of Southern Indiana
Statement of Net Position
As of June 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 17,561,947	$ 17,641,471
Short-term investments	34,219,423	20,375,311
Accounts receivable, net	10,713,442	10,172,146
Due from the State of Indiana	3,336,727	671,424
Inventories	1,332,283	1,550,701
Deposits with bond trustee	3,535,159	8,018,871
Other current assets	3,014,833	2,009,103
Total current assets	$ 73,713,814	$ 60,439,027
Noncurrent Assets		
Long-term investments	$ 49,838,857	$ 64,090,712
Deposits with bond trustee	119,826	106,120
Capital assets, net	195,978,954	180,762,147
Total noncurrent assets	$ 245,937,637	$ 244,958,979
Total Assets	**$ 319,651,451**	**$ 305,398,006**
DEFERRED OUTFLOW OF RESOURCES		
Hedging derivative instruments	$ 699,804	$ 1,215,237
Deferred outflow of resources related to pensions	2,452,556	3,405,907
Deferred outflow of resources related to OPEB	992,854	-
Total deferred outflow of resources	$ 4,145,214	$ 4,621,144
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,215,595	$ 1,760,803
Accrued payroll, benefits, and deductions	5,660,260	6,544,838
Notes, bonds, and leases payable	9,053,420	8,664,611
Debt interest payable	647,502	690,057
Unearned revenue	1,859,044	1,406,893
Other current liabilities	518,243	593,547
Total current liabilities	$ 19,954,064	$ 19,660,749
Noncurrent Liabilities		
Notes, bonds, and leases payable	$ 81,288,294	$ 90,037,044
Derivative instruments--interest rate swap	699,804	1,215,237
Other postemployment benefits	26,045,725	17,487,663
Compensated absences and termination benefits	3,036,111	2,959,029
Net pension liability	7,135,346	7,449,403
Other noncurrent liabilities	6,181	21,663
Total noncurrent liabilities	$ 118,211,461	$ 119,170,039
Total Liabilities	**$ 138,165,525**	**$ 138,830,788**
DEFERRED INFLOW OF RESOURCES		
Deferred inflow of resources related to pensions	$ 838,474	$ 1,131,279
Deferred inflow of resources related to OPEB	2,062,209	-
Total deferred inflow of resources	$ 2,900,683	$ 1,131,279
NET POSITION		
Net investment in capital assets	$ 105,308,076	$ 81,770,230
Restricted		
Expendable		
Capital Project	4,509,133	6,668,424
Debt Service	107,802	120,460
Scholarship, research, and other	14,978	36,489
Unrestricted	72,790,468	81,461,480
Total Net Position	**$ 182,730,457**	**$ 170,057,083**

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
Fiscal years ended June 30, 2018 and 2017

		2018		2017
REVENUES				
Operating Revenues				
Student fees	$	75,943,536	$	70,253,620
Scholarship discounts and allowances		(27,788,090)		(24,434,934)
Grants and contracts		1,619,316		2,121,487
Auxiliary enterprises		28,310,566		28,560,779
Room and board discounts and allowances		(1,184,605)		(811,070)
Other operating revenues		2,854,146		2,852,746
Total operating revenues	$	79,754,869	$	78,542,628
EXPENSES				
Operating Expenses				
Salaries and wages	$	64,108,731	$	63,403,236
Benefits		24,548,827		26,856,863
Student financial aid		8,680,395		7,518,308
Utilities		5,293,901		5,574,125
Supplies and other services		42,055,964		39,401,716
Depreciation		13,315,767		13,579,006
Total operating expenses	$	158,003,585	$	156,333,254
Operating loss	$	(78,248,716)	$	(77,790,626)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	$	55,118,066	$	54,051,765
Gifts		3,942,298		3,419,324
Federal grants and contracts		12,964,254		12,564,307
State/Local grants and contracts		11,070,063		9,202,081
Nongovernmental grants and contracts		886,680		919,021
Investment income (net of investment expense of $67,109 and $68,103 for 2018 and 2017)		680,707		131,247
Interest on capital asset related debt		(2,744,441)		(3,217,324)
Bond issuance costs		(5,000)		(232,791)
Other non-operating revenues/(expenses)		(43,777)		(46,109)
Net non-operating revenues (expenses)	$	81,868,850	$	76,791,521
Income before other revenues, expenses, gains or losses	$	3,620,134	$	(999,105)
Capital appropriations	$	16,425,545	$	7,668,289
Capital grants and gifts		2,051,000		10,200
Total other revenues	$	18,476,545	$	7,678,489
Increase in net position	$	22,096,679	$	6,679,384
NET POSITION				
Net position - beginning of year	$	170,057,083	$	163,377,699
Prior period adjustment for change in accounting principle	$	(9,423,305)	$	-
Net position - end of year	**$**	**182,730,457**	**$**	**170,057,083**

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

University Of Southern Indiana
Statement of Cash Flows
Fiscal Years Ended June 30, 2018 and 2017

		2018		2017
Cash Flows from Operating Activities				
Tuition and fees	$	49,656,692	$	46,302,404
Grants and contracts		1,750,161		2,004,420
Payments to suppliers		(41,432,327)		(39,962,011)
Payments for utilities		(5,293,901)		(5,574,125)
Payments to employees		(64,101,943)		(63,403,801)
Payments for benefits		(24,812,508)		(25,412,804)
Payments for scholarships		(8,680,395)		(7,518,308)
Collection of loans to students and employees		5,676		4,730
Auxiliary enterprises receipts		26,819,248		27,927,064
Sales and services of educational depts.		1,200,130		841,443
Other receipts (payments)		793,010		2,713,266
Net cash used by operating activities	**$**	**(64,096,157)**	**$**	**(62,077,722)**
Cash Flows from Noncapital Financing Activities				
State appropriations	$	55,118,066	$	54,051,765
Gifts and grants for other than capital purposes		28,988,210		25,403,794
Other non-operating receipts (payments)		(25,731)		(45,895)
Net cash provided by noncapital financing activities	**$**	**84,080,545**	**$**	**79,409,664**
Cash Flows from Capital Financing Activities				
Proceeds from capital debt	$	-	$	39,445,000
Capital appropriations		13,760,243		10,311,833
Capital grants and gifts		356,534		10,200
Bond financing costs		(48,778)		(278,899)
Purchase of capital assets		(28,481,926)		(15,536,379)
Principal paid on capital debt		(8,663,385)		(39,033,870)
Interest paid on capital debt and leases		(2,534,199)		(6,380,132)
Deposits with trustees		4,470,006		(7,708,131)
Net cash used by capital financing activities	**$**	**(21,141,505)**	**$**	**(19,170,378)**
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investments	$	39,516,758	$	40,751,455
Interest on investments		1,314,956		718,855
Purchase of investments		(39,754,121)		(48,792,372)
Net cash used by investing activities	**$**	**1,077,593**	**$**	**(7,322,062)**
Net increase (decrease) in cash	$	(79,524)	$	(9,160,498)
Cash – beginning of year		17,641,471		26,801,969
Cash – end of year	**$**	**17,561,947**	**$**	**17,641,471**

	2018	2017
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	$ (78,248,716)	$ (77,790,626)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	13,315,767	13,579,006
Provision for uncollectible accounts	655,938	(61,055)
Changes in assets, liabilities, and deferred resources:		
Operating receivables	372,317	2,275,992
Inventories	218,418	(180,132)
Other assets	(1,000,550)	(1,063,212)
Accounts payable	(479,360)	(1,141,759)
Unearned revenue	452,151	95,708
Deposits held for others	(15,482)	(1,463)
Employee and retiree benefits	627,684	2,205,089
Loans to students	5,676	4,730
Net cash used by operating activities:	**$ (64,096,157)**	**$ (62,077,722)**

	2018	2017
Noncash Transactions		
Unrealized gain/(loss) on short-term investments	$ (70,970)	$ (31,956)
Unrealized gain/(loss) on long-term investments	(574,135)	(534,067)
Equipment	50,648	199,602
Capital lease	(50,648)	(199,602)
Bonds payable -- LT and ST Series J	-	3,458,558
Bonds payable -- LT and ST Series L	-	(3,458,558)
Net noncash transactions	**$ (645,105)**	**$ (566,023)**

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.

During fiscal year 2018, the University implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB Statement 85, *Omnibus 2017*. GASB Statement 75 improves accounting and financial reporting for postemployment benefits other than pensions. GASB Statement 85 clarifies OPEB (GASB Statement 75) and the criteria for blending component units.

