



**University of  
Southern Indiana**

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**Additional copies of this report may be obtained from:**

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Orr Center, Room 027  
University of Southern Indiana  
8600 University Boulevard  
Evansville, IN 47712-3597  
Telephone: 812-464-1967  
or from the website at [www.usi.edu/about/financing/annual-financial-report](http://www.usi.edu/about/financing/annual-financial-report)

## Board of Trustees 2017–2018



Trustees of the University gather before the May 2018 commencement ceremony. Left to Right: Anjali Patel, Ellis S. Redd, John M. Dunn, Amy MacDonell, Linda L. M. Bennett, W. Harold Calloway, Jeffrey L. Knight, Kenneth L. Sendelweck

**W. Harold Calloway, 2018**

*Chair*

Evansville, Indiana

**Amy MacDonell, 2018**

*Secretary*

Indianapolis, Indiana

**Anjali Patel, 2019**

Evansville, Indiana

**Kenneth L. Sendelweck, 2020**

*First Vice Chair*

Jasper, Indiana

**John M. Dunn, 2018**

Evansville, Indiana

**Ellis S. Redd, 2020**

Evansville, Indiana

**Ronald D. Romain, 2020**

*Second Vice Chair*

Evansville, Indiana

**Jeffrey L. Knight, 2019**

Evansville, Indiana

**Ted C. Ziemer, Jr., 2019**

Evansville, Indiana

## University Officers 2017–2018

**Linda L. M. Bennett**

*President*

**Cynthia S. Brinker**

*Senior Vice President for  
Government Relations*

**David A. Bower**

*Vice President for Development*

**Steven J. Bridges**

*Vice President for Finance and  
Administration and Treasurer*

**Ronald S. Rochon**

*Provost*

**Kindra L. Strupp**

*Vice President for Marketing  
and Communications*

**Andrew W. Wright**

*Vice President for Enrollment  
Management*

## Message from the President

Dr. Ronald S. Rochon  
*President*



As the new and fourth president of the University of Southern Indiana, I'm excited to be leading an institution that serves a thriving community of learners who continually seek to enhance their lives through education. Providing affordable intellectual growth opportunities to those wanting to improve their way of life was the basis for the University's founding 53 years ago, and we proudly continue to serve that mission today.

In our focus to transform individuals and serve the needs of area businesses, this year the institution has achieved remarkable advances through the creation of new degree programs, community partnerships, the continued construction of a new arena and the opening of the Fuquay Welcome Center this academic year.

USI's educational initiatives include three new degree programs in the Pott College of Science, Engineering, and Education: Bachelor of Science in Electrical Engineering, Bachelor of Science in Statistics and a Doctor of Education.

The new programs are in part a response to record growth

in our 13 graduate programs—a 22.5 percent increase, announced in September 2017—an area of growth that is expected to continue.

Our partnerships within the community and around the world also have expanded. In November 2017, the University entered an agreement with the National Secretariat of Science and Technology of Panama to provide scientific scholarship to undergraduate, degree-seeking Panamanians. As the recipient of the agreement, USI became one of only two public universities in the United States to host the program and welcomed its first cohort of students to campus this spring.

Other collaborations include: a joint initiative of three universities to establish the Stone Family Center for Health Sciences, offering USI graduate-level students the opportunity to learn inside a state-of-the-art medical facility in downtown Evansville; partnering with pioneering geriatrician, Dr. Bill Thomas, to bring his Minka project to campus as a model of a high-tech home designed as an alternative to nursing homes; and the completion of a successful first year of a project with Crane Naval Surface Warfare Center to establish a Technician-to-Engineer degree that allows Crane employees to earn a USI education while working and attending classes near the Crane facilities.

These are just a few illustrations of how USI continues to hold true to its mission. This financial report showcases the many ways in which USI continues to be an engaged community as well as a responsible steward of resources. I'm proud of this institution and its people and all that we achieve, and we are grateful for the continued support we receive.

A handwritten signature in black ink that reads "Ronald S. Rochon". The signature is written in a cursive, flowing style.

Ronald S. Rochon, Ph.D.  
*President*

## Message From The Vice President and Treasurer

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

I am pleased to present the University of Southern Indiana's audited financial report for the fiscal year ended June 30, 2018, including the unmodified opinion, which appears on pages 4 through 6. In 2018, the University continued its trend of positive financial performance based on business operations built upon a strong and rich history of proven financial practices. This measured approach positions USI to continue to provide programs and activities which positively contribute to the institutional mission—both academically and financially—that in turn ensures students' successes.

As an institution founded on the motto *education for the people, education by the people*, the University remains true to its roots of serving the community as evident in State performance metrics which illustrate how USI is aligned with the goals and objectives of students, parents and the State of Indiana. A recently completed campus master plan provides the direction for the University's physical footprint for the next 10 years. This annual report demonstrates the University's position to continue to impact local, regional, national and international students, stakeholders and the community.

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

### **Steve Bridges**

*Vice President for Finance and Administration  
and Treasurer*



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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the financial statements of the business-type activities and the discretely presented component unit of the University of Southern Indiana (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the Table of Contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Southern Indiana Foundation, Inc. (Foundation), a component unit of the University as described 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 auditor. 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.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

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

***Unmodified 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, 2018 and 2017, 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.

***Emphasis of Matter***

As discussed in Note 15 to the financial statements, in fiscal year 2018, the University adopted new accounting guidance GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinion is not modified with respect to these matters.

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying Board of Trustees, University Officers, Message from the President, Message from the Vice President and Treasurer, Additional Information about the University, and Home Counties of USI Undergraduate and Graduate Students Fall 2017 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Board of Trustees, University Officers, Message from the President, Message from the Vice President and Treasurer, Additional Information about the University, and Home Counties of USI Undergraduate and Graduate Students Fall 2017 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 it.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, 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, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the University's 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, 2018



# Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University of Southern Indiana (the University or USI) during the fiscal year ended June 30, 2018, and compares that performance with data from prior fiscal periods. It is designed to focus on current activities, resulting changes, and currently known facts. It is intended to answer questions that may result from the review of the information presented in the financial statements and to explain the financial position of the University. The information presented in the financial statements, the notes to the financial statements, and the discussion and analysis are the responsibility of management.

## Using the Annual Report

This annual report consists of a series of financial statements prepared from an entity-wide focus in accordance with the Governmental Accounting Standards Board Statement (GASB) 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. These statements focus on the financial condition, the results of operations, and the cash flows of the University as a whole.

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

## Statement of Net Position

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

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

## Assets

Current assets at June 30, 2018, consist of cash and cash equivalents, short-term investments, amounts due from the State of Indiana, receivables net of allowances, inventory, and deposits with bond trustee in addition to lesser-valued resources like prepaid expenses and accrued interest that are grouped together and listed under the term "Other". Noncurrent assets include capital assets net of depreciation, long-term investments, and deposits with bond trustee.

Total assets increased \$14.3 million (4.7 percent) in 2017-18 compared to a \$5.2 million increase (1.7 percent) in 2016-17 and a \$5.1 million (1.7 percent) increase in 2015-16. The current-year activity is summarized by the following events.

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

## Deferred Outflow of Resources

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

## Liabilities

Current liabilities at June 30, 2018, are primarily composed of accrued payroll, related benefits and deductions along with the current portion of bonds payable. Also included are accounts payable, the current portion of leases payable, debt interest payable, unearned revenues, and other miscellaneous liabilities. Noncurrent liabilities are predominately bonds payable, other postemployment benefits, and the University's share of the net pension liability for the Public Employees' Retirement Fund (PERF). Also included are leases payable, derivative instruments-interest rate swaps for Series 2006 and Series 2008A hedgeable financial derivatives, compensated absences, termination benefits, and miscellaneous other long-term liabilities.

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

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

## Deferred Inflow of Resources

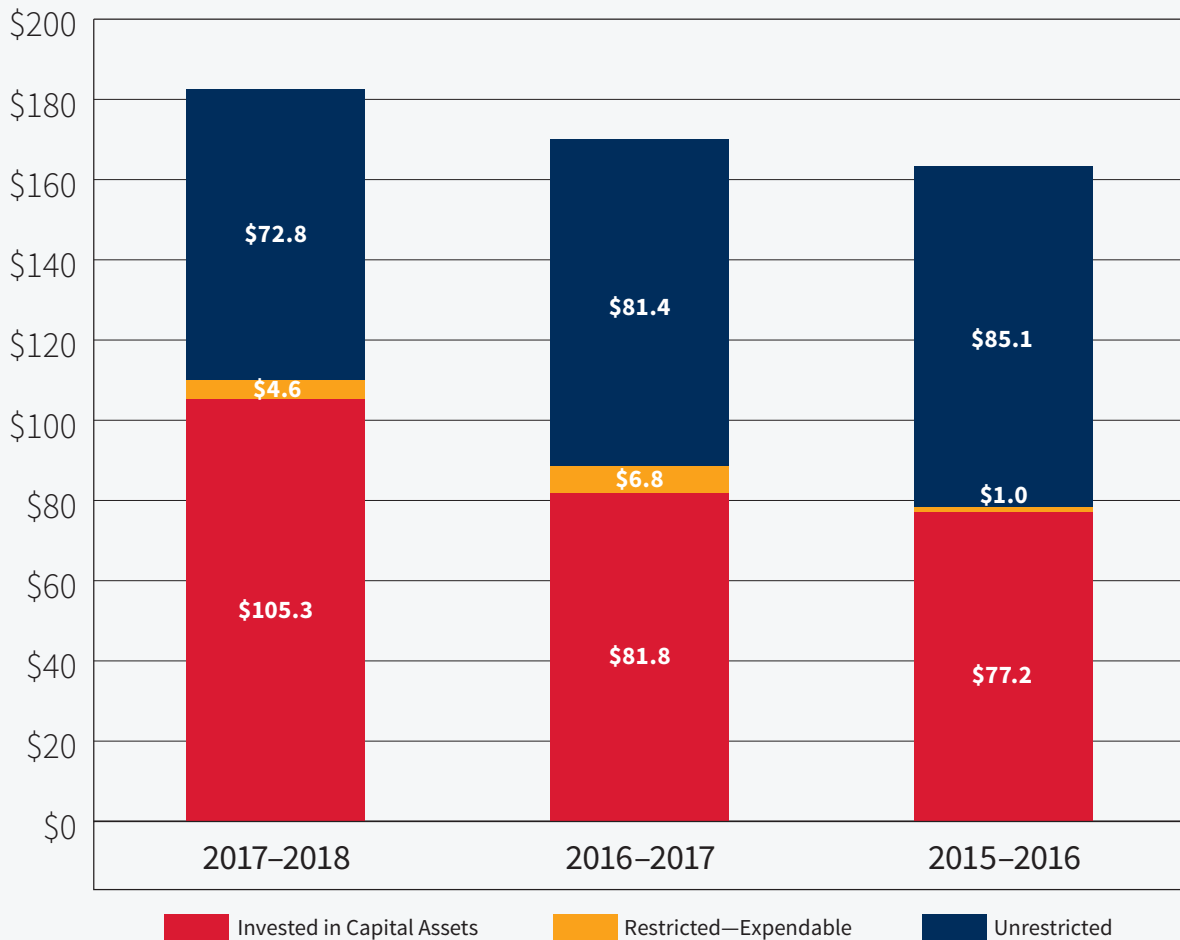
Deferred inflow of resources increased by \$1.8 million in 2017-18 compared to a \$188,000 increase in 2016-17 and a \$168,000 decrease in 2015-16. The \$2.1 million addition of deferred inflow of resources related to OPEB that resulted from the implementation of GASB Statement 75 was offset partially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

## Net Position

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

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

### ANALYSIS OF NET ASSETS (IN MILLIONS)



## Statement of Revenues, Expenses, and Changes in Net Position

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

Activities are reported as either operating or non-operating. Student fees and revenues from auxiliary enterprises are the major sources of operating income. Operating income is reduced by discounts and allowances for scholarships, room, and board. Discounts and allowances are institutional resources provided to students as financial aid up to and equal to the amounts owed by the students to the institution.

