AGENDA

FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

November 7, 2019

1. REVIEW OF AUDITED FINANCIAL STATEMENTS

A report will be presented on the audited financial statements for the fiscal year ending June 30, 2019 (Attachment A).

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

A summary of construction change orders approved by the vice president for Finance and Administration (Attachment B) will be reviewed.

University of Southern Indiana
Statement of Net Position
As of June 30, 2019 and 2018

		2019		2018
ASSETS				
Current Assets				
Cash and cash equivalents	$	22,182,515	$	17,561,947
Short-term investments		21,301,748		34,219,423
Accounts receivable, net		8,619,684		10,713,442
Due from the State of Indiana		-		3,336,727
Inventories		1,860,995		1,332,283
Deposits with bond trustee		33,118,401		3,535,159
Other current assets		2,284,092		3,014,833
Total current assets	$	89,367,435	$	73,713,814
Noncurrent Assets				
Long-term investments	$	63,308,763	$	49,838,857
Deposits with bond trustee		92,790		119,826
Capital assets, net		209,995,021		195,978,954
Total noncurrent assets	$	273,396,574	$	245,937,637
Total Assets	**$**	**362,764,009**	**$**	**319,651,451**
DEFERRED OUTFLOW OF RESOURCES				
Hedging derivative instruments	$	723,332	$	699,804
Deferred outflow of resources related to pensions		1,122,246		2,452,556
Deferred outflow of resources related to OPEB		684,494		992,854
Total deferred outflow of resources	$	2,530,072	$	4,145,214
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	3,505,078	$	2,215,595
Accrued payroll, benefits, and deductions		6,881,673		5,660,260
Bonds and leases payable		11,776,729		9,053,420
Debt interest payable		973,164		647,502
Unearned revenue		2,328,205		1,859,044
Other current liabilities		473,461		518,243
Total current liabilities	$	25,938,310	$	19,954,064
Noncurrent Liabilities				
Bonds and leases payable	$	107,929,535	$	81,288,294
Derivative instruments--interest rate swap		723,332		699,804
Other postemployment benefits		23,407,069		26,045,725
Compensated absences and termination benefits		3,026,196		3,036,111
Net pension liability		5,289,879		7,135,346
Other noncurrent liabilities		4,370		6,181
Total noncurrent liabilities	$	140,380,381	$	118,211,461
Total Liabilities	**$**	**166,318,691**	**$**	**138,165,525**
DEFERRED INFLOW OF RESOURCES				
Deferred inflow of resources related to pensions	$	1,162,041	$	838,474
Deferred inflow of resources related to OPEB		3,921,819		2,062,209
Total deferred inflow of resources	$	5,083,860	$	2,900,683
NET POSITION				
Net investment in capital assets	$	122,742,844	$	105,308,076
Restricted				
Expendable				
Capital Project		-		4,509,133
Debt Service		92,790		107,802
Scholarship, research, and other		8,279		14,978
Unrestricted		71,047,617		72,790,468
Total Net Position	**$**	**193,891,530**	**$**	**182,730,457**

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

University of Southern Indiana
Statement of Revenues, Expenses, and Changes in Net Position
Fiscal years ended June 30, 2019 and 2018

		2019		2018
REVENUES				
Operating Revenues				
Student fees	$	80,198,567	$	75,943,536
Scholarship discounts and allowances		(29,238,866)		(27,788,090)
Grants and contracts		1,554,760		1,619,316
Auxiliary enterprises		28,270,256		28,310,566
Room and board discounts and allowances		(1,497,390)		(1,184,605)
Other operating revenues		3,147,174		2,854,146
Total operating revenues	$	82,434,501	$	79,754,869
EXPENSES				
Operating Expenses				
Salaries and wages	$	64,512,721	$	64,108,731
Benefits		24,190,158		24,548,827
Student financial aid		8,832,202		8,680,395
Utilities		5,410,259		5,293,901
Supplies and other services		44,229,338		42,055,964
Depreciation		13,279,216		13,315,767
Total operating expenses	$	160,453,894	$	158,003,585
Operating loss	$	(78,019,393)	$	(78,248,716)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	$	58,552,040	$	55,118,066
Gifts		4,658,977		3,942,298
Federal grants and contracts		13,378,467		12,964,254
State/Local grants and contracts		11,193,987		11,070,063
Nongovernmental grants and contracts		711,577		886,680
Investment income (net of investment expense of $68,211 and $67,109 for 2019 and 2018)		2,696,153		680,707
Interest on capital asset related debt		(3,041,154)		(2,744,441)
Bond issuance costs		(316,190)		(5,000)
Other non-operating revenues/(expenses)		(36,197)		(43,777)
Net non-operating revenues (expenses)	$	87,797,660	$	81,868,850
Income before other revenues, expenses, gains or losses	$	9,778,267	$	3,620,134
Capital appropriations	$	931,336	$	16,425,545
Capital grants and gifts		451,470		2,051,000
Total other revenues	$	1,382,806	$	18,476,545
Increase in net position	$	11,161,073	$	22,096,679
NET POSITION				
Net position - beginning of year	$	182,730,457	$	170,057,083
Prior period adjustment for change in accounting principle	$	-	$	(9,423,305)
Net position - end of year	**$**	**193,891,530**	**$**	**182,730,457**

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

University of Southern Indiana
Statement of Cash Flows
Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Tuition and fees	$ 52,430,050	$ 49,656,692
Grants and contracts	1,572,559	1,750,161
Payments to suppliers	(43,518,377)	(41,432,327)
Payments for utilities	(5,410,259)	(5,293,901)
Payments to employees	(64,410,995)	(64,101,943)
Payments for benefits	(23,742,664)	(24,812,508)
Payments for scholarships	(8,832,202)	(8,680,395)
Collection of loans to students and employees	15,659	5,676
Auxiliary enterprises receipts	27,238,820	26,819,248
Sales and services of educational depts.	892,571	1,200,130
Other receipts (payments)	2,170,671	793,010
Net cash used by operating activities	**$ (61,594,167)**	**$ (64,096,157)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$ 58,552,040	$ 55,118,066
Gifts and grants for other than capital purposes	29,170,119	28,988,210
Other non-operating receipts (payments)	5,028	(25,731)
Net cash provided by noncapital financing activities	**$ 87,727,187**	**$ 84,080,545**
Cash Flows from Capital Financing Activities		
Proceeds from capital debt	$ 37,245,000	$ -
Capital appropriations	4,268,063	13,760,243
Capital grants and gifts	2,519,691	356,534
Bond financing costs	(352,387)	(48,778)
Purchase of capital assets	(27,130,449)	(28,481,926)
Principal paid on capital debt	(12,131,809)	(8,663,385)
Interest paid on capital debt and leases	1,371,034	(2,534,199)
Deposits with trustees	(29,556,206)	4,470,006
Net cash used by capital financing activities	**$ (23,767,063)**	**$ (21,141,505)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	$ 42,253,079	$ 39,516,758
Interest on investments	1,608,406	1,314,956
Purchase of investments	(41,606,874)	(39,754,121)
Net cash provided by investing activities	**$ 2,254,611**	**$ 1,077,593**
Net increase (decrease) in cash	$ 4,620,568	$ (79,524)
Cash – beginning of year	17,561,947	17,641,471
Cash – end of year	**$ 22,182,515**	**$ 17,561,947**

	2019	2018
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	$ (78,019,393)	$ (78,248,716)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	13,279,216	13,315,767
Provision for uncollectible accounts	(197,224)	655,938
Changes in assets, liabilities, and deferred resources:		
Operating receivables	995,651	372,317
Inventories	(528,712)	218,418
Other assets	604,392	(1,000,550)
Accounts payable	2,461,086	(479,360)
Unearned revenue	469,161	452,151
Deposits held for others	(1,811)	(15,482)
Employee and retiree benefits	(672,192)	627,684
Loans to students and employees	15,659	5,676
Net cash used by operating activities:	**$ (61,594,167)**	**$ (64,096,157)**

Unrealized gain/(loss) on long-term investments	1,171,661	(574,135)
Equipment	164,834	50,648
Capital lease	(164,834)	(50,648)
Net noncash transactions	**$ 1,171,661**	**$ (574,135)**

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

NOTE 1 – Summary of Significant Accounting Policies
The University of Southern Indiana was established in 1985 as described in the Indiana Code (IC 21-24 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 except for the student trustee, who serves a term of two years.

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

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.

New Accounting Pronouncements
As of July 1, 2018, the University adopted GASB Statement 83, *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The University has no asset retirement obligations to disclose for fiscal year 2019.

As of July 1, 2018, the University adopted GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and it clarifies which liabilities should be included when disclosing information related to debt. This information can be found in Note 8, Debt Related to Capital Assets.

As of July 1, 2018, the University adopted GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The statement requires that interest costs incurred before the end of a construction period be expensed in the period incurred. As a result, these interest costs will be reported as interest on capital asset related debt and not included in the value of capital assets. This adoption is prospective, and no prior-year amounts were restated.

Change in Functional Classification
The University elected to classify all intercollegiate athletics operating expenses as student services beginning July 1, 2018. The functional expenditures for the fiscal year ended June 30, 2018, are presented as previously reported in accord with GASB Statement 62. Refer to Note 16, Functional Expenditures, for additional details.

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 except for land and historical sites. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful life of each capital asset group is as follows:

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

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

The Historic New Harmony buildings are not depreciated due to the age of the buildings. However, the buildings are maintained because they have a historic value. 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, 2019.

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 $2,890,010. The currently known value is not included in the capitalized asset value at June 30, 2019.

Net Pension Liability
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. Effective January 1, 2018, funds previously known as annuity savings accounts (which had been reported within defined benefit (DB) funds) were recategorized as defined contribution (DC) funds based on Internal Revenue Service Private Letter Rulings PLR-193-2016 and PLR-110249-18. For more information refer to the Retirement Plans Note.

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 represent a consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources record 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.

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.

Classification of Revenues and Expenses
- 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.

