University of Southern Indiana

Financial Report 2017

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Additional copies of this report may be obtained from:

Controller and Assistant Treasurer, Business Office
Orr Center, Room 027
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712-3597
Telephone: 812-464-8600
or from the website at *www.usi.edu/about/financing/annual-financial-report*

Board of Trustees 2016–2017

Trustees of the University gather before the May 2017 commencement ceremony. Left to Right: W. Harold Calloway, John M. Dunn, Ronald D. Romain, Linda L. M. Bennett, Ted C. Ziemer, Jr., Jeffrey L. Knight, Ellis S. Redd, Evan K. Stieler

University Officers 2016–2017

Message from the President

Dr. Linda L. M. Bennett
President

At 51, the University of Southern Indiana is the youngest of the state's freestanding public universities. Yet, at that young age, we have accomplished much. This past year, we successfully completed our reaccreditation with the Higher Learning Commission, reaffirming our commitment to affordable excellence. USI is mission-focused and a force for development in this state. We continue to fulfill the mission outlined by the Board of Incorporators at our founding in 1965, "to influence the ever changing needs of both the southern region and the entire state in meaningful ways."

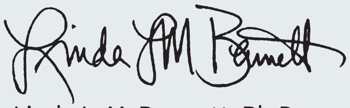
Our strengths as a University are gaining national and international recognition. We see countless examples of the quality of learning and dedication to our mission that exists across this campus, in every college, in every division, in every office.

This past year, we have had great success in our graduate and undergraduate programs. We added a fully-online Master of Business Administration degree with several areas of concentration—a program that has seen record enrollment success. More recently we added an online Master of Health Administration degree program, and other new additions are in planning stages. The undergraduate Nursing Program continued to be highly competitive; engineering students began work on the University's first satellite to be put into space by NASA; and accounting, theatre, journalism and other programs continued to bring home national honors, many times competing against much older and larger institutions. USI students and faculty continued work with the Naval Surface Warfare Center, Crane Division (NSWC Crane) and other local industry leaders to put technology to work through innovative and entrepreneurial endeavors.

Recently, we heard a report on the ongoing success of those who participated in our 2010 Iraqi Young Leaders Exchange Program and the positive message and change those young adults are now bringing to their country and the world. They are inspiring stories of hard work, sacrifice and success.

These achievements do not happen by accident, they are part of a purposeful and sustainable model for excellence and growth that is outlined in our five-year strategic plan, summed up by the goals of Excellence in Learning for the Entire USI Community, Access and Opportunity by Design, and Purposeful and Sustainable Growth. This guiding strategy along with our 10-year campus master planning process is steering our course. It is no wonder that USI is a first choice for some of the best students in the region, the state and beyond.

I am proud of this institution, its people, and all we continue to achieve. I hope that you will read this financial report and see the many ways USI is a responsible steward of resources as we fulfill our mission of being an engaged learning community advancing education and knowledge, enhancing civic and cultural awareness, and fostering partnerships through comprehensive outreach programs. We are grateful for the continued support we receive.



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

Message From The Vice President and Treasurer

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

I am pleased to present the University of Southern Indiana's audited financial report for the fiscal year ended June 30, 2017, including the unmodified opinion, which appears on pages 4 and 5. The University of Southern Indiana continued its positive financial performance history in fiscal year 2017. During times that are considered challenging in the higher education sector the University continues its focus on cornerstone values of quality, cost and efficiency that have served us, our students and the taxpayers of Indiana well since our inception.

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

Strong financial stewardship of resources has been a constant since our founding and continues today as demonstrated in the fact that revenues exceeded expenses this year as they have throughout our history. Credit agencies, as detailed in the Management Discussion and Analysis section of the financial report, continued their confidence in the financial strength of the University, currently and looking to the future.

As our master planning process begins to provide a direction for the University for the next 10 years, we will continue vigilance in allocating resources and facilities toward new and emerging market needs. We will be a University that aligns its resources with changing needs while constantly monitoring student success and quality programs that advance the institution and those it serves.

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

Steve Bridges
Vice President for Finance and Administration
and Treasurer

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the financial statements of the business-type activities and the discretely presented component unit of University of Southern Indiana (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Southern Indiana Foundation (Foundation), a component unit of the University as discussed in Note 1, which represents 100 percent, 100 percent, and 100 percent, respectively, of the total assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were audited in accordance with auditing standards generally accepted in the United States of America, but were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof and for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Board of Trustees, University Officers, Message from the President, Message from the Vice President and Treasurer, Five-Year Comparative Data, and Home Counties of USI Students-Fall 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Board of Trustees, University Officers, Message from the President, Message from the Vice President and Treasurer, Five-Year Comparative Data, and Home Counties of USI Students-Fall 2016 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

October 25, 2017

Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University of Southern Indiana (the University or USI) during the fiscal year ended June 30, 2017, and compares that performance with data from prior fiscal periods. It is designed to focus on current activities, resulting changes, and currently known facts. It is intended to answer questions that may result from the review of the information presented in the financial statements and to better explain the financial position of the University. The information presented in the financial statements, the notes to the financial statements, and the discussion and analysis are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements prepared from an entity-wide focus in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities.* These statements focus on the financial condition, the results of operations, and the cash flows of the University as a whole.

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

Statement of Net Position

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

Assets

Current assets at June 30, 2017, consist of cash and cash equivalents, short-term investments, amounts due from the State of Indiana, receivables net of allowances, inventory, and deposits with bond trustee in addition to lesser-valued resources like prepaid expenses and accrued interest that are grouped together and listed under the term "Other". Noncurrent assets include capital assets net of depreciation, long-term investments, and deposits with bond trustee.

STATEMENT OF NET POSITION CONDENSED			
Year Ended June 30 (in thousands)	2017	2016	2015
Current Assets	$ 60,439	$ 61,111	$ 53,707
Noncurrent Assets:			
Capital assets, net of depreciation	180,762	178,605	180,635
Other non-current	64,197	60,443	60,689
Total Assets	**$305,398**	**$300,159**	**$295,031**
Hedging Derivative Instruments	$ 1,215	$ 1,898	$ 1,736
Pension Benefits	3,406	3,492	1,288
Total Deferred Outflow of Resources	**$ 4,621**	**$ 5,390**	**$ 3,024**
Current Liabilities	$ 19,661	$ 22,778	$ 23,833
Noncurrent Liabilities	119,170	118,449	123,792
Total Liabilities	**$138,831**	**$141,227**	**$147,625**
Pension Benefits	$ 1,131	$ 944	$ 1,112
Total Deferred Inflow of Resources	**$ 1,131**	**$ 944**	**$ 1,112**
Net Position:			
Net investment in capital assets	$ 81,770	$ 77,195	$ 65,511
Restricted–expendable	6,825	1,034	192
Unrestricted	81,462	85,149	83,615
Total Net Position	**$170,057**	**$163,378**	**$149,318**

Total assets increased $5.2 million (1.7 percent) in 2017 compared to a $5.1 million (1.7 percent) increase in 2016 and a $1.3 million (.4 percent) increase in 2015. The current-year activity is summarized by the following events.

- The value of cash and equivalents decreased by $9.2 million. This decline relates directly to the $3.3 million increase in short-term investments and the $4.1 million increase in long-term investments as the University shifted more of its cash resources into investments to generate additional interest income. Moreover, the University elected to invest $2.3 million from its cash reserves in additional repair and rehabilitation projects within student housing. Cash from all other sources increased by $500,000.
- The amount due from the State of Indiana at June 30, 2017, decreased by $2.8 million as the result of a change in the timing and amount of reimbursement claims submitted to the State for capital projects.
- Accounts receivable decreased by $1.4 million. One-time gifts due to the University from the USI Foundation for construction of the USI Performance Center and the Griffin Center totaled $2 million at June 30, 2016, resulting in gross receivables of $14.3 million for fiscal year 2016. Receivables outstanding at June 30, 2017, compare favorably to the $11.9 in gross receivables outstanding at June 30, 2015. Receivables from all other sources increased by $600,000 during the 2016-17 fiscal year.
- Deposits with bond trustee increased by $7.7 million as the University received proceeds related to the issuance of student fee revenue Series L-1 bonds for the expansion and renovation of the third floor of the Health Professions Center.
- Net capital assets increased by $2.2 million. Depreciation expense of $13.6 million outpaced the value of new assets that were capitalized during the year. However, construction in progress increased by $10.1 million due in part to $6 million recorded for the construction of the University's portion of the Multi-Institutional Academic Health Science and Research Center in downtown Evansville.
- Other current assets increased by $1.1 million primarily due to an increase in prepaid expenses associated with computer software expenses paid during the 2016-17 fiscal year for future periods.

Deferred Outflow of Resources

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

Liabilities

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

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

Deferred Inflow of Resources

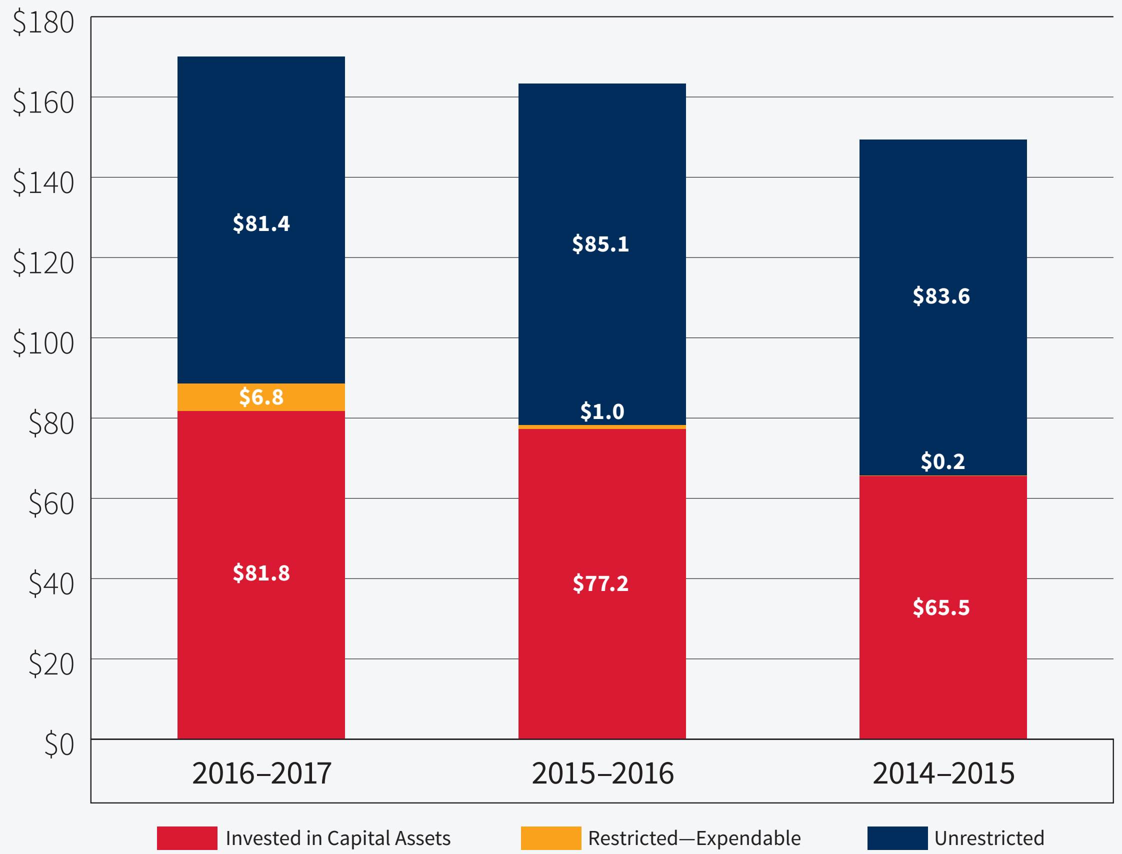
Deferred inflow of resources for pension benefits increased slightly from $944,000 in 2016 to $1.1 million in 2017 based on information provided by the Indiana Public Retirement System. The amounts reflect the University share of the annual change in net pension liability for the Public Employees' Retirement Fund. See Note 12 of the *Notes to Financial Statements* for additional information about the net pension liability of the University. This increase follows a slight decrease of $168,000 from 2015 to 2016.