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.

Accounts Receivable
Accounts receivable consist primarily of amounts due from students, grants and contracts, and auxiliary enterprises and are recorded net of estimated uncollectible amounts.

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, 2018.

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 $2,859,525. The currently known value is not included in the capitalized asset value at June 30, 2018.

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.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the USI Voluntary Employees' Benefit Association (VEBA) Trust and additions to/deductions from the VEBA's fiduciary net position have been determined on the same basis as they are reported by the VEBA. Investments are reported at market value, except for money market investments, which are reported at cost.

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.

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

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

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

Component Unit

The University includes the University of Southern Indiana Foundation, Inc. (Foundation) 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 Foundation is a legally separate, tax-exempt entity formed in 1969 to provide support for the University 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 Foundation is considered a component unit of the University, and its audited financial statements and notes are discretely presented in the University financial report.

Direct support from the Foundation for both restricted and unrestricted purposes is included in the amounts reported for gifts and capital gifts on the Statement of Revenues, Expenses, and Changes in Net Position. Complete financial statements, including explanatory notes, for the 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, 2018, the bank balances of the University's operating demand deposit accounts were $17,603,624, of which $1,095,126 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, 2018, 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	33,449,586	40%	22,622,455	10,827,131	-	-
Agency securities	46,956,458	56%	11,596,968	32,638,246	2,563,049	158,195
U.S. Treasury securities	3,652,236	4%	-	3,652,236	-	-
Totals	**$84,058,280**	**100%**	**$34,219,423**	**$47,117,613**	**$2,563,049**	**$158,195**
Maturity %	100.0%		41%	56%	3%	0%

Investment custodial credit risk – This is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University investment policy does not contain legal or policy requirements which limit exposure to custodial credit risk for deposits or investments, but preference is given to Indiana institutions based on the additional insurance coverage provided by the State. Of the $84.1 million invested, $50.6 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 41 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 $84.1 million in investments, $51.9 million are rated Aaa by Moody's Investors Service. The other $32.2 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, 2018, 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 $3.7 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	1,037,236	3%	-	**1,037,236**	**1%**
Boonville Fed Savings	705,253	2%	-	**705,253**	**1%**
Evansville Commerce Bank	2,602,621	8%	-	**2,602,621**	**3%**
Fifth Third Bank	2,824,543	8%	29,556,962	**32,381,505**	**40%**
First Federal Savings Bank	2,328,486	7%	-	**2,328,486**	**3%**
First Financial Bank	4,087,173	12%	-	**4,087,173**	**5%**
First Security Bank	4,073,422	12%	-	**4,073,422**	**5%**
German American Bank	4,474,380	13%	2,563,283	**7,037,663**	**9%**
J P Morgan	531,912	2%	-	**531,912**	**1%**
Legence Bank	1,259,305	4%	-	**1,259,305**	**1%**
Lynnville National Bank	102,691	1%	-	**102,691**	**1%**
Old National Bank	3,733,868	11%	9,252,746	**12,986,614**	**16%**
PNC Bank	888,711	3%	3,978,116	**4,866,827**	**6%**
Regions Bank	3,027,731	9%	1,605,351	**4,633,082**	**6%**
United Fidelity Bank	1,772,254	5%	-	**1,772,254**	**2%**
Total	**$33,449,586**	**100%**	**$46,956,458**	**$80,406,044**	**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, 2018.

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	33,449,586	33,449,586		
U.S. Treasury securities	3,652,236	3,652,236		
Agency securities	45,720,665		45,720,665	
Agency mortgage securities	1,235,793		1,235,793	
Total investments	**$84,058,280**	**$37,101,822**	**$46,956,458**	**-**
Derivative Instruments				
Interest rate swap	(699,804)		(699,804)	
Total derivative instruments	**$(699,804)**	**-**	**$(699,804)**	**-**

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, 2018.

NOTE 4 – Derivative Instruments

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2018, classified by type and the fair value changes of those derivative instruments are as follows.

		Change in Fair Value		Fair Value at June 30, 2018	
Derivative Instrument	**Type**	**Amount**	**Classification**	**Amount**	**Current Notional**
Series 2006	Cash flow hedge: Pay-fixed interest rate swap	$231,452	Derivative Instrument Interest Rate Swap	$(432,639)	$4,350,262
Series 2008A	Cash flow hedge: Pay-fixed interest rate swap	$283,981	Derivative Instrument Interest Rate Swap	$(267,165)	$7,575,000

As of June 30, 2018, 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, 2018, 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	$4,350,262	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	$7,575,000	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	
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	435,257	123,007	-	-	435,257	123,007	**558,264**
2024-2028	2,360,059	284,801	-	-	2,360,059	284,801	**2,644,860**
2029-2033	-	-	-	-	-	-	**-**
Total	**$4,350,262**	**$1,088,746**	**$7,575,000**	**$803,677**	**$11,925,262**	**$1,892,423**	**$13,817,685**

Credit Risk — The fair value of the hedging derivative instruments is in a liability position as of June 30, 2018, with Series 2006 having a balance of $432,639 and Series 2008A having a balance of $267,165. 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 in which 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, 2018, compared to the previous fiscal year.

	2018	**2017**
Student receivables	$ 7,825,002	$ 8,541,649
Auxiliary enterprises	1,505,159	1,013,890
Grants and contracts	849,214	1,358,834
Capital grants and gifts	2,176,875	470,758
Other	1,730,674	1,504,559
Current accounts receivable, gross	14,086,924	12,889,690
Allowance for uncollectible accounts	(3,373,482)	(2,717,544)
Current accounts receivable, net	$ 10,713,442	$ 10,172,146

Additionally, the University has a receivable of $3,336,727 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, 2018, total $92,095,262 and are identified in the following schedule.

SCHEDULE OF BONDS AND NOTES PAYABLE	*Issue Date*	*Interest Rate*	*Current Year Rate*	*Maturity Date*	*Original Issue Amount*	*June 30, 2018* *Principal Outstanding*	*Interest Outstanding*	***Total Outstanding***
Student Fee Bonds								
Series G, Recreation & Fitness Center	1999	0.00% to 10.00%*	1.17%	2019	4,700,000	800,000	18,840	**818,840**
Series 2006, Recreation & Fitness Center	2006	4.67%	4.67%	2028	7,250,000	4,350,262	1,088,746	**5,439,008**
Series J, Business and Engineering Center	2009	3.45% to 3.70%	3.45%	2019	50,185,000	4,755,000	203,605	**4,958,605**
Series K-1, Teaching Theatre	2012	2.00% to 4.00%	3.00%	2032	12,300,000	9,230,000	3,009,625	**12,239,625**
Series K-3, Refund Series H and I	2012	1.90%	1.90%	2023	42,840,000	22,680,000	1,160,995	**23,840,995**
Series L-1, Health Professions Center 3rd Floor	2017	2.90%	2.90%	2036	8,050,000	7,780,000	2,339,430	**10,119,430**
Series L-2, Refund Series J	2017	2.15%	2.15%	2026	21,440,000	21,440,000	2,470,135	**23,910,135**
Series L-3, Refund Series J	2017	2.65%	2.65%	2028	9,955,000	9,955,000	2,488,284	**12,443,284**
Auxiliary System Bonds								
Series 2003, Student Housing Facilities	2003	3.00% to 4.50%	4.00%	2024	8,005,000	3,530,000	577,005	**4,107,005**
Series 2008A, Student Housing Facilities	2008	3.97%	3.97%	2021	9,800,000	7,575,000	803,677	**8,378,677**
Total					**$174,525,000**	**$92,095,262**	**$14,160,342**	**$106,255,604**

*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 1.57 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
2018-19	8,882,488	2,484,566	11,367,054
2019-20	10,614,452	2,213,927	12,828,379
2020-21	11,707,209	1,884,429	13,591,638
2021-22	12,650,797	1,535,102	14,185,899
2022-23	7,700,257	1,270,255	8,970,512
2023-28	28,795,059	3,765,037	32,560,096
2028-33	9,735,000	888,271	10,623,271
2033-38	2,010,000	118,755	2,128,755
Total	**$92,095,262**	**$14,160,342**	**$106,255,604**

NOTE 7 – Termination Benefits Liability

GASB Statement 47, *Accounting for Termination Benefits,* requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of the University'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 by $500 for purposes of calculating this liability.

