MINUTES

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

November 7, 2013

The University of Southern Indiana Board of Trustees met in regular session on Thursday, November 7, 2013, in Carter Hall in the University Center. Present were Chair Ted C. Ziemer Jr. and Trustees Brenden J. Davidson '15; John M. Dunn; Jeffrey L. Knight; and Kenneth L. Sendelweck '76. Trustees Ira G. Boots; W. Harold Calloway; Amy W. MacDonell; and Ronald D. Romain '73 were absent. Also in attendance were President Linda L. M. Bennett; Assistant Provost for Academic Affairs Shelly Blunt; Vice President for Finance and Administration Mark Rozewski; Vice President for Government and University Relations Cynthia S. Brinker; Faculty Senate Chair Mary Hallock Morris; and Student Government Association President Zachary Mathis.

Chair Ted Ziemer called the meeting to order at 10 a.m.

SECTION I – GENERAL AND ACADEMIC MATTERS

A. APPROVAL OF MINUTES OF SEPTEMBER 5, 2013, MEETING

On a motion by Mr. Knight, seconded by Mr. Sendelweck, the minutes of the September 5, 2013, Board of Trustees meeting were approved.

B. ESTABLISHMENT OF NEXT MEETING DATE, TIME, LOCATION

Mr. Ziemer called on Vice President Brinker, who announced the next scheduled meeting of the Board of Trustees will be Thursday, January 9, 2014, in Indianapolis.

C. APPROVAL OF NEW DEGREE PROGRAM: MASTER OF ARTS IN ENGLISH

Mr. Ziemer called on Assistant Provost Blunt to review the proposed new degree program described in Exhibit I-A, the Master of Arts in English.

The primary objectives of the proposed Master of Arts in English program are: to offer advanced studies in English for secondary education instructors to develop the credentials required to teach dual credit courses in high schools; to provide the opportunity for individuals in the region to develop the credentials required to teach in two- and four-year post-secondary institutions; and to enhance the credentials of professional writers in the area workforce (especially those in business, industry, and the non-profit sector) by providing advanced studies in writing and rhetoric.

The proposed program is comprised of 33 semester hours: 30 hours of coursework and three hours of a capstone experience.

It is recommended by the dean of the College of Liberal Arts and has been approved by the Graduate Council, the Academic Planning Council, the provost, and the president.

On a motion by Mr. Dunn, seconded by Mr. Knight, the Master of Arts in English, described in Exhibit I-A, was approved.

D. REVIEW OF THE ACADEMIC PROGRAM DEVELOPMENT PLAN

Mr. Ziemer called on Assistant Provost Blunt, who reviewed revisions to the New Program Development Plan in Exhibit I-B.

E. APPROVAL OF CANDIDATES FOR DEGREES

Mr. Ziemer called on Assistant Provost Blunt, who recommended approval of the candidates for degrees listed in Exhibit I-C.

On a motion by Mr. Sendelweck, seconded by Mr. Davidson, the award of degrees presented in Exhibit I-C, subject to the completion of all requirements, was approved.

F. PRESIDENT'S REPORT

President Bennett began her report by referring the Trustees to the *2013-2014 At a Gla*nce brochure found in their handout packets.

The president noted that today's agenda includes approval of candidates for degrees to be conferred during Commencement exercises on Saturday, December 14, 2013. She asked Vice President Brinker to review the schedule for Commencement. Ms. Brinker reported that over 550 students are eligible to participate in two ceremonies. The first ceremony will be held at 10 a.m., followed by lunch, and the second ceremony held at 1 p.m. She expressed appreciation for the Trustees' participation in Commencement. President Bennett recognized the work required of various University departments to make Commencement a special and meaningful day for graduates and their families.

President Bennett asked Professor Mary Hallock Morris, chair of Faculty Senate, for a report from the Senate. Professor Hallock Morris said the Senate will hear a presentation from Dean of Students Angela Batista on the University's Campus Action Response and Engagement of Students in Distress (C.A.R.E.) team at their next meeting. Dr. Hallock Morris noted the Senate has received charges relating to the purchase of Curriculog, a curriculum tracking program; the designation of areas of emphasis on transcripts; and per diem rates, salary compression, and the extension of probationary periods for tenure-track faculty members. Dr. Morris reported the Senate has voted the addition of two CORE 39 policies to the University Core Curriculum Implementation Task Force's Final Report.

The President called on Student Government Association President Zack Mathis for a report. Mr. Mathis began his report by noting SGA's funding procedures for student travel and organization support grants have been updated. The new funding procedures will provide opportunities to support additional student travel and organizations. He reported on the success of National Collegiate Alcohol Awareness Week in October. Attorney General Greg Zoeller and State Senator Jim Merritt spoke to students on campus about the Indiana Lifeline Law. Mr. Mathis was pleased to announce SGA membership was nearly full. He concluded by reporting SGA members will attend the Student Government Coalition Conference at Ball State University.

President Bennett referred the Trustees to a data dashboard titled *Student Profile: Fall 2013.* She noted the graduation rate increased, the retention rate has improved, and USI awarded a record number of degrees over the last three years. Overall enrollment has declined in the past two years and the administrative team is reviewing policies that have an impact on enrollment. She noted overall enrollment is a mixture of three important components: the size of the freshman class; the size of the graduating class; and the ability to retain students currently enrolled. Dr. Bennett pointed out the University has taken on the task of understanding the connection between the three components.

President Bennett introduced Dr. Anne Monroe, Executive Consultant with Noel-Levitz, a comprehensive higher education enrollment management firm, for a presentation. Dr. Monroe commended the University for being forward-thinking in anticipating future enrollment challenges. She discussed six trends impacting higher education enrollment over the next few years: slowing enrollment growth; demographic shifts; a changing economic model; the impact of technology on communicating with students; managing new learning modalities; and intensifying retention and completion pressures.

Dr. Monroe explained Noel Levitz's primary goal is to help the University achieve its enrollment goals by "design rather than by accident." She identified five key areas the Noel-Levitz team will address: recruitment strategy; retention strategy; website and search engine optimization (SEO); strategic enrollment planning; and predictive analytics. She outlined the tentative timeframe for the various partnership components, which continue through January 2016.

Dr. Monroe highlighted challenges the University must overcome to achieve the desired results: operating in an increasingly competitive marketplace; changing the public perception of USI to become a first choice institution; insufficient resources or internal policies that could hamper ability to fully implement some recommendations; need for niche or variety of programs for adult learners; lack of wider regional and national recognitions; and communicating outcomes more effectively to students and parents.

She noted the University has significant opportunities as well, including: strong institutional research assets to help in new market and program development; a young alumni base that can be engaged; a new commitment to marketing the University; a strong academic reputation in health professions and sciences; excellent facilities and space for growth; and affordability and value for education.

Dr. Monroe concluded by identifying the next steps the partnership will take: develop and agree on institutional enrollment goals – short and long term; enhance communication flow at all funnel stages; more coordinated efforts across student service and academic departments for recruitment and retention; improve web site and marketing strategy; and continue to utilize data to make informed and strategic decisions.

SECTION II – FINANCIAL MATTERS

A. REVIEW OF AUDITED FINANCIAL STATEMENTS

Mr. Ziemer called on Vice President Rozewski, who reported the financial statements summarized in Exhibit II-A have been approved by the Indiana State Board of Accounts. Mr. Rozewski introduced Assistant Vice President Steve Bridges for a report.

Mr. Bridges began with an overview of financial performance in 2012-2013 and discussed details in the Statement on Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. He shared a comparison of 2012 and 2013 in current assets and liabilities and explained changes in net assets during the year ending June 30, 2013. Mr. Bridges compared the percentage of change in revenue sources and expense purposes for the years 2009-2010 through 2012-2013.

He closed by concluding the University improved its financial position in fiscal year 2013 as revenue and expenses remained stable. He suggested the improvement is in part due to the University's pricing strategy that allows flexibility; being located in a state that had a surplus at the end of the year; and that Indiana is one of only nine states that has an AAA credit rating with all three credit agencies. Mr. Bridges projected that 2013-2014 will be another successful year for the University.

B. ANNUAL REPORT OF STUDENT FINANCIAL ASSISTANCE

Mr. Ziemer called on Vice President Rozewski, who introduced Director of Student Financial Assistance Mary Harper for a summary of the report in Exhibit II-B. Ms. Harper began by reporting the Student Financial Assistance office served 13,537 enrolled and prospective students in 2012-2013, and 8,578 students received a total of $78,511,394 in aid. She shared information about the sources of aid, including federal, state, institutional, USI Foundation, and USI Varsity Club. She reviewed changes in funding levels from 2011-2012 to 2012-2013, including a decrease in federal aid. She reported on changes in Pell Grants, Stafford Loans, and Indiana state aid programs.

Ms. Harper compared the national average undergraduate debt of $26,500 to the average of USI's Class of 2012, which was $20,647. She shared default rates for 2009, 2010, and 2011, and noted the USI student default rate is well below the state and national rates.

C. REPORT ON HEALTH INSURANCE RENEWAL

Mr. Ziemer called on Vice President Rozewski, who introduced Director of Human Resources Donna Evinger for a briefing on the renewal. Ms. Evinger reviewed the goals of the 2014 renewal, which were to use competitive bidding for medical, life, and disability plans with consultant assistance; to ensure competitive design and pricing; to achieve low to moderate medical cost increases and adapt to expected changes due to health care reform; to achieve the best possible renewal for long-term and short-term disability given high claims experience; and to review and optimize medical and disability plan design for improved future cost control while maintaining employee choice and competitive benefits.

Ms. Evinger discussed key outcomes of the renewal, including retention of the Anthem Cost Plus plan, which competitive bidding confirmed is the most cost effective option; a blended average increase of 2.1 percent with increases for employees depending on plan choice, coverage tier, and pay level; the addition of a new, second higher deductible consumer-driven health plan (CDHP2); freezing of the Buy-Up PPO plan to new enrollees for continued claims control; and continued 100 percent preventative coverage in all health plans and enhanced wellness coverage in both CDHP plans.

