MINUTES

FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

November 3, 2011

The Finance/Audit Committee of the University of Southern Indiana Board of Trustees met on Thursday, November 3, 2011, in Carter Hall in the University Center. In attendance were Chair W. Harold Calloway and Trustees Ira G. Boots; Ronald D. Romain '73; Steven J. Schenck '72; and Ted C. Ziemer Jr. Others in attendance were Vice President for Finance and Administration and Treasurer Mark Rozewski, and Vice President for Government and University Relations Cynthia S. Brinker.

Committee Chair Calloway called the meeting to order at 1 p.m.

1. REVIEW OF AUDITED FINANCIAL STATEMENTS

Mr. Calloway called on Vice President Rozewski, who reported that since the agenda was prepared, the University received its audit letter from the Indiana State Board of Accounts, and as expected, there were no findings. He noted that Chair Calloway attended the entrance conference with the State Board of Accounts, and will attend the exit conference. Mr. Rozewski introduced Assistant Vice President Steve Bridges for a report on the audited financial statements for fiscal year ending June 30, 2011.

Mr. Bridges presented an overview of financial performance in 2010-2011 by reviewing the Statement on Net Assets (page 11 in Attachment A) and the Statement of Revenue, Expenses, and Change in Net Assets (page 12 in Attachment A). He compared revenue sources and expense purposes for 2010-2011 and two prior years. He reported the University of Southern Indiana improved its financial position in fiscal year 2011 and the University is well-positioned for 2012.

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

2. REVIEW OF COMPREHENSIVE BOND AUTHORIZATION AND DELEGATION

At its meeting on November 3, 2011, the Board of Trustees will be asked to approve a Comprehensive Bond Authorization and Delegation Resolution. Mr. Calloway called on Vice President Rozewski to review the document in Attachment B. Mr. Rozewski reported that at its meeting in September 2011, the committee asked him to recommend ways to refine the process of refunding some of the University's debt portfolio to better take advantage of the current interest rate environment. Following consultation with the University's bond counsel, the revised and shortened process described in the document in Attachment B was developed. The current process requires the Trustees to act twice for each proposed transaction (one time to authorize the staff to make a recommendation and another to approve the results). The new practice requires the Trustees to pass one blanket staff authorization at the beginning of the fiscal year and then to vote once on each specific transaction as it is recommended. To further expedite the process, the resolution delegates authority to the Finance/Audit Committee to approve transactions that need to close between regular meetings of the Board.

Mr. Rozewski reported that the recommended resolution in the Board of Trustees agenda for November 3, 2011, provides blanket authorization to the staff for future refunding for the balance of the current fiscal year (2011-2012). At each future July meeting of the Board of Trustees, he will recommend a similar recommendation with the following provisions:

a) A declaration of intent to borrow, and to advance for eventual reimbursement, institutional funds expended in the pursuit of any future borrowing, or the development of any future projects;
b) An authorization for the Treasurer to develop financing plans for new projects;
c) A setting of broad parameters for acceptable deals;
d) An authorization for the Treasurer and various Board officers to execute required documents;
e) An authorization for the Treasurer to obtain all necessary state approvals;
f) A list of all outstanding issues now extant; and

g) A list of new projects contemplated during the coming year.

Mr. Rozewski noted the resolution to be recommended to the Board of Trustees on November 3, 2011, also contains references to the proposed refunding of Auxiliary System Bond Series 2001A. Its approval will provide a blanket authorization for the remainder of 2011-2012 in addition to an authorization to close the refunding of 2001A. The full Board of Trustees will be asked to act on the Resolution because it contains a delegation to the Finance/Audit Committee to act on behalf of the Board when necessary.

3. APPROVAL TO REFUND AUXILIARY SYSTEM BOND SERIES 2001A

Mr. Calloway called on Vice President Rozewski, who asked Mr. Bridges to review the recommendation to refund Auxiliary System Bond Series 2001A. Mr. Bridges referred the Trustees to Attachment C, an analysis of responses to a Request for Proposals for Refunding Auxiliary System Bond Series 2001A. He reviewed the responses from nine vendors and recommended the proposal of JP Morgan Chase.

On a motion by Mr. Romain, seconded by Mr. Boots, the recommendation of JP Morgan Chase for a 5-year direct bank purchase at the rate of 1.61 percent was approved.

4. REPORT ON THE VOLUNTARY EMPLOYEES' BENEFIT ASSOCIATION (VEBA) TRUST FUND

Mr. Calloway asked Vice President Rozewski to introduce Neil Heppler, Principal with Fourth Street Performance Partners and the investment advisor for the VEBA Trust, for a report on the performance of the VEBA Trust Fund for fiscal year 2010-2011. A preliminary report, *USI VEBA Trust Investment Performance Analysis – September 30, 2011* is included in Attachment D. Mr. Heppler provided the Trustees with an updated report, on which he based his report.

He reported the market continues to be volatile and reviewed recent changes in the market and the VEBA Trust fund. Total assets in the trust totaled $11,837,466 on September 30, 2011. Mr. Heppler reviewed the asset mix and sources of growth and compared the VEBA Trust to similar defined benefit plans. He referred the Trustees to additional information in the handout.

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

Mr. Calloway called on Vice President Rozewski for a report of construction change orders he approved since the last meeting of the Committee. Mr. Rozewski referred the members to Attachment E and one change order for the University Center Project. He noted this is the last change order for the completed project.

There being no further business, the meeting was adjourned at 1:56 p.m.

University of Southern Indiana
Fiscal Year Ended June 30, 2011

Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University during the fiscal year ended June 30, 2011, 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 **June 30** (in thousands)	**2011**	**2010**	**2009**
Current Assets	$61,564	$68,254	$102,541
Non-current Assets:			
Capital assets, net of depreciation	184,097	180,872	153,764
Other non-current	42,780	40,196	31,137
Total Assets	$288,441	$289,322	$287,442
Current Liabilities	$25,899	$22,157	$21,262
Non-current Liabilities	136,744	146,867	155,402
Total Liabilities	$162,643	$169,024	$176,664
Net Assets:			
Invested in capital assets, net of debt	$40,675	$51,311	$33,492
Restricted - expendable	25	44	28
Unrestricted	85,097	68,943	77,258
Total Net Assets	$125,797	$120,298	$110,778

Assets
Current assets at June 30, 2011, consist predominantly of cash and cash equivalents, short-term investments, receivables and net of allowances for bad debt. Also included are prepaid expenses, inventory, deposit with bond trustee, 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 lesser-valued resources that are grouped together and listed under the term "Other".

Total assets decreased $881,000 (.3 percent) in 2011 compared to a $1.9 million (.7 percent) increase in 2010 and a $48.4 million (20.3 percent) increase in 2009. The current year decrease is explained by the following fiscal year events:

- Cash and investments increased $22.6 million in 2011 compared to a $10.2 million decrease in 2010, and a $16.4 million increase in 2009 reflecting the completion of two major capital projects on campus, the Business and Engineering Center and the University Center Expansion, and the final drawdown of Series J bond proceeds held by bond trustee.
- Student receivables comprise 60 percent of the total accounts receivable amount and increased $968,057 in 2011 compared to a $215,809 increase in 2010 and a $145,480 increase in 2009. Fiscal year 2011 student receivables are 24.35 percent higher than those of fiscal year 2010, partially reflecting a combination of enrollment increases and student fee increases.
- Non-student receivables decreased $871,705 in 2011 with a $160,000 increase in Bookstore credits due to the University, the reduction of a $560,000 repair and rehabilitation receivable due to the University from the State of Indiana and paid in fiscal year 2011. Routine payment and timing differences in grant reimbursements to the University are the largest reasons for this decrease.

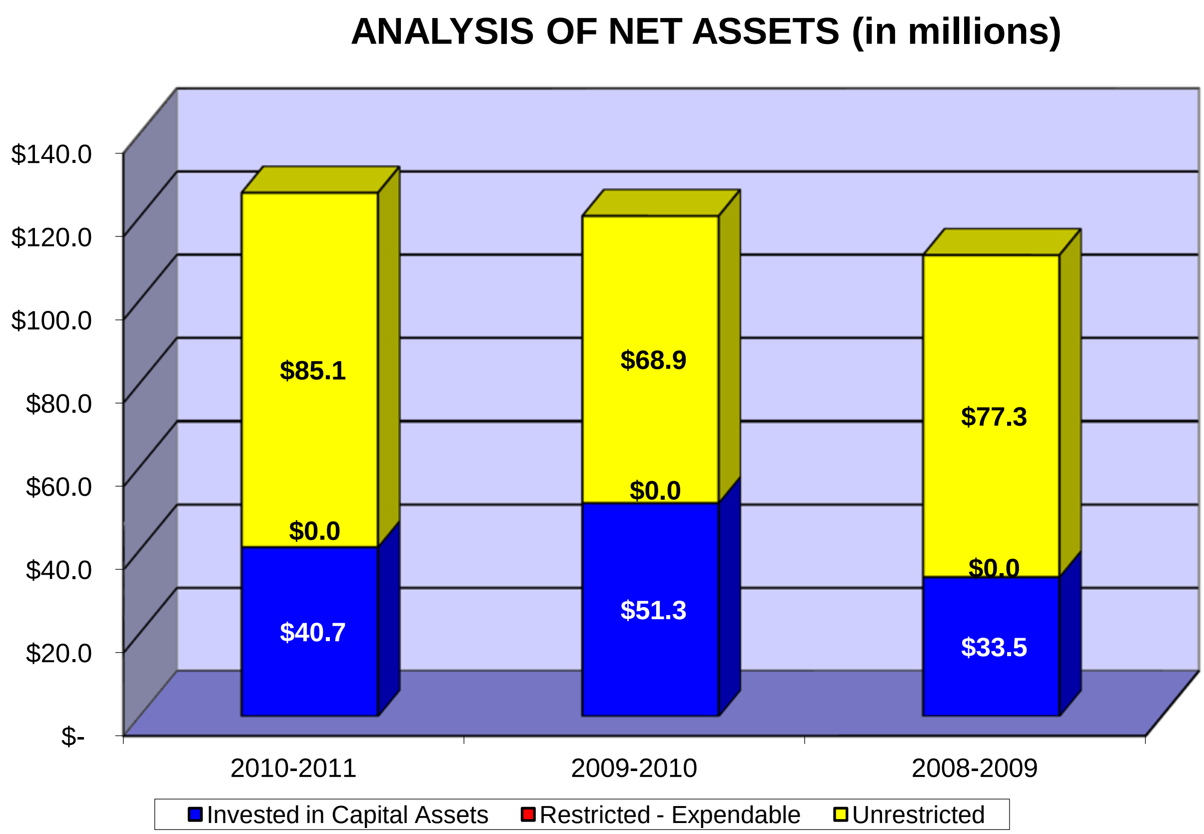
- Deposits with Bond Trustee decreased by $26.8 million in 2011. The decrease primarily results from construction payments for the Business and Engineering Center and University Center Expansion which were funded through the issuance of $51.2 million in Series J bonds issued in February 2009 and held by the bond trustee until required for contractor payments.
- Gross capital assets increased by $3.9 million in fiscal year 2011. Completion of the Business and Engineering Center, the University Center Expansion, and capital equipment purchases, offset by reductions in construction in progress and library materials, account for the majority of the change. On-going construction in progress on projects, described in Note 15 of the *Notes to Financial Statements,* created the remaining increase. These increases were offset by an increase in accumulated depreciation of $699,774 for a net capital asset increase of $3.2 million in fiscal year 2011.

Liabilities
Current liabilities at June 30, 2011, 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, deferred revenue, and other miscellaneous liabilities. Non-current liabilities are predominately bonds payable. Also included are derivative instruments, including interest rate swaps 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 $6.4 million (3.8 percent) in 2011 compared to a decrease of $7.6 million (4.3 percent) in 2010 and an increase of $37.7 million (27.4 percent) in 2009. Activities that influenced this change include the following:

- Accrued payroll, related benefits, and deductions increased $897,460 in 2011 compared to a $39,291 increase in 2010 and an increase of $524,024 in 2009.
    - Recognition of voluntary termination benefits decreased $78,523 for 2011.
    - Benefit withholdings increased $494,725 for the 2011 fiscal year.
    - Fiscal year-end withholding liabilities increased $19,099 and wages payable increased $500,699.
    - The liability for post retirement benefits increased by $1.3 million in 2011.
    - Other minor changes in compensated absences and in miscellaneous deductions explain the remaining 2011 changes.
- The 2011 net change to notes and bonds payable equals a $9 million decrease.
    - Paying down the existing debt decreased bonds payable by $9 million.
    - See Note 6 in *Notes to Financial Statements* for more information on notes and bonds payable.

