

Indiana State University

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FINANCIAL REPORT

2016-2017



Indiana State
University

Table of Contents

Indiana State University Financial Report 2016-2017

Message from the President 3

Letter of Transmittal 6

Independent Auditor’s Report..... 7

Management’s Discussion and Analysis..... 9

Indiana State University:

 Statement of Net Position..... 22

 Statement of Revenues, Expenses, and Changes in Net Position..... 23

 Statement of Cash Flows 24

Indiana State University Foundation, Inc. and Affiliate:

 Consolidated Statement of Financial Position..... 25

 Consolidated Statement of Activities 26

 Consolidated Statement of Cash Flows 27

Notes to Financial Statements 29

Required Supplementary Information 58

Home Counties of Indiana State University Students 59

Board of Trustees and University Administration 60





Message from the President

Greetings on behalf of the Trustees, Faculty, Administration and Students of Indiana State University:

The 2016-17 fiscal year began with the kickoff of Indiana State's new strategic plan, "There's More to Blue." The goals of our plan are very similar to those of our previous plan, "The Pathway to Success." However, the tremendous success we have achieved under that plan since it launched in 2009 has contributed to the setting of more aggressive goals moving forward.

Our top priority is improving student success. Our students' lives are transformed when their goal of earning a degree is realized. This is why we are here, and this is what we do. We want to improve our graduation rates and degree production while also narrowing the gap in graduation rates between Pell and non-Pell students. We have seen some marked improvement on this front with our four-year graduation rates growing from 20.5% in 2009 to 28.7% this year and our retention improving from 63.9% in 2009 to 67.8% in 2017. Retention and graduation rates for our 21st Century Scholars and African-American students are also improving.

Growing enrollment remains important, and it is anticipated that the goal of 16,000 students by fall 2022 can be reached through continued strong recruitment efforts coupled with growth in online programs. Indiana State once again hit a historic enrollment record this fall with 13,771 students.

Goal Two addresses experiential learning and career readiness. The main difference in the new plan is the emphasis on embedding the career-ready certificate into all degree programs and connecting career pathways explicitly to both the academic majors and foundational studies. Other benchmarks include improving our placement rate for graduates, dramatically increasing our internships, clinicals and work-based experiences, and increasing the students involved in intensive undergraduate research, creative activities and study abroad programs. We also want to bring our diversity goals to the program level by ensuring gender and ethnic diversity in business and STEM programs.

Goal Three deals with our community engagement efforts. Through a new partnership with the Vigo County School Corporation, our faculty, staff and students will be working with Deming Elementary to improve reading among third graders. We also hope to improve the college completion rate of Vigo County students. Other benchmarks include maintaining our national profile as a leader in this area, increasing the number of students completing intensive co-curricular service experiences, increasing voter participation among our students, and building the number of hours of community service our students provide. We also want to increase the number of businesses served by the Business Engagement Center and the Sycamore Innovation Lab and boost the number of patients visiting ISU health-related clinics. In the new plan, this goal is more focused on measuring the impact of our engagement efforts rather than just the quantity.

In Goal Four, we are looking to align our Foundational Studies curriculum, as well as our promotion and tenure expectations, with our vision. The goal also includes developing greater institution-wide commitment to providing a distinctive "ISU Experience" with the hope that each college will have at least one program or group of programs that are distinctive.

Maintaining affordability in the overall cost of attendance and improving the utilization of University resources is the focus of Goal Five. Improving the productivity of our faculty and staff is important as our enrollment continues to grow. One way to help do that is to better utilize our student workforce by having them perform more meaningful work. Private fundraising also needs to increase significantly, and investments in our campus facilities must continue. Maintaining the uptime of our critical IT functions is also essential in today's world. The successful trial run by the Department of Communication in developing open educational resources to replace expensive textbooks will be expanded to other Foundational Studies courses, saving our students significant cost.



The final bookend of “There’s More to Blue” deals with attracting and retaining great employees. We want to make concerted efforts to continue to diversify the makeup of our faculty and staff, including the executive group, so that it emulates that of our student body. The percentage of female full professors also needs to improve to eventually match the gender makeup of our faculty. The University also wants to improve employee retention, and more attention needs to be paid to the quality of educational experience our faculty and staff are providing. Some of these benchmarks will be challenging to improve, and some will take more time than we would hope. However, measurable, incremental progress needs to continue.

It is an ambitious plan but one that will serve our students and our University well.

The University also continued to develop new programs in high-demand fields. Earlier this year, the Indiana Commission for Higher Education approved our request to offer a Bachelor of Science in Engineering. The program will provide three concentrations—mechanical, civil and industrial and will help fill a tremendous need for generalist engineers. Other innovative programs have been developed in cyber security and intelligence analysis with minors now offered in traffic engineering technology, forensic investigations, corrections, law and administration and law enforcement.

The 2016-2017 fiscal year also yielded some of the University’s largest donations in its history, including:

- A gift of \$1.03 million to the ISU School of Music from Margaret “Peg” Boyce to support scholarships, visiting artists series, visiting lectureships, student scholars, faculty development, musical equipment and instruments. This is the largest gift ever made to the School of Music.
- A \$3.8 million planned gift from the late Michael Simmons, co-founder of ISU’s annual Tricycle Derby which takes place each Homecoming. The gift supports the Michael Simmons Student Activity Endowment which supports ISU’s experiential learning goal by funding competitive team activities which help students get involved and develop lifelong skills.
- A \$7.5 million planned gift from Todd Osburn and his wife, Caroline Howe, to create a \$5 million endowed scholarship fund and a \$2.5 million professional readiness fund. The scholarships will assist middle-income students, who frequently have the most financial issues in paying for college due to not qualifying for significant federal or state aid and the inability of their families to fully pay the cost of attendance, in the Scott College of Business. The professional readiness fund will support activities in the ISU Career Center to ensure that ISU students are prepared for their careers after graduation.

On the capital front, our 10-year plan to upgrade our residence halls is nearing completion with the reopening of the renovated Cromwell Hall this fall and work now underway on the last of Sycamore Towers, Rhoads Hall. All of Indiana State’s residence halls are now sprinkled for fire protection and are air conditioned with many also providing suite-style living with private bathrooms.

Renovations to the Science Building also continue with significant upgrades to the corridors to provide more inviting spaces for students to gather and study.

A new sports performance center and nutrition station opened this fall for our intercollegiate student athletes. The center features state-of-the-art weight training equipment. Improvements were also made to the track and field annex including the installation of an indoor training track.

The \$64 million addition and renovation of the Health and Human Services Building is well underway with work on the new portion to be completed in January. The state-funded project is the largest in the University’s history and will provide laboratory and classroom space for our growing health-care programs.

The next major capital project will be the \$15 million renovation of the Fine Arts and Commerce Building. Design work on the project is underway with construction to begin next spring.

The University also partnered with local redevelopment authorities to transfer the former American Can Company property, saving the University an estimated \$2 million in demolition costs. Work on the \$23 million project by Core Redevelopment has started to convert the structure into market-value apartments which should be ready for occupancy in the summer of 2018. The project is part of Riverscape, a community effort to redevelop the riverfront.

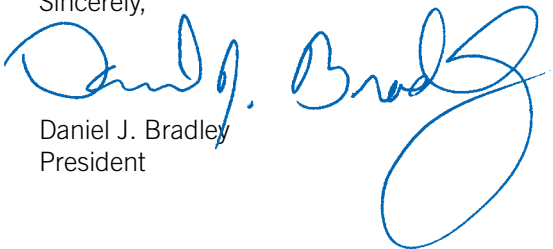
Other highlights of the year include:

- Another rare volume was added to the Warren and Suzanne Cordell Collection of Dictionaries in honor of the University's ongoing Sesquicentennial Celebration. An unpublished manuscript written circa 1730 in English and Telugu, "Gentou and English Grammar," is attributed to Benjamin Schultze, an early German Lutheran missionary to India. The acquisition is now part of nearly 30,000 rare dictionaries, grammars and word books dating back to 1482 in the collection, which is considered one of the top two largest and best dictionary collections in the world. The other is at Oxford University.
- Washington Monthly once again ranked Indiana State among its national leaders for civic engagement placing in the top three for community service for the past five years. Indiana State also continued to be recognized as one of the "Best of the Midwest" and "Green Colleges" by the Princeton Review and among the nation's top 20 percent of the nation's accredited colleges and universities by Forbes magazine.
- Indiana State Professor Michael Shelden's book, "Melville in Love," was named to Time magazine's "240 Reasons to Celebrate American Right Now" in July 2016.
- Two-time ISU graduate, Chris Himself, was named Indiana Superintendent of the Year by the Indiana Association of Public School Superintendents. Four additional Indiana State alumni, Scott Hanback, John Hunter, Tracy Lorey and Rob Moorhead, were named District Superintendents of the Year. Chris earned his bachelor's and educational specialists degrees from ISU and is currently completing his Ph.D. with Indiana State. His nomination noted his efforts to turn around the school corporation's financial situation and implement a one-to-one computing project to give all students in grades 6 through 12 access to a laptop computer.
- Indiana State University's Panhellenic Association was once again awarded the College Excellence Award from the National Panhellenic Conference recognizing the achievements of the University's sororities. ISU is one of only two institutions to earn the award for four consecutive years. The 27 institutions recognized in 2016 are considered among the top four percent nationally.
- Three ISU students earned a national first place award at the 2016 College Media Association Pinnacle Awards for radio production work at WZIS-FM, Indiana State's student radio station. The students won first place in the Best Radio Public Service Announcement category for a PSA created to increase awareness about the importance of freedom of speech and self-expression. The Pinnacle Awards honor the best college media organizations and individual student work in the country. More than 2,800 entries in 12 categories were received this year.

These are just a few examples of the great things happening at Indiana State University. The educational experience our students are receiving is filled with opportunities for experiential learning, community engagement, undergraduate research, leadership roles, intercultural activities, and more. It is great to see these students' lives being transformed by the dedicated work of our faculty and staff.

As I approach my retirement as president in January, I am grateful for the many faculty, staff, alumni, students and friends who have worked to advance our University on so many fronts. Indiana State is a wonderful University that serves an important niche in the state's public higher education system, and it has been an honor to serve as its 11th president. Cheri and I have greatly enjoyed our time in Terre Haute and look forward to returning following my sabbatical. It has been a privilege to work with so many talented individuals on campus and in the community, and we look forward to continuing our relationships with the friends and colleagues who welcomed us so warmly more than nine years ago.

Sincerely,



Daniel J. Bradley
President

Letter of Transmittal

Dear President Bradley and Trustees of Indiana State University:

With this letter I transmit to you Indiana State University's audited financial report for the year ended June 30, 2017. Although a financial statement is but one measure of an institution's well-being, this report will confirm that Indiana State University is in sound financial condition and that its leadership continues its diligent and careful stewardship of its assets and resources. We know that everyone in the Indiana State University community is committed to excellence in teaching and learning. We hope this report reflects an equal commitment to excellence in stewarding the resources used in those pursuits.

University management is responsible for the accuracy and completeness of the information as presented, including all disclosures. The financial statements are prepared in accordance with guidelines established by the Governmental Accounting Standards Board (GASB) and audited by the Indiana State Board of Accounts. The unmodified audit opinion, the most favorable outcome of the audit process, is on pages 7 and 8 of this report.

The Management's Discussion and Analysis (MD&A) provides a narrative introduction and overview of the basic financial statements, as well as information regarding the financial position and results of operations of the University for the 2016-17 fiscal year. The MD&A is on pages 9 through 21 followed by financial statements and accompanying notes.

As a state-supported university, we are particularly conscious of taxpayer support and remain grateful that Hoosiers value higher education and Indiana's government leaders remain steadfast in providing our faculty and students support to achieve our mission.

Sincerely,



Diann E. McKee
Senior Vice President for Finance and
Administration and University Treasurer



Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

Report on the Financial Statements

We have audited the financial statements of the business-type activities and the discretely presented component unit of Indiana State University (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 Indiana State 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 Indiana State University's Proportionate Share of the Net Pension Liability Public Employees' Retirement Fund (PERF), and Schedule of Indiana State University's Contributions Public Employees' Retirement Fund (PERF) 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 Message from the President, the Letter of Transmittal, Home Counties of ISU Students (Fall 2016), and Board of Trustees and University Administration are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Message from the President, the Letter of Transmittal, Home Counties of ISU Students (Fall 2016), and Board of Trustees and University Administration 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

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Indiana State University (the University) for the fiscal years ended June 30, 2017 and 2016, along with comparative financial information for the fiscal year ended June 30, 2015. This overview complies with Governmental Accounting Standards Board (GASB) principles, GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and the notes that follow this section.

Indiana State University is a research intensive, residential institution offering instruction at the associate, bachelor, master, and doctoral levels. The University offers a diverse range of degree programs through a framework of 43 departmental units in five academic colleges and various divisions. Located in Terre Haute, Indiana, with 13,565 students, Indiana State University is a significant economic engine for the Wabash Valley and the State of Indiana.

Using the Financial Statements

The University's financial report includes three financial statements: (1) the Statement of Net Position; (2) the Statement of Revenues, Expenses, and Changes in Net Position; and (3) the Statement of Cash Flows.

The Statement of Net Position provides a summary view of the assets, liabilities, deferred inflows and outflows, and net position of the University and classifies assets and liabilities as either current or non-current. Current assets include those that may be used to support regular ongoing operations, such as cash and cash equivalents, accounts receivable, and inventories. Deferred outflows of resources are items that represent a decrease in net position applicable to a future reporting



period. Current liabilities are those items which are estimated to become due and payable within the next fiscal year. Non-current assets include capital assets, certain receivables, and long-term investments. Non-current liabilities include long-term bonds and notes payable. Deferred inflows of resources represent an increase of net position applicable to a future reporting period.

The Statement of Revenues, Expenses, and Changes in Net Position summarizes financial performance for the year and explains the changes in the year-end net position.

The Statement of Cash Flows reconciles the beginning and ending balances of cash and cash equivalents and identifies all sources and uses of cash during the fiscal year.