The University has 21 retirees currently receiving early-retirement benefits, 10 of whose benefits stop after this fiscal year, and six more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $413,701 at June 30, 2018. Of that amount, $224,533 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 $189,168 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

NOTE 8 – Compensated Absence Liability

Vacation leave and similar compensated absences (such as sick leave) based on past service are accrued as a liability as earned. The liability is measured at the salary rate in effect at the balance sheet date, and additional amounts are accrued for all required 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 retirement plan and a defined contribution retirement plan.

The total cumulative compensated absence liability is $3,184,537 and $3,062,098 for June 30, 2018 and 2017, respectively. The current year change represents a $54,421 increase in accrued vacation; a $50,914 increase in sick leave liability; an $8,058 increase in Social Security and Medicare taxes; a $7,553 increase in Public Employees' Retirement Fund (PERF) contributions; and a $1,493 increase in Teacher's Insurance and Annuity Association (TIAA) contributions. During the fiscal year, $337,659 was paid out to terminating employees. Payout for terminating employees in fiscal year 2018-19 is expected to decrease approximately .02 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $337,594 of the total compensated absence liability is classified as a current liability under accrued payroll, benefits and deductions, and the remaining $2,846,943 is classified as a noncurrent liability.

NOTE 9 – Lease Obligations

The University spent $211,262 and $221,002 on operating leases as of June 30, 2018 and 2017, 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, 2018, compared to the previous fiscal year.

Operating Lease Payments	2018	2017
Off-campus facilities	$ 148,027	$ 173,713
Equipment	49,862	34,130
Vehicles	13,373	13,159

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 totaled $662,831 and $668,853 as of June 30, 2018 and 2017, respectively. Accumulated depreciation of leased equipment totaled $345,686 and 269,834 as of June 30, 2018 and 2017, respectively.

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
2019	$133,740	$101,083
2020	127,056	40,788
2021	46,694	1,146
2022	13,198	-
2023	-	-
Total future minimum payments	$320,688	$143,017
Less interest	(2,350)	
Total principal payments outstanding	$318,338	

NOTE 10 – Retirement Plans

Substantially all regular employees of the University are covered by either the Teachers Insurance and Annuity Association (TIAA) Plan or by the Public Employees' Retirement Fund (PERF). The TIAA 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 $5,789,445 to these programs in fiscal year 2017-18, which represents approximately 9.03 percent of the total University payroll and 10.84 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 Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA, or another university-sponsored retirement plan, for at least one year prior to eligible employment at the University. The University contributed $4,672,809 to this plan for 647 participating employees for fiscal year ending June 30, 2018, and $4,654,401 for 645 participating employees for fiscal year ending June 30, 2017. The annual payroll for this group totaled $44,493,852 and $43,753,841 for fiscal years ending June 30, 2018 and 2017, 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 newly hired support staff in regular assignments with a 50 percent or greater schedule with an employment date on or after July 1, 2014, and no prior PERF-eligible employment with the University. The new plan was established with TIAA, with the same immediate vesting and other features of the defined contribution plan for faculty and administrators, but with a fixed employer contribution of 7 percent of compensation and using the PERF definition of eligible compensation. The University contributed $141,887 to this plan for 101 participating employees for fiscal year ending June 30, 2018, and $94,484 to this plan for 77 participating employees for the fiscal year ending June 30, 2017. The annual payroll for this group totaled $2,026,954 and $1,349,766 for fiscal years ending June 30, 2018 and 2017, respectively.

TIAA 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, 730 3rd Avenue, New York, NY 10017-3206, or via its web site at www.tiaa.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 consecutive calendar quarters. The same calendar quarter may not be included in two different groups. For PERF members who serve as an elected official, the highest one year (total of four 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 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, 2017; however, eligible members received a one-time check (a.k.a. 13th check) in September 2016. 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, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

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 three 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 $974,750 for 246 employees participating in PERF during the 2017-18 fiscal year and $1,080,498 for 274 employees participating during 2016-17. These contribution amounts include the three 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, 2018, the University reported a liability of $7,135,346 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated June 30, 2017, for assets and June 30, 2016, rolled forward to June 30, 2017, for liabilities. 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, 2017, the University’s proportion was 0.16 percent, which was unchanged from June 30, 2016.

For the year ended June 30, 2018, the University recognized pension expense of $346,489. At June 30, 2018, 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	135,508	5,538
Changes in assumptions	114,564	-
Net difference between projected and actual earnings on pension plan investments	1,128,687	357,742
Changes in proportion and differences between the University's contributions and proportionate share of contributions	99,047	475,194
The University's contributions subsequent to the measurement date	974,750	-
Total	$ 2,452,556	$ 838,474

$974,750 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, 2019. 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:	
2018	129,549
2019	394,040
2020	154,129
2021	(38,386)
2022	-
Thereafter	-
Total	$639,332

Actuarial assumptions -- The total pension liability in the June 30, 2017, 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	1.00 percent per year in retirement

A load of final average salary of $400 was included to reflect unused sick leave.

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 for healthy members and the RP-2014 Disability Mortality Tables, with Social Security generational improvements from 2006 based on the Social Security Administration's 2014 Trustee Report for disabled members.

The actuarial assumptions used in the June 30, 2017, valuation were adopted by the INPRS Board in May 2017. 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%	4.9%
Private Equity	14	5.7
Fixed Income — Ex Inflation-Linked	20	2.3
Fixed Income — Inflation-Linked	7	0.6
Commodities	8	2.2
Real Estate	7	3.7
Absolute Return	10	3.9
Risk Parity	12	5.1
Total	100%	

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 one-percentage-point lower (5.75 percent) or one-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	$10,406,615	$7,135,346	$4,416,012

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 11 – **Risk Management**

The University is exposed to various risks of loss: torts; errors or omissions; theft, damage to property or destruction of assets; vehicle losses; job-related illness or injuries to employees; and natural disasters. The University manages these risks through a combination of risk retention and risk transfer, or the purchase of commercial insurance. Property insurance for buildings and contents and other special form coverage is subject to a deductible of $50,000 per occurrence. There is a minimum deductible of $100,000 for earthquake and then a two percent 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, cyber liability, professional liability, commercial crime, workers' compensation, and commercial auto 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, 2018, the University's contribution to these health care plans totaled $11,328,108 for 1,020 employees and $1,883,858 for 420 retirees. For the same period, employees and retirees made contributions totaling $2,648,851 and $704,597 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, 2018, 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 the University for payment. Changes in the balance of claims liabilities during the 2016-17 and 2017-18 fiscal years are as follows. The amounts shown for 2016-17 have been amended from the risk management note published in the 2017 University financial report to coincide with the liability balances included in the 2016-17 Statement of Net Position.

Fiscal Year	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2016-17	$975,910	$13,042,574	$(12,976,408)	$1,042,076
2017-18	$1,042,076	$12,967,741	$(12,891,047)	$1,118,770

NOTE 12 – Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan

Plan Description -- The USI Voluntary Employees' Benefit Association (VEBA) Trust provides OPEB for eligible full-time employees. VEBA is a single-employer defined benefit healthcare plan administered by the Old National Trust Company. The USI Board of Trustees has the authority to establish or amend the benefit provisions of the plan. Old National Trust Company 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.

Benefits Provided -- VEBA provides medical, dental, and life insurance benefits for eligible retirees and their dependents. The OPEB plan is closed to new entrants. Full-time employees hired before July 1, 2014, whose age plus years of creditable service equal 57 as of July 1, 2014, or who have 10 years of creditable service as of July 1, 2014, are eligible for lifetime medical and dental coverage at retirement once they reach age 60 with 10 years of service, or for certain eligible employees, age 55 with 85 points (age plus years of service is at least 85). Retirees hired prior to 1993 contribute 25% of the medical and dental premium rates regardless of years of service at retirement. Eligible retirees hired after 1993 contribute a percentage of the medical and dental premium rates based on their years of service at retirement. The percentages range from 25 percent to 75 percent. Employees hired before July 1, 2014, are eligible for University-subsidized life insurance.

Employees covered by benefit terms -- At June 30, 2018, the following employees were covered by the benefit terms.