Net Assets
Net assets at June 30, 2011, are $5.5 million greater than on June 30, 2010. Capital assets, net of related debt, decreased $10.6 million; restricted expendable assets decreased $18,267; and unrestricted assets increased $16.2 million. Unrestricted assets equal $85.1 million and comprise 67.6 percent of total net assets. Of the total unrestricted amount, $59.3 million have been internally designated as follows:

- $15.2 million reserve for equipment and facilities maintenance and replacement
- $12.5 million reserve for University benefits
- $11 million reserve for auxiliary systems
- $3.9 million reserve for working capital and outstanding encumbrances
- $8.9 million reserve for academic operations and initiatives
- $2.8 million reserve for insurance and equipment
- $5 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)	**2011**	**2010**	**2009**
Total operating revenues	$69,622	$66,704	$64,811
Total operating expenses	(135,537)	(127,562)	(120,779)
Operating losses	(65,915)	(60,858)	(55,968)
Net non-operating revenues/(expenses)	69,049	70,333	65,102
Income/(expenses) before other revenues, expenses, gains, or losses	3,133	9,475	9,134
Capital gifts, grants, and appropriations	2,366	45	30
Increase (decrease) in net assets	$5,499	$9,520	$9,164

Revenues

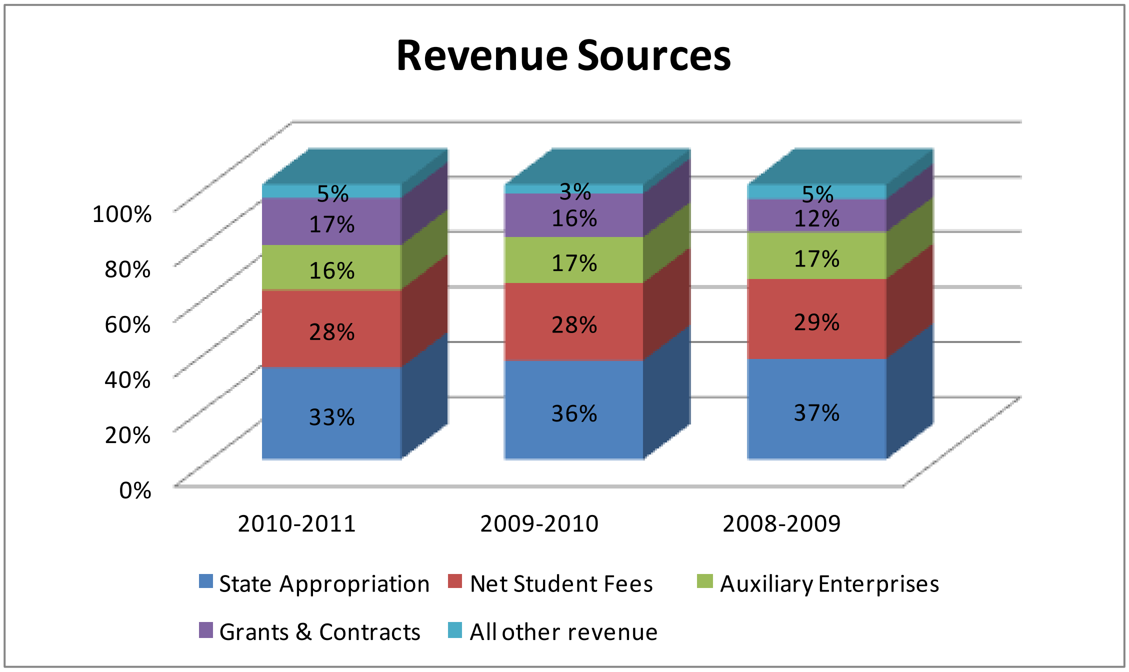
Operating revenues increased $2.9 million (4.4 percent) in 2011 compared to $1.9 million (2.9 percent) in 2010 and $6.3 million (10.8 percent) in 2009. The increases are explained by the following significant fiscal year activities:

- Net student fee revenue increased from $40.5 million in 2010 to $41.8 million in 2011. This change was due principally to a fee increase of 5 percent and an enrollment increase of 2.1 percent.
- Auxiliary income increased from $23.8 million in 2010 to $24 million in 2010. The increase stemmed primarily from a 2.8 percent increase in both housing and parking income and a 5.7 percent increase in dining revenues. Bookstore income decreased 14.9 percent in 2011.

Non-operating revenues experienced a decrease of 1.5 percent for the fiscal year ended June 30, 2011, compared to an 8.5 percent increase in 2010.

- State operating and capital appropriations decreased 2.5 percent from $52 million in 2010 to $50.7 million in 2011. The reduction in funding was comprised of a decrease of $1.7 million in general operating support offset by a capital appropriation increase of $526,000.
- Federal grants and contracts increased more than $2.2 million (16.4 percent) compared to an increase of $5.1 million (58.7 percent) in 2010. Federal student financial assistance accounted for $1.7 million of the increase.
- Investment income decreased by $644,000 in 2011 as a result of declining interest rates.

Total revenues (operating, non-operating, and other) increased $4.1 million in fiscal year 2011. The graph below shows the composition of the University's revenue for fiscal years 2009-2011:



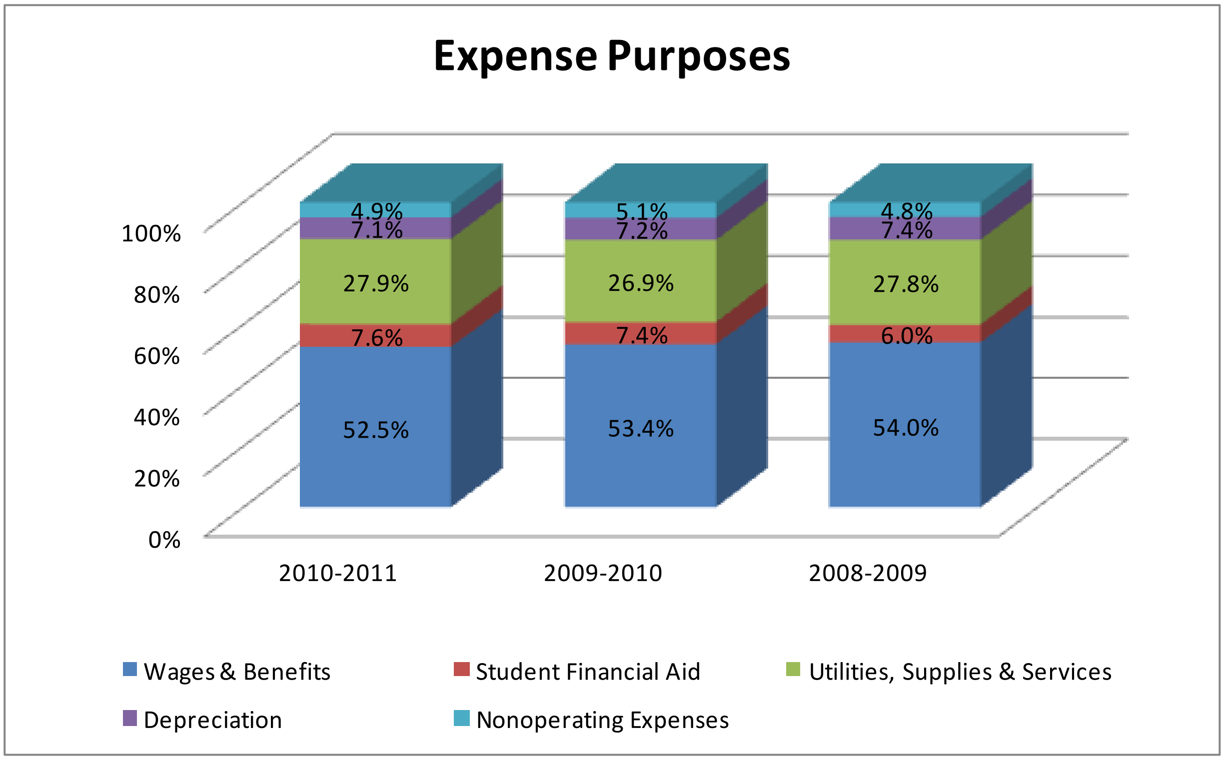
Expenses

Operating expenses increased $8 million (6.25 percent) this fiscal year compared to a $6.7 million (5.6 percent) increase in 2010. The growth in operating expenses was driven by increases in compensation, scholarship and fellowship awards during the fiscal year, and supplies and other services. Changes in expense categories were as follows:

- Compensation (salaries, wages, and benefits) comprised 55.2 percent of total operating expenses and increased 4.1 percent over 2010. Salaries and wages increased $1.7 million and benefit expenses increased $1.3 million. Instructional salary expenses increased by more than $466,000 (2.4 percent) while administrative salaries increased by just under $402,000 (2.7 percent). Medical insurance costs increased by $669,000.
- Student financial aid increased by $1.1 million for a 10.72 percent increase. Federal Pell grants increased by $2.7 million and was offset by the $2.7 million increase in scholarship discounts and allowances. State Financial Aid increased $450, 000, housing grant-in-aid room and board awards increased $120,000, and the remaining increases were attributable to various scholarships.
- Supplies and other services expense increased by $3.6 million (11.8 percent) in 2011 compared to $529,000 (1.8 percent) in 2010. Increases were predominantly in the area of capital outlay including an increase in capital and non-capital equipment expense of $3.8 million with other expense classifications remaining flat or slightly below 2010 levels.
- Depreciation increased $380,000, or 4 percent, in fiscal year 2011 compared to an increase of $303,000, or 3.2 percent, in fiscal year 2010.

Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures increased $111,000 this year compared to an increase of $787,000 in 2010. The change in fiscal year 2011 resulted from greater interest on capital debt expense.

Total expenses (operating and non-operating) increased $8.1 million in fiscal year 2011 compared to a $7.6 million increase in 2010 and an $11.3 million increase in 2009. 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, 2011, net assets increased $5.5 million compared to a $9.5 million increase for fiscal year ending June 30, 2010. Total revenues increased more than total expenses during fiscal year 2011.

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 2009-2011:

STATEMENT OF CASH FLOWS **Year ended June 30** (in thousands)	**2011**	**2010**	**2009**
Net cash (used) provided by			
Operating activities	($53,865)	($51,013)	($45,646)
Noncapital financing activities	75,583	75,019	69,172
Capital financing activities	(27,163)	(53,292)	890
Investing activities	33,345	19,356	(26,634)
Net increase (decrease) in cash	$27,900	($ 9,930)	($ 2,218)

Operating activities

- Cash used by operating activities increased $2.9 million in 2011 compared to a $5.4 million increase from 2009 to 2010.
- 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 $563,879 in 2011 compared to a $5.8 million increase from 2009 to 2010.
- State appropriations provided the largest cash inflow in all fiscal years.

Capital financing activities

- Cash used by capital financing activities decreased $26.1 million in 2011 compared to a $54.2 million increase in 2010. 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 2011; proceeds from capital debt generated the largest cash inflow in 2009 and 2010.
- Principal and interest paid on capital debt generated the largest cash outflow in 2011 while purchases of capital assets generated the largest cash outflow in 2009 and 2010.

Investing activities

- Cash provided by investing activities increased $14 million during 2011 compared to a $46 million increase in 2010. The 2011 increase resulted partially 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 $6.9 million in 2011 compared to a $16.8 million decrease in 2010.
- Cash used for purchases of investments decreased $11.5 million in 2011 following a $2.9 million decrease from 2009 to 2010.

Summary of Statement of Cash Flows
For the year ended June 30, 2011, more cash was used for operating activities, more cash was provided by noncapital financing activities, less 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 increased its cash position by $27.9 million, ending the fiscal year with a cash balance of $37.7 million.

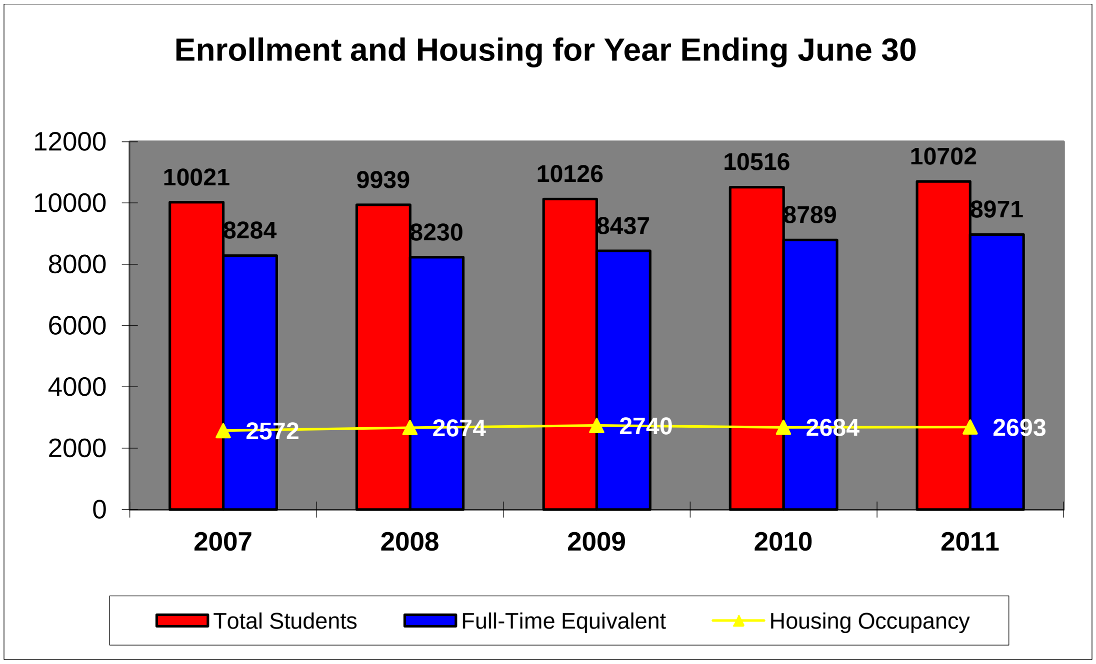
Factors Impacting Future Periods

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 received final approvals from the Commission for Higher Education and the State Budget Committee in 2011 and construction will begin in July 2012. 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.