The Governmental Accounting Standards Board (GASB) requires the inclusion of financial statements for all significant University component units. As of June 30, 2017 the Indiana State University Foundation is the only component unit to be included. The Foundation is a nonprofit organization that is subject to reporting guidelines governed by the Financial Accounting Standards Board (FASB); accordingly, certain revenue recognition criteria and presentation features are different from established GASB standards. No modifications have been made to the Indiana State University Foundation's financial information in the University's financial reporting presentation for these differences.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, liabilities and deferred inflows and outflows. The difference between total assets, total liabilities, and total deferred inflows and outflows is the net position, which is one measure of the financial condition of the University. Changes in net position are an indicator of whether the overall financial condition has improved or declined during the year. Assets, liabilities, and deferred inflows and outflows are generally measured at historical values in accordance with generally accepted accounting principles. One notable exception is investments, which are recorded at fair market value as of the date of the financial statements. A summarized comparison of the University's assets, liabilities, deferred inflows and outflows, and net position at June 30, 2017, 2016 and 2015 is as follows:

| Statement of Net Position (in millions) | 2017 | 2016 | 2015 |
|--|-----------------|-----------------|-----------------|
| Current assets | \$ 92.3 | \$ 56.9 | \$ 61.3 |
| Non-current assets: | | | |
| Deposits with bond trustee | 0.1 | 0.1 | 0.1 |
| Notes receivable, net | 3.8 | 3.6 | 4.1 |
| Other long-term investments | 127.4 | 122.3 | 111.1 |
| Net OPEB asset | 19.0 | 19.3 | 18.1 |
| Capital assets, net | 496.6 | 466.3 | 444.2 |
| Other assets | 0.7 | 0.6 | 0.7 |
| Total assets | \$ 739.9 | \$ 669.1 | \$ 639.6 |
| Deferred outflows of resources | \$ 8.8 | \$ 7.7 | \$ 2.6 |
| Current liabilities | \$ 40.5 | \$ 40.8 | \$ 38.7 |
| Non-current liabilities | 268.3 | 200.2 | 174.9 |
| Total liabilities | \$ 308.8 | \$ 241.0 | \$ 213.6 |
| Deferred inflows of resources | \$ 2.2 | \$ 2.7 | \$ 3.3 |
| Net position | \$ 437.7 | \$ 433.1 | \$ 425.3 |



Assets and Deferred Outflows of Resources

Current assets consist primarily of cash, operating investments, and accounts receivable. Non-current assets consist primarily of capital assets net of depreciation, long-term investments, notes receivable net of allowance, and the net other post-employment benefit (OPEB) asset. Deferred outflows of resources reflect deferred outflows related to early debt retirement and pensions. Total assets increased by \$70.8 million in 2017 as compared to a \$29.5 million increase in 2016. This represents a 10.6 percent increase in 2017 and a 4.6 percent increase in 2016. The current year activity is summarized below:

- Cash and cash equivalents and short-term investments grew by \$7.3 million and \$26 million, respectively, which reflects a reduction of cash used in operating activities from 2016 (see Statement of Cash Flows) and the investment of unspent proceeds from Housing and Dining System Revenue Bonds and Student Fee Bonds Series R (see Note 6). The receipt of these unspent proceeds is also reflected in the \$5.1 million increase in other long-term investments.
- Accounts receivable grew by \$2.7 million reflecting growth in tuition and housing and dining receivables over the last four years and increased write-offs in 2017.
- Grants receivable decreased by \$0.4 million due to reduced grant revenue and increased grant prepayments.
- Capital assets increased by \$30.4 million. This growth reflects construction projects including the College of Health and Human Services building, Cromwell Hall, Rhoads Hall, and the Hulman Center renovations.

Deferred outflows of resources increased to \$8.8 million in 2017 from \$7.7 million in 2016 and \$2.6 million in 2015. The University's contribution of \$2.1 million to the Public Employees' Retirement Fund (PERF) during 2017 was recognized as a deferred outflow of resources as required by GASB Statements No. 68 and 71. An additional \$1.2 million of deferred outflow of resources related to PERF was recognized in 2017, and details can be reviewed in Note 16 of the accompanying Notes to Financial Statements.

A Voluntary Employee Benefit Association (VEBA) Trust was established by the University in 1998 to set aside funds for post-retirement health and life insurance benefits and provide for investment of these assets. The fund assets cannot revert to the University and therefore the financial statements



do not reflect the value of these assets. As of June 30, 2017, the value of the Trust assets was \$88.9 million. The outstanding actuarial accrued liability for post-retirement benefits as of June 30, 2017 is \$56.6 million resulting in a positive funded ratio of 156.9 percent.

Liabilities and Deferred Inflows of Resources

Current liabilities include accounts payable, accrued compensation, unearned revenue, and the current portion of long-term debt. Non-current liabilities consist primarily of the non-current portion of long-term debt, net pension liability and advances from the federal government. Deferred inflows of resources consist of the service concession arrangement with Sodexo and inflows related to pensions. Total liabilities increased \$67.8 million in 2017 as compared to a \$27.4 million increase in 2016. This represents a 28.1 percent increase in 2017 and a 12.8 percent increase in 2016. Key changes in current year liabilities are as follows:

- Accounts payable decreased by \$2 million due to a reduction of \$2.3 million in construction payables from fiscal year 2016 and an increase of \$0.3 million in operational payables.
- Bonds payable increased by \$66.2 million to reflect the issuance of Housing and Dining System Revenue Bonds, Series 2017, and Student Fee Bonds, Series R.
- Net pension liability increased by \$2.3 million due to reported changes provided by the State of Indiana for the Public Employees' Retirement Fund (PERF).

The University contributes to retirement plans for faculty and staff. Faculty and exempt staff participate in a defined contribution plan administered by TIAA-CREF resulting in no outstanding pension liability for the University. Non-exempt staff participates in a defined benefit plan administered by the State of Indiana. As mentioned above, the net pension liability as of June 30, 2017 is \$17.9 million for this group of employees.

Capital and Debt Activities

An important element in the continuing quality of academic programs, research activities, and student residential life is the sustained commitment to the development and renewal of the University's capital assets. The University continues to implement its Campus Master Plan with new construction, renovation, and modernization of existing facilities. Please refer to Note 3 in the Notes to the Financial Statement for activities in capital assets, including additions and deletions of capital assets in the current fiscal year.

Blumberg Hall—Completed for fall 2016 occupancy, this project was the second phase of a comprehensive renovation of Sycamore Towers. The Blumberg Hall renovation upgraded living and learning spaces and provided a total of 366 beds. The project was capitalized in 2017 with an overall cost of at \$18.8 million.

Cromwell Hall—The renovation of Cromwell Hall is the third phase of a comprehensive renovation of Sycamore Towers. The renovated facility, comprising of approximately 100,468 square feet of residence hall space, will provide approximately 366 beds. The overall cost of the Cromwell Hall renovation project is estimated at \$20.1 million, of which \$4 million will be funded from Housing and Dining System reserves and \$16.1 million from the proceeds of Indiana State University Housing and Dining System Revenue Bonds, Series 2016. Expenditures incurred through 2017 totaled \$17.8 million. The project was completed for fall 2017 occupancy.

Health and Human Services Building—Work began in the summer of 2016 on the construction, expansion, and renovation and equipping of the University's facility for the College of Health and Human Services. Work will include major upgrades to building systems, reconfiguring of interior spaces to enable academic programs to function more efficiently, and the construction of an approximately 87,000 square foot addition to the facility. This will allow the college to house new academic programs and accommodate existing programs now housed elsewhere on the Indiana State campus. The project has a total estimated cost of \$64 million, of which \$23 million has been expended through 2017, and is scheduled for completion in March 2019. The project is funded through the issuance of Student Fee Bonds, Series R, which are fee-replaced bonds reimbursed by the State of Indiana issued September 2016 (see Note 6 of the accompanying Notes to Financial Statements).

Rhoads Hall—The renovation of Rhoads Hall is the fourth phase of a comprehensive renovation of Sycamore Towers. The project includes the renovation of approximately 99,953 square feet of residence hall space. The facility will provide approximately 344 revenue generating spaces. The overall cost of the Rhoads Hall project is estimated at \$20.5 million, of which \$4.1 million is funded from Housing and Dining System reserves and \$16.4 million from the proceeds of the Indiana State University Housing and Dining Revenue Bonds, Series 2017 issued June 2017 (see Note 6 of the accompanying Notes to Financial Statements). Expenditures incurred through 2017 totaled \$1.6 million. The project is expected to be completed for fall 2018 occupancy.



The University continues to work assertively to manage its financial resources efficiently, including the issuance of debt to finance capital projects. Indiana State University Student Fee Bonds, Series R and Indiana State University Housing and Dining System Revenue Bonds, Series 2017, issued during fiscal year 2017, had underlying credit ratings of (A-1) from Moody's and (AA-) from Fitch Ratings. Both Moody's and Fitch Ratings assigned a stable outlook to the Series R and Series 2017 bonds, listing consistent positive University operating performance, enrollment related revenue growth, prudent financial management, and solid balance sheet resources.

Net Position

Net position represents the residual value of the University's assets and deferred outflows after liabilities and deferred inflows are deducted. The University's net position at June 30, 2017, 2016 and 2015 are summarized in the table that follows:

| Net Position (in millions) | 2017 | 2016 | 2015 |
|----------------------------------|-----------------|-----------------|-----------------|
| Net investment in capital assets | \$ 299.0 | \$ 290.9 | \$ 278.2 |
| Restricted | | | |
| Non-expendable | 0.7 | 0.6 | 0.7 |
| Expendable | 6.0 | 5.3 | 6.1 |
| Unrestricted | 132.0 | 136.3 | 140.3 |
| Total net position | \$ 437.7 | \$ 433.1 | \$ 425.3 |

Net investment in capital assets reflects the University's capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of these assets. Net investment in capital assets increased \$12.7 million in 2016 and \$8.1 million in 2017 for a total increase of \$20.8 million since 2015. This reflects renovation of University housing (Mills Hall and Blumberg Hall), academic buildings (Normal Hall), and athletic facilities (Gibson Track and Field Complex).

Restricted net position is subject to externally imposed restrictions governing its use. Restricted non-expendable net position is funds held for scholarships and fellowships. Restricted expendable net position includes funds for research, loans, and funds limited to construction and renovation.

Although unrestricted net position is not subject to externally imposed stipulations, all of the University's unrestricted net position has been internally designated for various ongoing needs of the University, including debt service, capital projects, University initiatives, benefit claims, technology improvements, and academic and administrative activities.



Unrestricted net assets declined \$4.3 million in 2017 and \$4 million in 2016 for a total decline of \$8.3 million since 2015. This is a result of using Housing and Dining reserves to fund 20 percent of the Sycamore Towers renovation projects. University reserves were also used to make the final payment on the \$3.5 million outstanding Parking System Revenue Bond in 2017.

Statement of Revenues, Expenses, and Changes in Net Position

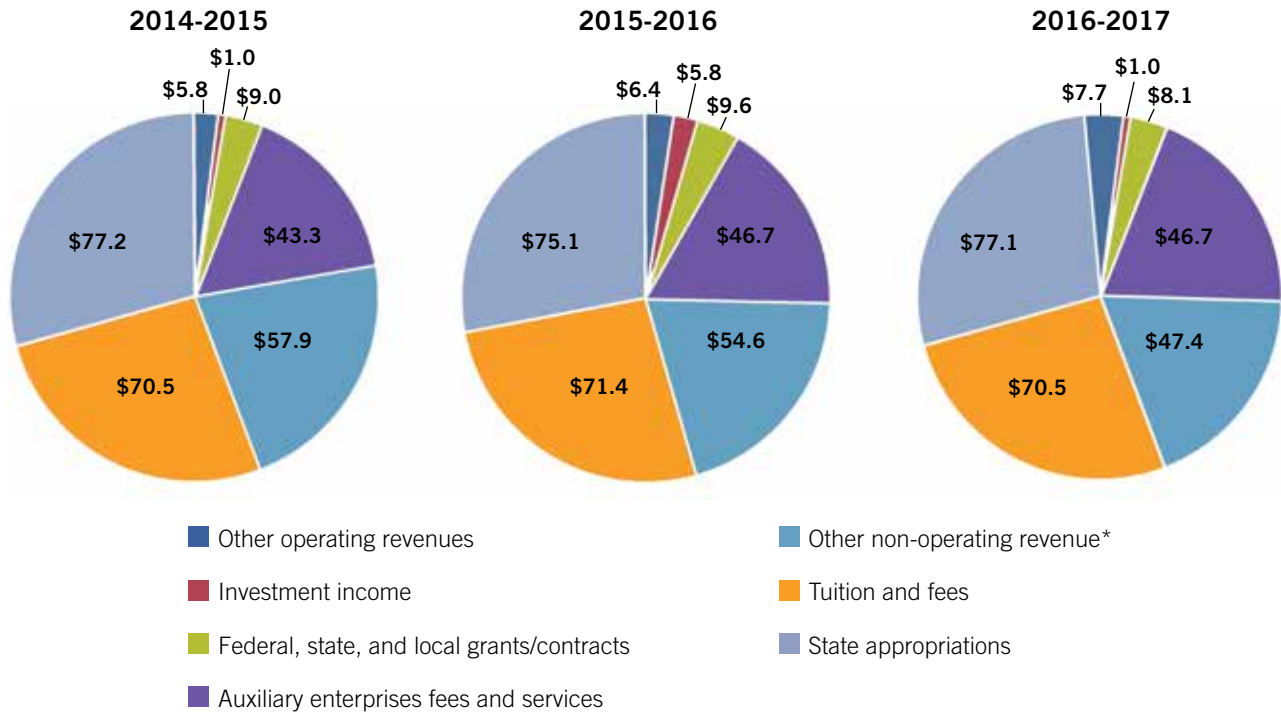
The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net position for the years ended June 30, 2017, 2016 and 2015 is as follows:

| Revenue, Expenses, and Changes in Net Position (in millions) | 2017 | 2016 | 2015 |
|--|-------------------|-------------------|-------------------|
| Operating revenues | | | |
| Tuition and fees, net | \$ 70.5 | \$ 71.4 | \$ 70.5 |
| Grants and contracts | 8.1 | 9.6 | 9.0 |
| Auxiliary enterprises fees and services, net | 46.7 | 46.7 | 43.3 |
| Other revenues | 7.7 | 6.4 | 5.8 |
| Total operating revenue | \$ 133.0 | \$ 134.1 | \$ 128.6 |
| Operating expenses | (247.6) | (255.3) | (232.5) |
| Operating loss | \$ (114.6) | \$ (121.2) | \$ (103.9) |
| Non-operating revenues (expenses) | | | |
| State appropriations | \$ 77.1 | \$ 75.1 | \$ 77.2 |
| Investment income, net | 1.0 | 5.8 | 1.0 |
| Non-operating grants and contracts | 43.0 | 44.0 | 41.4 |
| Capital appropriations | 1.4 | 5.7 | 11.9 |
| Capital grants and gifts | 0.3 | 0.4 | 0.1 |
| Other non-operating revenues | 2.7 | 4.5 | 4.5 |
| Other non-operating expenses | (0.7) | (0.2) | (0.2) |
| Interest on capital asset related debt | (5.6) | (6.3) | (5.0) |
| Net non-operating and other revenues | \$ 119.2 | \$ 129.0 | \$ 130.9 |
| Increase in net position | \$ 4.6 | \$ 7.8 | \$ 27.0 |
| Net position, beginning of year | \$ 433.1 | \$ 425.3 | \$ 408.7 |
| Prior period adjustment for change in accounting principle | \$ - | \$ - | \$ (10.4) |
| Net position, end of year | \$ 437.7 | \$ 433.1 | \$ 425.3 |

One of the University's greatest strengths is its diverse stream of revenues that supplement student fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. To supplement student tuition the University will continue to aggressively seek funding from all possible sources consistent with its mission and will direct the financial resources realized from these efforts to fund University operating priorities.

The following is a comparative graphic illustration of revenues by source (both operating and non-operating) for the years ending June 30, 2017, 2016 and 2015, which are used to fund the University's ongoing activities. As the following charts indicate, tuition and state appropriations remain the primary sources of funding for the University's academic programs. It should be noted that significant recurring sources of the University's revenues, including state appropriations, are considered non-operating revenues.