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

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

### Revenues

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

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

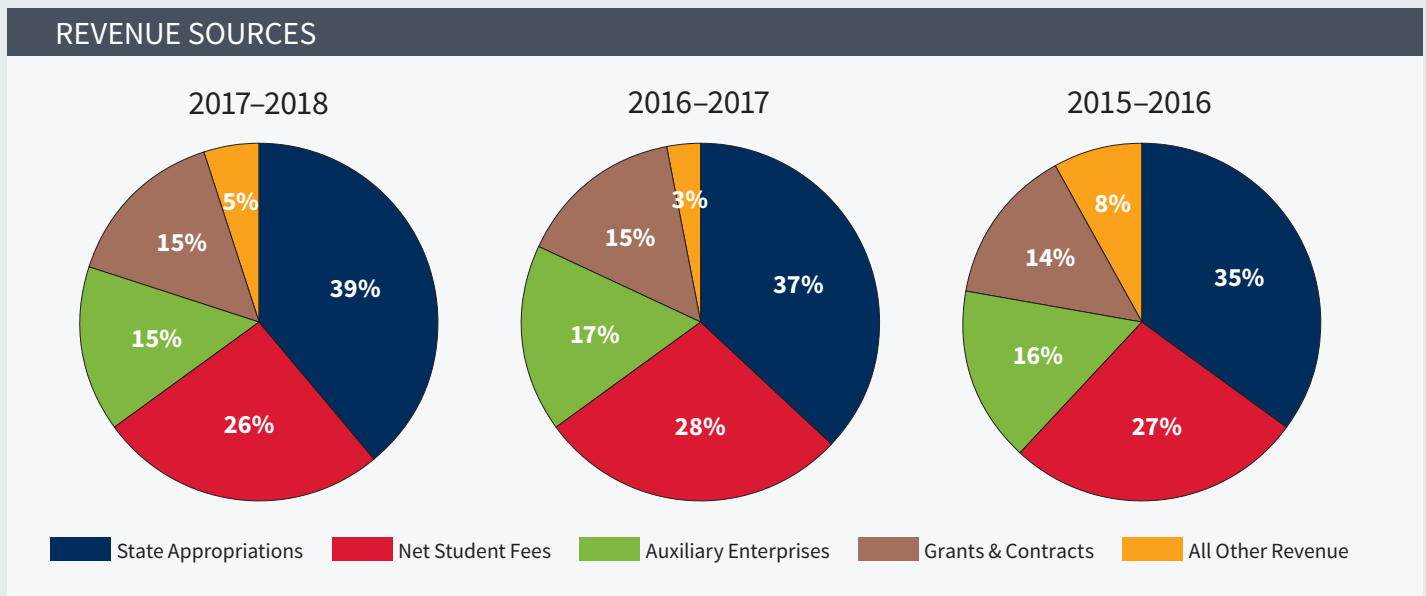
Non-operating revenues increased by \$4.4 million (5.5 percent) during 2017-18 to \$84.7 million following a decrease of \$1.9 million (2.3 percent) in 2016-17 and a \$1.2 million (1.4 percent) gain in 2015-16. The following elements contributed to the growth in the current fiscal year.

- State appropriations grew from \$54.1 million in 2016-17 to \$55.1 million in 2017-18.
- Non-operating gift income, which comes almost entirely from the USI Foundation, rose to \$3.9 million, an increase of \$523,000 from 2016-17.
- State and local grants increased by \$1.9 million as the result of an increase in funds received from the State of Indiana for student financial assistance.

- Net investment income rose more than \$549,000 to nearly \$681,000 for 2017-18 as the University benefited from reinvesting funds during a rising interest-rate environment.
- Cumulative changes in all other non-operating revenues totaled approximately \$400,000.

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

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



### Expenses

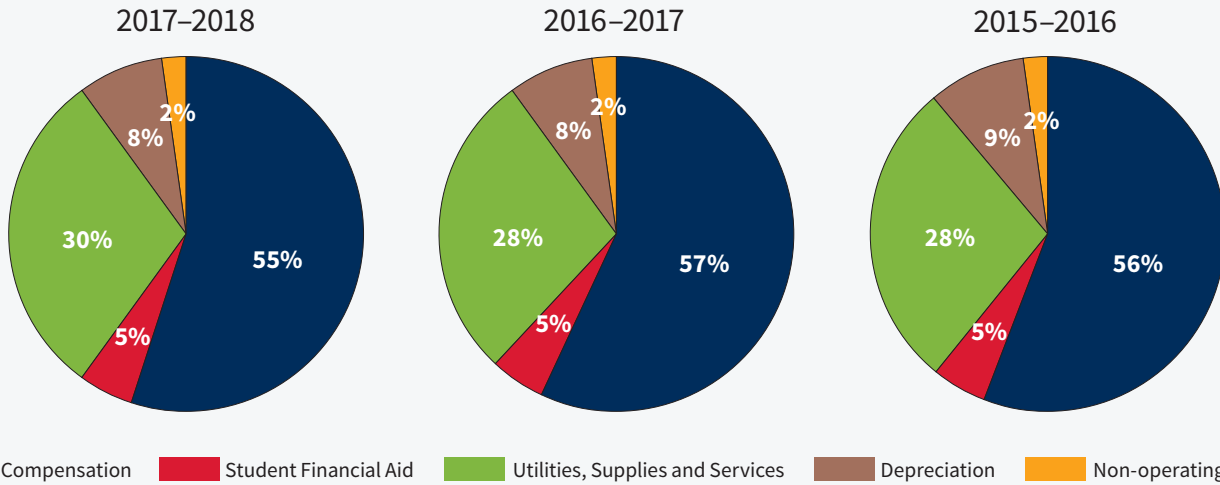
Operating expenses increased \$1.7 million (1.1 percent) in 2017-18 compared to a \$6.4 million (4.3 percent) increase in 2016-17 and a \$7.7 million (5.4 percent) increase in 2015-16. The following expenses contributed to the current-year increase.

- Compensation, which includes salaries, wages, and benefits, comprised \$88.7 million (56.1 percent) of total operating expenses and decreased \$1.6 million (1.8 percent) from 2016-17. While salaries and wages increased slightly by \$705,000, benefits declined by \$2.3 million.
- Student financial assistance expenses increased by \$1.2 million as the University received more dollars for Pell Grants and other forms of refundable financial aid compared to 2016-17.
- Supplies and other services increased by \$2.6 million (6.7 percent) in 2017-18 compared to a \$2.3 million (6.2 percent) increase in 2016-17 and a \$4.2 million (12.9 percent) increase in 2015-16. This category includes but is not limited to contracted and professional services, classroom and lab supplies, software, access fees for electronic databases and publications, travel, facility maintenance, equipment maintenance, and non-capital equipment. Contracted and professional services to support institutional projects and payments for student meal plans accounted for a significant portion of the increase.
- Utilities and depreciation decreased by \$543,000 collectively.

Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures decreased by \$703,000 (20 percent) in 2017-18 after decreases of \$392,000 (10 percent) in 2016-17 and \$636,000 (14 percent) in 2015-16. The trend is driven by a decline in debt interest costs as the University has refunded debt to take advantage of lower interest rates over time.

Total expenses (operating and non-operating) increased modestly by \$967,000 (.6 percent) in 2017-18 after growing by \$6 million in 2016-17 and by \$7 million in 2015-16. The composition of total expenses for all three years is depicted by major categories in the graph below.

**EXPENSE PURPOSES**



**Change in Net Position**

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

**Statement of Cash Flows**

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

This statement identifies the sources and uses of cash and equivalents throughout the fiscal year and informs the user how much cash was used by or provided by the following activities: operating, noncapital financing, capital financing, and investing. The chart below shows the University's sources, uses and changes in cash and cash equivalents for the three most recent fiscal years ended June 30.

<b>CONDENSED STATEMENT OF CASH FLOWS</b>			
Year Ended June 30 (in thousands of dollars)	2018	2017	2016
Net cash (used) provided by			
Operating activities	\$(64,096)	\$(62,078)	\$(58,764)
Noncapital financing activities	84,080	79,410	83,034
Capital financing activities	(21,142)	(19,170)	(19,315)
Investing activities	1,078	(7,322)	3,795
<b>Net increase (Decrease) in Cash</b>	<b>\$ (80)</b>	<b>\$ (9,160)</b>	<b>\$ 8,750</b>

**Operating activities**

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

**Noncapital financing activities**

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

## Capital financing activities

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

## Investing activities

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

## Summary of Statement of Cash Flows

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

## Factors Affecting Future Periods

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

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

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

The 2017 Indiana General Assembly authorized \$41 million in bonding authority to the University for the Physical Activity Center — Classroom Expansion and Renovation – Phase II. In September 2018, the USI Board of Trustees Finance/Audit Committee approved the issuance of Series M bonds to finance the project with Stifel, Nicolaus & Company as the senior manager and Piper Jaffray as the co-manager. Phase I of the project is underway and scheduled to be completed in early 2019. Phase II will follow immediately thereafter with issuance of the bonds expected to occur during the first quarter of the 2019 calendar year.

In March 2018, the SmithGroup presented recommendations from the master planning process to the USI Board of Trustees. Five key planning themes emerged from the process: Enrich the Academic Experience, Transform Student Life, Celebrate Campus Spirit, Strengthen Campus Identity, and Improve Support Facilities. The master planning process considered a wide variety of factors, including but not limited to projected enrollment growth, space utilization, the condition of existing space, campus-wide space needs, and strategies for student housing and dining. The completed master plan will provide the University with an integrated campus plan to support and inform the current strategic plan and future iterations.

The Indiana Commission for Higher Education approved the University's proposal to offer a Bachelor of Science in Electrical Engineering (BSEE) program at its meeting on March 8, 2018. This program, housed in the Pott College of Science, Engineering, and Education, began in the fall 2018 semester. The BSEE program will offer students hands-on learning experiences, opportunities to participate in co-operative education and internships, and student organizations that participate in national engineering competitions. Indiana's Department of Workforce Development website projects that growth in electrical engineering jobs will be 3 percent for the state and 7.3 percent for the Evansville area through 2024.

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

The University, alongside the Indiana University School of Medicine and the University of Evansville, officially marked the opening of the Stone Family Center for Health Sciences at a ceremony in downtown Evansville on August 9, 2018. USI classes in the Stone Center began with the start of the fall 2018 semester on Monday, August 20. A collaborative effort between the three universities, the Stone Center will hold the Indiana University School of Medicine – Evansville as well as programs for both the University of Evansville and USI. More than 250 USI graduate-level students in the Masters of Science in Occupational Therapy, Masters of Science in Nursing and Doctor of Nursing Practice programs, and 120 undergraduate, senior nursing students will utilize the Stone Center. Bill Stone, along with his wife Mary, donated \$15 million in support of the mission and collaboration between the Universities and hospital partners. Completion of this project will allow USI to renovate and expand the Health Professions Center currently occupied by the Indiana University School of Medicine. Proceeds from the issuance of Series L-1 bonds were used to begin renovations on available space in spring 2017, and the remaining space is undergoing renovation now that the IU School of Medicine has moved to the new facility.

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

The University continues to monitor the pending replacement of the London Interbank Offered Rate (LIBOR) by the end of 2021. As outlined in the *Notes to Financial Statements*, the derivative instruments associated with the Series 2006 and Series 2008A bonds use LIBOR as their index. Because the debt associated with the Series 2008A bonds will be repaid by October 2021, the University expects minimal impact. However, the debt associated with the Series 2006 bonds requires greater attention because those bonds do not mature until January 2028. The University will consult bond counsel, municipal advisors, and other experts during the next two years to determine the best course of action once a clear replacement strategy emerges.

The University continues its history of strong financial performance. The institution has no deferred maintenance and maintains a pricing strategy that allows flexibility. Further, the University is supported by a state that ended 2018 with a budget surplus of \$100.4 million and a budget reserve of nearly \$1.8 billion. Currently, USI carries an A1 rating on student fee debt and an A2 rating on auxiliary system debt from Moody's Investors Service with a favorable outlook.