Net Position

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

- $23.8 million reserve for equipment and facilities maintenance and replacement
- $14.9 million reserve for University benefits
- $9.9 million reserve for auxiliary systems
- $5.1 million reserve for working capital and outstanding encumbrances
- $10.4 million reserve for academic operations and initiatives
- $2.7 million reserve for insurance and equipment
- $9.9 million reserve for medical premiums

ANALYSIS OF NET ASSETS (IN MILLIONS)



Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION CONDENSED			
Year Ended June 30 (in thousands)	2017	2016	2015
Total operating revenues	$ 78,542	$ 75,285	$ 76,261
Total operating expenses	(156,333)	(149,961)	(142,292)
Operating losses	(77,791)	(74,676)	(66,031)
Net non-operating revenues/(expenses)	76,792	78,308	76,506
Income before other revenues, expenses, gains or losses	(999)	3,632	10,475
Capital appropriations	7,668	4,091	
Capital gifts and grants	10	6,337	698
Increase (decrease) in net position	$ 6,679	$ 14,060	$ 11,173

Revenues

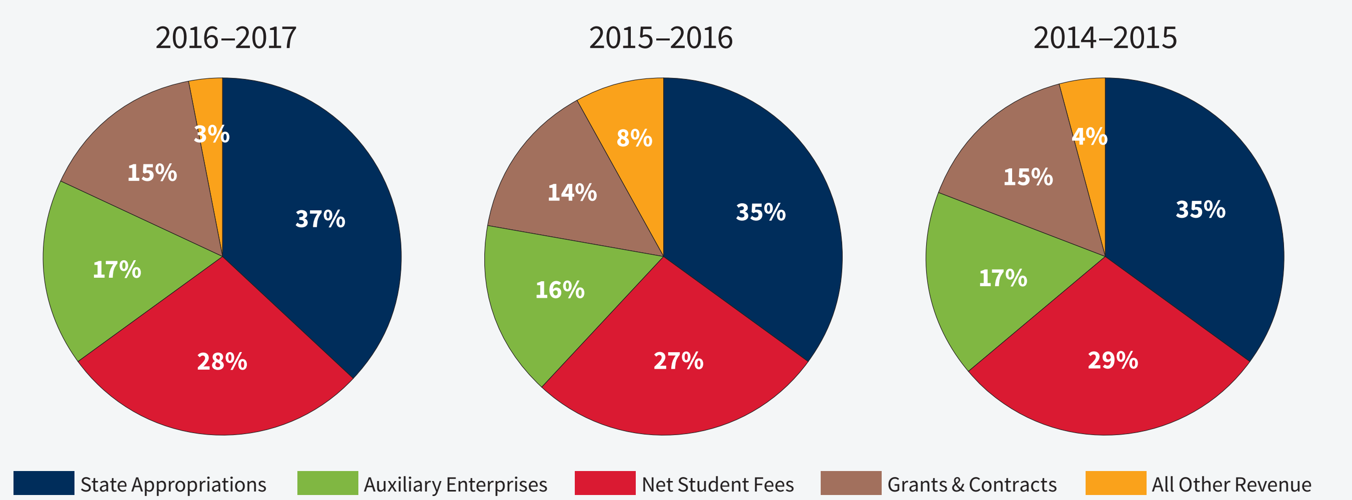
Operating revenues increased by $3.3 million (4.3 percent) in 2017 compared to a $976,000 (1.3 percent) decrease in 2016 and a $1.8 million (2.3 percent) decrease in 2015. The 2017 increase was driven by the following factors.

- Net student fees increased from $44.6 million in 2016 to $45.8 million in 2017. Scholarship discounts and allowances grew from $22.5 million to $24.4 million due to an increase in institutional scholarships, but those increases were offset by a $3.1 million increase in gross student fees.
- Net revenues from auxiliary enterprises grew to $27.7 million, an increase of $1.4 million compared to 2016. Housing revenues increased by 3.4 percent. Dining revenues climbed by 13.1 percent as the University added Chick-fil-A, Steak 'n Shake, and sushi to campus in fall 2016. Income from transportation and parking fees increased by 3.7 percent while Campus Store revenues rose 17.5 percent due to strong growth in technology sales.
- Operating grants increased by $117,000 while other operating revenues increased by $589,000 due primarily to one-time partial reimbursements of insurance and construction expenses.

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

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

REVENUE SOURCES



Total revenues (operating, non-operating, and other) decreased by $1.4 million in 2017. The graph on page 9 shows the composition of the University's revenue for fiscal years 2015-2017. Note that it includes revenues classified as capital appropriations, capital gifts, and capital grants described below.

Expenses

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

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

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

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

Capital Appropriations

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

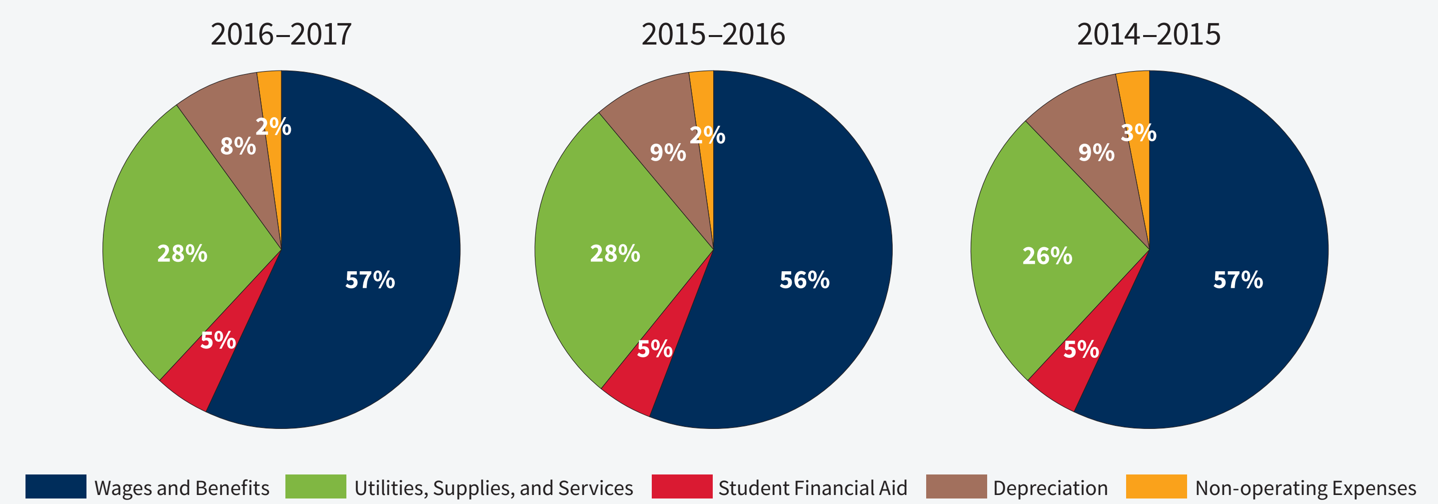
Capital Grants and Gifts

Capital grants and gifts decreased from $6.3 million in 2016 to $10,000 in 2017. In 2015, capital grants and gifts increased by $500,000 from the previous year. Gifts from the USI Foundation for construction of the USI Performance Center and the Griffin Center produced the extraordinary growth in 2016.

Change in Net Position

The difference between annual revenues and expenses causes an increase or decrease to net position. For the fiscal year ending June 30, 2017, net position increased by $6.7 million following increases of $14.1 million in 2016 and $11.2 million in 2015. During 2017, total revenues decreased slightly, and total expenses increased.

EXPENSE PURPOSES



Statement of Cash Flows

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

This statement identifies the sources and uses of cash and equivalents throughout the fiscal year and informs the user how much cash was used by or provided by the following activities: operating, noncapital financing, capital financing, and investing. The chart below shows the University's sources, uses, and changes in cash and cash equivalents for fiscal years 2015-2017.

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

Operating activities

- Cash used by operating activities increased $3.3 million in 2017 compared to increases of $7.5 million in 2016 and $2.9 million in 2015.
- Student fees and auxiliary enterprises generated the largest inflow of cash for all fiscal years.
- Payments to employees, which include salaries, wages, and benefits, and payments to suppliers used the most cash in all fiscal years.

Noncapital financing activities

- Cash provided by noncapital financing activities decreased by $3.6 million in 2017 compared to an increase of $6.9 million in 2016 and a decrease of $2.3 million in 2015.
- State appropriations provided the largest inflow of cash in all fiscal years followed by non-capital gifts and grants.

Capital financing activities

- Cash used by capital financing activities decreased by $144,000 after decreasing by $8.2 million in 2016 and increasing by $1.1 million in 2015.
- Proceeds from the issuance of Series L bonds produced the largest inflow of cash in 2017. Capital gifts from the USI Foundation generated the largest cash inflow in 2016 and 2015.
- Principal and interest paid on capital debt generated the largest cash outflow in all three years, including 2017, which included the partial refunding of Series J bonds.