Operating Revenues and Expenses
Operating revenues of the University consist of student fees (net of scholarship discounts and allowances), exchange grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues (net of scholarship discounts and allowances). Operating expenses include payments to suppliers for goods and services, employee wages and benefits, payments for scholarships, utilities, 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.

Other Revenues
Other revenues of the University consist of appropriations, grants, and gifts received for capital expenditures.

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, 2019, the bank balances of the University's operating demand deposit accounts were $22,126,126, of which $848,116 was covered by federal depository insurance. The bank balances of the University's operating demand deposit accounts were $17,603,624, at June 30, 2018, of which $1,095,126 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, 2019, are identified in the table below.

			Maturities (in Years)			
Investment Type	**Market Value**	**Type %**	**Less than 1 year**	**1 – 5 years**	**6 – 10 years**	**More than 10 years**
Certificates of deposit	29,249,705	34%	11,638,701	17,611,004	-	-
Agency securities	49,707,958	59%	7,816,367	36,272,861	5,489,519	129,211
U.S. Treasury securities	5,652,848	7%	1,846,680	3,806,168	-	-
Totals	**$84,610,511**	**100%**	**$21,301,748**	**$57,690,033**	**$5,489,519**	**$129,211**
Maturity %	100.0%		25%	68%	7%	0%

The University's investments at June 30, 2018, are identified in the table below.

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

Investment custodial credit risk – This is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University investment policy does not contain legal or policy requirements which limit exposure to custodial credit risk for deposits or investments, but preference is given to Indiana institutions based on the additional insurance coverage provided by the State. Of the $84.6 million invested at June 30, 2019, $55.4 million in U.S. securities are held in the name of the nominee bank and insured by policies of the financial institution or guarantees of the U.S. government. 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. 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 25 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 $84.6 million in investments at June 30, 2019, $55.3 million were rated Aaa by Moody's Investors Service, and $29.3 million in investments were unrated. At June 30, 2018, $51.9 million in investments were rated Aaa by Moody's Investors Service, and $32.2 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, 2019, and June 30, 2018, the University is in compliance with that policy.

Investments not explicitly guaranteed by the U.S. government are subject to disclosure if any one issuer represents five percent or more of total investments. The $5.7 million invested in U.S. Treasury Securities at June 30, 2019, and $3.7 million invested in U.S. Treasury Securities at June 30, 2018, 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, 2019					
Bank	**Certificates of Deposit**	**Percentage of CDs**	**US Agency Securities**	**Total**	**Percentage of Total**
Banterra Bank	2,057,765	7%	-	2,057,765	3%
Boonville Fed Savings	712,629	3%	-	712,629	1%
Evansville Commerce Bank	2,671,116	9%	-	2,671,116	3%
Fifth Third Bank	411,760	1%	30,906,279	31,318,039	40%
First Federal Savings Bank	2,373,554	8%	-	2,373,554	3%
First Financial Bank	4,151,078	14%	-	4,151,078	5%
German American Bank	5,177,375	18%	3,175,685	8,353,060	10%
J P Morgan	535,590	2%	-	535,590	1%
Legence Bank	868,886	3%	-	868,886	1%
Lynnville National Bank	104,858	0%	-	104,858	0%
Old National Bank	4,082,857	14%	9,921,281	14,004,138	18%
PNC Bank	1,167,152	4%	3,853,135	5,020,287	6%
Regions Bank	1,828,887	6%	1,851,578	3,680,465	5%
United Fidelity Bank	3,106,198	11%	-	3,106,198	4%
Total	**29,249,705**	**100%**	**49,707,958**	**78,957,663**	**100%**

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%
Total	**33,449,586**	**100%**	**46,956,458**	**80,406,044**	**100%**

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

NOTE 3 – Fair Value of Assets and Liabilities

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

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

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

Level 3 Unobservable inputs for an asset or liability

The following table presents value of University deposits and investments as reported in the accompanying Statement of Net Position at fair valuation on a recurring basis and their level within the fair-value hierarchy at June 30, 2019.

FAIR VALUE MEASUREMENTS **FAIR VALUE AT JUNE 30, 2019**

		FAIR VALUE MEASUREMENT USING		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Certificates of deposit	29,249,705	29,249,705		
U.S. Treasury securities	5,652,848	5,652,848		
Agency securities	49,233,492		49,233,492	
Agency mortgage securities	474,466		474,466	
Total investments	**84,610,511**	**34,902,553**	**49,707,958**	**-**
Derivative Instruments				
Interest rate swap	(723,332)		(723,332)	
Total derivative instruments	**(723,332)**	**-**	**(723,332)**	**-**

The University had the following fair value measurements at June 30, 2018.

FAIR VALUE MEASUREMENTS **FAIR VALUE AT JUNE 30, 2018**

		FAIR VALUE MEASUREMENT USING		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Certificates of deposit	33,449,586	33,449,586		
U.S. Treasury securities	3,652,236	3,652,236		
Agency securities	45,720,665		45,720,665	
Agency mortgage securities	1,235,793		1,235,793	
Total investments	**84,058,280**	**37,101,822**	**46,956,458**	**-**
Derivative Instruments				
Interest rate swap	(699,804)		(699,804)	
Total derivative instruments	**(699,804)**	**-**	**(699,804)**	**-**

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. The University utilizes the market-based valuation approach in accordance with GASB Statement 72.

Valuation techniques did not change significantly during the fiscal year ended June 30, 2019, and June 30, 2018.

NOTE 4 – Derivative Instruments

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2019, classified by type and the fair value changes of those derivative instruments are as follows.

		Change in Fair Value		Fair Value at June 30, 2019	
Derivative Instrument	**Type**	**Amount**	**Classification**	**Amount**	**Current Notional**
Series 2006	Cash flow hedge: Pay-fixed interest rate swap	$(52,362)	Derivative Instrument Interest Rate Swap	$(485,001)	$3,987,774
Series 2008A	Cash flow hedge: Pay-fixed interest rate swap	$28,834	Derivative Instrument Interest Rate Swap	$(238,331)	$7,275,000

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

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

The University determined that both pay-fixed interest rate swaps met the criteria for effectiveness as of June 30 of both 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, 2019, 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	$3,987,774	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	$7,275,000	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, 2018, along with the credit rating of the associated counterparty.

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

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

Fiscal Year Ending	Series 2006		Series 2008A		Total		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
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	455,626	102,328	-	-	455,626	102,328	557,954
2025-2029	1,904,433	182,472	-	-	1,904,433	182,472	2,086,905
2030-2034	-	-	-	-	-	-	-
Total	**$3,987,774**	**$891,863**	**$7,275,000**	**$507,416**	**$11,262,774**	**$1,399,279**	**$12,662,053**

Credit Risk —The fair value of the hedging derivative instruments is in a liability position as of June 30, 2019, and June 30, 2018, with Series 2006 having a balance of $485,001 and $432,639 and Series 2008A having a balance of $238,331 and $267,165, respectively. 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, 2019, compared to the previous fiscal year.

	2019	**2018**
Student receivables	$ 6,373,202	$ 7,825,002
Auxiliary enterprises	1,031,830	1,505,159
Grants and contracts	798,466	849,214
Capital grants and gifts	108,654	2,176,875
Other	3,483,790	1,730,674
Current accounts receivable, gross	11,795,942	14,086,924
Allowance for uncollectible accounts	(3,176,258)	(3,373,482)
Current accounts receivable, net	$ 8,619,684	$ 10,713,442

Other receivables primarily include support from USI Foundation and income from external customers for educational and public services.

NOTE 6 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $398.7 million at July 1, 2018, to $425.1 million on June 30, 2019. Gross capital assets, less accumulated depreciation of $215.1 million, equal net capital assets of $210 million at June 30, 2019.

	Balance June 30,2018	Additions	Transfers	Deletions	Balance June 30,2019
Capital Assets Not Being Depreciated					
Land	$ 5,036,654	$ 48,959	$ -	$ -	$ 5,085,613
Construction in Progress	34,075,086	24,187,401	(51,362,936)	-	6,899,551
Total Capital Assets Not Being Depreciated	**$ 39,111,740**	**$ 24,236,360**	**(51,362,936)**	**$ -**	**$ 11,985,164**
Capital Assets Being Depreciated					
Land Improvements	$ 14,990,461	$ -	$ 246,250	$ -	$ 15,236,711
Infrastructure	8,256,226	-	242,053	-	8,498,279
Educational Buildings	187,692,018	-	50,581,838	-	238,273,856
Auxiliary Buildings	120,733,304	-	292,795	-	121,026,099
Equipment	24,248,932	3,049,837	-	(769,607)	26,529,162
Library Materials	2,962,326	53,207	-	(235,560)	2,779,973
Capital Lease Equipment	662,831	164,834	-	(99,879)	727,786
Total Capital Assets Being Depreciated	**$ 359,546,098**	**$ 3,267,878**	**$ 51,362,936**	**$ (1,105,046)**	**$ 413,071,866**
Total Capital Assets	**$ 398,657,838**	**$ 27,504,238**	$ -	**$ (1,105,046)**	**$ 425,057,030**
Less Accumulated Depreciation					
Land Improvements	$ (10,152,180)	$ (681,981)	$ -	$ -	$ (10,834,161)
Infrastructure	(3,074,492)	(197,301)	-	-	(3,271,793)
Educational Buildings	(95,882,855)	(6,668,868)	-	-	(102,551,723)
Auxiliary Buildings	(70,068,474)	(3,981,927)	-	-	(74,050,401)
Equipment	(20,544,794)	(1,499,469)	-	593,945	(21,450,318)
Library Materials	(2,610,403)	(107,233)	-	235,560	(2,482,076)
Capital Lease Equipment	(345,686)	(142,437)	-	66,586	(421,537)
Total Accumulated Depreciation	**$ (202,678,884)**	**$(13,279,216)**	$ -	**$ 896,091**	**$ (215,062,009)**
Net Capital Assets Being Depreciated	**$ 156,867,214**	**$(10,011,338)**	**$ 51,362,936**	**$ (208,955)**	**$ 198,009,857**
Total Net Capital Assets	**$ 195,978,954**	**$ 14,225,022**	$ -	**$ (208,955)**	**$ 209,995,021**

During fiscal year 2019, the University incurred $571,102 in interest costs related to the ownership of capital assets. All of the interest costs were charged as interest expense as stated in GASB 89.