Revenue by Source (in millions)



* Includes non-operating grants and contracts (federal and state student assistance), other non-operating revenues, gifts and capital revenues

Operating revenues have increased by \$4.4 million since 2015. This is a result of growth in auxiliary enterprises income due to increased capacity of housing resulting from renovation and new construction of housing facilities. The 2017 decrease of \$1.1 million is comprised of the following:

- Net tuition and fee income decreased by \$0.9 million as the result of reduced full-time freshmen and the reduction in revenue associated with the end-of-contract closure of the Correctional Training Institute program contract period.
- Housing occupancy remained steady, which resulted in level auxiliary enterprises fees and services revenue from 2016 to 2017.
- Grants and contracts decreased by \$1.5 million caused by National Science Foundation grants ending in 2016.
- Other operating revenues grew by \$1.3 million. This reflects insurance recovery related to water damage in Blumberg Hall and growth in beverage commissions.

Net non-operating and other revenues decreased by \$9.8 million in 2017 and decreased by \$1.9 million in 2016 for a total reduction of \$11.7 million since 2015. This is largely attributed to the capital funding of Normal Hall (funded by the State of Indiana) that began in 2015 and was completed in 2016. Significant changes in non-operating revenues in 2017 were as follows:

- State appropriations increased by \$2 million. This is related to the increase of \$2.3 million in fee replaced (debt service) appropriation for the College of Health and Human Services addition and renovation and a \$0.3 million reduction in the operational appropriation.
- Investment income decreased by \$4.8 million as interest income was offset by unrealized gains and losses in fixed income investments.
- Non-operating grants and contracts revenue decreased by \$1 million due to reductions of federal and state aid as a result of lower full-time freshmen enrollment.

- Other non-operating revenues, net of non-operating expenses, decreased by \$2.3 million due to reduced ISU Foundation reimbursements related to a new agreement between the University and Foundation.
- Capital appropriations decreased by \$4.3 million as the Normal Hall renovation, funded by the State of Indiana, was completed in 2016.

A comparative summary of the University's expenses for the years ended June 30, 2017, 2016 and 2015 is as follows:

| Operating and Non-Operating Expenses (in millions) | 2017 | 2016 | 2015 |
|---|-----------------|-----------------|-----------------|
| Operating | | | |
| Compensation and employee benefits | \$ 145.7 | \$ 146.5 | \$ 133.8 |
| Supplies and expenses | 61.6 | 70.6 | 62.3 |
| Utilities | 10.4 | 9.3 | 10.3 |
| Scholarships and fellowships | 11.7 | 11.8 | 11.0 |
| Depreciation | 18.2 | 17.0 | 15.1 |
| Total operating expenses | \$ 247.6 | \$ 255.2 | \$ 232.5 |
| Non-operating | | | |
| Interest on capital asset related debt | \$ 5.5 | \$ 6.3 | \$ 5.0 |
| Other non-operating expenses | 0.7 | 0.2 | 0.2 |
| Total non-operating expenses | \$ 6.2 | \$ 6.5 | \$ 5.2 |
| Total expenses | \$ 253.8 | \$ 261.7 | \$ 237.7 |

Total operating expenses increased by \$15.1 million from \$232.5 million in 2015 to \$247.6 million in 2017. The decrease of \$7.6 million of operating expense from 2016 to 2017 is attributed to the following:

- Compensation and employee benefits decreased by \$0.8 million from 2016. 100 percent of retiree medical costs and life insurance premiums were reimbursed to the University from the VEBA Trust. This savings was partially offset by increased medical costs of active employees and a two percent wage increase.
- Supplies and expenses reduced \$9 million in fiscal year 2017. This includes reduction in costs associated with the end-of-contract closure of the Correctional Training Institute program, reduced payments to the ISU Foundation, reduced student meal costs, a reduction in case goods purchases for residential life, and the completion of the University network upgrade in 2016.
- Utilities expense increased by \$1.1 million from 2016 due to increased rates on sewage and increased electrical usage and rates.
- Depreciation expense grew by \$1.2 million to reflect the capital additions of Blumberg Hall, Science Lab renovation, Dede Plaza and Lincoln Quad networking.

Non-operating expenses decreased by \$0.3 million from 2016 to 2017. Interest on capital asset related debt decreased \$0.8 million as a result of the refunding of Series M and Series O bonds, which saved \$1.6 million in interest expense. This was partially offset by an increase in interest paid due to the issue of Housing and Dining System Revenue Bonds, Series 2016 that were issued June 2016. Other non-operating expenses increased by \$0.5 million to reflect bond issuance costs for the Series R and Series 2017 issuances.

Indiana State University continues to make market-competitive compensation and employee benefits a top priority. These expenses represent 59 percent of total University operating expense.

In addition to their natural (object) classification (expenditure type), it is also beneficial to the reader to review operating expenses by the nature of the University division incurring the expense.

A summary of the University's expenses by functional classification for the years ended June 30, 2017, 2016 and 2015 is as follows:

| Expenses by Function (in millions) | 2017 | 2016 | 2015 |
|--|-----------------|-----------------|-----------------|
| Operating | | | |
| Instruction | \$ 76.2 | \$ 76.9 | \$ 74.5 |
| Research | 8.3 | 10.0 | 9.3 |
| Public service | 4.4 | 3.9 | 3.7 |
| Institutional and academic support | 42.2 | 47.0 | 38.0 |
| Student services | 17.1 | 15.9 | 13.6 |
| Operation of plant | 30.3 | 30.9 | 31.4 |
| Scholarships | 13.3 | 13.3 | 12.4 |
| Auxiliary enterprises | 37.6 | 40.3 | 34.5 |
| Depreciation | 18.2 | 17.0 | 15.1 |
| Total functional operating expenses | \$ 247.6 | \$ 255.2 | \$ 232.5 |

Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by identifying the major sources and uses of cash. The statement assists the reader in evaluating the entity's ability to generate future net cash flows to meet obligations as they come due. Below is a comparative summary of the Statement of Cash Flows for the years ended June 30, 2017, 2016 and 2015:

| Statement of Cash Flows (in millions) | 2017 | 2016 | 2015 |
|---|---------------|---------------|-----------------|
| Net cash (used) provided by: | | | |
| Operating activities | \$ (92.7) | \$ (100.0) | \$ (91.6) |
| Non-capital financial activities | 122.7 | 124.0 | 121.5 |
| Capital financing activities | 7.4 | (22.9) | (43.8) |
| Investing activities | (30.1) | 1.0 | 9.1 |
| Net increase (decrease) in cash and cash equivalents | \$ 7.3 | \$ 2.1 | \$ (4.8) |

For the year ended June 30, 2017, the University used less cash for operating activities, less cash was provided by non-capital financing activities, more cash was received for capital financing activities and more cash was used for investing activities. The University experienced a \$7.3 million increase in cash and cash equivalents in 2017 and a \$2.1 million increase in 2016 for an overall increase of \$9.4 million since 2015. Highlights of major changes in 2017 are discussed below:

Operating activities

- Cash used by operating activities decreased from \$100 million in 2016 to \$92.7 million in 2017.
- Cash provided by tuition and fees and auxiliary enterprises comprise 87 percent of inflows from operating activities. Cash provided by tuition and fees decreased by \$2.1 million while cash provided by auxiliary enterprises remained steady.
- Payments to employees and for employee benefits make up 62 percent of outflows of cash for operating activities. These payments decreased by \$2.6 million in 2017 due to an increase in reimbursements from the VEBA trust to cover medical claims.
- Payments to suppliers decreased by \$8.4 million. Costs incurred in 2016 for case goods for resident hall projects and an update to the University network system was not incurred in 2017.

- Cash received for other receipts grew by \$1.1 million. This is largely due to insurance proceeds received for water damage incurred during the construction of Blumberg Hall.

Non-capital financing activities

- Cash provided by non-capital financing activities decreased by \$1.3 million.
- Cash received from non-operating grants and contracts decreased by \$1.2 million. This is due to a decrease of \$0.3 million in funds received for non-operating state grants and a decrease of \$1 million in funds received for non-operating federal grants.
- State appropriations make up 63 percent of net cash provided by non-capital financing activities.
- Gifts and other non-operating receipts decreased by \$0.7 million due to receiving fewer reimbursements from the ISU Foundation.

Capital financing activities

- Cash provided by capital financing activities increased by \$30.3 million.
- Capital appropriations decreased by \$4.3 million. The Normal Hall renovation, cash funded by the State of Indiana, was completed in 2016. The funds received for the renovation were recognized in 2015 and 2016.
- Proceeds from bond issues increased by \$47.1 million. New bond issues in 2017 resulted in cash receipts of \$16.4 million for Housing & Dining, Series 2017 and \$64 million for Student Fee Bonds, Series R. Cash receipts from new bonds in 2016 were \$32.7 million.
- Cash paid for capital assets increased from \$44.1 million to \$50 million in 2017.
- Principal and interest paid on capital debt and leases increased by \$6.4 million. This was due to increased debt service payments related to the Housing and Dining System Revenue Bonds, Series 2016, issued at the end of 2016 and Student Fee Bonds, Series R, issued in 2017.

Investing activities

- Cash used by investing activities increased by \$31.1 million.
- The University utilized certificates of deposit to invest bond proceeds causing an increase of \$31.6 million in purchases of investments from \$4.8 million in 2016 to \$36.4 million in 2017.

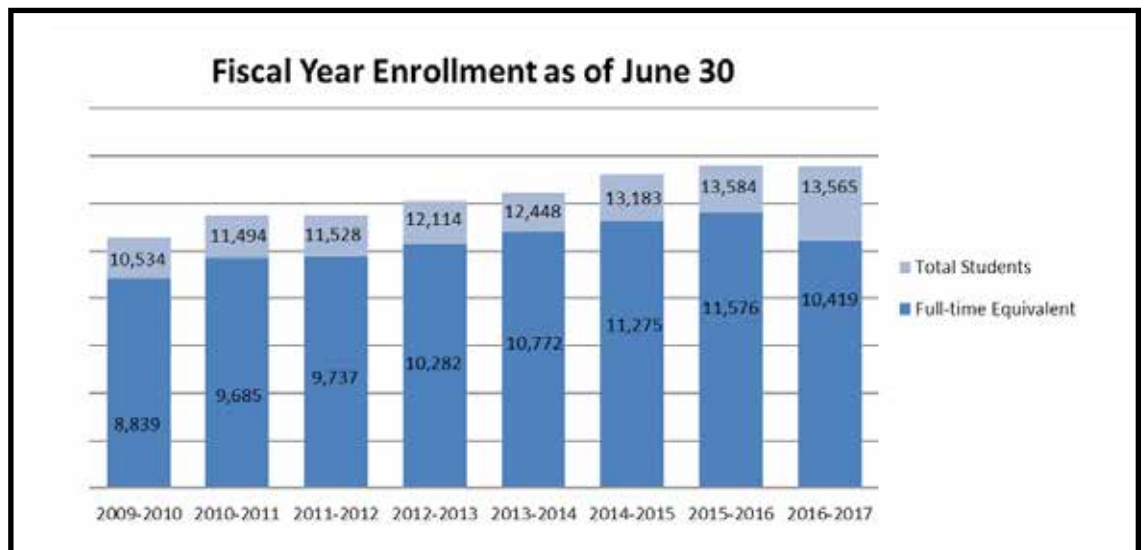


Economic Factors that Will Affect the Future

The University is providing an environment that both challenges and educates students. With an emphasis on experiential learning and community engagement activities, Indiana State University graduates are prepared for future leadership roles in their communities.

Indiana State University fall 2017 enrollment grew to a record number of 13,771 students. This is a 1.52 percent increase from the previous year total of 13,565. The freshman class of 2021 is 2,688, a 9.8 percent increase over last year's freshmen cohort. The change was largely due to a 66 percent increase in Illinois students with 402 students enrolled in fall 2017 compared to 242 in 2016.

The University has set a goal that distance degrees awarded will double by the end of the next six years and overall enrollment will reach 16,000 by fall 2022. Additionally, the University has set a goal of narrowing the gap of graduation rates between Pell and non-Pell eligible students.



Improvement has been made on four-year graduation rates growing from 20.5 percent in 2009 to 28.7 percent in 2017 and first-year retention rates improving from 63.9 percent in 2009 to 67.8 percent in 2017. The University will continue to seek to increase its four-year graduation rate and its six-year graduation rate through the implementation of a new series of success initiatives including a focus on juniors and seniors through a program targeting those at risk due to financial reasons and reducing the load of some freshman advisors and creating less burdensome paths for students without a need for a high level of advisement.

The State of Indiana utilizes various performance funding metrics to determine a portion of state support for higher education. The majority of these metrics focus on degree completion. It is therefore critical to continue implementation of student success and degree completion initiatives. The University has formed an integrated team from Academic Affairs, Enrollment Management and Communications and Marketing to dramatically increase enrollment in degree completion and distance-delivered programs.

The University received a \$37.5 million fee replacement authorization from the 2015 Indiana General Assembly for the renovation Hulman Center. The University anticipates issuing additional student fee bonds during calendar year 2018 to finance a \$50 million renovation.

The 2017 Indiana General Assembly appropriated \$15 million effective July 1, 2018 for an academic facility renovation of the Fine Arts and Commerce building. The project will replace mechanical and electrical systems, provide access to technology, and enhance instructional capabilities.



The final project of the Sycamore Towers renovation is a remodel of the Sycamore Towers Dining facility planned to begin during the fall of 2018. The overall project involves the renovation of approximately 35,000 square feet to improve existing dining and food service operations to meet current service standards. Due to a projected increase in student diners, the design will investigate a new 5,000 square foot dining addition. Project cost is estimated at \$16.8 million.

In September 2016, Indiana State University announced its new strategic plan—*There's More to Blue*—that will guide the University through 2021. The plan has six main goals and a number of initiatives for each goal. The goals are as follows:

- Goal 1: Student success
- Goal 2: Experiential learning and career readiness
- Goal 3: Community engagement and civic responsibility
- Goal 4: Distinctive programs and experiences
- Goal 5: Resources and institutional effectiveness
- Goal 6: Employee success

In December of 2016, the Indiana State University Board of Trustees approved an updated Campus Master Plan that includes improvements to several key areas including academic facilities, student housing, athletic venues and student recreational areas. Additionally, the plan details the need for enhanced entryways to campus, upgraded way-finding including increased parking and continued development of pedestrian and bicycle friendly routes. The University will also continue its efforts to implement sustainable landscaping, including installing additional green roofs, reducing chemical treatments and utilizing more plant materials native to Indiana along with plantings that require less water and weekly maintenance.

Indiana State University's management is confident that the University's financial condition is strong and will meet all foreseeable economic requirements.