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



## Statement of Net Position

<b>As of June 30</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 17,561,947	\$ 17,641,471
Short-term investments	34,219,423	20,375,311
Accounts receivable, net	10,713,442	10,172,146
Due from the State of Indiana	3,336,727	671,424
Inventories	1,332,283	1,550,701
Deposits with bond trustee	3,535,159	8,018,871
Other current assets	3,014,833	2,009,103
<b>Total current assets</b>	<b>\$ 73,713,814</b>	<b>\$ 60,439,027</b>
<b>Noncurrent Assets</b>		
Long-term investments	\$ 49,838,857	\$ 64,090,712
Deposits with bond trustee	119,826	106,120
Capital assets, net	195,978,954	180,762,147
<b>Total noncurrent assets</b>	<b>\$245,937,637</b>	<b>\$244,958,979</b>
<b>Total Assets</b>	<b>\$319,651,451</b>	<b>\$305,398,006</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Hedging derivative instruments	\$ 699,804	\$ 1,215,237
Deferred outflow of resources related to pensions	2,452,556	3,405,907
Deferred outflow of resources related to OPEB	992,854	—
<b>Total deferred outflow of resources</b>	<b>\$ 4,145,214</b>	<b>\$ 4,621,144</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,215,595	\$ 1,760,803
Accrued payroll, benefits, and deductions	5,660,260	6,544,838
Notes, bonds, and leases payable	9,053,420	8,664,611
Debt interest payable	647,502	690,057
Unearned revenue	1,859,044	1,406,893
Other current liabilities	518,243	593,547
<b>Total current liabilities</b>	<b>\$ 19,954,064</b>	<b>\$ 19,660,749</b>
<b>Noncurrent Liabilities</b>		
Notes, bonds, and leases payable	\$ 81,288,294	\$ 90,037,044
Derivative instruments—interest rate swap	699,804	1,215,237
Other postemployment benefits	26,045,725	17,487,663
Compensated absences and termination benefits	3,036,111	2,959,029
Net pension liability	7,135,346	7,449,403
Other noncurrent liabilities	6,181	21,663
<b>Total noncurrent liabilities</b>	<b>\$118,211,461</b>	<b>\$119,170,039</b>
<b>Total Liabilities</b>	<b>\$138,165,525</b>	<b>\$138,830,788</b>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred inflow of resources related to pensions	\$ 838,474	\$ 1,131,279
Deferred inflow of resources related to OPEB	2,062,209	—
<b>Total deferred inflow of resources</b>	<b>\$ 2,900,683</b>	<b>\$ 1,131,279</b>
<b>NET POSITION</b>		
Net investment in capital assets	\$105,308,076	\$ 81,770,230
Restricted		
Expendable		
Capital Project	4,509,133	6,668,424
Debt Service	107,802	120,460
Scholarship, research, and other	14,978	36,489
Unrestricted	72,790,468	81,461,480
<b>Total Net Position</b>	<b>\$182,730,457</b>	<b>\$170,057,083</b>

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

## Component Unit

University of Southern Indiana Foundation  
Consolidated Statements of Financial Position

Year Ended June 30	2018	2017
<b>ASSETS</b>		
Cash	\$ 1,052,106	\$ 1,014,881
Accounts and interest receivable	113,973	108,232
Contributions receivable, net	6,300,954	7,002,462
Prepaid expenses	85,079	16,204
Investments	122,664,419	109,990,550
Cash value of life insurance	468,736	457,503
Beneficial interest in charitable remainder trusts	792,619	766,355
Beneficial interest in perpetual trusts	4,107,062	4,087,012
Beneficial interest in Community Foundation	64,605	62,269
Real estate held for investment	2,471,215	2,471,215
Land	246,338	246,338
Buildings, net of accumulated depreciation; 2018 – \$490,310; 2017 – \$450,095	341,421	381,637
Property management deposits	5,570	5,120
<b>Total assets</b>	<b>\$138,714,097</b>	<b>\$126,609,778</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 46,287	\$ 51,696
Deposits	5,570	5,120
Deferred income	2,350	1,273
Payable to related parties	3,486,272	1,320,931
Annuities payable	1,625,899	1,705,018
<b>Total liabilities</b>	<b>\$ 5,166,378</b>	<b>\$ 3,084,038</b>
<b>Net Assets</b>		
Unrestricted	\$ 15,465,639	\$ 15,225,109
Temporarily restricted	70,985,214	62,574,723
Permanently restricted	47,096,866	45,725,908
<b>Total net assets</b>	<b>\$133,547,719</b>	<b>\$123,525,740</b>
<b>Total liabilities and net assets</b>	<b>\$138,714,097</b>	<b>\$126,609,778</b>

## Statement of Revenues, Expenses, and Changes in Net Position

Fiscal Year Ended June 30	2018	2017
<b>REVENUES</b>		
<b>Operating Revenues</b>		
Student fees	\$ 75,943,536	\$ 70,253,620
Scholarship discounts and allowances	(27,788,090)	(24,434,934)
Grants and contracts	1,619,316	2,121,487
Auxiliary enterprises	28,310,566	28,560,779
Room and board discounts and allowances	(1,184,605)	(811,070)
Other operating revenues	2,854,146	2,852,746
Total operating revenues	\$ 79,754,869	\$ 78,542,628
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
Salaries and wages	\$ 64,108,731	\$ 63,403,236
Benefits	24,548,827	26,856,863
Student financial aid	8,680,395	7,518,308
Utilities	5,293,901	5,574,125
Supplies and other services	42,055,964	39,401,716
Depreciation	13,315,767	13,579,006
Total operating expenses	\$158,003,585	\$156,333,254
Operating loss	\$ (78,248,716)	\$ (77,790,626)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 55,118,066	\$ 54,051,765
Gifts	3,942,298	3,419,324
Federal grants and contracts	12,964,254	12,564,307
State/Local grants and contracts	11,070,063	9,202,081
Nongovernmental grants and contracts	886,680	919,021
Investment income (net of investment expense of \$67,109 and \$68,103 for 2018 and 2017)	680,707	131,247
Interest on capital asset related debt	(2,744,441)	(3,217,324)
Bond issuance costs	(5,000)	(232,791)
Other non-operating revenues/(expenses)	(43,777)	(46,109)
Net non-operating revenues (expenses)	\$ 81,868,850	\$ 76,791,521
Income before other revenues, expenses, gains or losses	\$ 3,620,134	\$ (999,105)
Capital appropriations	\$ 16,425,545	\$ 7,668,289
Capital grants and gifts	2,051,000	10,200
Total other revenues	\$ 18,476,545	\$ 7,678,489
Increase in net position	\$ 22,096,679	\$ 6,679,384
<b>NET POSITION</b>		
Net position – beginning of year	\$170,057,083	\$163,377,699
Prior period adjustment for change in accounting principle	(9,423,305)	—
<b>Net position – end of year</b>	<b>\$182,730,457</b>	<b>\$170,057,083</b>

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

## Component Unit

## University of Southern Indiana Foundation

## Consolidated Statements of Activities

Year Ended June 30	2018	2017
<b>REVENUES AND OTHER SUPPORT</b>		
Contributions	\$ 6,133,656	\$ 2,898,722
Grants	216,154	203,742
Change in value of split-interest agreements	(121,681)	(97,917)
Rental income, net	18,584	11,903
Miscellaneous income	201,423	237,972
Reclassification of donor intent	—	—
Net assets released from restrictions	—	—
<b>Total revenues and other support</b>	<b>\$ 6,448,136</b>	<b>\$ 3,254,422</b>
<b>EXPENSES</b>		
Programs – University of Southern Indiana		
Scholarships and awards	\$ 2,785,614	\$ 2,564,152
Educational grants and academic enhancements	1,551,338	1,589,131
Athletic support	129,179	109,852
Other University support	522,536	536,854
Capital projects	2,062,030	15,250
Community outreach	14,282	13,316
<b>Total program services</b>	<b>\$ 7,064,979</b>	<b>\$ 4,828,555</b>
Management and general	\$ 683,567	\$ 660,064
Fundraising	229,944	254,206
Uncollectible pledge loss	2,535	71,780
<b>Total expenses</b>	<b>\$ 7,981,025</b>	<b>\$ 5,814,605</b>
<b>OTHER CHANGES</b>		
Investment income, net	\$ 11,493,652	\$ 14,844,422
Change in value of beneficial interest in trusts and Community Foundation	22,386	238,825
Mineral royalty income	27,597	22,937
Loss on disposal of property held for sale	—	(7,322)
Gain on cash value of life insurance	11,233	88,057
<b>Total other changes</b>	<b>\$ 11,554,868</b>	<b>\$ 15,186,919</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 10,021,979</b>	<b>\$ 12,626,736</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>\$123,525,740</b>	<b>\$110,899,004</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$133,547,719</b>	<b>\$123,525,740</b>

# Statement of Cash Flows

Year Ended June 30	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 49,656,692	\$ 46,302,404
Grants and contracts	1,750,161	2,004,420
Payments to suppliers	(41,432,327)	(39,962,011)
Payments for utilities	(5,293,901)	(5,574,125)
Payments to employees	(64,101,943)	(63,403,801)
Payments for benefits	(24,812,508)	(25,412,804)
Payments for scholarships	(8,680,395)	(7,518,308)
Collection of loans to students and employees	5,676	4,730
Auxiliary enterprises receipts	26,819,248	27,927,064
Sales and services of educational depts.	1,200,130	841,443
Other receipts (payments)	793,010	2,713,266
<b>Net cash used by operating activities</b>	<b>\$(64,096,157)</b>	<b>\$(62,077,722)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 55,118,066	\$ 54,051,765
Gifts and grants for other than capital purposes	28,988,210	25,403,794
Other non-operating receipts (payments)	(25,731)	(45,895)
<b>Net cash provided by noncapital financing activities</b>	<b>\$ 84,080,545</b>	<b>\$ 79,409,664</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from capital debt	\$ —	\$ 39,445,000
Capital appropriations	13,760,243	10,311,833
Capital grants and gifts	356,534	10,200
Bond financing costs	(48,778)	(278,899)
Purchase of capital assets	(28,481,926)	(15,536,379)
Principal paid on capital debt	(8,663,385)	(39,033,870)
Interest paid on capital debt and leases	(2,534,199)	(6,380,132)
Deposits with trustees	4,470,006	(7,708,131)
<b>Net cash used by capital financing activities</b>	<b>\$(21,141,505)</b>	<b>\$(19,170,378)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$ 39,516,758	\$ 40,751,455
Interest on investments	1,314,956	718,855
Purchase of investments	(39,754,121)	(48,792,372)
<b>Net cash provided by investing activities</b>	<b>\$ 1,077,593</b>	<b>\$ (7,322,062)</b>
Net increase (decrease) in cash	\$ (79,524)	\$ (9,160,498)
Cash – beginning of year	17,641,471	26,801,969
<b>Cash – end of year</b>	<b>\$ 17,561,947</b>	<b>\$ 17,641,471</b>

# Statement of Cash Flows—continued

Year Ended June 30	2018	2017
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$(78,248,716)	\$(77,790,626)
<b>ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Depreciation expense	13,315,767	13,579,006
Provision for uncollectible accounts	655,938	(61,055)
<b>CHANGES IN ASSETS, LIABILITIES, AND DEFERRED RESOURCES:</b>		
Operating receivables	372,317	2,275,992
Inventories	218,418	(180,132)
Other assets	(1,000,550)	(1,063,212)
Accounts payable	(479,360)	(1,141,759)
Unearned revenue	452,151	95,708
Deposits held for others	(15,482)	(1,463)
Employee and retiree benefits	627,684	2,205,089
Loans to students	5,676	4,730
<b>Net cash used by operating activities:</b>	<b>\$(64,096,157)</b>	<b>\$(62,077,722)</b>
<b>NONCASH TRANSACTIONS</b>		
Unrealized gain/(loss) on short-term investments	\$(70,970)	\$(31,956)
Unrealized gain/(loss) on long-term investments	(574,135)	(534,067)
Equipment	50,648	199,602
Capital lease	(50,648)	(199,602)
Bonds payable — LT and ST Series J	—	3,458,558
Bonds payable — LT and ST Series L	—	(3,458,558)
<b>Net noncash transactions</b>	<b>\$ (645,105)</b>	<b>\$ (566,023)</b>