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. Some amounts included in additions and deletions when the table was published originally have been reclassified as transfers.

	Balance June 30,2017	Additions	Transfers	Deletions	Balance June 30,2018
Capital Assets Not Being Depreciated					
Land	$ 5,113,685	$ -	$ -	$ (77,031)	$ 5,036,654
Construction in Progress	15,184,531	25,559,574	(6,669,019)	-	34,075,086
Total Capital Assets Not Being Depreciated	**$ 20,298,216**	**$ 25,559,574**	**(6,669,019)**	**$ (77,031)**	**$ 39,111,740**
Capital Assets Being Depreciated					
Land Improvements	$ 14,990,461	$ -	$ -	$ -	$ 14,990,461
Infrastructure	8,189,606	-	66,620	-	8,256,226
Educational Buildings	182,171,822	153,892	5,366,304	-	187,692,018
Auxiliary Buildings	117,862,183	1,685,358	1,236,095	(50,332)	120,733,304
Equipment	24,237,022	1,162,948	-	(1,151,038)	24,248,932
Library Materials	3,376,328	41,692	-	(455,694)	2,962,326
Capital Lease Equipment	668,853	63,423	-	(69,445)	662,831
Total Capital Assets Being Depreciated	**$ 351,496,275**	**$ 3,107,313**	**$ 6,669,019**	**$ (1,726,509)**	**$ 359,546,098**
Total Capital Assets	**$ 371,794,491**	**$ 28,666,887**	$ -	**$ (1,803,540)**	**$ 398,657,838**
Less Accumulated Depreciation					
Land Improvements	$ (9,395,156)	$ (757,024)	$ -	$ -	$ (10,152,180)
Infrastructure	(2,823,731)	(250,761)	-	-	(3,074,492)
Educational Buildings	(89,348,705)	(6,534,150)	-	-	(95,882,855)
Auxiliary Buildings	(65,966,173)	(4,115,427)	-	13,126	(70,068,474)
Equipment	(20,285,196)	(1,403,291)	-	1,143,693	(20,544,794)
Library Materials	(2,943,549)	(122,548)	-	455,694	(2,610,403)
Capital Lease Equipment	(269,834)	(132,566)	-	56,714	(345,686)
Total Accumulated Depreciation	**$ (191,032,344)**	**$(13,315,767)**	$ -	**$ 1,669,227**	**$ (202,678,884)**
Net Capital Assets Being Depreciated	**$ 160,463,931**	**$(10,208,454)**	**$ 6,669,019**	**$ (57,282)**	**$ 156,867,214**
Total Net Capital Assets	**$ 180,762,147**	**$ 15,351,120**	$ -	**$ (134,313)**	**$ 195,978,954**

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

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

Construction Work in Progress	Balance as of	
Facility	**June 30, 2018**	**June 30, 2019**
Physical Activities Center (PAC)	22,419,038	5,515,959
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	703,121
ADA Interior Locks Installation	533,924	-
University Center West Partial Roof Replacement	-	374,918
Other projects (not exceeding $250,000)	644,205	305,553
Total	**34,075,086**	**6,899,551**

NOTE 7 – Noncurrent Liabilities

Changes in noncurrent liabilities for the fiscal years ended June 30, 2019 and 2018, are shown below.

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion	Noncurrent Portion
Bonds payable	$90,023,376	$41,573,737	$12,199,700	$119,397,413	$11,631,663	$107,765,750
Leases payable	318,338	164,834	174,321	308,851	145,066	163,785
Derivative instruments - interest rate swap	699,804	52,362	28,834	723,332	-	723,332
Other postemployment benefits	26,045,725	4,003,602	6,642,258	23,407,069	-	23,407,069
Compensated absences	3,184,537	2,861,484	2,818,284	3,227,737	326,622	2,901,115
Termination benefits	413,701	183,146	216,642	380,205	255,124	125,081
Net pension liability	7,135,346	555,173	2,400,640	5,289,879	-	5,289,879
Other noncurrent liabilities	6,181	6,093	7,904	4,370	-	4,370
Total	$127,827,008	$49,400,431	$24,488,583	$152,738,856	$12,358,475	$140,380,381

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion	Noncurrent Portion
Bonds payable	$98,301,860	$291,211	$8,569,695	$90,023,376	$8,920,862	$81,102,514
Leases payable	399,795	63,434	144,891	318,338	132,558	185,780
Derivative instruments - interest rate swap	1,215,237	-	515,433	699,804	-	699,804
Other postemployment benefits	26,910,968	5,015,770	5,881,013	26,045,725	-	26,045,725
Compensated absences	3,062,098	2,970,698	2,848,259	3,184,537	337,594	2,846,943
Termination benefits	383,976	207,048	177,323	413,701	224,533	189,168
Net pension liability	7,449,403	1,220,686	1,534,743	7,135,346	-	7,135,346
Other noncurrent liabilities	21,663	6,372	21,854	6,181	-	6,181
Total	$137,745,000	$9,775,219	$19,693,211	$127,827,008	$9,615,547	$118,211,461

The other postemployment benefits balance at June 30, 2017, presented above has been amended from the amount published in the 2017 University financial report to incorporate the prior period adjustment for change in accounting principle that arose from GASB statements 75 and 85, which took effect July 1, 2017.

NOTE 8 – Debt Related to Capital Assets

Bonds Payable – The following schedule details bonds payable at June 30, 2019, compared to the previous fiscal year.

SCHEDULE OF BONDS PAYABLE	*Issue Date*	*Interest Rate*	*Maturity Date*	*Original Issue Amount*	*Principal Outstanding June 30, 2019*	*Principal Outstanding June 30, 2018*	*Current Portion June 30, 2019*
Student Fee Bonds							
Direct Placements of Debt							
Series 2006, Recreation & Fitness Center	2006	4.67%	2028	7,250,000	3,987,774	4,350,262	379,452
Series K-3, Refund Series H and I	2012	1.90%	2023	42,840,000	18,410,000	22,680,000	4,350,000
Series L-1, Health Professions Center 3rd Floor	2017	2.90%	2036	8,050,000	7,470,000	7,780,000	320,000
Series L-2, Refund Series J	2017	2.15%	2026	21,440,000	21,440,000	21,440,000	-
Series L-3, Refund Series J	2017	2.65%	2028	9,955,000	9,955,000	9,955,000	-
Student Fee Bonds – Direct Placements				89,535,000	61,262,774	66,205,262	5,049,452
Other Debt							
Series G, Recreation & Fitness Center	1999	0.00% to 10.00%	2019	4,700,000	-	800,000	-
Series J, Business and Engineering Center	2009	3.45% to 3.70%	2019	50,185,000	2,425,000	4,755,000	2,425,000
Series K-1, Teaching Theatre	2012	2.00% to 4.00%	2032	12,300,000	8,760,000	9,230,000	480,000
Series M, Physical Activities Center	2019	4.00% to 5.00%	2037	37,245,000	34,570,000	-	1,175,000
Student Fee Bonds – Other Debt				104,430,000	45,755,000	14,785,000	4,080,000
Student Fee Bonds				193,965,000	107,017,774	80,990,262	9,129,452
Auxiliary System Bonds							
Direct Placements of Debt							
Series 2008A, Student Housing Facilities	2008	3.97%	2021	9,800,000	7,275,000	7,575,000	1,800,000
Other Debt							
Series 2003, Student Housing Facilities	2003	3.00% to 4.50%	2024	8,005,000	3,090,000	3,530,000	460,000
Auxiliary System Bonds				17,805,000	10,365,000	11,105,000	2,260,000
Subtotal Bonds Payable				$211,770,000	$117,382,774	$92,095,262	$11,389,452
Net Unamortized Premiums and Costs				-	$2,014,640	($2,071,886)	$242,211
Total Bonds Payable					**$119,397,414**	**$90,023,376**	**$11,631,663**

Student Fee Bond Series G was a variable interest bond with weekly rates. The University exercised its option to redeem Series G bonds in whole on October 1, 2018. All other bonds are term or serial with fixed annual rates as identified in the preceding table.

The University of Southern Indiana Student Fee Bonds Series G of 1999, Series J of 2009, Series K-1 and K-3 of 2012, Series L-1, L-2, and L-3 of 2017, and Series M of 2019 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. These student fee bonds contain a provision that the bond trustee may, at its discretion and upon the written request of the holders of 25 percent of the bonds then outstanding, seek legal or equitable remedy in the event of default.

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. These auxiliary system bonds also contain a provision that the bond trustee may, at its discretion and upon the written request of the holders of 25 percent of the bonds then outstanding, seek legal or equitable remedy in the event of default.

Annual debt service requirements through maturity for bonds payable are presented in the following chart.

Annual Debt Service Requirements

Fiscal Year Ended	Direct Placements		Other Debt	
June 30	Principal	Interest	Principal	Interest
2020	$6,849,452	$1,694,347	$4,540,000	$2,032,400
2021	10,727,209	1,461,808	2,205,000	1,893,720
2022	11,635,797	1,151,526	2,290,000	1,804,675
2023	6,640,257	927,917	2,385,000	1,711,438
2024	6,795,626	775,592	2,490,000	1,611,250
2025-2029	22,084,433	2,052,702	11,715,000	6,419,687
2030-2034	2,275,000	390,558	13,260,000	3,468,600
2035-2039	1,530,000	67,425	9,960,000	816,800
Total	$68,537,774	$8,521,875	$48,845,000	$19,758,570

NOTE 9 – Series M Bond Issue

On February 12, 2019, the University issued $37,245,000 in student fee revenue bonds with an all-in true interest cost of 3.21 percent. Net proceeds from the bond issue are to be used to fund the second phase of the construction, renovation and equipping of the Physical Activities Center Classroom Renovation and Expansion project. Annual debt service payments of approximately $2.7 million are scheduled through October 2037.