Investing activities

- Investing activities used $7.3 million in cash during 2017 after providing $3.8 million during 2016 and using $1.4 million during 2015.
- Proceeds from sales and maturities of investments decreased from $46.8 million in 2016 to $40.8 million in 2017 following an increase of $8.1 million from 2015 to 2016. Interest earned on investments dipped as well from $894,000 in 2016 to $719,000 in 2017 after an increase of $73,000 from 2015 to 2016.
- Cash used for purchases of investments increased, rising to $48.8 million in 2017 compared to $43.9 million in 2016. This growth follows a $3 million increase in 2016 and a $9.3 million increase in 2015.

Summary of Statement of Cash Flows

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

Factors Affecting Future Periods

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

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

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

The 2017 Indiana General Assembly authorized $41 million in bonding authority to the University for the Physical Activity Center—Classroom Expansion and Renovation—Phase II. In September 2017, the USI Board of Trustees approved a resolution authorizing the president of the University to proceed with obtaining the necessary approvals for the project. The University has submitted a request for consideration of the project by the Indiana Commission for Higher Education Budget and Productivity Committee at its November 2017 meeting and approval of the project by the Commission for Higher Education at its December 2017 meeting. Then, the University will request approval from the State Budget Agency in 2018. The project is eligible for funding on July 1, 2018. Phase I of the project is underway and scheduled to be completed in fall 2018.

The University continues with its master planning process with a focus to integrate the strategic and enrollment objectives into a plan that will support those activities while continuing to be strong financial stewards of University and State resources. The final product will provide USI an integrated campus plan that will support the strategic roadmap for the future and continue what has been a culture of strong collaborative planning since its founding in 1965. The study is considering a wide variety of factors, including but not limited to projected enrollment growth, space utilization, the condition of existing space, campus-wide space needs, and strategies for student housing and dining. The planning phase of the project is scheduled to conclude by November 2017 with a presentation of results and recommendations to the USI Board of Trustees in spring 2018.

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

Construction continues on the Multi-institutional Academic Health and Science Research Center in downtown Evansville. The State of Indiana provided USI cash funding of $6 million for its portion of the project. The project and partnership between USI, Indiana University, University of Evansville, and Evansville HealthRealty, LLC, is expected to be completed and in use by fall 2018. Completion of this project will allow USI to renovate and expand the Health Professions Center currently occupied by the Indiana University School of Medicine. Proceeds from the issuance of Series L-1 bonds were used to begin renovations on available space in spring 2017, and the remaining space will be renovated when the School of Medicine moves to the new facility.

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

The University continues its history of strong financial performance. The institution has no deferred maintenance and maintains a pricing strategy that allows flexibility. Further, the University is supported by a state that ended the fiscal year with a budget surplus of $42 million and $1.78 billion in reserves. The State of Indiana currently has received the highest credit rating possible, AAA, from all three credit rating agencies. Currently, USI carries an A1 rating on student fee debt and an A2 rating on auxiliary system debt from Moody's Investors Service with a favorable outlook.

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

Statement of Net Position

As of June 30	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 17,641,471	$ 26,801,969
Short-term investments	20,375,311	17,074,345
Accounts receivable, net	10,172,146	11,505,058
Due from the State of Indiana	671,424	3,496,055
Inventories	1,550,701	1,370,569
Deposits with bond trustee	8,018,871	—
Other current assets	2,009,103	862,809
Total current assets	$ 60,439,027	$ 61,110,805
Noncurrent Assets		
Long-term investments	$ 64,090,712	$ 60,026,180
Deposits with bond trustee	106,120	416,861
Capital assets, net	180,762,147	178,605,172
Total noncurrent assets	$244,958,979	$239,048,213
Total Assets	$305,398,006	$300,159,018
DEFERRED OUTFLOW OF RESOURCES		
Hedging derivative instruments	$ 1,215,237	$ 1,897,793
Deferred outflow of resources related to pensions	3,405,907	3,491,997
Total deferred outflow of resources	$ 4,621,144	$ 5,389,790
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,760,803	$ 2,091,778
Accrued payroll, benefits, and deductions	6,544,838	7,306,433
Notes, bonds, and leases payable	8,664,611	10,427,995
Debt interest payable	690,057	951,968
Unearned revenue	1,406,893	1,311,185
Other current liabilities	593,547	688,632
Total current liabilities	$ 19,660,749	$ 22,777,991
Noncurrent Liabilities		
Notes, bonds, and leases payable	$ 90,037,044	$90,563,824
Derivative instruments—interest rate swap	1,215,237	1,897,793
Other postemployment benefits	17,487,663	15,605,114
Compensated absences and termination benefits	2,959,029	2,610,390
Net pension liability	7,449,403	7,749,103
Other noncurrent liabilities	21,663	23,126
Total noncurrent liabilities	$119,170,039	$118,449,350
Total Liabilities	$138,830,788	$141,227,341
DEFERRED INFLOW OF RESOURCES		
Deferred inflow of resources related to pensions	$ 1,131,279	$ 943,768
NET POSITION		
Net investment in capital assets	$ 81,770,230	$ 77,194,649
Restricted		
Expendable		
Capital Project	6,668,424	507,456
Debt Service	120,460	416,861
Scholarship, research, and other	36,489	109,734
Unrestricted	81,461,480	85,148,999
Total Net Position	$170,057,083	$163,377,699

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

Component Unit

University of Southern Indiana Foundation

Consolidated Statements of Financial Position

Year Ended June 30	2017	2016
ASSETS		
Cash	$ 1,014,881	$ 800,344
Accounts and interest receivable	108,232	84,012
Contributions receivable, net	7,002,462	8,018,256
Prepaid expenses	16,204	19,007
Investments	109,990,550	98,198,301
Cash value of life insurance	457,503	519,016
Beneficial interest in charitable remainder trusts	766,355	715,813
Beneficial interest in perpetual trusts	4,087,012	3,851,755
Beneficial interest in Community Foundation	62,269	57,701
Real estate held for investment	2,471,215	2,471,215
Real estate held for sale	—	305,306
Land	246,338	225,468
Buildings, net of accumulated depreciation; 2017 – $450,095; 2016 – $409,879	381,637	336,378
Property management deposits	5,120	4,725
Total assets	$126,609,778	$115,607,297
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 51,696	$ 32,668
Deposits	5,120	4,725
Deferred income	1,273	5,120
Payable to related parties	1,320,931	2,876,778
Annuities payable	1,705,018	1,789,002
Total liabilities	3,084,038	4,708,293
Net Assets		
Unrestricted	15,225,109	13,937,049
Temporarily restricted	62,574,723	52,700,482
Permanently restricted	45,725,908	44,261,473
Total net assets	123,525,740	110,899,004
Total liabilities and net assets	$126,609,778	$115,607,297

Statement of Revenues, Expenses, and Changes in Net Position

Fiscal Year Ended June 30	2017	2016
REVENUES		
Operating Revenues		Reclass*
Student fees	$ 70,253,620	$ 67,160,394
Scholarship discounts and allowances	(24,434,934)	(22,523,773)
Grants and contracts	2,121,487	2,004,112
Auxiliary enterprises	28,560,779	26,410,386
Room and board discounts and allowances	(811,070)	(29,930)
Other operating revenues	2,852,746	2,263,897
Total operating revenues	$ 78,542,628	$ 75,285,086
EXPENSES		
Operating Expenses		
Salaries and wages	$ 63,403,236	$60,811,952
Benefits	26,856,863	25,898,473
Student financial aid	7,518,308	7,406,676
Utilities	5,574,125	5,390,599
Supplies and other services	39,401,716	37,102,434
Depreciation	13,579,006	13,350,787
Total operating expenses	$156,333,254	$149,960,921
Operating loss	$ (77,790,626)	$ (74,675,835)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$ 54,051,765	$ 55,241,808
Gifts	3,419,324	3,285,325
Federal grants and contracts	12,564,307	12,367,381
State/Local grants and contracts	9,202,081	9,126,728
Nongovernmental grants and contracts	919,021	769,196
Investment income (net of investment expense of $68,103 and $65,887 for 2017 and 2016)	131,247	1,405,474
Interest on capital asset related debt	(3,217,324)	(3,836,822)
Bond issuance costs	(232,791)	—
Other non-operating revenues/(expenses)	(46,109)	(50,952)
Net non-operating revenues (expenses)	$ 76,791,521	$ 78,308,138
Income before other revenues, expenses, gains or losses	$ (999,105)	$ 3,632,303
Capital appropriations	$ 7,668,289	$ 4,091,049
Capital grants and gifts	$ 10,200	$ 6,336,294
Total other revenues	$ 7,678,489	$ 10,427,343
Increase in net position	$ 6,679,384	$ 14,059,646
NET POSITION		
Net position – beginning of year	$163,377,699	$149,318,053
Net position – end of year	**$170,057,083**	**$163,377,699**

*See Note 19 in the Notes to Financial Statements

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

Component Unit

University of Southern Indiana Foundation

Consolidated Statements of Activities

Year Ended June 30	2017	2016
REVENUES AND OTHER SUPPORT		
Contributions	$ 2,898,722	$ 4,756,502
Grants	203,742	166,424
Change in value of split-interest agreements	(97,917)	(153,522)
Change in split-interest life interest	—	222,283
Rental income (loss), net	11,903	6,617
Miscellaneous income	237,972	242,361
Reclassification of donor intent	—	—
Net assets released from restrictions	—	—
Total revenues and other support	3,254,422	5,240,665
EXPENSES		
Programs – University of Southern Indiana		
Scholarships and awards	2,564,152	2,236,281
Educational grants and academic enhancements	1,589,131	1,148,888
Athletic support	109,852	136,421
Other University support	536,854	742,804
Capital projects	15,250	6,336,294
Community outreach	13,316	12,442
Total program services	4,828,555	10,613,130
Management and general	660,064	653,176
Fundraising	254,206	441,015
Uncollectible pledge loss	71,780	53,962
Total expenses	5,814,605	11,761,283
OTHER CHANGES		
Investment income (loss), net	14,844,422	(748,975)
Change in value of beneficial interest in trusts and Community Foundation	238,825	(51,989)
Mineral royalty income	22,937	22,534
Loss on disposal of property held for sale	(7,322)	—
Impairment loss on property held for sale	—	(66,119)
Gain on cash value of life insurance	88,057	18,175
Total other changes	15,186,919	(826,374)
CHANGE IN NET ASSETS	12,626,736	(7,346,992)
NET ASSETS, BEGINNING OF YEAR	110,899,004	118,245,996
NET ASSETS, END OF YEAR	$123,525,740	$110,899,004

