MINUTES

FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

November 6, 2014

The Finance/Audit Committee of the University of Southern Indiana Board of Trustees met on Thursday, November 6, 2014, in Carter Hall on the USI campus. In attendance were Chair W. Harold Calloway and Trustees Brenden Davidson '15, John M. Dunn, Jeffrey L. Knight, and Kenneth L. Sendelweck '76. Others in attendance were President Linda L. M. Bennett, Vice President for Finance and Administration and Treasurer Mark Rozewski, and Vice President for Government and University Relations Cynthia S. Brinker.

Committee Chair Calloway called the meeting to order at 9 a.m.

1. REVIEW OF AUDITED FINANCIAL STATEMENTS

Mr. Calloway called on Vice President Rozewski, who reported the financial statements summarized in Attachment 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 2013-2014 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 2013 and 2014 in current assets and liabilities and explained changes in net assets during the year ending June 30, 2014. Mr. Bridges compared the percentage of change in revenue sources and expense purposes for the years 2011-2012 through 2013-2014.

He closed by concluding the University improved its financial position in fiscal year 2014 as revenue and expenses remained stable. He suggested the Trustees remain aware of possibly significant influences on the University's current budget, including the state's potential impact on student fee rates, the cost of employee health benefits, and USI's change to a more selective admission process, but projected that 2014-2015 will be another successful year for the University.

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

Mr. Calloway called on Vice President Rozewski, who reviewed the construction change orders in Attachment B.

There being no further business, the meeting was adjourned at 9:23 a.m.

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF UNIVERSITY OF SOUTHERN INDIANA, EVANSVILLE, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of University of Southern Indiana (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the University of Southern Indiana Foundation, a component unit of the University as discussed in Note 1, which represents 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Southern Indiana Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the University as of June 30, 2014 and 2013, and the respective changes in financial position, where applicable, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide an assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Board of Trustees and University Officers, Message from the President, Message from the Vice President and Treasurer, Five-Year Comparative Data, and Enrollment by Counties are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Board of Trustees and University Officers, Message from the President, Message from the Vice President and Treasurer, Five-Year Comparative Data, and Enrollment by Counties have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

October 23, 2014

University of Southern Indiana
Fiscal Year Ended June 30, 2014

Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University during the fiscal year ended June 30, 2014, 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 2014 fiscal year, the University implemented GASB 65 *Items Previously Reported as Assets and Liabilities*, but no new items met the criteria for reporting as deferred outflows or deferred inflows of resources. GASB 66 *Technical Corrections- 2012- an amendment of GASB Statement No. 10 and 62* and GASB 67 *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* were also effective this year and were evaluated but had no impact on reporting for the University.

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)	**2014**	**2013**	**2012**
Current Assets	$57,183	$58,438	$58,770
Non-current Assets:			
Capital assets, net of depreciation	181,264	174,595	176,744
Other non-current	55,312	56,184	47,623
Total Assets	$293,759	$289,217	$283,137
Deferred Outflow of Resources	$1,915	$2,084	$2,900
Total Deferred Outflow of Resources	$1,915	$2,084	$2,900
Current Liabilities	$23,111	$23,247	$23,786
Non-current Liabilities	127,574	135,837	131,860
Total Liabilities	$150,685	$159,084	$155,646
Net Position:			
Invested in capital assets, net of debt	$56,486	$45,158	$42,996
Restricted - expendable	1,405	3,141	334
Unrestricted	87,098	83,918	87,061
Total Net Position	$144,989	$132,217	$130,391

Assets
Current assets at June 30, 2014, consist predominantly of cash and cash equivalents, short-term investments, and receivables net of allowances for bad debt. Also included are prepaid expenses, inventory, deposit with bond trustee, and accrued interest. Non-current assets include capital assets net of depreciation, long-term investments, and 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 $4.5 million (1.6 percent) in 2014 compared to a $6.1 million (2.2 percent) increase in 2013 and a $3.4 million (.8 percent) decrease in 2012. The current year increase is explained by the following fiscal year events:

- Cash and cash equivalents valued at $2.8 million were replaced with short-term investments valued at $7.3 million and long-term investments valued at $548,000.
- Accounts receivable, net of allowance for bad debt, increased $1.6 million in 2014. Student receivables increased $1.65 million but were offset by a $50,000 reduction in external receivables.
- Deposit with bond trustee decreased $9 million in 2014. This decrease is a result of construction draws from the Series K-1 Teaching Theatre construction project bond account required to payment contractors as the project advanced.
- Capital assets increased by $19 million in fiscal year 2014. Net capital assets increased $6.7 million as described in Note 16 of the *Notes to Financial Statements.*

The $19 million increase was offset by depreciation expense of $12.9 million and $600,000 in depreciation expense adjustments generating this increase in net capital assets.

