**MINUTES**

**FINANCE/AUDIT COMMITTEE**

**UNIVERSITY OF SOUTHERN INDIANA**
**BOARD OF TRUSTEES**

**November 4, 2010**

The Finance/Audit Committee of the University of Southern Indiana Board of Trustees met on Thursday, November 4, 2010, in Carter Hall in the University Center. In attendance were Chair Ted C. Ziemer, Jr. and Trustees Ira G. Boots, John M. Dunn, and Jeffrey L. Knight. Trustee Steven J. Schenck ’72 was absent. Others in attendance were President Linda L. M. Bennett; Vice President for Finance and Administration and Treasurer Mark Rozewski; and Vice President for Government and University Relations Cynthia S. Brinker.

Committee Chair Ted Ziemer called the meeting to order at 11 a.m.

## 1. REVIEW OF AUDITED FINANCIAL STATEMENTS

Mr. Ziemer called on Vice President Rozewski, who introduced Steve Bridges and reported Mr. Bridges' recent promotion to assistant vice president for Finance and Administration and assistant treasurer. He noted Mr. Bridges has 21 years of experience with the University and most recently served as controller and director of the Business Office. Mr. Rozewski reported the Indiana State Board of Accounts finalized the audited financial statements following the preparation of the agenda. As expected, there were no findings. Mr. Ziemer will represent the Trustees at the exit interview with the State Board of Accounts.

Mr. Bridges introduced Associate Controller Jeff Sickman and recognized Mr. Sickman's assistance in preparing the annual financial report. He reminded the Trustees that USI follows standards set by the Governmental Accounting Standards Board (GASB). He reported there is one new GASB standard (No. 53) which affects how the University reports derivatives. The standard affects USI's reporting of Series 2006 and Series 2008A Bonds, and Notes 6 and 18 in the financial statements provide more information about derivative instruments. Mr. Bridges noted the University of Southern Indiana Foundation is governed by the Financial Accounting Standards Board (FASB). While the USI Foundation is considered a component unit of the University (Note 2), it is audited by a private firm following the guidelines of FASB.

Mr. Bridges referred the Trustees to page 11 of Attachment A, the *Statement of Net Assets*. He reported total assets increased to $289,321,825 in 2009-2010, an increase of .65 percent. Total liabilities decreased to $169,023,634, a decrease of 4.32 percent. Total net assets improved 8.53 percent to $120,298,191. Mr. Bridges reviewed the line items in the *Statement of Net Assets*, including Current and Noncurrent Assets, Current and Noncurrent Liabilities, and Net Assets.

Mr. Bridges referred the Trustees to page 12 of Attachment A, the *Statement of Revenue, Expenses, and Change in Net Assets*, and reviewed the categories of Revenues, Expenses, Non-Operating Revenues (Expenses), and Net Assets.

He concluded by referring the Trustees to other statements included in the annual report and the *Notes to Financial Statements* for additional information.

## 2. REPORT ON THE VOLUNTARY EMPLOYEES’ BENEFIT ASSOCIATION (VEBA) TRUST FUND

Mr. Ziemer called on Vice President Rozewski, who introduced Neil Heppler, co-president of Fourth Street Performance Partners and the investment advisor for the VEBA Trust, to present a report of the year ended June 30, 2010, and the first quarter of 2010-2011. Mr. Rozewski reviewed the purpose of the Trust, which is to accumulate a corpus from which investment income will fund the cost of employee post-retirement health care benefits. Current estimates require $31 million to achieve this goal. The fund presently totals approximately $11 million. The cost of post-retirement health care benefits, which totals approximately $900,000 annually, is currently accommodated by the University's operating budget. It is expected the benefits will be paid from the operating budget for the 20 years it may require to build the $31 million fund.

.
Mr. Heppler referred the Committee to a handout titled *USI VEBA Trust Investment Performance Analysis – September 30, 2010,* and reviewed the Quarterly Market Review for the third quarter 2010 and the Performance Analysis. He reviewed components of and recent changes in the portfolio. Total assets of the VEBA Trust for the period ending September 30, 2010, are $11,061,792. Mr. Heppler reviewed the asset allocation of the Trust. He also reviewed the sources of growth from September 2000 through September 2010, and the VEBA Trust Composite, a comparison of the VEBA Trust with similar defined-benefit plans. He referred the Trustees to additional information in the report.

Mr. Rozewski discussed the recommended annual contribution to the VEBA Trust and referred to Note 14 in the Audited Financial Statements regarding the Trust. In 2008 and 2009, the University made approximately 90 percent of the recommended contribution to the VEBA Trust. In 2010, however, the University covered only 56 percent of the recommendation. Mr. Rozewski noted the recommended contribution increased significantly because of the investment performance of the Trust (as affected by the market) and the rising cost of health care. He told the Trustees the matter of the difference between the goal and the University's ability to contribute is under evaluation and he expects to develop a recommendation before the end of the 2010-2011 fiscal year.

**3. REPORT OF CHANGE ORDERS ISSUED BY THE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION**

Mr. Ziemer asked Vice President Rozewski to review the change orders listed in Attachment B. Mr. Rozewski referred the Trustees to the summary of construction change orders in Attachment B. All of the reported change orders are under $25,000 and approved by the vice president for Finance and Administration.

**4. REPORT ON SEARCH TO FILL POSITION OF DIRECTOR OF INTERNAL AUDIT**

Mr. Ziemer asked Vice President Rozewski for a report on the search for a director of Internal Audit. Mr. Rozewski reported Director of Internal Audit Diana Biggs will retire effective December 31, 2010, and a search is underway for her replacement. Mr. Ziemer will represent the Board of Trustees on the Search Committee, which plans to complete its work by early December 2010. Mr. Rozewski thanked Ms. Biggs for her service and counsel.

Mr. Rozewski recognized Michael Whipple, director of the Business Office and Assistant Treasurer, on his impending retirement and thanked Mr. Whipple for his many years of service.

There being no further business, the meeting adjourned at 11:55 a.m.

# University of Southern Indiana
## Fiscal Year Ended June 30, 2010

## Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University during the fiscal year ended June 30, 2010, and compares that performance with data from prior fiscal periods. It is designed to focus on current activities, resulting changes, and currently known facts. It is intended to answer questions that may result from the review of the information presented in the financial statements and to better explain the financial position of the University. The information presented in the financial statements, the notes to the financial statements, and the discussion and analysis are the responsibility of management.

## Using the Annual Report

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

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

## Statement of Net Assets

The Statement of Net Assets presents the value of the assets, liabilities, and net assets at the end of the fiscal year. 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 non-current (accessible or payable beyond one year); net assets are invested in capital assets, restricted for specific purposes, or unrestricted.

Net assets are one indicator of current financial health. The increases or decreases in net assets that occur over time indicate improvements or deterioration of the University's financial condition.

| **STATEMENT OF NET ASSETS**<br>**June 30** (in thousands) | **2010** | **2009** | **2008** |
|---|---|---|---|
| Current Assets | $68,254 | $102,541 | $69,350 |
| Non-current Assets: | | | |
| Capital assets, net of depreciation | 180,872 | 153,764 | 133,349 |
| Other non-current | 40,196 | 31,137 | 36,338 |
| Total Assets | $289,322 | $287,442 | $239,037 |
| Current Liabilities | $22,157 | $21,262 | $17,602 |
| Non-current Liabilities | 146,867 | 155,402 | 119,821 |
| Total Liabilities | $169,024 | $176,664 | $137,423 |
| Net Assets: | | | |
| Invested in capital assets, net of debt | $51,311 | $33,492 | $15,791 |
| Restricted - expendable | 44 | 28 | 850 |
| Unrestricted | 68,943 | 77,258 | 84,973 |
| Total Net Assets | $120,298 | $110,778 | $101,614 |

**Assets**

Current assets at June 30, 2010, consist predominantly of cash and cash equivalents, short-term investments, receivables net of allowances for bad debt, and deposit with bond trustee. Also included are prepaid expenses, inventory, and accrued interest. Non-current assets include capital assets net of depreciation, long-term investments, and deferred outflow of resources related to the series 2006 and Series 2008A hedgeable financial derivatives. Both current and non-current assets include notes receivables and lesser-valued resources that are grouped together and listed under the term “Other”.

Total assets increased $1.9 million (.7 percent) in 2010 compared to a $48.4 million (20.3 percent) increase in 2009 and a $15 million (6.7 percent) increase in 2008. The current year increase is explained by the following fiscal year events:

- Cash and investments decreased $10.2 million in 2010 compared to a $16.4 million increase in 2009, and a $17.1 million increase in 2008 reflecting the University’s commitment to improve campus facilities using institutional resources.
- Student receivables comprise 49 percent of the total accounts receivable amount and increased $215,809 in 2010 compared to a $145,480 increase in 2009 and a $2.4 million decrease in 2008. Non-student receivables increased 1.9 million in 2010 with a $300,000 increase in Bookstore credits due to the University, a $560,000 repair and rehabilitation receivable due to the University from the State of Indiana, and a $100,000 increase in grant billing reimbursements due to the University the largest reasons for this increase.
    - Fiscal year 2007 marked the implementation of a change in summer billing. In contrast to previous years, when each summer session was billed separately over three months, all 2007 summer sessions were billed before the fiscal year end. In fiscal year 2008, the third summer billings were identified and removed from receivables and income, bringing the total student receivables more in line and more comparable to previous years.