In the 2012 calendar year, the University will issue $13 million in fee replacement bonds for the teaching theatre and in addition is currently looking at refunding opportunities for other outstanding bonds. With interest rates at historic lows, opportunities to create savings and potentially shorten some debt commitments appear promising. In the fall of 2011, the University will solicit quotes for the refunding of the Auxiliary system Series 2001A bonds and will evaluate potential fee replacement bond issue refundings in calendar year 2012 as part of the teaching theatre fee replacement issuance.

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. A new Indiana law requires the State's Commission on Higher Education to issue non-binding tuition increase recommendations to the state universities. While the Commission's recommendations are non-binding, in practice they have some weight in the Trustee's decision-making process on raising tuition revenue. USI maintains its reputation as a great value in higher education. 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 challenging economic times.

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 2007 through 2011 reflects an increase of 6.8 percent; full-time equivalents for the same period increased 8.3 percent. Full-time students represent 83.8 percent of the total student population. Housing occupancy has been consistently well in excess of 90% the past five-year period, and was 96.2% on the first day of classes in the current year. The following graph illustrates enrollment and housing occupancy for the five-year period 2006 to 2010.


Enrollment and Housing for Year Ending June 30
12000
10000
8000
6000
4000
2000
0
10021
8284
2572
9939
8230
2674
10126
8437
2740
10516
8789
2684
10702
8971
2693
2007
2008
2009
2010
2011
Total Students
Full-Time Equivalent
Housing Occupancy

UNIVERSITY OF SOUTHERN INDIANA
Statement of Net Assets
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	$ 37,690,741	$ 9,790,678
Short-term investments (Note 3)	12,643,370	20,719,140
Accounts receivable (Note 4)	8,201,817	6,697,833
Due from the State of Indiana		560,963
Inventories	1,459,180	1,876,070
Deposit with bond trustee	352,379	27,180,976
Other current assets	1,216,091	1,427,946
Total current assets	$ 61,563,578	$ 68,253,606
Noncurrent Assets		
Long-term investments (Note 3)	$ 40,099,897	$ 37,291,579
Deferred outflow of resources (Note 5)	1,857,807	2,165,430
Capital assets, net (Notes 15 & 16)	184,097,001	180,872,344
Other noncurrent assets	822,137	738,866
Total noncurrent assets	$ 226,876,842	$ 221,068,219
Total Assets	**$ 288,440,420**	**$ 289,321,825**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,574,040	$ 1,769,202
Accrued payroll, benefits, and deductions	6,650,237	5,557,614
Notes and bonds payable (Note 6)	9,393,392	9,021,775
Debt interest payable	2,182,085	2,261,975
Deferred revenue	2,045,431	803,310
Other current liabilities	4,053,548	2,742,818
Total current liabilities	$ 25,898,733	$ 22,156,694
Noncurrent Liabilities		
Notes and bonds payable (Note 6)	$ 131,010,659	$ 140,404,050
Unamortized bond premium	1,181,309	1,279,752
Derivative instruments-interest rate swap (Note 5)	1,857,807	2,165,430
Compensated absences and termination benefits (Notes 8 & 9)	2,651,020	2,584,077
Other noncurrent liabilities	43,624	433,631
Total noncurrent liabilities	$ 136,744,419	$ 146,866,940
Total Liabilities	**$ 162,643,152**	**$ 169,023,634**
NET ASSETS		
Invested in capital assets, net of related debt	$ 40,675,094	$ 51,311,416
Restricted		
Expendable		
Scholarship, research, and other	25,336	43,604
Repairs and rehabilitation		
Unrestricted	85,096,837	68,943,171
Total Net Assets	**$ 125,797,267**	**$ 120,298,191**

UNIVERSITY OF SOUTHERN INDIANA
Statement of Revenue, Expenses, and Change in Net Assets
Years ended June 30, 2011 and 2010

	2011	2010
REVENUES		
Operating Revenues		
Student fees	$ 59,842,645	$ 55,809,369
Scholarship discounts & allowances	(18,042,400)	(15,303,976)
Grants and contracts	1,669,781	1,165,481
Auxiliary enterprises	24,669,747	24,430,059
Room & board discounts & allowances	(713,912)	(633,487)
Other operating revenues	2,196,252	1,236,128
Total operating revenues	$ 69,622,113	$ 66,703,574
EXPENSES		
Operating Expenses		
Compensation:		
Salaries & Wages	$ 53,719,281	$ 52,022,428
Benefits (Notes 10, 11, & 12)	17,865,688	16,568,421
Other postemployment benefits (Note 13)	3,197,243	3,241,112
Student financial aid	10,930,146	9,876,598
Utilities	5,579,139	5,584,671
Supplies and other services	34,155,182	30,557,659
Depreciation	10,090,913	9,710,693
Total operating expenses	$ 135,537,592	$ 127,561,582
Operating loss	$ (65,915,479)	$ (60,858,008)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$ 49,657,868	$ 51,963,504
Gifts	1,205,951	1,271,716
Federal grants and contracts	16,116,920	13,877,627
State and local grants and contracts	7,619,097	6,996,720
Nongovernmental grants and contracts	310,637	915,370
Investment income (net of investment expense of $51,521 and $57,186 for 2011 and 2010)	1,113,971	2,173,533
Interest on capital asset-related debt	(6,906,545)	(6,797,622)
Bond issuance costs		
Other non-operating expenses	(69,172)	(67,513)
Net non-operating revenues	$ 69,048,727	$ 70,333,335
Income before other revenues, expenses, gains, or losses	$ 3,133,248	$ 9,475,327
Capital appropriations	1,086,974	
Capital grants and gifts	1,278,854	44,753
Total other revenues	2,365,828	44,753
Increases in net assets	$ 5,499,076	$ 9,520,080
NET ASSETS		
Net assets – beginning of year	$ 120,298,191	$ 110,778,111
Net assets – end of year	**$ 125,797,267**	**$ 120,298,191**

UNIVERSITY OF SOUTHERN INDIANA
Statement of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Tuition and fees	$ 41,686,275	$ 40,311,755
Grants and contracts	1,372,753	959,452
Payments to suppliers	(32,733,880)	(29,378,652)
Payments for utilities	(5,579,139)	(5,584,671)
Payments to employees	(53,218,582)	(52,319,089)
Payments for benefits	(20,404,064)	(19,524,285)
Payments for scholarships	(10,930,146)	(9,876,598)
Loans issued to students	(413,507)	(421,251)
Collection of loans to students	440,539	425,462
Auxiliary enterprises receipts	23,688,050	23,549,010
Sales and services of educational depts.	171,094	171,484
Other receipts (payments)	2,055,761	674,337
Net cash used by operating activities	**$ (53,864,846)**	**$ (51,013,046)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$ 50,218,831	$ 51,402,541
Gifts and grants for other than capital purposes	25,252,605	23,061,433
Other non-operating receipts (payments)	111,159	554,741
Net cash provided by noncapital financing activities	**$ 75,582,595**	**$ 75,018,715**
Cash Flows from Capital Financing Activities		
Proceeds from capital debt		
Capital appropriations	$ 1,086,974	
Capital grants and gifts	1,241,638	$ 49,808
Bond financing costs	(69,171)	(67,513)
Purchase of capital assets	(13,315,571)	(36,818,826)
Principal paid on capital debt	(9,021,775)	(9,476,710)
Interest paid on capital debt and leases	(7,084,877)	(6,978,530)
Net cash provided by capital financing activities	**$ (27,162,782)**	**$ (53,291,771)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	$ 38,792,003	$ 45,659,005
Interest on investments	1,455,965	2,269,597
Purchase of investments	(33,731,469)	(45,202,653)
Change in deposit with trustee	26,828,597	16,629,711
Net cash used by investing activities	**$ 33,345,096**	**$ 19,355,660**
Net increase (decrease) in cash	$ 27,900,063	$ (9,930,442)
Cash – beginning of year	9,790,678	19,721,120
Cash – end of year	**$ 37,690,741**	**$ 9,790,678**

UNIVERSITY OF SOUTHERN INDIANA
Statement of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating loss	$ (65,915,479)	$ (60,858,008)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	10,090,913	9,710,693
Provision for uncollectible accounts	38,231	68,456
Changes in assets and liabilities:		
Receivables	(1,542,214)	(787,877)
Inventories	416,890	267,620
Other assets	3,691	(252,974)
Accounts payable	2,097,034	950,778
Deferred revenue	1,242,120	(73,829)
Deposits held for others	(390,007)	8,688
Employee and retiree benefits	66,943	(50,804)
Loans to students	27,032	4,211
Net cash used by operating activities:	**$ (53,864,846)**	**$ (51,013,046)**

Noncash Transactions		
Unrealized gain/(loss) on short-term investments	$ (21,527)	$ (3,390)
Unrealized gain/(loss) on long-term investments	198,381	387,163
Net noncash transactions	**$ 176,854**	**$ 383,733**

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 16 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, 2011.

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 $1,651,861. 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, 2011.

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.

Non-operating Revenues and Expenses
Non-operating revenues of the University consist of state appropriations, gifts, non-exchange grants, and investment income. Non-operating 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).

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 and 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, 2011, the USI Foundation distributed $2,507,756 in direct and indirect support to the University for both restricted and unrestricted purposes.

The majority of the resources 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.

On June 22, 2011, the Foundation acquired the net assets of University of Southern Indiana/New Harmony Foundation, which was formed to support and develop Historic New Harmony, an auxiliary enterprise of the University which operates in New Harmony, an historic town in southwestern Indiana located thirty miles from campus.

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 – 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, 2011, the bank balances of the University's operating demand deposit accounts were $33,288,327, of which $600,922 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, 2011, 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	$6,229,257	7%	$6,229,257			
Repurchase agreements	31,461,483	35%	31,461,483			
Certificates of deposit	19,204,142	21%	11,001,428	8,202,714		
U S Treasury & agency securities	33,539,125	37%	1,641,941	24,313,729	7,505,028	78,427
Totals	**$90,434,007**	100%	**$50,334,109**	**$32,516,443**	**$7,505,028**	**$78,427**
Maturity %	100%		56%	36%	8%	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. Of the $90 million invested, $33.5 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 $31 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 56 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, $31.8 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, 2011, 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 4 - Accounts Receivable

Accounts receivable are recorded net of allowance for uncollectible student fees of $589,765 and auxiliary services fees of $295,224. Prior-year allowances were $560,330 for student fee receivables and $286,429 for auxiliary services receivables. The accounts receivable balance for the 2010-11 fiscal year includes $4,943,633 in net student receivables and $3,258,184 in external receivables.

NOTE 5 – Derivative Instruments

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2011, classified by type and the fair value changes of those derivative instruments are as follows:

		Change in Fair Value		Fair Value at June 30, 2011	
Derivative Instrument	**Type**	**Amount**	**Classification**	**Amount**	**Current Notional**
Series 2006	Cash flow hedge: Pay-fixed interest rate swap	$161,453	Derivative Instrument Interest Rate Swap	$(964,679)	$6,472,291
Series 2008A	Cash flow hedge: Pay-fixed interest rate swap	$143,169	Derivative Instrument Interest Rate Swap	$(893,129)	$9,250,000

As of June 30, 2011, 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, 2011, 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	$6,472,291	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	$9,250,000	7/01/2008	10/01/2021	65% of 3 mo. USD-LIBOR-BBA w/- 1 day look back, 79.0 bps	A1

Credit Risk —The fair value of the hedging derivative instruments is in a liability position as of June 30, 2011, with Series 2006 having a balance of $964,679 and Series 2008A having a balance of $893,129. 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 6 – Debt Related to Capital Assets

Bonds Payable – Outstanding bonds payable at June 30, 2011, total $140,404,051 and are identified in the following schedule.