NOTE 10 – Lease Obligations

The University spent $236,399 and $211,262 on operating leases as of June 30, 2019 and 2018, 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, 2019, compared to the previous fiscal year.

Operating Lease Payments	2019	2018
Off-campus facilities	$ 135,347	$ 148,027
Equipment	87,399	49,862
Vehicles	13,653	13,373

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 $727,786 and $662,831 as of June 30, 2019 and 2018, respectively. Accumulated depreciation of leased equipment totaled $421,537 and $345,686 as of June 30, 2019 and 2018, 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
2020	$148,703	$93,877
2021	81,709	19,258
2022	48,212	6,357
2023	35,015	-
2024	3,315	-
Total future minimum payments	$316,954	$119,492
Less interest	(8,103)	
Total principal payments outstanding	$308,851	

NOTE 11 – 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) Hybrid plan. The TIAA plan is an IRC 403(b) defined contribution plan; PERF Hybrid is a defined benefit and defined contribution plan under IRC 401(a) and a state plan described in IC 5-10.2, in IC 5-10.3, and in 35 IAC 1.2. The University contributed $5,842,836 to these programs in fiscal year 2018-19, which represents approximately 9.06 percent of the total University payroll and 10.84 percent of the benefit-eligible employees' payroll for the same period.

Defined Contribution Retirement Plan

<u>Faculty and Administrators</u> 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 $4,776,078 to this plan for 672 participating employees for fiscal year ending June 30, 2019, and $4,672,809 for 647 participating employees for fiscal year ending June 30, 2018. The annual payroll for this group totaled $44,995,676 and $44,493,852 for fiscal years ending June 30, 2019 and 2018, 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 seven percent of compensation and using the PERF definition of eligible compensation. The University contributed $193,973 to this plan for 137 participating employees for fiscal year ending June 30, 2019, and $141,887 to this plan for 101 participating employees for the fiscal year ending June 30, 2018. The annual payroll for this group totaled $2,771,038 and $2,026,954 for fiscal years ending June 30, 2019 and 2018, 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.

Hybrid Defined Benefit and Defined Contribution 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 PERF Hybrid Plan, a retirement program administered by the Indiana Public Retirement System (INPRS), an agency of the State of Indiana. PERF is a cost-sharing, multiple-employer defined benefit and defined contribution plan which is administered in accordance with IC 5-10.2, IC 5-10.3, and 35 IAC 1.2. Effective January 1, 2018, funds previously known as annuity savings accounts (which had been reported within defined benefit (DB) funds) were recategorized as defined contribution (DC) funds based on Internal Revenue Service Private Letter Rulings PLR-193-2016 and PLR-110249-18. DC member balances previously reported within PERF DB fund totals were transferred to the appropriate DC fund as of January 1, 2018. Benefit provisions are established and/or amended by the State of Indiana. INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for PERF participants. That report may be obtained at www.in.gov/inprs/annualreports.htm.

Benefits provided. PERF Hybrid consists of the Public Employees' Defined Benefit Account (PERF DB) and the Public Employees' Hybrid Members Defined Contribution Account (PERF Hybrid DC).
PERF DB provides retirement, disability, and death benefits. Employees were eligible to participate in this plan immediately upon employment and are fully vested after ten years of employment. The following table is a summary of the key information for the PERF DB fund administered by INPRS. For a complete list of the fund rules, please reference the applicable Indiana Code at http://iga.in.gov/.

Full Retirement Benefit		Early Retirement Benefit	Nonvested Termination
Eligibility	**Annual Pension Benefit**		
Age 65 and 10 years (eight years for certain elected officials) of creditable service, Age 60 and 15 years of creditable service, and Age 55 if age and creditable service total at least 85.	Equals 1.1 percent X Average Annual Compensation X Years of Creditable Service Average annual compensation uses the 20 highest calendar quarters (or only four quarters for an elected official), in groups of four consecutive calendar quarters with no quarter used more than once (includes member contributions paid for by the employer and up to $2,000 of severance).	Age 50 and minimum of 15 years of creditable service (44 percent of full benefit at age 50, increasing 5 percent per year up to 89 percent at age 59).	Refer to Defined Contribution Funds.

Disability Benefit	Survivor Benefit		COLA – Cost of Living Adjustment
	While in Active Service	**While Receiving a Benefit**	
An active member qualifying for Social Security disability with five years of creditable service may receive an unreduced retirement benefit for the duration of their disability (minimum of $180 per month for PERF DB).	Minimum of 15 years of service or member was at least age 65 with 10 to 14 years of service. A spouse or dependent beneficiary immediately receives a benefit as if the member retired the later of age 50 or the age the day before the member's death.	If the member selected one of the following forms of payment: Five Year Guaranteed, Joint with Full, Joint with Two-Thirds, or Joint with One-Half, a spouse or dependent receives the benefit associated with the selected form of payment.	Ad hoc. No COLA, but a one-time check (13th check) by October 1, 2017 for members retired before December 1, 2016 of $150 to $450 depending on service.

Perf Hybrid DC provides supplemental retirement benefits to PERF DB members. Members are fully vested in their account balance, which includes all contributions and earnings. Members may withdraw their account balance upon retirement, termination, disability, or death. As of January 1, 2018, MetLife is an available option for members that choose to annuitize their defined contribution balance.

Retirement & Termination Benefit	Disability Benefit	Survivor Benefit
After 30-day separation from employment, the member is entitled to the sum total of vested contributions plus earnings. Amount may be paid in a lump sum, partial lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).	Upon providing proof of the member's qualification for social security disability benefits, the member is entitled to the sum total of vested contributions plus earnings. Amount can be paid in a lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).	Beneficiary is entitled to the sum total of vested contributions plus earnings. Amount can be paid in a lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements)

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: the PERF Hybrid DC fund to which members contribute three percent of their salary and PERF DB fund to which the University contributed 11.2 percent of the employee's salary this fiscal year. The University contributed $872,785 for 213 employees participating in the PERF Hybrid plan during the 2018-19 fiscal year and $974,750 for 246 employees participating during 2017-18. These contribution amounts include the three percent member portion, which the University has elected to pay on behalf of its employees.

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

The University reported a liability of $5,289,879 at June 30, 2019, and $7,135,346 at June 30, 2018, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated June 30, 2018, for assets and June 30, 2017, rolled forward to June 30, 2018 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, 2018, the University's proportion was 0.16 percent, which was unchanged from June 30, 2017.

For the year ended June 30, 2019, the University recognized pension expense of $(191,591). At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	69,181	361
Changes in assumptions	12,603	849,363
Net difference between projected and actual earnings on pension plan investments	156,665	-
Changes in proportion and differences between the University's contributions and proportionate share of contributions	12,205	312,317
The University's contributions subsequent to the measurement date	871,592	-
Total	$ 1,122,246	$ 1,162,041

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

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

$871,592 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, 2020. 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:	
2019	(64,077)
2020	(295,478)
2021	(458,146)
2022	(93,686)
2023	-
Thereafter	-
Total	$(911,387)

Actuarial assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	2.50-4.25 percent, including inflation
Investment rate of return	6.75 percent, net of investment expense
Cost of Living Increases	It is assumed a service-based 13th check will be paid in the 2020 and 2021 fiscal years. Thereafter, the following COLAs, compounded annually, are assumed: 0.40 percent beginning on January 1, 2022 0.50 percent beginning on January 1, 2034 0.60 percent beginning on January 1, 2039

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, 2018 valuation were adopted by the INPRS Board in April 2018. The majority of the actuarial assumptions and methods are based on plan experience from July 1, 2010, through June 30, 2014, and were first used in the June 30, 2015 valuation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	22%	4.4%
Private Equity	14	5.4
Fixed Income- Ex Inflation-Linked	20	2.2
Fixed Income- Inflation-Linked	7	0.8
Commodities	8	2.3
Real Estate	7	6.5
Absolute Return	10	2.7
Risk Parity	12	5.2
Total	100%	

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

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

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability	$8,327,120	$5,289,879	$2,757,151

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 12 – 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 $100,000 per occurrence. Specifically for earthquake, there is an additional two percent of loss deductible (per unit) for building, contents and business income. For the University's main campus there is a minimum deductible of $100,000 for flood for each loss. There is also a $100,000 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, pollution (which includes mold), and commercial auto are insured by commercial insurance subject to various deductibles. Life and disability insurance are handled through fully insured commercial policies. No liability exists at the balance sheet date for unpaid claims.

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

The University has two health care plans available for new enrollment of full-time benefit-eligible employees; one of these plans is also available to retirees. A third health care plan is only available to retirees. All of the plans are funded under a self-funded 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, 2019, the University's contribution to these health care plans totaled $11,558,506 for 1,043 employees and $1,961,329 for 436 retirees. For the same period, employees and retirees made contributions totaling $2,692,381 and $743,729 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, 2019, 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 2017-18 and 2018-19 fiscal years are as follows.

Fiscal Year	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2017-18	$1,042,076	$12,967,741	$(12,891,047)	$1,118,770
2018-19	$1,118,770	$13,771,420	$(13,607,723)	$1,282,467

NOTE 13 - Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan

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

Benefits Provided. VEBA provides medical, dental, and life insurance benefits for eligible retirees and their dependents. The OPEB plan is closed to new entrants. Full-time employees hired before July 1, 2014, whose age plus years of creditable service equal 57 as of July 1, 2014, or who have 10 years of creditable service as of July 1, 2014, are eligible for lifetime medical and dental coverage at retirement once they reach age 60 with 10 years of service, or for certain eligible employees, age 55 with 85 points (age plus years of service is at least 85). Retirees hired prior to 1993 contribute 25 percent 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, 2019, the following employees were covered by the benefit terms.

