MINUTES

JOINT ACADEMIC AFFAIRS AND ENROLLMENT MANAGEMENT COMMITTEE & FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA BOARD OF TRUSTEES

November 5, 2020

The Academic Affairs and Enrollment Management Committee and the Finance/Audit Committee of the University of Southern Indiana Board of Trustees met in joint session on Thursday, November 5, 2020, virtually via Zoom Video Communications. Present were Academic Affairs and Enrollment Management Committee Chair Christine H. Keck; Finance/Audit Committee Chair Ronald D. Romain ’73; and Trustees Josi M. Barscz ’22; W. Harold Calloway; John M. Dunn; Daniel M. Fuquay; Jeffrey L. Knight; Christina M. Ryan; and Kenneth L. Sendelweck ’76. Also, in attendance were President Ronald S. Rochon; Provost Mohammed Khayum; Vice President for Finance and Administration Steven J. Bridges ’89 M’95; Vice President for Marketing and Communications Kindra L. Strupp; Vice President for Development David A. Bower; Vice President for Student Affairs Khalilah T. Doss; and Chief Government and Legal Affairs Officer Aaron C. Trump.

Academic Affairs and Enrollment Management Committee Chair Christine Keck called the joint meeting to order at 9:31 a.m.

1. REVIEW OF THE ACADEMIC PROGRAM DEVELOPMENT PLAN

Ms. Keck called on Provost Khayum to review the Academic Program Development Plan. Provost Khayum directed the Trustees to Attachment A, an overview of academic program additions that USI is considering. He explained that USI examines regional, state, and national trends in the process and works collaboratively with the Indiana Commission for Higher Education to examine their relevance.

2. PRESENTATION ON USI’S MASTER OF BUSINESS ADMINISTRATION ONLINE PROGRAM

Ms. Keck called on Provost Khayum for a report. Dr. Khayum introduced Dr. Jack Smothers, director of MBA Program, to present “USI MBA: Past, Present, and Future.” This report highlighted the impact and lessons learned from the growth of the USI MBA program. USI has experienced a 1,023 percent growth in the program since 2015. Concentrations offered within the program have relied heavily on balancing resources, regional needs, and national demand. Results from the MBA impact survey showed 86 percent of respondents reported that obtaining an MBA degree from USI had moderate to high positive impact on their work life. Fifty percent reported they were promoted or achieved a desired job change and the same percentage received a salary increase. Dr. Smothers concluded his report noting USI’s MBA program was recognized in 2020 by U.S. News and World Report for Best Online MBA Program and by the Indianapolis Business Journal for the Largest Graduate Business Program in Indiana.

3. REVIEW OF AUDITED FINANCIAL STATEMENTS

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

Mr. Sickman began with an overview of financial performance in 2020 including the audit opinion received from the State Board of Accounts. He noted two positive outcomes including an unmodified audit opinion for the financial audit and no deficiencies detected for internal controls. Mr. Sickman discussed details in the Statement of Net Position, which outlines total assets, deferred outflow of resources, total liabilities, and deferred inflow of resources. In 2020, even with the challenges the University faced from COVID-19, USI’s net position increased by $11.2 million. Total assets decreased by $995,000 or .3 percent and deferred outflows of resources decreased by $421,000. Total liabilities decreased by $15.9 million and deferred inflows of resources increased by $3.3 million. At the end of fiscal year 2020, net position totaled $205.1 million. One of the biggest contributors to the improved net position was the decrease in liabilities. The University issued no debt during the fiscal year as the issuance of the Series N bonds for the Health Professions Center occurred after the conclusion of the fiscal year.

Mr. Sickman reviewed the Statement of Revenues, Expenses, and Changes in Net Position statement noting operating revenues include those dollars generated from product sales and rendered services such as tuition, fees, housing, meal plans, and campus store sales. Operating revenues declined during fiscal year 2020 as did operating expenses. The net effect of those changes resulted in a greater operating loss.

Mr. Sickman explained the operating revenues and expenses in 2020. Gross student fees decreased by $467,000, but scholarships discounts and allowances decreased by nearly $1.1 million resulting in a net increase of approximately $600,000 in student fees. Net auxiliary revenues declined by $6.2 million, most of which is attributed to COVID-19. Housing revenues fell by $2.5 million, including $1.9 million in credits applied to student accounts because of the University closure from March to July 2020. The University recovered these dollars in the new fiscal year from the Higher Education Emergency Relief Fund as part of the federal CARES Act. However, those dollars are different than the funds received because the grant was not awarded officially until July, so the University could not accrue a receivable to offset the credits in fiscal year 2020. Additionally, dining revenues declined by $2.2 million and Campus Store revenues declined by $1.1 million. During this same time operating expenses decreased. Compensation, including salaries, wages, and benefits, fell by $2.9 million. Student financial aid increased by $2.4 million, but that included $2.5 million paid to students directly as part of the CARES Act. Lastly, there was a $6.5 million decrease in supplies and other services that includes consultant fees, office supplies, software, travel, maintenance, and non-capital equipment.

In conclusion, Mr. Sickman gave an overview of USI's financial outlook for 2021, noting the long-term effects of COVID-19 remain unclear. A disruption to instruction or campus life would present new challenges, however, the University has adequate resources to handle short-term circumstances as it did earlier in 2020. State appropriations and continued trends related to undergraduate and graduate enrollment rates will have a definite impact in the next biennium. While the challenges are evident, the University maintains a solid financial foundation to fulfill its mission in 2021.

4. APPROVAL OF CONSTRUCTION CHANGE ORDERS

Mr. Romain called on Vice President Bridges for a report. Mr. Bridges referred the Trustees to Attachment C that contained one change order for approval by the committee. Mr. Bridges explained the need for the change order.

On a motion by Mr. Knight, seconded by Ms. Keck, the change order in Attachment C <u>was approved</u>.

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

Mr. Romain called on Vice President Bridges to review the construction change orders approved by the vice president for Finance and Administration. Mr. Bridges directed the Trustees to Attachment D, a listing of change orders approved as part of the PAC Phase II renovation that will improve functionality of the facility. The changes became more evident as the project progressed.

There being no further business, Finance/Audit Committee Chair Romain adjourned the joint committee meeting at 10:17 a.m.

UNIVERSITY OF SOUTHERN INDIANA
New Program Development Plan

Revised by Academic Planning Council
19-Oct-20

Baccalaureate Degree	Master Degree	Doctorate Degree
2019-2021 Biennium		
Supply Chain Logistics (Certificate)	Athletic Training	
Health Administration	Environmental Science	
	Food and Nutrition (Dietetics)	
	Health Informatics	
2021-2023 Biennium		
Bachelor of Fine Arts	Manufacturing Engineering (MSE)	Occupational Therapy
Business/Engineering	Elementary Math Specialist	
Business Economics	Computer Science	
Geography		
Industrial Engineering		
2023-2025 Biennium		

University Of Southern Indiana
Statement of Net Position
As of June 30, 2020 and 2019

		2020		2019
ASSETS				
Current Assets				
Cash and cash equivalents	$	55,105,307	$	22,182,515
Short-term investments		29,656,004		21,301,748
Accounts receivable, net		7,041,981		8,619,684
Inventories		1,567,141		1,860,995
Deposits with bond trustee		17,180,846		33,118,401
Other current assets		2,570,800		2,284,092
Total current assets	$	113,122,079	$	89,367,435
Noncurrent Assets				
Long-term investments	$	33,909,011	$	63,308,763
Deposits with bond trustee		102,131		92,790
Capital assets, net		214,636,340		209,995,021
Total noncurrent assets	$	248,647,482	$	273,396,574
Total Assets	**$**	**361,769,561**	**$**	**362,764,009**
DEFERRED OUTFLOW OF RESOURCES				
Hedging derivative instruments	$	715,835	$	723,332
Deferred outflow of resources related to pensions		882,537		1,122,246
Deferred outflow of resources related to OPEB		510,325		684,494
Total deferred outflow of resources	$	2,108,697	$	2,530,072
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	2,701,233	$	3,505,078
Accrued payroll, benefits, and deductions		6,997,711		6,881,673
Bonds and leases payable		13,309,999		11,776,729
Debt interest payable		881,335		973,164
Unearned revenue		4,471,610		2,328,205
Other current liabilities		490,901		473,461
Total current liabilities	$	28,852,789	$	25,938,310
Noncurrent Liabilities				
Bonds and leases payable	$	95,217,650	$	107,929,535
Derivative instruments--interest rate swap		715,836		723,332
Other postemployment benefits		17,291,193		23,407,069
Compensated absences and termination benefits		3,277,277		3,026,196
Net pension liability		5,008,824		5,289,879
Other noncurrent liabilities		6,712		4,370
Total noncurrent liabilities	$	121,517,492	$	140,380,381
Total Liabilities	**$**	**150,370,281**	**$**	**166,318,691**
DEFERRED INFLOW OF RESOURCES				
Deferred inflow of resources related to pensions	$	1,179,620	$	1,162,041
Deferred inflow of resources related to OPEB		7,228,492		3,921,819
Total deferred inflow of resources	$	8,408,112	$	5,083,860
NET POSITION				
Net investment in capital assets	$	122,917,304	$	122,742,844
Restricted				
Expendable				
Debt Service		102,131		92,790
Scholarship, research, and other		19,902		8,279
Unrestricted		82,060,528		71,047,617
Total Net Position	**$**	**205,099,865**	**$**	**193,891,530**