Inactive Employees or beneficiaries currently receiving medical/dental benefit payments	252
Inactive employees entitled to but not yet receiving medical/dental benefit payments	0
Active employees eligible for medical/dental	439
	691

Inactive Employees or beneficiaries currently receiving life insurance benefit payments	304
Inactive employees entitled to but not yet receiving life insurance benefit payments	0
Active employees eligible for life insurance	753
	1,057

Contributions -- Historically, the trust has been funded from three sources: University contributions and reserves designated by the USI Board of Trustees for this purpose, employee payroll deductions for post-retirement benefits, and retiree contributions for medical and dental insurance premiums. In 2013, management elected to discontinue contributions to the trust 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 uses a pay-as-you-go financing method where employee payroll deductions for post-retirement benefits and retiree contributions for medical and dental premiums are made at about the same time and in the same amount as benefit payments and expenses coming due. The University remits medical claims incurred, dental premiums, and life insurance premiums directly to the third-party insurers. The University payroll deduction rates for medical, dental, and life insurance ranged from $132.77 to $579.12 per month for single coverage and $387.62 to $1,600.85 for family coverage. Retiree contributions for medical and dental ranged from $112.13 to $576.52 per month for single coverage and $346.95 to $1,598.25 for family coverage. The University also offers retiree and spouse coverage, as well as retiree and dependent coverage, with rates falling within the ranges provided.

Net OPEB Liability

The University's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions -- The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.25 percent
Salary increases	2.50-4.25 percent, including inflation
Healthcare cost trend rates	9 percent for 2019, decreasing 0.50 percent per year to an ultimate rate of 5 percent for 2027 and later years for medical 5 percent for 2019, decreasing 0.25 percent per year to an ultimate rate of 3 percent for 2027 and later for dental

Mortality rates were based on the RPH-2017 Total Dataset Mortality Table fully generational using scale MP-2017 for healthy retirees and the RPH-2017 Disabled Mortality Table fully generational using scale MP-2017 for disabled retirees.

Retiree contributions are assumed to increase according to health care trend rates.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study in 2013.

The long-term expected real rate of return on the OPEB plan investment is assumed to be seven percent. This was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are then combined to produce the long-term expected rate of return by weighting them based on the target asset allocation percentage and adding in expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table. Returns shown below are real rates of return net of a 2.50 percent inflation assumption.

Asset Class	Target Allocation
Domestic Large Cap	45%
Domestic Mid/Small Cap	12
International Equity	13
Domestic Bonds	30
Total	100%

Discount Rate -- The final equivalent single discount rate used for this year's accounting valuation is seven percent as of the beginning and end of the fiscal year with the expectation that the University will continue contributing a percentage of pay-go cost to ensure that the Trust has sufficient balance to pay for future benefit payments. The University is expected to withdraw at least five percent of the VEBA trust in the future to pay for the pay-go costs. Based on this year's expected benefit payments, the minimum required University contribution to finance future benefit payments is 50 percent of pay-go cost.

The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments are selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown.

Yield as of	June 30, 2018
Bond Buyer Go 20-Bond Municipal Bond Index	3.87%
S&P Municipal Bond 20-Year High Grade Rate Index	2.98
Fidelity 20-Year Go Municipal Bond Index	3.62
Bond Index Range	2.98-3.87%

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 6/30/2017	$49,539,365	$22,628,397	$26,910,968
Changes for the year:			
Service Cost	558,526		558,526
Interest	3,441,886		3,441,886
Changes in assumptions	962,342		962,342
Differences between expected and actual experience	(2,749,612)		(2,749,612)
Contributions-employer		1,888,109	(1,888,109)
Net Investment Income		1,243,292	(1,243,292)
Benefit Payments	(1,888,109)	(1,888,109)	-
Administrative Expense		(53,016)	53,016
Net Changes	325,033	1,190,276	(865,243)
Balances at 6/30/2018	$49,864,398	$23,818,673	$26,045,725

Sensitivity of the net OPEB liability to changes in the discount rate -- The following presents the net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (six percent) or one-percentage-point higher (eight percent) than the current discount rate.

	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
Net OPEB liability	$32,792,930	$26,045,725	$20,477,694

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates -- The following presents the net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using healthcare trend rates that are one-percentage-point lower (eight percent decreasing to four percent) or one-percentage-point higher (10 percent decreasing to six percent) than the current healthcare cost trend rates.

	1% Decrease (8% decreasing to 4%)	Healthcare Cost Trend Rates (9% decreasing to 5%)	1% Increase (10% decreasing to 6%)
Net OPEB liability	$20,477,280	$26,045,725	$32,787,289

OPEB plan fiduciary net position -- Detailed information about the VEBA plan's fiduciary net position is available in Old National Bank's audited financial report.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the University recognized OPEB expense of $2,092,221. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	2,062,209
Changes in assumptions	721,756	-
Net differences between projected and actual earnings in OPEB plan investments	271,098	-
Total	$992,854	$2,062,209

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

Year ended June 30:	
2019	$(379,043)
2020	(379,043)
2021	(379,045)
2022	67,776
2023	-
Thereafter	-

NOTE 13 – 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	STUDENT FINANCIAL AID	UTILITIES	SUPPLIES & OTHER SVCS	DEPREC-IATION	2018 TOTAL	2017 TOTAL
Instruction	$33,463,597	$10,432,579			$3,984,030		$47,880,206	$46,185,206
Academic Support	5,452,584	2,123,213			4,960,153		12,535,950	13,068,230
Student Services	5,672,700	2,252,612			2,998,105		10,923,417	10,831,598
Institutional Support	9,508,582	4,821,935			5,047,046		19,377,563	19,037,526
Operation & Maintenance of Plant	3,779,976	1,867,371		4,322,595	7,234,984		17,204,926	15,624,659
Depreciation	-	-			-	13,315,767	13,315,767	13,579,006
Student Aid	-	-	8,680,395		-		8,680,395	7,518,704
Public Service	1,298,566	370,834			1,185,643		2,855,043	3,232,576
Research	70,658	17,917			132,552		221,127	267,036
Auxiliary Enterprises	4,862,068	2,662,366		971,306	16,513,451		25,009,191	26,988,713
TOTAL	**$64,108,731**	**$24,548,827**	**$8,680,395**	**$5,293,901**	**$42,055,964**	**$13,315,767**	**$158,003,585**	**$156,333,254**

NOTE 14 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $371.8 million at July 1, 2017, to $398.7 million on June 30, 2018. Gross capital assets, less accumulated depreciation of $202.7 million, equal net capital assets of $196 million at June 30, 2018.

	Balance June 30,2017	Additions	Deletions	Balance June 30,2018
Capital Assets Not Being Depreciated				
Land	$ 5,113,685	$ -	$ (77,031)	$ 5,036,654
Construction in Progress	15,184,531	26,657,433	(7,766,878)	34,075,086
Total Capital Assets Not Being Depreciated	**$ 20,298,216**	**$ 26,657,433**	**$ (7,843,909)**	**$ 39,111,740**
Capital Assets Being Depreciated				
Land Improvements	$ 14,990,461	$ -	$ -	$ 14,990,461
Infrastructure	8,189,606	66,620	-	8,256,226
Educational Buildings	182,171,822	5,520,196	-	187,692,018
Auxiliary Buildings	117,862,183	2,921,453	(50,332)	120,733,304
Equipment	24,237,022	1,162,948	(1,151,038)	24,248,932
Library Materials	3,376,328	41,692	(455,694)	2,962,326
Capital Lease Equipment	668,853	63,423	(69,445)	662,831
Total Capital Assets Being Depreciated	**$ 351,496,275**	**$ 9,776,332**	**$ (1,726,509)**	**$ 359,546,098**
Total Capital Assets	**$ 371,794,491**	**$ 36,433,765**	**$ (9,570,418)**	**$ 398,657,838**
Less Accumulated Depreciation				
Land Improvements	$ (9,395,156)	$ (757,024)	$ -	$ (10,152,180)
Infrastructure	(2,823,731)	(250,761)	-	(3,074,492)
Educational Buildings	(89,348,705)	(6,534,150)	-	(95,882,855)
Auxiliary Buildings	(65,966,173)	(4,115,427)	13,126	(70,068,474)
Equipment	(20,285,196)	(1,403,291)	1,143,693	(20,544,794)
Library Materials	(2,943,549)	(122,548)	455,694	(2,610,403)
Capital Lease Equipment	(269,834)	(132,566)	56,714	(345,686)
Total Accumulated Depreciation	**$ (191,032,344)**	**$ (13,315,767)**	**$ 1,669,227**	**$ (202,678,884)**
Net Capital Assets Being Depreciated	**$ 160,463,931**	**$ (3,539,435)**	**$ (57,282)**	**$ 156,867,214**
Total Net Capital Assets	**$ 180,762,147**	**$ 23,117,998**	**$ (7,901,191)**	**$ 195,978,954**

During fiscal year 2018, the University incurred $214,932 in interest costs related to the ownership of capital assets.