						June 30, 2011		
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%	5.70%	2015	$24,678,101	$1,336,760	$2,838240	**$4,175,000**
Series F, Liberal Arts Center	1998	3.55% to 4.7%	4.70%	2013	15,280,000	2,795,000	183,289	**2,978,289**
Series G, Recreation & Fitness Center	1999	0% to 10%*	.49%	2019	4,700,000	2,900,000	30,400	**2,930,400**
Series H, Science & Education Center	2001	3.5% to 5.0%	5.00%	2021	25,260,000	17,365,000	5,303,951	**22,668,951**
Series I, Library Construction	2004	2.0% to 5.375%	5.00%	2023	49,590,000	34,255,000	11,459,113	**45,714,113**
Series 2006, Recreation & Fitness Center	2006	4.67%	4.67%	2028	7,250,000	6,472,291	2,888,607	**9,360,898**
Series J, Business and Engineering Center	2009	2.5.to 5.0%	2.50%	2028	50,185,000	46,945,000	25,196,393	**72,141,393**
Auxiliary System Bonds								
Series 2001A, Student Housing Facilities	2001	4.0% to 5.0%	5.00%	2018	23,775,000	12,900,000	2,744,500	**15,644,500**
Series 2003, Student Housing Facilities	2003	3.0% to 4.5%	3.50%	2024	8,005,000	6,185,000	2,023,253	**8,208,253**
Series 2008A, Student Housing Facilities	2008	3.97%	3.97%	2021	9,800,000	9,250,000	3,173,023	**12,423,023**
Total					**$218,523,101**	**$140,404,051**	**$55,840,768**	**$196,244,819**

*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 .20 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
2011-12	9,393,392		9,393,392	7,054,433	16,447,825
2012-13	9,819,160		9,819,160	6,621,564	16,440,724
2013-14	9,273,825		9,273,825	6,182,999	15,456,824
2014-15	9,347,567		9,347,567	5,748,972	15,096,539
2015-20	47,496,785		47,496,785	19,901,056	67,397,841
2020-25	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	**$ 140,404,051**	**$0**	**$ 140,404,051**	**$ 55,840,768**	**$ 196,244,819**

NOTE 7 – Operating Leases
For the fiscal year ended June 30, 2011, the University spent $405,344 on operating leases which are included in supplies and other services in the Statement of Revenue, Expenses, and Changes in Net Assets of which $101,072 was spent on leasing off campus classroom and office space, $288,517 was spent on equipment, and $15,755 was spent on vehicle leases.

NOTE 8 - Compensated Absence Liability
Vacation leave and similar compensated absences (such as sick leave) based on past service are accrued as a liability as earned. The liability is measured at the salary rate in effect at the balance sheet date, and additional amounts are accrued for all required salary-related payments due a terminating or retiring employee. The salary-related payments subject to this accrual include the University's share of Social Security and Medicare taxes, as well as the University's contributions to a defined benefit pension plan.

The total cumulative compensated absence liability reflected in the Statement of Net Assets is $2,384,956 and $2,173,822 for June 30, 2011 and 2010 respectively. The current year change represents $57,556 increase in accrued vacation; $121,285 increase in sick leave liability; $13,682 increase in Social Security and Medicare taxes; and $18,612 increase in Public Employees’ Retirement Fund (PERF) contributions. During the fiscal year, $230,509 was paid out to terminating employees. Payout for terminating employees in fiscal year 2010-11 is expected to increase approximately 42 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $209,593 of the total compensated absence liability is classified as a current liability and the remaining $2,175,363 is classified as a non-current liability.

NOTE 9 – 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 2.8 percent annually for purposes of calculating this liability.

USI has 22 retirees currently receiving early-retirement benefits, seven of whose benefits stop after this fiscal year, and 11 more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $822,469 at June 30, 2011. Of that amount, $346,812 is expected to be paid out during the following fiscal year, and the remaining $475,657 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

NOTE 10 - 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 *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 $5,722,422 to these programs in fiscal year 2010-11, which represents approximately 11 percent of the total University payroll and 13 percent of the benefit-eligible employees' payroll for the same period.

<u>Faculty and Administrative Staff</u> 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 $4,813,874 to this plan for 596 participating employees for fiscal year ending June 30, 2011, and $4,671,645 for 582 participating employees for fiscal year ending June 30, 2010. The annual payroll for this group totaled $35,340,910 and $34,472,823 for fiscal years ending June 30, 2011 and 2010 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*.

<u>Support Staff</u> Employees in eligible positions and who work at least half-time participate in PERF, a retirement program administered by the Indiana Public Retirement System, 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 7 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 $898,047 for 415 employees participating in PERF during the 2010-11 fiscal year and $828,829 for 404 employees participating during 2009-10.

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)
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%
2010	6,179	9,174	2,995	67.4%	8,912	33.6%

PERF – Development of Net Pension Obligation

	2008	*2009*	*2010*
Annual Required contribution (ARC) *	$435,911	$493,983	$590,297
Interest on Net Pension Obligation @ 7.25%	(34,401)	(38,466)	(41,645)
Adjustments to ARC **	(39,203)	(43,834)	(47,457)
Annual Pension Cost (APC)	362,307	411,683	501,195
Contributions made by USI ***	496,772	543,200	566,123
Decrease in Net Pension Obligation	(134,465)	(131,517)	(64,928)
Net Pension Obligation, Beginning of Year	(721,782)	(856,247)	(987,764)
Net Pension Obligation, End of Year	**($856,247)**	**($987,764)**	**($1,052,692)**

* 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: 2008 at 137.1%; 2009 at 131.9%; and 2010 at 113.0%.

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.

The Indiana Public Retirement System (INPRS) issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for PERF participants. That report may be obtained by writing the INPRS, 1 North Capitol Avenue, Suite 001, Indianapolis, IN 46204 or by calling 317/232-3882.

NOTE 11 – 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 or $2,500 per occurrence if the property is owned by the USI Foundation or SIHE

Holdings, LLC. 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 four health care plans for full-time benefit-eligible employees and three plans for retirees. Two of the plans for employees and 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, 67 percent and 94 percent respectively, participate in the fully-funded cost-plus plan. For fiscal year ended on June 30, 2011, the University's contribution to these health care plans totaled $6,907,832 for 1,157 employees and $940,509 for 236 retirees. For the same period, employees and retirees made contributions totaling $1,957,181 and $269,706 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, 2011, 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 2011 fiscal year are as follows:

Beginning liability, June 30, 2010	$1,556,935
Claims incurred	7,721,129
Claims paid	(6,471,913)
Ending liability, June 30, 2011	$2,806,148

NOTE 12 - 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, 2011, is as follows:

VEBA TRUST	**MARKET**
Fund balance at July 1, 2010	$9,981,061
Transfer from University reserves	650,000
Employee/employer contributions	169,690
Retiree/employer contributions	22,974
Reinvested net earnings	268,840
Net gain/(loss) on sales of trust investments	181,295
Less: Management fees and taxes	(34,415)
Net change in market value	1,925,504
Fund balance at June 30, 2011	**$13,164,949**

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 13 -- 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, 2011, USI contributed $1,882,421 to the plan, including $1,087,923 for current premiums (approximately 81 percent of total premiums), and $650,000 to prefund benefits. Plan members receiving benefits contributed $259,233, or approximately 19 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:

	2009	2010	2011
Annual required contribution	$2,146,904	$3,243,885	$3,243,885
Interest on net OPEB obligation	17,942	32,080	123,977
Adjustment to annual required contribution	(19,304)	(37,644)	(170,619)
Annual OPEB cost	2,145,542	3,238,321	3,197,243
Contributions made	(1,943,575)	(1,925,511)	(1,882,421)
Increase (decrease) in net OPEB obligation	201,967	1,312,810	1,314,822
Net OPEB obligation, beginning of year	256,316	458,283	1,771,093
Net OPEB obligation, end of year	$458,283	$1,771,093	$3,085,915

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
6-30-2009	$2,145,542	90.6%	$458,283
6-30-2010	$3,238,321	59.5%	$1,771,093
6-30-2011	$3,197,242	58.9%	$3,085,915

Funded Status and Funding Progress. As of June 30, 2011, the plan was 41.7 percent funded. The actuarial accrued liability (AAL) for benefits was $31,590,331, and the actuarial value of assets was $13,164,949, resulting in an unfunded actuarial accrued liability (UAAL) of $18,425,382. The covered payroll (annual payroll of active employees covered by the plan) was $46,432,950, and the ratio of the UAAL to covered payroll was 39.7 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)
6/30/2009	$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%
6/30/2011	$13,164,949	$31,590,331	$18,425,382	41.67%	$46,432,950	39.68%

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 14 – 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	2011 TOTAL	2010 TOTAL
Instruction	$27,384,739	$9,068,004			$1,952,334		$38,405,077	$38,604,976
Academic Support	4,957,211	1,819,548			4,092,105		10,868,864	11,546,133
Student Services	3,769,159	1,550,453			1,768,785		7,088,397	7,379,797
Institutional Support	8,466,771	4,111,837			3,128,635		15,707,243	12,801,849
Operation & Maintenance of Plant	3,163,470	1,632,257		4,503,201	7,015,937	6,971,127	23,285,992	19,748,089
Student Aid	175,878	785,191	10,250,783		6,491		11,218,343	10,588,123
Public Service	1,502,654	499,573			1,105,770		3,107,997	2,482,847
Research	77,993	21,449			140,620		240,062	199,914
Auxiliary Enterprises	4,221,406	1,574,619	679,363	1,075,938	14,944,505	3,119,786	25,615,617	24,209,854
TOTAL	**$53,719,281**	**$21,062,931**	**$10,930,146**	**$5,579,139**	**$34,155,182**	**$10,090,913**	**$135,537,592**	**$127,561,582**

NOTE 15 – Construction in Progress
Construction in progress at year-end totals $2.6 million (see capital assets table below). Projects under construction include practice soccer fields at the Broadway complex, phase one of the student apartment renovations, sidewalks from the Residence Life Community Center to Eagle Village Apartments, a walkway from the bike path to the Recreation, Fitness, and Wellness Center, expansion of the Residence Life Community Center, and renovation of the Wright Administration canteen for the Red Mango frozen yogurt eatery.

Design work is underway on an advanced manufacturing teaching facility. The project has an estimated cost of completion of $2.3 million. Additional projects, including improvements to Bluff Lane for the advanced manufacturing facility, construction of a drop-off driveway for the McCutchan Art Center, and expansion of the University Center Loft dining area, are also in progress. Those projects have a total estimated remaining cost of approximately $2.5 million.

The balance of construction in progress relates to a teaching theatre on campus. To date, $1.4 million 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 project was approved for construction by the State of Indiana legislature in spring 2011.

NOTE 16 – Capital Assets, Net of Accumulated Depreciation
The table below displays the increase in total capital assets from $298.8 million at July 1, 2010, to $302.7 million on June 30, 2011. Gross capital assets, less accumulated depreciation of $118.6 million, equal net capital assets of $184.1 million at June 30, 2011.

Capital Assets	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Accumulated Depreciation	Net Capital Assets
Land	$4,557,473	65,450	14,000	$4,608,923		$4,608,923
Land Improvements	9,322,042	2,946,469	50,300	12,218,211	5,148,302	7,069,909
Infrastructure	3,648,793	2,733,000	100,580	6,281,213	1,591,388	4,689,825
Educational Buildings	133,447,979	34,463,553	11,150,371	156,761,162	55,087,605	101,673,557
Auxiliary Buildings	70,899,366	28,341,219	28,600	99,211,985	42,276,130	56,935,855
Equipment	15,618,322	3,815,122	1,981,863	17,451,580	11,956,974	5,494,606
Library Materials	12,083,192	265,476	8,784,380	3,564,288	2,560,447	1,003,841
Construction in Progress	49,216,248	12,987,477	59,583,240	2,620,485		2,620,485
Totals	**$298,793.415**	**$85,617,766**	**$81,693,334**	**$302,717,847**	**$118,620,846**	**$184,097,001**

COMPREHENSIVE BOND AUTHORIZATION AND DELEGATION RESOLUTION OF THE UNIVERSITY OF SOUTHERN INDIANA BOARD OF TRUSTEES

WHEREAS, the University of Southern Indiana, a body corporate and politic organized and existing under the laws of the State of Indiana (the "University") is authorized under various statutes to issue bonds and otherwise incur indebtedness or obligations for the purpose of acquiring, constructing, renovating, equipping and furnishing various facilities of the University; and

WHEREAS, the University is authorized to issue auxiliary revenue bonds under Indiana Code 21-35-3, commercial paper and other short term obligations under Indiana Code 21-32-2, student fee bonds under Indiana Code 21-34-6 through 10, and lease purchase obligations under Indiana Code 21-33-3-5 (collectively the "Obligations"), and

WHEREAS, the University has previously entered into a Trust Indenture, dated as of November 1, 1985, as subsequently amended and supplemented pursuant to which it has issued the various series of its Student Fee Bonds described in Exhibit A hereto; and