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, 2020 and 2019

		2020		2019
REVENUES				
Operating Revenues				
Student fees	$	79,731,906	$	80,198,567
Scholarship discounts and allowances		(28,154,751)		(29,238,866)
Grants and contracts		1,786,572		1,554,760
Auxiliary enterprises		22,098,071		28,270,256
Room and board discounts and allowances		(1,533,270)		(1,497,390)
Other operating revenues		2,523,433		3,147,174
Total operating revenues	$	76,451,961	$	82,434,501
EXPENSES				
Operating Expenses				
Salaries and wages	$	63,366,007	$	64,512,721
Benefits		22,411,937		24,190,158
Student financial aid		11,234,090		8,832,202
Utilities		5,020,249		5,410,259
Supplies and other services		37,749,806		44,229,338
Depreciation		15,300,728		13,279,216
Total operating expenses	$	155,082,817	$	160,453,894
Operating loss	$	(78,630,856)	$	(78,019,393)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	$	59,250,228	$	58,552,040
Gifts		4,090,516		4,658,977
Federal grants and contracts		15,586,265		13,378,467
State/Local grants and contracts		10,161,130		11,193,987
Nongovernmental grants and contracts		185,047		711,577
Investment income (net of investment expense of $70,761 and $68,211 for 2020 and 2019)		3,075,926		2,696,153
Interest on capital asset related debt		(3,657,840)		(3,041,154)
Bond issuance costs		(2,007)		(316,190)
Other non-operating revenues/(expenses)		(27,650)		(36,197)
Net non-operating revenues (expenses)	$	88,661,615	$	87,797,660
Income before other revenues, expenses, gains or losses	$	10,030,759	$	9,778,267
Capital appropriations	$	1,112,962	$	931,336
Capital grants and gifts		64,614		451,470
Total other revenues	$	1,177,576	$	1,382,806
Increase in net position	$	11,208,335	$	11,161,073
NET POSITION				
Net position - beginning of year	$	193,891,530	$	182,730,457
Net position - end of year	**$**	**205,099,865**	**$**	**193,891,530**

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, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Tuition and fees	$ 52,693,932	$ 52,430,050
Grants and contracts	1,794,780	1,572,559
Payments to suppliers	(38,259,796)	(43,518,377)
Payments for utilities	(5,020,249)	(5,410,259)
Payments to employees	(63,434,180)	(64,410,995)
Payments for benefits	(24,635,445)	(23,742,664)
Payments for scholarships	(11,234,090)	(8,832,202)
Collection of loans to students and employees	-	15,659
Auxiliary enterprises receipts	22,128,026	27,238,820
Sales and services of educational depts.	767,159	892,571
Other receipts (payments)	1,714,748	2,170,671
Net cash used by operating activities	**$ (63,485,115)**	**$ (61,594,167)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$ 59,250,228	$ 58,552,040
Gifts and grants for other than capital purposes	30,563,888	29,170,119
Other non-operating receipts (payments)	17,439	5,028
Net cash provided by noncapital financing activities	**$ 89,831,555**	**$ 87,727,187**
Cash Flows from Capital Financing Activities		
Proceeds from capital debt	$ -	$ 37,245,000
Capital appropriations	1,112,962	4,268,063
Capital grants and gifts	173,268	2,519,691
Bond financing costs	(29,657)	(352,387)
Purchase of capital assets	(19,481,778)	(27,130,449)
Principal paid on capital debt	(11,649,470)	(12,131,809)
Interest paid on capital debt and leases	(3,739,084)	1,371,034
Deposits with trustees	15,928,214	(29,556,206)
Net cash used by capital financing activities	**$ (17,685,545)**	**$ (23,767,063)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	$ 52,937,326	$ 42,253,079
Interest on investments	2,175,499	1,608,406
Purchase of investments	(30,850,928)	(41,606,874)
Net cash provided by investing activities	**$ 24,261,897**	**$ 2,254,611**
Net increase (decrease) in cash	$ 32,922,792	$ 4,620,568
Cash – beginning of year	22,182,515	17,561,947
Cash – end of year	**$ 55,105,307**	**$ 22,182,515**

		2020		2019
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:				
Operating loss	$	(78,630,856)	$	(78,019,393)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:				
Depreciation expense		15,300,728		13,279,216
Provision for uncollectible accounts		(111,479)		(197,224)
Changes in assets, liabilities, and deferred resources:				
Operating receivables		1,039,598		995,651
Inventories		293,854		(528,712)
Other assets		(427,182)		604,392
Accounts payable		(687,806)		2,461,086
Unearned revenue		2,143,405		469,161
Deposits held for others		2,342		(1,811)
Employee and retiree benefits		(2,407,719)		(672,192)
Loans to students and employees		-		15,659
Net cash used by operating activities:	**$**	**(63,485,115)**	**$**	**(61,594,167)**

Noncash Transactions				
Unrealized gain/(loss) on short-term investments	$	90,694	$	26,776
Unrealized gain/(loss) on long-term investments		950,207		1,171,661
Equipment		460,270		164,834
Capital lease		(460,270)		(164,834)
Net noncash transactions	**$**	**1,040,901**	**$**	**1,198,437**

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 with the exception of 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 May 2020, the University adopted GASB Statement 95, ***Postponement of the Effective Dates of Certain Authoritative Guidance.*** This statement postpones the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later in light of the COVID-19 pandemic.

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 deposit 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 sold for the 2019-20 fiscal year. For 2018-19, retail merchandise was considered expended when purchased. The net result of the change is immaterial on the Statement of Revenues, Expenses, and Changes in Net Position. 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.

Deposits with Bond Trustee
Deposits with bond trustee consist of unexpended bond proceeds and associated interest earnings which will be used for capital expenditures related to construction or renovation projects, bond issuance costs, and future debt payments. Amounts held for construction and renovation are classified as current assets on the Statement of Net Position. Amounts held for payment of long-term debt obligations are classified as noncurrent assets. Year-end balances do not meet the criteria established by GASB 9 to be considered cash or cash equivalents due to bond covenants and timing of projects and, therefore, are not included in the ending cash balance reported on the Statement of Cash Flows.

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, 2020.

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 $2,940,659. The currently known value is not included in the capitalized asset value at June 30, 2020.

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 Indiana Public Retirement System (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, 2020, the bank balances of the University's operating demand deposit accounts were $48,842,831, of which $809,132 was covered by federal depository insurance. The bank balances of the University's operating demand deposit accounts were $22,126,126, at June 30, 2019, of which $848,116 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, 2020, 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	26,711,521	42%	19,848,143	6,863,378	-	-
Agency securities	33,392,123	53%	8,172,436	18,798,756	6,317,290	103,641
U.S. Treasury securities	3,461,371	5%	1,635,425	1,825,946	-	-
Totals	**$63,565,015**	**100%**	**$29,656,004**	**$27,488,080**	**$6,317,290**	**$103,641**
Maturity %	100.0%		47%	43%	10%	0%

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%		25%	68%	7%	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 $63.6 million invested at June 30, 2020, $36.9 million in U.S. securities are held in the name of the nominee bank and insured by policies of the financial institution or guarantees of the U.S. government. Of the $84.6 million invested at June 30, 2019, $55.4 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 47 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 $63.6 million in investments at June 30, 2020, $36.1 million were rated Aaa by Moody's Investors Service, and $27.4 million in investments were unrated. At June 30, 2019, $55.3 million in investments were rated Aaa by Moody's Investors Service, and $29.3 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, 2020, and June 30, 2019, the University is in compliance with that policy.

Investments not explicitly guaranteed by the U.S. government are subject to disclosure if any one issuer represents five percent or more of total investments. The $3.5 million invested in U.S. Treasury Securities at June 30, 2020, and $5.7 million invested in U.S. Treasury Securities at June 30, 2019, 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, 2020					
Bank	**Certificates of Deposit**	**Percentage of CDs**	**US Agency Securities**	**Total**	**Percentage of Total**
Banterra Bank	2,086,094	8%	-	2,086,094	3%
Boonville Fed Savings	576,892	2%	-	576,892	1%
Fifth Third Bank	83,687	0%	18,104,584	18,188,271	30%
First Federal Savings Bank	2,436,431	9%	-	2,436,431	4%
First Financial Bank	4,248,299	16%	-	4,248,299	7%
German American Bank	3,641,732	14%	2,222,718	5,864,450	10%
Indiana Members Credit Union	2,741,737	10%	-	2,741,737	5%
J P Morgan	549,140	2%	-	549,140	1%
Legence Bank	892,883	3%	-	892,883	2%
Lynnville National Bank	107,072	0%	-	107,072	0%
Old National Bank	4,165,230	16%	9,097,280	13,262,510	22%
PNC Bank	396,720	2%	1,748,533	2,145,253	4%
Regions Bank	1,604,372	6%	2,219,008	3,823,380	6%
United Fidelity Bank	3,181,232	12%	-	3,181,232	5%
Total	**26,711,521**	**100%**	**33,392,123**	**60,103,644**	**100%**

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%**

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, 2020.