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



## Component Unit

## University of Southern Indiana Foundation

## Consolidated Statements of Cash Flows

Year Ended June 30	2018	2017
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$10,021,979	\$12,626,736
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Net realized gain on sale of investments	(9,093,814)	(3,286,143)
Loss on disposal of property held for sale	—	7,322
(Increase) decrease in cash value of life insurance	(11,233)	61,513
Gain on beneficial interest investments	(48,649)	(290,367)
Contributions and receipts on contributions receivable restricted for long-term investment	(589,879)	(325,378)
Depreciation	40,216	40,216
Unrealized gain on investments	(164,458)	(9,342,150)
Changes in		
Accounts and interest receivable	(5,741)	(24,220)
Contributions receivable	379,813	731,975
Prepaid expenses	(68,875)	2,803
Accounts payable and payable to related parties	2,159,932	(1,536,819)
Annuities payable	(79,119)	(83,984)
Deferred income	1,077	(3,847)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 2,541,249</b>	<b>\$ (1,422,343)</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from the disposal of property held for sale	\$ —	\$ 297,984
Purchase of land and buildings	—	(100,000)
Purchase of property improvements	—	(6,345)
Purchase of investments	(35,834,823)	(43,688,042)
Sales and maturities of investments	32,419,224	44,524,086
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (3,415,599)</b>	<b>\$ 1,027,683</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for endowment and long-term purposes		
Investment in scholarships and awards	\$ 812,952	\$ 519,457
Investment in education and academic enhancements	98,297	89,740
Investment in other University support	326	—
<b>Net cash provided by financing activities</b>	<b>\$ 911,575</b>	<b>\$ 609,197</b>
Increase in Cash	\$ 37,225	\$ 214,537
Cash, Beginning of Year	1,014,881	800,344
<b>Cash, End of Year</b>	<b>\$ 1,052,106</b>	<b>\$ 1,014,881</b>



# Notes to Financial Statements

## NOTE 1 – Summary of Significant Accounting Policies

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

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

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

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

## Accounting Methods and Policies

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

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

## Restricted and Unrestricted Resources

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

## Operating Revenues and Expenses

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

## Non-operating Revenues and Expenses

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

## Cash and Cash Equivalents

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

## Investments

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

## Accounts Receivable

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

## Inventory

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

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

## Capital Assets Accounting Policies

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

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

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

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



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

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

The University owns a collection of museum exhibit items located in Historic New Harmony. The collection consists of 2,800 objects that are primarily 19th century decorative arts, furniture, prints, medical equipment, and textiles. The collection consists of both donated and purchased items. Historic New Harmony does not place a monetary value on the collection because the museum is organized as a public trust which acts as a steward for the public in collecting, protecting, preserving, and interpreting objects. A well-documented inventory is maintained, but the value is unknown and therefore not included in the capitalized asset value at June 30, 2018.

The University owns a permanent art collection whose primary function and aim is education in accordance with one element of the University's mission: to enhance the cultural awareness of its students, faculty, staff, and the citizens of southwestern Indiana. The collection consists of both donated and purchased items. Some of the donated pieces were received without appraised values. Collection pieces, which have been appraised or otherwise valued, total \$2,859,525. The currently known value is not included in the capitalized asset value at June 30, 2018.

## Net Pension Liability

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

## Other Postemployment Benefits (OPEB)

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

## Deferred Outflows and Deferred Inflows

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

## Net Position

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

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

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

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

## Component Unit

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

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

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

Direct support from the Foundation for both restricted and unrestricted purposes is included in the amounts reported for gifts and capital gifts on the Statement of Revenues, Expenses, and Changes in Net Position. Complete financial statements, including explanatory notes, for the Foundation can be obtained from the Office of the Vice President for Finance and Administration at 8600 University Boulevard, Evansville, IN 47712.

## NOTE 2 – Deposits and Investments

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

**Deposits** – At June 30, 2018, the bank balances of the University’s operating demand deposit accounts were \$17,603,624, of which \$1,095,126 was covered by federal depository insurance. The bank balances of the University’s operating demand deposit accounts were \$12,127,220 at June 30, 2017, of which \$846,367 was covered by federal depository insurance. The remaining balances were insured by the Public Deposit Insurance Fund, which covers all public funds held in approved Indiana depositories. None of these funds were exposed to custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or collateral securities that are in the possession of an outside party.

**Investments** – The University’s investments at June 30, 2018, are identified in the table below.

INVESTMENTS						
Investment Type	Market Value	Type %	Investment Maturities (in Years)			
			Less than 1 year	1–5 years	6–10 years	More than 10 years
Certificates of deposit	33,449,586	40%	22,622,455	10,827,131	—	—
Agency securities	46,956,458	56%	11,596,968	32,638,246	2,563,049	158,195
U.S. Treasury securities	3,652,236	4%	—	3,652,236	—	—
<b>Totals</b>	<b>\$84,058,280</b>	<b>100%</b>	<b>\$34,219,423</b>	<b>\$47,117,613</b>	<b>\$2,563,049</b>	<b>\$158,195</b>
Maturity %	100%		41%	56%	3%	0%

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

INVESTMENTS						
Investment Type	Market Value	Type %	Investment Maturities (in Years)			
			Less than 1 year	1–5 years	6–10 years	More than 10 years
Certificates of deposit	33,562,439	40%	16,339,209	17,223,230	—	—
Agency securities	47,993,319	57%	4,030,229	39,022,579	4,747,810	192,701
U.S. Treasury securities	2,910,265	3%	5,874	2,904,391	—	—
<b>Totals</b>	<b>\$84,466,023</b>	<b>100%</b>	<b>\$20,375,312</b>	<b>\$59,150,200</b>	<b>\$4,747,810</b>	<b>\$192,701</b>
Maturity %	100%		24%	70%	6%	0%

**Investment custodial credit risk** – This is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University investment policy does not contain legal or policy requirements which limit exposure to custodial credit risk for deposits or investments, but preference is given to Indiana institutions based on the additional insurance coverage provided by the State. Of the \$84.1 million invested at June 30, 2018, \$50.6 million in U.S. securities were held in the name of the nominee bank and insured by policies of the financial institution or guarantees of the U.S. government. Of the \$84.5 million invested at June 30, 2017, \$50.9 million in U.S. securities were held in the name of the nominee bank and insured by policies of the financial institution or guarantees of the U.S. government. All certificates of deposit are insured by FDIC/SAIF, the Public Deposit Insurance Fund, or collateral as required by federal regulations.

**Interest rate risk** – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The University’s investment policy does not address exposure to fair value losses arising from changes in interest rates, but the investment objective is to obtain the highest revenue while maintaining safety and insuring adequate liquidity for institutional needs. To that end, management maintained 41 percent of investments in short-term investments to be in a position to take advantage of the best rates in a timely fashion as well as sustaining adequate cash flow for operating needs.

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy for credit risk. Of the \$84.1 million in investments at June 30, 2018, \$51.9 million were rated Aaa by Moody’s

Investors Service, and \$32.2 million in investments were unrated. At June 30, 2017, \$54.7 million in investments were rated Aaa by Moody's Investors Service, and \$29.8 million were unrated. The unrated investments include Certificates of Deposit and other Treasury and Agency securities without ratings.

**Concentration of credit risk** – This is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy limits the investments in any one Indiana institution to 25 percent of the total portfolio of certificate of deposits and repurchase agreements as valued at the end of the preceding month. At June 30, 2018, and June 30, 2017, the University is in compliance with that policy.

Investments not explicitly guaranteed by the U.S. government are subject to disclosure if any one issuer represents five percent or more of total investments. The \$3.7 million invested in U.S. Treasury Securities at June 30, 2018, and \$2.9 million invested in U.S. Treasury Securities at June 30, 2017, were the only investments explicitly guaranteed. The following investments are neither guaranteed nor insured by the full faith and credit of the U.S. Treasury.

June 30, 2018					
Bank	Certificates of Deposit	Percentage of CDs	US Agency Securities	Total	Percentage of Total
Banterra Bank	1,037,236	3%	—	1,037,236	1%
Boonville Fed Savings	705,253	2%	—	705,253	1%
Evansville Commerce Bank	2,602,621	8%	—	2,602,621	3%
Fifth Third Bank	2,824,543	8%	29,556,962	32,381,505	40%
First Federal Savings Bank	2,328,486	7%	—	2,328,486	3%
First Financial Bank	4,087,173	12%	—	4,087,173	5%
First Security Bank	4,073,422	12%	—	4,073,422	5%
German American Bank	4,474,380	13%	2,563,283	7,037,663	9%
J P Morgan	531,912	2%	—	531,912	1%
Legence Bank	1,259,305	4%	—	1,259,305	1%
Lynnville National Bank	102,691	1%	—	102,691	1%
Old National Bank	3,733,868	11%	9,252,746	12,986,614	16%
PNC Bank	888,711	3%	3,978,116	4,866,827	6%
Regions Bank	3,027,731	9%	1,605,351	4,633,082	6%
United Fidelity Bank	1,772,254	5%	—	1,772,254	2%
<b>Total</b>	<b>\$33,449,586</b>	<b>100%</b>	<b>\$46,956,458</b>	<b>\$80,406,044</b>	<b>100%</b>

June 30, 2017					
Bank	Certificates of Deposit	Percentage of CDs	US Agency Securities	Total	Percentage of Total
Banterra Bank	1,017,126	3%	—	1,017,126	1%
Boonville Fed Savings	936,066	3%	—	936,066	1%
Evansville Commerce Bank	2,001,751	6%	—	2,001,751	2%
Fifth Third Bank	3,882,036	12%	31,475,633	35,357,669	43%
First Federal Savings Bank	2,439,997	7%	—	2,439,997	3%
First Financial Bank	4,024,214	12%	—	4,024,214	5%
First Security Bank	4,016,010	12%	—	4,016,010	5%
German American Bank	4,724,350	14%	2,269,587	6,993,937	8%
J P Morgan	1,650,211	5%	—	1,650,211	2%
Legence Bank	2,309,645	7%	—	2,309,645	3%
Lynnville National Bank	445,807	1%	—	445,807	1%
Old National Bank	3,269,010	10%	8,720,155	11,989,165	15%
PNC Bank	800,007	2%	4,005,192	4,805,199	6%
Regions Bank	754,169	2%	1,522,752	2,276,921	3%
United Fidelity Bank	1,292,040	4%	—	1,292,040	2%
<b>Total</b>	<b>\$33,562,439</b>	<b>100%</b>	<b>\$47,993,319</b>	<b>\$81,555,758</b>	<b>100%</b>

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

### NOTE 3 – Fair Value of Assets and Liabilities

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

- Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date
- Level 2** Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly
- Level 3** Unobservable inputs for an asset or liability

The following table presents value of University deposits and investments as reported in the accompanying Statement of Net Position at fair valuation on a recurring basis and their level within the fair-value hierarchy at June 30, 2018.

FAIR VALUE MEASUREMENTS		FAIR VALUE AT JUNE 30, 2018		
	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Certificates of deposit	33,449,586	33,449,586		
U.S. Treasury securities	3,652,236	3,652,236		
Agency securities	45,720,665		45,720,665	
Agency mortgage securities	1,235,793		1,235,793	
<b>Total investments</b>	<b>\$84,058,280</b>	<b>\$37,101,822</b>	<b>\$46,956,458</b>	<b>—</b>
Derivative Instruments				
Interest rate swap	(699,804)		(699,804)	
<b>Total derivative instruments</b>	<b>\$ (699,804)</b>	<b>—</b>	<b>\$ (699,804)</b>	<b>—</b>

The University had the following fair value measurements at June 30, 2017.

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

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

The University utilizes the market-based valuation approach in accordance with GASB Statement 72. Valuation techniques did not change significantly during the fiscal years ended June 30, 2018, and June 30, 2017.

**NOTE 4 – Derivative Instruments**

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

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

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

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

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

The following table displays the objectives and terms of the University's hedging derivative instruments outstanding at June 30, 2018, along with the credit rating of the associated counterparty.