Inactive Employees or beneficiaries currently receiving medical/dental benefit payments	259
Inactive employees entitled to but not yet receiving medical/dental benefit payments	0
Active employees eligible for medical/dental	332
	591

Inactive Employees or beneficiaries currently receiving life insurance benefit payments	325
Inactive employees entitled to but not yet receiving life insurance benefit payments	0
Active employees eligible for life insurance	631
	956

Contributions. Historically, the trust has been funded from three sources: University contributions and reserves designated by the University 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 $133.07 to $580.09 per month for single coverage and $388.41 to $1,603.31 for family coverage. Retiree contributions for medical and dental ranged from $112.32 to $577.08 per month for single coverage and $341.00 to $1,600.31 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, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018, with results projected to the June 30, 2019 measurement date on a "no loss/no gain" basis.

Actuarial assumptions. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.25 percent
Salary increases	2.50-4.25 percent, including inflation
Healthcare cost trend rates	8.50 percent for 2020, decreasing 0.50 percent per year to an ultimate rate of five percent for 2027 and later years for medical 4.75 percent for 2020, decreasing 0.25 percent per year to an ultimate rate of three 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, 2019 valuation were based on the results of an actuarial experience study in 2013.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Large Cap	45%	7.5%
Domestic Mid/Small Cap	12	8.5
International Equity	13	7.5
Domestic Bonds	30	2.5
Total	100%	

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

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

Yield as of	June 30, 2019
Bond Buyer Go 20-Bond Municipal Bond Index	3.51%
S&P Municipal Bond 20-Year High Grade Rate Index	2.79
Fidelity 20-Year Go Municipal Bond Index	3.13
Bond Index Range	2.79-3.51%

Changes in the Net OPEB Liability June 30, 2019

		Increase (Decrease)	
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 6/30/2018	$49,864,398	$23,818,673	$26,045,725
Changes for the year:			
Service Cost	504,688		504,688
Interest	3,447,775		3,447,775
Changes in assumptions	-		-

Differences between expected and actual experience	(3,795,748)		(3,795,748)
Contributions-employer		1,197,189	(1,197,189)
Net Investment Income		1,649,321	(1,649,321)
Benefit Payments	(2,268,697)	(2,268,697)	-
Administrative Expense		(51,139)	51,139
Net Changes	(2,111,982)	526,674	(2,638,656)
Balances at 6/30/2019	$47,752,416	$24,345,347	$23,407,069

Changes in the Net OPEB Liability June 30, 2018

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

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

	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
Net OPEB liability	29,686,981	23,407,069	18,211,552

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the University, as well as what the University's net OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage-point lower (7.50 percent decreasing to four percent) or 1-percentage-point higher (9.50 percent decreasing to six percent) than the current healthcare cost trend rates.

	1% Decrease (7.50% decreasing to 4%)	Healthcare Cost Trend Rates (8.50% decreasing to 5%)	1% Increase (9.50% decreasing to 6%)
Net OPEB liability	17,826,382	23,407,069	30,166,656

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, 2019, the University recognized OPEB expense of $726,503. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	3,905,305
Changes in assumptions	481,170	-
Net differences between projected and actual earnings in OPEB plan investments	203,324	16,514
Total	684,494	3,921,819

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

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

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

Year ended June 30:	
2020	(1,648,420)
2021	(1,648,423)
2022	63,648
2023	(4,130)
2024	-
Thereafter	-

NOTE 14 - 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 $3,227,737 and $3,184,537 for June 30, 2019 and 2018, respectively. The current year change represents a $57,720 increase in accrued vacation; a $13,452 decrease in sick leave liability; a $3,387 increase in Social Security and Medicare taxes; a $6,051 decrease in Public Employees’ Retirement Fund (PERF) contributions; and a $1,596 increase in Teacher’s Insurance and Annuity Association (TIAA) contributions. During the fiscal year, $369,416 was paid out to terminating employees. Payout for terminating employees in fiscal year 2019-20 is expected to decrease approximately 11.58 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $326,622 of the total compensated absence liability is classified as a current liability under accrued payroll, benefits and deductions, and the remaining $2,901,115 is classified as a noncurrent liability.

NOTE 15 – Termination Benefits Liability

GASB Statement No. 47, *Accounting for Termination Benefits,* requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of 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 remain static for purposes of calculating this liability.

The University has 16 retirees currently receiving early-retirement benefits, seven of whose benefits stop after this fiscal year, and nine more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $380,205 at June 30, 2019. Of that amount, $255,124 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 $125,081 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

NOTE 16 – Functional Expenditures

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

The University elected to classify all intercollegiate athletics operating expenses previously reported as auxiliary enterprises as student services beginning July 1, 2018. Given the changing environment of Division II intercollegiate athletics and the stated commitment of the University to that division, the institution does not expect athletics operations to be self-supporting in future periods. Therefore, the institution considers the functional classification of student services to be more accurate and adopted that change accordingly. The functional expenditures for the fiscal year ended June 30, 2018, are presented as previously reported.

This information is presented in the tables below.

Fiscal Year Ended June 30, 2019							
FUNCTION	**SALARIES & WAGES**	**BENEFITS**	**STUDENT FINANCIAL AID**	**UTILITIES**	**SUPPLIES & OTHER SVCS**	**DEPREC-IATION**	**TOTAL**
Instruction	$33,703,470	$10,582,148			$3,568,573		$47,854,191
Academic Support	5,537,252	2,056,557			5,101,559		12,695,368
Student Services	5,862,697	2,217,498			4,431,113		12,511,308
Institutional Support	9,451,004	4,598,148			6,041,895		20,091,047
Operation & Maintenance of Plant	3,851,949	1,672,866		4,517,541	8,571,027		18,613,383
Depreciation						13,279,216	13,279,216
Student Aid			8,832,202				8,832,202
Public Service	1,201,279	352,513			976,331		2,530,123
Research	121,899	28,221			126,524		276,644
Auxiliary Enterprises	4,783,171	2,682,207		892,718	15,412,316		23,770,412
TOTAL	**$64,512,721**	**$24,190,158**	**$8,832,202**	**$5,410,259**	**$44,229,338**	**$13,279,216**	**$160,453,894**

Fiscal Year Ended June 30, 2018							
FUNCTION	**SALARIES & WAGES**	**BENEFITS**	**STUDENT FINANCIAL AID**	**UTILITIES**	**SUPPLIES & OTHER SVCS**	**DEPREC-IATION**	**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 & 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
TOTAL	**$64,108,731**	**$24,548,827**	**$8,680,395**	**$5,293,901**	**$42,055,964**	**$13,315,767**	**$158,003,585**

NOTE 17 – Subsequent Event

The 2019 Indiana General Assembly approved $48 million in bonding authority for the renovation and expansion of 180,000 square feet of the Health Professions Center. The project will improve classrooms, laboratories, student study space, and technology infrastructure across all three floors of the facility.

Included in the project is the relocation of the University Health Center to a new facility for University Health Services, Counseling, and Wellness. The University plans to issue the student fee replacement bonds in early 2020 following the reception of additional approvals from the University Board of Trustees and the State of Indiana for the release of the funds and the issuance of the debt.

University of Southern Indiana
Fiscal Year Ended June 30, 2019

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, 2019, and compares that performance with select information for the years ended June 30, 2018 and 2017. It is designed to focus on current activities, resulting changes, and currently known facts, and 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.

Using the Financial Report

The University financial report consists of three statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The statements, the notes to the financial statements, the management discussion and analysis, and the required supplementary information have been prepared in accordance with Governmental Accounting Standards Board (GASB) standards.

In addition, the Consolidated Statements of Financial Position, the Consolidated Statements of Activities, the Consolidated Statements of Cash Flows, and the accompanying note disclosures of the University of Southern Indiana Foundation are presented discretely. The Foundation is subject to the reporting standards of the Financial Accounting Standards Board (FASB), which differ in some respects from GASB requirements. No modifications have been made to the statements of either entity to reconcile these differences.

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)	2019	2018	2017
Current Assets	89,367	73,714	60,439
Noncurrent Assets:			
Capital assets, net of depreciation	209,995	195,979	180,762
Other non-current	63,402	49,958	64,197
Total Assets	**$ 362,764**	**$ 319,651**	**$ 305,398**
Hedging Derivative Instruments	723	700	1,215
Deferred Outflow of Resources Related to Pensions	1,122	2,452	3,406
Deferred Outflow of Resources Related to OPEB	685	993	-
Total Deferred Outflow of Resources	**$ 2,530**	**$ 4,145**	**$ 4,621**
Current Liabilities	25,938	19,954	19,661
Noncurrent Liabilities	140,380	118,212	119,170
Total Liabilities	**$ 166,318**	**$ 138,166**	**$ 138,831**
Deferred Inflow of Resources Related to Pensions	1,162	838	1,131
Deferred Inflow of Resources Related to OPEB	3,922	2,062	-
Total Deferred Inflow of Resources	**$ 5,084**	**$ 2,900**	**$ 1,131**
Net Position:			
Net investment in capital assets	122,743	105,308	81,770
Restricted--expendable	101	4,632	6,825
Unrestricted	71,048	72,790	81,462
Total Net Position	**$ 193,892**	**$ 182,730**	**$ 170,057**

Assets
Current assets are used to support current operations and consist primarily of cash and cash equivalents, short-term investments, 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 by $43.1 million, or 13.5 percent, in fiscal year 2019 compared to a $14.3 million, or 4.7 percent, increase in fiscal year 2018. Asset activity during the 2019 fiscal year is summarized by the following events.

Cash and cash equivalents increased by $4.6 million from $17.6 million at June 30, 2018, to $22.2 million at June 30, 2019. Management elected to keep a larger amount of cash on hand during the latter stages of fiscal year 2019 to meet short-term cash needs for construction expenditures. During fiscal year 2018, cash and cash equivalents decreased by only $80,000, or less than one percent.