- Inventory increased $450,000, other current assets decreased $137,000, and other non-current assets decreased $88,000.

Deferred Outflow of Resources

Deferred outflow of resources related to Series 2006 and Series 2008A hedgeable financial derivatives are presented separately because of reporting requirements. These deferred outflows provide an accumulated fair market valuation of the swaps as of June 30, 2014. The fair market value of the financial instruments decreased by $170,000 in 2014 compared to a decrease of $816,000 in 2013. The change in value for 2014 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, 2014, 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 and other postemployment benefits. Also included are derivative instruments-interest rate swaps for Series 2006 and Series 2008A hedgeable financial derivatives, compensated absences, termination benefits, an unamortized bond premium, and miscellaneous other long-term liabilities. Total liabilities decreased $8.4 million (5.3 percent) in 2014 compared to an increase of $3.4 million (2.2 percent) in 2013 and a decrease of $7 million (4.3 percent) in 2012. Activities that influenced this change include the following:

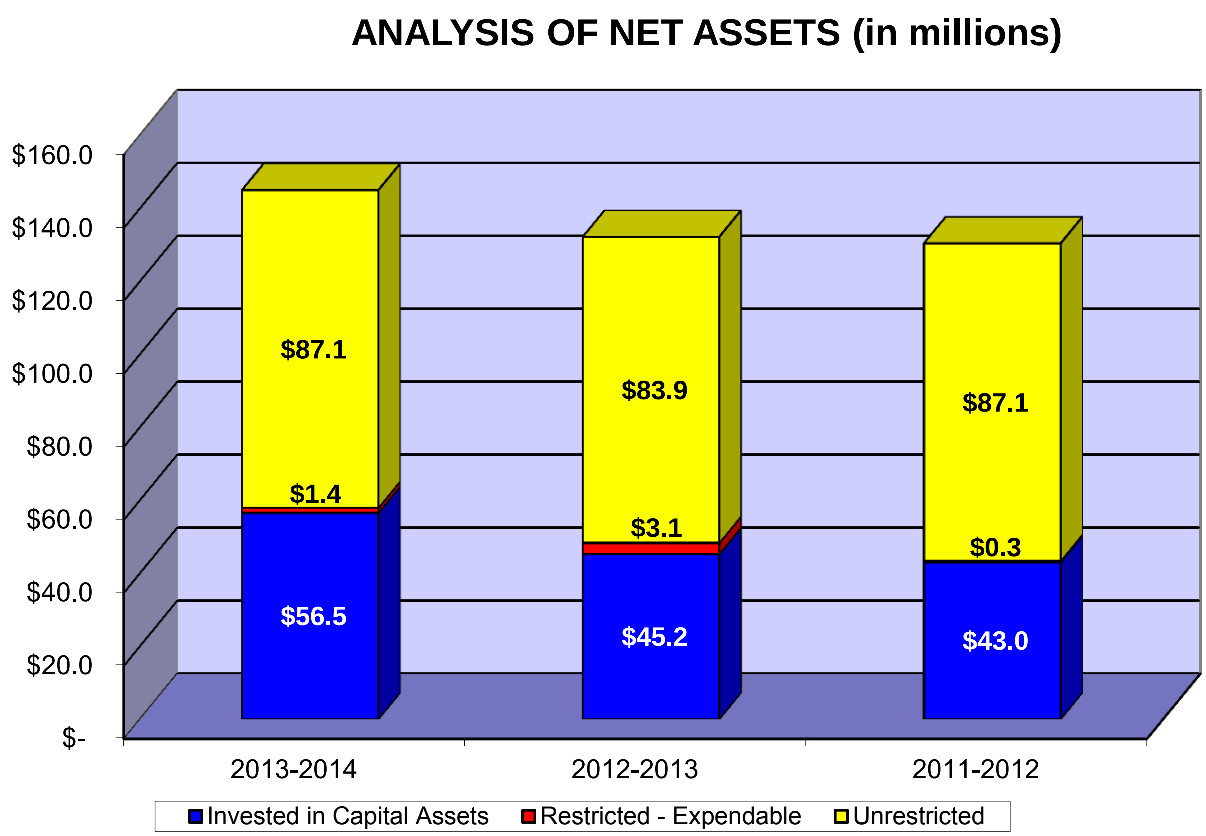
- Accrued payroll, related benefits, and deductions increased $148,000 in 2014 compared to a $475,000 decrease in 2013 and an increase of $64,820 in 2012.
    - Wages payable increased $149,000 for the 2014 fiscal year
    - Accounts payable and accrued liabilities decreased $338,000
    - Debt interest payable decreased $97,000
    - Leases payable increased $258,000
    - Other current liabilities increased $109,000
    - Derivative instruments decreased $170,000
- The liability for post-retirement benefits increased by $3.1 million in 2014.
- The 2014 net change to notes and bonds payable equals an $11.4 million decrease.
    - Paying down the existing debt decreased bonds payable by $11.4 million
    - See Note 6 in *Notes to Financial Statements* for detailed information on notes and bonds payable