    - Fiscal year 2010 student receivables are 5.74 percent higher than those of fiscal year 2009, reflecting a combination of enrollment increases and student fee increases.
- Deposits with Bond Trustee decreased by $16.6 million in 2010. The decrease primarily results from construction payments for the Business and Engineering Center and University Center renovation which were funded through the issuance of $51.2 million in Series J bonds issued in February 2009 and held by the bond trustee until required for contractor payments.
- Gross capital assets increased by $36.8 million in fiscal year 2010. Completion of the Recreation, Fitness, and Wellness Center expansion, parking lot improvements, purchases of rental property, capital equipment, and library materials accounted for $14.2 million of the increase; work in progress on projects described in Note 16 of the *Notes to Financial Statements* created the remaining increase of $22.6 million. These increases were offset by an increase in accumulated depreciation of $9.7 million for a net capital asset increase of $27.1 million in fiscal year 2010.

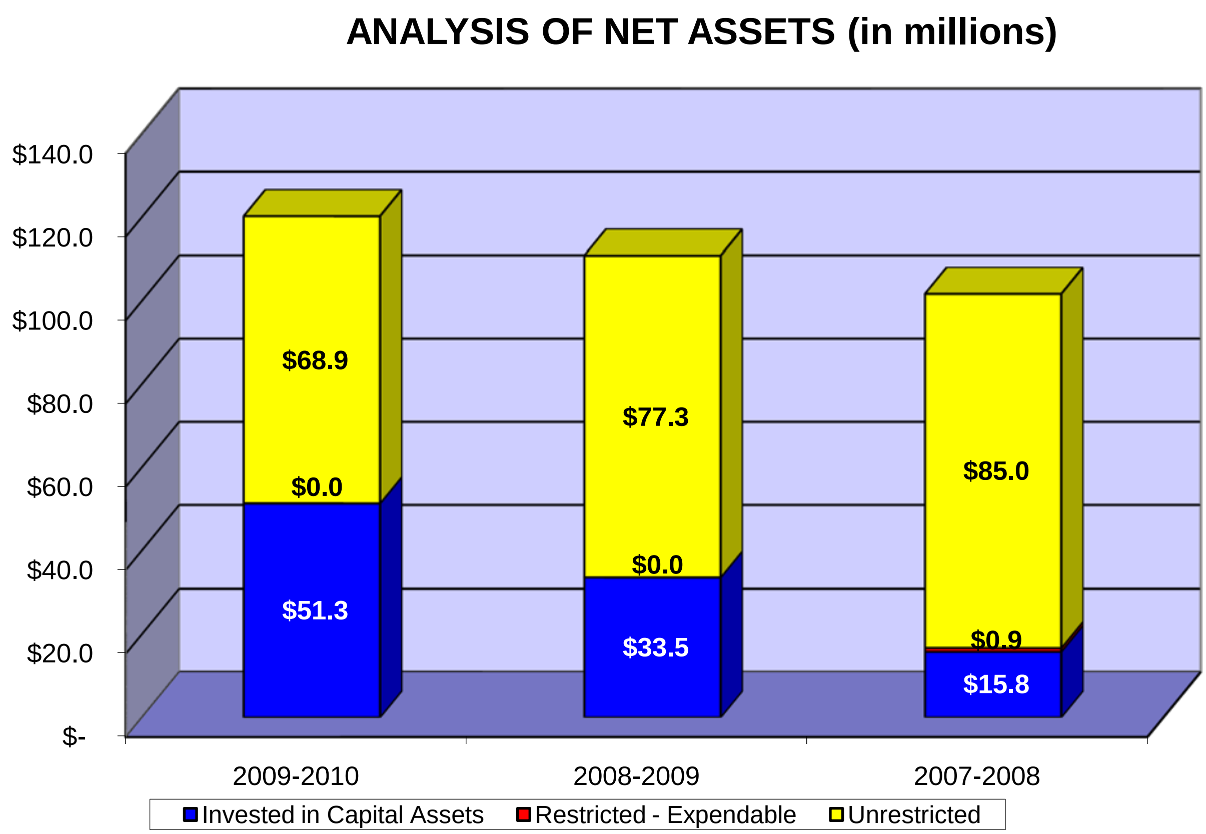
**Liabilities**

Current liabilities at June 30, 2010, are primarily composed of accrued payroll and related benefits and deductions and the current portion of bonds payable. Also included are accounts payable, debt interest payable, and other miscellaneous liabilities. Non-current liabilities are predominately bonds payable. Also included are derivative instruments-interest rate swap for Series 2006 and Series 2008A hedgeable financial derivatives, compensated absences, termination and postemployment benefits, an unamortized bond premium, and miscellaneous other long-term liabilities. Total liabilities decreased $7.6 million (4.3 percent) in 2010 compared to an increase of $37.7 million (27.4 percent) in 2009 and an increase of $2.4 million (1.8 percent) in 2008. Activities that influenced this change include the following:

- Accrued payroll, related benefits, and deductions increased $39,291 in 2010 compared to a $524,024 increase in 2009 and a $281,000 decrease in 2008.
    - Recognition of voluntary termination benefits decreased $34,706 for 2010.
    - Benefit withholdings increased $62,917 for the 2010 fiscal year.
    - Fiscal year-end withholding liabilities increased $159,263 and wages payable decreased $296,661.
    - In 2008, excess collections, which had accumulated over a three-year period, were removed from the benefits liability account to establish a holding fund of $1 million to cover claims exceeding medical premiums collected during the year. This one-time change created an $115,501 change for that fiscal period.
    - The liability for post retirement benefits increased by $1.3 million in 2010.
    - Other minor changes in compensated absences and in miscellaneous deductions explain the remaining 2010 changes.
- The 2010 net change to notes and bonds payable equals a $9.7 million decrease.
    - Paying down the existing debt decreased bonds payable by $9.7 million.
    - See Note 7 in *Notes to Financial Statements* for more information on notes and bonds payable.

**Net Assets**
Net assets at June 30, 2010, are $9.5 million greater than on June 30, 2009. Capital assets, net of related debt, increased $17.8 million; restricted expendable assets increased $15,055; and unrestricted assets decreased $8.3 million. Unrestricted assets equal $68.9 million and comprise 57.3 percent of total net assets. Of the total unrestricted amount, $65.4 million have been internally designated as follows:

- $21.2 million reserve for equipment and facilities maintenance and replacement
- $13.5 million reserve for University benefits
- $12.2 million reserve for auxiliary systems
- $3.9 million reserve for working capital and outstanding encumbrances
- $7.7 million reserve for academic operations and initiatives
- $2.8 million reserve for insurance and equipment
- $4.1 million reserve for medical premiums




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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the fiscal year. This statement tells the reader to what extent the results of operations, non-operating revenues, and capital funding have had on the net assets 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 the amounts owed by the students to the institution.

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

| **Statement of Revenue, Expenses, and Changes in Net Assets** | | | |
|---|---|---|---|
| **Year ended June 30** (in thousands) | **2010** | **2009** | **2008** |
| Total operating revenues | $66,704 | $64,811 | $58,498 |
| Total operating expenses | (127,562) | (120,779) | (109,392) |
| Operating losses | (60,858) | (55,968) | (50,894) |
| Net non-operating revenues/(expenses) | 70,333 | 65,102 | 62,697 |
| Income/(expenses) before other revenues, expenses, gains, or losses | 9,475 | 9,134 | 11,803 |
| Capital gifts, grants, and appropriations | 45 | 30 | 801 |
| Increase (decrease) in net assets | $9,520 | $9,164 | $12,604 |

**Revenues**

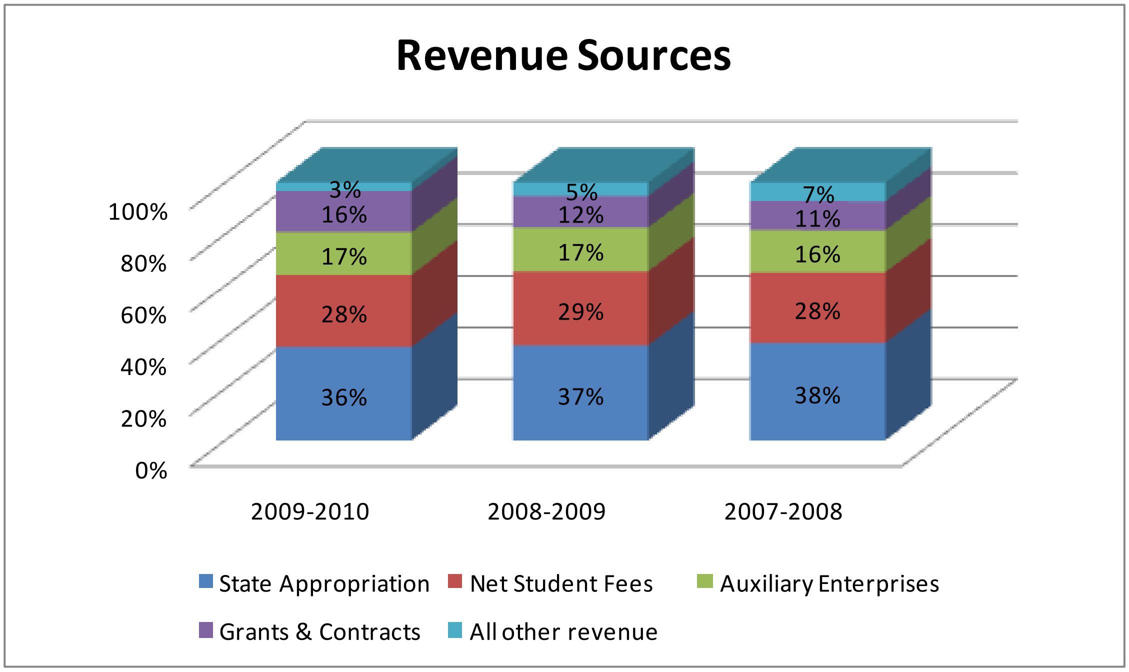
Operating revenues increased $1.9 million (2.9 percent) in 2010 compared to $6.3 million (10.8 percent) in 2009 and $1.4 million (2.4 percent) in 2008. The increases are explained by the following significant fiscal year activities:

- Net student fee revenue increased from $39.3 million in 2009 to $40.5 million in 2010. This change was due principally to a fee increase of 5 percent and an enrollment increase of 3.9 percent.
- Auxiliary income increased from $23.2 million in 2009 to $23.8 million in 2010. The increase stemmed primarily from a 6 percent increase in housing income and an 11.6 percent increase in dining revenues.

Non-operating revenues experienced a net increase of 8.5 percent for the fiscal year ended June 30, 2010, compared to a 3.4 percent increase in 2009.

- State appropriations increased 4.2 percent from $49.9 million in 2009 to $52 million in 2010. The additional funding was comprised of $1.6 million for general operating support and $561,000 for repair and rehabilitation projects.
- Federal grants and contracts increased more than $5.1 million (58.7 percent) compared to an increase of $1.2 million (16.1 percent) in 2009. Federal student financial assistance accounted for $4.5 million of the increase.

Total revenues (operating, non-operating, and other) increased $7.9 million in fiscal year 2010 just as they did in 2009. The graph below shows the composition of the University's revenue for fiscal years 2008-2010:




**Expenses**

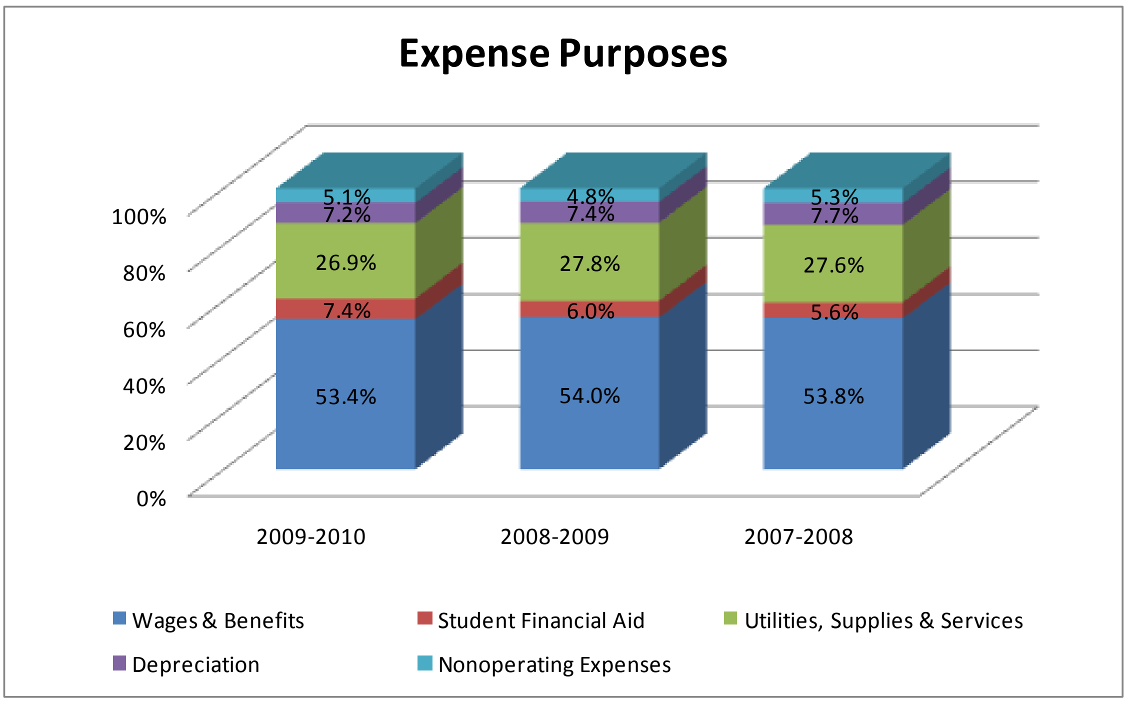
Operating expenses increased $6.7 million (5.6 percent) this fiscal year compared to an $11.4 million (10.4 percent) increase in 2009. The growth in operating expenses was driven by an increase in scholarship and fellowship awards during the fiscal year. Changes in expense categories were as follows:

- Compensation (salaries, wages, and benefits) comprised 56.3 percent of total operating expenses and increased 4.8 percent over 2009. Salaries and wages increased $1.4 million and benefit expenses increased $2 million. Instructional salary expenses increased by more than $562,000 (3 percent) while administrative salaries increased by just over $217,000 (1 percent). Other post retirement benefit costs accounted for just under $1.1 million of the benefit increase, and medical insurance costs increased by more than $754,000.
- Student financial aid increased by $2.3 million for a 30.2 percent increase. Federal Pell grants increased by over $4 million and helped to offset the $3.5 million increase in scholarship discounts and allowances.
- Utilities increased $347,000 (6.6 percent) compared to the prior year's increase of $784,000 (17.6 percent). The increases were driven by a $232,000 increase in electricity costs and a nearly $54,000 increase in sewage costs.

- Supplies and other services expense increased by $529,000 (1.8 percent) in 2010 compared to $2.6 million (9.4 percent) in 2009. Expenses declined in legal fees ($103,000 decrease), office supplies ($115,000 decrease), general telephone ($106,000 decrease), and purchases for resale ($820,000 decrease) among other areas.
- Depreciation increased $303,000, or 3.2 percent, in fiscal year 2010 compared to an increase of $527,000, or 5.9 percent, in fiscal year 2009.

Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures increased $787,000 this year compared to a $48,000 decrease in 2009. The change in fiscal year 2010 resulted from greater interest on capital debt expense, the majority of which related to the construction of the Business and Engineering Center. See Note 7 of the *Notes to Financial Statements* for more information.

Total expenses (operating and non-operating) increased $7.6 million in fiscal year 2010 compared to an $11.3 million increase in 2009 and a $2.7 million increase in 2008. The composition of total expenses for all three years is depicted by major categories in the graph below:




### Change in Net Assets

The difference between annual revenues and expenses causes an increase or decrease to net assets. For fiscal year ending June 30, 2010, net assets increased $9.5 million compared to a $9.2 million increase for fiscal year ending June 30, 2009. Total revenues increased more than total expenses during fiscal year 2010.

## Statement of Cash Flows

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

This statement identifies the sources and uses of cash and equivalents throughout the fiscal year and informs the user how much cash was used by or provided by the following activities: operating, noncapital financing, capital financing, and investing. The chart below shows the University's sources, uses, and changes in cash and cash equivalents for fiscal years 2008-2010:

| **STATEMENT OF CASH FLOWS**<br>**Year ended June 30** (in thousands) | **2010** | **2009** | **2008** |
|---|---|---|---|
| Net cash (used) provided by | | | |
| Operating activities | ($51,013) | ($45,646) | ($39,759) |
| Noncapital financing activities | 75,019 | 69,172 | 65,466 |
| Capital financing activities | (53,292) | 890 | (13,130) |
| Investing activities | 19,356 | (26,634) | (6,061) |
| Net increase (decrease) in cash | ($9,930) | ($ 2,218) | $ 6,516 |

**Operating activities**

- Cash used by operating activities increased $5.4 million in 2010 compared to a $5.9 million increase from 2008 to 2009.
- Student fees and auxiliary enterprises provided the largest inflow in cash for all fiscal years.
- Payments to employees (wages and benefits) and suppliers caused the largest outflow of cash for all fiscal years.

**Noncapital financing activities**

- Cash provided by noncapital financing activities increased $5.8 million in 2010 compared to a $3.7 million increase from 2008 to 2009.
- State appropriations provided the largest cash inflow in all fiscal years.

**Capital financing activities**

- Cash used by capital financing activities increased $54.2 million in 2010 compared to a $14 million decrease in 2009. The 2010 increase stemmed predominantly from the expenditure of proceeds from Series J Bonds for the Business and Engineering Center.
- Capital gifts and grants generated the largest cash inflow in 2010; proceeds from capital debt generated the largest cash inflow in 2008 and 2009.
- Purchases of capital assets generated the largest cash outflow in 2009 and 2010 while principal and interest paid on capital debt generated the largest cash outflow in 2008.