Statement of Cash Flows

Year Ended June 30	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		Reclass*
Tuition and fees	$ 46,302,404	$ 46,212,349
Grants and contracts	2,004,420	2,206,631
Payments to suppliers	(39,962,011)	(36,353,168)
Payments for utilities	(5,574,125)	(5,390,598)
Payments to employees	(63,403,801)	(60,684,752)
Payments for benefits	(25,412,804)	(23,410,090)
Payments for scholarships	(7,518,308)	(7,406,676)
Loans issued to students and employees	—	(26,065)
Collection of loans to students and employees	4,730	—
Auxiliary enterprises receipts	27,927,064	26,519,477
Sales and services of educational depts.	841,443	782,803
Other receipts (payments)	2,713,266	(1,214,109)
Net cash used by operating activities	**$ (62,077,722)**	**$(58,764,198)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 54,051,765	$ 55,241,809
Gifts and grants for other than capital purposes	25,403,794	27,701,400
Other non-operating receipts (payments)	(45,895)	90,518
Net cash provided by noncapital financing activities	**$ 79,409,664**	**$ 83,033,727**
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	$ 39,445,000	$ —
Capital appropriations	10,311,833	1,674,265
Capital grants and gifts	10,200	6,336,294
Bond financing costs	(278,899)	(50,952)
Purchase of capital assets	(15,536,379)	(10,660,504)
Principal paid on capital debt	(39,033,870)	(11,926,199)
Interest paid on capital debt and leases	(6,380,132)	(4,390,012)
Deposits with trustees	(7,708,131)	(297,423)
Net cash used by capital financing activities	**$ (19,170,378)**	**$(19,314,531)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 40,751,455	$ 46,800,692
Interest on investments	718,855	894,129
Purchase of investments	(48,792,372)	(43,900,085)
Net cash used by investing activities	**$ (7,322,062)**	**$3,794,736**
Net increase (decrease) in cash	$ (9,160,498)	$ 8,749,734
Cash – beginning of year	26,801,969	18,052,235
Cash – end of year	**$ 17,641,471**	**$ 26,801,969**

Statement of Cash Flows–continued

Year Ended June 30	2017	2016
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (77,790,626)	$(74,675,835)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Depreciation expense	13,579,006	13,350,787
Provision for uncollectible accounts	(61,055)	1,714,915
CHANGES IN ASSETS, LIABILITIES, AND DEFERRED RESOURCES:		
Operating receivables	2,275,992	(2,182,432)
Inventories	(180,132)	402,732
Other assets	(1,063,212)	(145,573)
Accounts payable	(1,141,759)	801,444
Unearned revenue	95,708	(169,532)
Deposits held for others	(1,463)	4,688
Employee and retiree benefits	2,205,089	2,160,673
Loans to students	4,730	(26,065)
Net cash used by operating activities:	$ (62,077,722)	$(58,764,198)

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

*See Note 19 in the Notes to Financial Statements

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

Component Unit

University of Southern Indiana Foundation

Consolidated Statements of Cash Flows

Year Ended June 30	2017	Restated Note 1 2016
OPERATING ACTIVITIES		
Change in net assets	$12,626,736	$ (7,346,992)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net realized gain on sale of investments	(3,286,143)	(2,094,385)
Loss on disposal of property held for sale	7,322	—
Impairment loss on property held for sale	—	66,119
(Increase) decrease in cash value of life insurance	61,513	(18,175)
(Gain) loss on beneficial interest investments	(290,367)	91,544
Contributions restricted for long-term investment	(325,378)	(1,164,800)
Depreciation	40,216	40,217
Amortization of use obligation of life interest	—	(2,016)
Release of use obligation of life interest	—	(220,267)
Unrealized (gain) loss on investments	(9,342,150)	4,924,926
Changes in		
Accounts and interest receivable	(24,220)	11,456
Contributions receivable	731,975	(355,690)
Prepaid expenses	2,803	(832)
Accounts payable and payable to related parties	(1,536,819)	2,394,063
Annuities payable	(83,984)	(110,933)
Deferred income	(3,847)	3,740
Net cash used in operating activities	(1,422,343)	(3,782,025)
INVESTING ACTIVITIES		
Proceeds from the disposal of property held for sale	297,984	—
Purchase of land and buildings	(100,000)	—
Purchase of property improvements	(6,345)	—
Purchase of investments	(43,688,042)	(19,462,557)
Sales and maturities of investments	44,524,086	21,653,888
Net cash provided by investing activities	1,027,683	2,191,331
FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment and long-term purposes		
Investment in scholarships and awards	519,457	838,146
Investment in education and academic enhancements	89,740	54,307
Investment in other University support	—	525,000
Investment in gift annuity	—	50,000
Net cash provided by financing activities	609,197	1,467,453
Increase (Decrease) in Cash	214,537	(123,241)
Cash, Beginning of Year	800,344	923,585
Cash, End of Year	$ 1,014,881	$ 800,344

Notes to Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

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

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

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

Accounting Methods and Policies

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

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

Restricted and Unrestricted Resources

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

Operating Revenues and Expenses

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

Non-operating Revenues and Expenses

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

Cash and Cash Equivalents

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

Investments

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

Inventory

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

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

Capital Assets Accounting Policies

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

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

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

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

Capital assets are removed from the records at the time of disposal. See note on capital assets, net of accumulated depreciation for current-year activity and accumulated depreciation on the various classes of assets.

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

The University owns a collection of museum exhibit items located in Historic New Harmony. The collection consists of 2,800 objects that are primarily 19th century decorative arts, furniture, prints, medical equipment, and textiles. The collection consists of both donated and purchased items. Historic New Harmony does not place a monetary value on the collection because the museum is organized as a public trust which acts as a steward for the public in collecting, protecting, preserving, and interpreting objects. A well-documented inventory is maintained, but the value is unknown and therefore not included in the capitalized asset value at June 30, 2017.

The University owns a permanent art collection whose primary function and aim is education in accordance with one element of the University's mission: to enhance the cultural awareness of its students, faculty, staff, and the citizens of southwestern Indiana. The collection consists of both donated and purchased items. Some of the donated pieces were received without appraised values. Collection pieces, which have been appraised or otherwise valued, total $2,859,175. The currently known value is not included in the capitalized asset value at June 30, 2017.

Net Pension Liability

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

Deferred Outflows and Deferred Inflows

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

Net Position

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

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

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

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

During the fiscal year ended June 30, 2017, the University recognized $3,568,589 in direct and indirect support from the USI Foundation for both restricted and unrestricted purposes. Complete financial statements, including explanatory notes, for the USI Foundation can be obtained from the Office of the Vice President for Finance and Administration at 8600 University Boulevard, Evansville, IN 47712.

NOTE 2 – Deposits and Investments

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

Deposits – At June 30, 2017, the bank balances of the University's operating demand deposit accounts were $12,127,220, of which $846,367 was covered by federal depository insurance. The remaining balance was insured by the Public Deposit Insurance Fund, which covers all public funds held in approved Indiana depositories. None of these funds were exposed to custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or collateral securities that are in the possession of an outside party.

Investments – The University's investments at June 30, 2017, are identified in the table below.

Investment custodial credit risk – This is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University investment policy does not contain legal or policy requirements which limit exposure to custodial credit risk for deposits or investments, but preference is given to Indiana institutions based on the additional insurance coverage provided by the State. Of the $84.5 million invested, $50.9 million in U.S. securities are held in the name of the nominee bank and insured by policies of the financial institution or guarantees of the U.S. government. All certificates of deposit are insured by FDIC/SAIF, the Public Deposit Insurance Fund, or collateral as required by federal regulations.

Interest rate risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's investment policy does not address exposure to fair value losses arising from changes in interest rates, but the investment objective is to obtain the highest revenue while maintaining safety and insuring adequate liquidity for institutional needs. To that end, management maintained 24 percent of investments in short-term investments to be in a position to take advantage of the best rates in a timely fashion as well as sustaining adequate cash flow for operating needs.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy for credit risk. Of the $84.5 million in investments, $54.7 million are rated Aaa by Moody's Investors Service. The other $29.8 million in investments are unrated. The unrated investments include Certificates of Deposit and other Treasury and Agency securities without ratings.

Concentration of credit risk – This is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy limits the investments in any one Indiana institution to 25 percent of the total portfolio of certificate of deposits and repurchase agreements as valued at the end of the preceding month. At June 30, 2017, the University is in compliance with that policy.

INVESTMENTS

			Investment Maturities (in Years)			
Investment Type	Market Value	Type %	Less than 1 year	1–5 years	6–10 years	More than 10 years
Certificates of deposit	33,562,439	39.74%	16,339,209	17,223,230	—	—
Agency securities	47,993,319	56.82%	4,030,229	39,022,579	4,747,810	192,701
U.S. Treasury securities	2,910,265	3.44%	5,874	2,904,391	—	—
Totals	**$84,466,023**	**100%**	**$20,375,312**	**$59,150,200**	**$4,747,810**	**$192,701**
Maturity %	100%		24.12%	70.03%	5.62%	0.23%

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

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

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

NOTE 3 – Fair Value of Assets and Liabilities

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

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

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

Level 3 Unobservable inputs for an asset or liability

The following table presents value of University deposits and investments as reported in the accompanying Statement of Net Position at fair valuation on a recurring basis and their level within the fair-value hierarchy at June 30, 2017.

FAIR VALUE MEASUREMENTS	FAIR VALUE AT JUNE 30, 2017			
	Fair Value Measurement Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Certificates of deposit	$33,562,439	$33,562,439		
U.S. Treasury securities	2,910,265	2,910,265		
Agency securities	44,951,893		$44,951,893	
Agency mortgage securities	3,041,426		3,041,426	
Total investments	**$84,466,023**	**$36,472,704**	**$47,993,319**	
Derivative Instruments				
Interest rate swap	$(1,215,237)		$(1,215,237)	
Total derivative instruments	**$(1,215,237)**		**$(1,215,237)**	

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy.

The University utilizes the market-based valuation approach in accordance with GASB Statement 72. Valuation techniques did not change significantly during the fiscal year ended June 30, 2017.

NOTE 4 – Derivative Instruments

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

DERIVATIVE INSTRUMENTS

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

As of June 30, 2017, the University determined that both pay-fixed interest rate swaps met the criteria for effectiveness. The pay-fixed, receive-variable interest rate swaps are designed to synthetically fix the cash flows on the variable rate bonds. The fair value of the interest rate swaps was estimated based on the present value of their estimated future cash flows.