Short-term investments decreased by $12.9 million during 2019. This change relates directly to the $13.4 million increase in long-term investments. As investments matured during 2019, the University reinvested the proceeds for more than one year to obtain a greater rate of return, resulting in a reclassification of the assets from current to noncurrent. Overall, the total value of investments remained stable at $84.6 million on June 30, 2019, compared to $84.1 million on June 30, 2018, and $84.5 million on June 30, 2017.

The University had no amount due from the State of Indiana at June 30, 2019. At June 30, 2018, the State of Indiana owed the University $3.3 million for two outstanding claims associated with the first phase of the renovation and expansion of the Physical Activities Center, and the University received those funds during fiscal year 2019.

Net accounts receivable decreased by $2.1 million in 2019. Decreases in student receivables ($1.4 million), auxiliary enterprises ($473,000), grants and contracts ($51,000), and capital grants and gifts ($2 million) were offset partially by a $1.8 million increase in other receivables, which are comprised primarily of support from the USI Foundation and revenues from external customers for educational and public service. The $2 million capital grants and gifts amount outstanding at June 30, 2018, was a one-time gift from the USI Foundation for the Fuquay Welcome Center, which opened formally in November 2018.

The current portion of deposits with bond trustee increased by $29.6 million in fiscal year 2019 as the University held $33.1 million in unspent proceeds from the issuance of Series M student fee bonds in February 2019 for the second phase of the renovation and expansion of the Physical Activities Center.

Net capital assets increased by $14 million in 2019. Asset additions of $27.5 million were offset partially by depreciation of $13.3 million. Miscellaneous asset disposals and adjustments netted to a combined total of $209,000 and accounted for the remaining decrease. Fiscal year 2019 marked the completion and opening of several significant facilities. The Stone Family Center for Health Sciences, which is a collaborative effort with the Indiana University School of Medicine and the University of Evansville, opened the doors to its first students in downtown Evansville during August 2018. The Fuquay Welcome Center, which will serve as a gathering and tour starting point for prospective students and other visitors, welcomed its first groups in September 2018 followed by a public ceremony in November. Finally, the new 4,800-seat Screaming Eagles Arena opened in April 2019 as part of first phase of the renovation and expansion of the Physical Activities Center. The opening month featured a moderated discussion with General Colin L. Powell, USA (Ret.), the inauguration of Dr. Ronald S. Rochon as the fourth president of the University, and spring commencement among other events.

Inventories increased by $529,000 while other current assets and noncurrent deposits with bond trustee decreased by $731,000 and $27,000, respectively, to account for the remaining change in total assets.

Deferred Outflow of Resources
Deferred outflows of resources represent the consumption of resources applicable to a future period. These amounts decreased by $1.6 million, or 39 percent, in fiscal year 2019 compared to a decline of $476,000, or 10.3 percent during fiscal year 2018. Deferred outflow related to pensions decreased by $1.3 million in fiscal year 2019 following a $953,000 decline in fiscal year 2018. Deferred outflow related to other postemployment benefits (OPEB) dropped by $308,000 following the implementation of GASB Statement 75 in fiscal year 2018. Finally, hedging derivate instruments posted a slight increase as the cumulative fair values of the derivative instruments related to the Series 2006 and Series 2008A bonds declined by $24,000 at June 30, 2019, resulting in a corresponding increase to the related deferred outflow.

Liabilities

Current liabilities are primarily composed of accounts payable; accrued payroll, related benefits and deductions, which includes the current portions of the liabilities for compensated absences and termination benefits; the current portion of bonds payable; the current portion of leases payable; debt interest payable; unearned revenues, and other miscellaneous liabilities. Noncurrent liabilities consist of bonds payable, leases payable, the June 30 mark-to-market valuation for the Series 2006 and Series 2008A hedgeable financial derivatives, other postemployment benefits, compensated absences, termination benefits, the University's share of the net pension liability for the Public Employees' Retirement Fund (PERF), and other miscellaneous liabilities.

Total liabilities increased by $28.2 million, or 20.4 percent, during fiscal year 2019 after decreasing by $665,000, or .5 percent in fiscal year 2018. The following factors contributed to the liability increase in 2019.

Accounts payable and accrued liabilities increased by $1.3 million in 2019. The increase resulted primarily from pending vendor payments for construction projects at June 30.

Accrued payroll, benefits, and deductions increased by $1.2 million for the year ended June 30, 2019, due primarily to a prepayment of federal income tax withholdings in June 2018 that did not recur in June 2019.

Total bonds and leases payable increased by $29.4 million in fiscal year 2019. Of that amount, $2.7 million is classified as a current liability, and $26.7 million is classified as a noncurrent liability. The University issued $37.2 million in student fee revenue bonds with a $4.1 million bond premium in February 2019. Net proceeds from the Series M issue will be used to fund the second phase of the renovation and expansion of the Physical Activities Center. In January 2019, S&P Global assigned it 'A' long-term rating on the Series M bonds and affirmed its 'A' rating on the Series J, Series, K-1, and Series K-3 bonds with a stable outlook. During the same period, Moody's Investors Service assigned a rating of A1 with a stable outlook to the Series M bonds.

The University exercised its option to redeem the Series G bonds in whole on October 1, 2018. This action resulted in the payment of an additional $400,000 in principal that was scheduled to be paid in fiscal year 2020. The University opted to redeem the variable-rate bonds to save interest costs given the rising interest-rate environment at the time of the decision.

Payments of bond principal during fiscal year 2019, including $2.7 for Series M and the additional $400,000 to redeem Series G, totaled $12 million.

The noncurrent liabilities related to retirement benefits declined during 2019. Other postemployment benefits decreased by $2.6 million after increasing by $8.6 million in 2018 with the implementation of GASB Statement 75. In addition, the net pension liability related to the University's hybrid defined benefit and defined contribution plan through the Public Employees' Retirement Fund declined by $1.8 million, which marks the third consecutive year that the pension liability has decreased. These liability reductions are attributable in part to retirement benefit changes implemented by the University during the past five years.

The cumulative effect of changes to other current and noncurrent liabilities resulted in a $752,000 increase to total liabilities.

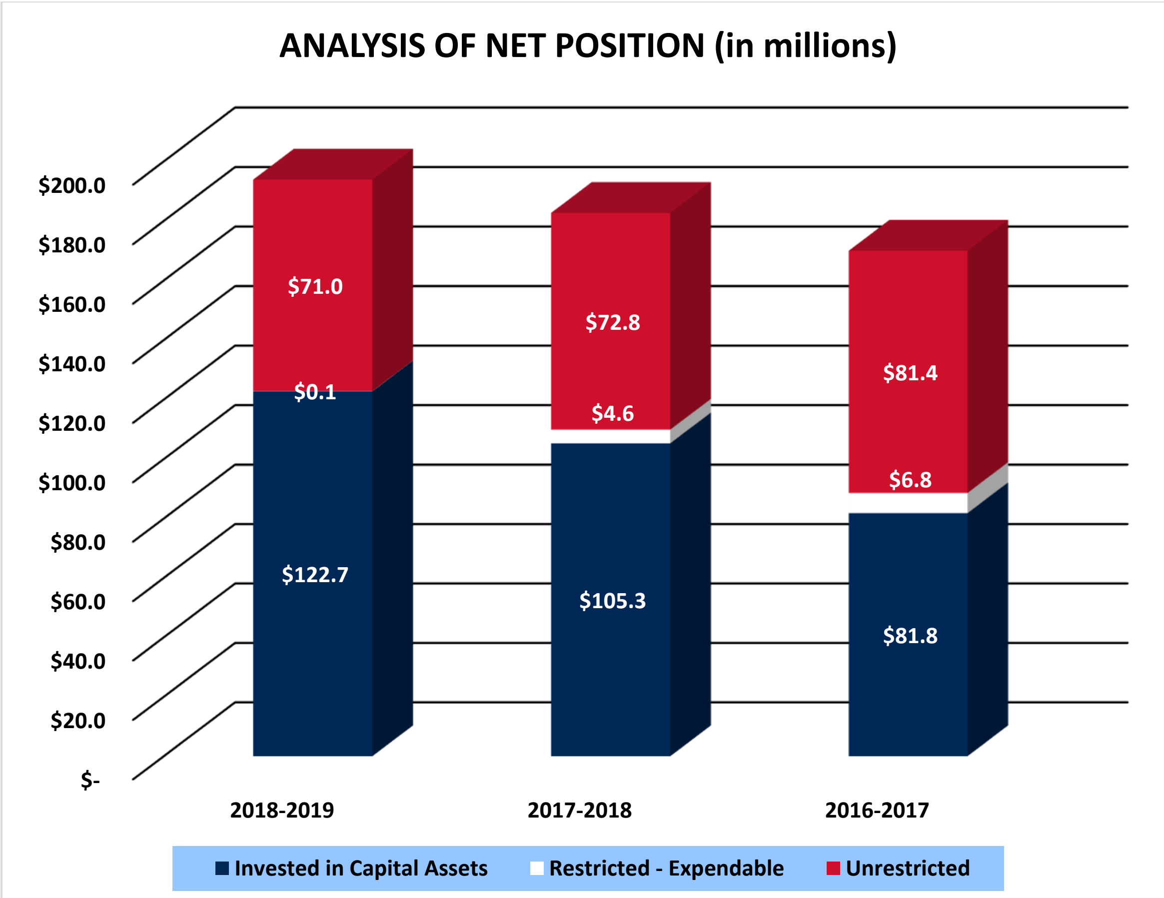
Deferred Inflow of Resources

Deferred inflows of resources, which represent acquisitions of resources applicable to a future period, increased by $2.2 million, or 75.3 percent, in fiscal year 2019. Most of the increase, $1.9 million, was for deferred inflow of resources related to other postemployment benefits (OPEB) with the remaining $324,000 for deferred inflows related to pensions. In 2018, a $1.8 million, or 156.4 percent, increase resulted primarily from the implementation of GASB Statement 75.