Net Position

Net Position at June 30, 2014, is $12.8 million greater than on June 30, 2013. Capital assets, net of related debt, increased $11.3 million; restricted expendable assets decreased $1.7 million; and unrestricted assets increased $3.2 million. Unrestricted assets equal $87.1 million and comprise

60 percent of total net position. Of the total unrestricted amount, $70.3 million has been internally designated as follows:

- $20 million reserve for equipment and facilities maintenance and replacement
- $15.8 million reserve for University benefits
- $13.9 million reserve for auxiliary systems
- $4.2 million reserve for working capital and outstanding encumbrances
- $8.5 million reserve for academic operations and initiatives
- $2.8 million reserve for insurance and equipment
- $5.1 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)	**2014**	**2013**	**2012**
Total operating revenues	$78,020	$75,853	$73,235
Total operating expenses	(140,209)	(144,298)	(140,344)
Operating losses	(62,189)	(68,445)	(67,109)
Net non-operating revenues/(expenses)	74,764	69,687	71,322
Income/(expenses) before other revenues, expenses, gains, or losses	12,575	1,242	4,213
Capital gifts, grants, and appropriations	197	584	381
Increase (decrease) in net position	$12,772	$1,826	$4,594

Revenues
Operating revenues increased $2.2 million (2.9 percent) in 2014 compared to a $2.6 million (3.6 percent) increase in 2013 and a $3.6 million (5.2 percent) increase in 2012. The increases are explained by the following significant fiscal year activities:

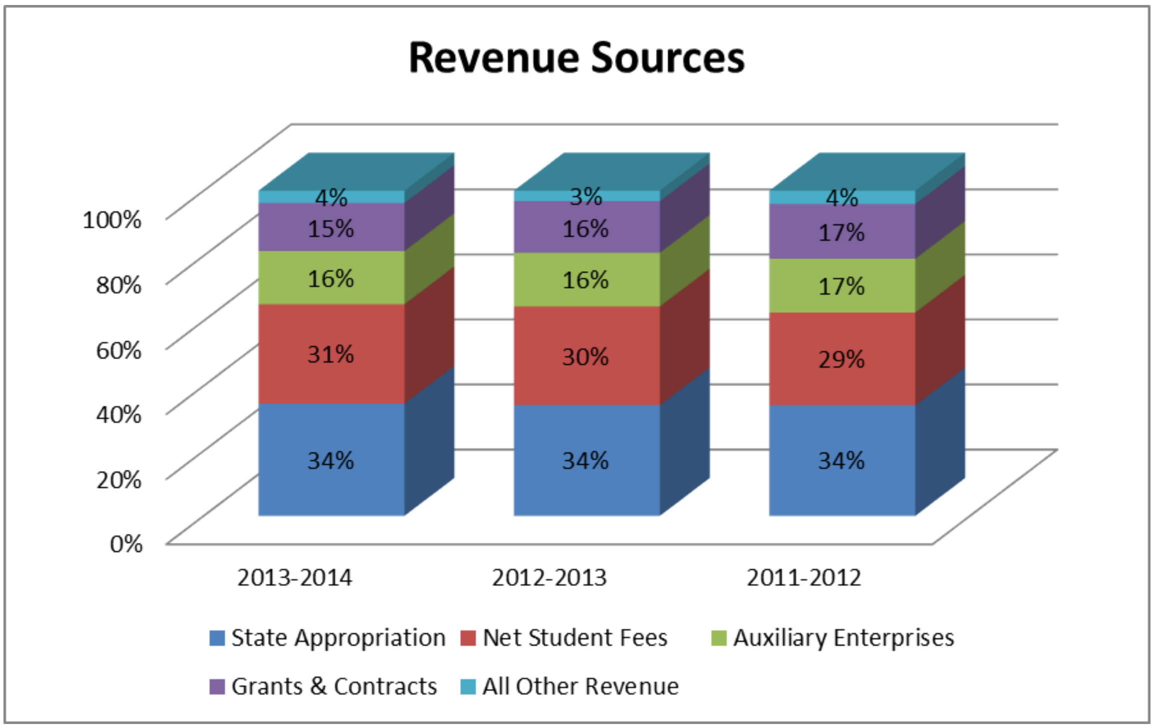
- Net student fee revenue increased from $46.4 million in 2013 to $48.2 million in 2014. This change was due principally to a student fee increase of 4.4 percent netted against an enrollment decrease of 5.4 percent.
- Auxiliary income increased from $25.2 million in 2013 to $25.8 million in 2014. The increase stemmed from a 13.1 percent increase in campus store revenues offset by decreases in housing of 5.3 percent, parking income of 5.9 percent, and dining revenues of 3 percent.
- Operating grants increased by $87,000 with non-government grants increasing $129,000, state and local grants increasing $8,000, and federal operating grants declining $50,000.
- Other operating revenue declined by $352,000.