FAIR VALUE MEASUREMENTS		FAIR VALUE AT JUNE 30, 2020		
		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	26,711,521	26,711,521		
U.S. Treasury securities	3,461,371	3,461,371		
Agency securities	33,116,452		33,116,452	
Agency mortgage securities	275,671		275,671	
Total investments	**63,565,015**	**30,172,892**	**33,392,123**	**-**
Derivative Instruments				
Interest rate swap	(715,836)		(715,836)	
Total derivative instruments	(715,836)	-	(715,836)	-

The University had the following fair value measurements 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)	-

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, 2020 and June 30, 2019.

NOTE 4 – Derivative Instruments

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2020, classified by type and the fair value changes of those derivative instruments are as follows.

		Change in Fair Value		Fair Value at June 30, 2020	
Derivative Instrument	**Type**	**Amount**	**Classification**	**Amount**	**Current Notional**
Series 2006	Cash flow hedge: Pay-fixed interest rate swap	$(61,788)	Derivative Instrument Interest Rate Swap	$(546,789)	$3,608,322
Series 2008A	Cash flow hedge: Pay-fixed interest rate swap	$69,284	Derivative Instrument Interest Rate Swap	$(169,047)	$5,475,000

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 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, 2020, 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	$3,608,322	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	$5,475,000	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, 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 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	
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	476,951	80,681	-	-	476,951	80,681	**557,632**
2026-2030	1,427,482	101,791	-	-	1,427,482	101,791	**1,529,273**
2031-2035	-	-	-	-	-	-	**-**
Total	**$3,608,322**	**$712,202**	**$5,475,000**	**$237,952**	**$9,083,322**	**$950,154**	**$10,033,476**

Credit Risk — The fair value of the hedging derivative instruments is in a liability position as of June 30, 2020, and June 30, 2019, with Series 2006 having a balance of $546,789 and $485,001 and Series 2008A having a balance of $169,047 and $238,331, 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, 2020, compared to the previous fiscal year.

	2020	**2019**
Student fees receivable	$ 5,048,837	$ 5,160,840
Auxiliary enterprises	1,866,424	2,244,192
Gifts and nonoperating grants	1,755,850	2,296,780
Contracts and operating grants	306,041	68,711
Capital grants and gifts	-	108,654
Other	1,129,608	1,916,765
Current accounts receivable, gross	10,106,760	11,795,942
Allowance for uncollectible accounts	(3,064,779)	(3,176,258)
Current accounts receivable, net	$ 7,041,981	$ 8,619,684

The amounts shown above for 2019 have been reclassified from the accounts receivable note published in the 2018-19 Financial Report for comparative purposes. The University defined new categories of accounts receivable during the 2019-20 fiscal year to better illustrate the relationship between amounts reported as accounts receivable on the Statement of Net Position and revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position. There was no change in gross receivables, allowance for uncollectible accounts, or net amounts.

Other receivables are comprised primarily of revenues from external customers for education and public services.

NOTE 6 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $425.1 million at July 1, 2019, to $443.8 million on June 30, 2020. Gross capital assets, less accumulated depreciation of $229.2 million, equal net capital assets of $214.6 million at June 30, 2020.

	Balance June 30,2019	Additions	Transfers	Deletions	Balance June 30,2020
Capital Assets Not Being Depreciated					
Land	$ 5,085,613	$ -	$ -	$ (15)	$ 5,085,598
Construction in Progress	6,899,551	18,757,022	(3,394,597)	-	22,261,976
Total Capital Assets Not Being Depreciated	**$ 11,985,164**	**$ 18,757,022**	**$ (3,394,597)**	**$ (15)**	**$ 27,347,574**
Capital Assets Being Depreciated					
Land Improvements	$ 15,236,711	$ -	$ -	$ -	$ 15,236,711
Infrastructure	8,498,279	-	2,079,211	-	10,577,490
Educational Buildings	238,273,856	-	946,123	-	239,219,979
Auxiliary Buildings	121,026,099	-	369,263	(117,913)	121,277,449
Equipment	26,529,162	924,377	-	(680,632)	26,772,907
Library Materials	2,779,973	31,975	-	(110,744)	2,701,204
Capital Lease Equipment	727,786	460,270		(499,529)	688,527
Total Capital Assets Being Depreciated	**$ 413,071,866**	**$ 1,416,622**	**$ 3,394,597**	**$ (1,408,818)**	**$ 416,474,267**
Total Capital Assets	**$ 425,057,030**	**$ 20,173,644**	$ -	**$ (1,408,833)**	**$ 443,821,841**
Less Accumulated Depreciation					
Land Improvements	$ (10,834,161)	$ (692,323)	$ -	$ -	$ (11,526,484)
Infrastructure	(3,271,793)	(206,653)	-	-	(3,478,446)
Educational Buildings	(102,551,723)	(8,898,396)	-	-	(111,450,119)
Auxiliary Buildings	(74,050,401)	(3,761,907)	-	15,888	(77,796,420)
Equipment	(21,450,318)	(1,505,707)	-	667,632	(22,288,393)
Library Materials	(2,482,076)	(88,124)	-	110,744	(2,459,456)
Capital Lease Equipment	(421,537)	(147,618)	-	382,972	(186,183)
Total Accumulated Depreciation	**$ (215,062,009)**	**$(15,300,728)**	$ -	**$ 1,177,236**	**$ (229,185,501)**
Net Capital Assets Being Depreciated	**$ 198,009,857**	**$(13,884,106)**	**$ 3,394,597**	**$ (231,582)**	**$ 187,288,766**
Total Net Capital Assets	**$ 209,995,021**	**$ 4,872,916**	$ -	**$ (231,597)**	**$ 214,636,340**

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**

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

Construction Work in Progress		
	Balance as of	
Facility	**June 30, 2019**	**June 30, 2020**
Physical Activities Center (PAC)	$ 5,515,959	$ 21,223,129
Upgrade Energy Management System	703,121	-
University Center West Partial Roof Replacement	374,918	-
Housing HVAC PTAC Replacement/Installation	-	403,659
Other projects (not exceeding $250,000)	305,553	635,188
Total	**$ 6,899,551**	**$ 22,261,976**

NOTE 7 – Noncurrent Liabilities

Changes in noncurrent liabilities for the fiscal years ended June 30, 2020 and 2019, are shown below.

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion	Noncurrent Portion
Bonds payable	$119,397,413	-	$11,378,866	$108,018,547	$13,174,420	$94,844,127
Leases payable	308,851	460,270	260,019	509,102	135,579	373,523
Derivative instruments - interest rate swap	723,332	61,788	69,284	715,836	-	715,836
Other postemployment benefits	23,407,069	3,851,007	9,966,883	17,291,193	-	17,291,193
Compensated absences	3,227,737	2,689,690	2,389,067	3,528,360	477,871	3,050,489
Termination benefits	380,205	403,807	253,749	530,263	303,475	226,788
Net pension liability	5,289,879	900,564	1,181,619	5,008,824	-	5,008,824
Other noncurrent liabilities	4,370	21,227	18,885	6,712	-	6,712
Total	$152,738,856	$8,388,353	$25,518,372	$135,608,837	$14,091,345	$121,517,492

	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

NOTE 8 – Debt Related to Capital Assets

Bonds Payable – The following schedule details bonds payable at June 30, 2020, compared to the previous fiscal year.

SCHEDULE OF BONDS PAYABLE	*Issue Date*	*Interest Rate*	*Maturity Date*	*Original Issue Amount*	*Principal Outstanding June 30, 2020*	*Principal Outstanding June 30, 2019*	*Current Portion June 30, 2020*
Student Fee Bonds							
Direct Placements of Debt							
Series 2006, Recreation & Fitness Center	2006	4.67%	2028	7,250,000	3,608,322	3,987,774	397,209
Series K-3, Refund Series H and I	2012	1.90%	2023	42,840,000	14,060,000	18,410,000	4,440,000
Series L-1, Health Professions Center 3rd Floor	2017	2.90%	2036	8,050,000	7,150,000	7,470,000	330,000
Series L-2, Refund Series J	2017	2.15%	2026	21,440,000	21,440,000	21,440,000	3,085,000
Series L-3, Refund Series J	2017	2.65%	2028	9,955,000	9,955,000	9,955,000	100,000
Student Fee Bonds – Direct Placements				89,535,000	56,213,322	61,262,774	8,352,209
Other Debt							
Series J, Business and Engineering Center	2009	3.45% to 3.70%	2019	50,185,000	-	2,425,000	-
Series K-1, Teaching Theatre	2012	2.00% to 4.00%	2032	12,300,000	8,280,000	8,760,000	500,000
Series M, Physical Activities Center	2019	4.00% to 5.00%	2037	37,245,000	33,395,000	34,570,000	1,225,000
Student Fee Bonds – Other Debt				99,730,000	41,675,000	45,755,000	1,725,000
Student Fee Bonds				189,265,000	97,888,322	107,017,774	10,077,209
Auxiliary System Bonds							
Direct Placements of Debt							
Series 2008A, Student Housing Facilities	2008	3.97%	2021	9,800,000	5,475,000	7,275,000	2,375,000
Other Debt							
Series 2003, Student Housing Facilities	2003	3.00% to 4.50%	2024	8,005,000	2,630,000	3,090,000	480,000
Auxiliary System Bonds				17,805,000	8,105,000	10,365,000	2,855,000
Subtotal Bonds Payable				$207,070,000	$105,993,322	$117,382,774	$12,932,209
Net Unamortized Premiums and Costs				-	$2,025,225	$2,014,640	$242,211
Total Bonds Payable					**$108,018,547**	**$119,397,414**	**$13,174,420**