Ms. Evinger reported on plan design and contribution changes for 2014 including:

- Retaining Anthem Blue Cross/Blue Shield with a Cost Plus funding arrangement;
- Converting both PPO's to new product platform 7.0, which will allow more efficient claims processing, and a four-tier prescription plan; and
- Increasing maximum out-of-pocket costs in all plans consistent with medical inflation, health reform changes, and claim/premium cost control.

She reported the increased cost to the University in 2014 is $268,432 including increases/decreases in premiums in employee medical, dental, life, and long-term disability insurance plans.

D. APPROVAL OF AUTHORIZING RESOLUTION FOR RENOVATION OF THE LOWER LEVEL OF THE SCIENCE CENTER AND SELECTED AREAS OF THE TECHNOLOGY CENTER

Mr. Ziemer called on Vice President Rozewski, who reported the 2013 Indiana General Assembly appropriated $18 million in cash to the University of Southern Indiana to undertake three projects: renovation of the Biology Department in the Science Center; renovation of selected areas for the Art Department in the Technology Center; and renovation of selected areas and possible expansion of the Physical Activities Center. He reported the University would like to advance the Biology Department and Technology Center projects through the authorization process so construction can take place during summer 2014.

Mr. Rozewski recommended approval of the following resolution.

WHEREAS, the 2013 Indiana General Assembly appropriated $18 million in cash to the University of Southern Indiana to undertake three projects: renovation of the Biology Department in the lower level of the Science Center; renovation of selected areas for the Art Department in the Technology Center; and renovation of selected areas and possible expansion of the Physical Activities Center; and

WHEREAS, the University of Southern Indiana Board of Trustees wishes to proceed with the renovation of the Biology Department in the lower level of the Science Center and the renovation of selected areas for the Art Department in the Technology Center; and

WHEREAS, the University proposes project budgets of $1.25 million for the Science Center renovation and $750,000 for the Technology Center renovation; and

WHEREAS, approvals may be required between the regular meetings of the Board of Trustees;

NOW, THEREFORE, BE IT RESOLVED that the Board of Trustees authorizes the Finance/Audit Committee to approve design plans, cost estimates, and construction schedules; to review construction bids; to award contracts or reject any or all construction bids for the project; and to report the progress of the project to the Board of Trustees;

FURTHER RESOLVED, that the president of the University is authorized to request the Indiana Commission for Higher Education, the Indiana State Budget Committee, and the governor of the State of Indiana to approve the renovation projects.

Mr. Rozewski introduced Director of Facilities Operations and Planning Steve Helfrich who described details of the two projects for the Trustees.

On a motion by Mr. Dunn, seconded by Mr. Sendelweck, the authorizing resolution for renovation of the lower level of the Science Center and selected areas of the Technology Center <u>was approved</u>.

E. REVIEW OF CONSTRUCTION CHANGE ORDERS APPROVED BY THE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

Mr. Ziemer called on Vice President Rozewski, who reviewed the Summary of Construction Change Orders Authorized by the Vice President for Finance and Administration in Exhibit II-C.

F. UPDATE ON CURRENT CONSTRUCTION PROJECTS

Mr. Ziemer called on Vice President Rozewski, who introduced Director of Facilities Operations and Planning Steve Helfrich for a report on current construction projects. Exhibit II-D is a summary of the cost and funding sources for each project.

Mr. Helfrich reported construction of the Teaching Theatre continues to progress. Most exterior walls are covered with gypsum board and/or stone and brick. The roofing membrane system on the auditorium roof has been installed which should keep the building water tight so interior work can continue. In addition, the risers for the auditorium seating have been installed and the structural steel for the extensive system of catwalks is in place.

He reported the sandstone supplier was several months behind on delivery of stone to the site and the delay would impact the final completion date of the project. He reported that contractors, architects, and USI staff have been communicating with the supplier in hopes of speeding up delivery of the sandstone.

A second project under construction is the exterior stair painting at The Atheneum in New Harmony. The project includes sand blasting the stairs where they are rusting, replacing the stair treads that are too rusted to paint, and repainting the stairs and handrails.

Mr. Helfrich concluded his report by referring the Trustees to a list of projects in design.

SECTION III – PERSONNEL MATTERS

A. REPORT ON FACULTY AND ADMINISTRATIVE RETIREMENTS

Mr. Ziemer called on Assistant Provost Blunt, who reviewed the following retirement:

Director of Facilities Operations and Planning Stephen P. Helfrich, in accordance with the early retirement policy, will retire effective February 1, 2015, including leave with pay for the period August 1, 2014, through January 31, 2015. Retirement service pay based on 36.5 years of service to the University will be paid as of January 31, 2015.

B. APPROVAL OF EMERITUS STATUS

Mr. Ziemer called on Assistant Provost Blunt, who recommended approval of the following emeritus title. On a motion by Mr. Dunn, seconded by Mr. Knight, the following title was approved.

Director Emeritus of Facilities Operations and Planning Stephen P. Helfrich

There being no further business, the meeting was adjourned at 12:04 p.m.

Respectfully submitted,

Cynthia S. Brinker

Cynthia S. Brinker
Assistant Secretary

ABSTRACT

Master of Arts in English

To be offered by the University of Southern Indiana, Evansville, Indiana

Objectives:

The primary objectives of the proposed program are: to offer advanced studies in English for secondary education instructors to develop the credentials required to teach dual credit courses in high schools; to provide the opportunity for individuals in the region to develop the credentials required to teach in two- and four-year post-secondary institutions; and to enhance the credentials of professional writers in the area workforce (especially those in business, industry, and the non-profit sector) by providing advanced studies in writing and rhetoric.

Relation to Institution's Strategic and/or Academic Plan:

The proposed Master of Arts in English supports the University's strategic plan by filling a regional need and increasing the graduation rate by providing more flexible ways to earn a degree. The program will enable area professionals, especially teachers and writers, to benefit from the University's resources and earn advanced degrees.

The University recognizes the need among area professionals for easily accessible postgraduate options. The proposed program will serve inhabitants of the Evansville region, and will emphasize hybrid courses, combining classroom and online instruction, to enhance accessibility for all students.

Curriculum:

The proposed program in English is comprised of 33 semester hours: 30 hours of coursework and three hours of a capstone experience.

Employment Possibilities:

Information obtained from the U.S. Bureau of Labor Statistics and the Integrated Postsecondary Education Data System indicates that the workforce in jobs traditionally held by English graduates is underdeveloped in the state of Indiana. The categories designated by the Bureau of Labor Statistics as common options for English graduates are expected to see strong growth. These positions are editors, technical writers, writers and authors, public relations specialists, and postsecondary educators. Therefore, the proposed Master of Arts in English will benefit the Evansville Metro-Statistical Area, the region, and the state by providing opportunities for current and future members of the workforce to gain greater levels of expertise in fields that are projected to grow.

UNIVERSITY OF SOUTHERN INDIANA
New Program Development Plan

Revised by Academic Planning Council
October 28, 2013

Baccalaureate Degree	Master Degree	Doctorate Degree
2013-2015 Biennium		
Business/Engineering	English (MA)	Occupational Therapy
Civil Engineering	Food and Nutrition (Dietetics)	
Geography	Health Informatics	
Industrial Engineering	Human Performance	
Mechanical Engineering	Language Acquisition	
Respiratory Therapy	Special Education/Exceptional Needs	
	Sport Administration	
2015-2017 Biennium		
Electrical and Computer Engineering	Environmental Science	Pharmacy
Physics	Imaging Sciences	Physical Therapy
Statistics	Physician Assistant	
2017-2019 Biennium		
Manufacturing Engineering	Manufacturing Engineering (MSE)	

University of Southern Indiana
Fiscal Year Ended June 30, 2013

Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University during the fiscal year ended June 30, 2013, 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. During the 2013 fiscal year, the University implemented GASB 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This adoption has changed the reporting format of two derivative financial instruments held by the University and also required two statement name changes. The statement formally known as the statement of net assets has been replaced with the statement of net position. The statement of revenues, expenses, and changes in net assets is now known as the statement of revenues, expenses, and changes in net position.

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

Statement of Net Position

The Statement of Net Position presents the value of the assets, liabilities, and net position at the end of the fiscal year as well as deferred inflows of resources and deferred outflows of resources which affect the net position of the University. It is prepared under the accrual basis of accounting: revenues and expenses, and their impact on assets and liabilities, are recognized when service is provided or received by the University, regardless of when cash is exchanged. Assets and liabilities are classified as current (accessible or payable in one year or less) or non-current (accessible or payable beyond one year); invested in capital assets net of debt, restricted for specific purposes, or unrestricted.

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

STATEMENT OF NET POSITION **June 30** (in thousands)	**2013**	**2012**	**2011**
Current Assets	$58,438	$58,770	$61,564
Non-current Assets:			
Capital assets, net of depreciation	174,595	176,744	184,097
Other non-current	56,184	47,623	40,922
Total Assets	$289,217	$283,137	$286,583
Deferred Outflow of Resources	$2,084	$2,900	$1,857
Total Deferred Outflow of Resources	$2,084	$2,900	$1,857
Current Liabilities	$23,247	$23,786	$25,899
Non-current Liabilities	135,837	131,860	136,744
Total Liabilities	$159,084	$155,646	$162,643
Net Position:			
Invested in capital assets, net of debt	$45,158	$42,996	$40,675
Restricted - expendable	3,141	334	25
Unrestricted	83,918	87,061	85,097
Total Net Position	$132,217	$130,391	$125,797

Assets
Current assets at June 30, 2013, consist predominantly of cash and cash equivalents, short-term investments, receivables net of allowances for bad debt, and deposits with bond trustee. Also included are prepaid expenses, inventory, and accrued interest. Non-current assets include capital assets net of depreciation, long-term investments, and deposits with bond trustee. Both current and non-current assets include lesser-valued resources that are grouped together and listed under the term "Other".

Total assets increased $6.1 million (2.2 percent) in 2013 compared to a $2.4 million (.8 percent) decrease in 2012 and an $881,000 (.3 percent) decrease in 2011. The current year increase is explained by the following fiscal year events:

- Cash and cash equivalents valued at $7.8 million were replaced with longer term investments valued at $7.7 million reducing total assets by $100,000.
- Accounts receivable, although significant in amount at $9.3 million, remained flat compared to the prior year indicating stability with this asset category. Student receivables increased $857,000 in 2013 but were offset by a $923,000 reduction in external receivables.
- Deposit with bond trustee increased $9.1 million in 2013. This increase is a result of $12.3 million in Series K-1 Teaching Theatre construction project bond proceeds received in 2013 but not fully liquidated with project completion scheduled for the fall of 2014.