**Investing activities**

- Cash provided by investing activities increased $46 million during 2010 compared to a $20.6 million decrease in 2009. The 2010 increase resulted principally from a change in the amount on deposit with the bond trustee for the Series J Bonds.
- Proceeds from sales and maturities of investments decreased $16.8 million in 2010 compared to an $11.8 million increase in 2009.
- Cash used for purchases of investments decreased $2.9 million in 2010 following a $12.7 million decrease from 2008 to 2009.

**Summary of Statement of Cash Flows**

For the year ended June 30, 2010, more cash was used for operating activities, more cash was provided by noncapital financing activities, more cash was used by capital financing activities, and more cash was provided by investing activities than in the previous fiscal year. As a result of these activities, the University decreased its cash position by $9.9 million, ending the fiscal year with a cash balance of $9.8 million.

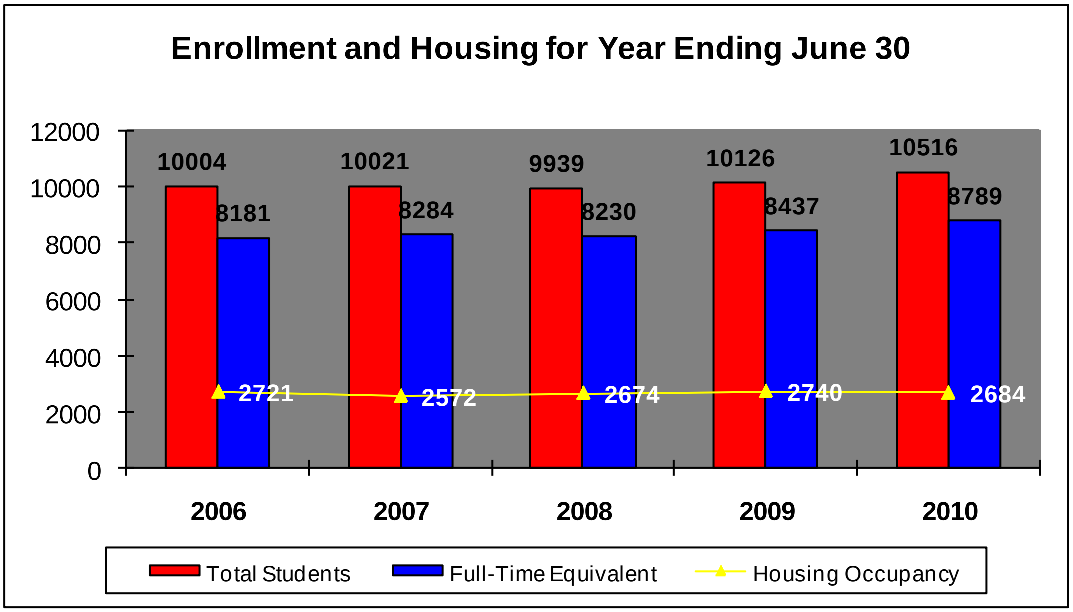
## Factors Impacting Future Periods

The 2009 Indiana General Assembly approved $15 million in bonding authority for the construction of a 16.5 million, 350-seat Teaching Theatre on the USI campus to replace the current theatre, costume shop, and scene shop located four miles from campus. The project must be reviewed by the Commission for Higher Education and the State Budget Committee before construction. The Commission for Higher Education review is underway and the State Budget Committee review is anticipated by December 2010. The University intends to avail itself of only $13 million of the $15 million legislatively authorized and fund the balance of the $16.5 million project from $2 million in private gifts currently being solicited, and $1.5 million of University resources, much of which has already been expended to fund the design.

The University is dependent upon resources provided by the State of Indiana and as such continues to monitor the financial position of the State very closely. As an institution known for its strong academic programs, USI maintains its reputation as a great value in higher education, with the lowest tuition and lowest total cost of attendance of any baccalaureate degree granting state supported institution of higher education in Indiana. The University's market position, value, quality, and pricing have helped it continue to grow enrollment and broaden the catchment area for prospective students while maintaining student quality during a period of challenging economic times.

The University's 2011-2013 biennial budget request was prepared under new performance-based funding incentives identified by the Indiana Commission for Higher Education. The University performed well under these new funding criteria which measure such items as on-time degree completion, low income degree completion, and successful completion of credit hours. It is unclear whether the state's fiscal condition will allow full funding of University's computed allocations under the new funding criteria.

The University of Southern Indiana is maturing. Its rate of growth is consistent, but leveling, as it continues to develop into a residential campus and gains prominence not only locally and regionally but also nationally and internationally. Total enrollment for academic years ending 2006 through 2010 reflects an increase of 5.12 percent; full-time equivalents for the same period increased 3.13 percent. Full-time students represent 83.6 percent of the total student population. Housing occupancy has stabilized with an occupancy rate averaging in excess of 90 percent over the past five-year period. The following graph illustrates enrollment and housing occupancy for the five-year period 2005 to 2009.



# UNIVERSITY OF SOUTHERN INDIANA
## Statement of Net Assets
## June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| ASSETS | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 4) | $ 9,790,678 | $ 19,721,120 |
| Short-term investments (Note 4) | 20,719,140 | 29,269,725 |
| Accounts receivable (Note 5) | 6,697,833 | 5,978,412 |
| Due from the State of Indiana | 560,963 | |
| Inventories | 1,876,070 | 2,143,690 |
| Deposit with bond trustee | 27,180,976 | 43,810,686 |
| Other current assets | 1,427,946 | 1,617,859 |
| Total current assets | $ 68,253,606 | $ 102,541,492 |
| **Noncurrent Assets** | | |
| Long-term investments (Note 4) | $ 37,291,579 | $ 28,988,552 |
| Deferred outflow of resources (Notes 6 & 18) | 2,165,430 | 1,538,093 |
| Capital assets, net (Notes 16 & 17) | 180,872,344 | 153,764,210 |
| Other noncurrent assets | 738,866 | 610,103 |
| Total noncurrent assets | $ 221,068,219 | $ 184,900,958 |
| **Total Assets** | **$ 289,321,825** | **$ 287,442,450** |
| LIABILITIES | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | $ 1,769,202 | $ 1,612,000 |
| Accrued payroll, benefits, and deductions | 5,557,614 | 5,518,223 |
| Notes and bonds payable (Note 7) | 9,021,775 | 9,476,710 |
| Debt interest payable | 2,261,975 | 2,344,439 |
| Other current liabilities | 3,546,128 | 2,311,030 |
| Total current liabilities | $ 22,156,694 | $ 21,262,402 |
| **Noncurrent Liabilities** | | |
| Notes and bonds payable (Note 7) | $ 140,404,050 | $ 149,425,826 |
| Unamortized bond premium | 1,279,752 | 1,378,194 |
| Derivative instruments-interest rate swap (Notes 6 & 18) | 2,165,430 | 1,538,093 |
| Compensated absences and termination benefits (Notes 7 & 8) | 2,584,077 | 2,634,881 |
| Other noncurrent liabilities | 433,631 | 424,943 |
| Total noncurrent liabilities | $ 146,866,940 | $ 155,401,937 |
| **Total Liabilities** | **$ 169,023,634** | **$ 176,664,339** |
| NET ASSETS | | |
| **Invested in capital assets, net of related debt** | $ 51,311,416 | $ 33,491,993 |
| **Restricted** | | |
| Expendable | | |
| Scholarship, research, and other | 43,604 | 28,548 |
| Repairs and rehabilitation | | |
| **Unrestricted** | 68,943,171 | 77,257,570 |
| **Total Net Assets** | **$ 120,298,191** | **$ 110,778,111** |

# UNIVERSITY OF SOUTHERN INDIANA
## Statement of Revenue, Expenses, and Change in Net Assets
## Years ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **REVENUES** | | |
| **Operating Revenues** | | |
| Student fees | $ 55,809,369 | $ 51,105,130 |
| Scholarship discounts & allowances | (15,303,976) | (11,784,023) |
| Grants and contracts | 1,165,481 | 771,145 |
| Auxiliary enterprises | 24,430,059 | 23,778,135 |
| Room & board discounts & allowances | (633,487) | (611,519) |
| Other operating revenues | 1,236,128 | 1,552,428 |
| Total operating revenues | $ 66,703,574 | $ 64,811,296 |
| **EXPENSES** | | |
| **Operating Expenses** | | |
| Compensation: | | |
| Salaries & Wages | $ 52,022,428 | $ 50,664,908 |
| Benefits (Notes 9, 10, & 11) | 16,568,421 | 15,710,876 |
| Other postemployment benefits (Note 12) | 3,241,112 | 2,145,542 |
| Student financial aid | 9,876,598 | 7,584,910 |
| Utilities | 5,584,671 | 5,237,354 |
| Supplies and other services | 30,557,659 | 30,028,292 |
| Depreciation | 9,710,693 | 9,408,046 |
| Total operating expenses | $ 127,561,582 | $ 120,779,928 |
| Operating loss | $ (60,858,008) | $ (55,968,632) |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| State appropriations | $ 51,963,504 | $ 49,855,918 |
| Gifts | 1,271,716 | 2,702,529 |
| Federal grants and contracts | 13,877,627 | 8,745,313 |
| State and local grants and contracts | 6,996,720 | 6,832,764 |
| Nongovernmental grants and contracts | 915,370 | 162,742 |
| Investment income (net of investment expense of $57,186 and $51,399 for 2010 and 2009) | 2,173,533 | 2,880,893 |
| Interest on capital asset-related debt | (6,797,622) | (5,277,305) |
| Bond issuance costs | | (755,264) |
| Other non-operating expenses | (67,513) | (45,278) |
| Net non-operating revenues | $ 70,333,335 | $ 65,102,312 |
| Income before other revenues, expenses, gains, or losses | $ 9,475,327 | $ 9,133,680 |
| Capital grants and gifts | 44,753 | 30,375 |
| Total other revenues | 44,753 | 30,375 |
| Increases in net assets | $ 9,520,080 | $ 9,164,055 |
| **NET ASSETS** | | |
| Net assets – beginning of year | $ 110,778,111 | $ 101,614,056 |
| Net assets – end of year | **$ 120,298,191** | **$ 110,778,111** |