The University of Southern Indiana Student Fee Bonds 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
2021	$10,727,209	$1,461,809	$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	4,321,951	644,437	2,600,000	1,499,412
2026-2030	18,192,482	1,512,374	11,675,000	5,868,525
2031-2035	2,340,000	323,640	13,040,000	2,871,950
2036-2040	1,035,000	30,233	7,620,000	465,200
Total	$61,688,322	$6,827,528	$44,305,000	$17,726,170

NOTE 9 – Lease Obligations

The University spent $209,800 and $236,399 on operating leases as of June 30, 2020 and 2019, 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, 2020, compared to the previous fiscal year.

Operating Lease Payments	2020	2019
Off-campus facilities	$ 134,350	$ 135,347
Equipment	61,294	87,399
Vehicles	14,156	13,653

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 $688,527 and $727,786 as of June 30, 2020 and 2019, respectively. Accumulated depreciation of leased equipment totaled $186,183 and $421,537 as of June 30, 2020 and 2019, 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
2021	$145,609	$99,482
2022	145,609	14,116
2023	132,412	-
2024	99,918	-
2025	7,918	-
Total future minimum payments	$531,466	$113,598
Less interest	(22,364)	
Total principal payments outstanding	$509,102	

NOTE 10 – Retirement Plans

Substantially all regular employees of the University are covered by either the Teachers Insurance and Annuity Association (TIAA) Plan or by the Public Employees' Hybrid (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, in 35 IAC 1.2, and other Indiana pension law. The University contributed $5,702,573 to these programs in fiscal year 2019-20, which represents approximately nine percent of the total University payroll and 10.67 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 $4,724,583 to this plan for 667 participating employees for fiscal year ending June 30, 2020, and $4,776,078 for 672 participating employees for fiscal year ending June 30, 2019. The annual payroll for this group totaled $44,903,126 and $44,995,676 for fiscal years ending June 30, 2020 and 2019, 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 $229,200 to this plan for 159 participating employees for fiscal year ending June 30, 2020, and $193,973 to this plan for 137 participating employees for the fiscal year ending June 30, 2019. The annual payroll for this group totaled $3,274,286 and $2,771,038 for fiscal years ending June 30, 2020 and 2019, 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 Hybrid 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, 35 IAC 1.2, and other Indiana pension law. 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 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.

Full Retirement Benefit		
Eligibility	**Annual Pension Benefit**	**Early Retirement Benefit**
Age 65 and 10 years (eight years for certain elected officials) of creditable service, Age 60 and 15 years of creditable service, Age 55 if age and creditable service total at least 85 ("Rule of 85"), Age 55 and 20 years of credible service and active as an elected official in the PERF-covered position, and Age 70 with 20 years of creditable service and still active in the PERF-covered position.	Lifetime Annual Benefit = Years of Creditable Service x Average Highest Five-Year Annual Salary x 1.1% (minimum of $180 per month). Average annual compensation is outlined in IC 5-10.2-4-3 and includes compensation of not more than $2,000 received from the employer in severance.	Age 50 and minimum of 15 years of creditable service (44% of full benefit at age 50, increasing 5% per year up to 89% at age 59).

	Survivor Benefit		
Disability Benefit	**While in Active Service**	**While Receiving a Benefit**	**COLA – Cost of Living Adjustment**
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).	A spouse or dependent beneficiary of a member with a minimum of 15 years of creditable service receives a benefit as if the member retired the later of age 50 or the age the day before the member's death.	A spouse or dependent receives the benefit associated with the member's selected form of payment: Five Year Certain & Life, Joint with 100% Survivor Benefits, Joint with Two-Thirds Survivor Benefits, or Joint with One-Half Survivor Benefits.	Postretirement benefit increases are granted on an ad hoc basis pursuant to IC 5-10.2-12.4 and administered by the Board. For the year ended June 30, 2019, postretirement benefits were issued to members as a 13th check

Perf 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.

Retirement & Termination Benefit	Disability Benefit	Survivor Benefit
Members are entitled to the sum total of vested contributions plus earnings 30 days after separation from employment. The 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 contributions plus earnings. The amount can be paid in a full or partial withdrawal as 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 contributions plus earnings. The 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 DC fund to which members contribute 3 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 $748,790 for 182 employees participating in the PERF Hybrid plan during the 2019-20 fiscal year and $872,785 for 213 employees participating during 2018-19. 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 $5,008,824 at June 30, 2020, and $5,289,879 at June 30, 2019, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated June 30, 2019 for assets and June 30, 2018 rolled forward to June 30, 2019 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, 2019, the University's proportion was 0.15 percent, which was a 0.01 decrease from June 30, 2018.

For the year ended June 30, 2020, the University recognized pension expense of $(23,766). At June 30, 2020, 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	132,632	-
Changes in assumptions	1,115	544,496
Net difference between projected and actual earnings on pension plan investments	-	236,754
Changes in proportion and differences between the University's contributions and proportionate share of contributions	-	398,370
The University's contributions subsequent to the measurement date	748,790	-
Total	$ 882,537	$ 1,179,620

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

$748,790 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, 2021. 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:	
2020	(358,313)
2021	(516,331)
2022	(152,847)
2023	(18,382)
2024	-
Thereafter	-
Total	$(1,045,873)

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

Inflation	2.25%
Salary Increases	2.50-4.25%, including inflation
Investment rate of return	6.75%, 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% beginning on January 1, 2022 0.50% beginning on January 1, 2034 0.60% 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, 2019, valuation were adopted by the INPRS Board in May 2019. The majority of the actuarial assumptions and methods are based on plan experience from July 1, 2010, through June 30, 2014, and were first used in the June 30, 2015 valuation.

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

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Public Equity	22%	4.9%
Private Markets	14	7.0
Fixed Income- Ex Inflation-Linked	20	2.5
Fixed Income- Inflation-Linked	7	1.3
Commodities	8	2.0
Real Estate	7	6.7
Absolute Return	10	2.9
Risk Parity	12	5.3
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%) or 1-percentage-point higher (7.75%) 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	$8,044,237	$5,008,824	$2,477,057

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

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

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

NOTE 11 – Risk Management

The University is exposed to various risks of loss: torts; errors or omissions; theft, damage to property or destruction of assets; vehicle losses; job-related illness or injuries to employees; and natural disasters. The University manages these risks through a combination of risk retention and risk transfer, or the purchase of commercial insurance. Property insurance for buildings and contents and other special form coverage is subject to a deductible of $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 renew the $10 million excess of $15 million earthquake coverage for the 2019-20 policy year. This elimination offsets cost increases in other lines in coverage to maintain the same overall cost as the previous fiscal 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 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.

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 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 2018-19 and 2019-20 fiscal years are as follows. The amounts shown for claims incurred and claims paid in 2018-19 have been amended from the amounts published in the 2018-2019 Financial Report for comparative purposes. The amounts previously reported represented claims incurred for events during the fiscal year listed and payments on those claims. The revised amounts reflect claims incurred and payments during the fiscal year and attributable to both the year listed and prior fiscal years. This change had no impact on the beginning and ending liability amounts for 2018-19 as published and they remain unchanged.

Fiscal Year	Beginning Liability	Claims Incurred	Claims Paid	Ending Liability
2018-19	$1,118,770	$14,890,190	$(14,726,493)	$1,282,467
2019-20	$1,282,467	$16,475,746	$(16,447,000)	$1,311,213

NOTE 12 – Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan

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

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

Employees covered by benefit terms. At June 30, 2020, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving medical/dental benefit payments	276
Inactive employees entitled to but not yet receiving medical/dental benefit payments	0
Active employees eligible for medical/dental	327
	603

Inactive employees or beneficiaries currently receiving life insurance benefit payments	336
Inactive employees entitled to but not yet receiving life insurance benefit payments	0
Active employees eligible for life insurance	569
	905

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, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020, with liabilities as of July 1, 2019, being based on an actuarial valuation date of July 1, 2018, projected to July 1, 2019, on a "no gain/no loss" basis.

Actuarial assumptions. The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.25%
Salary increases	2.50-4.25%, including inflation
Healthcare cost trend rates	8% for 2021, decreasing 0.50% per year to an ultimate rate of 4.50% for 2028 and later years for medical 5% for 2021, decreasing 0.25% per year to an ultimate rate of 3% for 2029 and later for dental

Mortality rates were based on the SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2019 for healthy retirees, SOA Pub-2010 Continuing Survivor Headcount Weighted Mortality Table fully generational using Scale MP-2019 for surviving spouses, and SOA Pub-2010 Disabled Retiree Headcount Weighted Mortality Table fully generational using Scale MP-2019 for disabled retirees.