- Capital assets decreased by $2.1 million in fiscal year 2013. Net capital assets increased $9.5 million as described in Note 18 of the *Notes to Financial Statements.* The $9.5 million increase was offset by depreciation expense of $12.3 million and $681,000 in depreciation expense adjustments generating this decrease in net capital assets.
- Other current assets decreased $449,000 and other non-current assets decreased $263,000.

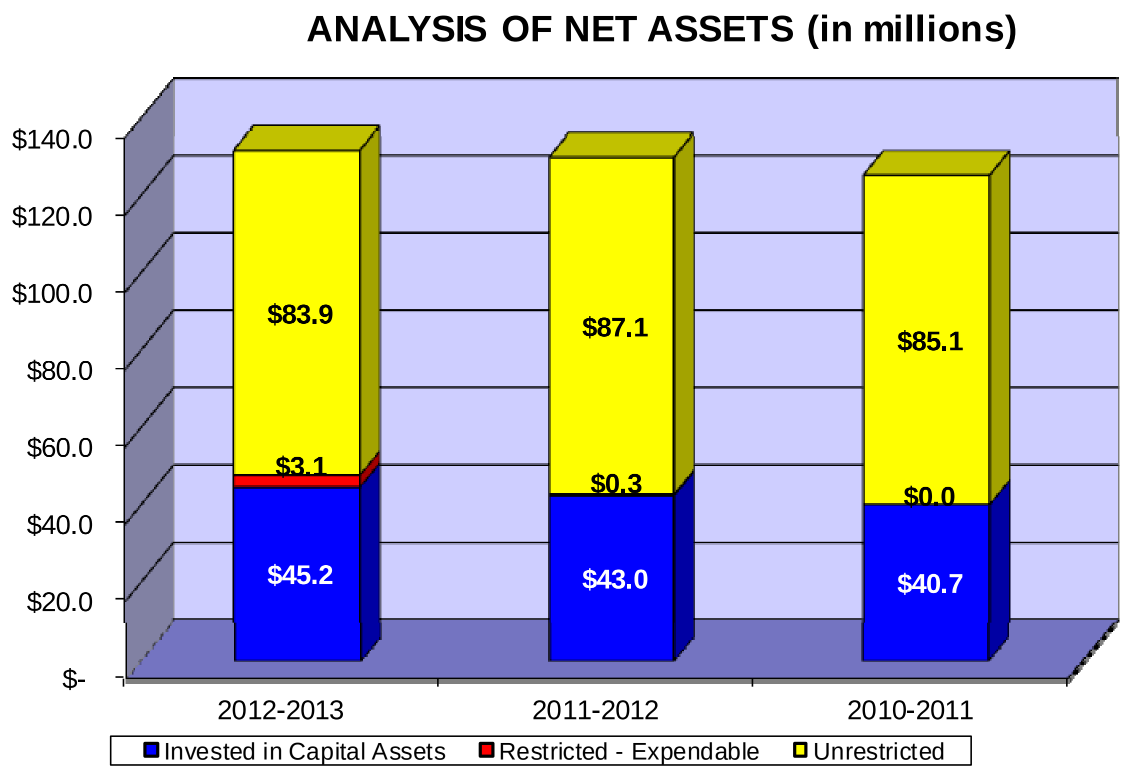
Deferred Outflow of Resources
Deferred outflow of resources related to Series 2006 and Series 2008A hedgeable financial derivatives are presented separately this year because of required reporting changes. These deferred outflows provide an accumulated fair market value valuation of the swaps as of June 30, 2013. The fair market value of the financial instruments decreased by $816,000 in 2013 compared to an increase of slightly more than $1 million in 2012. The change in value for 2013 indicates an improved swap position. Detailed information regarding these financial derivatives can be found in Note 5 of the *Notes to Financial Statements.*

Liabilities
Current liabilities at June 30, 2013, are primarily composed of accrued payroll related benefits and deductions along with 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-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 increased $3.4 million (2.2 percent) in 2013 compared to a decrease of $7 million (4.3 percent) in 2012 and a decrease of $6.4 million (3.8 percent) in 2011. Activities that influenced this change include the following:

- Accrued payroll, related benefits, and deductions decreased $475,000 in 2013 compared to a $67,827 increase in 2012 and an increase of $897,460 in 2011.
  - Benefit withholdings decreased $319,558 for the 2013 fiscal year.
  - Compensated absences decreased $136,769.
- The liability for post retirement benefits increased by $2.5 million in 2013.
- The 2013 net change to notes and bonds payable equals a $3.1 million increase.
  - Paying down the existing debt decreased bonds payable by $9.2 million.
  - Issuance of Series K-1 for $12.3 million used for the Teaching Theatre increased bonds payable.
  - See Note 6 in *Notes to Financial Statements* for more information on notes and bonds payable.

Net Position
Net Position at June 30, 2013, is $1.8 million greater than on June 30, 2012. Capital assets, net of related debt, increased $2.1 million; restricted expendable assets increased $2.8 million; and unrestricted assets decreased $3.1 million. Unrestricted assets equal $83.9 million and comprise 63 percent of total net position. Of the total unrestricted amount, $67.4 million has been internally designated as follows:

- $22 million reserve for equipment and facilities maintenance and replacement
- $15.8 million reserve for University benefits
- $12.3 million reserve for auxiliary systems
- $4.2 million reserve for working capital and outstanding encumbrances
- $6.9 million reserve for academic operations and initiatives
- $2.8 million reserve for insurance and equipment
- $3.4 million reserve for medical premiums



Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the fiscal year. This statement tells the reader to what extent the results of operations, non-operating revenues, and capital funding have had on the net position of the University.

Activities are reported as either operating or non-operating. Student fees and revenues from auxiliary enterprises are the major sources of operating income. Operating income is reduced by discounts and allowances for scholarships, room, and board. Discounts and allowances are institutional resources provided to students as financial aid up to and equal 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 Position **Year ended June 30** (in thousands)	**2013**	**2012**	**2011**
Total operating revenues	$75,853	$73,235	$69,622
Total operating expenses	(144,298)	(140,344)	(135,537)
Operating losses	(68,445)	(67,109)	(65,915)
Net non-operating revenues/(expenses)	69,687	71,322	69,049
Income/(expenses) before other revenues, expenses, gains, or losses	1,242	4,213	3,133
Capital gifts, grants, and appropriations	584	381	2,366
Increase (decrease) in net position	$1,826	$4,594	$5,499

Revenues
Operating revenues increased $2.6 million (3.6 percent) in 2013 compared to $3.6 million (5.2 percent) in 2012 and $2.9 million (4.4 percent) in 2011. The increases are explained by the following significant fiscal year activities:

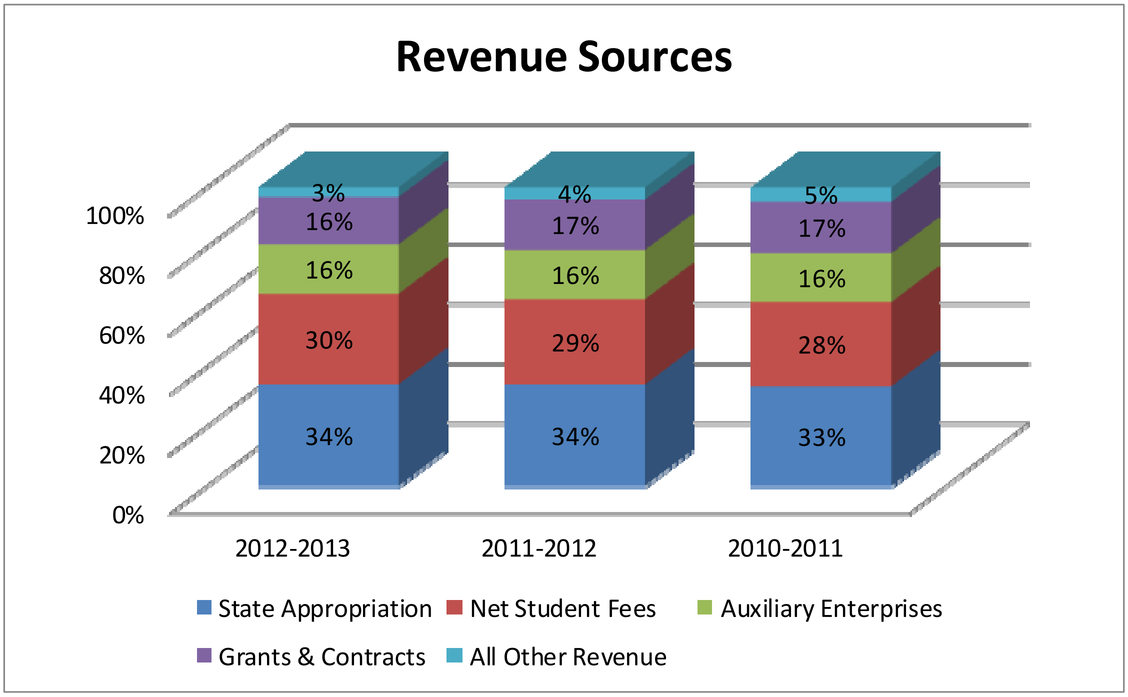
- Net student fee revenue increased from $43.3 million in 2012 to $46.4 million in 2013. This change was due principally to a fall and spring student fee increase of 5 percent netted against a summer 2013 tuition discount of approximately 20 percent and an enrollment decrease of 3 percent.
- Auxiliary income increased from $25 million in 2012 to $25.2 million in 2013. The increase stemmed from a 1.4 percent increase in housing and a 14.4 percent increase in parking income offset by a 3.5 percent decrease in dining revenues and a 7 percent decrease in bookstore revenues.
- Operating grants declined by $490,000 with federal operating grants accounting for $300,000 of the decline.
- Other operating revenue declined by $160,000.

Non-operating revenues experienced a decrease of 2.2 percent for the fiscal year ended June 30, 2013, compared to a 2.6 percent increase in 2012.