Net Position

Net Position at June 30, 2019, was $11.2 million, or 6.1 percent, greater than on June 30, 2018. Net investment in capital assets increased by $17.4 million while restricted expendable assets and unrestricted net position decreased $4.5 million and $1.7 million, respectively. At June 30, 2019, unrestricted net position totaled $71 million and comprised 36.6 percent of total net position. Of the total unrestricted amount, $65.2 million has been internally designated as follows.

- $18.4 million for equipment and facilities maintenance and replacement
- $3.5 million for technology and software replacement
- $17.6 million for auxiliary systems
- $1.9 million for working capital and outstanding encumbrances
- $7.1 million for academic operations and initiatives
- $3 million for insurance and campus safety
- $13.7 million for medical premiums



Statement of Revenues, Expenses, and Changes in Net Position

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

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

An important point to recognize on this financial statement is that state appropriations and non-exchange governmental and corporate grants and contracts 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)	2019	2018	2017
Operating Revenues	82,435	79,755	78,542
Operating Expenses	(160,454)	(158,004)	(156,333)
Operating Loss	**$ (78,019)**	**$ (78,249)**	**$ (77,791)**
Non-operating Revenues	91,192	84,662	80,288
Non-operating Expenses	(3,394)	(2,793)	(3,496)
Income before other revenues, expenses, gains or losses	**$ 9,779**	**$ 3,620**	**$ (999)**
Other Revenues	1,383	18,477	7,678
Increase in Net Position	**$ 11,162**	**$ 22,097**	**$ 6,679**
Net Position--Beginning of Year	182,730	170,057	163,378
Prior-period Adjustment for Change in Accounting Principle	-	(9,424)	-
Net Position--End of Year	**$ 193,892**	**$ 182,730**	**$ 170,057**

Revenues
Operating revenues increased by $2.7 million in fiscal year 2019 compared to a $1.2 million increase in fiscal year 2018. The 2019 increase was driven by the following factors.

- Net student fees increased from $48.2 million in fiscal year 2018 to just under $51 million in fiscal year 2019. Gross student fees increased by $4.3 million while scholarship discounts and allowances increased by $1.5 million.
- Net revenues from auxiliary enterprises declined slightly from $27.1 million in fiscal year 2018 to $26.8 million in fiscal year 2019. The primary reason for the decline was the decision to classify all operating revenues and expenses from intercollegiate athletics to student services. This move offset an increase in revenues from housing, dining, and Campus Store of more than $1.4 million. In addition, room and board discounts and allowances increased by $313,000.
- Operating grants and contracts from all sources declined in fiscal year 2019 by $65,000, or 4 percent, while other operating revenues grew during the same period by $293,000, or 10.3 percent

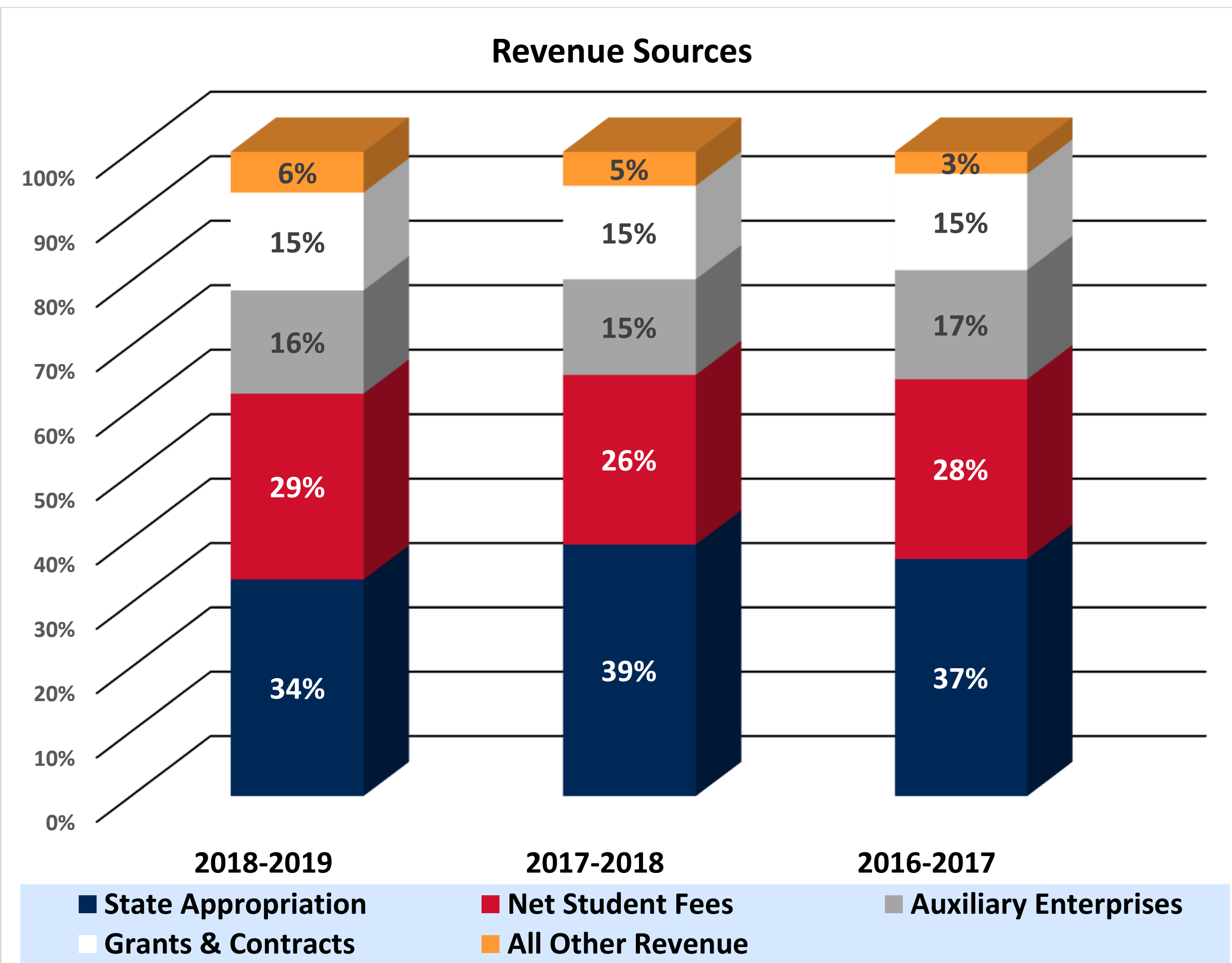
Non-operating revenues increased by $6.5 million in fiscal year 2019 following an increase of $4.4 million during fiscal year 2018. The following elements contributed to the growth in fiscal year 2019.

- State appropriations grew from $55.1 million in fiscal year 2018 to $58.6 million in fiscal year 2019 due to an increase in fee replacement appropriations for student fee bonds.

- Non-operating gift income, which comes almost entirely from the USI Foundation, grew by $717,000 or 18.2 percent.
- Net investment income rose more than $2 million to nearly $2.7 million for fiscal year 2019. Of that amount, $1.2 million is attributable to the change in unrealized gains and losses from June 30, 2018, to June 30, 2019.
- Non-operating grants and contracts from all sources, which consist primarily of federal and state funds received for student financial assistance, increased by $363,000

Other revenues declined from $18.5 million in 2018 to $1.4 million in 2019. In 2018, the University received capital appropriations from the State of Indiana for the first phase of the renovation and expansion of the Physical Activities Center, and it received capital gifts from the USI Foundation for the Fuquay Welcome Center. Management expected other revenues to decrease during fiscal year 2019 because the 2018 dollars from the State and the Foundation involved one-time monies not ongoing funding.

Total revenues (operating, non-operating, and other) decreased by $7.9 million, or 4.3 percent, in fiscal year 2019 after increasing by $16.4 million, or 9.8 percent, in 2018. The graph below shows the composition of the University's revenues for the three most recent fiscal years ended June 30.