# UNIVERSITY OF SOUTHERN INDIANA
## Statement of Cash Flows
## Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Tuition and fees | $ 40,311,755 | $ 39,495,406 |
| Grants and contracts | 959,452 | 987,242 |
| Payments to suppliers | (29,378,652) | (30,239,797) |
| Payments for utilities | (5,584,671) | (5,237,354) |
| Payments to employees | (52,319,089) | (50,327,985) |
| Payments for benefits | (19,524,285) | (17,797,813) |
| Payments for scholarships | (9,876,598) | (7,584,910) |
| Loans issued to students | (421,251) | (344,530) |
| Collection of loans to students | 425,462 | 370,506 |
| Auxiliary enterprises receipts | 23,549,010 | 23,554,445 |
| Sales and services of educational depts. | 171,484 | 142,141 |
| Other receipts (payments) | 674,337 | 1,337,071 |
| **Net cash used by operating activities** | **$ (51,013,046)** | **$ (45,645,578)** |
| **Cash Flows from Noncapital Financing Activities** | | |
| State appropriations | $ 51,402,541 | $ 50,661,933 |
| Gifts and grants for other than capital purposes | 23,061,433 | 18,443,348 |
| Other non-operating receipts (payments) | 554,741 | 66,739 |
| **Net cash provided by noncapital financing activities** | **$ 75,018,715** | **$ 69,172,020** |
| **Cash Flows from Capital Financing Activities** | | |
| Proceeds from capital debt | | $ 50,185,000 |
| Capital grants and gifts | $49,808 | 34,026 |
| Bond financing costs | (67,513) | (800,542) |
| Purchase of capital assets | (36,818,826) | (29,823,235) |
| Principal paid on capital debt | (9,476,710) | (13,928,201) |
| Interest paid on capital debt and leases | (6,978,530) | (4,777,032) |
| **Net cash provided by capital financing activities** | **$ (53,291,771)** | **$ 890,016** |
| **Cash Flows from Investing Activities** | | |
| Proceeds from sales and maturities of investments | $ 45,659,005 | $ 62,461,233 |
| Interest on investments | 2,269,597 | 2,740,086 |
| Purchase of investments | (45,202,653) | (48,075,072) |
| Change in deposit with trustee | 16,629,711 | (43,760,453) |
| **Net cash used by investing activities** | **$ 19,355,660** | **$ (26,634,206)** |
| Net increase (decrease) in cash | $ (9,930,442) | $ (2,217,748) |
| Cash – beginning of year | 19,721,120 | 21,938,868 |
| **Cash – end of year** | **$ 9,790,678** | **$ 19,721,120** |

| | 2010 | 2009 |
|---|---|---|
| **Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:** | | |
| Operating loss | $ (55,968,632) | $ (55,968,632) |
| **Adjustments to reconcile net loss to net cash provided (used) by operating activities:** | | |
| Depreciation expense | 9,408,046 | 9,408,046 |
| Provision for uncollectible accounts | 66,382 | 66,382 |
| **Changes in assets and liabilities:** | | |
| Receivables | 713,397 | 713,397 |
| Inventories | (569,427) | (569,427) |
| Other assets | (200,376) | (200,376) |
| Accounts payable | 881,946 | 881,946 |
| Deferred revenue | 89,883 | 89,883 |
| Deposits held for others | 35,720 | 35,720 |
| Employee and retiree benefits | (128,494) | (128,494) |
| Loans to students | 25,977 | 25,977 |
| **Net cash used by operating activities:** | **$ (45,645,578)** | **$ (45,645,578)** |

| | | |
|---|---|---|
| **Noncash Transactions** | | |
| Unrealized gain/(loss) on short-term investments | $ (1,188) | $ (1,188) |
| Unrealized gain/(loss) on long-term investments | 225,859 | 225,859 |
| **Net noncash transactions** | **$ 224,671** | **$ 224,671** |

- **NOTES TO FINANCIAL STATEMENTS**

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

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

The University is also 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.

The University includes the University of Southern Indiana Foundation, Inc. as a component unit as defined by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. 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.

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

- Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.
- Restricted revenues and receivables resulting from non-exchange transactions are recognized when all applicable eligibility requirements are met. Resources received before eligibility requirements are met are recorded as deferred 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 activities to prevent the double-counting of expenses and the recognition of self-generated revenue.

**Capital Assets Accounting Policies**
The University established a capitalization threshold of $5,000 and a useful life greater than two years. The University records depreciation for all capital assets with the exception of 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
- Equipment -- 5-15 years
- Land improvements -- 15 years
- Infrastructure -- 25 years
- Library materials -- 10 years

Plant assets are removed from the records at the time of disposal. See Note 17 in the *Notes to Financial Statements* for current-year activity and accumulated depreciation on the various classes of assets.

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. Per the code of ethics for museums, Historic New Harmony does not place a monetary value on the collection. Museums are organized as public trusts that act as stewards 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, 2010.

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. Many of the donated pieces were received without appraised values. Collection pieces which have been appraised or purchased are valued at $1,463,031. Appraised values for the remaining collection will be obtained over future periods. The currently-known value is not included in the capitalized asset value at June 30, 2010.

**Operating Revenues and Expenses**
Operating revenues of the University consist of student fee income, operating grants and contracts, collections of loans to students, sales and services of educational activities, and auxiliary enterprise revenues. Operating expenses include payments to suppliers for goods and services, employee wages and benefits, and payments for scholarships.

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

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

Investments 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 Assets.

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

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

The University prepares its financial statements according to the standards set by the Governmental Accounting Standards Board (GASB). To the best of the University's knowledge, it has not adopted any Financial Accounting Standard Board (FASB) statements issued after November 30, 1989.

**NOTE 2 – Component Units**

The University of Southern Indiana Foundation is a legally separate, tax-exempt entity formed in 1969 to provide support for the University of Southern Indiana, its faculty and students, and to promote educational, scientific, charitable, and related activities and programs exclusively for the benefit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. During the year ended June 30, 2010, the USI Foundation distributed $2,969,069 in direct and indirect support to the University for both restricted and unrestricted purposes.

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

The USI Foundation maintains its accounts in accordance with the principles and practices of fund accounting. Resources are classified in accordance with activities or objectives specified by donors. The Statement of Activities displays revenues, expenses, and changes in net assets as permanently restricted, temporarily restricted, and unrestricted. Complete financial statements, including explanatory notes, for the USI Foundation can be obtained from the Office of the Vice President for Finance and Administration at 8600 University Blvd., Evansville, IN 47712.

**NOTE 3 - Interrelated Organization**

The University of Southern Indiana/New Harmony Foundation, Inc. was formed in 1986 to assist in supporting and developing Historic New Harmony, an auxiliary enterprise of USI which operates in New Harmony, an historic town in southwestern Indiana thirty miles from campus. During fiscal year 2009-10, this foundation contributed $70,891 to Historic New Harmony operations. At June 30, 2010, the stated value of the USI/NH Foundation's net assets was $509,451. These assets are not included in the financial statements of the University.

**NOTE 4 – Deposit and Investment Risk Disclosures**

It is the policy of the University of Southern Indiana to manage the investment portfolio of the University in a manner described in IC 30-4-3-3. Authorized investments include 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, 2010, the bank balances of the University's operating demand deposit accounts were $6,040,315, of which $448,941 was covered by federal depository insurance. The remaining balance was insured by the Public Deposit Insurance Fund, which covers all public funds held in approved Indiana depositories. None of these funds were exposed to custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or collateral securities that are in the possession of an outside party.

**Investments –** The University's investments at June 30, 2010, are identified in the table below:

| | | | Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|---|
| **Investment Type** | **Market Value** | **Type %** | **Less than 1 year** | **1 – 5 years** | **6 – 10 years** | **More than 10 years** |
| Money market accounts | $4,742,429 | 7% | $4,742,429 | | | |
| Repurchase agreements | 5,048,249 | 7% | 5,048,249 | | | |
| Certificates of deposit | 24,049,743 | 36% | 16,499,397 | 7,450,084 | 100,262 | |
| U S Treasury & agency securities * | 33,960,976 | 50% | 4,219,743 | 17,327,877 | 11,553,459 | 859,896 |
| **Totals** | **$67,801,397** | 100% | **$30,509,818** | **$24,777,961** | **$11,653,721** | **$859,896** |
| **Maturity %** | 100% | | 45% | 37% | 17% | 1% |

* U S Treasury and agency securities carry an AAA rating from both Moody's and Standard and Poor's

**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. Of the $68 million invested, $33.9 million in U.S. government 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. There are $5 million in repurchase agreements registered in the University's name and backed by the implicit guarantee of the U.S. government. All cash in the money market accounts and the 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 45 percent of investments in cash equivalents and 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. Of the total U.S. government securities listed in the table above, $33.1 million are invested in government-sponsored enterprises that are neither guaranteed or insured by the full faith and credit of the U.S. Treasury, and, therefore have more credit risk than any direct obligation of the U.S. Treasury.