- State appropriations increased .75 percent from $51.6 million in 2012 to $51.9 million in 2013. The increase in operating funding resulted from the University's performance related to the State of Indiana funding model that now uses performance metrics to determine funding levels.
- Federal grants and contracts decreased $1.1 million (7 percent) compared to a decrease of $1 million (6.5 percent) in 2012. Federal student financial assistance accounted for the decrease.
- Investment income increased by $100,000 in 2013 but unrealized losses based upon current market values increased $1.3 million. Although this loss will occur only if the

investments are sold before maturity, accounting standards require this valuation and result in an investment income loss of $487,000.

Total revenues (operating, non-operating, and other) increased $1.2 million in fiscal year 2013. The graph below shows the composition of the University's revenue for fiscal years 2011-2013:



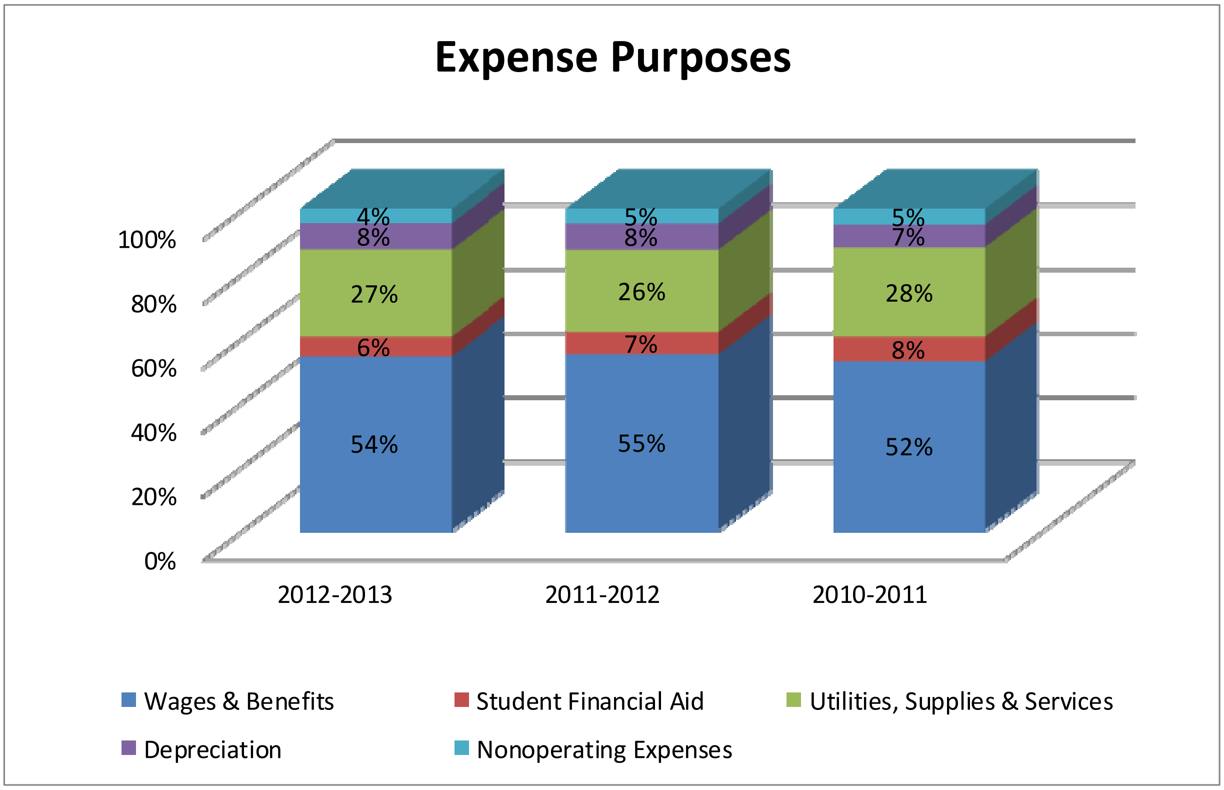
Expenses
Operating expenses increased $4 million (2.8 percent) this fiscal year compared to a $4.8 million (3.6 percent) increase in 2012. The growth in operating expenses was driven by increases in salaries and benefits and supplies and other services. Changes in expense categories were as follows:

- Compensation (salaries, wages, and benefits) comprised 56.5 percent of total operating expenses and increased 1.5 percent over 2012. Salaries and wages increased $378,000 and benefit expenses increased $1.2 million.
- Student financial aid decreased by $1.1 million for a 10.2 percent decrease. Federal aid decreased by $1 million, non-employee remitted fees increased by $311,000, and state financial aid increased $300,000.
- Supplies and other services expense increased by $3.8 million (11.8 percent) in 2013 compared to $2.3 million (6.6 percent) decrease in 2012. Increases were predominantly in the area of capital outlay including an increase in capital and non-capital equipment expense of $2.2 million with other expense classifications remaining flat or slightly below 2012 levels.

- Depreciation increased $397,000 or 3.3 percent, in fiscal year 2013 compared to an increase of $1.9 million, or 18.7 percent, in fiscal year 2012.

Non-operating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures decreased $2,000 this year compared to a decrease of $257,000 in 2012. The change in fiscal year 2013 resulted from less interest on capital debt expense and increased bond issuance costs associated with the Series K bond issues.

Total expenses (operating and non-operating) increased $3.4 million in fiscal year 2013 compared to a $4.5 million increase in 2012 and an $8.1 million increase in 2011. The composition of total expenses for all three years is depicted by major categories in the graph below:



Change in Net Position
The difference between annual revenues and expenses causes an increase or decrease to net position. For fiscal year ending June 30, 2013, net position increased $1.8 million compared to a $4.6 million increase for fiscal year ending June 30, 2012. Total revenues increased more than total expenses during fiscal year 2013.

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 2011-2013:

STATEMENT OF CASH FLOWS **Year ended June 30** (in thousands)	**2013**	**2012**	**2011**
Net cash (used) provided by			
Operating activities	($53,418)	($53,906)	($53,865)
Noncapital financing activities	76,693	77,260	75,583
Capital financing activities	(23,010)	(20,723)	(27,163)
Investing activities	(6,693)	(9,132)	33,345
Net increase (decrease) in cash	$(6,428)	$(6,501)	$27,900

Operating activities
- Cash used by operating activities decreased $488,000 in 2013 compared to a $41,406 increase from 2011 to 2012.
- 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 decreased $567,000 in 2013 compared to a $1.7 million increase from 2011 to 2012.
- State appropriations provided the largest cash inflow in all fiscal years.

Capital financing activities
- Cash used by capital financing activities increased $2.3 million in 2013 compared to a $6.1 million decrease in 2012.
- Proceeds from refunding Series H and Series I along with the issuance of Series K-1 generated the largest cash inflow in 2013; proceeds from refunding Series 2001A generated the largest cash inflow in 2012; capital gifts and grants generated the largest cash inflow in 2011.
- Principal and interest paid on capital debt generated the largest cash outflow in 2013 and 2012 while purchases of capital assets generated the largest cash outflow in 2011.

Investing activities
- Cash used by investing activities decreased $2.4 million during 2013 compared to a $42.2 million increase in 2012. The 2012 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 $2.9 million in 2013 compared to a $4.5 million decrease in 2012.
- Cash used for purchases of investments decreased $5.1 million in 2013 following a $10.3 million increase from 2011 to 2012.

Summary of Statement of Cash Flows
For the year ended June 30, 2013, less cash was used for operating activities, less cash was provided by noncapital financing activities, more cash was used by capital financing activities, and less cash was used by investing activities than in the previous fiscal year. As a result of these activities, the University decreased its cash position by $6.4 million, ending the fiscal year with a cash balance of $24.8 million.

Factors Impacting Future Periods

The outlook for the University of Southern Indiana remains very positive. As an institution generating revenues exceeding expenditures, with no deferred maintenance, a pricing strategy allowing flexibility, and located in a state that ended the year with another budget surplus, a favorable outlook is easily formed. The State of Indiana currently has received the highest credit rating possible, AAA, from all three credit rating agencies. Indiana is one of only nine states to receive this distinction and provides the University with over 30 percent of its funding annually. USI currently carries an A1 rating on student fee debt an A2 rate on auxiliary system debt from Moody's Investors Service with a favorable outlook.

The 2013 Indiana General Assembly continued to invest in the University reaffirming that the mission and results are well received within the State. For the 2013 -15 Biennial Budget, the University received a 5.1 percent increase in operating appropriation over fiscal year 2013. The University is one of only two eligible institutions in the State to receive funding in each of the performance funding metrics used to calculate appropriations. In addition, two new line items in the University’s budget included $274,000 for dual credit priority courses and a $2 million recognition of the need for increased full-time faculty. The State also provided $1,367,926 in general repair and rehabilitation of plant and $18 million in cash appropriated over the biennium for a series of classroom renovation and expansion projects.

The 2014 fiscal year begins with a $50 million capital campaign by the University of Southern Indiana Foundation entering its public phase. The campaign has already raised nearly $34 million of that goal. This once-ambitious goal appears to be very obtainable by the December 2015 target date. Plans are in the early design phase for a donor-funded conference center and a donor-funded visitor center on campus, both a result of the campaign. The campaign also focuses on student scholarships and scholarly funds for faculty that will benefit prospective students and academic endeavors for years to come.