Non-operating revenues experienced an increase of 3.9 percent for the fiscal year ended June 30, 2014, compared to a 2.2 percent decrease in 2013.

- State appropriations increased 4.7 percent from $51.9 million in 2013 to $54.4 million in 2014. 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. The amount earned was less a 2 percent giveback that was required by the State of Indiana.

- Federal grants and contracts decreased $1.2 million (8.3 percent) compared to a decrease of $1.1 million (7 percent) in 2013. Federal student financial assistance primarily accounted for the decrease.
- Investment income increased by $1.1 million as market valuations improved during the 2014 fiscal year.

Total revenues (operating, non-operating, and other) increased $4.8 million in fiscal year 2014. The graph below shows the composition of the University's revenue for fiscal years 2012-2014:



Expenses
Operating expenses decreased $4.1 million (2.8 percent) this fiscal year compared to a $4 million (2.8 percent) increase in 2013. The decline in operating expenses was driven by decreases in supplies and other services netted against increases in salaries and benefits and scholarship expenses. Changes in expense categories were as follows:

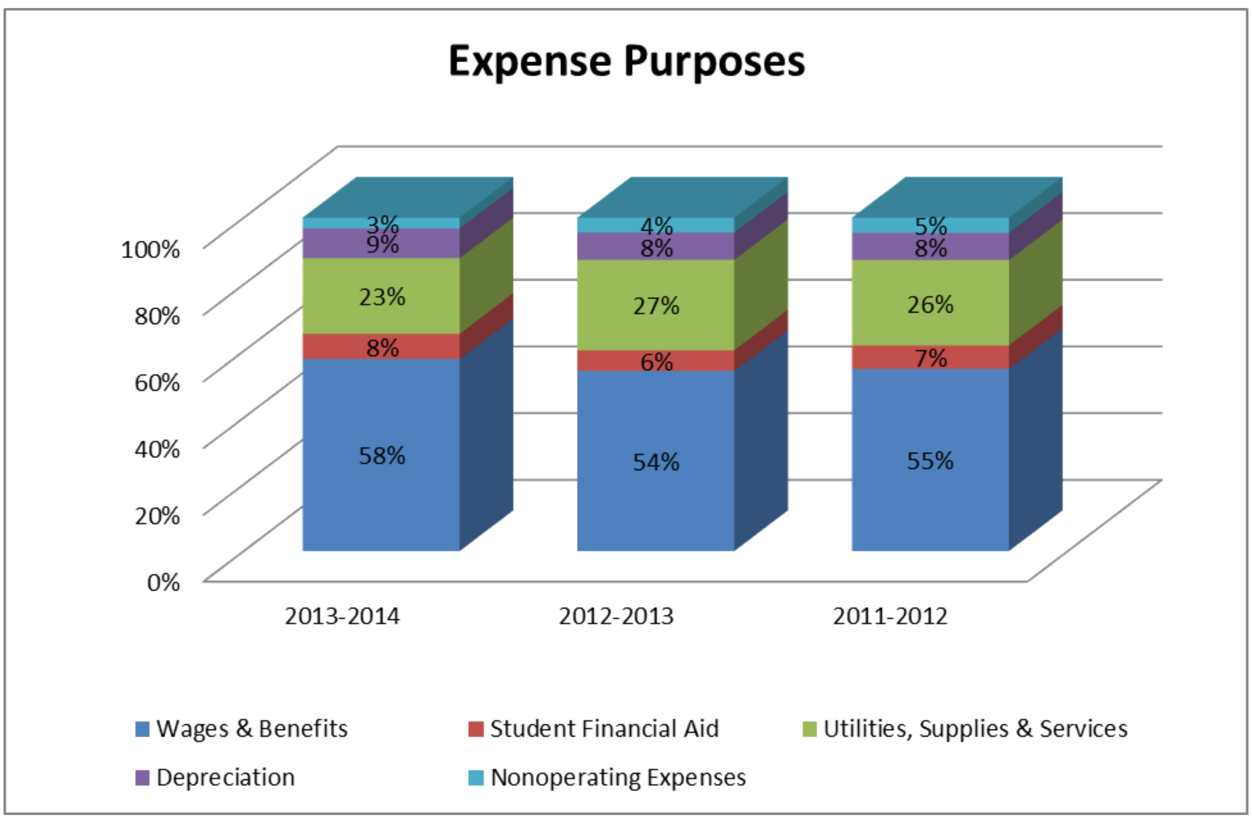
- Compensation (salaries, wages, and benefits) comprised 59.5 percent of total operating expenses and increased 2.3 percent over 2013. Salaries and wages increased $1.2 million and benefit expenses increased $683,000.
- Student financial aid increased by $1.6 million for a 17 percent increase. The increase is a result of a $2 million reduction in the computed scholarship discount and allowance for 2014 offset by decreases in federal aid of $615,000, state aid of $100,000, a $50,000 increase in USI Foundation aid.
- Supplies and other services expense decreased by $8.4 million (23.7 percent) in 2014 compared to $3.8 million (11.8 percent) increase in 2013. Decreases were predominantly