WHEREAS, the University has previously entered into an Indenture of Trust, dated as of February 1, 2001, as previously supplemented and amended, pursuant to which it has issued its Auxiliary System Revenue Bonds in various series described in Exhibit A hereto; and

WHEREAS the University has previously issued and has currently outstanding certain other Obligations in the form of short term or junior lien indebtedness as further described in Exhibit A hereto; and

WHEREAS, the University intends to acquire, construct, renovate, equip and furnish one or both of the projects described in Exhibit B hereto, and to incur indebtedness to finance the same (collectively, the "New Projects"); and

WHEREAS, the University desires to approve the issuance of the Refunding Bond(s) as defined in paragraph 13 below and to make the findings set forth in paragraph 14 below and may further elect to refund all or a portion of those Obligations which are listed in Exhibit A hereto (the "Prior Obligations"), which were previously issued to finance or refinance various projects of the University (the "Prior Projects"); and

WHEREAS, the Board of Trustees of the University (the "Board") now desires to authorize its Treasurer, including any and all Assistant Treasurers, (collectively, the "Treasurer") (i) to investigate, develop and evaluate one or more proposed plans of finance (the "Financing Plans") (including the selection of counsel, investment or commercial banks or other financial institutions, and such other advisors as may be appropriate, and further including the advisability of issuance in one or more series of obligations for the purpose of financing of the New Projects and the refinancing of the Prior Projects through the refunding of all or a portion of the Prior Obligations) for submission to either the Finance Committee of this Board (the "Committee") or to this Board as a whole and (ii) to undertake the various duties and tasks authorized by resolution of this Board below;

NOW, THEREFORE, BE IT RESOLVED by this Board as follows:

1. The University declares its official intent, and hereby ratifies and affirms any prior declarations of official intent, to acquire, construct, equip and/or rehabilitate the New Projects described in Exhibit B; to advance, on an interim basis, certain costs of the New Projects, to reimburse such advances for costs of acquiring, construction, equipping and/or rehabilitating the New Projects with proceeds of debt to be incurred by the University; and to issue debt not exceeding amounts authorized by the Indiana General Assembly for purposes of financing, refinancing or reimbursing costs of the New Projects.

2. The Treasurer is hereby authorized to investigate, develop and evaluate one or more Financing Plans and to submit any such Financing Plans to the Committee or to this Board for consideration.

3. The Board herby authorizes the Committee to exercise the powers of this Board to approve any Financing Plan or portion thereof presented by the Treasurer and to authorize the execution and delivery of one or more transactions under the statutes described above (the "Financings") in the form of bonds, notes, loan agreements or other evidence of indebtedness (the "Bonds") and the documents referred to below, provided that the following conditions are met:

(a) The total issued amount of obligations shall not exceed the sum of $16,000,000, for the New Projects, plus amounts necessary to defease and refund all or a portion of applicable Prior Obligations, and including the redemption premium, if any, and in each case shall include amounts to provide funds for costs of a debt service reserve fund or a surety bond, capitalized interest, credit enhancement, and ordinary and necessary amounts to pay costs of issuance and other costs incidental to the issuance of the Financings, all as permitted by law;

(b) The Bonds shall be sold at (i) a rate or rates fixed to maturity producing a true interest cost of 6% per annum or less and with such serial or term maturities and redemption features as the executing officers shall approve, or (ii) at a variable rate or rates as established pursuant to the applicable supplemental indenture (or similar instrument) for such series as may be approved and determined by the Committee or this Board; and

(c) The final maturity on any Financing shall not exceed thirty (30) years from, and including, the date of first issue of the respective series of Bonds.

4. Subject to the conditions in Section 3 hereof, the Chairman of the Board (the "Chairman"), any Vice Chairman of the Board (the "Vice Chairman") or the Treasurer, or any of them acting individually, is hereby authorized to execute and deliver a Bond Purchase Agreement for each Financing in substantially the form approved by the Committee or this Board, with those changes that the officers so executing shall approve, such approval to be conclusively evidenced by the execution and delivery thereof.

5. Subject to the conditions in Section 3 hereof, the Chairman or Vice Chairman, or either of them, is hereby authorized to execute and deliver, and the Secretary of the University

(the "Secretary") or the Assistant Secretary of the University (the "Assistant Secretary"), or either of them, is hereby authorized to attest the signature of and to imprint the corporate seal of the University on a supplemental indenture for Student Fee Bonds (the "Student Fee Indenture"), or a supplemental indenture for the Auxiliary System Revenue Bonds (the "Revenue Indenture" and together with the Student Fee Indenture, the "Indentures") as necessary in substantially the form approved by the Committee, with those changes that the officers so executing shall approve, such approval to be conclusively evidenced by the execution and delivery thereof.

6. Subject to the conditions in Section 3 hereof, the Treasurer is hereby authorized as part of the Financing Plans to distribute or to direct underwriters of each series of Financings, as appropriate (the "Underwriters") to distribute a Preliminary Official Statement or similar instrument for each series of Financings, as necessary, in substantially the form approved by the Committee or this Board, to prospective purchasers of the Financings. The Treasurer, if necessary, is further authorized to deem the Preliminary Official Statement as final for purposes of applicable Securities and Exchange Commission rules.

7. Subject to the conditions in Section 3 hereof, the Treasurer is hereby authorized to execute and deliver the form of any final Official Statement for each series as approved by the Committee or this Board, with those changes that the Treasurer shall approve, such approval to be conclusively evidenced by the execution and delivery thereof.

8. Subject to the conditions in Section 3 hereof, the Chair, the Vice Chair or the Treasurer, or any of them, is hereby authorized to execute and deliver the form of any Construction and Rebate Agreement, Continuing Disclosure Undertaking or Supplement to the Continuing Disclosure Undertaking or Escrow Deposit Agreement, in substantially the form approved by the Committee or this Board for each series, with those changes that the Treasurer shall approve, such approval to be conclusively evidenced by the execution and delivery thereof.

9. Subject to the conditions in Section 3 hereof, the Treasurer is hereby authorized to prepare forms of the Bonds as approved by the Committee and to cause the same to be executed by the proper officers of the University, as provided in the Indentures or otherwise. Upon execution of the Bonds, the Treasurer shall deliver the same, as appropriate to the type of transaction to the purchasers thereof upon payment of the purchase price, which price may reflect an underwriters' discount of not more than 0.7% (70 basis points) net of underwriting expenses, and an original issue discount or premium, if any, as permitted by law.

10. Subject to the conditions in Section 3 hereof, the Chairman, Vice Chairman, Secretary, Assistant Secretary and Treasurer are hereby authorized and directed to perform any and all further acts, to execute any and all further documents or certificates and to publish any notice required to implement any Financing Plan and to complete the execution and delivery of the Financings in one or more series, and, the execution and delivery for each series, as applicable, of (a) an Indenture and/or Supplemental Indenture, resolution or similar instrument; (b) Bond Purchase Agreement; (c) any Remarketing Agreement; (d) any Arbitrage and Federal Tax Certificate; (e) any Credit Agreement, Reimbursement Agreement, Standby Bond Purchase Agreement, Liquidity Agreement or similar Credit Facility Agreement; (f) any Escrow Deposit Agreement; (g) any Construction and Rebate Agreement; (h) any Promissory Note, Loan

Agreement or other forms of indebtedness which the University is authorized to issue under state and federal statutes, (l) any form of agreement, certification, or modification to University investment policy which may be required with respect to providing self-liquidity for one or more variable rate debt instruments; and (m) any documents, certificates or forms that may be required by the federal government with respect to the issuance of bonds and which may be required in order for the Corporation to receive any federal interest subsidy payment, all in substantially the form approved by the Committee, with those changes that the officers so executing shall approve, such approval to be conclusively evidenced by the execution and delivery thereof; and any other documents required to issue Financings related to other matters referred to therein, including amendments or supplements to any previous or existing agreements to such effect.

11. The Board authorizes and directs the Treasurer, on behalf of and in the name of the University, to request and obtain all necessary approvals of the Governor of the State of Indiana, the Budget Director of the State of Indiana, the Indiana State Budget Committee, the Indiana State Budget Agency, the Indiana Finance Authority, and the Indiana Commission for Higher Education, and any other governmental approvals necessary to implement the Plans of Finance and for the issuance of the Financings.

12. The Board authorizes and directs the Treasurer to recommend to the Committee or to the Board (a) one or more investment banking firms for appointment as underwriters, as appropriate to the type of transaction, (b) with respect to other Financings, a trustee bank or banks, (c) with respect to variable rate bonds, any liquidity facility and/or credit enhancement provider as deemed necessary, and any issuing and paying agent, (d) with respect to private placement or interim financing, any lender or purchaser of a Bond, and (e) with respect to any and all transactions, such other professional firms, consultants or advisers (“Service Providers”) as are necessary or appropriate to assist the University in carrying out the Financing Plans. The Treasurer is further authorized, to continue such existing relationships with Service Providers , if appropriate, without the need for further competitive bids or proposals, all as part of the recommended Financing Plans.

13. In addition to the approvals and delegations made in the preceding paragraphs, this Board hereby approves the issuance of the University of Southern Indiana Auxiliary System Revenue Refunding Bond(s), Series 2011A (the “Refunding Bond(s)”) for the purpose of providing funds to refund the University of Southern Indiana Auxiliary System Revenue Bonds, Series 2001A for student residence facilities and related improvements (the “Refunded Bonds”). The terms of the Refunding Bond(s) shall be as set forth in Exhibit C hereto. This Board hereby approves the execution and delivery of the various agreements and documents in connection with the issuance of the Refunding Bond(s) by the various officers of this Board, all as set forth in Exhibit D hereto, in substantially the form submitted to this Board in connection with this approval, with such changes as the executing officers shall approve, such approval to be conclusively evidenced by the execution and delivery of such documents.

14. This Board hereby finds that the issuance of the Refunding Bond(s) and the refunding of the Refunded Bonds will benefit the University of Southern Indiana because (i) a net savings in debt service will be effected thereby and (ii) the net present value of principal and

interest payments on the Refunding Bond(s) is less than the net present value of the principal and interest payments on the Refunded Bonds.

Dated this 3rd day of November, 2011.

EXHIBIT A

OUTSTANDING PARITY STUDENT FEE BONDS

Series D	Health Professions Center
Series F	Liberal Arts Center
Series G	Wellness, Fitness and Recreation Facility
Series H	Science/Education Building
Series I	David L. Rice Library
Series J	Business/Engineering Center and University Center Expansion

OUTSTANDING PARITY AUXILIARY SYSTEM REVENUE BONDS

Series 2003	Student Residence Building(s)
Series 2008A	Student Residence Building(s)

OTHER OUTSTANDING OBLIGATIONS

Series 2006 Student Fee Bonds (Junior Lien)	Recreation and Fitness Center Expansion

EXHIBIT B

NEW PROJECTS

Teaching Theatre

The Teaching Theatre project will have expected costs in the amount of $16,500,000 of which $13,000,000 will be bond-financed, and will consist of a new teaching theatre to replace the existing theatre, costume shop, and scene shop. The proposed theatre will have approximately 21,929 of assignable square feet, will seat approximately 350 people, and will be constructed adjacent to the University Center. The new theatre will serve the needs of the theatre program and will provide a venue for additional events, such as guest speakers, small performance groups, and musical recitals and performances. It will also provide a practice lab/classroom to teach key design and production elements, enhancing the education of USI theatre students. The project will contain areas to facilitate the loading in and out of sets and properties, and provide offstage storage space, green room space, dressing rooms, wardrobe, and laundry facilities.

Parking

A parking garage or other additional parking facilities as previously authorized by the General Assembly of Indiana.

EXHIBIT C

TERMS OF THE REFUNDING BOND

Purchaser:	JPMorgan Chase Bank, N.A.
Amount:	Up to Eleven Million Five Hundred Fifty Thousand Dollars
Interest Rate:	1.61%[(1)(2)]
Interest Payments:	Semiannually on April 1 and October 1 commencing April 1, 2012
Principal Payments:	Five equal annual installments on each October 1 until final maturity
Redemption:	Non-callable
Final Maturity:	October 1, 2016
Est. Net PV Savings:	$1,532,887

(1) Indicative rates as of October 17, 2011; final rate to be set within 2 weeks prior to delivery of Bond.
(2) Subject to adjustment as provided in Fifth Supplemental Indenture.