Of this total, $138,990 was charged as interest expense and $75,942 was capitalized.

A breakdown of significant projects included in construction in progress is shown below:

Construction Work in Progress	Balance as of
Facility	**June 30, 2018**
Physical Activities Center(PAC)	22,419,038
Stone Family Center for Health Sciences	6,031,675
Fuquay Welcome Center	2,640,440
Health Professions Center	1,107,642
Upgrade Energy Management System	698,162
ADA Interior Locks Installation	533,924
Other projects (not exceeding $250,000)	644,205
Total	**34,075,086**

NOTE 15 – Beginning Net Position Restatement

The beginning net position balance at July 1, 2017, was restated to adjust the University's OPEB liability as required by GASB Statements 75 and 85, which took effect for the 2018 fiscal year. This restatement reduced the unrestricted net position on the Statement of Net Position by $9,423,305 and the same amount appears on the Statement of Revenues, Expenses, and Changes in Net Position as a prior period adjustment for change in accounting principle. Additional information about the University's OPEB obligation may be found in Note 12 of the *Notes to Financial Statements*.

NOTE 16 – Subsequent Events

The 2017 Indiana General Assembly approved $41 million in bonding authority for the second phase of the Physical Activities Center Classroom Expansion and Renovation project. As of June 30, 2018, $1.76 million has been expended for planning and design of the project. The construction stage of the project is anticipated to begin in spring 2019 and expected to take 18 to 21 months to complete. The University expects to issue the student fee replacement bonds in early 2019.

The University exercised its option to redeem Series G Bonds in whole on October 1, 2018. The bonds, issued in 1999 for construction of the Recreation and Fitness Center, were scheduled to mature on October 1, 2019. Additional details about Series G Bonds and other debt related to capital assets may be found in Note 6 of the *Notes to Financial Statements*.

University of Southern Indiana
Fiscal Year Ended June 30, 2018

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, 2018, 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 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 (GASB) 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 that 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.

CONDENSED STATEMENT OF NET POSITION			
Year Ended June 30 (in thousands of dollars)	**2018**	**2017**	**2016**
Current Assets	$ 73,714	$ 60,439	$ 61,111
Noncurrent Assets:			
Capital assets, net of depreciation	195,979	180,762	178,605
Other noncurrent	49,958	64,197	60,443
Total Assets	**319,651**	**305,398**	**300,159**
Hedging Derivative Instruments	700	1,215	1,898
Deferred Outflow of Resources Related to Pensions	2,452	3,406	3,492
Deferred Outflow of Resources Related to OPEB	993	-	-
Total Deferred Outflow of Resources	**4,145**	**4,621**	**5,390**
Current Liabilities	19,954	19,661	22,778
Noncurrent Liabilities	118,212	119,170	118,449
Total Liabilities	**138,166**	**138,831**	**141,227**
Deferred Inflow of Resources Related to Pensions	838	1,131	944
Deferred Inflow of Resources Related to OPEB	2,062	-	-
Total Deferred Inflow of Resources	**2,900**	**1,131**	**944**
Net Position:			
Net investment in capital assets	105,308	81,770	77,195
Restricted--expendable	4,632	6,825	1,034
Unrestricted	72,790	81,462	85,149
Total Net Position	**$ 182,730**	**$ 170,057**	**$ 163,378**

Assets
Current assets at June 30, 2018, 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 $14.3 million (4.7 percent) in 2017-18 compared to a $5.2 million increase (1.7 percent) in 2016-17 and a $5.1 million (1.7 percent) increase in 2015-16. The current-year activity is summarized by the following events.

- Short-term investments increased by $13.8 million. This change relates directly to the $14.3 million decrease in long-term investments as more University investments will mature during 2019 than matured during 2017-18. Overall, the total value of investments remained relatively unchanged at $84.1 million on June 30, 2018, compared to $84.5 million on June 30, 2017.
- The amount due from the State of Indiana at June 30, 2018, increased by $2.7 million due to two outstanding claims for reimbursement of expenses associated with the first phase of the renovation and expansion of the Physical Activities Center (PAC).
- Deposits with bond trustee decreased by $4.5 million as the University expended 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 $15.2 million. Construction in progress increased by $18.8 million primarily due to the ongoing renovation and expansion of the PAC and the construction of the Fuquay Welcome Center. The growth in capital assets attributable to construction in progress was offset partially by a $3.6 million decline in the value of net capital assets being depreciated.
- Other current assets increased by $1 million as the University experienced an increase in expenses prepaid in 2017-18 for future periods.
- Cumulative changes in all other asset categories accounted for the remaining $300,000 in asset growth.

Deferred Outflow of Resources
Deferred outflow of resources decreased by $476,000 (10.3 percent) during 2017-18 compared to a $769,000 (14.3 percent) decrease in 2016-17 and a $2.4 million (78.2 percent) increase in 2015-16. The implementation of GASB Statement 75 resulted in an increase of $993,000 in deferred outflow of resources related to other postemployment benefits (OPEB). However, this increase was countered by decreases of $515,000 and $954,000 in hedging derivate instruments and deferred outflow of resources related to pensions, respectively.

Liabilities
Current liabilities at June 30, 2018, 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 $665,000 (.5 percent) in 2017-18 compared to a decrease of $2.4 million (1.7 percent) in 2016-17 and a $6.4 million decrease (4.3 percent) in 2015-16. The following factors contributed to the liability reduction in 2017-18.

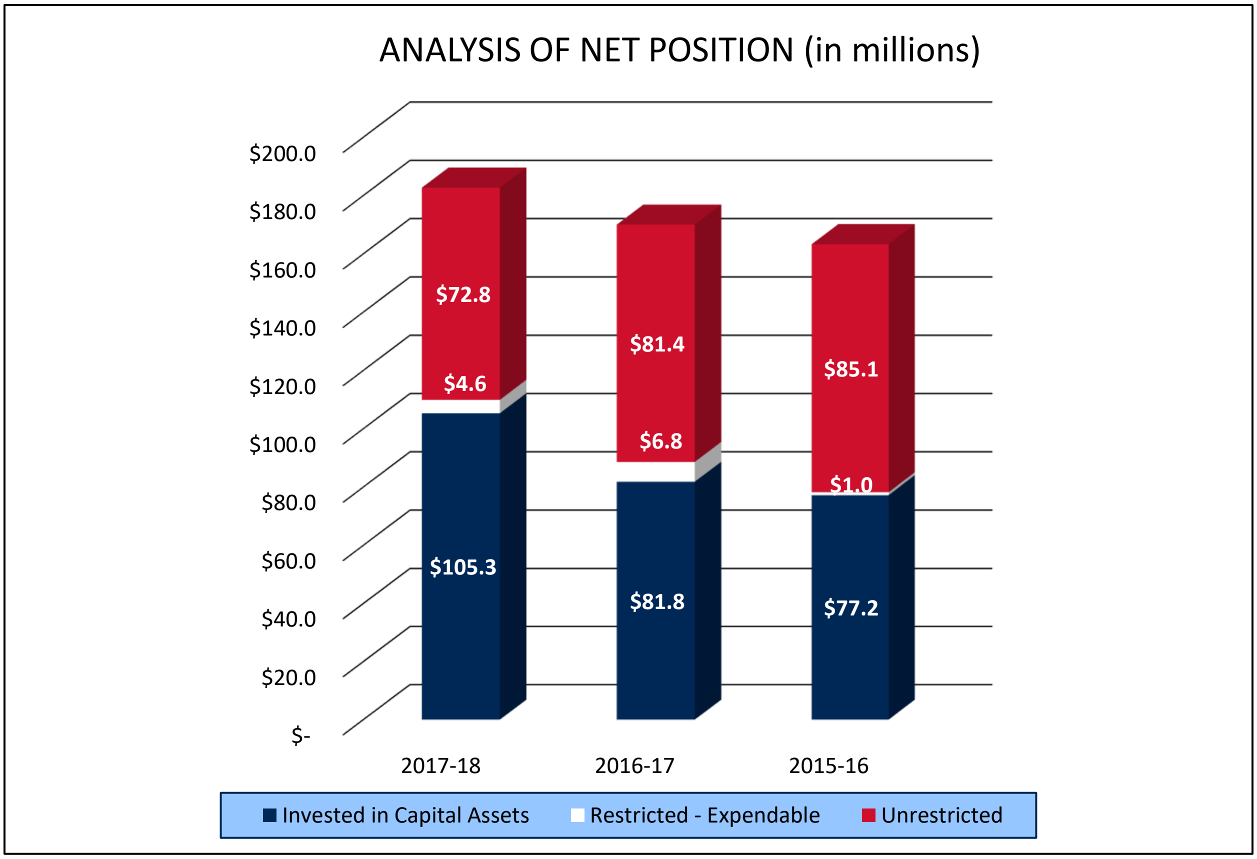
- The noncurrent portion of bonds payable declined by $8.7 million.
- The noncurrent liability for other postemployment benefits increased by $8.6 million with the implementation of GASB Statement 75. See the *Notes to Financial Statements* for additional details.
- Cumulative changes in all other current and noncurrent liability categories accounted for the remaining $565,000 decline.