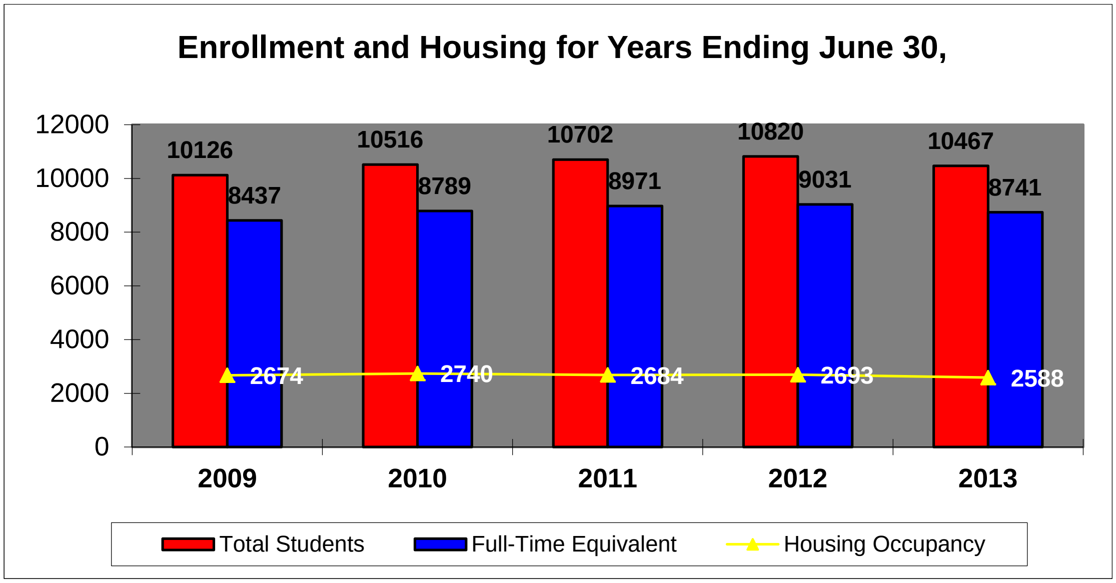
Two upcoming physical changes to campus will strengthen the academic mission and add to an already state of the art campus. The fall of 2013 semester began with the opening of a 16,000 square foot Applied Engineering Center that will prepare students with specific work knowledge before they enter the workforce. This application-based learning will provide USI engineering graduates with unique, specialized knowledge when competing with other graduates for similar jobs. The opening of a 300-seat Teaching Theatre will add a unique structure to an already stunning campus, benefiting students with a desire to learn theatre in a one-of-a-kind venue. The Teaching Theatre is another initiative that benefits the University and the community in a manner consistent with our Carnegie Engaged University distinction.

The University continues to monitor healthcare costs, and expects that this year's expense will be manageable within the current budget. In addition, the University has begun a process, expected to conclude in early 2014 that will reduce employer contributions to the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) for new employees, and end the existing post-retirement health care benefit for new employees. Additionally, new support staff will likely no longer be placed in the Public Employees' Retirement Fund (PERF) of the State of Indiana. A yet to be identified private sector vendor will be engaged to provide a platform for that benefit.

USI maintains its reputation as a great value in higher education. The University's market position, value, quality, and pricing has helped to broaden the catchment area for prospective students while increasing student quality during a period of challenging economic times. The fall 2013 entering class, although smaller in number than its preceding class, is by far the strongest academic class in the history of the University in terms of entering grade point average and test scores. The University has engaged the services of a nationally renowned recruitment firm to modernize recruitment and retention efforts and to assist the University in identifying new student markets. The position of the University as it nears 50 years in business makes this the ideal time to review and evaluate recruitment and retention.

The 2013-2014 student fee rates were the first step in a strategic fee realignment process that will take place over the next six years. Its purpose is to increase University of Southern Indiana tuition to the average tuition of a group of 10 state universities composed of Indiana State University and the regional campuses of Indiana University and Purdue University. Fee increases will be subject to the fee environment among the group of universities and the level of State support for USI. The plan will contribute to the development of a resource base that allows the University to move forward while maintaining the affordability that is an important part of its mission. Program fees recognizing the University's cost of delivering specialized programs will be effective in July 2014. The program fees will supplement base tuition in areas such as engineering, undergraduate and graduate nursing, and graduate occupational therapy, and will be used to meet program costs and support hiring faculty in these high demand high cost programs. New faculty hires enabled by the fee income will allow increased student admissions within stringent program accreditation student faculty ratios.

The University of Southern Indiana is maturing. Its rate of growth is leveling, as it continues to develop as a residential campus and gains prominence not only locally and regionally but also nationally and internationally. Total enrollment for academic years ending 2009 through 2013 reflects an increase of 3.4 percent; full-time equivalents for the same period increased 3.6 percent. Full-time students represent 84 percent of the total student population. Housing occupancy has been consistently well in excess of 90 percent the past five-year period, and was 91 percent on the first day of classes in the current year. The following graph illustrates enrollment and housing occupancy for the five-year period 2009 to 2013.


Enrollment and Housing for Years Ending June 30,
12000
10000
8000
6000
4000
2000
0
10126
8437
2674
10516
8789
2740
10702
8971
2684
10820
9031
2693
10467
8741
2588
2009
2010
2011
2012
2013
Total Students
Full-Time Equivalent
Housing Occupancy

UNIVERSITY OF SOUTHERN INDIANA
Statement of Net Position
June 30, 2013 and 2012

	2013	2012 Reclass*
ASSETS		
Current Assets		
Cash and cash equivalents	$ 24,762,134	$ 31,190,213
Short-term investments	14,327,480	15,656,177
Accounts receivable	9,250,324	9,317,060
Inventories	1,223,497	1,195,013
Deposit with bond trustee	7,969,594	54,642
Other current assets	904,665	1,357,146
Total current assets	$ 58,437,694	$ 58,770,251
Noncurrent Assets		
Long-term investments	$ 54,644,883	$ 46,972,627
Deposit with bond trustee	1,451,649	300,000
Capital assets, net	174,595,186	176,744,006
Other noncurrent assets	88,029	350,639
Total noncurrent assets	$ 230,779,747	$ 224,367,272
Total Assets	**$ 289,217,441**	**$ 283,137,523**
DEFERRED OUTFLOW OF RESOURCES		
Hedging derivative instruments	$ 2,084,296	$ 2,899,717
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,742,335	$ 1,615,771
Accrued payroll, benefits, and deductions	6,239,741	6,715,057
Notes and bonds payable	11,403,825	10,709,160
Debt interest payable	1,600,785	1,991,121
Deferred revenue	1,569,188	1,936,808
Other current liabilities	691,513	818,339
Total current liabilities	$ 23,247,387	$ 23,786,256
Noncurrent Liabilities		
Notes and bonds payable	$ 122,702,673	$ 120,301,498
Unamortized bond premium	756,447	1,082,867
Derivative instruments-interest rate swap	2,084,296	2,899,717
Other postemployment benefits	7,767,094	5,285,749
Compensated absences and termination benefits	2,485,485	2,253,827
Other noncurrent liabilities	40,978	36,357
Total noncurrent liabilities	$ 135,836,973	$ 131,860,015
Total Liabilities	**$ 159,084,360**	**$ 155,646,271**
NET POSITION		
Invested in capital assets, net of related debt	$ 45,158,020	$ 42,995,532
Restricted		
Expendable		
Capital Project	2,930,199	-
Debt Service	123,383	300,000
Scholarship, research, and other	87,468	34,233
Unrestricted	83,918,307	87,061,204
Total Net Position	**$ 132,217,377**	**$ 130,390,969**

*See Note 19 in the Notes to Financial Statements

UNIVERSITY OF SOUTHERN INDIANA
Statement of Revenue, Expenses, and Change in Net Position
Years ended June 30, 2013 and 2012

	2013	2012
REVENUES		
Operating Revenues		
Student fees	$ 65,572,346	$ 62,043,693
Scholarship discounts and allowances	(19,204,530)	(18,704,782)
Grants and contracts	1,691,211	2,180,821
Auxiliary enterprises	25,232,231	25,412,932
Room & board discounts and allowances	(35,042)	(453,303)
Other operating revenues	2,596,422	2,755,407
Total operating revenues	$ 75,852,638	$ 73,234,768
EXPENSES		
Operating Expenses		
Compensation:		
Salaries and Wages	$ 55,764,457	$ 55,386,900
Benefits	21,490,288	20,642,206
Other postemployment benefits	4,331,266	4,345,355
Student financial aid	9,287,177	10,343,969
Utilities	5,394,878	5,754,420
Supplies and other services	35,659,396	31,897,994
Depreciation	12,369,911	11,973,251
Total operating expenses	$ 144,297,373	$ 140,344,095
Operating loss	$ (68,444,735)	$ (67,109,327)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$ 51,964,674	$ 51,578,673
Gifts	2,280,567	2,278,671
Federal grants and contracts	14,014,945	15,072,366
State and local grants and contracts	8,346,915	8,060,351
Nongovernmental grants and contracts	283,283	287,313
Investment income (net of investment expense of $64,399 and $58,208 for 2013 and 2012)	(486,512)	763,322
Interest on capital asset-related debt	(6,353,071)	(6,652,700)
Other non-operating expenses	(363,736)	(66,139)
Net non-operating revenues	$ 69,687,065	$ 71,321,857
Income before other revenues, expenses, gains, or losses	$ 1,242,330	$ 4,212,530
Capital grants and gifts	$ 584,078	$ 381,172
Increase in net position	$ 1,826,408	$ 4,593,702
NET POSITION		
Net position – beginning of year	$ 130,390,969	$ 125,797,267
Net position – end of year	**$ 132,217,377**	**$ 130,390,969**

UNIVERSITY OF SOUTHERN INDIANA
Statement of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Tuition and fees	$ 45,939,078	$ 42,679,127
Grants and contracts	2,356,718	1,988,308
Payments to suppliers	(35,490,878)	(31,725,086)
Payments for utilities	(5,394,878)	(5,754,420)
Payments to employees	(55,787,273)	(55,651,416)
Payments for benefits	(23,561,050)	(22,855,584)
Payments for scholarships	(9,287,177)	(10,343,969)
Loans issued to students	(232,502)	(479,097)
Collection of loans to students	235,739	476,925
Auxiliary enterprises receipts	24,993,160	24,995,408
Sales and services of educational depts.	818,660	354,718
Other receipts (payments)	1,992,542	2,408,834
Net cash used by operating activities	**$ (53,417,861)**	**$ (53,906,252)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$ 51,964,674	$ 51,578,673
Gifts and grants for other than capital purposes	24,925,711	25,698,702
Other non-operating receipts (payments)	(197,265)	(16,306)
Net cash provided by noncapital financing activities	**$ 76,693,120**	**$ 77,261,069**
Cash Flows from Capital Financing Activities		
Proceeds from capital debt	$ 58,685,000	$ 11,550,000
Capital grants and gifts	615,610	298,827
Bond financing costs	(363,738)	(66,141)
Purchase of capital assets	(10,221,091)	(4,620,255)
Principal paid on capital debt	(55,589,160)	(20,943,392)
Interest paid on capital debt and leases	(7,069,826)	(6,942,106)
Deposit with trustee	(9,066,602)	-
Net cash provided by capital financing activities	**$ (23,009,807)**	**$ (20,723,067)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	$ 31,380,303	$ 34,272,218
Interest on investments	1,131,262	893,340
Purchase of investments	(39,205,096)	(44,295,573)
Change in deposit with trustee	-	(2,263)
Net cash used by investing activities	**$ (6,693,531)**	**$ (9,132,278)**
Net increase (decrease) in cash	$ (6,428,079)	$ (6,500,528)
Cash – beginning of year	31,190,213	37,690,741
Cash – end of year	**$ 24,762,134**	**$ 31,190,213**