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

The actuarial assumptions used in the June 30, 2020, 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	15	8.5
International Equity	10	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, 2020
Bond Buyer Go 20-Bond Municipal Bond Index	2.21%
S&P Municipal Bond 20-Year High Grade Rate Index	2.66
Fidelity 20-Year Go Municipal Bond Index	2.45
Bond Index Range	2.21-3.66%

Changes in the Net OPEB Liability June 30, 2020

	Total OPEB Liability (a)	**Increase (Decrease) Plan Fiduciary Net Position (b)**	**Net OPEB Liability (a)-(b)**
Balances at 6/30/2019	$47,752,416	$24,345,347	$23,407,069
Changes for the year:			
Service Cost	493,102		493,102
Interest	3,315,220		3,315,220
Changes in assumptions	(671,887)		(671,887)
Differences between expected and actual experience	(7,223,292)		(7,223,292)
Contributions-employer		578,788	(578,788)
Net Investment Income		1,492,916	(1,492,916)
Benefit Payments	(1,800,914)	(1,800,914)	-
Administrative Expense		(42,685)	42,685
Net Changes	(5,887,771)	228,105	(6,115,876)
Balances at 6/30/2020	$41,864,645	$24,573,452	$17,291,193

Changes in the Net OPEB Liability June 30, 2019

	Total OPEB Liability (a)	Increase (Decrease) 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

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

	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
Net OPEB liability	22,300,941	17,291,193	13,089,007

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% decreasing to 3.50%) or 1-percentage-point higher (9% decreasing to 5.50%) than the current healthcare cost trend rates.

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(7% decreasing to 3.50%)	(8% decreasing to 4.50%)	(9% decreasing to 5.50%)
Net OPEB liability	13,153,595	17,291,193	22,196,687

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, 2020, the University recognized OPEB expense of $(2,056,246). At June 30, 2020, 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	-	6,768,181
Changes in assumptions	240,584	447,925
Net differences between projected and actual earnings in OPEB plan investments	269,741	12,386
Total	510,325	7,228,492

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

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:	
2021	(4,246,601)
2022	(2,534,531)
2023	29,418
2024	33,547
2025	-
Thereafter	-

NOTE 13 – 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 $3,528,360 and $3,227,737 for June 30, 2020, and 2019, respectively. The current year change represents a $275,034 increase in accrued vacation; a $4,925 increase in sick leave liability; a $19,012 increase in Social Security and Medicare taxes; a $1,331 decrease in Public Employees' Retirement Fund (PERF) contributions; and a $2,983 increase in Teacher's Insurance and Annuity Association (TIAA) contributions. During the fiscal year, $286,400 was paid out to terminating employees. Payout for terminating employees in fiscal year 2020-21 is expected to increase approximately 66.85 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $477,871 of the total compensated absence liability is classified as a current liability under accrued payroll, benefits and deductions, and the remaining $3,050,489 is classified as a noncurrent liability.

NOTE 14 – 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 18 retirees currently receiving early-retirement benefits, 10 of whose benefits stop after this fiscal year, and 13 more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $530,263 at June 30, 2020. Of that amount, $303,475 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 $226,788 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

NOTE 15 – Functional Expenditures

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

Fiscal Year Ended June 30, 2020

FUNCTION	SALARIES & WAGES	BENEFITS	STUDENT FINANCIAL AID	UTILITIES	SUPPLIES & OTHER SVCS	DEPREC-IATION	TOTAL
Instruction	$33,255,654	$9,575,089			$3,167,055		$45,997,798
Academic Support	5,649,977	2,007,030			4,325,629		11,982,636
Student Services	5,991,384	2,036,853			3,625,705		11,653,942
Institutional Support	9,331,954	4,738,228			6,754,188		20,824,370
Operation & Maintenance of Plant	3,423,239	1,278,051		4,215,166	6,300,460		15,216,916
Depreciation						15,300,728	15,300,728
Student Aid			11,234,090				11,234,090
Public Service	1,068,314	292,899			1,130,536		2,491,749
Research	94,330	20,720			111,683		226,733
Auxiliary Enterprises	4,551,155	2,463,067		805,083	12,334,550		20,153,855
TOTAL	**$63,366,007**	**$22,411,937**	**$11,234,090**	**$5,020,249**	**$37,749,806**	**$15,300,728**	**$155,082,817**

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**

NOTE 16 – Subsequent Events

Institutional Portion of the Coronavirus Aid, Relief, and Economic Security (CARES) Act Higher Education Emergency Relief Fund (HEERF)

On July 14, 2020, the University was awarded $2,945,141 for the institutional portion of the CARES HEERF grant by the U.S. Department of Education. The funds will be used to offset housing revenue refunded to students due to the campus closure and to cover costs associated with significant changes to the delivery of instruction due to the coronavirus.

Series N Bond Issue

On August 6, 2020, the University issued $41,170,000 in student fee revenue bonds with an all-in true interest cost of 2.02 percent. Net proceeds from the bond issue are to be used to fund the construction and equipping of the Health Professions Center Classroom Renovation and Expansion project. Annual debt service payments of approximately $2.9 million are scheduled through October 2039.

Barnes & Noble College Management Agreement

On August 18, 2020, the University entered into an agreement with Barnes & Noble College Booksellers, LLC, to provide management services for the USI Campus Store effective October 15, 2020. The scope of services includes operation of the USI Campus Store located in the University Center West, course materials services, operation of the Screagle Zone, located in the Screaming Eagles Arena, and the USI Campus Store website. The initial term expires on June 30, 2026, and the University has the option to renew the agreement for one-year renewal terms. The University will receive a minimum annual guarantee or the applicable sum of the percentage commissionable sales in addition to other financial considerations.

Lilly Endowment Inc. Grant for Charting the Future Phase 2 Implementation

On September 17, 2020, the University was awarded $2,498,934 from the Lilly Endowment for the second phase of the Charting the Future for Indiana's Colleges and Universities Initiative. This grant will fund a project that will create an innovative infrastructure for adult learners to obtain additional education credentials. The grant period is September 1, 2020, through December 31, 2022. Funds are expected to be available in October 2020.

University of Southern Indiana
Fiscal Year Ended June 30, 2020

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, 2020, and compares that performance with select information for the years ended June 30, 2019, and 2018. 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)	2020	2019	2018
Current Assets	113,122	89,367	73,714
Noncurrent Assets:			
Capital assets, net of depreciation	214,636	209,995	195,979
Other non-current	34,011	63,402	49,958
Total Assets	**$ 361,769**	**$ 362,764**	**$ 319,651**
Hedging Derivative Instruments	716	723	700
Deferred Outflow of Resources Related to Pensions	883	1,122	2,452
Deferred Outflow of Resources Related to OPEB	510	685	993
Total Deferred Outflow of Resources	**$ 2,109**	**$ 2,530**	**$ 4,145**
Current Liabilities	28,853	25,938	19,954
Noncurrent Liabilities	121,517	140,380	118,212
Total Liabilities	**$ 150,370**	**$ 166,318**	**$ 138,166**
Deferred Inflow of Resources Related to Pensions	1,180	1,162	838
Deferred Inflow of Resources Related to OPEB	7,228	3,922	2,062
Total Deferred Inflow of Resources	**$ 8,408**	**$ 5,084**	**$ 2,900**
Net Position:			
Net investment in capital assets	122,917	122,743	105,308
Restricted--expendable	122	101	4,632
Unrestricted	82,061	71,048	72,790
Total Net Position	**$ 205,100**	**$ 193,892**	**$ 182,730**

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 decreased by $995,000, or .3 percent, in fiscal year 2020 compared to a $43.1 million, or 13.5 percent, increase in fiscal year 2019. Asset activity during the 2020 fiscal year is summarized by the following events.

Cash and cash equivalents increased by $32.9 million from $22.2 million at June 30, 2019, to $55.1 million at June 30, 2020. Management began a planned, targeted liquidation of investments during the final months of fiscal year 2020 in preparation for the transfer of funds to new investment managers during fiscal year 2021 as approved by the University Board of Trustees. This strategy offered the secondary benefit of providing liquidity to meet short-term cash needs during the COVID-19 pandemic. During fiscal year 2019, cash and cash equivalents increased by $4.6 million.

The increase in cash and cash equivalents corresponded to a decrease in the total value of investments at June 30, 2020, as noted above. Total investments declined to $63.6 million in fiscal year 2020 from $84.6 million in fiscal year 2019 and $84.1 million in fiscal year 2018. Short-term investments increased by $8.4 million while long-term investments decreased by $29.4 million in fiscal year 2020. Investments purchased in prior fiscal years that are scheduled to mature in fiscal year 2021 were reclassified from long-term to short-term. In addition, the University opted for shorter durations on investment purchases to maintain portfolio balance and investment income during an environment of interest rate volatility.