Deferred Inflow of Resources
Deferred inflow of resources increased by $1.8 million in 2017-18 compared to a $188,000 increase in 2016-17 and a $168,000 decrease in 2015-16. The $2.1 million addition of deferred inflow of resources related to OPEB that resulted from the implementation of GASB Statement 75 was offset partially by a nearly $300,000 decline in the deferred outflow related to pensions.

Net Position

Net Position at June 30, 2018, is $12.7 million greater than on June 30, 2017. Net investment in capital assets increased $23.5 million; restricted expendable assets decreased $2.2 million; and unrestricted assets decreased by more than $8.6 million. Unrestricted assets equal $72.8 million and comprise 40 percent of total net position. Of the total unrestricted amount, $70.6 million has been internally designated as follows.

- $22.7 million for equipment and facilities maintenance and replacement
- $3.7 million for technology and software replacement
- $14.3 million for auxiliary systems
- $6 million for working capital and outstanding encumbrances
- $9 million for academic operations and initiatives
- $2.9 million for insurance and campus safety
- $12 million 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".

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Year Ended June 30 (in thousands of dollars)	**2018**	**2017**	**2016**
Operating Revenues	$ 79,755	$ 78,542	$ 75,285
Operating Expenses	(158,004)	(156,333)	(149,961)
Operating Loss	**(78,249)**	**(77,791)**	**(74,676)**
Non-operating Revenues	84,662	80,288	82,196
Non-operating Expenses	(2,793)	(3,496)	(3,888)
Income before other revenues, expenses, gains or losses	**3,620**	**(999)**	**3,632**
Other Revenues	18,477	7,678	10,428
Increase in Net Position	**22,097**	**6,679**	**14,060**
Net Position--Beginning of Year	170,057	163,378	149,318
Prior-period Adjustment for Change in Accounting Principle	(9,424)	-	-
Net Position--End of Year	**$ 182,730**	**$ 170,057**	**$ 163,378**

Revenues

Operating revenues increased by $1.2 million (1.5 percent) in 2017-18 compared to a $3.3 million (4.3 percent) increase in 2016-17 and a $976,000 (1.3 percent) decrease in 2015-16. The 2017-18 increase was driven by the following factors.

- Net student fees increased from $45.8 million in 2016-17 to $48.2 million in 2017-18. Gross student fees increased by $5.7 million while scholarship discounts and allowances increased by $3.3 million.
- Net revenues from auxiliary enterprises declined slightly from $27.7 million in 2016-17 to $27.1 million in 2017-18. The primary source of the decline was an $886,000 decrease in Campus Store sales attributable to a decrease in textbook sales. The downturn was mitigated partially by increases in revenues from housing and dining.
- Operating grants from all sources declined by $502,000 compared to last fiscal year.

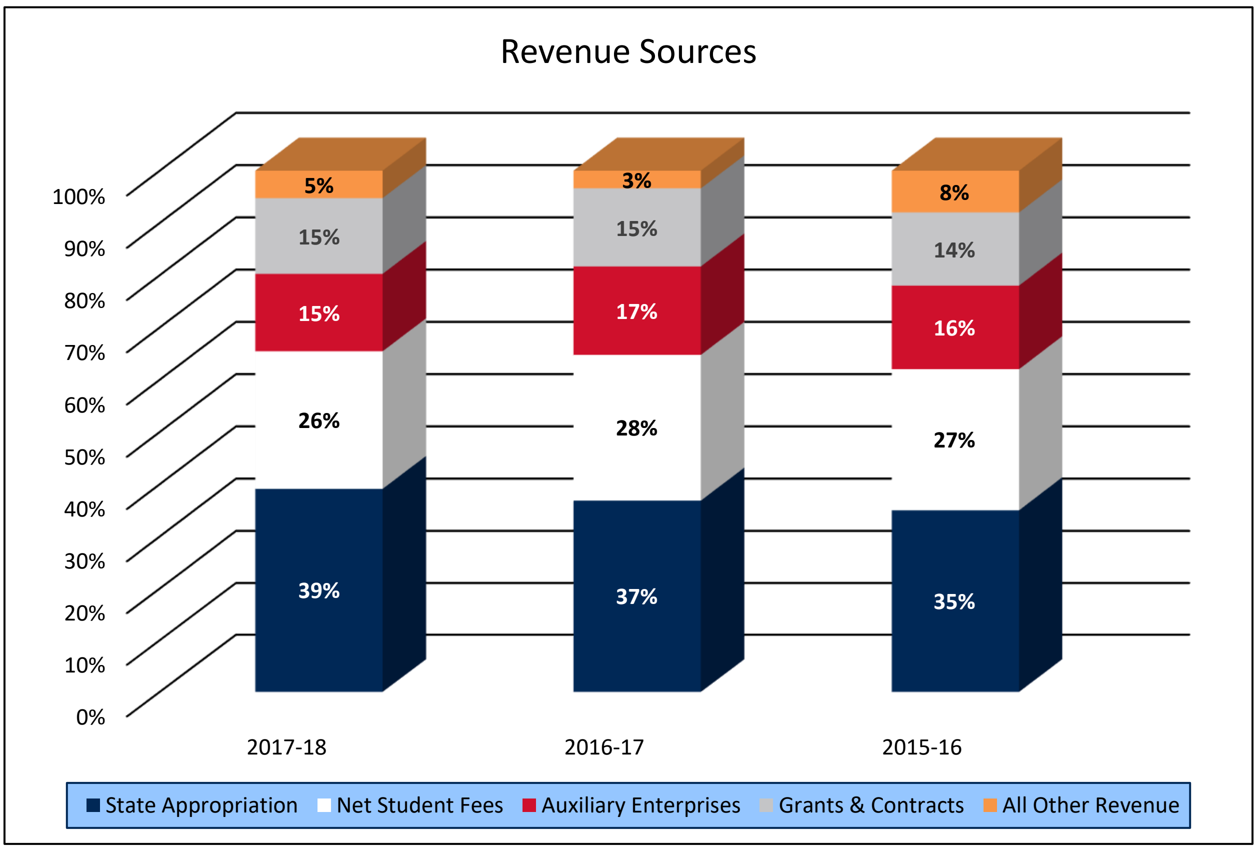
Non-operating revenues increased by $4.4 million (5.5 percent) during 2017-18 to $84.7 million following a decrease of $1.9 million (2.3 percent) in 2016-17 and a $1.2 million (1.4 percent) gain in 2015-16. The following elements contributed to the growth in the current fiscal year.

- State appropriations grew from $54.1 million in 2016-17 to $55.1 million in 2017-18.

- Non-operating gift income, which comes almost entirely from the USI Foundation, rose to $3.9 million, an increase of $523,000 from 2016-17.
- State and local grants increased by $1.9 million as the result of an increase in funds received from the State of Indiana for student financial assistance.
- Net investment income rose more than $549,000 to nearly $681,000 for 2017-18 as the University benefited from reinvesting funds during a rising interest-rate environment.
- Cumulative changes in all other non-operating revenues totaled approximately $400,000.

Other revenues rose from $7.7 million in 2016-17 to $18.5 million in 2017-18 following a $2.7 million decrease from 2015-16 to 2016-17. Capital appropriations from the State of Indiana grew by almost $8.8 million largely due to transactions related to the renovation and expansion of the Physical Activities Center. In addition, capital gifts from the USI Foundation increased by $2 million as the result of revenues related to the Fuquay Welcome Center.