UNIVERSITY OF SOUTHERN INDIANA
Statement of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating loss	$ (68,444,735)	$ (67,109,327)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	12,369,911	11,973,251
Provision for uncollectible accounts	37,571	31,023
Changes in assets and liabilities:		
Receivables	29,166	(1,146,266)
Inventories	(28,484)	264,167
Other assets	543,782	422,760
Accounts payable	(278,313)	(26,438)
Deferred revenue	(367,020)	(108,623)
Deposits held for others	4,620	(7,266)
Employee and retiree benefits	2,713,004	1,802,640
Loans to students	3,237	(2,173)
Net cash used by operating activities:	**$ (53,417,861)**	**$ (53,906,252)**

	2013	2012
Noncash Transactions		
Unrealized gain/(loss) on short-term investments	$ 12,977	$ (51,501)
Unrealized gain/(loss) on long-term investments	(1,455,175)	90,537
Bonds payable – LT and ST Series 2001A	-	1,406,674
Bonds payable – LT and ST Series 2011A	-	(1,406,674)
Bonds payable – LT and ST Series H and I	10,956,355	-
Bonds payable – LT and ST Series K	(10,956,335)	-
Net noncash transactions	**($ 1,422,198)**	**$ 39,036**

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

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

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

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

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

following criteria:

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

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

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

Capital assets are removed from the records at the time of disposal. See Note 18 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, 2013.

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 $2,139,423. 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, 2013.

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, 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, 2013, the USI Foundation distributed $2,481,972 in direct and indirect support to the University for both restricted and unrestricted purposes.

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

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

NOTE 3 – 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, 2013, the bank balances of the University's operating demand deposit accounts were $22,902,852, of which $388,033 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, 2013, 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	$2,776,680	3%	$2,776,680			
Repurchase agreements	21,985,454	24%	21,985,454			
Certificates of deposit	22,658,876	24%	10,294,130	12,012,955	351,790	
U S Treasury & agency securities	46,313,487	49%	4,033,349	8,697,896	30,262,472	3,319,771
Totals	**$93,734,496**	100%	**$39,089,613**	**$20,710,851**	**$30,614,261**	**$3,319,771**
Maturity %	100%		42%	22%	33%	3%

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 $93.7 million invested, $46.3 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 $21.9 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 42 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, $44.2 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, 2013, the University was in compliance with that policy.

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 $640,277 and auxiliary services fees of $313,306. Prior-year allowances were $589,765 for student fee receivables and $295,224 for auxiliary services receivables. The accounts receivable balance for the 2012-13 fiscal year includes $5,850,577 in net student receivables and $3,399,747 in external receivables.

NOTE 5 – Derivative Instruments

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2013, classified by type and the fair value changes of those derivative instruments are as follows:

		Change in Fair Value		Fair Value at June 30, 2013	
Derivative Instrument	**Type**	**Amount**	**Classification**	**Amount**	**Current Notional**
Series 2006	Cash flow hedge: Pay-fixed interest rate swap	$391,053	Derivative Instrument Interest Rate Swap	$(1,018,587)	$5,933,621
Series 2008A	Cash flow hedge: Pay-fixed interest rate swap	$424,368	Derivative Instrument Interest Rate Swap	$(1,065,709)	$8,850,000

As of June 30, 2013, 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, 2013, 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	$5,933,621	1/01/2008	1/01/2028	65% of 3 mo. USD-LIBOR-BBA	A2
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2008 Bonds	$8,850,000	7/01/2008	10/01/2021	65% of 3 mo. USD-LIBOR-BBA w/- 1 day look back, 79.0 bps	A2

Credit Risk —The fair value of the hedging derivative instruments is in a liability position as of June 30, 2013, with Series 2006 having a balance of $1,018,587 and Series 2008A having a balance of $1,065,709. 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, 2013, total $134,106,498 and are identified in the following schedule.

SCHEDULE OF BONDS AND NOTES PAYABLE	Issue Date	Interest Rate	Current Year Rate	Maturity Date	Original Issue Amount	June 30, 2013 Principal Outstanding	Interest Outstanding	Total Outstanding
Student Fee Bonds								
Series D, Health Professions Center	1993	2.25% to 5.80%	5.80%	2015	$24,678,101	$752,878	$1,752,122	**$2,505,000**
Series F, Liberal Arts Center	1998	3.55% to 5.50%	5.50%	2013	15,280,000	335,000	9,213	**344,213**
Series G, Recreation & Fitness Center	1999	0.00% to 10.00%*	0.25%	2019	4,700,000	2,300,000	16,490	**2,316,490**
Series 2006, Recreation & Fitness Center	2006	4.67%	4.67%	2028	7,250,000	5,933,620	2,305,710	**8,239,330**
Series J, Business and Engineering Center	2009	2.50% to 5.00%	4.00%	2028	50,185,000	43,455,000	20,678,392	**64,133,392**
Series K-1, Teaching Theatre	2012	2.00% to 4.00%	2.00%	2032	12,300,000	11,360,000	4,959,725	**16,319,725**
Series K-2, Refund Series I	2012	1.25%	1.25%	2015	3,545,000	3,545,000	66,719	**3,611,719**
Series K-3, Refund Series H and I	2012	1.90%	1.90%	2023	42,840,000	42,840,000	4,287,730	**47,127,730**
Auxiliary System Bonds								
Series 2003, Student Housing Facilities	2003	3.00% to 4.50%	3.65%	2024	8,005,000	5,495,000	1,541,728	**7,036,728**
Series 2008A, Student Housing Facilities	2008	3.97%	3.97%	2021	9,800,000	8,850,000	2,452,468	**11,302,468**
Series 2011A, Student Housing Facilities	2011	1.63%	1.63%	2016	11,550,000	9,240,000	301,224	**9,541,224**
Total					**$190,133,101**	**$134,106,498**	**$38,371,521**	**$172,478,019**

*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 J of 2009, and Series K-1, K-2, and K-3 of 2012 are secured by a pledge and first lien on student fees. Student Fee Bonds Series 2006 are secured by a pledge and junior lien on student fees.

The University of Southern Indiana Auxiliary System Revenue Bonds, Series 2003; Auxiliary System Revenue Bonds, Series 2008A; and Auxiliary System Revenue Bonds, Series 2011A 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 .17 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
2013-14	11,403,824		11,403,824	4,909,303	16,313,127
2014-15	11,267,567		11,267,567	4,645,234	15,912,801
2015-16	11,552,766		11,552,766	4,389,590	15,942,356
2016-17	10,360,798		10,360,798	3,521,175	13,881,973
2017-18	8,261,281		8,261,281	3,275,551	11,536,832
2018-23	48,115,203		48,115,203	12,141,467	60,256,670
2023-28	25,550,059		25,550,059	4,995,220	30,545,279
2028-33	7,595,000		7,595,000	493,981	8,088,981
Total	**$ 134,106,498**	**$0**	**$ 134,106,498**	**$ 38,371,521**	**$ 172,478,019**

NOTE 7 – Series K-1 Bond Issue
On October 25, 2012, the University of Southern Indiana issued $12,300,000 in student fee revenue Series K-1 bonds with an all-inclusive cost interest rate of 3.19 percent. Net proceeds from the bond issue, after payment of issuance cost and utilization of the reoffering premium, are to be used to in part fund the construction of a $16.5 million Teaching Theatre. In addition to the bond proceeds, $1.5 million in University resources and $2 million in private gifts will fund the remaining balance of the project. Level debt service payments of $800,000 are scheduled through October 2032.

NOTE 8 – 2013 Refunding Bond Issue
On October 25, 2012, the University of Southern Indiana issued $46,385,000 in Series K-2 and Series K-3 student fee bonds with an average interest rate of 1.76 percent to advance refund $46,385,000 of outstanding fixed rate Series H and Series I student fee bonds with an average interest rate of 5.19 percent. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series H and Series I bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. The refunding resulted in an accounting gain of $1,082,862. The University of Southern Indiana in effect reduced its aggregate debt service payment by $10,956,335 over the next 12 years and realized an economic gain (difference between the present values of the old and new debt service payments) of $10,349,886.

NOTE 9 – Operating Leases
For the fiscal year ended June 30, 2013, the University spent $429,373 on operating leases. These leases are included in supplies and other services on the Statement of Revenue, Expenses, and Changes in Net Position. The University expended $115,645 to lease off-campus facilities, $258,256 for equipment, $52,247 for vehicle leases, and $3,225 for an art exhibit.

NOTE 10 - 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 $2,313,740 and $2,199,096 for June 30, 2013 and 2012, respectively. The current year change represents a $73,549 increase in accrued vacation; a $19,852 increase in sick leave liability; a $7,125 increase in Social Security and Medicare taxes; and a $14,098 increase in Public Employees' Retirement Fund (PERF) contributions. During the fiscal year, $177,403 was paid out to terminating employees. Payout for terminating employees in fiscal year 2012-13 is expected to increase approximately 64 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $290,032 of the total compensated absence liability is classified as a current liability and the remaining $2,023,708 is classified as a noncurrent liability.

NOTE 11 – 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 1.3 percent annually for purposes of calculating this liability.

USI has 28 retirees currently receiving early-retirement benefits, nine of whose benefits stop after this fiscal year, and nine more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $774,228 at June 30, 2013. Of that amount, $312,450 is expected to be paid out during the following fiscal year, and the remaining $461,777 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

NOTE 12 - 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 $6,201,296 to these programs in fiscal year 2012-13, which represents approximately 11 percent of the total University payroll and 13.5 percent of the benefit-eligible employees' payroll for the same period.