**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 cash, certificate of deposits, and repurchase agreements as valued at the end of the preceding month. Operating funds which are invested in overnight repurchase agreements as part of the cash management program are excluded from the 25 percent limit. At June 30, 2010, the University was in compliance with that policy. The University has more than 5 percent of investments with one institution but mitigates this risk with FDIC and Indiana Public Depository insurance protection.

**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 does not have any global investments and, therefore, is not exposed to foreign currency risk.

**NOTE 5 - Accounts Receivable**
Accounts receivable are recorded net of allowance for uncollectible student fees of $560,330 and auxiliary services fees of $286,429. Prior-year allowances were $516,265 for student fee receivables and $262,037 for auxiliary services receivables. The accounts receivable balance for the 2009-10 fiscal year includes $3,975,575 in net student receivables and $4,129,979 in external receivables.

**NOTE 6 – Derivative Instruments**
The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2010, classified by type and the fair value changes of those derivative instruments are as follows:

| | | Change in Fair Value | | Fair Value at June 30, 2010 | |
|---|---|---|---|---|---|
| **Derivative Instrument** | **Type** | **Amount** | **Classification** | **Amount** | **Current Notional** |
| Series 2006 | Cash flow hedge: Pay-fixed interest rate swap | $ (241,102) | Derivative Instrument Interest Rate Swap | $(1,126,132) | $6,723,702 |
| Series 2008A | Cash flow hedge: Pay-fixed interest rate swap | $ (386,235) | Derivative Instrument Interest Rate Swap | $(1,039,298) | $9,450,000 |

As of June 30, 2010, the University determined that both pay-fixed interest rate swaps met the criteria for effectiveness. The pay-fixed, receive-variable interest rate swaps are designed to synthetically fix the cash flows on the variable rate bonds. The fair value of the interest rate swaps was estimated based on the present value of their estimated future cash flows.

The following table displays the objectives and terms of the University's hedging derivative instruments outstanding at June 30, 2010, 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 | $6,723,702 | 1/01/2008 | 1/01/2028 | 65% of 3 mo. USD-LIBOR-BBA | A1 |
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the Series 2008 Bonds | $9,450,000 | 7/01/2008 | 10/01/2021 | 65% of 3 mo. USD-LIBOR-BBA w/- 1 day look back, 79.0 | A1 |

*Credit Risk* —The fair value of the hedging derivative instruments is in liability positions as of June 30, 2010, with Series 2006 having a balance of $1,126,132 and Series 2008A having a balance of $1,039,298. Since 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 impact 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 7 – Debt Related to Capital Assets**

**Bonds Payable –** Outstanding bonds payable at June 30, 2010, total $149,425,826 and are identified in the following schedule.

| | | | | | | *June 30, 2010* | | |
|---|---|---|---|---|---|---|---|---|
| ***SCHEDULE OF BONDS AND NOTES PAYABLE*** | *Issue Date* | *Interest Rate* | *Current Year Rate* | *Maturity Date* | *Original Issue Amount* | *Principal Outstanding* | *Interest Outstanding* | ***Total Outstanding*** |
| **Student Fee Bonds** | | | | | | | | |
| **Series D, Health Professions Center** | 1993 | 2.25% to 5.8% | 5.60% | 2015 | $24,678,101 | $1,657,124 | $3,352,876 | **$5,010,000** |
| **Series F, Liberal Arts Center** | 1998 | 3.55% to 4.7% | 4.70% | 2013 | 15,280,000 | 3,930,000 | 368,227 | **4,298,227** |
| **Series G, Recreation & Fitness Center** | 1999 | 0% to 10%* | .70% | 2019 | 4,700,000 | 3,200,000 | 110,400 | **3,310,400** |
| **Series H, Science & Education Center** | 2001 | 3.5% to 5.0% | 4.25% | 2021 | 25,260,000 | 18,510,000 | 6,222,226 | **24,732,226** |
| **Series I, Library Construction** | 2004 | 2.0% to 5.375% | 3.75% | 2023 | 49,590,000 | 36,675,000 | 13,290,950 | **49,965,950** |
| **Series 2006, Recreation & Fitness Center** | 2006 | 4.67% | 4.67% | 2028 | 7,250,000 | 6,723,702 | 3,198,252 | **9,921,954** |
| **Series J, Business and Engineering Center** | 2009 | 2.5.to 5.0% | 2.50% | 2028 | 50,185,000 | 48,585,000 | 27,562,018 | **76,147,018** |
| **Auxiliary System Bonds** | | | | | | | | |
| **Series 2001A, Student Housing Facilities** | 2001 | 4.0% to 5.0% | 5.00% | 2018 | 23,775,000 | 14,185,000 | 3,421,625 | **17,606,625** |
| **Series 2003, Student Housing Facilities** | 2003 | 3.0% to 4.5% | 3.00% | 2024 | 8,005,000 | 6,510,000 | 2,281,690 | **8,791,690** |
| **Series 2008A, Student Housing Facilities** | 2008 | 3.97% | 3.97% | 2021 | 9,800,000 | 9,450,000 | 3,545,210 | **12,995,210** |
| **Total** | | | | | **$218,523,101** | **$149,425,826** | **$63,353,474** | **$212,779,300** |

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

The University of Southern Indiana Student Fee Bonds Series D of 1993, Series F of 1998, Series G of 1999, Series H of 2001, Series I of 2004, and Series J of 2009 are secured by a pledge of and first lien on student fees. Student Fee Bonds Series 2006 are secured by a pledge of and junior lien on student fees.

The University of Southern Indiana Auxiliary System Revenue Bonds, Series 2001A; Auxiliary System Revenue Bonds, Series 2003; and Auxiliary System Revenue Bonds, Series 2008A are secured by a pledge of and parity first lien on the net income from the Auxiliary System (student housing, parking facilities, and dining services), any insurance proceeds, amounts held in the debt service funds or project funds, and investment income thereon.

Student fee bond Series G is a variable rate bond currently bearing interest at weekly rates ranging between zero and 10 percent. The rate in effect at June 30, and the rate used to calculate the future debt service requirements, was .60 percent. All the other bonds are term or serial with fixed annual rates as identified in the preceding table. Annual debt service requirements through maturity for bonds and notes payable are presented in the following chart:

## Annual Debt Service Requirements

| Fiscal Year | Bonds | Notes | Total Principal | Total Interest | Total Debt Service |
|---|---|---|---|---|---|
| 2010-11 | 9,021,775 | | 9,021,775 | 7,451,906 | 16,473,681 |
| 2011-12 | 9,393,392 | | 9,393,392 | 7,066,033 | 16,459,425 |
| 2012-13 | 9,819,160 | | 9,819,160 | 6,631,964 | 16,451,124 |
| 2013-14 | 9,273,825 | | 9,273,825 | 6,192,199 | 15,466,024 |
| 2014-15 | 9,347,567 | | 9,347,567 | 5,756,972 | 15,104,539 |
| 2015-20 | 47,496,785 | | 47,496,785 | 19,922,656 | 67,419,441 |
| 2021-25 | 39,320,840 | | 39,320,840 | 8,523,496 | 47,844,336 |
| 2025-29 | 15,752,482 | | 15,752,482 | 1,808,248 | 17,560,730 |
| | | | | | |
| **Total** | **$ 149,425,826** | **$0** | **$ 149,425,826** | **$ 63,353,474** | **$ 212,779,300** |

**NOTE 8 – Operating Leases**

For the fiscal year ended June 30, 2010, the University spent $367,060 on operating leases which are included in supplies and other services in the Statement of Revenue, Expenses, and Changes in Net Assets of which $85,130 was spent on leasing off campus classroom and office space, $273,943 was spent on equipment, and $7,987 was spent on vehicle leases.

**NOTE 9 - Compensated Absence Liability**

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

The total cumulative compensated absence liability reflected in the Statement of Net Assets is $2,173,822 and $2,312,609 for June 30, 2010 and 2009 respectively. The current year change represents $104,398 decrease in accrued vacation; $21,133 decrease in sick leave liability; $9,603 decrease in Social Security and Medicare taxes; and $3,653 decrease in Public Employees’ Retirement Fund (PERF) contributions. During the fiscal year, $155,770 was paid out to terminating employees. Payout for terminating employees in fiscal year 2010-11 is expected to increase approximately 85 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $288,116 of the total compensated absence liability is classified as a current liability and the remaining $1,885,706 is classified as a non-current liability.