Indiana State University

Statement of Net Position

As of June 30, 2017 and June 30, 2016 (Dollars in Thousands)

| | 2017 | 2016 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 32,423 | \$ 25,075 |
| Short-term investments | 35,172 | 9,137 |
| Accrued interest | 718 | 896 |
| Accounts receivable (net of allowance of \$6,039 for 2017 and \$6,846 for 2016) | 15,011 | 12,274 |
| Other accounts receivable | 1,641 | 1,843 |
| Grants receivable | 775 | 1,220 |
| Notes receivable, current portion | 4,510 | 4,354 |
| Prepaid expenses | 2,009 | 2,069 |
| Inventories | 30 | 71 |
| Total current assets | <u>\$ 92,289</u> | <u>\$ 56,939</u> |
| Non-current assets | | |
| Endowment investments—held in trust | \$ 674 | \$ 620 |
| Deposits with bond trustee | 149 | 154 |
| Notes receivable, non-current portion (net of allowance of \$926 for 2017 and \$881 for 2016) | 3,837 | 3,579 |
| Other long-term investments | 127,375 | 122,257 |
| Net OPEB Asset | 19,024 | 19,268 |
| Capital assets (net of accumulated depreciation of \$289,896 for 2017 and \$275,877 for 2016) | 496,639 | 466,279 |
| Total non-current assets | <u>\$ 647,698</u> | <u>\$ 612,157</u> |
| TOTAL ASSETS | <u>\$ 739,987</u> | <u>\$ 669,096</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred loss on early retirement of debt | \$ 956 | \$ 400 |
| Deferred outflows related to pensions | 7,825 | 7,312 |
| Total deferred outflows of resources | <u>\$ 8,781</u> | <u>\$ 7,712</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 3,662 | \$ 5,675 |
| Accrued payroll and deductions | 4,040 | 3,744 |
| Unearned revenue | 6,525 | 5,415 |
| Funds held in custody for others | 1,290 | 1,135 |
| Other current liabilities | 5,796 | 6,004 |
| Bonds payable | 10,957 | 11,970 |
| Compensated absences and termination benefits | 4,217 | 3,811 |
| Lease payable | 1,926 | 1,574 |
| Debt interest payable | 2,044 | 1,445 |
| Total current liabilities | <u>\$ 40,457</u> | <u>\$ 40,773</u> |
| Non-current liabilities | | |
| Bonds payable | \$ 214,805 | \$ 147,610 |
| Compensated absences and termination benefits | 17 | 293 |
| Lease payable | 28,314 | 29,324 |
| Net pension liability | 17,855 | 15,538 |
| Advances from Federal Government | 7,357 | 7,454 |
| Total non-current liabilities | <u>\$ 268,348</u> | <u>\$ 200,219</u> |
| TOTAL LIABILITIES | <u>\$ 308,805</u> | <u>\$ 240,992</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred service concession arrangement | \$ 970 | \$ 1,213 |
| Deferred inflows related to pensions | 1,250 | 1,501 |
| Total deferred inflows of resources | <u>\$ 2,220</u> | <u>\$ 2,714</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ 299,066 | \$ 290,926 |
| Restricted for: | | |
| Non-expendable: | | |
| Scholarships and fellowships | 674 | 620 |
| Expendable: | | |
| Research and other grants | 849 | 594 |
| Loans | 2,121 | 2,133 |
| Capital projects | 2,990 | 2,494 |
| Unrestricted | 132,043 | 136,335 |
| TOTAL NET POSITION | <u>\$ 437,743</u> | <u>\$ 433,102</u> |

The accompanying notes to financial statements are an integral part of this statement.

Indiana State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2017 and June 30, 2016 *(Dollars in Thousands)*

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| OPERATING REVENUES | | |
| Tuition and fees | \$ 113,573 | \$ 114,886 |
| Scholarship allowances for tuition and fees | (42,132) | (42,701) |
| Other allowances | (951) | (791) |
| Net tuition and fees | <u>70,490</u> | <u>71,394</u> |
| Federal grants and contracts | 4,792 | 6,124 |
| State and local grants and contracts | 240 | 113 |
| Non-governmental grants and contracts | 3,092 | 3,350 |
| Auxiliary enterprises fees and services | 58,546 | 58,380 |
| Scholarship allowances for room and board | (11,289) | (11,323) |
| Other allowances | (528) | (403) |
| Net auxiliary enterprises fees and services | <u>46,729</u> | <u>46,654</u> |
| Other operating revenues | <u>7,695</u> | <u>6,424</u> |
| Total operating revenues | <u>\$ 133,038</u> | <u>\$ 134,059</u> |
| EXPENSES | | |
| Compensation and employee benefits | \$ 145,740 | \$ 146,536 |
| Supplies and expenses | 61,600 | 70,640 |
| Utilities | 10,410 | 9,332 |
| Scholarships and fellowships | 11,751 | 11,795 |
| Depreciation | 18,157 | 16,979 |
| Total operating expenses | <u>\$ 247,658</u> | <u>\$ 255,282</u> |
| Operating loss | \$ (114,620) | \$ (121,223) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| State appropriations | \$ 77,126 | \$ 75,133 |
| Gifts | 322 | 400 |
| Investment income (net of investment expenses of \$486 for 2017 and \$482 for 2016) | 1,013 | 5,756 |
| Interest on capital asset related debt | (5,557) | (6,283) |
| Non-operating grants and contracts | 43,000 | 43,967 |
| Other non-operating revenues | 2,389 | 4,156 |
| Other non-operating expenses | (671) | (189) |
| Net non-operating revenues | <u>\$ 117,622</u> | <u>\$ 122,940</u> |
| Income before other revenues, expenses, gains, or losses | \$ 3,002 | \$ 1,717 |
| Capital appropriations | \$ 1,383 | \$ 5,680 |
| Capital grants and gifts | <u>\$ 256</u> | <u>\$ 410</u> |
| Total other revenues | \$ 1,639 | \$ 6,090 |
| Increase in net position | \$ 4,641 | \$ 7,807 |
| NET POSITION | | |
| Net position—beginning of year | \$ 433,102 | \$ 425,295 |
| Net position—end of year | <u>\$ 437,743</u> | <u>\$ 433,102</u> |

Indiana State University

Statement of Cash Flows

For the Years Ended June 30, 2017 and June 30, 2016 (Dollars in Thousands)

| | 2017 | 2016 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 69,366 | \$ 71,493 |
| Grants and contracts | 8,157 | 9,257 |
| Auxiliary enterprises | 46,751 | 46,711 |
| Payments to suppliers | (73,216) | (81,584) |
| Payments to employees | (74,027) | (74,539) |
| Payments for benefits | (66,531) | (68,659) |
| Payments to students | (11,038) | (10,027) |
| Loans issued to students | (1,496) | (966) |
| Student loans collected | 1,329 | 1,372 |
| Other receipts | 8,052 | 6,924 |
| Net cash used by operating activities | \$ (92,653) | \$ (100,018) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| State appropriations | \$ 77,126 | \$ 76,497 |
| Direct loan program receipts | 23,466 | 22,079 |
| Direct loan program disbursements | (23,466) | (22,079) |
| Non-operating grants and contracts | 42,940 | 44,103 |
| Gifts and other non-operating income | 2,658 | 3,423 |
| Net cash provided by non-capital financing activities | \$ 122,724 | \$ 124,023 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Capital appropriations received | \$ 1,383 | \$ 5,680 |
| Capital gifts and grants received | 142 | — |
| Proceeds from bond issue | 79,778 | 32,720 |
| Costs of issuance | (638) | (291) |
| Cash paid for capital assets | (49,984) | (44,136) |
| Principal and interest paid on capital debt and leases | (23,316) | (16,851) |
| Net cash provided (used) by capital financing activities | \$ 7,365 | \$ (22,878) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | \$ 3,311 | \$ 2,892 |
| Income from investing activities | 3,020 | 2,880 |
| Purchase of investments | (36,419) | (4,783) |
| Net cash (used) provided by investing activities | \$ (30,088) | \$ 989 |
| Net increase in cash and cash equivalents | \$ 7,348 | \$ 2,116 |
| Cash and cash equivalents—beginning of year | \$ 25,075 | \$ 22,959 |
| Cash and cash equivalents—end of year | \$ 32,423 | \$ 25,075 |
| <hr/> | | |
| Reconciliation of Operating Loss to Net Cash Used by Operating Activities | | |
| Operating Loss | \$ (114,620) | \$ (121,223) |
| Adjustments to reconcile operating loss to net cash used by operating activities | | |
| Depreciation expense | \$ 18,157 | \$ 16,979 |
| Other non-cash adjustments | \$ 4,002 | \$ 3,556 |
| Changes in assets and liabilities | | |
| Accounts receivable | \$ (2,737) | \$ (331) |
| Grants receivable | 445 | 99 |
| Notes receivable, current | (156) | (377) |
| Inventories | 41 | (52) |
| Prepaid expenses | 61 | (159) |
| Accounts payable | 397 | (217) |
| Accrued payroll and deductions | 295 | 636 |
| Unearned revenue | 1,109 | (10) |
| Funds held in custody for others | 155 | 299 |
| Other current liabilities | (208) | 536 |
| Compensated absences and termination benefits | 406 | 246 |
| Net cash used by operating activities | \$ (92,653) | \$ (100,018) |
| Non-cash transactions | | |
| Equipment | \$ 56 | \$ 55 |
| Capital lease | \$ (56) | \$ (55) |

Indiana State University Foundation, Inc. and Affiliate

Consolidated Statement of Financial Position

June 30, 2017 and 2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and equivalents | \$ 5,126,245 | \$ 2,981,798 |
| Contributions receivable, net | 3,384,045 | 3,394,501 |
| Due from Indiana State University | 200,230 | 82,050 |
| Other assets | 589,528 | 784,181 |
| Property held for future use | 9,452 | 109,452 |
| Investment in joint ventures | 857,152 | 1,002,467 |
| Investments | 66,373,634 | 59,250,270 |
| Investments held in split-interest agreements | 495,545 | 738,042 |
| Beneficial interest in remainder trusts | 666,641 | 666,462 |
| Property and equipment, net | 591,278 | 732,932 |
| Beneficial interest in perpetual trusts | 1,053,906 | 1,005,124 |
| TOTAL ASSETS | \$ 79,374,656 | \$ 70,747,279 |
| LIABILITIES | | |
| Accounts payable | \$ 42,159 | \$ 202,516 |
| Due to Indiana State University | 2,292,636 | 2,391,302 |
| Line of credit | 2,202,699 | 2,298,296 |
| Notes payable | 6,453,714 | 6,842,380 |
| Split-interest agreement obligations | 785,172 | 1,016,424 |
| Refundable advances | 57,936 | 58,378 |
| Total liabilities | 11,834,316 | 12,809,296 |
| NET ASSETS | | |
| Unrestricted | (1,998,007) | (4,219,429) |
| Temporarily restricted | 22,135,221 | 19,948,554 |
| Permanently restricted | 47,376,126 | 42,208,858 |
| Total net assets | 67,513,340 | 57,937,983 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 79,347,656 | \$ 70,747,279 |

Indiana State University Foundation, Inc. and Affiliate
Consolidated Statement of Activities

Years Ended June 30, 2017 and 2016

2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------|
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Contributions | \$ 788,094 | \$ 2,478,764 | \$ 5,051,300 | \$ 8,318,158 |
| Investment return | | | | |
| Interest and dividends | 425,433 | 931,376 | 29,288 | 1,386,097 |
| Net realized and unrealized gains (losses) | 2,590,941 | 3,464,791 | 198,631 | 6,254,363 |
| Total investment return | 3,016,374 | 4,396,167 | 227,919 | 7,640,460 |
| Non-gift income | 635,912 | 527,878 | — | 1,163,790 |
| Change in value of split-interest agreements | (55,829) | 17,844 | (18,459) | (56,444) |
| Service fee income—Indiana State University | — | — | — | — |
| Endowment administration and gift assessments fee | 799,889 | (789,705) | (10,184) | — |
| | 5,184,440 | 6,630,948 | 5,250,576 | 17,065,964 |
| Net assets released from restrictions | 4,527,589 | (4,444,281) | (83,308) | — |
| Reclassification of donor restriction | — | — | — | — |
| Reclassification of donor intent | — | — | — | — |
| Total revenues, gains and other support | 9,712,029 | 2,186,667 | 5,167,268 | 17,065,964 |
| EXPENSES | | | | |
| Scholarships and awards | 1,439,890 | — | — | 1,439,890 |
| Restricted and designated expenditures | 3,556,661 | — | — | 3,556,661 |
| Total program services | 4,996,551 | — | — | 4,996,551 |
| Foundation operations | 1,473,073 | — | — | 1,473,073 |
| Sycamore operations | 148,297 | — | — | 148,297 |
| Development and president | 386,956 | — | — | 386,956 |
| Sports marketing program | 459,688 | — | — | 459,688 |
| Alumni affairs | 26,042 | — | — | 26,042 |
| Bad debt expense | — | — | — | — |
| Loss on disposal of art collection | — | — | — | — |
| Total expenses | 7,490,607 | — | — | 7,490,607 |
| CHANGE IN NET ASSETS | 2,221,422 | 2,186,667 | 5,167,268 | 9,575,357 |
| NET ASSETS, Beginning of Year | (4,219,429) | 19,948,554 | 42,208,858 | 57,937,983 |
| NET ASSETS, End of Year | \$ (1,998,007) | \$ 22,135,221 | \$ 47,376,126 | \$ 67,513,340 |

2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------|
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Contributions | \$ 820,662 | \$ 2,296,994 | \$ 837,645 | \$ 3,955,301 |
| Investment return | | | | |
| Interest and dividends | 416,203 | 840,965 | 41,452 | 1,298,620 |
| Net realized and unrealized gains (losses) | (1,554,906) | (1,600,433) | (288,952) | (3,444,291) |
| Total investment return | (1,138,703) | (759,468) | (247,500) | (2,145,671) |
| Non-gift income | 173,099 | 768,783 | — | 941,882 |
| Change in value of split-interest agreements | 27,799 | 69,931 | (31,237) | 66,493 |
| Service fee income—Indiana State University | 1,971,012 | — | — | 1,971,012 |
| Endowment administration and gift assessments fee | 560,589 | (560,753) | (1,086) | (1,250) |
| | 2,414,458 | 1,815,487 | 557,822 | 4,787,767 |
| Net assets released from restrictions | 4,457,921 | (4,457,921) | — | — |
| Reclassification of donor restriction | 102,107 | 109,667 | (211,774) | — |
| Reclassification of donor intent | — | 211,535 | (211,535) | — |
| Total revenues, gains and other support | 6,974,486 | (2,321,232) | 134,513 | 4,787,767 |
| EXPENSES | | | | |
| Scholarships and awards | 1,498,183 | — | — | 1,498,183 |
| Restricted and designated expenditures | 3,019,353 | — | — | 3,019,353 |
| Total program services | 4,517,536 | — | — | 4,517,536 |
| Foundation operations | 1,750,282 | — | — | 1,750,282 |
| Sycamore operations | 149,673 | — | — | 149,673 |
| Development and president | 2,263,673 | — | — | 2,263,673 |
| Sports marketing program | — | — | — | — |
| Alumni affairs | 294,073 | — | — | 294,073 |
| Bad debt expense | 493,000 | — | — | 493,000 |
| Loss on disposal of art collection | 307,827 | — | — | 307,827 |
| Total expenses | 9,776,064 | — | — | 9,776,064 |
| CHANGE IN NET ASSETS | (2,801,578) | (2,321,232) | 134,513 | (4,988,297) |
| NET ASSETS, Beginning of Year | (1,417,851) | 22,269,786 | 42,074,345 | 62,926,280 |
| NET ASSETS, End of Year | \$ (4,219,429) | \$ 19,948,554 | \$ 42,208,858 | \$ 57,937,983 |