Total revenues (operating, non-operating, and other) increased by $16.4 million in 2017-18. The graph below shows the composition of the University's revenue for the three most recent fiscal years ended June 30.



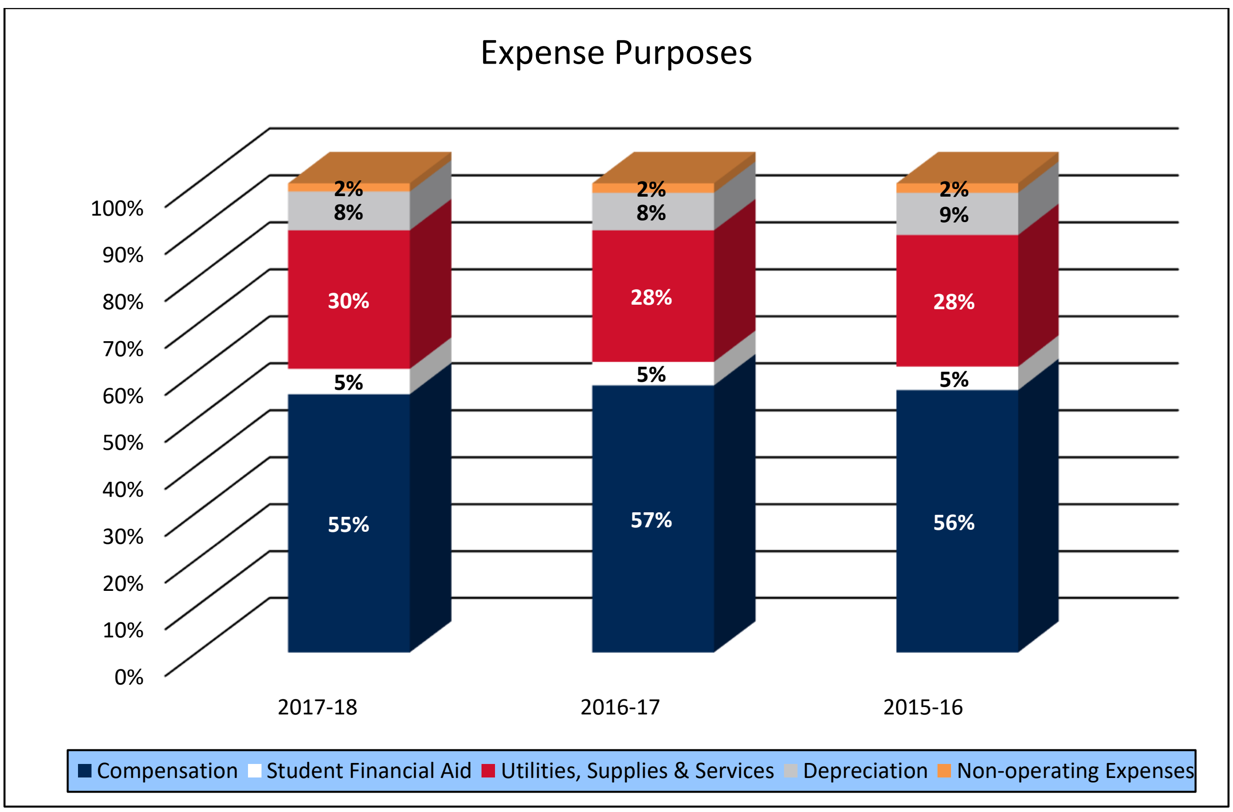
Expenses

Operating expenses increased $1.7 million (1.1 percent) in 2017-18 compared to a $6.4 million (4.3 percent) increase in 2016-17 and a $7.7 million (5.4 percent) increase in 2015-16. The following expenses contributed to the current-year increase.

- Compensation, which includes salaries, wages, and benefits, comprised $88.7 million (56.1 percent) of total operating expenses and decreased $1.6 million (1.8 percent) from 2016-17. While salaries and wages increased slightly by $705,000, benefits declined by $2.3 million.
- Student financial assistance expenses increased by $1.2 million as the University received more dollars for Pell Grants and other forms of refundable financial aid compared to 2016-17.
- Supplies and other services increased by $2.6 million (6.7 percent) in 2017-18 compared to a $2.3 million (6.2 percent) increase in 2016-17 and a $4.2 million (12.9 percent) increase in 2015-16. 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. Contracted and professional services to support institutional projects and payments for student meal plans accounted for a significant portion of the increase.
- Utilities and depreciation decreased by $543,000 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 $703,000 (20 percent) in 2017-18 after decreases of $392,000 (10 percent) in 2016-17 and $636,000 (14 percent) in 2015-16. 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 modestly by $967,000 (.6 percent) in 2017-18 after growing by $6 million in 2016-17 and by $7 million in 2015-16. The composition of total expenses for all three years is depicted by major categories in the graph below.



Change in Net Position

The difference between annual revenues and expenses causes an increase or decrease to net position. For the fiscal year ending June 30, 2018, net position increased by $22.1 million following increases of $6.7 million and $14.1 million in 2016-17 and 2015-16, respectively. During 2017-18, the upsurge in total revenues outpaced the slight growth in total expenses, resulting in an increase to net position for the year despite a $9.4 million fund balance adjustment related to the implementation of GASB Statement 75 for other postemployment benefits.

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 the three most recent fiscal years ended June 30.

CONDENSED STATEMENT OF CASH FLOWS			
Year Ended June 30 (in thousands of dollars)	**2018**	**2017**	**2016**
Net Cash Provided (Used) By:			
Operating activities	$ (64,096)	$ (62,078)	$ (58,764)
Noncapital financing activities	84,080	79,410	83,034
Capital financing activities	(21,142)	(19,170)	(19,315)
Investing activities	1,078	(7,322)	3,795
Net Increase (Decrease) in Cash	**$ (80)**	**$ (9,160)**	**$ 8,750**

Operating activities

- Cash used by operating activities increased $2 million in 2017-18 compared to increases of $3.3 million in 2016-17 and $7.5 million in 2015-16.
- Student fees and auxiliary enterprises generated the largest inflow of cash for all fiscal years.
- Payments to employees, which include salaries, wages, and benefits, and payments to suppliers used the most cash in all fiscal years.

Noncapital financing activities

- Cash provided by noncapital financing activities increased $4.7 million in 2017-18 after decreasing by $3.6 million in 2016-17 and increasing by $6.9 million in 2015-16.
- State appropriations and non-capital gifts and grants provided the largest inflow of cash in all fiscal years.

Capital financing activities

- Cash used by capital financing activities increased by nearly $2 million in 2017-18 compared to a $144,000 decrease in 2016-17 and an $8.2 million decrease in 2015-16.
- Capital appropriations from the State of Indiana generated the largest cash inflow during 2017-18. Proceeds from the issuance of Series L bonds produced the largest inflow of cash in 2016-17. Capital gifts from the USI Foundation resulted in the largest cash inflow during 2015-16.

- The purchase of capital assets produced the largest cash outflow for 2017-18. Principal and interest paid on capital debt and leases generated the largest cash outflow in 2016-17 and in 2015-16.

Investing activities

- Investing activities provided $1.1 million in cash during 2017-18 after using $7.3 million in cash during 2016-17 and providing $3.8 million during 2015-16.
- Proceeds from sales and maturities of investments decreased from $40.8 million in 2016-17 to $39.5 million in 2017-18. This decline follows a decrease of $6 million in 2016-17 and an increase of $8.1 million in 2015-16. Interest earned on investments topped $1.3 million in 2017-18. This amount eclipsed the $719,000 produced in 2016-17 and the $894,000 generated in 2015-16.
- Cash used for purchases of investments decreased, falling to $39.8 million in 2017-18 from $48.8 million in 2016-17. In 2015-16, purchases of investments used cash of $43.9 million.

Summary of Statement of Cash Flows

For the 2017-18 fiscal year, the University cash balance changed by less than $100,000, ending the year at $17.6 million as it did the previous fiscal year. While operating activities and capital financing activities used more cash than the previous fiscal year, noncapital financing activities and investing activities provided more cash than the prior year. As a result, the University maintained a stable cash position at June 30, 2018.

Factors Affecting Future Periods

Following a national search that drew more than 90 qualified applicants, the University Board of Trustees announced the appointment of Dr. Ronald S. Rochon, who served as provost since 2010, as the fourth USI president on Thursday, April 19, 2018. Dr. Rochon assumed his duties on July 1. Dr. Mohammed Khayum, dean of the Romain College of Business, was named interim provost in preparation for a national search to fill that role.