Faculty and Administrative Staff   Eligible employees may participate in the TIAA-CREF Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA-CREF, or another university-sponsored retirement plan, for at least one year prior to eligible employment at USI. The University contributes 11 percent of each participating employee's base appointment salary up to $10,800 and 15 percent of the base appointment salary above $10,800. The University contributed $4,982,448 to this plan for 605 participating employees for fiscal year ending June 30, 2013 and $4,932,330 for 601 participating employees for fiscal year ending June 30, 2012. The annual payroll for this group totaled $36,395,954 and $35,954,661 for fiscal years ending June 30, 2013 and 2012 respectively.

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

Support Staff   Employees in eligible positions and who work at least half-time participate in PERF, a retirement program administered by 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 9.7 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 $1,213,808 for 421 employees participating in PERF during the 2012-13 fiscal year and $1,094,090 for 416 employees participating during 2011-12.

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)
2010	6,179	9,174	2,995	67.4%	8,912	33.6%
2011	5,307	9,399	4,092	56.5%	8,980	45.6%
2012	5,222	11,030	5,807	47.3%	9,432	61.6%

PERF – Development of Net Pension Obligation

	2010	*2011*	*2012*
Annual Required Contribution (ARC) *	$590,297	$877,375	$912,708
Interest on Net Pension Obligation @ 7%	(41,645)	(38,109)	(18,868)
Adjustments to ARC **	47,457	43,873	21,721
Annual Pension Cost (APC)	596,110	883,139	915,561
Contributions made by USI ***	566,123	608,260	762,856
Change in Net Pension Obligation	29,987	274,879	152,705
Net Pension Obligation, Beginning of Year	(574,408)	(544,421)	(269,542)
Net Pension Obligation, End of Year	**($544,421)**	**($269.542)**	**($116,837)**

* Pro rata portion of total ARC for State.
** Net Pension Obligation at beginning of year divided by amortization factor of 12.1037 for 2010 and 12.409 for 2011 and 2012.
*** Percentage of APC contributed: 2010 at 95%; 2011 at 69%; 2012 at 83%.

The required contribution was determined as part of the actuarial valuation as of June 30, 2011, using the Entry Age Normal Cost Method. The actuarial assumptions included: (a) 6.75 percent investment rate of return (b) projected salary increases of 3.25 percent to 4.5 percent; and (c) annual cost-of-living adjustments of 1 percent.

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 13 – 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. There is a minimum deductible of $100,000 for earthquake and $50,000 for flood for each loss. Educators' legal liability has a $50,000 deductible for each wrongful acts claim. General liability, commercial crime, workers' compensation, commercial auto, and medical malpractice, as well as life and disability insurance, are insured by commercial insurance subject to various deductibles. No liability exists at the balance sheet date for unpaid claims.

The University has three health care plans for full-time benefit-eligible employees, two of which are available to retirees. All of the plans are funded under a cost-plus arrangement whereby the University is billed for actual claims paid by the insurer on behalf of the covered participants plus administrative fees. Retirees and the majority of employees, 80 percent, participate in the fully-funded cost-plus plan. For fiscal year ended on June 30, 2013, the University's contribution to these health care plans totaled $9,696,064 for 1,073 employees and $1,307,830 for 314 retirees. For the same period, employees and retirees made contributions totaling $2,535,050 and $433,481 respectively.

The University assumes the risk for medical claims exceeding the maximum expected cost but has mitigated the additional risk by purchasing specific stop loss coverage for individual claims over $225,000. The University also has established a reserve to cover any unpaid aggregate liability beyond

125 percent of expected claims. The liability for medical claims incurred but not reported at June 30, 2013, 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 2013 fiscal year are as follows:

Beginning liability, June 30, 2012	$2,715,565
Claims incurred	9,808,407
Claims paid	(9,798,519)
Ending liability, June 30, 2013	$2,725,453

NOTE 14 - 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, 2013, is as follows:

VEBA TRUST	MARKET
Fund balance at July 1, 2012	$14,119,403
Transfer from University reserves	150,000
Employee/employer contributions	114,142
Retiree/employer contributions	18,646
Reinvested net earnings	321,152
Net gain/(loss) on sales of trust investments	62,051
Less: Management fees and taxes	(42,996)
Net change in market value	1,462,171
Fund balance at June 30, 2013	**$16,204,569**

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 15 - 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, Evansville, IN 47708, or by calling (800) 731-2265.

Funding Policy. The contribution requirements are established and may be amended by the USI Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For the fiscal year ended June 30, 2013, USI contributed $1,849,922 to the plan, including $1,699,922 for current premiums (approximately 80 percent of total premiums), and $150,000 to prefund benefits. Plan members receiving benefits contributed $434,835, or approximately 20 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:

	2011	2012	2013
Annual required contribution	$3,243,885	$4,379,913	$4,379,913
Interest on net OPEB obligation	123,977	178,983	306,573
Adjustment to annual required contribution	(170,619)	(213,541)	(355,220)
Annual OPEB cost	3,197,243	4,345,355	4,331,266
Contributions made	(1,882,421)	(2,145,520)	(1,849,922)
Increase (decrease) in net OPEB obligation	1,314,822	2,199,835	2,481,344
Net OPEB obligation, beginning of year	1,771,093	3,085,915	5,285,750
Net OPEB obligation, end of year	$3,085,915	$5,285,750	$7,767,094

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
6-30-2011	$3,197,242	58.9%	$3,085,915
6-30-2012	$4,345,355	49.4%	$5,285,750
6-30-2013	$4,331,266	42.7%	$7,767,094

Funded Status and Funding Progress. As of June 30, 2013, the plan was 35 percent funded. The actuarial accrued liability (AAL) for benefits was $46,266,049, and the actuarial value of assets was $16,204,569, resulting in an unfunded actuarial accrued liability (UAAL) of $30,061,480. The covered payroll (annual payroll of active employees covered by the plan) was $47,623,860, and the ratio of the UAAL to covered payroll was 63.1 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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)
6/30/2011	$13,164,949	$31,590,331	$18,425,382	41.67%	$46,432,950	39.68%
6/30/2012	$14,119,403	$46,266,049	$32,146,646	30.52%	$47,528,932	67.64%
6/30/2013	$16,204,569	$46,266,049	$30,061,480	35.02%	$47,623,860	63.12%

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 July 1, 2011, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns 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 16 – Functional Expenditures

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

FUNCTION	SALARIES & WAGES	BENEFITS	SCHOLAR-SHIPS	UTILITIES	SUPPLIES & OTHER SVCS	DEPREC-IATION	2013 TOTAL	2012 TOTAL
Instruction	$28,512,141	$9,953,142			$3,223,580		$41,688,863	$42,642,700
Academic Support	5,181,492	2,123,112			4,601,633		11,906,237	11,081,332
Student Services	4,177,039	1,807,552			2,247,031		8,231,622	8,184,695
Institutional Support	8,176,873	6,300,572			3,188,653		17,666,098	15,416,982
Operation & Maintenance of Plant	3,639,295	2,069,529		4,379,590	2,576,688		12,665,102	14,192,813
Depreciation						12,369,911	12,369,911	11,973,251
Student Aid	189,853	801,576	9,287,177		9,859		10,288,465	11,394,713
Public Service	1,488,184	457,154			935,614		2,880,952	3,308,028
Research	149,086	36,213			191,883		377,182	480,018
Auxiliary Enterprises	4,250,494	2,272,704		1,015,288	18,684,455		26,222,941	21,669,563
TOTAL	**$55,764,457**	**$25,821,554**	**$9,287,177**	**$5,394,878**	**$35,659,396**	**$12,369,911**	**$144,297,373**	**$140,344,095**

NOTE 17 – Construction in Progress

Construction in progress at year-end totals $11.6 million (see capital assets table below). Projects under construction include the Applied Engineering Center and the associated improvements to Bluff Lane; the Teaching Theatre; phase three of the Loop Road/Bennett Lane project; improvements to the baseball/soccer parking lot; computer lab installation in the Recreation, Fitness and Wellness Center; phase two renovations in the University Center bookstore, Eagles Nest, and food court area; renovation of a simulation laboratory and classrooms in the Health Professions Center; renovation of the Morton, Baker, Mount and Wallace apartment buildings in student housing; and renovations in the Orr Center, including graduate studies and ESLI offices and a roof replacement system. The total expended to date on the projects is $11.5 million, and the estimated additional cost to complete them is $14.9 million.

Projects in design include replacement of the air handling units in the Technology Center; painting the exterior of the Atheneum in New Harmony; constructing an advising center for the College of Liberal Arts, a math computer lab in the Education Center, a theatre support building, the welcome/visitor center, a new conference center, and a new children's center; and renovation of the lower level of the Science Center. Amounts expended to date on the projects total $121,907, and the projects have a total estimated remaining cost of approximately $10.5 million.

NOTE 18 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $306.8 million at July 1, 2012, to $316.3 million on June 30, 2013. Gross capital assets, less accumulated depreciation of $141.7 million, equal net capital assets of $174.6 million at June 30, 2013.

Capital Assets	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Accumulated Depreciation	Net Capital Assets
Land	$4,622,923			$4,622,923		$4,622,923
Land Improvements	13,191,498	30,006		13,221,504	6,575,996	6,645,508
Infrastructure	6,839,221	30,558		6,869,779	2,008,896	4,860,883
Educational Buildings	155,544,892			155,544,892	65,581,298	89,963,594
Auxiliary Buildings	100,701,543		72,987	100,628,556	50,003,052	50,625,504
Equipment	18,461,863	3,270,322	1,675,377	20,056,808	14,665,461	5,391,347
Library Materials	3,688,202	77,240	6,074	3,759,368	2,905,146	854,222
Construction in Progress	3,745,120	11,874,561	3,988,476	11,631,205		11,631,205
Totals	**$306,795,262**	**$15,282,687**	**$5,742,914**	**$316,335,035**	**$141,739,849**	**$174,595,186**

NOTE 19-- Reclassify 2012 Financial Information

Hedging derivative instruments are now discretely presented as a deferred outflow of resources in accord with GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which the University adopted as required for the fiscal year ended June 30, 2013. The Statement of Net Position, formerly known as the Statement of Net Assets, has been amended so that the 2012 financial information is comparable and consistent with the 2013 financial statement presentation.