The following table displays the objectives and terms of the University's hedging derivative instruments outstanding at June 30, 2017, along with the credit rating of the associated counterparty.

Type	Objective	Current Notional	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2006 Bonds	$4,696,543	1/1/2008	1/1/2028	65% of 3 mo. USD-LIBOR-BBA	A3
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2008 Bonds	$7,875,000	7/1/2008	10/1/2021	65% of 3 mo. USD-LIBOR-BBA w/- 1 day look back, 79.0 bps	A3

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

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

Credit Risk —The fair value of the hedging derivative instruments is in a liability position as of June 30, 2017, with Series 2006 having a balance of $664,091 and Series 2008A having a balance of $551,146. Because both of the derivative instruments and the debts being hedged are with the same counterparty, there is no credit risk exposure. The fair value of the derivative instruments would simply be netted against the payoff of the debts.

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

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

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

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

NOTE 5 – Accounts Receivable

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

ACCOUNTS RECEIVABLE

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

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

NOTE 6 – Debt Related to Capital Assets

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

SCHEDULE OF BONDS AND NOTES PAYABLE

						June 30, 2017		
	Issue Date	Interest Rate	Current Year Rate	Maturity Date	Original Issue Amount	Principal Outstanding	Interest Outstanding	Total Outstanding
Student Fee Bonds								
Series G, Recreation & Fitness Center	1999	0.00% to 10.00%*	0.73%	2019	4,700,000	1,100,000	21,390	**1,121,390**
Series 2006, Recreation & Fitness Center	2006	4.67%	4.67%	2028	7,250,000	4,696,543	1,302,080	**5,998,623**
Series J, Business and Engineering Center	2009	3.45% to 3.70%	3.45%	2019	50,185,000	7,005,000	435,627	**7,440,627**
Series K-1, Teaching Theatre	2012	2.00% to 4.00%	3.00%	2032	12,300,000	9,685,000	3,371,000	**13,056,000**
Series K-3, Refund Series H and I	2012	1.90%	1.90%	2023	42,840,000	26,865,000	1,631,673	**28,496,673**
Series L-1, Health Professions Center 3rd Floor	2017	2.90%	2.90%	2036	8,050,000	8,050,000	2,543,675	**10,593,675**
Series L-2, Refund Series J	2017	2.15%	2.15%	2026	21,440,000	21,440,000	2,881,158	**24,321,158**
Series L-3, Refund Series J	2017	2.65%	2.65%	2028	9,955,000	9,955,000	2,723,512	**12,678,512**
Auxiliary System Bonds								
Series 2003, Student Housing Facilities	2003	3.00% to 4.50%	4.00%	2024	8,005,000	3,955,000	739,315	**4,694,315**
Series 2008A, Student Housing Facilities	2008	3.97%	3.97%	2021	9,800,000	7,875,000	1,111,848	**8,986,848**
Total					$174,525,000	$100,626,543	$16,761,278	$117,387,821

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

The University of Southern Indiana Student Fee Bonds Series G of 1999, Series J of 2009, Series K-1 and K-3 of 2012, and Series L-1, L-2, and L-3 of 2017 are secured by a pledge and first lien on student fees. Student Fee Bonds Series 2006 are secured by a pledge and junior lien on student fees.

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

Student Fee Bond Series G is a variable rate bond currently bearing interest at weekly rates ranging between 0 and 10 percent. The rate in effect at June 30, and the rate used to calculate the future debt service requirements, was .93 percent. All the other bonds are term or serial with fixed annual rates as identified in the preceding table. Annual debt service requirements through maturity for bonds and notes payable are presented in the following chart.

ANNUAL DEBT SERVICE REQUIREMENTS

Fiscal Year	Total Bond Principal	Total Bond Interest	Total Debt Service
2017-18	8,531,281	2,608,616	11,139,897
2018-19	8,882,488	2,479,446	11,361,934
2019-20	10,614,452	2,211,367	12,825,819
2020-21	11,707,209	1,884,429	13,591,638
2021-22	12,650,797	1,535,102	14,185,899
2022-27	31,299,740	4,585,684	35,885,424
2027-32	13,660,576	1,256,774	14,917,350
2032-37	3,280,000	199,860	3,479,860
Total	$100,626,543	$16,761,278	$117,387,821

NOTE 7 – Series L-1 Bond Issue

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

NOTE 8 – 2017 Refunding Bond Issue

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

NOTE 9 – Termination Benefits Liability

GASB Statement No. 47, *Accounting for Termination Benefits,* requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of USI's regular full-time faculty and administrative staff who have been employed in an eligible position prior to January 1, 1999, who have 15 or more consecutive years of service, and who are age 60 or older may receive early-retirement benefits upon request. These benefits include a lump-sum retirement service pay calculated as a percent of final-year salary based on length of service, not to exceed 25 percent, and continued contribution to retirement annuity contracts through the end of the fiscal year in which the retiree reaches age 66. Salaries are assumed to increase at a rate of 2.3 percent annually for purposes of calculating this liability.

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

NOTE 10 – Compensated Absence Liability

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

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

NOTE 11 – Lease Obligations

The University spent $221,002 and $219,853 on operating leases as of June 30, 2017 and 2016, respectively. These leases are included in supplies and other services on the Statement of Revenues, Expenses, and Changes in Net Position. The following schedule summarizes the types of operating lease payments at June 30, 2017, compared to the previous fiscal year.

OPERATING LEASE PAYMENTS

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

The University also has lease agreements with Xerox Corporation for the use of copiers that are substantively lease-purchases. These capital lease obligations are included in the Statement of Net Position. The gross amount of assets recorded for these capital leases is $668,853, with accumulated depreciation of $269,834, as of June 30, 2017.

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

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

FUTURE MINIMUM LEASE PAYMENTS

Fiscal year ending June 30	Capital Leases	Operating Leases
2018	$133,330	$86,053
2019	120,543	
2020	113,859	
2021	33,497	
2022	—	
Total future minimum payments	$401,229	$86,053
Less interest	(1,434)	
Total principal payments outstanding	$399,795	

NOTE 12 – Retirement Plans

Substantially all regular employees of the University are covered by either the *Teachers Insurance and Annuity Association-College Retirement Equities Fund Retirement Plan* (TIAA-CREF) or by the *Public Employees' Retirement Fund* (PERF). The TIAA-CREF plan is an IRC 403(b) defined contribution plan; PERF is a defined benefit plan under IRC 401(a) and a state plan described in IC 5-10.2 and 5-10.3. The University contributed $5,829,383 to these programs in fiscal year 2016-17, which represents approximately 9.2 percent of the total University payroll and 11.1 percent of the benefit-eligible employees' payroll for the same period.

Defined Contribution Retirement Plan

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

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

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

Defined Benefit Retirement Plan

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

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

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

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

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

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2016; however, eligible members received a one-time check (a.k.a. 13th check) in September 2015. The amount of the one-time check ranged from $150 to $450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2014, and who was entitled to receive a monthly benefit on July 1, 2015.

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

Contributions – The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. There are two parts to this plan: an annuity savings plan to which members contribute 3 percent of their salary and a cost-sharing multiple-employer defined benefit plan to which the University contributed 11.2 percent of the employee's salary this fiscal year. The University contributed $1,080,498 for 274 employees participating in PERF during the 2016-17 fiscal year and $1,170,301 for 318 employees participating during 2015-16. These contribution amounts include the 3 percent member portion, which the University has elected to pay on behalf of its employees.

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

At June 30, 2017, the University reported a liability of $7,449,403 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The University's proportion of the net pension liability was based on wages reported by employers relative to the collective wages of the plan. At June 30, 2016 the University's proportion was 0.16 percent, which was a decrease of 0.03 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of $(26,099). At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

DEFERRED RESOURCES

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	166,895	13,751
Changes in assumptions	328,674	—
Net difference between projected and actual earnings on pension plan investments	1,638,466	419,149
Changes in proportion and differences between the University's contributions and proportionate share of contributions	191,374	698,379
The University's contributions subsequent to the measurement date	1,080,498	—
Total	$3,405,907	$1,131,279

$1,080,498 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

YEAR ENDED JUNE 30

2017	359,567
2018	184,936
2019	451,363
2020	198,264
2021	—
Thereafter	—
Total	$1,194,130

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

ASSET RATE OF RETURN

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	22%	5.7%
Private Equity	10	6.2
Fixed Income – Ex Inflation-Linked	24	2.7
Fixed Income – Inflation-Linked	7	0.7
Commodities	8	2.0
Real Estate	7	2.7
Absolute Return	10	4.0
Risk Parity	12	5.0
Total	100.0%	

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

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

PROPORTIONATE SHARE OF NET PENSION LIABILITY			
	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability	$10,699,106	$7,449,403	$4,748,408

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

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

In 2015, the Indiana General Assembly passed legislation that required employers who chose to freeze participation in PERF to pay their share of the pension plan's unfunded liability. The University's share of this liability was $347,008, which was paid in full on June 27, 2016.

NOTE 13 – Risk Management

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

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

The University has two health care plans available for new enrollment of full-time benefit-eligible employees; one of these plans is also available to retirees. A third health care plan is only available to retirees. All of the plans are funded under a cost-plus arrangement whereby the University is billed for actual claims paid by the insurer on behalf of the covered participants plus administrative fees. For fiscal year ended on June 30, 2017, the University's contribution to these health care plans totaled $11,361,318 for 1,014 employees and $1,752,900 for 403 retirees. For the same period, employees and retirees made contributions totaling $2,622,337 and $671,711 respectively.

The University assumes the risk for medical claims exceeding the maximum expected cost but has mitigated the additional risk by purchasing specific stop loss coverage for active employees' individual claims over $225,000. The University also has established a reserve to cover a significant portion of the aggregate liability beyond 125 percent of expected claims. The liability for medical claims incurred but not reported at June 30, 2017, is based on an average monthly claim multiplied by the plan provider's average turnaround time from when claims are incurred to when claims are submitted to USI for payment. Changes in the balance of claims liabilities during the 2015-16 and 2016-17 fiscal years are as follows.

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

NOTE 14 – VEBA Trust

The University established a Voluntary Employees' Benefit Association (VEBA) Trust for the purpose of providing medical, dental, and life insurance benefits to employees who retire after attaining age 60 with at least ten years of service and to employees who retire under the Rule of 85. Historically, the trust has been funded from three sources: University contributions and reserves designated by the Board of Trustees for this purpose, employee payroll deductions for post-retirement benefits, and retiree contributions for medical insurance premiums. In 2013, management elected to discontinue contributions from employees and retirees in anticipation of changes to retiree insurance coverage. The University did not contribute institutional funds to the VEBA during the most recent fiscal year.