**NOTE 10 – Termination Benefits Liability**

GASB Statement No. 47, *Accounting for Termination Benefits*, requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of USI’s regular full-time faculty and administrative staff who have been employed in an eligible position prior to January 1, 1999, who have 15 or more consecutive years of service, and who are age 60 or older may receive early-retirement benefits upon request. These benefits include a lump-sum retirement service pay calculated as a percent of final-year salary based on length of service, not to exceed 25 percent, and continued contribution to retirement annuity contracts through the end of the fiscal year in which the retiree reaches age 66. Salaries are assumed to increase at a rate of 3.1 percent annually for purposes of calculating this liability.

USI has 17 retirees currently receiving early-retirement benefits, seven of whose benefits stop after this fiscal year, and 14 more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $888,542.07 at June 30, 2010. Of that amount, $190,171 is expected to be paid out during the following fiscal year, and the remaining $698,371 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

**NOTE 11 - Retirement Plans**

Substantially all regular employees of the University are covered by either the *Teachers Insurance and Annuity Association-College Retirement Equities Fund Retirement Plan* (TIAA-CREF) or the *State of Indiana Public Employees' Retirement Fund* (PERF). The TIAA-CREF plan is an IRC 403(b) defined contribution plan; PERF is a defined benefit plan under IRC 401(a) and a state plan described in IC 5-10.2 and 5-10.3. The University contributed $5,511,869 to these programs in fiscal year 2009-10, which represents approximately 11 percent of the total University payroll and 13 percent of the benefit-eligible employees' payroll for the same period.

Faculty and Administrative Staff Eligible employees may participate in the TIAA-CREF Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA-CREF, or another university-sponsored retirement plan, for at least one year prior to eligible employment at USI. The University contributes 11 percent of each participating employee's base appointment salary up to $10,800 and 15 percent of the base appointment salary above $10,800. The University contributed $4,671,645 to this plan for 582 participating employees for fiscal year ending June 30, 2010, and $4,476,885 for 557 participating employees for fiscal year ending June 30, 2009. The annual payroll for this group totaled $34,472,823 and $33,693,343 for fiscal years ending June 30, 2010 and 2009 respectively.

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

Support Staff Employees in eligible positions and who work at least half-time participate in PERF, a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the State of Indiana. There are two parts to this plan: an annuity savings plan to which the University contributes 3 percent of the employee's salary, and a defined benefit agent multi-employer plan to which the University contributed 6.5 percent of the employee's salary this fiscal year. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit part of the plan after ten years of employment. The University contributed $828,829 for 404 employees participating in PERF during the 2009-10 fiscal year and $818,387 for 397 employees participating during 2008-09.

The contribution requirements for plan members of PERF are set by the PERF Board of Trustees. Actuarial information related to the University's participation in the plan is disclosed in the tables below for three past fiscal years.

**PERF – Schedule of Funding Progress** (dollars in thousands)

| Fiscal Year Ending June 30 | Actuarial Value of Plan Assets (A) | Actuarial Accrued Liability-Entry Age (B) | Underfunded/ (Overfunded) Accrued Liability (C) | Funded Ratio (A/B) | Actual Covered Payroll (D) | Underfunded/ (Overfunded) Liability as % of Payroll (C/D) |
|---|---|---|---|---|---|---|
| 2007 | 7,306 | 7,185 | (121) | 101.7% | 7,919 | 1.5% |
| 2008 | 7,678 | 7,816 | 138 | 98.2% | 8,298 | 1.7% |
| 2009 | 7,347 | 8,461 | (1,114) | 86.8% | 8,800 | 12.7% |

**PERF – Development of Net Pension Obligation**

| | *2007* | *2008* | *2009* |
|---|---|---|---|
| **Annual Required contribution (ARC) *** | $434,300 | $435,911 | $493,983 |
| **Interest on Net Pension Obligation @ 7.25%** | (36,140) | (34,401) | (38,466) |
| **Adjustments to ARC **** | (41,184) | (39,203) | (43,834) |
| **Annual Pension Cost (APC)** | 356,976 | 362,307 | 411,683 |
| **Contributions made by USI ***** | 415,360 | 496,772 | 543,200 |
| **Decrease in Net Pension Obligation** | (58,384) | (134,465) | (131,517) |
| **Net Pension Obligation, Beginning of Year** | (663,398) | (721,782) | (856,247) |
| **Net Pension Obligation, End of Year** | **($721,782)** | **($856,247)** | **($987,764)** |

* Determined to be equal to the same percent of salary as the entire State of Indiana
** Net Pension Obligation at beginning of year divided by amortization factor of 12.1037
*** Percentage of APC contributed: 2007 at 116.4%; 2008 at 137.1%; and 2009 at 131.9%

The required contribution was determined as part of the actuarial valuation as of July 1, 2008, using the Entry Age Normal Cost Method. The actuarial assumptions included: (a) 7.25 percent investment rate of return (net of administrative services); (b) projected salary increases of 4 percent per year; and (c) 1.5 percent per year cost-of-living adjustments. Current-year information concerning funding and obligation was not available at the time of this report.

PERF issues a publicly available 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 the Public Employees' Retirement Fund, Harrison Building, Suite 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317/232-4162.

**NOTE 12 – Risk Management**

The University is exposed to various risks of loss: torts; errors or omissions; theft, damage, or destruction of assets; job-related illness or injuries to employees; and natural disasters. The University manages these risks of loss through combinations of risk retention and commercial insurance. Property insurance for buildings and contents and other special form coverage is subject to a self-insured retention of $25,000 per occurrence. Earthquake and flood have a minimum deductible of $100,000 each loss. Educators' legal liability has a $50,000 deductible for each wrongful acts claim. General liability, commercial crime, workers' compensation, commercial auto, and medical malpractice, as well as life and disability insurance, are insured by commercial insurance subject to various deductibles. No liability exists at the balance sheet date for unpaid claims.

The University has three health care plans for full-time benefit-eligible employees and three plans for retirees. One plan for employees and retirees is fully insured. Two plans for employees and two for retirees are funded under a cost-plus arrangement whereby the University is billed for actual claims paid by the insurer on behalf of the covered participants plus an administrative fee. The majority of employees and retirees, 73 percent and 93 percent respectively, participate in the fully-funded cost-plus plan. For fiscal year ended on June 30, 2010, the University's contribution to these health care plans totaled $6,264,984 for 1,088 employees and $879,580 for 217 retirees. For the same period, employees and retirees made contributions totaling $1,796,801 and $292,861 respectively.

The University assumes the risk for medical claims exceeding the maximum expected cost but has mitigated the additional risk by purchasing specific and aggregate stop loss coverage at 125 percent of the expected claims liability. The University also has established a reserve to cover any unpaid liability beyond 125 percent. The liability for medical claims incurred but not reported at June 30, 2010, is based on an average monthly claim multiplied by the plan provider's average turnaround time from when claims are incurred to when claims are submitted to USI for payment. Changes in the balance of claims liabilities during the 2010 fiscal year are as follows:

| | |
|---|---|
| Beginning liability, June 30, 2009 | $1,435, 511 |
| Claims incurred | 6,400,146 |
| Claims paid | (6,278,725) |
| Ending liability, June 30, 2010 | $1,556,932 |

**NOTE 13 - VEBA Trust**
The University established a Voluntary Employees' Benefit Association (VEBA) trust for the purpose of providing medical, dental, and life insurance benefits to employees who retire after attaining age 60 with at least ten years of service and to those retiring under the Rule of 85. The trust is funded from three sources: University contributions and reserves designated by the Board of Trustees for this purpose, employee payroll deductions for post-retirement benefits, and retiree contributions for medical insurance premiums. Funds will accumulate in the trust for several years before any disbursements are made. The University does not anticipate that the trust will pay for all post-retirement benefits, but rather be used to reduce the increasing burden of such expenses on the current operating funds. A summary of the activity in the trust for the year ending June 30, 2010, is as follows:

| **VEBA TRUST** | **MARKET** |
|---|---|
| Fund balance at July 1, 2009 | $8,022,197 |
| Transfer from University reserves | 900,000 |
| Employee/employer contributions | 162,762 |
| Retiree/employer contributions | 23,518 |
| Reinvested net earnings | 213,945 |
| Net gain/(loss) on sales of trust investments | (39,727) |
| Less: Management fees and taxes | (28,849) |
| Net change in market value | 727,215 |
| **Fund balance at June 30, 2010** | **$9,981,061** |

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

**NOTE 14 -- Other Postemployment Benefits (OPEB)**

*Plan Description*. The USI Voluntary Employees' Benefit Association (VEBA) Trust is a single-employer defined benefit healthcare plan administered by the Old National Trust Company. The VEBA Trust was established for the purpose of providing medical and dental benefits to eligible retirees and their spouses. The USI Board of Trustees has the authority to establish or amend the benefit provisions of the plan. Old National Trust Co. does not provide a stand-alone financial report of the USI VEBA Trust, but the plan assets and financial activity are included as part of its publicly-available audited financial report. That report may be obtained by writing to Old National Bancorp, One Main Street, PO Box 718, Evansville, IN 47705, or by calling (800) 731-2265.

*Funding Policy*. The contribution requirements are established and may be amended by the USI Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For the fiscal year ended June 30, 2010, USI contributed $1,962,924 to the plan, including $1,062,924 for current premiums (approximately 82 percent of total premiums), and $900,000 to prefund benefits. Plan members receiving benefits contributed $239,087, or approximately 18 percent of the total premiums, through their required contributions for medical insurance coverage.