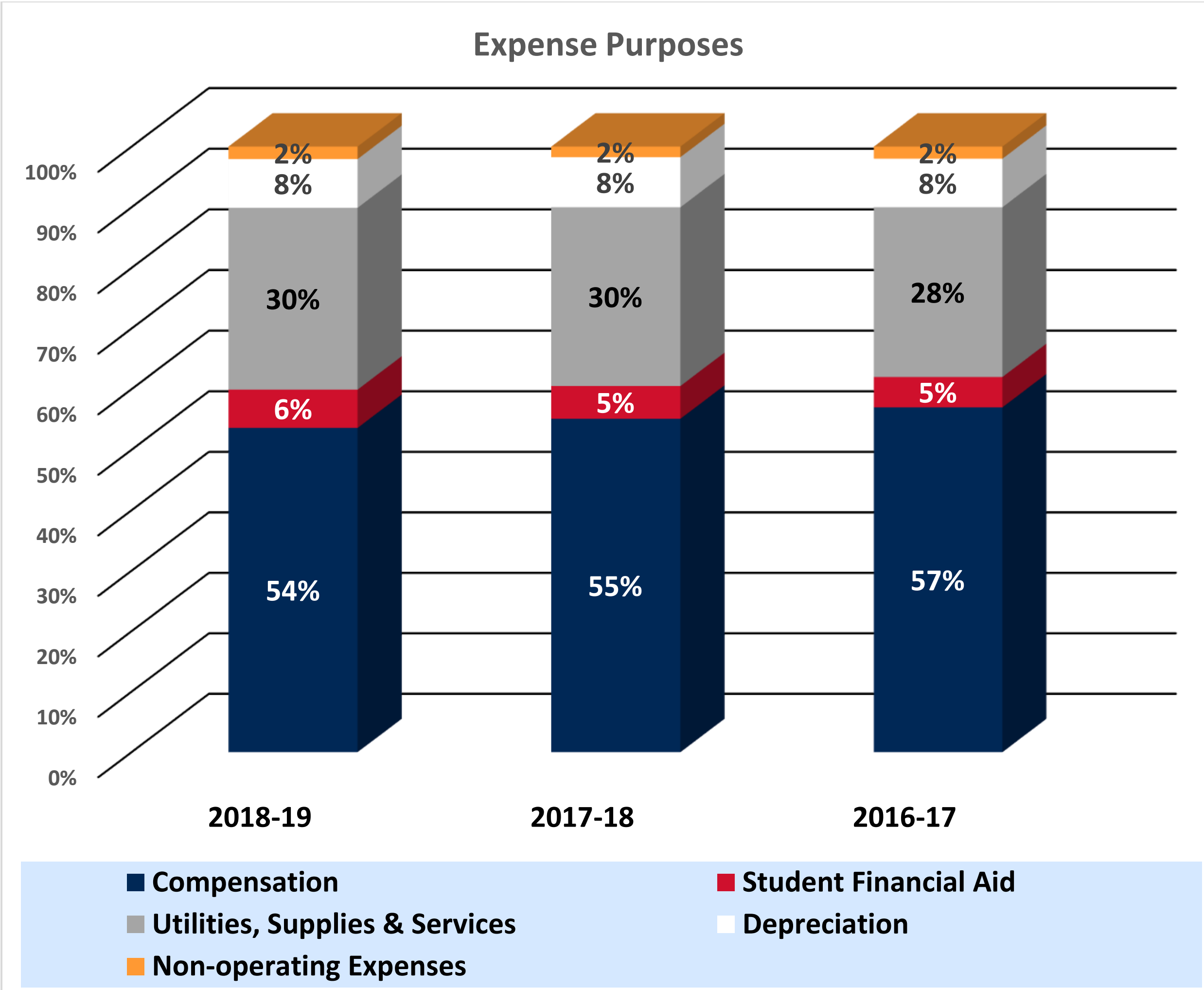
Expenses

Operating expenses increased by $2.5 million in fiscal year 2019 from $158 million to $160.5 million after a $1.7 million increase in 2018. The following expenses contributed to the current-year increase.

- Compensation, which includes salaries, wages, and benefits, comprised $88.7 million, or 55.3 percent, of operating expenses and increased by only $45,000 in 2019. While salaries and wages increased slightly by $404,000, benefits declined by $359,000.
- Student financial assistance expenses increased by $152,000, totaling more than $8.8 million. This amount represents financial aid refunded to students because the aid received exceeded charges owed to the University. Amounts applied to student accounts against outstanding charges are reported as contra revenues in the operating revenues section of the Statement of Revenues, Expenses, and Changes in Net Position.
- Supplies and other services increased by $2.2 million in fiscal year 2019. 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. Software licenses, purchases for resale in the Campus Store, building repairs, and non-capital equipment purchases accounted for a significant portion of the increase.
- Utilities and depreciation increased by $80,000 collectively.

Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures increased by $600,000 in fiscal year 2019 due to greater debt interest costs combined with the costs associated with the issuance of Series M student fee bonds in February 2019.

Total expenses (operating and non-operating) increased by $3.1 million, or 1.9 percent, in fiscal year 2019 compared to a $967,000, or .6 percent increase in 2018. The composition of total expenses for all three years is depicted by major categories in the graph below.



Change in Net Position
The difference between revenues and expenses results in an increase or decrease to net position. For the fiscal year ending June 30, 2019, total revenues exceeded total expenses, resulting in an increase in net position of $11.2 million after increases of $22.1 million and $6.7 million in 2018 and 2017, respectively. The 2018 increase was reduced by $9.4 million for a prior-period adjustment related to the required implementation of GASB Statement 75 for other postemployment benefits, leaving a net increase of nearly $12.7 for the year.

Statement of Cash Flows

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

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

CONDENSED STATEMENT OF CASH FLOWS			
Year Ended June 30 (in thousands of dollars)	**2019**	**2018**	**2017**
Net Cash Provided (Used) By:			
Operating activities	$ (61,594)	$ (64,096)	$ (62,078)
Noncapital financing activities	87,727	84,080	79,410
Capital financing activities	(23,767)	(21,142)	(19,170)
Investing activities	2,255	1,078	(7,322)
Net Increase (Decrease) in Cash	**$ 4,621**	**$ (80)**	**$ (9,160)**

Operating activities

- Cash used by operating activities decreased by $2.5 million in fiscal year 2019 compared to an increase of $2 million in 2018.
- Student fees and auxiliary enterprises generated the largest inflows of cash for all fiscal years.
- Payments of salaries and wages to employees, payments for employee benefits, and payments to suppliers used the most cash in all fiscal years.

Noncapital financing activities

- Cash provided by noncapital financing activities increased $3.6 million in 2019 following an increase of $4.7 million in 2018.
- State appropriations and non-capital gifts and grants provided the largest inflows of cash in all fiscal years.

Capital financing activities

- Cash used by capital financing activities increased by $2.6 million in 2019 and by nearly $2 million in 2018.
- Proceeds from the issuance of Series M student fee revenue bonds provided the most cash in 2019. In 2018, capital appropriations from the State of Indiana was the largest source of cash inflows.
- Cash activity associated with funds on deposit with bond trustee resulted produced the most cash outflows for 2019. The purchase of capital assets resulted in the largest cash outflow for 2018.

Investing activities

- Investing activities provided $2.3 million in cash during the 2019 fiscal year after generating $1.1 million in cash during 2018.
- Proceeds from sales and maturities of investments increased from $39.5 in 2018 to nearly $42.3 million in 2019.
- Cash from interest earned on investments topped $1.6 million in 2019, improving upon the $1.3 million generated in 2018.
- Cash used to purchase investments increased, climbing to $41.6 million in 2019 compared to $39.8 million in 2018.

Summary of Statement of Cash Flows

For the 2019 fiscal year, the University cash balance increased by $4.6 million ending the year at $22.2 million compared to $17.6 million in 2018 and 2017. Management elected to increase the cash on hand at June 30, 2019, to meet short-term cash flow needs associated with construction expenditures. While operating activities used less cash in 2019, 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 positive cash position at the conclusion of the 2019 fiscal year.

Factors Affecting Future Periods
The University relies on operating and capital appropriations provided by the State of Indiana to fulfill its mission. As a result, the financial strength of the State has a direct effect on the financial health of the University. State revenues exceeded expenses by $410.5 during the 2019 fiscal year. This surplus elevated Indiana's ongoing reserve balance to nearly $2.3 billion, which exceeds Governor Eric Holcomb's target of a $2 billion surplus. The financial stability indicated by the surplus is affirmed by the credit ratings of the State. Indiana is rated by three credit rating agencies: Standard & Poor's (S&P), Moody's, and Fitch. Currently, the State's Issuer Credit Rating is AAA from S&P, Aaa from Moody's, and AAA from Fitch.

During 2019, the Indiana General Assembly approved increases to the operating appropriation of the University for the 2019-2021 biennium. The University will receive $47.5 million for operations in the 2020 fiscal year and $48.2 million in 2021. In addition, the General Assembly authorized $48 million in bonding authority for the renovation and expansion of 180,000 square feet of the Health Professions Center. The project will include the relocation of the University Health Center to a new facility for University Health Services, Counseling, and Wellness to better serve the needs of students. When the Health Professions Center opened in 1993, 340 students were enrolled in certificate, undergraduate, and graduate programs. Today, more than 2,300 students are enrolled in these programs, and the project will assist the University in meeting the growing demand for nursing and health professions programs to benefit the region and the State.

Indiana law requires the Indiana Commission for Higher Education (ICHE) to issue non-binding tuition-increase recommendations to the State's public colleges and universities. While the ICHE recommendations are non-binding, the University Board of Trustees assign them considerable weight when establishing tuition rates. On June 4, 2019, the Board of Trustees approved tuition rates for the 2019-2020 and 2020-2021 academic years. Undergraduate residents of Indiana will pay $264.19 in 2019-2020 and $269.52 in 2020-2021, a 2 percent increase in both years. Although the rate of increase slightly exceeds the 1.65 percent ICHE recommendation, it was the final step in the strategic fee realignment process that began in 2013-2014. That strategy was designed to provide the resources necessary for the University to meet the educational needs of the region and the State while maintaining the affordability that is an important part of its mission.

In fall 2019, the University welcomed another record number of graduate students. Graduate enrollment increased 6.1 percent over the previous year to 1,537 students. In addition, the incoming first-year undergraduate class boasted a high school GPA of 3.44 on a 4.0 scale, the best in the history of the University. Total enrollment declined slightly from 11,021 for the 2018 fall semester to 10,734, a 2.6 percent change.

The 2020 fiscal year will mark the final year of the 2016-2020 strategic plan, and efforts are underway to build the next strategic plan. The Strategic Planning Coordinating Committee has been charged with (1) establishing a process to ensure there is active engagement of the USI community in the formulation and execution of the University's third strategic plan; (2) reviewing the 2010-2015 and 2016-2020 strategic plan with a focus on lessons learned; (3) being cognizant of the current financial realities as part of the environmental scan; (4) giving appropriate attention to measurement and identification of performance indicators in the design of the strategic plan; and (5) developing the plan in a timely manner and moving expeditiously toward University-wide implementation. The plan will be presented to the University Board of Trustees for approval during 2020.

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 2019 Financial Report demonstrates that the University of Southern Indiana remains financially sound and well positioned for the future.

Summary of Construction Change Orders Recommended for Authorization

PHYSICAL ACTIVITIES CENTER (PAC) RENOVATION PHASE II

Empire Contractors, Inc. - General Contractor

CO P001	PAC Value Engineering Changes, Door Power Change, and Visitor Locker Room Changes	$ (144,877)
CO P002	South Exterior Door Replacement	$ 20,885
CO P003	North Exterior Door Replacement	$ 11,867
CO P004	East Exterior Door Replacement	$ 8,644
CO P005	Small Electrical Changes and Adding an Exterior Water Faucet	$ 12,806
CO P006	Exterior Sanitary Piping Route Change	$ (14,173)
CO N001	Natatorium Value Engineering Changes	$ (220,912)