EXHIBIT D

DOCUMENTS APPROVED FOR EXECUTION

Bond or Bonds	Chairman/Vice Chairman and Secretary/Assistant Secretary
Fifth Supplemental Indenture	Chairman/Vice Chairman and Secretary/Assistant Secretary
Arbitrage and Federal Tax Certificate(s)	Treasurer/Assistant Treasurer
Escrow Agreement, if needed	Treasurer/Assistant Treasurer
Preliminary and Final Official Statement or Private Placement Memoranda, if needed	Any and all of the above
Notices re redemption, material event, bond sale, etc.	Any and all of the above
Other closing certificates, agreements and documents, as appropriate	Any and all of the above
Bond Purchase Agreement	Any and all of the above

University of Southern Indiana

Analysis of Responses to RFP for Refunding Auxiliary System Bond Series 2001A

October 18, 2011

Respondent	Plan Type	All Inclusive Rate	Cost of Issuance	Net PV Savings
Citi Securities	5 yr Public Offering	1.86%	$116,434.00	$1,383,038.00
	7 yr Public Offering	2.12%	$116,434.00	$1,216,095.00
	5 yr Direct Bank Purchase	2.70%	$87,931.50	$973,997.00
	7 yr Direct Bank Purchase	2.96%	$87,931.50	$827,756.00
Fifth Third Bank	5 yr Public Bond Offering	2.33%	$142,853.00	$1,236,545.55
	7 yr Public Bond Offering	2.74%	$142,319.00	$983,024.64
	5 yr Private Bond Offering With Credit Rating	2.72%	$122,662.00	$1,044,408.57
	7yr Private Bond Offering With Credit Rating	3.13%	$122,242.00	$804,179.59
	5 yr Private Bond Offering Without Credit Rating	3.22%	$122,688.00	$815,100.00
	7 yr Private Bond Offering Without Credit Rating	3.63%	$122,767.00	$582,674.00
Hilliard Lyons	5 yr Public Bond Offering	1.85728400%	$83,633.00	$1,396,102.00
	7 yr Public Bond Offering	2.2557192%	$83,826.50	$1,172,060.00
	5 yr Private Bond Offering With Credit Rating	2.7695481%	$85,718.50	$947,400.00
	7 yr Private Bond Offering With Credit Rating	2.9514674%	$85,718.50	$832,966.00
JP Morgan Chase	5 yr Direct Bank Purchase	1.61%	$7,500.00	$1,532,887.00
	7 yr Direct Bank Purchase	1.94%	$7,500.00	$1,373,296.00
	7 yr Direct Bank Purchase	1.98%	$7,500.00	$1,352,816.00
Morgan Keegan and Regions	7 yr Public Offering	2.63%	$65,000.00	$976,928.00
	Public Offering Bank Qualified Bond for $10 million with 1 yr Taxable Bond for $1.55 million	2.58%	$65,000.00	$1,000,033.00
	7 yr Private Placement	2.54%	$25,000.00	$1,016,405.00

Respondent	Plan Type	All Inclusive Rate	Cost of Issuance	Net PV Savings
Old National Bank	5 yr Direct Purchase Bank Qualified Bond for $10 million	2.22% plus $25,000	$25,000.00	$849,149.00
	7 yr Direct Purchase Bank Qualified Bond for $10 million	2.49% plus %25,000	$25,000.00	$1,031,945.00
	1 yr Direct Purchase Taxable Bond for $1.55 million	2.85% until October 1, 2012		
PNC Capital Markets	5 yr Public Offering	2.52%	$141,322.00	$535,647.00
	7 yr Public Offering	2.74%	$151,291.00	$971,835.00
	5 yr Public Offering With Insurance	2.53%	$166,772.00	$535,438.00
	7 yr Public Offering With Insurance	2.73%	$192,967.00	$977,126.00
	5 yr Direct Bank Purchase	3.04%	$74,000.00	$421,767.00
	7 yr Direct Bank Purchase	3.02%	$74,000.00	$841,723.00
	5 yr Direct Bank Purchase	3.13%	$74,000.00	$401,446.00
	7 yr Direct Bank Purchase	3.01%	$74,000.00	$846,259.00
Piper Jaffray	5 yr Public Offering	2.32%	$80,593.00	$1,198,417.00
	7 yr Public Offering	2.73%	$80,323.00	$977,950.00
Wells Fargo Securities	7 yr Public Offering	2.92%	$165,848.00	$907,091.00
	7 yr Public Offering With Insurance	2.99%	$164,494.00	$872,022.00
	5 yr Direct Purchase	2.78%	$123,750.00	$966,259.00
	7 yr Direct Purchase	2.88%	$123,750.00	$919,992.00

Did Not Respond To RFP

GE Capital Solutions
German American Bank
Northern Trust
RBC Capital Markets
R.W. Wentworth and Company
Raymond James & Associates
Ziegler Securities

USI VEBA Trust
Investment Performance Analysis
September 30, 2011

Neil Heppler
Co-President

FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

Quarterly Market Review
Third Quarter 2011

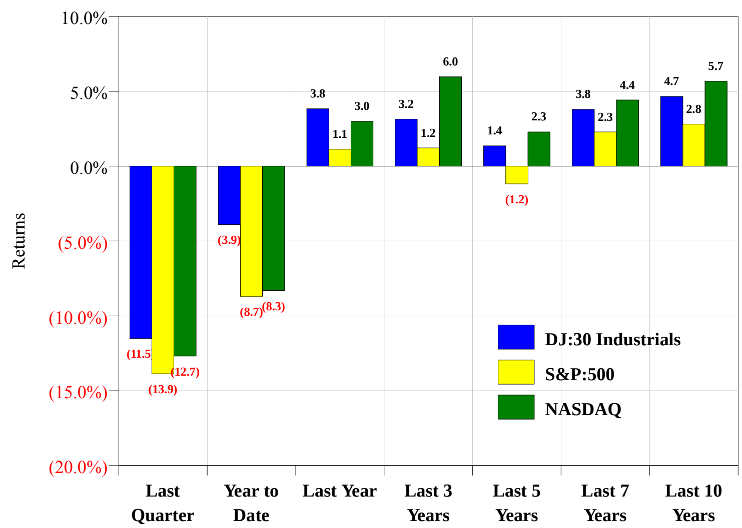
U.S. equity markets continued the decline that began in May and ended the third quarter on the brink of a bear market (20% decline from recent peak). The S&P 500 Index tumbled 13.9% during the quarter concluding five consecutive losing months with a 7% slide in September. Daily and intra-daily volatility returned to equity markets with triple-digit moves on the Dow Jones Industrial Average commonplace in August and September. High quality bonds were the best performers in the quarter, gaining 3.8%. Despite an historical ratings downgrade by Standard and Poor's on U.S. debt to AA+, treasury bonds rallied strongly as the market impact of the downgrade, ironically, was to send investors to seek the safety of treasuries which verified the dollar's status as the world reserve currency.

International equity markets were down similarly in local currencies over the quarter but a strengthening U.S. dollar contributed to a 19.0% quarterly decline in dollar terms. In addition to the sovereign debt worries in Europe, investors began to wrestle with the higher probability of another global recession. Also, the credibility of U.S. policy-makers, or lack thereof, has added another layer to investor angst in the wake of the bitter U.S. debt ceiling debate in August. While the economic outlook appears glum, corporate balance sheets are much more fortified for an economic slowdown than the one just a few years earlier.

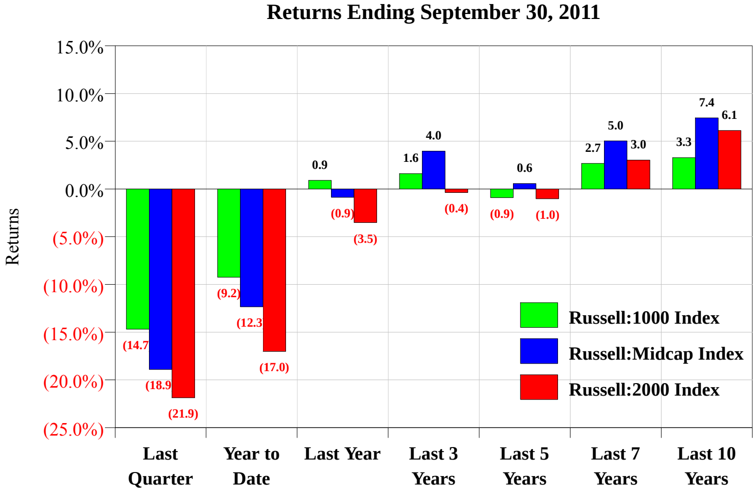
	Last Quarter	Year to Date
S&P 500	**(13.9)**	**(8.7)**
MSCI EAFE	**(19.0)**	**(15.0)**
BC Aggregate	**3.8**	**6.6**
Cash	**0.0**	**0.1**

Domestic Equity Market

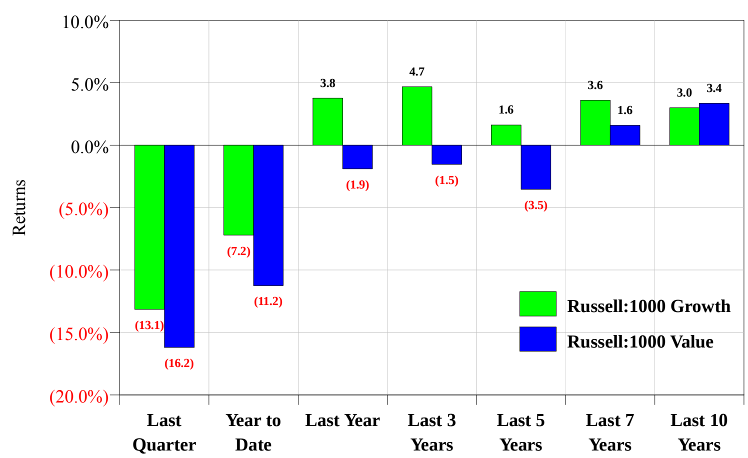
- Large-cap stocks declined 13.9% in the quarter, holding their value much better than small (-21.9%) and mid-cap stocks (-18.9%).
- From a stylistic perspective, growth equities suffered less (-13.1%) than value stocks in large-caps (-16.2%). However, in small-caps, value held up slightly better.
- High quality stocks, as expected, performed well relative to low quality in the third quarter selloff (HQ -12.3%, LQ -22.3%). This significant shift in performance more than offset the past couple years where low quality stocks have outperformed.
- Equity valuation levels remain mixed. Forward operating earnings ratios signal an inexpensive equity market (10.6x). However, Robert Shiller's PE-10 cyclically adjusted price earnings ratio remains elevated (19x) and above historic averages.
- Second quarter GDP growth rate came in at 1.3%, down from 1.9% in the first quarter. Historical averages are between 2.5% and 3.0%.
- Unemployment continues to be stubbornly stuck above 9%.
- Headline inflation jumped up to 3.8% in August. However, the more stable core inflation number of 2.0% shows a more muted level.



Large-cap vs. Small-cap
Returns Ending September 30, 2011



Growth vs. Value
Returns Ending September 30, 2011



Sectors of the Market

	Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials
S&P Weight	**13.6%**	**19.4%**	**12.1%**	**10.3%**	**11.6%**	**10.6%**	**11.7%**	**3.3%**	**4.0%**	**3.4%**
Russell Growth Weight	3.8%	28.8%	11.0%	12.1%	10.3%	14.4%	13.0%	1.2%	0.1%	5.1%
Russell Value Weight	24.7%	8.9%	13.2%	8.8%	11.8%	8.7%	8.2%	5.1%	8.1%	2.6%
Third Qtr. 2011 Return	***-22.8%***	***-7.7%***	***-10.0%***	***-21.0%***	***-20.4%***	***-13.0%***	***-4.2%***	***-8.0%***	***1.5%***	***-24.5%***
Year-to-date 2011 Return	***-25.2%***	***-5.8%***	***2.5%***	***-14.7%***	***-11.4%***	***-5.7%***	***3.4%***	***-1.5%***	***10.8%***	***-21.8%***

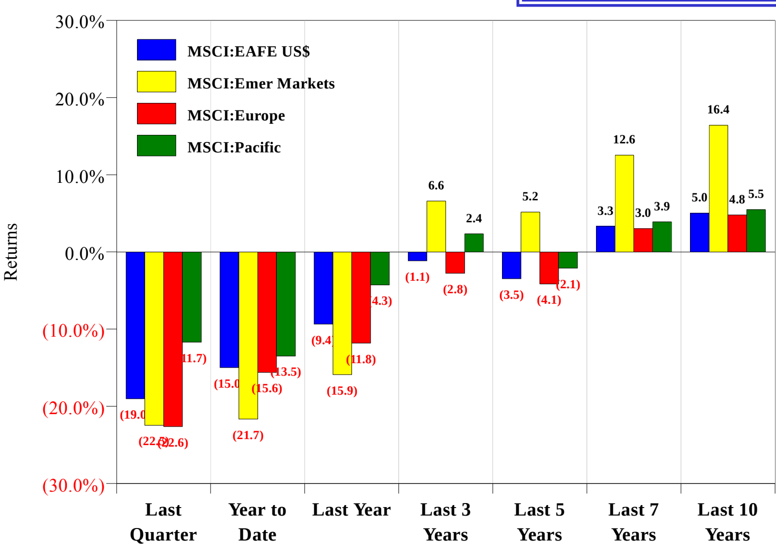
•Traditional defensive sectors held up better during the third quarter flight to safety within equities. Utilities, while a small component of the stock market (4%), actually gained 1.5% while consumer staples stocks fell just 4.2%. Utilities and consumer staples typically outperform in weak markets as their cash flows and earnings are not as economically sensitive.