Type	Objective	Current Notional	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2006 Bonds	\$4,350,262	1/1/2008	1/1/2028	65% of 3 mo. USD-LIBOR-BBA	A3
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2008 Bonds	\$7,575,000	7/1/2008	10/1/2021	65% of 3 mo. USD-LIBOR-BBA w/- 1 day look back, 79.0 bps	A3

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

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

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

Fiscal Year Ending	Series 2006		Series 2008A		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2019	362,488	196,882	300,000	296,261	662,488	493,143	1,155,631
2020	379,452	179,661	1,800,000	269,464	2,179,452	449,125	2,628,577
2021	397,209	161,633	2,375,000	182,372	2,772,209	344,005	3,116,214
2022	415,797	142,762	3,100,000	55,580	3,515,797	198,342	3,714,139
2023	435,257	123,007	—	—	435,257	123,007	558,264
2024-2028	2,360,059	284,801	—	—	2,360,059	284,801	2,644,860
2029-2033	—	—	—	—	—	—	—
<b>Total</b>	<b>\$4,350,262</b>	<b>\$1,088,746</b>	<b>\$7,575,000</b>	<b>\$803,677</b>	<b>\$11,925,262</b>	<b>\$1,892,423</b>	<b>\$13,817,685</b>

**Credit Risk**—The fair value of the hedging derivative instruments was in a liability position as of June 30, 2018, with Series 2006 having a balance of \$432,639 and Series 2008A having a balance of \$267,165. Likewise, the fair value of the hedging derivative instruments was in a liability position as of June 30, 2017, with Series 2006 having a balance of \$664,091 and Series 2008A having a balance of \$551,146. Because both of the derivative instruments and the debts being hedged are with the same counterparty, there is no credit risk exposure. The fair value of the derivative instruments would simply be netted against the payoff of the debts.

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

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

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

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

## NOTE 5 – Accounts Receivable

The following schedule summarizes accounts receivable at June 30, 2018, compared to the previous fiscal year.

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

Additionally, the University has a receivable of \$3,336,727 due from the State of Indiana. It is shown as a separate line item on the Statement of Net Position.



**NOTE 6 – Debt Related to Capital Assets**

**Bonds Payable** – Outstanding bonds payable at June 30, 2018, total \$92,095,262 and are identified in the following schedule.

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

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

Outstanding bonds payable at June 30, 2017, totaled \$100,626,543 and are identified in the following schedule.

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

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

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

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

Student Fee Bond Series G is a variable rate bond currently bearing interest at weekly rates ranging between 0 and 10 percent. The rate in effect at June 30, and the rate used to calculate the future debt service requirements, was 1.57 percent. All the other bonds are term or serial with fixed annual rates as identified in the preceding table. Annual debt service requirements through maturity for bonds and notes payable are presented in the following chart.

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

## NOTE 7 – Termination Benefits Liability

GASB Statement 47, *Accounting for Termination Benefits*, requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of the University's regular full-time faculty and administrative staff who have been employed in an eligible position prior to January 1, 1999, who have 15 or more consecutive years of service, and who are age 60 or older may receive early-retirement benefits upon request. These benefits include a lump-sum retirement service pay calculated as a percent of final-year salary based on length of service, not to exceed 25 percent, and continued contribution to retirement annuity contracts through the end of the fiscal year in which the retiree reaches age 66. Salaries are assumed to increase by \$500 for purposes of calculating this liability.

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

## NOTE 8 – Compensated Absence Liability

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

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

## NOTE 9 – Lease Obligations

The University spent \$211,262 and \$221,002 on operating leases as of June 30, 2018 and 2017, respectively. These leases are included in supplies and other services on the Statement of Revenues, Expenses, and Changes in Net Position. The following schedule summarizes the types of operating lease payments at June 30, 2018, compared to the previous fiscal year.

OPERATING LEASE PAYMENTS		
	2018	2017
Off-campus facilities	\$ 148,027	\$ 173,713
Equipment	49,862	34,130
Vehicles	13,373	13,159

The University also has lease agreements with Xerox Corporation for the use of copiers that are substantively lease-purchases. These capital lease obligations are included in the Statement of Net Position. The gross amount of assets recorded for these capital leases totaled \$662,831 and \$668,853 as of June 30, 2018 and 2017, respectively. Accumulated depreciation of leased equipment totaled \$345,686 and 269,834 as of June 30, 2018 and 2017, respectively.

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

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

FUTURE MINIMUM LEASE PAYMENTS		
Fiscal year ending June 30	Capital Leases	Operating Leases
2019	\$133,740	\$101,083
2020	127,056	40,788
2021	46,694	1,146
2022	13,198	—
2023	—	—
Total future minimum payments	\$320,688	\$143,017
Less interest	(2,350)	
Total principal payments outstanding	\$318,338	



## NOTE 10 – Retirement Plans

Substantially all regular employees of the University are covered by either the Teachers Insurance and Annuity Association (TIAA) Plan or by the Public Employees' Retirement Fund (PERF). The TIAA plan is an IRC 403(b) defined contribution plan; PERF is a defined benefit plan under IRC 401(a) and a state plan described in IC 5-10.2 and 5-10.3. The University contributed \$5,789,445 to these programs in fiscal year 2017-18, which represents approximately 9.03 percent of the total University payroll and 10.84 percent of the benefit-eligible employees' payroll for the same period.

### Defined Contribution Retirement Plan

**Faculty and Administrators** — Eligible employees may participate in the TIAA Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA, or another university-sponsored retirement plan, for at least one year prior to eligible employment at the University. The University contributed \$4,672,809 to this plan for 647 participating employees for fiscal year ending June 30, 2018, and \$4,654,401 for 645 participating employees for fiscal year ending June 30, 2017. The annual payroll for this group totaled \$44,493,852 and \$43,753,841 for fiscal years ending June 30, 2018 and 2017, respectively.

**Support Staff** — For newly hired staff, the USI Board of Trustees approved a new defined contribution plan on March 6, 2014. The new plan applies only to newly hired support staff in regular assignments with a 50 percent or greater schedule with an employment date on or after July 1, 2014, and no prior PERF-eligible employment with the University. The new plan was established with TIAA, with the same immediate vesting and other features of the defined contribution plan for faculty and administrators, but with a fixed employer contribution of 7 percent of compensation and using the PERF definition of eligible compensation. The University contributed \$141,887 to this plan for 101 participating employees for fiscal year ending June 30, 2018, and \$94,484 to this plan for 77 participating employees for the fiscal year ending June 30, 2017. The annual payroll for this group totaled \$2,026,954 and \$1,349,766 for fiscal years ending June 30, 2018 and 2017, respectively.

TIAA issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing Teachers Insurance and Annuity Association, 730 3rd Avenue, New York, NY 10017-3206, or via its web site at [www.tiaa.org](http://www.tiaa.org).

## Defined Benefit Retirement Plan

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

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

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

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

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

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2017; however, eligible members received a one-time check (a.k.a. 13th check) in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

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

**Contributions** — The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. There are two parts to this plan: an annuity savings plan to which members contribute 3 percent of their salary and a cost-sharing multiple-employer defined benefit plan to which the University contributed 11.2 percent of the employee's salary this fiscal year. The University contributed \$974,750 for 246 employees participating in PERF during the 2017-18 fiscal year and \$1,080,498 for 274 employees participating during 2016-17. These contribution amounts include the 3 percent member portion, which the University has elected to pay on behalf of its employees.

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

The University reported a liability of \$7,135,346 at June 30, 2018, and \$7,449,403 at June 30, 2017, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated June 30, 2017 for assets and June 30, 2016 rolled forward to June 30, 2017 for liabilities. The University's proportion of the net pension liability was based on wages reported by employers relative to the collective wages of the plan. At June 30, 2017, the University's proportion was 0.16 percent, which was unchanged from June 30, 2016.

For the year ended June 30, 2018, the University recognized pension expense of \$346,489. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

DEFERRED RESOURCES	JUNE 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	135,508	5,538
Changes in assumptions	114,564	—
Net difference between projected and actual earnings on pension plan investments	1,128,687	357,742
Changes in proportion and differences between the University's contributions and proportionate share of contributions	99,047	475,194
The University's contributions subsequent to the measurement date	974,750	—
<b>Total</b>	<b>\$2,452,556</b>	<b>\$838,474</b>

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

DEFERRED RESOURCES	JUNE 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	166,895	13,751
Changes in assumptions	328,674	—
Net difference between projected and actual earnings on pension plan investments	1,638,466	419,149
Changes in proportion and differences between the University's contributions and proportionate share of contributions	191,374	698,379
The University's contributions subsequent to the measurement date	1,080,498	—
<b>Total</b>	<b>\$3,405,907</b>	<b>\$1,131,279</b>

\$974,750 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

YEAR ENDED JUNE 30	
2018	129,549
2019	394,040
2020	154,129
2021	(38,386)
2022	—
Thereafter	—
<b>Total</b>	<b>\$639,332</b>

**Actuarial assumptions** – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<b>Inflation</b>	2.25 percent
<b>Salary Increases</b>	2.50-4.25 percent, including inflation
<b>Investment rate of return</b>	6.75 percent, net of investment expense
<b>Cost of Living Increases</b>	1.00 percent per year in retirement

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

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

The actuarial assumptions used in the June 30, 2017 valuation were adopted by the INPRS Board in May 2017. The majority of the actuarial assumptions and methods are based on plan experience from July 1, 2010 through June 30, 2014, and were first used in the June 30, 2015 valuation.

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

ASSET RATE OF RETURN		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	22%	4.9%
Private Equity	14	5.7
Fixed Income – Ex Inflation-Linked	20	2.3
Fixed Income – Inflation-Linked	7	0.6
Commodities	8	2.2
Real Estate	7	3.7
Absolute Return	10	3.9
Risk Parity	12	5.1
<b>Total</b>	<b>100%</b>	



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

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

PROPORTIONATE SHARE OF NET PENSION LIABILITY			
	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability	\$10,406,615	\$7,135,346	\$4,416,012

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

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

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

**NOTE 11 – Risk Management**

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

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

The University has two health care plans available for new enrollment of full-time benefit-eligible employees; one of these plans also is available to retirees. A third health care plan is only available to retirees. All of the plans are funded under a cost-plus arrangement whereby the University is billed for actual claims paid by the insurer on behalf of the covered participants plus administrative fees. For fiscal year ended on June 30, 2018, the University’s contribution to these health care plans totaled \$11,328,108 for 1,020 employees and \$1,883,858 for 420 retirees. For the same period, employees and retirees made contributions totaling \$2,648,851 and \$704,597 respectively.

The University assumes the risk for medical claims exceeding the maximum expected cost but has mitigated the additional risk by purchasing specific stop loss coverage for active employees’ individual claims over \$225,000. The University also has established a reserve to cover a significant portion of the aggregate liability beyond 125 percent of expected claims. The liability for medical claims incurred but not reported at June 30, 2018, is based on an average monthly claim multiplied by the plan provider’s average turnaround time from when claims are incurred to when claims are submitted to the University for payment. Changes in the balance of claims liabilities during the 2016-17 and 2017-18 fiscal years are as follows. The amounts shown for 2016-17 have been amended from the risk management note published in the 2017 University financial report to coincide with the liability balances included in the 2016-17 Statement of Net Position.

**CHANGE IN CLAIM LIABILITY**

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

**NOTE 12 – Other Postemployment Benefits (OPEB)**

OPEB as of June 30, 2018 post-implementation of GASB Statement 75)

**General Information about the OPEB Plan**

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

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

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

Inactive Employees or beneficiaries currently receiving medical/dental benefit payments	252
Inactive employees entitled to but not yet receiving medical/dental benefit payments	—
Active employees eligible for medical/dental	439
<b>Total</b>	<b>691</b>

Inactive Employees or beneficiaries currently receiving life insurance benefit payments	304
Inactive employees entitled to but not yet receiving life insurance benefit payments	—
Active employees eligible for life insurance	753
<b>Total</b>	<b>1,057</b>



**Contributions** — Historically, the trust has been funded from three sources: University contributions and reserves designated by the USI Board of Trustees for this purpose, employee payroll deductions for post-retirement benefits, and retiree contributions for medical and dental insurance premiums. In 2013, management elected to discontinue contributions to the trust from employees and retirees in anticipation of changes to retiree insurance coverage. The University did not contribute institutional funds to the VEBA during the most recent fiscal year.