Indiana State University Foundation, Inc. and Affiliate

Consolidated Statement of Cash Flows

Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|--------------|----------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ 9,575,357 | \$ (4,988,297) |
| Items not requiring (providing) cash | | |
| Depreciation and amortization | 140,510 | 140,340 |
| Provision (credit) for uncollectible contributions receivable | (16,829) | 493,000 |
| Net realized and unrealized (gains) losses on investments | (6,254,363) | 3,444,291 |
| Loss on sale of property and equipment | 48,518 | 307,827 |
| Contributions restricted for long-term investment | (5,051,300) | (837,645) |
| Net change in value of split-interest agreements | (231,873) | (87,033) |
| Changes in | | |
| Contributions receivable | 27,285 | 263,018 |
| Due from Indiana State University | (118,180) | 125,849 |
| Other assets | 194,653 | 203,249 |
| Accounts payable | (160,357) | (154,059) |
| Due to Indiana State University | (98,666) | 772,308 |
| Net cash used in operating activities | (1,945,245) | (317,152) |
| INVESTING ACTIVITIES | | |
| Purchase of investments | (43,484,953) | (13,125,274) |
| Sales and maturities of investments | 42,954,982 | 13,343,409 |
| Proceeds from property and equipment held for future use | 100,000 | 21,904 |
| Purchase of property and equipment | (47,374) | (19,203) |
| Net cash provided by (used in) investing activities | (477,345) | 220,836 |
| FINANCING ACTIVITIES | | |
| Borrowings on line of credit | — | 2,740,750 |
| Repayments of line of credit | (95,597) | (2,844,292) |
| Repayments of note payable | (388,666) | (308,265) |
| Proceeds from contributions restricted for investments in permanent endowment | 5,051,300 | 837,645 |
| Net cash provided by financing activities | 4,567,037 | 425,838 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,144,447 | 329,522 |
| Cash and Cash Equivalents, Beginning of Year | 2,981,798 | 2,652,276 |
| Cash and Cash Equivalents, End of Year | \$ 5,126,245 | \$ 2,981,798 |
| Supplemental Cash Flows Information | | |
| Interest paid | \$ 120,482 | \$ 122,834 |



Notes To Financial Statements

As of June 30, 2017

Note 1. Summary of Significant Accounting Policies

Indiana State University (the University), a publicly supported, comprehensive, doctoral granting University, serves the State of Indiana, the nation, and the international community by generating and disseminating knowledge in the humanities, arts, social sciences, scientific, and professional disciplines through instruction and research. The University is governed by a nine-member Board of Trustees, appointed by the Governor.

The accompanying financial statements of the University are prepared in accordance with generally accepted accounting standards as prescribed by the Governmental Accounting Standards Board (GASB) in Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. Since the University is a component unit of the State of Indiana, it is included in the Comprehensive Annual Financial Report of the State.

A. Reporting Entity

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. These Statements amend GASB Statement No. 14, *The Financial Reporting Entity* to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the University as the primary government, and the Indiana State University Foundation as a discretely presented component unit. This component unit is further described in Section P.

B. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. The financial statements of the University have been prepared on the accrual basis, including depreciation expense relating to capital assets. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-University transactions have been eliminated to avoid double counting of these transactions. Examples of these would include sales between University departments or internal loans between funds.

C. Cash Equivalents

The University considers all highly liquid investments with a maturity date of three months or less to be cash equivalents. The University invests operating cash in investments with varying maturities. For purpose of liquidity classification, investments maturities are evaluated as of the financial statement date.

D. Investments

Investments in securities are reported on the financial statements at fair value as of the date of the financial statements. Investments with maturity of less than one year are reported as current assets, with the remaining investments reported as non-current assets.

E. Inventories

Inventories are carried at the lower of cost or market value and on the first-in, first-out (FIFO) basis.

F. Capital Assets

Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition. Moveable equipment costing \$5,000 with a useful life of more than one year and building improvements that exceed \$100,000 and extend the life of the building are capitalized. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is reported using the straight-line method of depreciation over the estimated useful life of the asset. Capital assets and related accumulated depreciation are removed from the records at the time of disposal. Works of art are recorded either at cost or fair market value at the time of acquisition, but are not depreciated because these assets tend to appreciate in value over time.

| Minimum Capitalization Value and Useful Life by Asset Types | | |
|---|--------------------------|-----------------|
| Asset Types | Capitalization Threshold | Useful Life |
| Moveable equipment | \$5,000 | 5 to 10 years |
| Vehicles and machinery | 5,000 | 4 to 10 years |
| Software and computer equipment | 5,000 | 5 years |
| Buildings and related components | 100,000 | 15 to 100 years |
| Land improvements and infrastructure | 100,000 | 10 to 20 years |
| Library books and audio visual aids | 1 | 20 years |
| Works of art | 1 | Not depreciated |

G. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the University that are applicable to a future reporting period, but do not require a further exchange of goods or services. Examples of items the University considers deferred outflows of resources include loss on early retirement of debt and outflows related to pensions.

H. Compensated Absences

Liabilities for compensated absences are recorded for vacation leave based on actual amounts earned as of the statement of net position date. Employees may accrue vacation benefits up to a maximum of 300 hours, which is payable upon termination. The accompanying Statement of Net Position reflects an accrual for the amounts earned and ultimately payable for such benefits at the end of the fiscal year.

I. Net Pension Liability and Related Items

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 of the Indiana 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. Indiana Public Retirement System financial reports have been prepared using the accrual



basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of net assets by the University applicable to a future reporting period, but do not require a further exchange of goods or services. Examples of items the University considers deferred inflows of resources include inflows from service concession arrangements and inflows related to pensions.

K. Net Position

University resources are classified for financial reporting purposes into four net position categories:

Net investment in capital assets: This represents the University's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets.

Restricted net position, non-expendable: Non-expendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net position, expendable: Restricted expendable net position include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and

auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. Substantially all unrestricted net position is designated for academic programs and initiatives, capital purposes, and general operations of the University.

L. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for a particular expenditure, University management may select the most appropriate funding source based on individual facts and circumstances. The University does not require funds be expended in a particular order, and the decision on what fund order is used is made on a case-by-case basis.

M. Operating Revenues and Expenses

Operating revenues include all revenues from exchange transactions resulting from providing goods and services for higher education, research, public service, and other related activities. Examples include student tuition and fees, net of scholarship discounts and allowances, most federal, state and local grants and contracts, interest on institutional student loans, and auxiliary operations (such as Intercollegiate Athletics and Housing and Dining Services).

Operating expenses contain all expenses paid to acquire or produce goods and services provided in return for operating revenues to carry out the mission of the University. Examples include compensation and benefits, travel, and other supplies and expenses. Expenses are reported using natural classifications in the Statement of Revenues, Expenses, and Changes in Net Position.

N. Scholarship Discounts and Other Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts are the difference between the stated charge for goods and



services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or non-governmental programs, are recorded as non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount. Other allowances include the allowance for bad debt, which will be recorded as a reduction to the appropriate revenue.

O. Non-Operating Revenues and Expenses

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, including state appropriations and investment income. Non-operating revenues include any grant that meets the definition of a non-exchange transaction, for which the University has administrative duties. This would include Pell Grant, SEOG, and any State Grant that the University has to determine eligibility, even if the eligibility requirements are set forth by Federal or State agencies.

Non-operating expenses contain all expenses that are incurred in the performance of activities not directly related to the core operations of the University. Examples include interest on capital asset related debt, bond issuance costs, and the loss on the sale of investments.

P. Component Units

The Indiana State University Foundation is a legally separate, tax-exempt component unit of Indiana State University. Indiana State University Foundation, Inc. was incorporated on March 10, 1921. The Foundation was organized to promote educational purposes and receive contributions primarily for the benefit of Indiana State 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 Indiana State University Foundation Board of Directors represents a diverse group of volunteer professional and business leaders who devote their time and resources in service of the Foundation for the benefit of Indiana State University. The majority of resources that the Foundation holds and invests, and the income generated by these assets, are restricted to the activities of the University by its donors. Because these resources can only be used for the activities of the University, the ISU Foundation is considered a component unit of the University, and its audited financial statements are discretely presented in the University's financial statements.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. 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 reporting presentation for these differences.

In September 2016, the Indiana State University Board of Trustees and the Indiana State University Foundation, in conjunction with a new strategic plan for 2016 through 2021, restructured the Foundation. Under the new structure, the CEO of the Foundation became the Vice President for Development of the University. All employees of the Foundation became University employees while the Foundation remained a separate 501(c) 3 organization.

During the years ended June 30, 2017 and June 30, 2016 the Foundation distributed \$4,428,000 and \$5,710,000, respectively, to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 30 North 5th Street, Terre Haute, IN 47809.



Q. New Accounting Pronouncements

Effective with the fiscal year 2016, the University implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. Additional fair value investment disclosures were required by this statement and can be found in Note 2.

Note 2. Cash and Investments

The University maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed in the Statement of Net Position under cash and cash equivalents, short-term investments, long-term investments, deposits with bond trustee, or endowment investments-held in trust, depending on the nature of the investment.

Cash and Investments

| Cash & Investments (Dollars in Thousands) | 2017 | 2016 |
|---|-------------------|-------------------|
| Cash on hand | \$ 94 | \$ 95 |
| Deposits with financial institutions | 8,263 | 13,208 |
| Investments | 187,287 | 143,785 |
| | \$ 195,644 | \$ 157,088 |

Authorization for investment activity is stated in Indiana Code Title 21, Article 21, Chapter 3, Section .3. Additionally, IC 30-4-3.5 (Indiana Prudent Investor Act) requires that the Board of Trustees of the University to act "as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust." It also requires that management decisions be made "in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the trust." The Board holds responsibility to

assure the assets are prudently invested in a manner consistent with this investment policy. The Board has delegated the day-to-day responsibilities for overseeing the investment program to the Senior Vice President for Finance and Administration and University Treasurer.

The University's current investment policy was approved by the Board of Trustees on May 7, 2010 and implemented in September 2010. The objective of the Investment Policy is to adequately provide for the liquidity needs of the University while maximizing the opportunity to increase yield on investments. The investment structure is divided into three liquidity tiers to provide for income maximization while meeting the daily liquidity requirements of the University. In order to supply sufficient day-to-day operating liquidity, Tier I is invested in money market securities and liquidity reserves. Tier II is invested in limited duration securities to provide for a sufficient level of reserves in case of unanticipated liquidity needs; yet provide for a level of incremental return over Tier I. Tier III is invested for income maximization while taking on appropriate levels of risk.

Authorized investments include US Treasury, US Government Agency or Instrumentality, Mortgage-Backed Securities, Asset-Backed Securities, Taxable Municipal Bonds, Non-Benefit Responsive GIC's, Money Market Instruments and Funds, Corporate Investment Grade Bonds, Corporate High Yield Bonds, and Non-US Dollar Debt. Credit Quality and Market Value percentages are established for each investment manager portfolio.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that increases in market interest rates will adversely decrease the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University and its investment managers limit its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the University's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table showing the distribution of Indiana State University's investments by maturity:

| University Investments and Maturities at June 30, 2017 (Dollars in Thousands) | | | | | |
|---|-------------------|------------------|------------------|------------------|--------------------|
| Investment Type | Fair Value | Less Than 1 Year | 1-5 Years | 6-10 Years | More Than 10 Years |
| Cash on hand (petty cash) | \$ 94 | \$ 94 | \$ - | \$ - | \$ - |
| Demand deposits | 8,263 | 8,263 | - | - | - |
| Money market funds | 7,515 | 7,515 | - | - | - |
| Certificates of deposit | 52,854 | 39,890 | 12,721 | 243 | - |
| Asset-backed securities | 10,127 | 278 | 8,020 | 1,129 | 700 |
| Collateralized mortgage obligations | 6,170 | 435 | 1,415 | 737 | 3,583 |
| Corporate bonds | 42,870 | 4,133 | 24,384 | 8,646 | 5,707 |
| Common stock | 395 | - | - | - | 395 |
| Government agencies | 8,412 | 841 | 5,142 | 1,717 | 712 |
| Mortgage-backed securities | 12,248 | - | 2,334 | 1,799 | 8,115 |
| Municipal notes and bonds | 1,328 | 396 | 483 | 115 | 334 |
| Treasury notes and bonds | 42,588 | 5,750 | 17,383 | 12,278 | 7,177 |
| Foreign equities | 6 | - | - | - | 6 |
| Foreign notes and bonds | 2,100 | - | 1,251 | 762 | 87 |
| Endowment investments held in trust | 674 | - | - | - | 674 |
| | \$ 195,644 | \$ 67,595 | \$ 73,133 | \$ 27,426 | \$ 27,490 |

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The University's investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided).

| Highly Sensitive Investments (Dollars in Thousands) | Fair Value at Year End |
|---|------------------------|
| Mortgage-backed & asset-backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of the securities and makes the fair values of these securities highly sensitive to changes in interest rates. | \$22,375 |
| Callable bonds. These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affects the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates. | \$12,121 |

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Credit risk is addressed in the University Investment Policy, approved May 7, 2010. Credit risk guidelines are established for each investment manager. The policy stipulates the percentage of each manager's fixed income portfolio that must be rated Aa or better at the time of purchase. These percentages range from 65 percent to 100 percent. Presented below is the actual Moody's rating at year end for each investment type.

| Moody's Rating Scale (Dollars in Thousands) | | | | | | |
|---|-------------------|------------------|------------------|------------------|------------------|------------------|
| Investment Type | Fair Value | AAA | Aa | A | B or Lower | Not Rated |
| Cash on hand (petty cash) | \$ 94 | \$ - | \$ - | \$ - | \$ - | \$ 94 |
| Demand deposits | 8,263 | - | - | - | - | 8,263 |
| Money market funds | 7,515 | - | - | - | - | 7,515 |
| Certificates of deposit | 52,854 | - | - | - | - | 52,854 |
| Asset-backed securities | 10,127 | 3,323 | 325 | 642 | 209 | 5,628 |
| Collateralized mortgage obligations | 6,170 | 979 | 127 | 376 | 99 | 4,589 |
| Corporate bonds | 42,870 | 504 | 4,481 | 12,241 | 23,294 | 2,350 |
| Common stock | 395 | - | - | 148 | 24 | 223 |
| Government agencies | 8,412 | - | 7,878 | - | 145 | 389 |
| Mortgage-backed securities | 12,248 | - | - | - | - | 12,248 |
| Municipal notes and bonds | 1,328 | 329 | 544 | 169 | 21 | 265 |
| Treasury notes and bonds | 42,588 | 42,588 | - | - | - | - |
| Foreign equities | 6 | - | - | - | - | 6 |
| Foreign notes and bonds | 2,100 | - | - | - | 497 | 1,603 |
| Endowment investments held in trust | 674 | - | - | - | - | 674 |
| | \$ 195,644 | \$ 47,723 | \$ 13,355 | \$ 13,576 | \$ 24,289 | \$ 96,701 |

Concentration of Credit Risk

The investment policy of the University contains no limitations on the amount that can be invested in any one issuer. At June 30, 2017 investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent five percent or more of total University investments included Old National Bank certificates of deposit totaling \$14,600,000.



Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the University will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Indiana State University's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than preference will be given to Indiana institutions because of additional insurance coverage provided by the State. Of the University's investments, \$42,588,000 in U.S. Treasury Notes and Bonds, \$8,412,000 in U.S. Government Agencies and \$7,515,000 of the Money Market funds invested in U.S. Government-backed funds are held by a trust department not in the University's name.

As of June 30, 2017 Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to \$250,000 by FDIC and in excess of \$250,000 by the Indiana Public Deposits Fund. Certificates of Deposits of \$50,210,000 are also covered under the Indiana Public Deposits Fund, as they were invested in Indiana financial institutions. The University has less than four percent of investments that are made up of foreign currency; therefore, the University's exposure to foreign currency risk is insignificant.

Fair Value Measurements

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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. The hierarchy input levels are defined as follows:

- A **Level 1** input is a quoted price for identical assets or liabilities in an active market.
- **Level 2** inputs consist of observable prices for similar assets or liabilities in active or inactive markets and inputs other than quoted prices that are observable for the asset or liability.
- **Level 3** inputs are unobservable inputs for an asset or liability.

The University's investments are composed of assets valued using Level 1 or Level 2 inputs. Fair market value is established for our level two assets in various manners. Fair value is determined on level two assets based on their quoted prices in inactive markets when possible. In other situations,



the fair value determination is based on models. The inputs for these models are observable either directly or indirectly for substantially the full term of the asset. Level two model inputs include the following:

- Quoted prices for similar assets or liabilities in active markets (for example, restricted stock);
- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities and derivatives.)

Endowment investments held in trust are included in a pool of investments that use a mix of Level 1 and Level 2 inputs, and are thus reported at Level 2, the lowest level. The University's fair value measurements of reoccurring investments as of June 30, 2017 are presented below.

| University Investments by Fair Value Level (Dollars in Thousands) | | | | | |
|--|-------------------|------------------|-------------------|----------------|-----------------|
| Investment Type | Fair Value | Level 1 | Level 2 | Level 3 | Cash |
| Cash on hand (petty cash) | \$ 94 | \$ - | \$ - | \$ - | \$ 94 |
| Demand deposits | 8,263 | - | - | - | 8,263 |
| Money market funds | 7,515 | - | 6,929 | - | 586 |
| Certificates of deposit | 52,854 | 49,500 | 3,354 | - | - |
| Asset-backed securities | 10,127 | - | 10,127 | - | - |
| Collateralized mortgage obligations | 6,170 | - | 6,170 | - | - |
| Corporate bonds | 42,870 | - | 42,870 | - | - |
| Common stock | 395 | - | 395 | - | - |
| Government agencies | 8,412 | - | 8,412 | - | - |
| Mortgage-backed securities | 12,248 | - | 12,248 | - | - |
| Municipal notes and bonds | 1,328 | - | 1,328 | - | - |
| Treasury notes and bonds | 42,588 | - | 42,588 | - | - |
| Foreign equities | 6 | - | 6 | - | - |
| Foreign notes and bonds | 2,100 | - | 2,100 | - | - |
| Endowment investments held in trust | 674 | - | 674 | - | - |
| | \$ 195,644 | \$ 49,500 | \$ 137,201 | \$ - | \$ 8,943 |

Note 3. Capital Assets

| (Dollars in Thousands) | Balance June 30, 2016 | Additions | Transfers | Deductions | Balance June 30, 2017 |
|--|--------------------------|--------------------|--------------------|-------------------|--------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 34,062 | \$ 115 | \$ 1,154 | \$ - | \$ 35,331 |
| Works of art | 1,887 | 188 | - | (1) | 2,074 |
| Construction in progress | 29,125 | 49,078 | (30,248) | (994) | 46,961 |
| Total assets not being depreciated | \$ 65,074 | \$ 49,381 | \$ (29,094) | \$ (995) | \$ 84,366 |
| Capital assets being depreciated | | | | | |
| Infrastructure | \$ 35,090 | \$ - | \$ 609 | \$ - | \$ 35,699 |
| Land improvements | 32,825 | - | 1,660 | - | 34,485 |
| Buildings | 493,883 | - | 26,825 | (3,255) | 517,453 |
| Equipment | 82,757 | 1,659 | - | (2,466) | 81,950 |
| Capital lease assets | 31,958 | 56 | - | - | 32,014 |
| Leasehold improvements | 568 | - | - | - | 568 |
| Total capital assets depreciated | \$ 677,081 | \$ 1,715 | \$ 29,094 | \$ (5,721) | \$ 702,169 |
| Less accumulated depreciation | | | | | |
| Infrastructure | \$ (33,412) | \$ (173) | \$ - | \$ - | \$ (33,585) |
| Land improvements | (17,119) | (1,520) | - | - | (18,639) |
| Buildings | (160,243) | (11,476) | - | 1,668 | (170,051) |
| Equipment | (63,319) | (3,505) | - | 2,468 | (64,356) |
| Lease amortization | (1,688) | (1,369) | - | - | (3,057) |
| Leasehold improvements amortization | (95) | (113) | - | - | (208) |
| Total accumulated depreciation | \$ (275,876) | \$ (18,156) | \$ - | \$ 4,136 | \$ (289,896) |
| Total capital assets being depreciated, net | \$ 401,205 | \$ (16,441) | \$ 29,094 | \$ (1,585) | \$ 412,273 |
| Total capital assets, net | \$ 466,279 | \$ 32,940 | \$ - | \$ (2,580) | \$ 496,639 |

During fiscal years 2017 and 2016, the University incurred \$5,557,000 and \$6,283,000 in interest costs related to the ownership of capital assets, respectively. Of this total, \$2,497,000 and \$396,000 was capitalized for years ending June 30, 2017 and 2016, respectively.

A breakdown of significant projects included in construction in progress as of June 30, 2017 is shown below:

| Construction Work in Progress (Dollars in Thousands) | |
|--|------------------|
| Project | June 30, 2017 |
| College of Nursing, Health and Human Services Renovation | 23,024 |
| Cromwell Hall Renovation | 18,456 |
| Hulman Center Renovation (A&E) | 1,843 |
| Rhoads Hall Renovation | 1,562 |
| Other Miscellaneous Projects | 2,076 |
| Total | \$ 46,961 |

Note 4. Long-Term Liabilities

Long-term liabilities of the University consist of bonds and notes payable, capital leases payable, compensated absences, and other liabilities.

The changes in long-term liabilities are as shown below:

| (Dollars in Thousands) | Balance July 1, 2016 | Additions | Reductions | Balance July 1, 2017 | Current Portion |
|--|-------------------------|-------------------|------------------|-------------------------|--------------------|
| Bonds payable | \$ 152,585 | \$ 98,035 | \$ 47,250 | \$ 203,370 | \$ 9,695 |
| Bond premiums | 6,995 | 16,825 | 1,428 | 22,392 | 1,262 |
| Lease payable | 30,898 | 56 | 714 | 30,240 | 1,926 |
| Compensated absences and termination benefits | 4,104 | 246 | 116 | 4,234 | 4,217 |
| Advances from Federal Government | 7,453 | - | 96 | 7,357 | - |
| Total long-term liabilities | \$ 202,035 | \$ 115,162 | \$ 49,604 | \$ 267,593 | \$ 17,100 |
| Bond redemption reserve (matured unpaid bonds and coupons) | | | | | 28 |
| Total long-term liabilities- current portion | | | | | \$ 17,128 |

Note 5. Bonds Payable

Indiana State University is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing the construction of student housing, athletic facilities, parking, and academic facilities. The outstanding bond principal indebtedness consists of the following issues.

| (Dollars in Thousands) | Original Face Value | Issue Date | Interest Rate | Final Maturity Dates | Principal Outstanding June 30, 2017 | Principal Outstanding June 30, 2016 |
|---|------------------------|------------|---------------|-------------------------|---|---|
| Student Fee Bonds | | | | | | |
| Series M, University Hall & Student Recreation Center Projects | \$ 30,510 | 2007 | 4.0-5.0% | 2033 | \$ - | \$ 27,035 |
| Series N, Satellite Chiller & Science Laboratory Projects | 9,560 | 2010 | 1.0-6.64% | 2030 | 6,950 | 7,355 |
| Series O, Scott College of Business Renovation Project | 8,695 | 2011 | 2.0-5.0% | 2031 | - | 7,040 |
| Series P, Science Laboratory Renovation Project | 4,570 | 2014 | 2.18% | 2021 | 3,505 | 3,765 |
| Series Q, Refund Series K, L, and Partial M | 19,690 | 2015 | 2.58% | 2033 | 14,400 | 15,805 |
| Series R, College of Health and Human Services, Refund Series M & O | 83,845 | 2017 | 3.0-5.0% | 2036 | 80,050 | - |
| Housing and Dining Revenue Bonds | | | | | | |
| Series 2009, Sandison, Jones, & Burford Hall Renovation Projects | 13,730 | 2009 | 3.0-6.38% | 2027 | 8,930 | 9,655 |
| Series 2010, Pickerl Hall Renovation Project | 9,140 | 2010 | 1.43-5.41% | 2027 | 6,145 | 6,665 |
| Series 2012, Erickson Hall & Reeve Hall Projects | 28,740 | 2013 | 2.7-5.0% | 2038 | 26,180 | 26,985 |
| Series 2014, Sycamore Towers Phase 1 - Mills Hall Project | 16,405 | 2014 | 2.0-5.0% | 2034 | 14,530 | 15,130 |
| Series 2015, Sycamore Towers Phase 2 - Blumberg Hall Project | 16,270 | 2015 | 3.0-5.0% | 2035 | 14,940 | 15,510 |
| Series 2016, Sycamore Towers Phase 3 - Cromwell Hall Project | 14,135 | 2016 | 3.0-5.0% | 2036 | 13,550 | 14,135 |
| Series 2017, Sycamore Towers Phase 4 - Rhoads Hall Project | 14,190 | 2017 | 3.0-5.0% | 2038 | 14,190 | - |
| Parking Revenue Bond | | | | | | |
| Series 2012, Cherry Street Parking Garage | \$ 4,000 | 2012 | 1.72% | 2017 | \$ - | \$ 3,505 |
| Bonds | | | | | 203,370 | 152,585 |
| Premium | | | | | 22,392 | 6,995 |
| Total | | | | | \$ 225,762 | \$ 159,580 |

Student Fee Bonds are secured by a pledge of student fees. The Indiana General Assembly authorizes a specific state appropriation known as "fee replacement" to the University for the purpose of reimbursing a portion of the debt service payments for certain academic facilities, including classrooms, laboratories, and other academic support facilities. Total bond principal payments eligible for fee replacement appropriations in 2017 and 2016 were \$9,799,000 and \$7,541,000, respectively.



Housing and Dining Revenue Bonds are secured by a pledge of housing and dining net income. As of June 30, 2017 and 2016, total net pledged income was approximately \$12,558,000 and \$8,491,000, respectively. The Parking Revenue Bond was secured by a pledge of parking system net income. At June 30, 2016, total net pledged income of the parking system was approximately \$1,292,000. The final bond payment was made March 29, 2017.

In prior years, Indiana State University defeased certain serial bonds by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust accounts and liability for the defeased bonds are not included in the financial statements of Indiana State University.

The University issued \$83,845,000 of Student Fee Bonds, Series R on September 15, 2016 and \$14,190,000 of Housing and Dining System Revenue Bonds, Series 2017 on June 28, 2017. See Note 6 for details.

| Debt Service Requirements (Dollars in Thousands) | | | |
|---|-----------------------|----------------------|-------------------|
| Fiscal Year | Bond Principal | Bond Interest | Total |
| 2018 | \$ 9,695 | \$ 8,618 | \$ 18,313 |
| 2019 | 10,530 | 8,387 | 18,917 |
| 2020 | 10,980 | 7,910 | 18,890 |
| 2021 | 13,850 | 7,367 | 21,217 |
| 2022 | 10,350 | 6,819 | 17,169 |
| 2023-2027 | 58,465 | 26,143 | 84,608 |
| 2028-2032 | 48,765 | 13,543 | 62,308 |
| 2033-2037 | 37,950 | 3,959 | 41,909 |
| 2038 | 2,785 | 110 | 2,895 |
| Total | 203,370 | 82,856 | 286,226 |
| Net unamortized premium | 22,392 | - | 22,392 |
| Total | \$ 225,762 | \$ 82,856 | \$ 308,618 |

Note 6. Bond Issues

Indiana State University Student Fee Bonds, Series R

On September 15, 2016, the University issued \$83,845,000 of Student Fee Bonds, Series R. This issue was tax-exempt with a True Interest Cost (TIC) of 2.339 percent. The bond proceeds of \$98,244,000, that included \$14,399,000 of net bond premium less issuance cost of \$273,000 and underwriter's discount of \$273,000, netted \$97,699,000 for the College of Health and Human Services facilities project and the refunding of Series M and Series O bonds.

College of Health and Human Services Project

The project consists of the acquisition, construction, expansion, renovation, and equipping of the academic and building facilities for the College of Health and Human Services. This project includes major upgrades to building systems, reconfiguring of interior spaces to enable the academic program to function more efficiently, and construction of an approximately 87,000 square foot addition to the existing facility. The project has a total estimate cost of \$64 million which is funded through the Series R Bond issue. Work commenced in July 2016 and is scheduled for completion in March 2019.

Refunding Series M and Series O Bonds

Of the total Series R Bond, \$28,745,000 was issued by the University with a True Interest Cost of 1.786 percent to refund \$31,860,000 of outstanding Series M and Series O Bonds with an average coupon of 4.766 percent. The net proceeds of \$33,699,000 (after payment of \$176,000 in issuance



costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with escrow agent to provide for all future debt service payments on the Series O and Series M Bonds as follows:

- The proceeds refunded \$25,175,000 of outstanding Series M Bonds that mature from October 1, 2017 through October 1, 2029. The Series M Bonds were redeemed in whole on April 1, 2017.
- The proceeds refunded \$6,685,000 of outstanding Series O Bonds that mature from October 1, 2017 through October 1, 2030.

As a result of this refunding, these bonds (Series M and O) are considered defeased and the liability for those bonds has been removed from the Statement of Net Position. The refunding resulted in an accounting loss of \$712,000. This amount will be amortized using the straight line method and charged to interest expense over the next 15 years. This loss has been recognized on the Statement of Net Position as a deferred loss on early retirement of debt.

Indiana State University in effect reduced its aggregate debt service payment by \$5,203,000 over the next 15 years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$4,621,000.