After more than 39 years with the University, Cindy Brinker, vice president for Government and University Relations, announced plans to retire December 31, 2018, with a six-month sabbatical beginning June 30, 2018. Brinker worked closely with members of the Indiana General Assembly concerning legislation affecting higher education and advancing the University's biennial operating and capital budget request. She served as the University's primary liaison with the Indiana Commission for Higher Education and the State Budget Committee. Subsequently, the University split the vice president for Government and University Relations into two positions. Kindra Strupp was appointed vice president for Marketing and Communications, and the University commenced a national search for a chief government and legal affairs officer.

In fall 2018, the University welcomed another record number of graduate students to the University. Graduate enrollment increased 11 percent over the previous year. In addition, the University enrolled 1,656 students in college for the first time. The incoming freshman class boasted an increased high school GPA of 3.39 on a 4.0 scale. Total enrollment remained steady at 11,021 for the 2018 fall semester, which includes students in undergraduate and graduate degree programs and 2,059 students enrolled in USI's College Achievement Program (CAP) classes in 29 high schools across Indiana. CAP has a long tradition of successfully enabling many students to graduate from college in four years or less. Moreover, transfer enrollment grew to 519 students, a 4 percent increase over last year.

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 2018, the USI Board of Trustees Finance/Audit Committee approved the issuance of Series M bonds to finance the project with Stifel, Nicolaus & Company as the senior manager and Piper Jaffray as the co-manager. Phase I of the project is underway and scheduled to be completed in early 2019. Phase II will follow immediately thereafter with issuance of the bonds expected to occur during the first quarter of the 2019 calendar year.

In March 2018, the SmithGroup presented recommendations from the master planning process to the USI Board of Trustees. Five key planning themes emerged from the process: Enrich the Academic Experience, Transform Student Life, Celebrate Campus Spirit, Strengthen Campus Identity, and Improve Support Facilities. The master planning process considered 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 completed master plan will provide the University with an integrated campus plan to support and inform the current strategic plan and future iterations.

The Indiana Commission for Higher Education approved the University's proposal to offer a Bachelor of Science in Electrical Engineering (BSEE) program at its meeting on March 8, 2018. This program, housed in the Pott College of Science, Engineering, and Education, began in the fall 2018 semester. The BSEE program will offer students hands-on learning experiences, opportunities to participate in co-operative education and internships, and student organizations that participate in national engineering competitions. Indiana's Department of Workforce Development website projects that growth in electrical engineering jobs will be three percent for the state and 7.3 percent for the Evansville area through 2024.

In addition, the Indiana Commission for Higher Education approved the University's request for a Bachelor of Arts/Bachelor of Science in Statistics degree program at its meeting on June 14, 2018. The new program, which is housed in the Pott College of Science, Engineering and Education, began in the fall 2018 semester. The Statistics degree program will support the Pott College's commitment to prepare individuals with rigorous and diverse experiences, both within the program and across the science, technology, engineering and mathematics (STEM) fields. Students pursuing degrees in mathematics, computer science, social science, or other programs may complement their degrees with coursework or a second major in statistics. The U.S. Bureau of Labor Statistics estimates statisticians will be the seventh fastest-growing occupation in the 10-year period from 2016 to 2026 with an estimated growth rate of 34 percent. Similarly, the Indiana Department of Workforce Development's Occupational Demand Report estimates that there will be a 39 percent increase in the need for statisticians in Indiana across the same period. This ranks as the fourth largest change in the state, and the third largest change among occupations requiring a college degree.

The University, alongside the Indiana University School of Medicine and the University of Evansville, officially marked the opening of the Stone Family Center for Health Sciences at a ceremony in downtown Evansville on August 9, 2018. USI classes in the Stone Center began with the start of the fall 2018 semester on Monday, August 20. A collaborative effort between the three universities, the Stone Center will hold the Indiana University School of Medicine – Evansville as well as programs for both the University of Evansville and USI. More than 250 USI graduate-level students in the Masters of Science in Occupational Therapy, Masters of Science in Nursing and Doctor of Nursing Practice programs, and 120 undergraduate, senior nursing students will utilize the Stone Center. Bill Stone, along with his wife

Mary, donated $15 million in support of the mission and collaboration between the Universities and hospital partners. 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 is undergoing renovation now that the IU School of Medicine has moved to the new facility.

In addition to the new opportunities offered by the Stone Family Center for Health Sciences, the College of Nursing and Health Professions received a four-year grant of more than $2 million to increase the number of registered nurses trained in primary care to positively impact health in rural communities. The College of Nursing and Health Professions will create four academic practice partnerships with two rural hospitals serving surrounding counties with limited access to health care and two county health departments. In addition to enhancing primary care in rural areas, the grant will allow ample clinical opportunities for USI undergraduate students.

The University continues to monitor the pending replacement of the London Interbank Offered Rate (LIBOR) by the end of 2021. As outlined in the *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. The University will consult bond counsel, municipal advisors, and other experts during the next two years to determine the best course of action once a clear replacement strategy emerges.

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 2018 with a budget surplus of $100.4 million and a budget reserve of nearly $1.8 billion. 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.

In a time of changing leadership and new opportunities, the 2018 Financial Report demonstrates that the University of Southern Indiana remains financially sound and well positioned for the future.

**CERTIFIED RESOLUTIONS OF THE
BOARD OF TRUSTEES OF THE
UNIVERSITY OF SOUTHERN INDIANA**

I, Anjali Patel, the duly qualified and elected Secretary of the Board of Trustees of the University of Southern Indiana, do hereby certify that the following is a true and correct copy of resolutions adopted by the Board of Trustees of the University of Southern Indiana on the 1st day of November, 2018, and that said resolutions are in full force and effect and have not been revoked:

WHEREAS, the University of Southern Indiana ("USI") has engaged in cultural and educational programs, while maintaining historic properties; and

WHEREAS, USI owns three off campus properties located at 520 Keppler, 610A Church Street, and the HOP House on Brewery Street in New Harmony, Indiana (the "Real Estate"), which USI has used for cultural and educational programs as part of its efforts to provide learning and community cultural events; and

WHEREAS, it has been determined that the Real Estate is no longer needed to deliver programs for the purposes of USI, and that it would be advantageous for USI to sell the Real Estate for no less than the full appraised value; and

WHEREAS, proceeds from the sale of the Real Estate will be used to further the Historic New Harmony mission; and

WHEREAS, the Board of Trustees of USI have determined that the Real Estate should be declared surplus to the purposes of USI and disposed of in accordance with applicable statutes and policies.

NOW, THEREFORE, BE IT RESOLVED, that the Real Estate is and it is hereby declared to be surplus to the purposes of USI and that it would be advantageous to USI to sell the Real Estate for no less than the full appraised value as determined below; and

RESOLVED FURTHER, that David Matthews Associates and Bartlett and Associates Inc., being two (2) disinterested commercial appraisers, are hereby appointed to determine the value of the Real Estate pursuant to Indiana Code 21-36-3-6 for the purpose of said sale; and

RESOLVED FURTHER, that USI, after receipt of the determination of fair market value from such appraisers shall negotiate to sell the Real Estate at a price acceptable to USI; and

RESOLVED FURTHER, that USI's Vice President for Finance and Administration, Steven J. Bridges, and such other officers as in his sole discretion he deems necessary, advisable or appropriate ("**Authorized Officers"**) be, and they hereby are, authorized and directed to negotiate and enter into an agreement for the sale of the Real Estate for not less than the full appraised value upon such terms and conditions as the Authorized Officers, in their sole discretion, deem necessary, advisable or appropriate, and in the best interests of USI, which agreement shall be submitted to the Board of Trustees of USI for final approval; and

RESOLVED FURTHER, that a duly certified copy of these Resolutions shall be delivered to the Governor of the State of Indiana.

IN WITNESS WHEREOF, I have hereunto executed this Certificate as of the 1st day of November, 2018.

UNIVERSITY OF SOUTHERN INDIANA

By:______________________________________
Anjali Patel, Secretary

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

PHYSICAL ACTIVITIES CENTER (PAC) RENOVATION

Empire Contractors

CO-017	Beam Relocation, Intercom System Devices, Vendor Changes for Concessions	$ 14,682
CO-018	Additional Roof Screen Support, Locker Mock-Up	$ 11,702