•Conversely, economically cyclical sectors such as industrials (-21%) and materials (-24%) struggled during the selloff. Concerns about China's dramatic growth slowing down contributed to cyclicals' weakness. Financial stocks (-23%) also were sold down due to fears over a contagion from Europe's banking exposure to Greek and other European sovereign debt.

•Commodities endured extreme volatility during the quarter. Gold prices peaked slightly above $1900/ounce before tumbling in September to close below $1600/oz. Silver prices collapsed to below $30/ounce, after nearly reaching $50/ounce in April. Both major commodity indices were lower by 11-12%. Iron and steel fell 38%, aluminum shed 39% and coal tumbled 45%.

•Oil prices dove below $80/barrel and reached a 12-month low. Crude oil prices were down 17% in the quarter.

International Markets



•The MSCI EAFE fell 19.0% in the quarter. International stocks underperformed domestic equities due to the uncertainty across Europe as well as the strength of the U.S. dollar. In local values, international equities fell 15.7%.

•Emerging markets fared even worse then developed markets and fell 22.5%. Emerging market currencies fell hard. The decline in local shares of the index was just 14.9%.

•Japan was the top performing region during the quarter. Japan was boosted by a stronger yen and declined just 6.4%. Japan's short term outlook for their economy is positive given all of the rebuilding stimulus approved by the government post-tsunami.

•European stocks tumbled as the potential fallout of a Greek default kept investors on edge. Both French and German stock indexes fell more than 25%. Greece fell 47% after losing 16% last quarter. The euro declined 8% against the U.S. dollar.

•Most foreign central banks halted their fiscal tightening during the quarter, and in some cases, returned to cutting interest rates.

Fixed Income Markets

•Treasury bonds soared in the third quarter, despite being downgraded by S&P. Long-term treasuries rallied nearly 25% in the quarter while the 10 year gained 12.2% and closed yielding 1.92%, down from 3.16% in June. TIPS gained 10.6%.

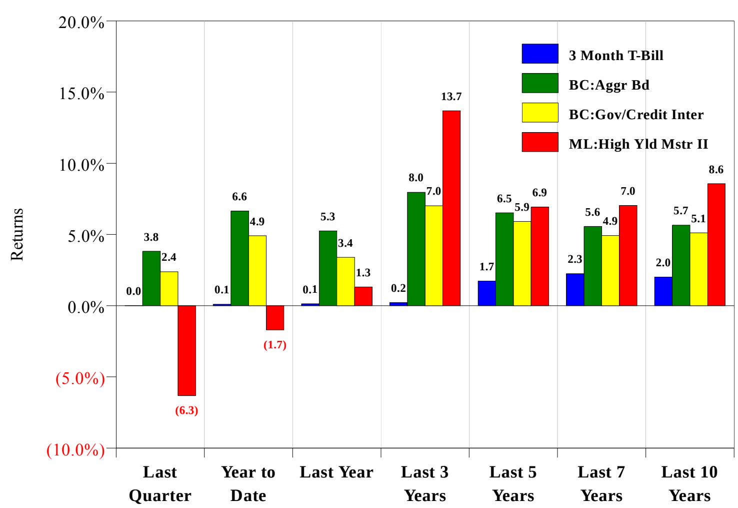
•The Barclays Aggregate Bond Index gained 3.8% in the quarter. Corporate bonds lagged behind treasuries but still posted respectable gains of 2.9%.

•Mortgage backed securities (+2.4%) and municipal bonds (+2.4%) also had good absolute returns in the third quarter.

•Areas of the bond market that were negatively impacted by the flight to quality were high yield bonds (-6.1%) and emerging market debt (-2.9%).

•The Federal Reserve kept short term borrowing rates near 0% and also issued a statement promising to keep the Fed Funds rate at this level until mid-2013.

•Additionally, the Fed announced a portfolio rebalancing program dubbed "Operation Twist" by the media. This program allows for the Fed to purchase $400 billion of longer term treasuries by selling some of its shorter duration paper.



FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

Comparative Market Returns
Average Annual Compound Returns (%)
for Periods Ended September 30, 2011

FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

	Last Quarter	Year to Date	Last Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 6 Years	Last 7 Years	Last 8 Years	Last 9 Years	Last 10 Years	Last 15 Years
Large Cap Equity													
DJ:30 Industrials	(11.49)	(3.90)	3.83	8.86	3.15	(3.15)	1.37	3.24	3.80	4.68	6.77	4.67	6.52
NASDAQ	(12.68)	(8.31)	3.00	7.76	5.98	(1.81)	2.30	2.88	4.42	4.70	9.22	5.68	5.25
Russell:3000 Index	(15.28)	(9.90)	0.55	5.63	1.45	(4.86)	(0.92)	0.85	2.71	4.08	6.31	3.48	5.39
S&P:500	(13.87)	(8.68)	1.14	5.56	1.23	(5.15)	(1.18)	0.72	2.29	3.67	5.79	2.82	5.23
S&P:500 Growth	(11.56)	(5.56)	4.85	8.21	4.47	(2.10)	1.41	2.35	3.50	3.99	5.89	3.05	5.30
S&P:500 Value	(16.30)	(11.92)	(2.66)	2.79	(2.19)	(8.32)	(3.88)	(1.02)	0.97	3.23	5.59	2.41	4.81
Russell:1000 Index	(14.68)	(9.25)	0.91	5.72	1.61	(4.92)	(0.91)	0.87	2.68	4.02	6.18	3.28	5.43
Russell:1000 Growth	(13.14)	(7.20)	3.78	8.12	4.69	(2.39)	1.62	2.34	3.61	4.09	6.32	3.01	4.16
Russell:1000 Value	(16.20)	(11.24)	(1.89)	3.36	(1.52)	(7.57)	(3.53)	(0.72)	1.60	3.79	5.90	3.36	6.06
Mid Cap Equity													
S&P:400 Mid Cap	(19.88)	(13.02)	(1.28)	7.83	4.05	(1.57)	2.20	2.91	5.46	6.90	8.95	7.50	9.52
S&P:400 Growth	(18.83)	(10.16)	2.91	11.31	6.98	0.59	4.43	4.51	6.73	7.34	9.21	7.55	9.66
S&P:400 Value	(20.95)	(15.80)	(5.38)	4.42	1.16	(3.73)	(0.06)	1.23	4.11	6.35	8.58	7.32	9.31
Russell:2500 Index	(21.22)	(14.87)	(2.22)	6.46	2.25	(3.23)	0.19	1.58	4.19	5.88	8.83	7.08	7.23
Russell:2500 Growth	(21.35)	(13.29)	0.59	8.61	4.56	(2.42)	1.91	2.67	5.11	5.91	9.37	6.32	4.86
Russell:2500 Value	(21.10)	(16.29)	(4.70)	4.57	0.08	(4.15)	(1.69)	0.34	3.10	5.56	8.15	7.24	8.38
Small Cap Equity													
S&P:600 Small Cap	(19.83)	(13.79)	0.21	6.99	0.77	(3.10)	0.27	1.38	4.00	6.38	8.48	7.40	7.52
S&P:600 Growth	(19.63)	(10.56)	4.21	10.06	2.87	(1.89)	2.22	2.43	5.26	7.10	9.22	7.91	6.42
S&P:600 Value	(20.04)	(16.83)	(3.55)	4.07	(1.29)	(4.38)	(1.66)	0.29	2.72	5.61	7.68	6.77	8.00
Russell:2000 Index	(21.87)	(17.02)	(3.53)	4.57	(0.37)	(4.10)	(1.02)	0.73	3.03	4.87	7.99	6.12	5.59
Russell:2000 Growth	(22.25)	(15.57)	(1.12)	6.54	2.07	(3.10)	0.96	1.76	3.93	4.90	8.47	5.45	3.00
Russell:2000 Value	(21.47)	(18.51)	(5.99)	2.53	(2.78)	(5.24)	(3.08)	(0.42)	1.99	4.69	7.39	6.47	7.60
Global Equity													
MSCI:EAFE US$	(19.01)	(14.98)	(9.36)	(3.25)	(1.13)	(9.47)	(3.46)	(0.01)	3.32	5.50	7.60	5.03	3.28
EAFE Growth Index	(18.98)	(15.43)	(8.79)	(0.56)	(0.63)	(8.48)	(2.16)	0.75	3.91	5.42	7.07	4.86	2.02
EAFE Value Index	(19.03)	(14.52)	(9.99)	(5.92)	(1.69)	(10.54)	(4.82)	(0.85)	2.67	5.49	8.05	5.13	4.37
MSCI:Europe	(22.61)	(15.61)	(11.81)	(4.86)	(2.76)	(10.73)	(4.13)	(0.16)	3.03	5.60	7.85	4.81	5.25
MSCI:Pacific	(11.70)	(13.48)	(4.27)	0.18	2.37	(6.78)	(2.09)	0.26	3.91	5.18	6.94	5.47	0.40
MSCI:World US$	(16.61)	(12.20)	(4.35)	1.05	(0.07)	(7.32)	(2.23)	0.33	2.80	4.49	6.63	3.71	4.00
MSCI:EAFE ex Jpn	(22.16)	(16.13)	(11.82)	(4.18)	(1.42)	(9.98)	(3.05)	0.62	3.83	6.32	8.56	5.69	5.18
MSCI:Emer Markets	(22.46)	(21.66)	(15.89)	0.69	6.59	(5.09)	5.17	7.63	12.55	14.21	17.37	16.41	6.77
U.S Fixed Income													
BC:Gov/Credit Inter	2.39	4.92	3.40	5.56	7.02	6.04	5.92	5.52	4.93	4.65	4.80	5.12	5.94
BC:Gov/Credit Bond	4.74	7.47	5.14	6.92	8.41	6.88	6.52	5.98	5.49	5.21	5.36	5.74	6.49
BC:Gov/Credit Long	15.64	19.42	12.74	13.17	14.87	10.86	9.39	8.22	8.00	7.74	7.78	8.26	8.53
BC:Aggr Bd	3.82	6.65	5.26	6.70	7.97	6.88	6.53	6.04	5.57	5.33	5.34	5.66	6.45
BC:Muni Bond 10 Yr	4.06	8.81	4.83	5.72	8.51	6.46	5.85	5.63	5.22	5.16	5.00	5.44	5.89
ML:High Yield CP Idx	(6.16)	(1.57)	1.36	9.57	13.52	6.64	6.84	7.02	6.97	7.61	9.73	8.47	6.84
ML:Treas 1-3	0.49	1.36	1.20	1.87	2.39	3.35	3.84	3.82	3.41	3.11	3.06	3.31	4.47
3 Month T-Bill	0.02	0.10	0.14	0.14	0.22	0.88	1.74	2.19	2.25	2.11	2.02	2.02	3.11
CPI-W	--	--	--	--	--	--	--	--	--	--	--	--	--

USI VEBA Trust
Performance Summary Table (Net of Fees)
for Periods Ending September 30, 2011
(Investment Returns are Shown Net of Fees)