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

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Annual required contribution | $2,146,904 | $2,146,904 | $3,243,885 |
| Interest on net OPEB obligation | 0 | 17,942 | 32,080 |
| Adjustment to annual required contribution | 0 | (19,304) | (37,644) |
| Annual OPEB cost | 2,146,904 | 2,145,542 | 3,238,321 |
| Contributions made | (1,890,588) | (1,943,575) | (1,925,511) |
| Increase (decrease) in net OPEB obligation | 256,316 | 201,967 | 1,312,810 |
| Net OPEB obligation, beginning of year | 0 | 256,316 | 458,283 |
| Net OPEB obligation, end of year | $256,316 | $458,283 | $1,771,093 |

Because the requirements of GASB 45 were implemented in the 2008 fiscal year, the beginning of year net OPEB obligation for that fiscal year was set to zero, and the measurements and recognition requirements are being applied prospectively.

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

| Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6-30-2008 | $ 2,146,904 | 88.1% | $ 256,316 |
| 6-30-2009 | $2,145,542 | 90.6% | $458,283 |
| 6-30-2010 | $3,238,321 | 59.5% | $1,771,093 |

*Funded Status and Funding Progress*. As of June 30, 2010, the plan was 25.1 percent funded. The actuarial accrued liability (AAL) for benefits was $31,590,331, and the actuarial value of assets was $7,940,404, resulting in an unfunded actuarial accrued liability (UAAL) of $23,649,927. The covered payroll (annual payroll of active employees covered by the plan) was $45,316,205, and the ratio of the UAAL to covered payroll was 52.2 percent.

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

**Schedule of Funding Progress for the USI VEBA Trust Retiree Healthcare Benefit Plan**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) – Projected Unit Credit Method (b) | Unfunded AAL (UAAL) (b – a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/2007 | $7,257,792 | $21,861,558 | $14,603,766 | 33.20% | $38,500,309 | 37.93% |
| 6/30/2008 | $8,103,990 | $21,861,558 | $13,757,568 | 37.07% | $41,286,734 | 33.32% |
| 6/30/2009 | $8,022,197 | $21,861,558 | $13,839,361 | 36.70% | $44,510,381 | 31.09% |
| 6/30/2010 | $7,940,404 | $31,590,331 | $23,649,927 | 25.14% | $45,316,205 | 52.19% |

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

In the most recent actuarial study evaluation, which was June 30, 2010, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the asset classes held in the VEBA Trust, and an annual healthcare cost trend rate for each medical plan. In general, the trend rates start at 8 percent initially, reducing each year until reaching an ultimate rate of 5.7 percent in 2020. The actuarial value of assets for the purposes of determining the annual recommended contribution is the market value of the assets. The UAAL is being amortized as a level dollar amount on an open basis over a 30 year period.

**NOTE 15 – Functional Expenditures**

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

| FUNCTION | SALARIES & WAGES | BENEFITS | SCHOLAR-SHIPS | UTILITIES | SUPPLIES & OTHER SVCS | DEPREC-IATION | 2010 TOTAL | 2009 TOTAL |
|---|---|---|---|---|---|---|---|---|
| Instruction | $26,788,476 | $9,782,649 | | | $2,033,851 | | $38,604,976 | $36,502,625 |
| Academic Support | 5,054,113 | 1,947,286 | | | 4,544,734 | | 11,546,133 | 11,675,968 |
| Student Services | 3,890,617 | 1,758,917 | | | 1,730,263 | | 7,379,797 | 7,311,768 |
| Institutional Support | 7,567,887 | 2,073,694 | | | 3,160,268 | | 12,801,849 | 11,715,202 |
| Operation & Maintenance of Plant | 3,096,017 | 1,633,920 | | 4,593,482 | 3,351,851 | 7,072,819 | 19,748,089 | 19,525,928 |
| Student Aid | 320,482 | 765,783 | 9,484,020 | | 17,838 | | 10,588,123 | 7,914,622 |
| Public Service | 1,112,955 | 356,527 | | | 1,013,365 | | 2,482,847 | 2,086,663 |
| Research | 47,755 | 10,747 | | | 141,412 | | 199,914 | 162,937 |
| Auxiliary Enterprises | 4,144,124 | 1,480,012 | 392,578 | 991,189 | 14,564,077 | 2,637,874 | 24,209,854 | 23,884,215 |
| **TOTAL** | **$52,022,426** | **$19,809,535** | **$9,876,598** | **$5,584,671** | **$30,557,659** | **$9,710,693** | **$127,561,582** | **$120,779,928** |

**NOTE 16 – Construction in Progress**

Construction in progress at year-end totals $49.2 million (see capital assets table below). Projects soon to be completed include the Business and Engineering Center, University Center expansion, Physical Plant addition, campus loop road phase 1b, a project to improve baseball and soccer fields, additional parking for the Recreation, Fitness, and Wellness Center and athletic fields, emergency power for the housing community center, and the Burdette Park – USI bike path project.

Design work has begun on an advanced manufacturing teaching facility. The project scheduled for completion in March 2010 has an estimated cost of completion of $1,375,000. Additional projects, including a walking path and a renovation for Innovation Point are also in progress. Those projects should be completed within the next fiscal year and have a total estimated remaining cost of approximately $550,000.

Another project which completes the balance of construction in progress involves architectural planning for a professional theatre on campus. To date, $772,000 has been spent for project planning. The design phase began in fall 2009 with an estimated cost of completion expected to be $17 million. The start of construction will be contingent upon receiving final state approvals.

**NOTE 17 – Capital Assets, Net of Accumulated Depreciation**

The table below displays the increase in total capital assets from $262 million at July 1, 2009, to $299 million on June 30, 2010. Gross capital assets, less accumulated depreciation of $117.9 million, equal net capital assets of $180.9 million at June 30, 2010.

| Capital Assets | Balance June 30, 2009 | Additions | Deletions | Balance June 30, 2010 | Accumulated Depreciation | Net Capital Assets |
|---|---|---|---|---|---|---|
| Land | $4,323,368 | 234,105 | | $4,557,473 | | $4,557,473 |
| Land Improvements | 7,726,665 | 1,595,377 | | 9,322,042 | 4,558,304 | 4,763,738 |
| Infrastructure | 3,648,793 | | | 3,648,793 | 1,392,457 | 2,256,336 |
| Educational Buildings | 133,261,759 | 186,220 | | 133,447,979 | 58,717,520 | 74,730,459 |
| Auxiliary Buildings | 61,350,675 | 9,548,691 | | 70,899,366 | 33,298,595 | 37,600,771 |
| Equipment | 13,902,846 | 2,622,554 | 907,078 | 15,618,322 | 11,359,198 | 4,259,124 |
| Library Materials | 11,172,386 | 913,541 | 2,735 | 12,083,192 | 8,594,998 | 3,488,194 |
| Construction in Progress | 26,628,786 | 34,617,530 | 12,030,068 | 49,216,248 | | 49,216,248 |
| **Totals** | **$262,015,278** | **$49,718,018** | **$12,939,881** | **$298,793,415** | **$117,921,072** | **$180,872,343** |

**NOTE 18 – Restatement 2009 Financial Information**

A new Governmental Accounting Standard, GASB 53, addresses the recognition, measurement, and disclosure of information regarding derivative instruments. The standard requires that derivative instruments be reported at fair value. Derivatives associated with hedgeable items that are determined to be effective in reducing exposure to identified risks are considered hedging derivative instruments. Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows on the statement of net assets. The implementation of this new accounting standard requires a restatement to be made to the Statement of Net Assets so that the 2009 financial information is comparable and consistent with the 2010 financial statement presentation.

- A line item has been added to the non-current asset section of the Statement of Net Assets, Deferred Outflow of Resources.
- A line has been added to the non-current liabilities section of the Statement of Net Assets, Derivative Instrument- Interest Rate Swap.
- The above changes increased non-current assets and non-current liabilities by $1,538,093 for 2009.

There was no change in total revenues, expenses, or net assets as a result of this restatement.

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

## 1. BUSINESS AND ENGINEERING CENTER PROJECT

**Alva Electric, Inc.- Electrical Contractor**

| | | |
|---|---|---|
| EC-021 | Correct duplicate power to Media Scape units, correct misprint on amount of Change Order EC- 017, install power and controls for motorized blinds in Boardroom 3024, install hand hole extension at existing communications conduits, and relocate power and data to accommodate stock ticker | $ 6,680 |

## 2. UNIVERSITY CENTER EXPANSION PROJECT

**Deig Brothers Lumber and Construction Co. - Mechanical Contractor**

| | | |
|---|---|---|
| MC-014 | Replace damaged storm piping in north patio area | $ 2,722 |
| MC-015 | Lower existing water main and new gas line in north patio | $24,295 |
| MC-016 | Add isolation valves and tee valves for future theatre | $10,989 |

**Capital Electric, Inc.- Electrical Contractor**

| | | |
|---|---|---|
| EC-019 | Make several electrical and data outlet changes in offices and conference rooms requested by owner | $ 5,700 |
| EC-020 | Add LED lights in tower | $ 9,110 |