This reclassification did not result in a change to the Statement of Revenues, Expenses, and Changes in Net Position or to the Statement of Cash Flows.

2012-2013 Student Financial Aid Programs Final Report
University of Southern Indiana
November 7, 2013

Executive Summary

The final report of student financial aid activity in 2012-2013 contains summary and program-specific data of all student aid programs administered by the offices of Student Financial Assistance, Veterans' Affairs, and Career Services and Internships. Key indicators contained in the 2012-2013 report are:

Service Profiles

Student Financial Assistance served 13,537 students (including 13,630 who submitted Free Applications for Federal Student Aid [FAFSA]) for need-based assistance and the staff assisted these students by packaging federal, state, USI Foundation, USI institutional, and private/outside awards. Student Financial Assistance provided aid to 8,578 enrolled students resulting in 21,547 awards which total $78.5 million. The total awards, administered by various offices of the University, were down approximately 2.5 percent from 2011-2012.

Trends in Funding by Source (compared to 2011-2012)		Percent of Change
• Federal student aid: decreased	$ (3,316,216)	-5.8%
• Indiana student aid: increased	224,257	2.7%
• University student aid: increased	517,698	5.5%
• USI Foundation student aid: increased	57,926	4.1%
• USI Varsity Club funding: decreased	(1,000)	-0.6%
• Corporate/private funding increased	480,580	10.6%

Trends in Funding by Type (compared to 2011-2012)		
• Gift aid: grants/scholarships decreased	$ (513,874)	-1.6%
• Self-help: loans decreased	(1,635,037)	-3.6%
• Self-help: on-campus employment increased	112,156	5.6%

Distribution of Aid by Source		Percent of Revenue
• Federal aid	$ 53,461,948	68.1%
• State of Indiana	8,387,113	10.7%
• USI aid	10,006,070	12.7%
• USI Foundation	1,456,679	1.9%
• USI Varsity Club	174,000	0.2%
• Private sources	5,025,584	6.4%

Distribution of Aid by Type		
• Gift aid: grants/scholarships	$ 32,289,713	41.1%
• Self-help: loans	44,123,552	56.2%
• Self-help: on-campus employment	2,098,129	2.7%

2012-2013 Student Financial Aid Programs
University of Southern Indiana
November 7, 2013

Final Report

Introduction

This report contains both summary and program-specific information for all student financial assistance programs administered by the University. Data used in compiling the report was obtained from the University's administrative system on October 11, 2013. Data was provided by Human Resources, the Business Office, and the Registrar's Office/Veterans' Affairs Office. The Student Financial Assistance Office, the Veterans' Affairs Office, and the Career Services and Internships Office provide assistance to students in obtaining the types of financial aid included in this report.

Narrative

Students and prospective students submitted 13,630 Free Applications for Federal Student Aid (FAFSA) for need-based assistance. Of this number, 8,368 enrolled in 2012-2013 and 8,093 students received Title IV aid. Total FAFSA applications increased 2.2 percent over 2011-2012.

The University administered 21,547 awards for a total of $78.5 million in student financial assistance. The distribution of awards by funding source is presented below.

Source	*Awards*	*Subtotals*	*% of Total Dollars*	*Prior Year Distribution*
Federal Government	9,978	$53,461,948	68.1	70.5
State of Indiana	3,137	8,387,113	10.7	10.1
USI	4,925	10,006,070	12.7	11.8
USI Foundation	1,121	1,456,679	1.9	1.7
USI Varsity Club	100	174,000	0.2	0.2
Private Sources	2,286	5,025,584	6.4	5.7
Totals	**21,547**	**$78,511,394**	**100**	**100**

Student financial assistance may be categorized by aid type: grants/scholarships; loans; and employment. In 2011-2012, spending was distributed as follows:

Categories	*# of Awards*	*Award Totals*	*% of Total Dollars*	*Prior Year Distribution*
Grants / Scholarships	13,124	$32,289,713	41.1	40.7
Loans	7,197	44,123,552	56.2	56.8
Employment	1,226	2,098,129	2.7	2.5
Totals	**21,547**	**$78,511,394**	**100**	**100**

Federal Pell Grant Program
The Federal Pell Grant Program is the cornerstone of aid packages for exceptionally needy students. The number of Pell Grant recipients decreased 7.7 percent following a 1.3 percent decrease in 2011-2012. Total Pell dollars decreased 6.8 percent following a 4.7 percent decrease in the prior year.

State Funds
Total Indiana funding was up 2.7 percent in 2012-2013 following a 7.6 percent increase in 2011-2012. Indiana Higher Education Award funding was down 1.8 percent compared to a 0.3 percent increase in the prior year.

Changes in funding levels are summarized by source below

Source	*2009-2010*	*2010-2011*	*2011-2012*	*2012-2013*
Federal Government	+22.2	+6.2	-3.2	-5.8
State of Indiana	+10.9	+7.6	+7.6	+2.7
USI	+13.7	+16.5	+3.5	+5.5
USI Foundation	+4.9	+5.4	+1.7	+4.1
USI Varsity Club	-7.3	-1.0	-10.3	-0.6
Private Sources	-22.9	-7.0	+10.6	+10.6
Aggregate Change	+15.9%	+6.6%	-0.7%	*-2.5*

Federal Stafford Loan Program
Aggregate borrowing for Direct Stafford Student Loan recipients among the Class of 2013 baccalaureate graduates averaged $20,647. Among 2013 masters' degree recipients, aggregate borrowing averaged $29,842, including both graduate and undergraduate borrowing. These figures are based on borrowing while enrolled at USI.

For 2010-2011, the national student loan cohort default rate increased to 6.8 percent, up from 2009-2010 rate of 6 percent primarily due to the economic downturn. The state of Indiana rate is 11.3 percent, up 2.7 percent over the prior year.

A three-year summary of USI's Stafford Loan default rates appears below.

Fiscal Year	*Stafford Loan Default Rate*
2009	6.0%
2010	6.2%
2011	7.6%

Student Financial Assistance Mission
As part of the Division of Business Affairs, team members in the Student Financial Assistance Office are committed to supporting the University's goals of enrolling and graduating a highly talented and diverse student body.

Our student-focused team works to help students and their families seek, obtain, and make the best use of all resources available to help finance the costs of attending the University of Southern Indiana. We aim to provide efficient and effective access to programs and services through personalized attention and the use of state-of-the-art technology.

In partnership with internal, federal, state, and other organizations, team members coordinate the administration of all student financial assistance awarded to ensure equity and consistency in the delivery of funds to students. We are dedicated to providing for the proper stewardship of all University, government, and private funds utilized by our students to finance their education.

We aspire to minimize the procedural barriers that sometimes frustrate financial aid applicants and work to ensure that our students learn to handle their financial affairs in a responsible manner. The Student Financial Assistance team provides student advocacy on issues relevant to student success.

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

TEACHING THEATRE PROJECT

Empire Contractors, Inc. - General Contractor

CO-G9	Provide colored cast-in-place concrete at fixed seating areas in lieu of natural color. Provide and install Cheeseboro clamps and hand winches for back stage rigging. Make revisions to control room walls and glazing system .	$11,169
CO-G10	Revise wall type to Shaft Wall at three chase locations and add gypsum board to concrete wall in lower level dressing room .	$2,872
CO-G11	Lower exterior ceiling height in loading dock area to accommodate electrical conduits and mechanical piping. Revise structural steel to facilitate lowering of ceiling and add necessary brick to façade.	$21,742
CO-G12	Revise lobby canopy roof drainage system to provide stainless steel drain assembly, provide rain diverters on metal roof and trough, and increase the size of clay column covers to accommodate piping.	$2,999

Deig Brothers Construction Co. Inc. - Mechanical Contractor

CO-M9	Revise ductwork for lower level restrooms, make changes to canopy roof drainage system, and delete fire sprinkler under catwalk.	($3,321)

Alva Electric Co., Inc. - Electrical Contractor

CO-E3	Delete the requirement to provide power and controls to loading dock door, revise the requirement to provide license and computer for video surveillance system, make revisions to restroom layout and ceiling height, and provide electrical work needed for relocation of lower level restroom .	$5,057

Summary
Construction Projects
November 7, 2013

Projects Under Construction

Teaching Theatre Construction

Project Cost		**$ 17,250,000**
Funding Sources:		
Bond Issue (Repaid with Student Fees)	$ 13,000,000	
Special Projects Reserves	$ 2,250,000	
USI Foundation	$ 2,000,000	

Atheneum (New Harmony) - Exterior Metal Painting

Project Cost		**$ 250,000**
Funding Source: Special Projects Reserves		

Projects in Design

Conference Center

Project Cost		**$ 5,750,000**
Funding Source:		
Private Gifts	$ 5,000,000	
Auxiliary Systems Reserves	$ 750,000	

Visitor's Center

Project Cost		**$ 2,000,000**
Funding Source: Private Gifts		

Theatre Support Building

Project Cost		**$ 1,900,000**
Funding Sources:		
Teaching Theatre Project	$ 400,000	
Special Projects Reserves	$ 1,500,000	

Technology Center Air Handling Unit Replacement

Project Cost		**$ 250,000**
Funding Source: Special Projects Reserves		

Science Center - Lower Level Renovation

Project Cost	**$ 1,250,000**

Funding Source: Legislative Appropriation - 2013

Energy Management System Upgrade

Project Cost	**$ 400,000**

Funding Source: General Repair and Rehabilitation Appropriation

Robert D. Orr Center Classroom Renovation - Phase I

Project Cost	**$ 284,000**

Funding Source: General Repair and Rehabilitation Appropriation

Student Housing Apartment Building Renovation - 2014

Project Cost	**$ 650,000**

Funding Source: Housing Reserves

Parking Lots A, B, and C Landscape Improvements

Project Cost	**$ 500,000**

Funding Source: Landscape Reserves

Science Center Suite 2206 Renovation for Disability Services

Project Cost	**$ 150,000**

Funding Source: Special Projects Reserves