The University does not anticipate that the VEBA Trust will pay for all post-retirement benefits. Instead, funds from the trust will be used to reduce the increasing burden of such expenses on the current operating funds during future years. A summary of the activity in the trust for the year ending June 30, 2017, follows.

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

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

NOTE 15 – Other Postemployment Benefits (OPEB)

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

Funding Policy – The contribution requirements are established and may be amended by the USI Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements. For the fiscal year ended June 30, 2017, USI contributed $1,964,014 to the plan for current premiums (approximately 75 percent of total premiums). Plan members receiving benefits contributed $671,048, or approximately 25 percent of the total premiums, through their required contributions, which for health insurance and dental insurance ranged from $121.41 to $568.28 per month for single coverage and $242.82 to $1,575.65 for retiree and dependent(s) coverage.

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

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

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

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6-30-2015	$4,741,081	38.1%	$13,827,007
6-30-2016	$3,868,463	54.0%	$15,605,114
6-30-2016	$3,846,563	51.1%	$17,487,663

Funded Status and Funding Progress – As of June 30, 2017, the plan was 39 percent funded. The actuarial accrued liability (AAL) for benefits was $58,063,799, and the actuarial value of assets was $22,628,397, resulting in an unfunded actuarial accrued liability (UAAL) of $35,435,402. The covered payroll (annual payroll of active employees covered by the plan) was $56,102,135, and the ratio of the UAAL to covered payroll was 63 percent.

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

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

In the most recent actuarial study evaluation, which was for July 1, 2015, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns (7 percent) on the asset classes held in the VEBA Trust and the expected USI internal rate of return (3 percent) on general assets; and an annual healthcare cost trend rate of 9 percent for medical and 5 percent for dental initially, reduced by decrements of 0.5 percent annually to an ultimate rate of 5 percent for medical and dental decreasing by 0.25 percent annually to an ultimate rate of 3 percent. Both rates include a 3 percent inflation assumption. Retiree contributions are assumed to increase according to healthcare trend rates. The actuarial value of VEBA Trust assets for the purposes of determining the annual recommended contribution is the market value of the assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount on a closed basis over a 30-year period.

Note 16 – Functional Expenditures

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

NOTE 17 – Construction in Progress

Construction in progress at year-end totals $15.2 million. (See capital assets table on page 34.)

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

In addition, the University spent $6 million for the construction of a Multi-Institutional Academic Health Science and Research Center (MIAHSRC) in collaboration with Indiana University, the University of Evansville, and Evansville HealthRealty, LLC. USI will occupy approximately 18,000 square feet of the facility located in downtown Evansville and assume ownership of the space at or after all building construction has been completed.

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

FUNCTIONAL EXPENDITURES

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

NOTE 18 – Capital Assets, Net of Accumulated Depreciation

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

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

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

NOTE 19 – Reclassify 2016 Financial Information

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

Details of the reclassifications appear in the table below.

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

Component Unit — University of Southern Indiana Foundation

Notes to Consolidated Financial Statements — June 30, 2017 and 2016

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

Nature of Operations

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

Principles of Consolidation

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

Use of Estimates

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

Cash

The Foundation considers all liquid investments not classified with investments and with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, the Foundation did not have any cash equivalents.

At June 30, 2017, the Foundation's cash accounts did not exceed federally insured limits.

Contributions Receivable – Deferred Gifts

During 2017 and 2016, the Foundation received certain irrevocable pledges to be paid from individual estates or more commonly referred to as deferred gifts. These contribution receivables are recorded as either temporarily or permanently restricted revenues based on the intent of the donor. The amounts were recorded at gross, less allowances for an estimate of amounts that may be uncollectible and a discount based on expected mortality of the individuals and overall credit risks. The allowance for uncollectible contributions was based on a combination of qualitative factors, including mortality, relationship to the Foundation and University, historical contribution levels and history of gifting to the Foundation. The discount rates ranged from 3.40% to 5.59%.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investments in private investment funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investment. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments. Investment return is presented net of fees.

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

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

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

Property and Equipment

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

Long-Lived Asset Impairment

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

Impairment loss of $0 and $66,119 was recognized for real estate held for sale for the years ended June 30, 2017 and 2016, respectively. Fair value was determined based on the expected selling price of the property less selling costs.

Temporarily and Permanently Restricted Net Assets

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

Contributions

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

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

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

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

Contributed Services

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

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

Income Taxes

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

Restatement of 2016 Consolidated Statement of Cash Flows

In 2016, the Foundation reported gifts of cash, stock and payments on contributions receivable restricted for endowments or other long-term purposes within the operating activities of the consolidated statement of cash flows. These amounts should have been recorded within the investing and financing activities, resulting in changes to previously reported operating and investing activity amounts and the addition of financing activities.

The following consolidated financial statement line items for 2016 were affected by the correction:

RESTATEMENT OF 2016 CONSOLIDATED STATEMENT OF CASH FLOWS

	As Restated	As Previously Reported	Effect of Change
Statement of Cash Flows			
Operating activities			
Contributions restricted for long-term investments	$ (1,164,800)	$ (691,212)	$ (473,588)
Contributions receivable	$(355,690)	$(53,037)	$ (302,653)
Net cash used in operating activities	$ (3,782,025)	$ (3,005,784)	$ (776,241)
Investing activities			
Sales and maturities of investments	$21,653,888	$22,345,100	$ (691,212)
Net cash provided by investing activities	$ 2,191,331	$ 2,882,543	$ (691,212)
Financing activities			
Investment in scholarships and awards	$ 838,146	—	$ 838,146
Investment in education and academic enhancements	$54,307	—	$54,307
Investment in other University support	$ 525,000	—	$ 525,000
Investment in gift annuity	$50,000	—	$50,000
Net cash provided by financing activities	$ 1,467,453	—	$1,467,453
Decrease in cash	$ (123,241)	$ (123,241)	$ —

Functional Allocation of Expenses

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

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

NOTE 2 – Contributions Receivable

Contributions receivable at June 30, 2017 and 2016, consisted of the following:

CONTRIBUTIONS RECEIVABLE

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 1,080,873	$ 690,085	$ 1,770,958
Due in one to five years	451,230	1,262,210	1,713,440
Due in five or more years	3,896,000	6,320,000	10,216,000
	5,428,103	8,272,295	13,700,398
Less			
Allowance for uncollectible contributions	903,130	2,588,850	3,491,980
Unamortized discount	937,078	2,268,878	3,205,956
	$ 3,587,895	$ 3,414,567	$ 7,002,462

The discount rates ranged from 1.14% to 5.59% for 2017. Approximately 24% of the contributions receivable at June 30, 2017, were due from two donors.

CONTRIBUTIONS RECEIVABLE

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 1,069,600	$ 637,132	$ 1,706,732
Due in one to five years	1,849,329	1,317,755	3,167,084
Due in five or more years	3,893,000	4,584,850	8,477,850
	6,811,929	6,539,737	13,351,666
Less			
Allowance for uncollectible contributions	952,420	1,416,850	2,369,270
Unamortized discount	1,065,339	1,898,801	2,964,140
	$ 4,794,170	$ 3,224,086	$ 8,018,256

The discount rates ranged from 1.14% to 5.59% for 2016. Approximately 32% of the contributions receivable at June 30, 2016, were due from two donors.

Contributions receivable designated for specific purposes and with time restrictions at June 30, 2017 and 2016, were as follows:

SPECIFIC CONTRIBUTIONS RECEIVABLE

	2017	2016
Scholarships and awards	$2,950,633	$2,744,302
Educational grants and academic enhancements	1,314,726	1,394,879
Athletic support	39,774	64,803
Other University support	2,272,661	2,144,038
Capital projects	94,562	1,347,181
Community outreach	7,224	2,467
Time restrictions	322,882	320,586
Total	$7,002,462	$8,018,256

NOTE 3 – Investments and Investment Return

Investments at June 30, 2017 and 2016, consisted of the following:

INVESTMENTS

	Market	
	2017	2016
Short-term investments	$ 836,216	$ 3,548,465
U.S. Treasury securities	3,101,091	3,108,173
Corporate debt securities	3,780,579	3,549,410
Common stocks	16,265,256	12,993,483
Mutual funds		
Fixed income	20,246,267	19,285,864
International	17,532,941	14,780,865
Large cap	37,969,036	32,438,817
Small cap/mid cap	8,217,138	6,490,604
Alternative investment – private investment fund	2,042,026	2,002,620
Total	$109,990,550	$98,198,301

Included in the Foundation's investments above are investments subject to split-interest agreements with a fair market value of $0 and $80,384 as of June 30, 2017 and 2016, respectively.

Total investment return for the years ended June 30, 2017 and 2016, was comprised of the following:

INVESTMENT RETURN

	2017	2016
Interest and dividend income	$ 2,409,286	$2,297,958
Investment management fees	(193,157)	(209,793)
	2,216,129	2,088,165
Net realized and unrealized gains on investments reported at fair value	12,628,293	(2,837,140)
	$14,844,422	$ (748,975)

Alternative Investments

Except as described below, the fair value of alternative investments has been estimated using the net asset value (NAV) per share of the investments. Alternative investments held at June 30, 2017 and 2016, consist of the following:

ALTERNATIVE INVESTMENTS

2017

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds (A)	$2,042,026	$906,000	N/A	N/A

2016

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds (A)	$2,002,620	$906,000	N/A	N/A

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

Accordingly, the value of the investment in the underlying partnership is generally increased by additional contributions to the underlying partnership and increased or decreased by the partner's share of net earnings (losses) from the underlying partnership investment and capital distributions.

Note 4 – Beneficial Interest in Trusts

The Foundation is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the Foundation has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $4,087,012 and $3,851,755, which represents the fair value of the trusts' assets at June 30, 2017 and 2016, respectively. The gain (loss) from these trusts for 2017 and 2016 was $234,257 and $(48,711), respectively.

The Foundation has been named a secondary beneficiary in certain charitable remainder trusts administered by outside parties. Upon termination of the trusts, the Foundation will receive the assets remaining in the trusts. Prior to termination of the trusts and transfer of assets, the Foundation records the present value of the estimated residual benefits as assets. At June 30, 2017 and 2016, the residual benefits were valued at $766,355 and $715,813, respectively. The gain (loss) from these trusts for 2017 and 2016 was $50,542 and $(40,555), respectively.