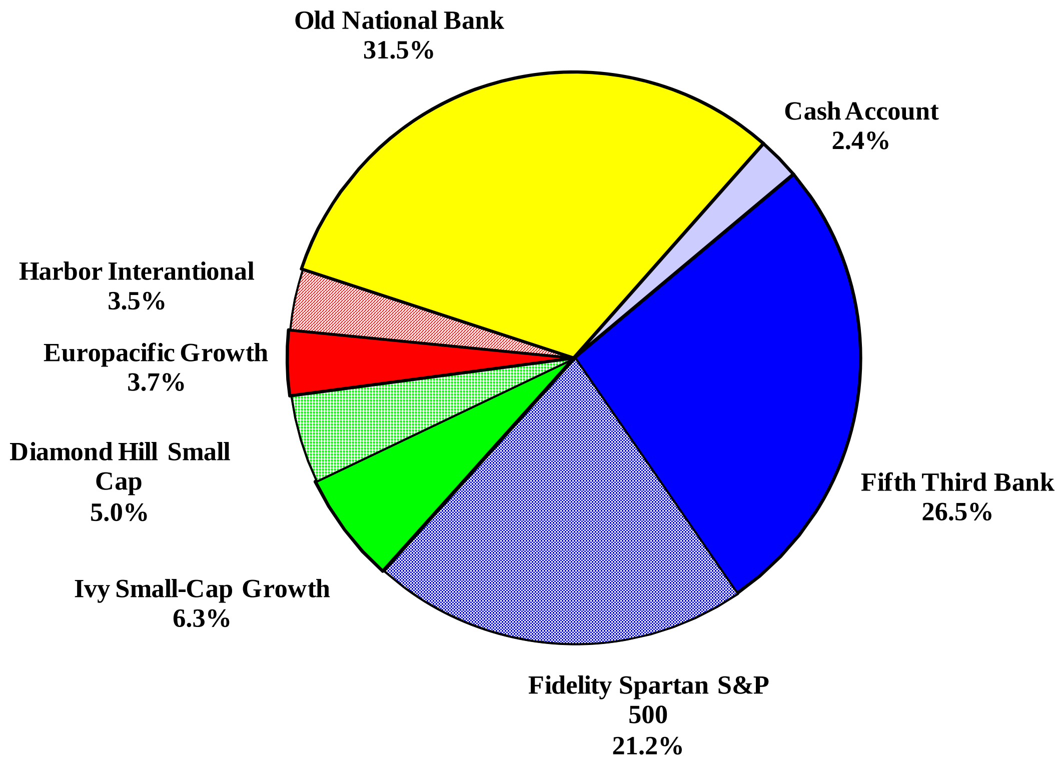
	QTR	YTD	1 YR	3 YR	5 YR	10 YR	15 YR	Inception	Date
VEBA Trust Composite	**(11.0)**	**(6.4)**	**(0.6)**	**4.1**	**2.8**	**4.9**	**4.7**	**4.4**	**Dec-95**
Balanced Index [1]	*(9.2)*	*(4.7)*	*2.0*	*3.4*	*1.3*	*3.8*	*3.6*	*3.5*	*Dec-95*
Diversified Balanced Index [2]	*(11.0)*	*(6.7)*	*(0.3)*	*3.0*	*1.0*	*4.7*	*4.1*	*4.0*	*Dec-95*
Consumer Price Index	0.6	3.6	3.9	1.2	2.3	2.4	2.5	2.5	Dec-95
Domestic Equity									
Fifth Third Bank	**(15.0)**	**(9.0)**	**(0.3)**	**3.0**	**2.3**	**5.4**	**--**	**4.1**	**Dec-00**
Fidelity Spartan Index	**(13.9)**	**(8.7)**	**1.1**	**1.2**	**(1.2)**	**--**	**--**	**(3.8)**	**Jun-07**
S&P 500 Index	*(13.9)*	*(8.7)*	*1.1*	*1.2*	*(1.2)*	*2.8*	*5.2*	*0.5*	*Dec-00*
Ivy Small Cap Growth	**(22.1)**	**(13.4)**	**(1.8)**	**9.2**	**4.4**	**7.1**	**--**	**3.0**	**Dec-00**
Russell 2000 Index	*(21.9)*	*(17.0)*	*(3.5)*	*(0.4)*	*(1.0)*	*6.1*	*5.6*	*4.1*	*Dec-00*
Russell 2000 Growth Index	*(22.2)*	*(15.6)*	*(1.1)*	*2.1*	*1.0*	*5.5*	*3.0*	*1.9*	*Dec-00*
Diamond Hill Sm Cap;I	**(18.9)**	**(15.6)**	**(5.8)**	**1.7**	**1.0**	**--**	**--**	**5.0**	**Nov-09**
Russell 2000 Index	*(21.9)*	*(17.0)*	*(3.5)*	*(0.4)*	*(1.0)*	*6.1*	*5.6*	*7.3*	*Nov-09*
Russell 2000 Value Index	*(21.5)*	*(18.5)*	*(6.0)*	*(2.8)*	*(3.1)*	*6.5*	*7.6*	*4.9*	*Nov-09*
International Equity									
Europacific Growth Fund	**(20.9)**	**(17.2)**	**(12.4)**	**0.8**	**--**	**--**	**--**	**(6.7)**	**Mar-10**
MSCI EAFE Index	*(19.0)*	*(15.0)*	*(9.4)*	*(1.1)*	*(3.5)*	*5.0*	*3.3*	*(6.2)*	*Mar-10*
Harbor:Intl;Inst	**(22.7)**	**(17.2)**	**(10.2)**	**0.2**	**0.4**	**9.5**	**8.0**	**(3.2)**	**Nov-09**
MSCI:EAFE US$	*(19.0)*	*(15.0)*	*(9.4)*	*(1.1)*	*(3.5)*	*5.0*	*3.3*	*(3.9)*	*Nov-09*
Fixed Income									
Old National Bank	**2.4**	**4.4**	**2.8**	**5.9**	**5.9**	**4.4**	**5.1**	**5.0**	**Dec-95**
BC Int. Gov/Credit Index	*2.4*	*4.9*	*3.4*	*7.0*	*5.9*	*5.1*	*5.9*	*5.8*	*Dec-95*

1 The Balanced Index is comprised of 100% BC Intermediate Govt//Corp Index from 1/1/1996 through 12/31/2000 and 30% BC Intermediate Govt//Corp Index and 70% S&P 500 Stock Index from 1/1/2001 forward.

2 The Diversified Balanced Index is comprised of 100% BC Intermediate Govt//Corp Index from 1/1/1996 through 12/31/2000 and 30% BC Intermediate Govt//Corp Index, 42% S&P 500 Stock Index, 18% MSCI EAFE Index, and 10% Russell 2000 Index from 1/1/2001 forward.

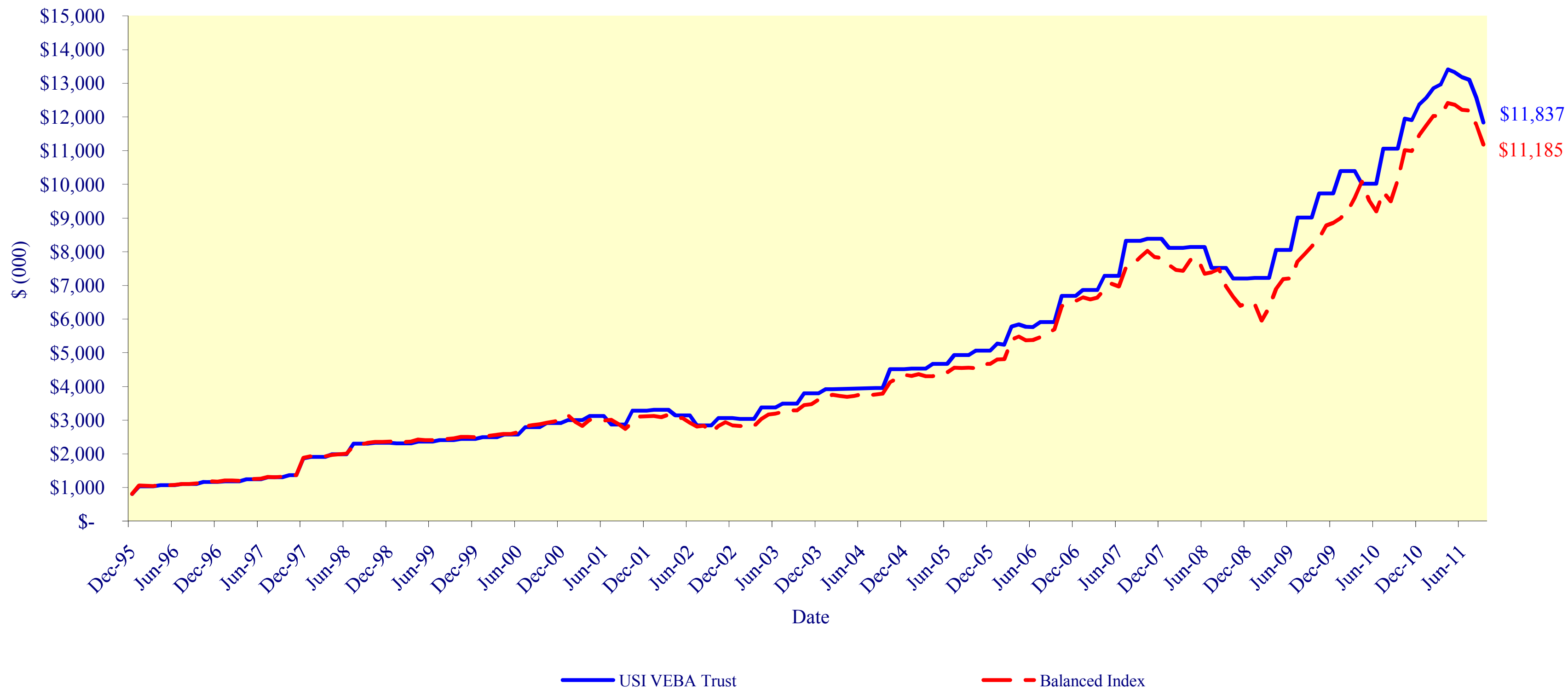
USI VEBA Trust
Asset Mix
Periods Ending Setpember 30, 2011

Total Assets: $11,837,466



	Domestic Large-Cap	Domestic Mid-Cap	Domestic Small-Cap	International Equity	Fixed Income	Cash	Total
Fifth Third Bank	$1,971,567	$687,537	-	$480,334	-	-	$3,139,438
Fidelity Spartan 500 Index	$2,511,283	-	-	-	-	-	$2,511,283
Ivy Small-Cap Growth	-	$308,562	$434,066	-	-	-	$742,628
Diamond Hill Small Cap	-	$295,550	$295,668	-	-	-	$591,218
Europacific Growth Fund	-	-	-	$435,676	-	-	$435,676
Harbor International	-	-	-	$410,764	-	-	$410,764
Old National Bank	-	-	-	-	$3,724,044	-	$3,724,044
Cash Account	-	-	-	-	-	$282,415	$282,415
Total	**$4,482,850**	**$1,291,649**	**$729,734**	**$1,326,775**	**$3,724,044**	**$282,415**	**$11,837,466**
% of Total	**38%**	**11%**	**6%**	**11%**	**31%**	**2%**	**100%**
Target	**40%**	**10%**	**10%**	**10%**	**30%**	**0%**	

USI VEBA Trust
Sources of Growth
Market Values from December 31, 1995 through September 30, 2011



	Net Cash Flow	Gain/Loss	Incremental Gain/Loss Relative to: Balanced Index
Past Quarter	$100,287	($1,445,089)	($317,278)
Year-to-Date	$271,374	($801,538)	($250,081)
Past Year	$855,565	($79,891)	($281,266)
Past 3 Years	$3,079,442	$1,233,851	$96,573
Past 5 Years	$4,706,543	$1,218,379	$430,522
Past 10 Years	$8,081,016	$2,950,333	$525,803

Statement of Disclosures and Disclaimer

Privacy Disclosure Notice
While information is a very important aspect of our ability to provide superior service and advice, the foundation of our firm is our clients and the trust that they place in us. As a commitment to this foundation, keeping our client's information secure and using it only as our clients need us to, are top priorities at Fourth Street Performance Partners, Inc. ("FSPP").

Types of Information We Collect
We collect only the information necessary to consistently deliver responsive, high quality services and advice to our clients and to fulfill legal and regulatory requirements. In order to fulfill these obligations, we may collect nonpublic personal information about our clients from sources such as:

- Information regarding our clients' financial position, tax identification numbers, home, business or e-mail addresses of senior executive personnel, trustees, board members or other information provided on contracts, financial statements or applications or other means of communication provided by our clients to us;
- Information regarding our clients' assets or transactions with other investment advisors, custodial banks, FSPP, or other organizations.

Parties to Whom we Disclose Information
Access to client or former client information is strictly limited. FSPP shares nonpublic information solely to service our clients. We do not disclose any nonpublic, personal information about our clients or former clients to anyone, except as permitted by law.

We restrict access to nonpublic personal information about our clients to our employees who need to know that information in order to provide services to them. We further maintain physical, electronic and procedure safeguards to guard our clients' personal information.

Information Safeguarding
FSPP will internally safeguard our client's nonpublic personal information by restricting access to only those employees who provide advice or services to our clients or to those who need access to our clients' nonpublic personal information to service your relationship with us. In addition, we will maintain physical, electronic, and procedural safeguards that meet federal, and/or state standards to guard our clients' nonpublic personal information.

Disclosure of Notice of Availability of Form ADV- Part II
Form ADV- Part II is a legal disclosure document that provides information about business practices, fees and conflicts of interest an advisor may have with its clients. According to SEC Rule 204-3 of the Advisors Act, we are obligated to offer this document to all clients at least annually. If you wish to obtain a copy of FSPP's Form ADV – Part II, please do not hesitate to contact our office at 211 Garrard Street, Covington, KY 41011.

Disclaimer
The information contained in this analysis has been prepared by FSPP and is believed to be accurate based on the asset and transaction data reported to us by trustees, custodians and/or investment managers retained by the client. Calculations are subject to the accuracy of the source data provided and is not warranted to be accurate or complete. This analysis may contain returns and valuations for prior periods provided by other service providers of the client. FSPP assumes no responsibility for the accuracy of these valuations or return methodologies.

FOURTH STREET PERFORMANCE PARTNERS

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

1. UNIVERSITY CENTER EXPANSION PROJECT

Weddle Brothers Building Group, LLC - General Contractor

GC-098	Additional cost for the collection and disposal of construction debris from the site	$17,050