The University uses a pay-as-you-go financing method where employee payroll deductions for post-retirement benefits and retiree contributions for medical and dental premiums are made at about the same time and in the same amount as benefit payments and expenses coming due. The University remits medical claims incurred, dental premiums, and life insurance premiums directly to the third-party insurers. The University payroll deduction rates for medical, dental, and life insurance ranged from \$132.77 to \$579.12 per month for single coverage and \$387.62 to \$1,600.85 for family coverage. Retiree contributions for medical and dental ranged from \$112.13 to \$576.52 per month for single coverage and \$346.95 to \$1,598.25 for family coverage. The University also offers retiree and spouse coverage, as well as retiree and dependent coverage, with rates falling within the ranges provided.

### **Net OPEB Liability**

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

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

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

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

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

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

The long-term expected real rate of return on the OPEB plan investment is assumed to be 7 percent. This was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are then combined to produce the long-term expected rate of return by weighting them based on the target asset allocation percentage and adding in expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table. Returns shown below are real rates of return net of a 2.50 percent inflation assumption.

ASSET CLASS	TARGET ALLOCATION
Domestic Large Cap	45%
Domestic Mid/Small Cap	12
International Equity	13
Domestic Bonds	30
<b>Total</b>	<b>100%</b>

**Discount Rate** — The final equivalent single discount rate used for this year's accounting valuation is 7 percent as of the beginning and end of the fiscal year with the expectation that the University will continue contributing a percentage of pay-go cost to ensure that the trust has sufficient balance to pay for future benefit payments. The University is expected to withdraw at least 5 percent of the VEBA Trust in the future to pay for the pay-go costs. Based on this year's expected benefit payments, the minimum required University contribution to finance future benefit payments is 50 percent of pay-go cost.

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

YIELD AS OF	JUNE 30, 2018
Bond Buyer Go 20-Bond Municipal Bond Index	3.87%
S&P Municipal Bond 20-Year High Grade Rate Index	2.98
Fidelity 20-Year Go Municipal Bond Index	3.62
Bond Index Range	2.98-3.87%



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

**Sensitivity of the net OPEB liability to changes in the discount rate** — The following presents the net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6 percent) or 1-percentage-point higher (8 percent) than the current discount rate.

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

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates** — The following presents the net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using health care trend rates that are 1-percentage-point lower (8 percent decreasing to 4 percent) or 1-percentage-point higher (10 percent decreasing to 6 percent) than the current health care cost trend rates.

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

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

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

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

DEFERRED RESOURCES		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	—	2,062,209
Changes in assumptions	721,756	—
Net differences between projected and actual earnings in OPEB plan investments	271,098	—
<b>Total</b>	<b>\$992,854</b>	<b>\$2,062,209</b>

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

YEAR ENDED JUNE 30	
2019	\$(379,043)
2020	(379,043)
2021	(379,045)
2022	67,776
2023	—
Thereafter	—

### OPEB as of June 30, 2017 (pre-implementation of GASB Statement 75)

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

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

**Annual OPEB Cost and Net OPEB Obligation** — The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year

and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the USI VEBA Trust's annual OPEB cost for the last three fiscal years, the amount actually contributed to the plan, and changes in the net OPEB obligation to the plan.

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

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

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6-30-2015	\$4,741,081	38.1%	\$13,827,007
6-30-2016	\$3,868,463	54.0%	\$15,605,114
6-30-2017	\$3,846,563	51.1%	\$17,487,663

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

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

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

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

### Note 13 – Functional Expenditures

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

FUNCTIONAL EXPENDITURES		FISCAL YEAR ENDED JUNE 30, 2018					
Function	Salaries and Wages	Benefits	Student Financial Aid	Utilities	Supplies and Other Services	Depreciation	Total
Instruction	33,463,597	10,432,579			3,984,030		\$ 47,880,206
Academic Support	5,452,584	2,123,213			4,960,153		\$ 12,535,950
Student Services	5,672,700	2,252,612			2,998,105		\$ 10,923,417
Institutional Support	9,508,582	4,821,935			5,047,046		\$ 19,377,563
Operation and Maintenance of Plant	3,779,976	1,867,371		4,322,595	7,234,984		\$ 17,204,926
Depreciation						13,315,767	\$ 13,315,767
Student Aid			8,680,395				\$ 8,680,395
Public Service	1,298,566	370,834			1,185,643		\$ 2,855,043
Research	70,658	17,917			132,552		\$ 221,127
Auxiliary Enterprises	4,862,068	2,662,366		971,306	16,513,451		\$ 25,009,191
<b>TOTAL</b>	<b>\$64,108,731</b>	<b>\$24,548,827</b>	<b>\$8,680,395</b>	<b>\$5,293,901</b>	<b>\$42,055,964</b>	<b>\$13,315,767</b>	<b>\$158,003,585</b>

FUNCTIONAL EXPENDITURES		FISCAL YEAR ENDED JUNE 30, 2017					
Function	Salaries and Wages	Benefits	Scholarships	Utilities	Supplies and Other Services	Depreciation	Total
Instruction	32,245,259	10,926,457			3,013,490		\$ 46,185,206
Academic Support	6,176,601	2,422,765			4,468,864		\$ 13,068,230
Student Services	5,545,991	2,359,953			2,925,654		\$ 10,831,598
Institutional Support	9,102,305	6,061,542			3,873,679		\$ 19,037,526
Operation and Maintenance of Plant	3,838,416	2,030,246		4,576,820	5,179,177		\$ 15,624,659
Depreciation						13,579,006	\$ 13,579,006
Student Aid			7,518,308		396		\$ 7,518,704
Public Service	1,673,528	484,505			1,074,543		\$ 3,232,576
Research	58,380	5,212			203,444		\$ 267,036
Auxiliary Enterprises	4,762,756	2,566,183		997,305	18,662,469		\$ 26,988,713
<b>TOTAL</b>	<b>\$63,403,236</b>	<b>\$26,856,863</b>	<b>\$7,518,308</b>	<b>\$5,574,125</b>	<b>\$39,401,716</b>	<b>\$13,579,006</b>	<b>\$156,333,254</b>

**NOTE 14 – Capital Assets, Net of Accumulated Depreciation**

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

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

During fiscal year 2018, the University incurred \$214,932 in interest costs related to the ownership of capital assets. Of this total, \$138,990 was charged as interest expense and \$75,942 was capitalized.

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

<b>CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>				
	<b>Balance June 30, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2017</b>
<b>Capital Assets Not Being Depreciated</b>				
Land	5,018,004	95,681	—	5,113,685
Construction in Progress	5,123,798	14,363,510	(4,302,777)	15,184,531
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 10,141,802</b>	<b>\$ 14,459,191</b>	<b>\$(4,302,777)</b>	<b>\$ 20,298,216</b>
<b>Capital Assets Being Depreciated</b>				
Land Improvements	14,316,499	673,962	—	14,990,461
Infrastructure	8,072,046	117,560	—	8,189,606
Educational Buildings	180,764,605	1,407,217	—	182,171,822
Auxiliary Buildings	115,889,848	1,972,335	—	117,862,183
Equipment	24,747,892	1,433,418	(1,944,288)	24,237,022
Library Materials	3,725,087	28,458	(377,217)	3,376,328
Capital Lease Equipment	668,853	—	—	668,853
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 348,184,830</b>	<b>\$ 5,632,950</b>	<b>\$(2,321,505)</b>	<b>\$ 351,496,275</b>
<b>Total Capital Assets</b>	<b>\$ 358,326,632</b>	<b>\$ 20,092,141</b>	<b>\$(6,624,282)</b>	<b>\$ 371,794,491</b>

Less Accumulated Depreciation				
Land Improvements	(8,657,556)	(737,600)	—	(9,395,156)
Infrastructure	(2,632,911)	(190,820)	—	(2,823,731)
Educational Buildings	(83,027,630)	(6,321,075)	—	(89,348,705)
Auxiliary Buildings	(61,830,741)	(4,135,432)	—	(65,966,173)
Equipment	(20,253,717)	(1,948,313)	1,916,834	(20,285,196)
Library Materials	(3,182,842)	(137,924)	377,217	(2,943,549)
Capital Lease Equipment	(136,063)	(133,771)	—	(269,834)
<b>Total Accumulated Depreciation</b>	<b>\$(179,721,460)</b>	<b>\$(13,604,935)</b>	<b>\$ 2,294,051</b>	<b>\$(191,032,344)</b>
<b>Net Capital Assets Being Depreciated</b>	<b>\$ 168,463,370</b>	<b>\$ (7,971,985)</b>	<b>\$(27,454)</b>	<b>\$ 160,463,931</b>
<b>Total Net Capital Assets</b>	<b>\$ 178,605,172</b>	<b>\$ 6,487,206</b>	<b>\$(4,330,231)</b>	<b>\$ 180,762,147</b>

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

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

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

## NOTE 15 – Beginning Net Position Restatement

The beginning net position balance at July 1, 2017, was restated to adjust the University's OPEB liability as required by GASB Statements 75 and 85, which took effect for the 2018 fiscal year. This restatement reduced the unrestricted net position on the Statement of Net Position by \$9,423,305 and the same amount appears on the Statement of Revenues, Expenses, and Changes in Net Position as a prior period adjustment for change in accounting principle. June 30, 2017 amounts have not been restated to reflect the effects of GASB Statements 75 and 85 because it was not practical to calculate the effect of the new standards on the prior-year expense and liability amounts. Additional information about the University's OPEB obligation may be found in Note 12 of the *Notes to Financial Statements*.

## NOTE 16 – Subsequent Events

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

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

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

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

***Principles of Consolidation***

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

***Use of Estimates***

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

***Cash***

The Foundation considers all liquid investments not classified with investments and with original maturities of three months or less to be cash equivalents. At June 30, 2018 and 2017, the Foundation did not have any cash equivalents.

At June 30, 2018, the Foundation's cash accounts did not exceed federally insured limits.

***Contributions Receivable – Deferred Gifts***

During 2018 and 2017, the Foundation received certain irrevocable pledges to be paid from individual estates or more commonly referred to as deferred gifts. These contribution receivables are recorded as either temporarily or permanently restricted revenues based on the intent of the donor. The amounts were recorded at gross, less allowances for an estimate of amounts that may be uncollectible and a discount based on expected mortality of the individuals and overall credit risks. The allowance for uncollectible contributions was based on a combination of qualitative factors, including mortality, relationship to the Foundation and University, historical contribution levels and history of gifting to the Foundation. The discount rates ranged from 3.40% to 5.59%.

***Investments and Investment Return***

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

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

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

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

***Property and Equipment***

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

**Long-Lived Asset Impairment**

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

No impairment loss was recognized for the years ended June 30, 2018 and 2017.

**Temporarily and Permanently Restricted Net Assets**

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

**Contributions**

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

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

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

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

**Contributed Services**

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

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

**Income Taxes**

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

**Functional Allocation of Expenses**

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



**NOTE 2 – Contributions Receivable**

Contributions receivable at June 30, 2018 and 2017, consisted of the following:

<b>CONTRIBUTIONS RECEIVABLE</b>			
	2018		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 653,081	\$ 667,868	\$ 1,320,949
Due in one to five years	250,685	1,074,383	1,325,068
Due in five or more years	3,895,000	6,332,500	10,227,500
	<b>4,798,766</b>	<b>8,074,751</b>	<b>12,873,517</b>
<b>Less</b>			
Allowance for uncollectible contributions	889,630	2,587,475	3,477,105
Unamortized discount	887,248	2,208,210	3,095,458
	<b>\$ 3,021,888</b>	<b>\$ 3,279,066</b>	<b>\$ 6,300,954</b>

The discount rates ranged from 1.14% to 5.59% for 2018. Approximately 35% of the contributions receivable at June 30, 2018, were due from three donors.