Net accounts receivable decreased $1.6 million in 2020. Decreases in student receivables ($112,000), auxiliary enterprises ($378,000), gifts and non-operating grants ($541,000), capital grants and gifts ($109,000), and other receivables ($787,000) were offset partially by a $237,000 increase in contracts and operating grants and a $111,000 decrease in allowance for uncollectible accounts. Net Accounts receivable declined by $2.1 million in 2019.

The current portion of deposits with bond trustee decreased by $15.9 million during 2020 as the University continued to spend the proceeds from the Series M student fee bonds, which were issued during fiscal year 2019 for the second phase of the renovation and expansion of the Physical Activities Center. The current portion of deposits with bond trustee increased by $29.6 million in 2019 following the issuance of the Series M bonds in February of that year.

Net capital assets increased by $4.6 million in 2020. Asset additions of $20.2 million included an $18.8 million increase to construction in progress and a $1.4 million increase to other capital assets. These additions were offset partially by depreciation of $15.3 million. Miscellaneous asset disposals and adjustments accounted for the remaining changes.

Inventories decreased by nearly $294,000 in 2020 primarily due to less merchandise on hand in the Campus Store due to the COVID-19 pandemic. In 2019, inventories increased by $529,000.

Other current assets and noncurrent deposits with bond trustee increased in 2020 by $287,000 and $9,000, respectively, compared to decreases in 2019 of $731,000 and $27,000, respectively.

Deferred Outflow of Resources

Deferred outflows of resources, which represent the consumption of resources applicable to a future period, decreased by $421,000, or 16.7 percent, in fiscal year 2020 compared to a $1.6 million, or 39 percent, reduction in fiscal year 2019. Deferred outflow related to pensions fell by $240,000 in 2020 and by $1.3 million in fiscal year 2019. Likewise, deferred outflow related to other postemployment benefits (OPEB) dropped by $174,000 in 2020 following a decrease of $308,000 in 2019. Finally, hedging derivate instruments associated with the Series 2006 and Series 2008A bonds decreased slightly by $7,000 in 2020 following an increase of $24,000 in 2019.

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 decreased by $15.9 million, or 9.6 percent, in fiscal year 2020 after increasing by $28.2 million, or 20.4 percent, during fiscal year 2019. Current liabilities grew by $2.9 million, but noncurrent liabilities dropped by $18.8 million primarily due to the repayment of outstanding debt.

Total bonds and leases payable decreased by $11.2 million in 2020. The current portion of bonds and leases payable increased by $1.5 million while the noncurrent portion fell by $12.7 million. Total bonds and leases increased by $29.4 million in 2019 following the issuance of the Series M student fee revenue bonds.

The current liability for unearned revenue climbed by nearly $2.1 million in 2020. Students planning to return to USI for the 2020-2021 academic year were permitted to carry forward dining dollars from 2019-2020 academic year because the University transferred to remote learning in March 2020 due to the COVID-19 pandemic. Students will be allowed to use the funds through December 2020. These dollars accounted for much of the increase.

The noncurrent liabilities related to retirement benefits declined by a combined $6.1 million during 2020 after a decline of $4.5 million in 2019. Other postemployment benefits accounted for much of the 2020 change, falling by $6.1 million while the net pension liability fell by $281,000, marking the fourth consecutive year that it has decreased. Compensated absences and termination benefits increased slightly by $251,000.

The cumulative effect of changes to other current and noncurrent liabilities resulted in a $767,000 decrease to total liabilities in 2020 compared to a $752,000 increase in 2019.

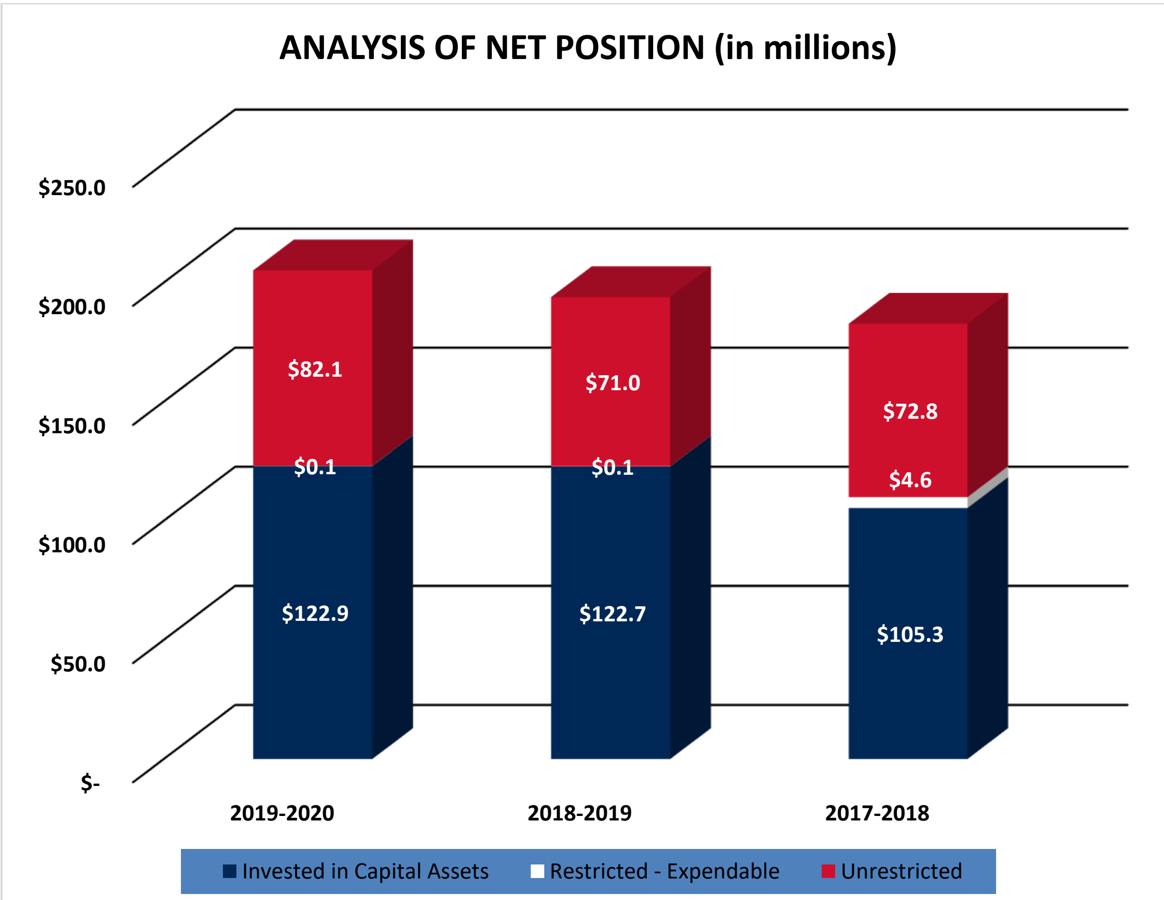
Deferred Inflow of Resources

Deferred inflows of resources, which represent acquisitions of resources applicable to a future period, increased by $3.3 million, or 65.4 percent, in fiscal year 2020 following a $2.2 million, or 75.3 percent, increase in fiscal year 2019. Deferred inflow of resources related to other postemployment accounted for the increase in 2020 as deferred inflow of resources related to pensions was virtually unchanged.

Net Position

Net Position in fiscal year 2020 grew by $11.2 million, or 5.8 percent, matching the $11.2 million, or 6.1 percent, increase in fiscal year 2019. Net investment in capital assets and restricted expendable assets grew by $195,000 combined during 2020 while unrestricted increased $11 million. At June 30, 2020, unrestricted net position totaled $82.1 million and comprised 40 percent of total net position. Of the total unrestricted amount, $71.3 million has been internally designated as follows.

- $17.7 million for equipment and facilities maintenance and replacement
- $4.1 million for technology and software replacement
- $18.9 million for auxiliary systems
- $1 million for working capital and outstanding encumbrances
- $10.6 million for academic operations and initiatives
- $3.2 million for insurance and campus safety
- $15.8 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)	**2020**	**2019**	**2018**
Operating Revenues	76,452	82,435	79,755
Operating Expenses	(155,083)	(160,454)	(158,004)
Operating Loss	**$ (78,631)**	**$ (78,019)**	**$ (78,249)**
Non-operating Revenues	92,349	91,192	84,662
Non-operating Expenses	(3,687)	(3,394)	(2,793)
Income before other revenues, expenses, gains or losses	**$ 10,031**	**$ 9,779**	**$ 3,620**
Other Revenues	1,177	1,383	18,477
Increase in Net Position	**$ 11,208**	**$ 11,162**	**$ 22,097**
Net Position--Beginning of Year	193,892	182,730	170,057
Prior-period Adjustment for Change in Accounting Principle	-	-	(9,424)
Net Position--End of Year	**$ 205,100**	**$ 193,892**	**$ 182,730**

Revenues

Operating revenues decreased by $6 million in fiscal year 2020 compared to a $2.7 million increase in fiscal year 2019. The 2020 decrease was driven by the following factors.