Note 5 – Line of Credit

The Foundation had a $2,697,000 bank line of credit expiring in December 2020 with a local financial institution to fund the construction costs of the Griffin Center. Repayment of the line of credit was made by gift commitment payments from the donor. The line was collateralized by a gift agreement between the Foundation and a donor. Interest varied with one-month London Interbank Offered Rate, plus 1.80%, and was payable annually. A clause barring recourse to the Foundation was included in the financing agreement. Any recourse on the line of credit was made exclusively against the donor's assets. As of November 2016, the line of credit was closed with no draws on the line of credit taken by the Foundation.

Note 6 – Annuities Payable

The Foundation has been the recipient of several gift annuities, which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value and are recorded in temporarily or permanently restricted funds in accordance with the donor restrictions. The Foundation has recorded a liability at June 30, 2017 and 2016, in the temporarily restricted funds, of $339,462 and $355,503, respectively, and in the permanently restricted funds of $1,365,556 and $1,433,499, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from approximately 1% to 8%.

Note 7 – Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016, are available for the following purposes or periods:

TEMPORARILY RESTRICTED NET ASSETS

	2017	2016
Scholarships and awards	$34,921,357	$28,083,651
Educational grants and academic enhancements	14,640,331	13,613,443
Athletic support	914,039	861,542
Other University support	8,907,230	7,010,229
Capital projects	2,427,763	2,405,643
Community outreach	452,620	410,897
For periods after June 30	311,383	315,077
Total	$62,574,723	$52,700,482

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

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2017 and 2016, are restricted to:

PERMANAENTLY RESTRICTED NET ASSETS		
	2017	2016
Investment in perpetuity, the income of which is expendable to support		
Scholarships and awards	$29,182,424	$28,327,013
Educational grants and academic enhancements	8,439,446	8,216,870
Other University support	8,104,038	7,717,590
Total	**$45,725,908**	**$44,261,473**

Net Assets Released From Restrictions

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

NET ASSETS RELEASED FROM RESTRICTIONS		
	2017	2016
Purpose restrictions released		
Scholarships and awards	$2,227,782	$2,105,156
Educational grants and academic enhancements	1,458,752	1,049,325
Athletic support	109,852	136,421
Other University support	293,591	333,334
Capital projects	15,250	6,336,294
Community outreach	8,238	7,842
Total	**$4,113,465**	**$9,968,372**

Note 8 – Endowment

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

The Foundation's governing body has interpreted the *State of Indiana Prudent Management of Institutional Funds Act* (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The composition of net assets by type of endowment fund at June 30, 2017 and 2016, was:

COMPOSITION OF NET ASSETS BY ENDOWMENT				
2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ —	$24,341,850	$41,730,118	$66,071,968
Board-designated endowment funds	8,965,089	19,639,938	—	28,605,027
Total endowment funds	**$8,965,089**	**$43,981,788**	**$41,730,118**	**$94,676,995**
2016				
Donor-restricted endowment funds	$ (1,503)	$17,500,665	$40,503,886	$58,003,048
Board-designated endowment funds	7,955,862	16,753,947	—	24,709,809
Total endowment funds	**$7,954,359**	**$34,254,612**	**$40,503,886**	**$82,712,857**

Changes in endowment net assets for the years ended June 30, 2017 and 2016, were:

CHANGES IN ENDOWMENT NET ASSETS

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$7,954,359	$34,254,612	$40,503,886	$82,712,857
Investment return				
Investment income	433,743	3,859,743	149,937	4,443,423
Net appreciation	903,195	8,039,170	311,297	9,253,662
Total investment return	1,336,938	11,898,913	461,234	13,697,085
Contributions	25,189	541,875	820,314	1,387,378
Appropriation of endowment assets for expenditure	(351,397)	(2,670,596)	—	(3,021,993)
Reclassification of donor intent	—	—	20,334	20,334
Other changes – uncollectible pledge loss	—	(43,016)	(200)	(43,216)
Other changes – change in value of split-interest agreements	—	—	(75,450)	(75,450)
	(326,208)	(2,171,737)	764,998	(1,732,947)
Endowment net assets, end of year	$8,965,089	$43,981,788	$41,730,118	$94,676,995

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$9,263,670	$38,998,298	$38,442,378	$86,704,346
Spendable distribution balances, beginning of year	(816,850)	(2,845,999)	—	(3,662,849)
Adjusted endowment net assets, beginning of year	8,446,820	36,152,299	38,442,378	83,041,497
Investment return				
Investment income	378,394	2,619,616	149,407	3,147,417
Net depreciation	(573,931)	(4,129,929)	(218,367)	(4,922,227)
Total investment return	(195,537)	(1,510,313)	(68,960)	(1,774,810)
Contributions	25,000	2,182,844	2,165,918	4,373,762
Appropriation of endowment assets for expenditure	(321,924)	(2,421,076)	—	(2,743,000)
Reclassification of donor intent	—	—	5,415	5,415
Other changes – uncollectible pledge loss	—	—	(1,208)	(1,208)
Other changes – change in value of split-interest life interest	—	(149,142)	—	(149,142)
Other changes – change in value of split-interest agreements	—	—	(39,657)	(39,657)
	(296,924)	(387,374)	2,130,468	1,446,170
Endowment net assets, end of year	$7,954,359	$34,254,612	$40,503,886	$82,712,857

During 2017, the Foundation changed its policies on its endowment presentation by excluding its spendable distributions, which have been appropriated, but remain unspent. Such amounts were adjusted to the June 30, 2016, beginning balances as shown above. Subsequent 2016 earnings and appropriate activity have also been revised to reflect this policy change.

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2017 and 2016, consisted of:

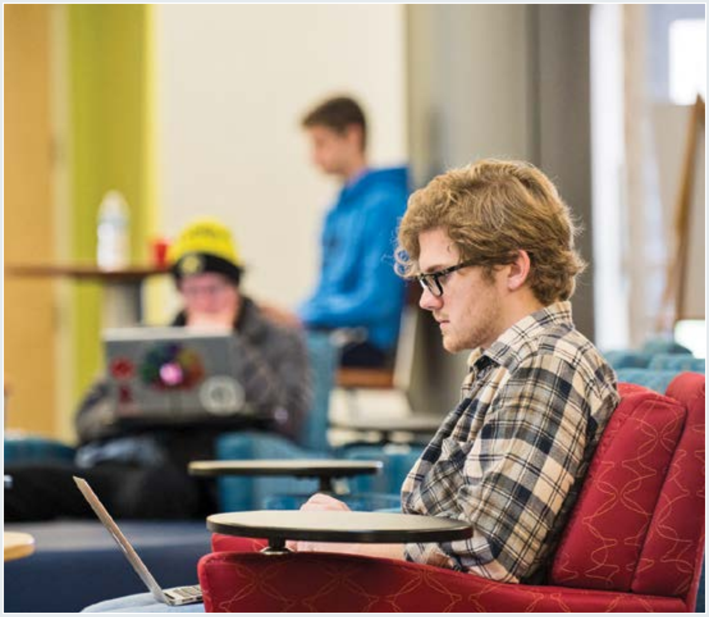
DONOR-RESTRICTED ENDOWMENT FUNDS	2017	2016
Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	$41,730,118	$40,503,886
Temporarily restricted net assets – portion of perpetual endowment funds subject to a time restriction under SPMIFA – with purpose restrictions	$43,981,788	$34,254,612

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature, if any, are reported in unrestricted net assets and such amounts were immaterial to the overall consolidated financial statements for 2017 and 2016. These deficiencies, if any, resulted from unfavorable market fluctuations that occurred after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

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

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

The Foundation's spending policy goals include maintaining reasonable inflation-adjusted spending into the future, providing for sufficient asset growth after spending to preserve the inflation-adjusted value of the assets and smoothing spending on a quarterly basis rather than vary it with short-term changes in interest rates and asset values. The Foundation sets the spending level to balance current need with growth for the future. The current spending rate is 4.5% calculated on a rolling 12-quarter average market value of each endowment fund. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.



Note 9 – Disclosures About Fair Value of Assets and Liabilities

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

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

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

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

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016:

FAIR VALUE MEASUREMENTS

June 30, 2017	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Short-term investments and cash	$ 836,216	$ 836,216	$ —	$ —
U.S. Treasury securities	3,101,091	—	3,101,091	—
Corporate debt securities	3,780,579	—	3,780,579	—
Common stocks	16,265,256	16,265,256	—	—
Mutual funds				
Fixed income	20,246,267	20,246,267	—	—
International	17,532,941	17,532,941	—	—
Large cap	37,969,036	37,969,036	—	—
Small cap	8,217,138	8,217,138	—	—
Private investment fund	2,042,026	—	—	—
	$109,990,550	$101,066,854	$6,881,670	—
Beneficial interest in charitable remainder trusts	$ 766,355	$ —	$ 766,355	$ —
Beneficial interest in perpetual trusts	$ 4,087,012	$ —	$4,087,012	$ —
Beneficial interest in Community Foundation	$ 62,269	$ —	$62,269	$ —

June 30, 2016	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Short-term investments and cash	$ 3,548,465	$ 3,548,465	$ —	$ —
U.S. Treasury securities	3,108,173	—	3,108,173	—
Corporate debt securities	3,549,410	—	3,549,410	—
Common stocks	12,993,483	12,993,483	—	—
Mutual funds				
Fixed income	19,285,864	19,285,864	—	—
International	14,780,865	14,780,865	—	—
Large cap	32,438,817	32,438,817	—	—
Small cap	6,490,604	6,490,604	—	—
Private investment fund	2,002,620	—	—	—
	$98,198,301	$89,538,098	$6,657,583	—
Beneficial interest in charitable remainder trusts	$ 715,813	$ —	$ 715,813	$ —
Beneficial interest in perpetual trusts	$ 3,851,755	$ —	$3,851,755	$ —
Beneficial interest in Community Foundation	$ 57,701	$ —	$57,701	$ —

(A) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2017.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include short-term investments and cash equivalents, common stocks and mutual funds. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified as Level 3 of the hierarchy. There were no Level 3 investments held by the Foundation.

Beneficial Interest in Charitable Remainder Trusts

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

Beneficial Interest in Perpetual Trusts

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

Beneficial Interest in Community Foundation

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

Note 10 – Related-Party Transactions

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

The Foundation paid an annual administrative fee of $478,500 and $464,400 to the University for the years ended June 30, 2017 and 2016, respectively, for accounting, computer, administrative and other miscellaneous services provided to the Foundation by University personnel.

Amounts due to the University for approved program expenditures and approved construction commitments, as further described below, included in payable to related parties as of June 30, 2017 and 2016, were $1,320,931 and $2,876,778, respectively.