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

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

Contributions receivable designated for specific purposes and with time restrictions at June 30, 2018 and 2017, were as follows:

<b>SPECIFIC CONTRIBUTIONS RECEIVABLE</b>		
	2018	2017
Scholarships and awards	\$2,660,598	\$2,950,633
Educational grants and academic enhancements	1,341,696	1,314,726
Athletic support	16,418	39,774
Other University support	1,950,703	2,272,661
Capital projects	2,116	94,562
Community outreach	8,656	7,224
Time restrictions	320,767	322,882
<b>Total</b>	<b>\$6,300,954</b>	<b>\$7,002,462</b>

**NOTE 3 – Investments and Investment Return**

Investments at June 30, 2018 and 2017, consisted of the following:

INVESTMENTS		
	Market	
	2018	2017
Short-term investments and cash	\$ 2,041,334	\$ 836,216
U.S. Treasury securities	2,476,458	3,101,091
Corporate debt securities	3,775,377	3,780,579
Common stocks	15,055,287	16,265,256
Mutual funds		
Fixed income	21,653,519	20,246,267
International	20,389,715	17,532,941
Large cap	45,321,334	37,969,036
Small cap/mid cap	10,089,403	8,217,138
Alternative investment – private investment fund	1,861,992	2,042,026
<b>Total</b>	<b>\$122,664,419</b>	<b>\$109,990,550</b>

Total investment return for the years ended June 30, 2018 and 2017, was comprised of the following:

INVESTMENT RETURN		
	2018	2017
Interest and dividend income	\$ 2,450,769	\$ 2,409,286
Investment management fees	(215,389)	(193,157)
	<b>2,235,380</b>	<b>2,216,129</b>
Net realized and unrealized gains on investments reported at fair value	9,258,272	12,628,293
	<b>\$11,493,652</b>	<b>\$14,844,422</b>

**Alternative Investments**

Except as described below, the fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at June 30, 2018 and 2017, consist of the following:

ALTERNATIVE INVESTMENTS				
2018				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds (A)	\$1,861,992	\$906,000	N/A	N/A
2017				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds (A)	\$2,042,026	\$906,000	N/A	N/A

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

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

## Note 4 – Beneficial Interest in Trusts

The Foundation is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the Foundation has the irrevocable right to receive income earned on the trusts' assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$4,107,062 and \$4,087,012, which represents the fair value of the trusts' assets at June 30, 2018 and 2017, respectively. The gain (loss) from these trusts for 2018 and 2017 was \$20,050 and \$234,257, respectively.

The Foundation has been named a secondary beneficiary in certain charitable remainder trusts administered by outside parties. Upon termination of the trusts, the Foundation will receive the assets remaining in the trusts. Prior to termination of the trusts and transfer of assets, the Foundation records the present value of the estimated residual benefits as assets. At June 30, 2018 and 2017, the residual benefits were valued at \$792,619 and \$766,355, respectively. The gain from these trusts for 2018 and 2017 was \$26,264 and \$50,542, respectively.

## Note 5 – Annuities Payable

The Foundation has been the recipient of several gift annuities, which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value and are recorded in temporarily or permanently restricted funds in accordance with the donor restrictions. The Foundation has recorded a liability at June 30, 2018 and 2017, in the temporarily restricted funds, of \$323,113 and \$339,462, respectively, and in the permanently restricted funds of \$1,302,786 and \$1,365,556, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from approximately 1% to 8%.

## Note 6 – Net Assets

### Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017, are available for the following purposes or periods:

TEMPORARILY RESTRICTED NET ASSETS		
	2018	2017
Scholarships and awards	\$39,465,369	\$34,921,357
Educational grants and academic enhancements	19,143,514	14,640,331
Athletic support	956,230	914,039
Other University support	10,083,516	8,907,230
Capital projects	517,338	2,427,763
Community outreach	498,480	452,620
For periods after June 30	320,767	311,383
<b>Total</b>	<b>\$70,985,214</b>	<b>\$62,574,723</b>

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

### Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018 and 2017, are restricted to:

PERMANENTLY RESTRICTED NET ASSETS		
	2018	2017
<b>Investment in perpetuity, the income of which is expendable to support</b>		
Scholarships and awards	\$30,135,389	\$29,182,424
Educational grants and academic enhancements	8,601,835	8,439,446
Other University support	8,359,642	8,104,038
<b>Total</b>	<b>\$47,096,866</b>	<b>\$45,725,908</b>

**Net Assets Released From Restrictions**

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

NET ASSETS RELEASED FROM RESTRICTIONS		
	2018	2017
<b>Purpose restrictions released</b>		
Scholarships and awards	\$2,314,533	\$2,227,782
Educational grants and academic enhancements	1,431,879	1,458,752
Athletic support	129,179	109,852
Other University support	258,694	293,591
Capital projects	2,062,030	15,250
Community outreach	14,282	8,238
<b>Total</b>	<b>\$6,210,597</b>	<b>\$4,113,465</b>

**Note 7 – Endowment**

The Foundation's endowment consists of approximately 450 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

The composition of net assets by type of endowment fund at June 30, 2018 and 2017, was:

COMPOSITION OF NET ASSETS BY ENDOWMENT				
2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$28,782,222	\$43,063,742	\$71,845,964
Board-designated endowment funds	9,585,887	24,335,617	—	33,921,504
<b>Total endowment funds</b>	<b>\$9,585,887</b>	<b>\$53,117,839</b>	<b>\$43,063,742</b>	<b>\$105,767,468</b>
2017				
Donor-restricted endowment funds	\$ —	\$24,341,850	\$41,730,118	\$66,071,968
Board-designated endowment funds	8,965,089	19,639,938	—	28,605,027
<b>Total endowment funds</b>	<b>\$8,965,089</b>	<b>\$43,981,788</b>	<b>\$41,730,118</b>	<b>\$94,676,995</b>

Changes in endowment net assets for the years ended June 30, 2018 and 2017, were:

<b>CHANGES IN ENDOWMENT NET ASSETS</b>				
2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, beginning of year</b>	\$8,965,089	\$43,981,788	\$41,730,118	\$94,676,995
<b>Investment return</b>				
Investment income	983,608	8,902,706	342,086	10,228,400
Net depreciation	(1,967)	(17,810)	(684)	(20,461)
<b>Total investment return</b>	<b>981,641</b>	<b>8,884,896</b>	<b>341,402</b>	<b>10,207,939</b>
Contributions	—	3,074,539	786,903	3,861,442
Appropriation of endowment assets for expenditure	(360,843)	(2,823,384)	—	(3,184,227)
Reclassification of donor intent	—	—	280,836	280,836
Other changes – uncollectible pledge loss	—	—	(275)	(275)
Other changes – change in value of split-interest agreements	—	—	(75,242)	(75,242)
	(360,843)	251,155	992,222	882,534
<b>Endowment net assets, end of year</b>	<b>\$9,585,887</b>	<b>\$53,117,839</b>	<b>\$43,063,742</b>	<b>\$105,767,468</b>
2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, beginning of year</b>	\$7,954,359	\$34,254,612	\$40,503,886	\$82,712,857
<b>Investment return</b>				
Investment income	433,743	3,859,743	149,937	4,443,423
Net appreciation	903,195	8,039,170	311,297	9,253,662
<b>Total investment return</b>	<b>1,336,938</b>	<b>11,898,913</b>	<b>461,234</b>	<b>13,697,085</b>
Contributions	25,189	541,875	820,314	1,387,378
Appropriation of endowment assets for expenditure	(351,397)	(2,670,596)	—	(3,021,993)
Reclassification of donor intent	—	—	20,334	20,334
Other changes – uncollectible pledge loss	—	(43,016)	(200)	(43,216)
Other changes – change in value of split-interest agreements	—	—	(75,450)	(75,450)
	(326,208)	(2,171,737)	764,998	(1,732,947)
<b>Endowment net assets, end of year</b>	<b>\$8,965,089</b>	<b>\$43,981,788</b>	<b>\$41,730,118</b>	<b>\$94,676,995</b>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2018 and 2017, consisted of:

<b>DONOR-RESTRICTED ENDOWMENT FUNDS</b>		
	2018	2017
Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	\$43,063,742	\$41,730,118
Temporarily restricted net assets – portion of perpetual endowment funds subject to a time restriction under SPMIFA – with purpose restrictions	\$53,117,839	\$43,981,788

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature, if any, are reported in unrestricted net assets and such amounts were \$0 for 2018 and immaterial to the overall consolidated financial statements for 2017. These deficiencies, if any, resulted from unfavorable market fluctuations that occurred after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

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

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

The Foundation's spending policy goals include maintaining reasonable inflation-adjusted spending into the future, providing for sufficient asset growth after spending to preserve the inflation-adjusted value of the assets and smoothing spending on a quarterly basis, rather than vary it with short-term changes in interest rates and asset values. The Foundation sets the spending level to balance current need with growth for the future. The current spending rate is 4.25% calculated on a rolling 12-quarter average market value of each endowment fund. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

## Note 8 – Disclosures About Fair Value of Assets and Liabilities

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

### Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

FAIR VALUE MEASUREMENTS		JUNE 30, 2018		
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments</b>				
Short-term investments and cash	\$ 2,041,334	\$ 2,041,334	\$ —	\$ —
U.S. Treasury securities	2,476,458	—	2,476,458	—
Corporate debt securities	3,775,377	—	3,775,377	—
Common stocks	15,055,287	15,055,287	—	—
<b>Mutual funds</b>				
Fixed income	21,653,519	21,653,519	—	—
International	20,389,715	20,389,715	—	—
Large cap	45,321,334	45,321,334	—	—
Small cap/mid cap	10,089,403	10,089,403	—	—
Private investment fund, measured at net asset value (A)	1,861,992	—	—	—
	<b>\$122,664,419</b>	<b>\$114,550,592</b>	<b>\$6,251,835</b>	<b>—</b>
<b>Beneficial interest in charitable remainder trusts</b>	\$ 792,619	\$ —	\$ 792,619	\$ —
<b>Beneficial interest in perpetual trusts</b>	\$ 4,107,062	\$ —	\$4,107,062	\$ —
<b>Beneficial interest in Community Foundation</b>	\$ 64,605	\$ —	\$ 64,605	\$ —

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

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

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018.

#### **Investments**

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

#### **Beneficial Interest in Charitable Remainder Trusts**

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

#### **Beneficial Interest in Perpetual Trusts**

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

#### **Beneficial Interest in Community Foundation**

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

## **Note 9 – Related-Party Transactions**

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

The Foundation paid an annual administrative fee of \$500,100 and \$478,500 to the University for the years ended June 30, 2018 and 2017, respectively, for accounting, computer, administrative and other miscellaneous services provided to the Foundation by University personnel.

Amounts due to the University for approved program expenditures and approved construction commitments, as further described below, included in payable to related parties as of June 30, 2018 and 2017, were \$3,486,272 and \$1,320,931, respectively.

As of June 30, 2018 and 2017, construction of the USI Performance Center was completed and the remaining balances of \$176,275 and \$470,158, respectively, of the approximately \$2,000,000 commitment to the University for the construction and outfitting of the USI Performance Center was recorded as a payable to related parties. Funding for this project is from designated contributions for the USI Performance Center and unrestricted annual distributions from the Henry Ruston President's Endowment. Full payment of this liability is expected to occur by June 30, 2019.

As of June 30, 2018 and 2017, construction of the Griffin Center was completed and the remaining balance of \$600, of the approximately \$5,000,000 commitment to the University for the construction and outfitting of the Griffin Center was recorded as a payable to related parties. Funding for this project is through gift commitments to the Foundation's capital campaign, *Campaign USI: Elevating Excellence*, which were satisfied as of June 30, 2018. Full payment of this liability is expected to occur by October 2018.

As of June 30, 2018, construction of the Fuquay Welcome Center was near completion and the \$2,000,000 commitment to the University for the construction and outfitting of the Fuquay Welcome Center was recorded as a payable to related parties. Funding for this project is through gift commitments to the Foundation's capital campaign, *Campaign USI: Elevating Excellence*, designated for the Fuquay Welcome Center. Full payment of this liability is expected to occur by June 30, 2019.

## Note 10 – Significant Estimates, Concentrations and Commitments

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

### *Contributions*

For the years ended June 30, 2018 and 2017, approximately 65% and 23%, respectively, of all contributions were received from one and two donors, respectively.