Housing and Dining Revenue Bonds, Series 2017

On June 28, 2017, the University issued \$14,190,000 of Housing and Dining Revenue Bonds, Series 2017. This issue was tax-exempt with a True Interest Cost (TIC) of 3.361 percent. The bond proceeds of \$16,617,000, which included \$2,427,000 of net bond premium less issuance costs of \$115,000 and \$96,000 of underwriter's discount, netted \$16,405,000 to be used for the renovation of Rhoads Hall.

Rhoads Hall

The project consists of the renovation of Rhoads Hall as the fourth phase of the comprehensive renovation of Sycamore Towers. The renovated facility will provide 344 revenue generating spaces and is part of a systematic upgrading of residence hall facilities to provide living and learning spaces that are attractive to prospective and returning students. The overall cost of the Rhoads Hall renovation is estimated at \$20.5 million, of which \$16.4 million was funded by the Series 2017 Bonds and the remaining \$4.1 million was funded by Housing and Dining System reserves. The project is expected to be completed for Fall 2018 occupancy.



Note 7. Service Concession Arrangements

In July 2010, Indiana State University entered into a contract with Sodexo Services of Indiana Limited Partnership to provide food services for ISU's students, faculty, staff and invited guests for a term of 11 years. Included in the agreement was a commitment by Sodexo to provide equipment and facility enhancements of up to \$2,900,000 to construct the Sycamore Banquet Center inside the Hulman Memorial Student Union, with contributions by the University of approximately \$800,000. Construction was completed and the Banquet Center was put into use in April 2012.

Food services for the Banquet Center will be provided by Sodexo, and the Banquet Center will remain an asset of the University. Due to the nature of this agreement, whereas Sodexo is the operator and ISU is the transferor, it has been classified as a service concession arrangement. The Sycamore Banquet Center has been classified as a capital asset with an offsetting deferred inflow of resources. Over the life of the contract, ISU will amortize the deferred inflow of resources, while recognizing auxiliary revenue each year. If the agreement expires, terminates, or is amended in a way that has an adverse impact on Sodexo, ISU will be liable for the unamortized portion of Sodexo's investment.

| Deferred Service Concession Arrangement (Dollars in Thousands) | |
|--|----------|
| Deferred Service Concession Arrangement - June 30, 2016 | \$ 1,213 |
| Revenue recognition for the fiscal year 2017 | (243) |
| Deferred Service Concession Arrangement- June 30, 2017 | \$ 970 |

Note 8. Lease Payable

Indiana State University has entered into capital lease agreements for equipment and facilities. The University has a five-year lease agreement with Ricoh USA, Inc. to lease copiers and printers for the campus effective July 1, 2015. The cost of equipment held under capital leases totaled \$1,778,000

and \$1,722,000 as of June 30, 2017 and 2016, respectively. Accumulated amortization of leased equipment totaled \$1,041,000 and \$680,000 at June 30, 2017 and 2016, respectively.

As of January 8, 2014, the University entered into a lease agreement with 500 Wabash Housing, LLC to lease floors 2-5 of the 500 Wabash Avenue building to be used for student housing. The lease commencement date was July 15, 2015. The lease term is 30 years with an option to purchase. The cost of the leased asset totaled \$30,237,000 for years ending June 30, 2017 and 2016 with accumulated amortization of \$2,016,000 and \$1,008,000 as of June 30, 2017 and 2016, respectively.

These capital lease obligations are included in the Statement of Net Position and future scheduled payments under these agreements are illustrated in the schedule below. The University records lease amortization as depreciation expense on the Statement of Revenues, Expenses and Changes in Net Position.

| (Dollars in Thousands) | | | |
|--|------------------|-------------------|------------------|
| Lease Payments | | | |
| Fiscal Year | Equipment | Facilities | Total |
| 2018 | 391 | 1,535 | 1,926 |
| 2019 | 391 | 1,535 | 1,926 |
| 2020 | - | 1,535 | 1,535 |
| 2021 | - | 1,535 | 1,535 |
| 2022 | - | 1,535 | 1,535 |
| 2023-2027 | - | 7,675 | 7,675 |
| 2028-2032 | - | 7,675 | 7,675 |
| 2033-2037 | - | 7,675 | 7,675 |
| 2038-2042 | - | 7,675 | 7,675 |
| 2043-2045 | - | 4,605 | 4,605 |
| Total minimum lease payments | \$ 782 | \$ 42,980 | \$ 43,762 |
| Less: Amount representing interest | (22) | (13,500) | (13,522) |
| Present value of minimum lease payments | \$ 760 | \$ 29,480 | \$ 30,240 |

Note 9. Termination Benefits Liability

The Governmental Accounting Standards Board (GASB), Statement No. 47, *Accounting for Termination Benefits*, requires the University to recognize an expense and liability for voluntary termination benefits, such as early-retirement incentives. This expense is recognized when an offer is accepted and the amount of the benefit can be estimated.

The ISU Board of Trustees approved a Retirement Severance Plan for eligible faculty and staff on February 18, 2010. Under the Retirement Severance Plan, employees must be age 62 or older and have 20 years of service to retire from Indiana State University. The severance payments available under the plan are 60 percent for those employees with 15 years or more of service at December 31, 2010, and 40 percent for employees with less than 15 years of service at December 31, 2010. New employees hired on or after March 1, 2010 would be eligible for a 25 percent severance pay at retirement.

A total of 18 employees enrolled in the program during the 2017 fiscal year at a cost of \$848,000 and 15 employees enrolled during the 2016 fiscal year at a cost of \$529,000. Total termination benefits liability reported at June 30, 2017 was \$247,000 and zero at June 30, 2016.

Note 10. Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; and health and other medical benefits provided to employees and their dependents. The University handles these risks of loss through combinations of risk retention and commercial insurance. For buildings and contents, the University has risk retention of \$100,000 per occurrence. The University also holds an additional builder's risk component with a deductible of \$25,000. The maximum liability to the University for job-related illnesses or injuries is \$400,000 per occurrence. Settled claims have not exceeded the University's coverage in any of the past three fiscal years.

The University retains the risk for medical benefits up to a stop-loss provision of \$250,000 per member. Accrued liabilities for unpaid medical claims, as of June 30, 2017 are included in current other liabilities. The liability is based on 25 percent of actual claims paid during the year, which represents a three-month average turnover period for claims processing. Changes in the balance of claims liabilities during the 2017 fiscal year are as follows:

| (Dollars in Thousands) | 2017 | 2016 |
|--------------------------------|----------|----------|
| Unpaid medical claims- July 1 | \$ 5,295 | \$ 4,496 |
| Claims incurred | 21,125 | 18,783 |
| Claims paid | (21,136) | (17,984) |
| Unpaid medical claims- June 30 | \$ 5,284 | \$ 5,295 |

Note 11. Litigation

The University has been named as a defendant in a number of lawsuits. For most of these lawsuits, the final outcome cannot be determined and management is of the opinion that any ultimate outcome will not have a material effect upon the University's financial position.



Note 12. Funds Held in Custody for Others

Funds held in custody for others consist of \$1,290,000 and \$1,135,000 at June 30, 2017 and 2016, respectively. These funds are held for other agencies (student and faculty organizations) and unapplied student payments.

Note 13. Pollution Remediation Obligation

To comply with GASB Statement No. 49, *Accounting and Reporting for Pollution Remediation Obligations*, the University must report a liability for an obligating event. An obligating event occurs when the University commences or legally obligates itself to commence pollution remediation. During fiscal year 2017 and in prior years, Indiana State University voluntarily obligated itself to remediate pollution in Rhoads Hall and other buildings. As of June 30, 2017 these projects had not been completed, leaving an outstanding obligation of \$124,000 which is classified as a current other liability. The outstanding obligation as of June 30, 2016 was \$115,000.

Note 14. Natural Classifications with Functional Classifications

The University's operating expenses by functional classification were as follows:

| Natural Classifications | | | | | | | |
|---|---------------------------|-----------------------|------------------|------------------------------|------------------|-------------------|-------------------|
| Years Ended June 30, 2017 and June 30, 2016 | | | | | | | |
| (Dollars in Thousands) | | | | | | | |
| Functional Classification | Compensation and Benefits | Supplies and Expenses | Utilities | Scholarships and Fellowships | Depreciation | 2017 Total | 2016 Total |
| Instruction | \$ 68,858 | \$ 7,327 | \$ - | \$ - | \$ - | \$ 76,185 | \$ 76,891 |
| Research | 5,114 | 3,216 | - | - | - | 8,330 | 10,007 |
| Public service | 2,602 | 1,848 | - | - | - | 4,450 | 3,905 |
| Academic support | 15,446 | 5,731 | - | - | - | 21,177 | 19,458 |
| Student services | 11,699 | 5,462 | - | - | - | 17,161 | 15,875 |
| Institutional support | 14,485 | 6,506 | - | - | - | 20,991 | 27,643 |
| Operation of plant | 10,143 | 10,051 | 10,071 | - | - | 30,265 | 30,888 |
| Scholarships | 1,580 | - | - | 11,751 | - | 13,331 | 13,312 |
| Auxiliary enterprises | 15,813 | 21,459 | 339 | - | - | 37,611 | 40,324 |
| Depreciation | - | - | - | - | 18,157 | 18,157 | 16,979 |
| Total | \$ 145,740 | \$ 61,600 | \$ 10,410 | \$ 11,751 | \$ 18,157 | \$ 247,658 | \$ 255,282 |

Note 15. Hedge Contracts

Indiana State University has entered into forward contracts with EDF, Energy Services to purchase natural gas at a specified time in the future at a guaranteed price. This allows the University to plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible the market price before or at the specified time to purchase natural gas may be lower or higher than the price at which the University is committed to buy.

Note 16. Retirement Plans

Authorization

Authorization to establish retirement plans is stated in Indiana Code Title 21, Article 21, Chapter 3, and Section 3.



Faculty and Exempt Staff

Faculty and executive/administrative/professional employees of the University participate in a non-contributory, defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equity Fund (CREF). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. Contributions and plan participant data for fiscal years 2017 and 2016 are displayed below.

| TIAA-CREF Contributions (Dollars in Thousands) | 2017 | 2016 |
|--|----------|----------|
| University Contributions to Plan | \$7,349 | \$7,144 |
| Total Participating Employee Annual Salaries | \$72,550 | \$71,444 |
| Employee and Retiree Plan Participants | 995 | 1,003 |

Non-exempt Staff

Plan Description

Regular clerical and service staff are provided with pensions through the Public Employees' Retirement Fund (PERF). PERF is a cost sharing, multiple-employer defined benefit plan administered by the Indiana Public Retirement System (INPRS). PERF was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code IC 5-10.2, IC 5-10.3, and IC 5-10.5. There are two parts to the plan: an annuity savings plan and a monthly defined benefit pension. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after ten years of service. The INPRS issues a publicly available financial report that can be obtained at www.in.gov/inprs/annualreports.htm.

Benefits Provided

PERF provides retirement, disability and survivor benefits. To be eligible for 100 percent of the pension component a member must reach age 65 with 10 years of service, or age 60 with 15 years of service, or age 55 and whose age plus number of years of service is at least 85. Pension benefits for 100 percent normal retirement are calculated at 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. Cost of living adjustments (COLA) are granted by the Indiana General Assembly on an ad hoc basis. Five years of service is required for disability benefits in which the benefits are calculated the same as normal retirement. Upon the death in service of a member with 15 or more years of service, a survivor benefit may be paid to the surviving spouse or surviving dependent children.

Contribution Required

Contributions to PERF are determined by INPRS Board of Trustees in accordance with IC 5-10.2-2-11. The funding policy provides for employer contributions that are sufficient to fund pension benefits, which are actuarially determined. The University was required to contribute 11.2 percent of employees' gross earnings to the defined benefit plan in fiscal years 2017 and 2016. Employees are required to contribute three percent of covered payroll to their annuity savings account. The University has the option to contribute this on their behalf and elected to do so in both years presented. Contributions and plan participant data for fiscal years 2017 and 2016 are displayed below.

| PERF Contributions (Dollars in Thousands) | 2017 | 2016 |
|--|----------|----------|
| University Contributions to PERF Plan | \$2,148 | \$2,112 |
| University Contributions to Annuity Savings Accounts | \$575 | \$589 |
| Total Participating Employee Annual Salaries | \$19,086 | \$18,855 |
| Employee Plan Participants | 551 | 568 |

Pension Liabilities

For the fiscal years ending June 30, 2017 and June 30, 2016, the University reported liabilities of \$17,855,000 and \$15,538,000, respectively, 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, 2015. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the contribution of all participating state entities, actuarially determined. At June 30, 2016 the University's portion was .39 percent.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

Indiana State University recognized pension expense of \$3,610,000 during fiscal year 2017 and \$2,664,000 for fiscal year 2016. The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| (Dollars in Thousands) | 2017 | | 2016 | |
|--|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 400 | \$ 33 | \$ 667 | \$ 32 |
| Net difference between projected and actual investment earnings on pension plan investments | 3,927 | 1,005 | 2,620 | 1,461 |
| Change of assumptions | 788 | - | 1,313 | - |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | 562 | 212 | 510 | 8 |
| Contributions subsequent to the measurement date | 2,148 | - | 2,202 | - |
| TOTAL | \$ 7,825 | \$ 1,250 | \$ 7,312 | \$ 1,501 |

The University reported \$2,148,000 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. All other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized in pension expense as follows:

| Amortization of Deferred Outflows/(Inflows) of Resources- Debit/(Credit) | | |
|---|-----------|--------------|
| (Dollars in Thousands) | | |
| 2017 | | 1,719 |
| 2018 | | 1,079 |
| 2019 | | 1,154 |
| 2020 | | 475 |
| 2021 | | - |
| Thereafter | | - |
| Total | \$ | 4,427 |

Actuarial Assumptions

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

| | |
|----------------------------|--|
| Inflation Rate: | 2.25% |
| Salary Increases: | 2.50%-4.25% including inflation |
| Experience Study Date: | Period of 4 years ended June 30, 2014 |
| Investment Rate of Return: | 6.75%, net of investments expense, including inflation |
| Actuarial Cost Method: | Entry Age Normal (Level Percent of Payroll) |
| Cost of Living Increases: | 1.0% |
| Mortality: | RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2016 |

The long-term return expectation for PERF has been determined by using a building-block approach. 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 projected inflation rate, and adding the expected return from rebalancing uncorrelated assets classes.

| | Target Asset Allocation | Geometric Basis |
|-----------------------------------|--------------------------------|---|
| | | Long-Term Expected Real Rate of Return |
| Public Equity | 22.5% | 5.3% |
| Private Equity | 10.0% | 5.6% |
| Fixed Income- Ex Inflation-Linked | 22.0% | 2.1% |
| Fixed Income- Inflation-Linked | 10.0% | 0.7% |
| Commodities | 8.0% | 2.0% |
| Real Estate | 7.5% | 3.0% |
| Absolute Return | 10.0% | 3.9% |
| Risk Parity | 10.0% | 5.0% |



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 that plan member contributions will be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board and contributions required by the State of Indiana would be made as stipulated by state statute. Based on those assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate

Net pension liability is sensitive to changes in the discount rate. The following presents the University's proportionate share of net pension liability calculated using the discount rate of 6.75 percent, as well as what the University's 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.

| Discount Rate Sensitivity-Liability/(Asset) (Dollars in Thousands) | | |
|---|-----------------|---------------------|
| 1% Decrease (5.75%) | Current (6.75%) | 1% Increase (7.75%) |
| \$ 25,644 | \$ 17,855 | \$ 11,381 |

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued INPRS financial report which is available at www.in.gov/inprs/annualreports.htm. Refer to Note 1, Section I for information regarding the INPRS basis of accounting.