- Net student fees remained steady, increasing modestly from just under $51 million in 2019 to $51.6 million in 2020. Gross student fees decreased by $467,000 while scholarship discounts and allowances decreased by nearly $1.1 million.
- Net revenues from auxiliary enterprises decreased from to $26.8 million in 2019 to $20.6 million in 2020. Most of the decline can be attributed to the COVID-19 pandemic.
    - Housing revenues fell by $2.5 million, including $1.9 million in credits applied to student accounts when the University closed housing to most students in March.
    - Dining revenues declined by $2.2 million. As noted above regarding the increase in unearned revenue, students planning to return to USI for the 2020-2021 academic year

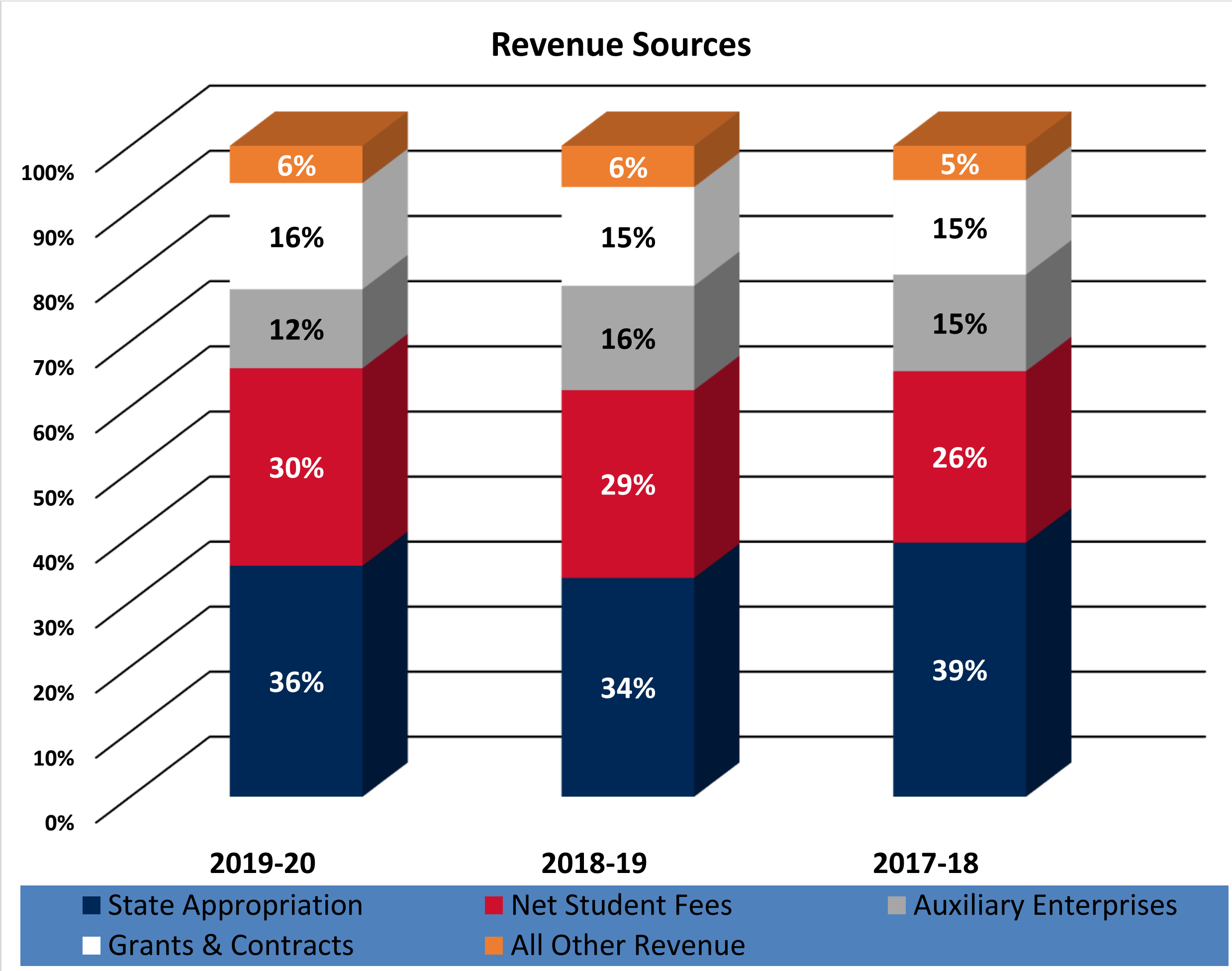
were permitted to carry forward dining dollars from 2019-2020 academic year when the University transferred to remote learning in March 2020. This revenue will be recognized as earned in fiscal year 2021.
    - Campus Store revenues fell by almost $1.1 million as the store was closed from late March through early July due to the pandemic. Although online sales continued, the inability of customers to visit the store hindered sales.
    - All other auxiliary revenues declined by $413,000.
- Operating grants and contracts from all sources grew in 2020 by $232,000 while other operating revenues fell during the same period by $624,000.

Non-operating revenues increased by $1.2 million in fiscal year 2020 after an increase of $6.5 million in 2019. The following elements contributed to the growth in fiscal year 2020.

- State operating and fee replacement appropriations grew slightly from $58.6 million in 2019 to $59.3 million in 2020.
- Non-operating gift income, which comes almost entirely from the USI Foundation, fell by $568,000, or 12.2 percent, in 2020.
- Net investment income rose $380,000 in 2020. Of the $3.1 million in investment income shown on the face of the Statement of Revenues, Expenses, and Changes in Net Position, $1 million is attributable to the change in unrealized gains on investments from June 30, 2019, to June 30, 2020.
- Non-operating grants and contracts from all sources, which consist primary of federal and state funds received for student financial assistance, increased by $648,000. Non-operating federal grants and contracts include $2.5 million from the Higher Education Emergency Relief Fund (HEERF) awarded as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The University received the funds to provide emergency aid grants to eligible students for expenses associated with the disruption of campus operations due to COVID-19.

Other revenues, which includes capital appropriations, grants, and gifts, remained steady, declining moderately from $1.4 million in 2019 to $1.2 million in 2020.

Total revenues (operating, non-operating, and other) decreased by $5 million, or 2.9 percent after decreasing by $7.9 million, or 4.3 percent, in fiscal year 2019. The graph below shows the composition of the University's revenues for the three most recent fiscal years ended June 30.



Expenses

Operating expenses decreased by $5.4 million in fiscal year 2020 following an increase of $2.5 million in fiscal year 2019. The following expenses contributed to the current year decrease.

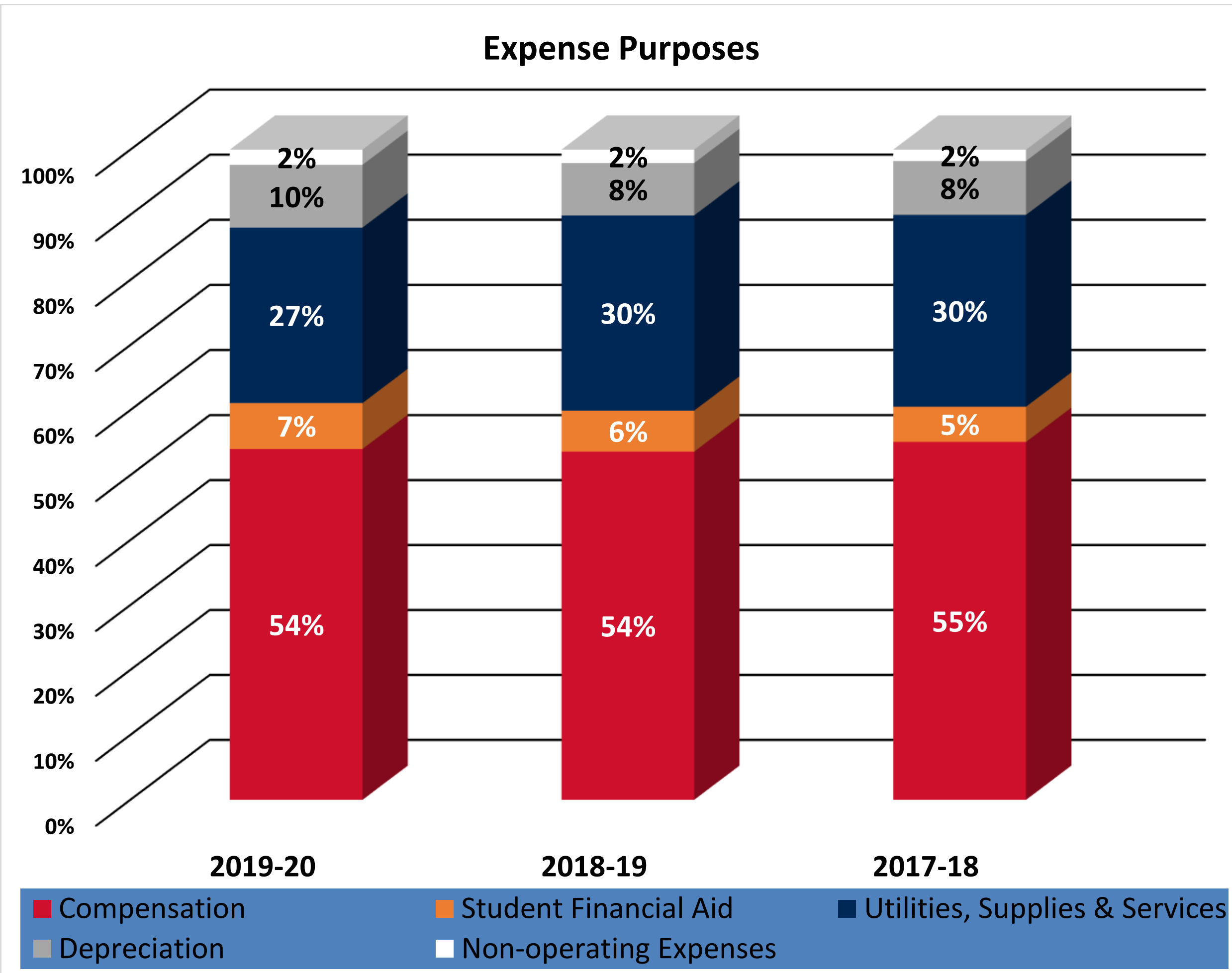
- Compensation, which includes salaries, wages, and benefits, comprised $85.8 million, or 55.3 percent, of operating expenses and decreased by $2.9 million in 2020. Salaries and wages decreased by $1.1 million, and benefits decreased by $1.8 million.
- Student financial assistance expenses increased by $2.4 million, or 27.2 percent to in 2020. 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. The $11.2 million student financial aid expense includes $2.5 million in payments to eligible students for costs associated with the disruption of campus operations due to COVID-19. These payments were funded from the Higher Education Emergency Relief Fund (HEERF) as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- Supplies and other services decreased by $6.5 million in 2020. 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. With the campus open to authorized individuals only from March 18 through the end of the fiscal year on June 30, expenses declined across many categories as normal operations were adapted to a remote working environment during the COVID-19 pandemic.