### *Contributions Receivable – Deferred Gifts*

As of June 30, 2018 and 2017, the Foundation has recorded contribution pledges for deferred gifts of \$10,250,500 and \$10,238,000, respectively, of which \$3,457,105 and \$3,461,480, respectively, were reserved as an allowance for uncollectible amounts and \$3,013,642 and \$3,091,167, respectively, were recorded as a discount based on estimated discount rates for each individual pledge for a net pledge receivable amount of \$3,779,753 and \$3,685,353, respectively. The estimated allowances for uncollectible amounts and discounts are based on factors that could change in the near term and for which such changes could materially affect the amount reported in the consolidated financial statements.

## Note 11 – Risks and Uncertainties

### *Investments*

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

## Note 12 – Subsequent Events

Subsequent events have been evaluated through October 5, 2018, which is the date the consolidated financial statements were available to be issued.

## Required Supplementary Information

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

#### Public Employees' Retirement Plan

*Last 5 Fiscal Years\**

Fiscal Year	University's proportion of the net pension liability (asset)	University's proportionate share of the net pension liability (asset)	University's covered-employee payroll	University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.16%	\$7,135,346	\$7,934,387	89.93%	76.65%
2016	0.16%	\$7,449,403	\$7,866,561	94.70%	75.30%
2015	0.19%	\$7,749,103	\$9,112,942	85.03%	77.30%
2014	0.19%	\$5,121,057	\$9,514,281	53.82%	84.29%
2013	0.20%	\$6,844,336	\$9,594,423	71.34%	78.79%

### SCHEDULE OF UNIVERSITY CONTRIBUTIONS

#### Public Employees' Retirement Plan

*Last 5 Fiscal Years\**

Fiscal Year	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	University's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2017	\$ 849,087	\$ (849,087)	—	\$7,934,387	10.70%
2016	\$1,264,361	\$(1,264,361)	—	\$7,866,561	16.07%
2015	\$1,015,471	\$(1,015,471)	—	\$9,112,942	11.14%
2014	\$1,059,754	\$(1,059,754)	—	\$9,514,281	11.14%
2013	\$ 921,537	\$ (921,537)	—	\$9,594,423	9.60%

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

### SCHEDULE OF FUNDING PROGRESS

*OPEB as of June 30, 2017 (pre-implementation of GASB Statement 75)*

#### USI VEBA Trust Retiree Healthcare Benefit Plan

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

## SCHEDULE OF CHANGES IN THE UNIVERSITY'S NET OPEB LIABILITY AND RELATED RATIOS

*OPEB as of June 30, 2018 (post-implementation of GASB Statement 75)*

**Last 1 Fiscal Year\***

	2018
<b>Total OPEB Liability</b>	
Service Cost	\$ 558,526
Interest	3,441,886
Changes of benefit terms	—
Changes in assumptions	962,342
Differences between expected and actual experience	(2,749,612)
Benefit Payments	(1,888,109)
<b>Net change in total OPEB liability</b>	<b>\$ 325,033</b>
<b>Total OPEB liability-beginning</b>	<b>\$49,539,365</b>
<b>Total OPEB liability-ending (a)</b>	<b>\$49,864,398</b>
<b>Plan fiduciary net position</b>	
Contributions-employer	\$ 1,888,109
Net investment income	1,243,292
Benefit payments	(1,888,109)
Administrative expense	(53,016)
<b>Net change in plan fiduciary net position</b>	<b>\$ 1,190,276</b>
<b>Plan fiduciary net position-beginning</b>	<b>\$22,628,397</b>
<b>Plan fiduciary net position-ending (b)</b>	<b>\$23,818,673</b>
<b>University's net OPEB liability-ending (a-b)</b>	<b>\$26,045,725</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>47.77%</b>
<b>Covered employee payroll</b>	<b>\$42,347,069</b>
<b>University's net OPEB liability as a percentage of covered-employee payroll</b>	<b>61.51%</b>

## SCHEDULE OF UNIVERSITY CONTRIBUTIONS

*OPEB as of June 30, 2018 (post-implementation of GASB Statement 75)*

**Last 1 Fiscal Year\***

	2018
Actuarially determined contribution	\$ 2,814,869
Contributions in relation to the actuarially determined contribution	1,888,109
Contribution deficiency (excess)	\$ 926,760
<b>Covered employee payroll</b>	<b>\$42,347,069</b>
<b>Contributions as a percentage of covered employee payroll</b>	<b>4.46%</b>

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

# Notes to Required Supplementary Information

## Public Employees' Retirement Plan

**Changes in assumptions:** The June 30, 2017 actuarial valuation included the following updates

- A load of \$400 was added on the final average salary to reflect unused sick leave accumulated at termination of employment for active and inactive vested members.
- For disabled members, the RP-2014 (with MP-2014 improvement removed) Disability Mortality tables are assumed instead of the RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality tables.

**Changes in methods:** There were no changes to the actuarial methods during the fiscal year.

**Source:** Indiana Public Retirement System  
Public Employees' Retirement Fund  
Report on Allocation of Pension Amounts  
For the Year Ended June 30, 2017

## Net OPEB Liability

Methods and assumptions used to determine contribution rates.

<b>Actuarial cost method</b>	Entry age normal level percent of salary
<b>Amortization type</b>	Level dollar, closed
<b>Amortization period</b>	28 years
<b>Asset valuation method</b>	Market value of assets
<b>Inflation</b>	2.25 percent
<b>Salary increases</b>	2.50-4.25 percent, including inflation
<b>Investment rate of return</b>	7 percent, net of OPEB plan investment expense, including inflation
<b>Healthcare cost trend rates</b>	9 percent for 2019, decreasing 0.50 percent per year to an ultimate rate of 5 percent for 2027 and later years for medical 5 percent for 2019, decreasing 0.25 percent per year to an ultimate rate of 3 percent for 2027 and later for dental

**Changes in assumptions** — The University is required to disclose under GASB Statement 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, and GASB Statement 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, for fiscal year ending June 30, 2018. The prior valuation was disclosed under GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Assumption changes related to this accounting standard change are as follows.

The actuarial cost method has been updated from Projected Unit Credit with linear proration to decrement to Entry Age Normal Level % of Salary. In conjunction with the cost method change, the payroll growth assumption has been updated to follow the Indiana Public Employees' Retirement Fund (PERF) actuarial valuation as of June 30, 2017. The net impact of these changes is an increase in liabilities.

Additionally, the following assumptions also have been updated.

Mortality table has been updated from SOA RPH-2016 Total Dataset Mortality Table fully generational using Scale MP-2016 for healthy retirees and RPH-2016 Disabled Mortality Table fully generational using scale MP-2016 for disabled retirees to SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 for healthy retirees and RPH-2017 Disabled Mortality Table fully generational using scale MP-2017 for disabled retirees. This change caused a decrease in the University's liabilities.

Medical trend rates have been reset to an initial rate of 9% (8.50% prior year) decreasing by 0.50% annually to an ultimate rate of 5% while dental trend rates have been reset to an initial of 5% (4.75% prior year) down to 3% decreasing by 0.25% annually. This change caused an increase in the University's liabilities.

There have been no substantive plan provision changes since the last full valuation, which was for fiscal year ending June 30, 2017.

## Additional Information about the University

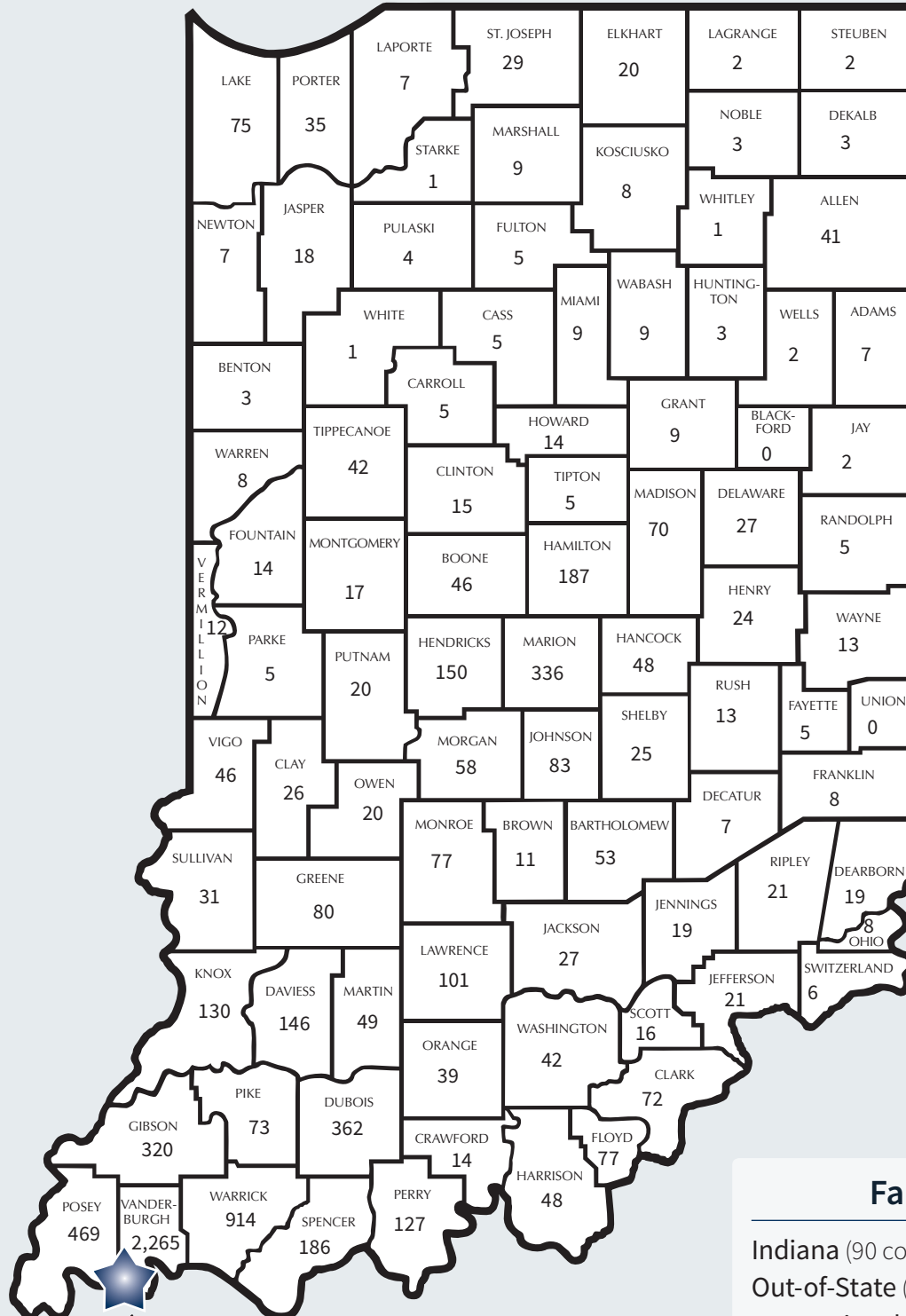
### FIVE-YEAR COMPARATIVE DATA

	2017-18	2016-17	2015-16	2014-15	2013-14
<b>Enrollment (Fall Semester)</b>					
Total students	9,014	9,025	9,029	9,364	9,902
Undergraduates	7,706	7,957	8,130	8,414	8,913
Women	5,677	5,702	5,654	5,825	6,078
African American	420	405	389	419	433
Other minority	650	583	572	431	433
International	204	210	220	225	244
Age 25 plus	2,107	2,010	1,943	2,201	2,474
Indiana residents	7,497	7,588	7,661	7,903	8,361
Full-time equivalent	7,539	7,564	7,668	7,822	8,215
<b>Degrees Granted (Academic Year)</b>					
Doctorate	10	10	20	16	16
Masters	279	280	271	283	297
Baccalaureate	1,613	1,635	1,576	1,618	1,626
Associate	63	69	63	79	86
<b>Faculty (Fall Semester)</b>					
Full-time	313	356	313	334	323
Percentage tenured	37	37	39	36	35
Part-time (FTE)	142	131	160	153	163
FTE students/FTE faculty	16.6	15.5	16.2	16.1	16.9

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



# Home Counties of USI Students (Fall 2017)



University of Southern Indiana

Fall 2017	
Indiana (90 counties)	7,497
Out-of-State (39 states)	1,313
International (53 nations)	204
<b>Total Enrollment</b>	<b>9,014</b>



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

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



8600 University Boulevard  
Evansville, Indiana 47712