As of June 30, 2017 and 2016, construction of the USI Performance Center was completed and the remaining balances of $470,158 and $757,411, respectively, of the approximately $2,000,000 commitment to the University for the construction and outfitting of the USI Performance Center was recorded as a payable to related parties. Funding for this project is from designated contributions for the USI Performance Center and unrestricted annual distributions from the Henry Ruston President's Endowment. Full payment of this liability is expected to occur by June 30, 2020.

As of June 30, 2017 and 2016, construction of the Griffin Center was completed and the remaining balances of $600 and $1,238,424, respectively, of the approximately $5,000,000 commitment to the University for the construction and outfitting of the Griffin Center was recorded as a payable to related parties. Funding for this project is through gift commitments to the Foundation's capital campaign, *Campaign USI: Elevating Excellence,* which are expected to be satisfied no later than December 15, 2020. Full payment of this liability is expected to occur by December 31, 2020.

Note 11 – Significant Estimates, Concentrations, and Commitments

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

Contributions

For the years ended June 30, 2017 and 2016, approximately 23% and 34%, respectively, of all contributions were received from two and three donors, respectively.

Contributions Receivable – Deferred Gifts

As of June 30, 2017 and 2016, the Foundation has recorded contribution pledges for deferred gifts of $10,238,000 and $8,238,000, respectively, of which $3,461,480 and $2,338,770, respectively, were reserved as an allowance for uncollectible amounts and $3,091,167 and $2,723,760, respectively, were recorded as a discount based on estimated discount rates for each individual pledge for a net pledge receivable amount of $3,685,353 and $3,175,470, respectively. The estimated allowances for uncollectible amounts and discounts are based on factors that could change in the near term and for which such changes could materially affect the amount reported in the consolidated financial statements.

Commitments

The Foundation has committed approximately $2,000,000 to the University for the construction and outfitting of the Fuquay Welcome Center on the University campus. Construction began on August 26, 2017, with completion expected in July 2018. Funding for this project is through individual gift commitments to the Foundation's capital campaign, *Campaign USI: Elevating Excellence*, designated for the Fuquay Welcome Center. $1,880,000 and $1,785,000 of the gift commitments have been satisfied as of June 30, 2017 and 2016, respectively, with the balance to be satisfied no later than June 30, 2018. All payments against this commitment are due upon receipt of invoices from the University.

Note 12 – Risks and Uncertainties

Investments

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

Note 13 – Subsequent Events

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

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

USI VEBA Trust Retiree Healthcare Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) – Projected Unit Credit Method (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6-30-2015	$20,258,715	$54,936,503	$34,677,788	36.88%	$52,553,540	65.99%
6-30-2016	$20,443,219	$58,063,799	$37,620,580	35.21%	$53,503,718	70.31%
6-30-2017	$22,628,397	$58,063,799	$35,435,402	38.97%	$56,102,135	63.16%

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

Public Employees' Retirement Plan

Last 4 Fiscal Years*

Fiscal Year	University's proportion of the net pension liability (asset)	University's proportionate share of the net pension liability (asset)	University's covered-employee payroll	University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.16%	$7,449,403	$7,866,561	94.70%	75.30%
2015	0.19%	$7,749,103	$9,112,942	85.03%	77.30%
2014	0.19%	$5,121,057	$9,514,281	53.82%	84.29%
2013	0.20%	$6,844,336	$9,594,423	71.34%	78.79%

SCHEDULE OF UNIVERSITY CONTRIBUTIONS

Public Employees' Retirement Plan

Last 4 Fiscal Years*

Fiscal Year	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	University's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2016	$1,264,361	($1,264,361)	—	$7,866,561	16.07%
2015	$1,015,471	($1,015,471)	—	$9,112,942	11.14%
2014	$1,059,754	($1,059,754)	—	$9,514,281	11.14%
2013	$ 921,537	($ 921,537)	—	$9,594,423	9.60%

*Schedule is intended to show information for the last 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information

Public Employees' Retirement Plan

Changes in assumptions: there were no changes to the actuarial assumptions from the actuarial valuation as of June 30, 2015.

Changes in methods: The INPRS Board approved the following changes in methods, effective June 30, 2016.

- For funding purposes and when the plan is below 100% funded (based on Actuarial Value of Assets), gains and losses occurring from census experience different than assumed, assumption changes, and benefit changes will be amortized over a 20-year period with level payments each year, rather than a 30-year period. A new gain or loss base will continue to be established each year. This change is made on a prospective basis, beginning with the June 30, 2016 actuarial valuation. Amortization bases established prior to June 30, 2016 will continue to be amortized over their original amortization period, even if the remaining period is greater than 20 years at June 30, 2016. If the plan is at or above 100% funded (based on Actuarial Value of Assets), the methodology of treating past amortization bases as fully amortized and amortizing the entire surplus over an open 30-year period is unchanged.
- For funding purposes, the smoothing period for investment gains and losses in the development of the Actuarial Value of Assets was increased from four years to five years at June 30, 2016. This change was implemented retroactively in that the Actuarial Value of Assets at June 30, 2016 was computed as if the five-year amortization period for recognizing investment gains and losses had always been in effect. This change increased the Actuarial Value of Assets, and therefore decreased the Unfunded Actuarial Accrued Liability of the plan by $19.3 million at June 30, 2016.

Source: Indiana Public Retirement System
Public Employees' Retirement Fund
Report on Allocation of Pension Amounts
For the Year Ended June 30, 2016

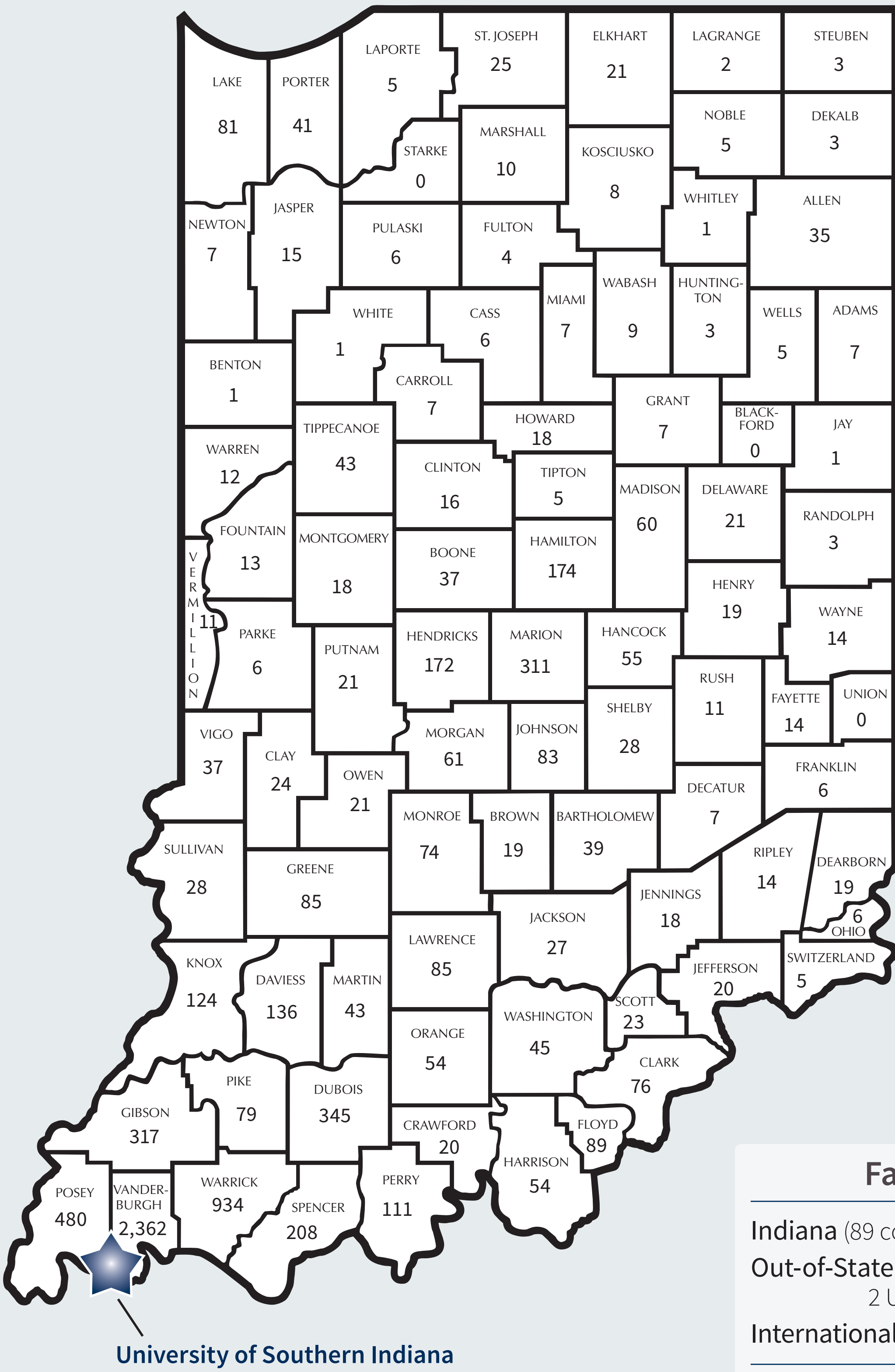
Additional Information about the University

FIVE-YEAR COMPARATIVE DATA

	2016–17	2015–16	2014–15	2013–14	2012–13
Enrollment (Fall Semester)					
Total students	9,025	9,029	9,364	9,902	10,467
Undergraduates	7,957	8,130	8,414	8,913	9,498
Women	5,702	5,654	5,825	6,078	6,473
African American	405	389	419	433	496
Other minority	583	572	431	433	637
International	210	220	225	244	219
Age 25 plus	2,010	1,943	2,201	2,474	2,614
Indiana residents	7,588	7,661	7,903	8,361	8,856
Full-time equivalent	7,564	7,668	7,822	8,215	8,741
Degrees Granted (Academic Year)					
Doctorate	10	20	16	16	18
Masters	280	271	283	297	416
Baccalaureate	1,635	1,576	1,618	1,626	1,700
Associate	69	63	79	86	80
Faculty (Fall Semester)					
Full-time	356	313	334	323	331
Percentage tenured	37	39	36	35	33
Part-time (FTE)	131	160	153	163	175
FTE students/FTE faculty	15.5	16.2	16.1	16.9	17.3

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

Home Counties of USI Students (Fall 2016)



Fall 2016

Indiana (89 counties)	7,586
Out-of-State (36 states, 2 U.S. territories)	1,228
International (53 nations)	210
Total Enrollment	**9,024**

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

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

UNIVERSITY OF SOUTHERN INDIANA®

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Evansville, Indiana 47712

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