- Depreciation increased by $2 million during 2020 as several significant capital projects completed during the 2019 fiscal year, including the Stone Family Center for Health Sciences, the Fuquay Welcome Center, and the Screaming Eagles Arena, experienced a full year of depreciation.
- Utilities decreased by $390,000.

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 $294,000 in fiscal year 2020 due to greater debt interest costs.

Total expenses (operating and non-operating) decreased by $5.1 million, or 3.1 percent, in fiscal year 2020 compared to an increase of $3.1 million, or 1.9 percent, in fiscal year 2019. 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, 2020, total revenues exceeded total expenses, resulting in an increase in net position of $11.2 million after increases of $11.2 million and $22.1 million in 2019 and 2018, 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 million 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)	**2020**	**2019**	**2018**
Net Cash Provided (Used) By			
Operating activities	$ (63,485)	$ (61,594)	$ (64,096)
Noncapital financing activities	89,832	87,727	84,080
Capital financing activities	(17,686)	(23,767)	(21,142)
Investing activities	24,262	2,255	1,078
Net Increase (Decrease) in Cash	**$ 32,923**	**$ 4,621**	**$ (80)**

Operating activities
- Cash used by operating activities increased by $1.9 million in fiscal year 2020 compared to a decrease of $2.5 million in fiscal year 2019.
- 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 by $2.1 million in 2020 following an increase of $3.6 million in 2019.
- 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 decreased by $6.1 million in 2020 after an increase of $2.6 million in 2019.

- Cash activity associated with funds on deposit with bond trustee resulted in the most cash inflows for 2020. Proceeds from the issuance of Series M student fee revenue bonds provided the most cash in 2019. Capital appropriations from the State of Indiana were the largest source of cash inflows in 2018.
- The purchase of capital assets resulted in the largest cash outflows for 2020 and 2018. Cash activity associated with funds on deposit with bond trustee resulted produced the most cash outflows for 2019.

Investing activities

- Cash provided by Investing activities increased by $22 million during the 2020 fiscal year after increasing by $1.2 million in 2019.
- Proceeds from sales and maturities of investments increased by $10.7 million in 2020 compared to a $2.7 increase in 2019.
- Cash from interest earned on investments was $2.2 million in 2020, up from $1.6 million in 2019.
- Purchases of investments declined by $10.8 million during 2020. In 2019, purchases of investments grew by $1.9 million.

Summary of Statement of Cash Flows

For the 2020 fiscal year, the University cash balance increased by $32.9 million as management began a planned, targeted liquidation of investments during the final months of the fiscal year in preparation for the transfer of funds to new investment managers during fiscal year 2021. This strategy offered the secondary benefit of providing liquidity to meet short-term cash needs during the COVID-19 pandemic. In 2019, the University cash balance increased by $4.6 million. The cash balance at June 30, 2020, was $55,105,307 compared to $22,182,515 at June 30, 2019, and $17,561,947 at June 30, 2018.

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.

On April 9, 2020, the State Budget Agency notified public colleges and universities within the state of its decision to rescind guidance sent on February 17 regarding cash funding of certain projects and, instead, asked the institutions to exercise the bonding authority provided for in HEA 1001—2019. In August 2020, the University acted on that authority and issued the Series N Bonds for the Health Professions Center Classroom Renovation and Expansion. Annual debt service payments of approximately $2.9 million are scheduled through October 2039. As part of the issuance, Moody's assigned an A1 rating to the debt and affirmed the A1 ratings on outstanding rated student fee bonds and the A2 rating on rated auxiliary system revenue bonds. Likewise, S&P Global assigned an A long-term rating on the Series N Bonds and affirmed its A long-term rating on Series K-1, Series K-3, and Series M student fee bonds with a stable outlook.

In June 2020, the State Budget Agency proposed holding a reserve of seven percent on university operating and line item appropriations for fiscal year 2021. The proposal was accepted by the Indiana State Budget Committee. This reserve equates to a $3.4 million reduction for USI. The uncertainty surrounding the State of Indiana budget led the USI Board of Trustees to approve an interim operating budget on May 28, 2020, which ensured that all faculty and staff were paid through December 31, 2020.

The Board is expected to approve a final budget for the 2021 fiscal year at its meeting on November 5, 2020. While the University reserves are sufficient to absorb this reduction, a permanent reduction of operating and line item appropriations would have to be offset by an increase in student fees or a significant reduction of operating costs.

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 and $269.52 in 2020-2021, a two percent increase from 2019-2020. Although the rate of increase exceeds slightly the 1.65% 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 2020, the University welcomed another record number of graduate students with 1,766 students enrolled in masters and doctoral programs. Graduate enrollment increased 14.9 percent over Fall 2019 and has risen 21.9 percent over the past two years. The Master of Business Administration (MBA) Program, housed within the Romain College of Business, continues to fuel this growth. More than 1,000 students are pursuing their MBA at USI currently, either in a traditional program or in an accelerated, online-only program. In addition, the incoming first-year undergraduate class boasted a high school GPA of 3.48 on a 4.0 scale, a new record for USI. Joint graduate and undergraduate enrollment for Fall 2020 totaled 8,505, a decrease of 2.1 percent from Fall 2019.

After transitioning to remote learning for students and remote work for employees during the Spring 2020 and Summer 2020 terms, the University has positioned itself well to operate effectively during the COVID-19 pandemic while continuing to offer students a high-quality educational experience. For Fall 2020, the University installed a flexible course delivery model to accommodate varying circumstances for the student body. With the model, considering social distancing and safety practices, students can be on campus for face-to-face courses and a combination of technology-enhanced, hybrid, and online formats. Each college offers a diverse selection of courses with a variety of delivery modes to ensure a positive experience for students. In July 2020, the University was awarded $2.9 million from the Higher Education Emergency Relief Fund (HEERF) as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. These dollars will be used to cover costs associated with significant changes to the delivery of instruction due to COVID-19. In addition, the University opened student housing to students after deliberation and consultation with medical authorities. Maximum occupancy was set to 85 percent with apartment buildings left vacant intentionally with individual bedrooms and bathrooms reserved for possible quarantine use. Special training and contract tracing protocols were given to employees in Housing and Residence Life to promote safety among staff and students alike.

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. In September 2020, the University was awarded $2.5 million from the Lilly Endowment for the second phase of a project that will create an innovative infrastructure for adult learners who seek additional educational credentials, an initiative that will align well with the new strategic plan. Although development and presentation of the plan was delayed by COVID-19, the plan is scheduled to be presented to the University Board of Trustees for approval at its meeting on November 5, 2020.

While the long-term financial effects of COVID-19 remain unclear, the 2020 Financial Report reinforces 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

<u>Empire Contractors, Inc. - General Contractor</u>

CO P026 Change card readers to fingerprint readers	$ 60,582

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

PHYSICAL ACTIVITIES CENTER (PAC) RENOVATION PHASE II

AQUATICS CENTER

Empire Contractors, Inc. - General Contractor

CO N010	Cane rail, ground water drain, glass railing change, fingerprint readers and access panels	$ 8,657

GENERAL

Empire Contractors, Inc. - General Contractor

CO P024	Relocation of existing conduit and lighting, rehang lights	$ 24,219
CO P025	Medicine ball wall, move washers and dryers, move equipment and demo	$ 18,854