Note 17. VEBA Trust

The University established a Voluntary Employees' Benefit Association (VEBA) trust, with an independent trustee, for the purpose of providing retiree medical benefits for retired employees of Indiana State University and their dependents that become eligible upon accruing the required years

of service. Approval from the IRS for the tax-exempt status of the trust was received on March 2, 1999.

The trust is funded from reserves set aside in previous years paid by the University, contributions, employee payroll deductions for post-retirement benefits, and reinvested net earnings. Beginning January 1, 2014, the University activated the VEBA Trust. The University was reimbursed 100 percent of both pre-65 and post-65 retirement medical insurance premiums paid in fiscal year 2017. A summary of the activity in the trust for the year ending June 30, 2017 is as follows:

| Dollars in Thousands | |
|---|------------------|
| Market value at July 1, 2016 | \$ 85,122 |
| Reimbursement of University retirement expenses | (3,424) |
| Reinvested net earnings | 3,562 |
| Less: management fees | (126) |
| Realized gain on sale of investments | 1,275 |
| Unrealized gain on increase in market value | 2,447 |
| Market value at June 30, 2017 | \$ 88,856 |

These funds cannot under any circumstances revert to the University; therefore, the financial statements of the University do not include the value of these assets. The following charts show the actual diversification of the VEBA investments.

| VEBA Investment Policy Guideline Diversification | | | |
|--|------------------|-----------------|----------------|
| Asset Class | Target | Minimum | Maximum |
| Equity | 60.0% | 55.0% | 65.0% |
| Fixed Income | 40.0% | 35.0% | 45.0% |
| Actual VEBA Investment Diversification (Dollars in Thousands) | | | |
| | Actual \$ | Actual % | |
| Domestic-Equity-Passive | \$ 24,459 | 27.5% | |
| Domestic-Equity-Active | 6,586 | 7.4% | |
| International Equity | 15,279 | 17.2% | |
| Fixed Income | 34,000 | 38.3% | |
| Hedge Strategies | 4,316 | 4.9% | |
| Inflation Hedging | 4,216 | 4.7% | |
| Total | \$ 88,856 | 100.0% | |

Note 18. Other Post-Employment Benefits

Plan Description

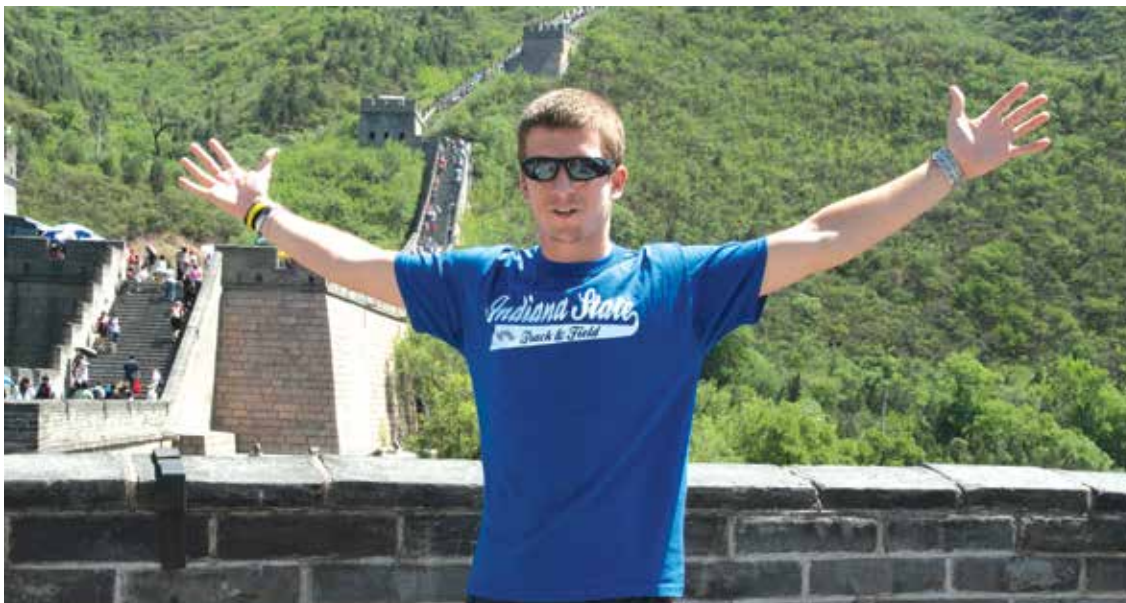
Beginning January 1, 2010, Indiana State University selected AmWins Group Benefits to administer the post-65 retiree medical plan. This plan replaced the self-insured program for retirees with an insurance policy for which the University's cost is based on premiums instead of claims. All retirees, after reaching the age of 65, are required to participate in the fully insured plan in order to retain the retirement medical benefit. The University's cost is \$222 per month for each plan participant including dental insurance coverage. Retirees pay \$111 or \$211 per month directly to AmWins, depending on the prescription drug plan option taken. This group of post-65 retirees retains dental coverage through Delta Dental of Indiana and life insurance through the Symetra Life Insurance Company.

Retirees under the age of 65 will continue participation in the Indiana State University Healthcare Plan for active employees until age 65 is attained. This plan is a single-employer defined benefit healthcare plan administrated by Anthem for medical coverage, Delta Dental of Indiana for dental coverage, Express-Scripts for prescription coverage, and Symetra life insurance. The plan provides medical, dental and life insurance for eligible retirees and their spouses. Active employees are eligible for the plan provided they retire after attaining age 62 with at least 20 years of service. Surviving spouses may continue in the plan until remarriage or death. Employees hired after January 1, 2005 or employees or their spouses who had not enrolled in the ISU health plan before January 1, 2005 are not eligible for the plan. The Indiana State University Board of Trustees has the authority to establish and amend provisions to the University plan.

Funding Policy

For the fiscal year ended June 30, 2017 the total pay-as-you-go costs of the plan totaled \$3.6 million. The University activated the VEBA Trust as of January 1, 2014, and has been reimbursed for \$3.4 million of the medical premiums paid for post-65 retirees during fiscal year 2017. Pre-65 plan members receiving benefits contributed \$0.2 million, based on the required contribution rates as follows:

| Participants' Monthly Contributions | | | |
|--|--|--|--|
| | Wellness Incentive and Tobacco Free | Incentive and Tobacco Surcharge | No Wellness and Tobacco Surcharge |
| Under Age 65 | | | |
| Employee Rates - Monthly | \$204.00 | \$254.00 | \$284.00 |
| Employees/Spouses | \$516.00 | \$566.00 | \$616.00 |
| Employees Below 200% of Federal Poverty Level | | | |
| Employees | \$140.00 | \$190.00 | \$220.00 |
| Employees/Spouses | \$331.00 | \$431.00 | \$481.00 |
| Age 65 and over (AmWins fully insured) | | | |
| | Employee | Employee/Spouse | |
| Option 1 | \$111.00 | \$222.00 | |
| Option 2 | \$211.00 | \$422.00 | |





Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), 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 30 years. The following table shows the components of the University's annual OPEB cost for fiscal years 2015, 2016, and 2017, the amount actually contributed to the plan, and changes in the University's net OPEB obligation to the plan.

| GASB 45 ARC and Annual Expense (Dollars in Thousands) | 2015 | 2016 | 2017 |
|--|---------------|---------------|---------------|
| Annual required contribution | \$ - | \$ - | \$ - |
| Interest on net OPEB obligation | (980) | (1,084) | (1,156) |
| Adjustment to annual required contribution | 1,187 | 1,312 | 1,400 |
| Annual OPEB cost | \$ 207 | \$ 228 | \$ 244 |
| Contributions made | \$ (1,945) | \$ (1,431) | \$ - |
| Increase (Decrease) in net OPEB obligation | \$ (1,738) | \$ (1,203) | \$ 244 |
| Net OPEB obligation (asset) beginning of year | \$ (16,327) | \$ (18,065) | \$ (19,268) |
| Net OPEB obligation (asset) end of year | \$ (18,065) | \$ (19,268) | \$ (19,024) |

The University's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for the fiscal years ending as follows:

| (Dollars in Thousands) | | | |
|-------------------------------|-------------|------------------|----------------|
| | Annual OPEB | Percentage of | |
| Year Ending | Cost | Annual OPEB | Net OPEB Asset |
| | | Cost Contributed | |
| 6/30/2017 | \$244 | 0.0% | \$19,024 |
| 6/30/2016 | \$228 | 626.2% | \$19,268 |
| 6/30/2015 | \$207 | 941.9% | \$18,065 |

Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 156.9 percent funded. The actuarial accrued liability for benefits was \$56.6 million, and the actuarial value of assets was \$88.9 million, resulting in an overfunded actuarial accrued liability (UAAL) of \$32.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$35.9 million. The ratio of the UAAL to covered payroll was -89.7 percent which indicates the OPEB plan is over 100 percent funded at fiscal year end June 30, 2017.

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 below, shows multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Three-Year Trend Information (Dollars in Thousands)

| | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Underfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------|-------------------------------------|--|------------------------------------|--------------------------|----------------------------------|---|
| 6/30/17 | \$ 88,856 | \$ 56,628 | \$ (32,228) | 156.9% | \$ 35,932 | (89.7%) |
| 6/30/16 | \$ 85,123 | \$ 63,298 | \$ (21,824) | 134.5% | \$ 39,400 | (55.4%) |
| 6/30/15 | \$ 83,921 | \$ 64,311 | \$ (19,610) | 130.5% | \$ 38,252 | (51.3%) |

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.

Actuarial Assumptions

| | |
|--------------------------------|--|
| Valuation and measurement date | June 30, 2017 |
| Participant data | July 2017 |
| Discount rate | 6% |
| Mortality | SOA RPH-2016 Total Dataset Mortality Table fully generational using Scale MP-2016 (RPH-2016 table is based on RPH-2014 table with 8 years of mortality improvement using scale MP-2014 backed out and projected to 2016 using scale MP-2016) |
| Payroll Growth | 3% per year increase was used to model future employees salary increases |
| Healthcare Trend Rates | 2% per year increase to model future increases in the Federal Poverty Limit |

Healthcare Trend Rates

| | Medical/Rx | | | Dental |
|-------|------------|--------|---------|--------|
| | FYE | Pre-65 | Post-65 | |
| 2018 | 9.00% | 7.00% | 4.50% | |
| 2019 | 8.50% | 6.75% | 4.50% | |
| 2020 | 8.00% | 6.50% | 4.50% | |
| 2021 | 7.50% | 6.25% | 4.50% | |
| 2022 | 7.00% | 6.00% | 4.50% | |
| 2023 | 6.50% | 5.75% | 4.50% | |
| 2024 | 6.00% | 5.50% | 4.50% | |
| 2025 | 5.50% | 5.25% | 4.50% | |
| 2026+ | 5.00% | 5.00% | 4.50% | |

Methods

| | |
|------------------------|--|
| Actuarial cost method | Projected Unit Credit with linear proration to decrement age |
| Assets method | Market value |
| Amortization method | Level dollar amount over thirty years based on an open group |
| Accounting method | Unit credit |
| Actuarial gains/losses | Reflected immediately in cost method |



Note 19. Subsequent Events

Indiana State University received a \$5,000,000 payment from Sodexo Services of Indiana Limited Partnership, on August 10, 2017, that is to be used for the renovation of the Sycamore Towers Dining Facility. This is the final project of the Sycamore Towers renovation, and the total project cost is estimated at \$16.8 million. Work will begin during fall 2018. The payment is the result of an amendment to the University dining services management agreement to extend the term of the agreement for an additional ten years through June 30, 2031. This amendment was approved by the Indiana State University Board of Trustees at the May 12, 2017 meeting with an anticipated payment in fiscal year 2018. This will be considered a service concession arrangement and revenue will be recognized over the term of the agreement.

Required Supplementary Information

Schedule of Indiana State University's Proportionate Share of the Net Pension Liability

Public Employees' Retirement Fund (PERF)

Last 10 Fiscal Years*

(Dollars in Thousands)

| | Measurement Date as of June 30 | | | |
|---|--------------------------------|-----------|-----------|-----------|
| | 2016 | 2015 | 2014 | 2013 |
| Proportion of the net pension liability (asset) | 0.39% | 0.38% | 0.36% | 0.36% |
| Proportionate share of the net pension liability (asset) | \$ 17,855 | \$ 15,538 | \$ 9,494 | \$ 12,387 |
| Covered-employee payroll | \$ 18,855 | \$ 18,273 | \$ 17,638 | \$ 17,364 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 94.7% | 85.0% | 53.8% | 71.3% |
| Plan fiduciary net position as a percentage of the total pension liability | 75.3% | 77.3% | 84.3% | 78.8% |

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

Schedule of Indiana State University's Contributions

Public Employees' Retirement Fund (PERF)

Last 10 Fiscal Years*

(Dollars in Thousands)

| | Fiscal Year | | | |
|---|-------------|------------|------------|------------|
| | 2016 | 2015 | 2014 | 2013 |
| Contractually required contribution | \$ 2,112 | \$ 2,047 | \$ 1,976 | \$ 1,672 |
| Contributions in relation to the contractually required contribution | \$ (2,112) | \$ (2,047) | \$ (1,976) | \$ (1,672) |
| Contribution deficiency (excess) | \$ — | \$ — | \$ — | \$ — |
| Covered-employee payroll | \$ 18,855 | \$ 18,273 | \$ 17,638 | \$ 17,364 |
| Contributions as a percentage of covered- employee payroll | 11.2% | 11.2% | 11.2% | 9.6% |

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

Board of Trustees and University Administration

Board of Trustees

as of June 30, 2017

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Chair
Indianapolis, Indiana
Term Expires 2019

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Terre Haute, Indiana
Term Expires 2021

Jeff Taylor

Finance Committee Chair
and Secretary
Carmel, Indiana
Term Expires 2021

Kathleen Cabello

Assistant Secretary
Indianapolis, Indiana
Term Expires 2019

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Term Expires 2020

Haley Gravely

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Term Expires 2017

Randall Minas

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Term Expires 2020

Kimberly Oliphant Smith

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as of June 30, 2017

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Academic Affairs

Diann McKee

Senior Vice President for Finance and
Administration/University Treasurer

Willie Banks, Jr.

Vice President for Student Affairs

John Beacon

Senior Vice President for Enrollment
Management, Marketing, and
Communications

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Vice President for Development and
CEO of ISU Foundation

Nancy Rogers

Vice President for University
Engagement

Additional copies of the 2017 Financial Report may be obtained from:

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Indiana State University
Terre Haute, Indiana 47809

812-237-3513
or at www.indstate.edu/controller/

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