in the area of capital outlay as project expenses of $14.5 million were capitalized in fiscal year 2014. Increases in several expense categories such as $1 million in purchases by the campus store related to the new branding initiative, computer hardware and software purchases of $626,000, classroom supplies of $400,000, $399,000 in honorarium and professional services, rental equipment of $250,000 and electronic library subscriptions of $173,000, account for the larger supply and other services expense increases. Several cumulatively smaller increases within other classifications in addition to the larger expenses previously mentioned offset the capitalized cost for a net decrease of $8.4 million.

- Depreciation increased $580,000 or 4.7 percent, in fiscal year 2014 compared to an increase of $397,000, or 3.3 percent, in fiscal year 2013.

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 million compared to a decrease of $2,000 in 2013. The change in fiscal year 2014 resulted from less interest on capital debt expense and no bond issuance costs this fiscal year.

Total expenses (operating and non-operating) decreased $6.1 million in fiscal year 2014 compared to a $4.4 million increase in 2013 and a $4.5 million increase in 2012. 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, 2014, net position increased $12.8 million compared to a $1.8 million increase for fiscal year ending June 30, 2013. Total revenues increased and total expenses decreased during fiscal year 2014.

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 2012-2014:

STATEMENT OF CASH FLOWS **Year ended June 30** (in thousands)	**2014**	**2013**	**2012**
Net cash (used) provided by			
Operating activities	($48,288)	($53,418)	($53,906)
Noncapital financing activities	78,448	76,693	77,260
Capital financing activities	(26,326)	(23,010)	(20,723)
Investing activities	(6,659)	(6,693)	(9,132)
Net increase (decrease) in cash	$(2,825)	$(6,428)	$(6,501)

Operating activities
- Cash used by operating activities decreased $5.1 million in 2014 compared to a $488,000 decrease from 2012 to 2013.
- Student fees and auxiliary enterprises provided the largest inflow in cash for all fiscal years.
- Payments to employees (wages and benefits) and suppliers caused the largest outflow of cash for all fiscal years.

Noncapital financing activities
- Cash provided by noncapital financing activities increased $1.8 million in 2014 compared to a $567,000 decrease from 2012 to 2013.
- State appropriations provided the largest cash inflow in all fiscal years.

Capital financing activities
- Cash used by capital financing activities increased $3.3 million in 2014 compared to a $2.3 million increase in 2013.
- Construction draws from Series K-1 bond proceeds held by trustee for the Teaching Theatre project generated the largest cash inflow in 2014; 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.

- Purchases of capital created the largest outflow of cash in 2014 while principal and interest paid on capital debt generated the largest cash outflow in 2012 and 2013.

Investing activities

- Cash used by investing activities decreased $34,000 during 2014 compared to a $2.4 million decrease in 2013.
- Proceeds from sales and maturities of investments decreased $7.1 million in 2014 compared to a $2.9 million decrease in 2013. Interest income earned on investments also decreased $490,000 from 2013 to 2014.
- Cash used for purchases of investments decreased $7.6 million in 2014 following a $5.1 million decrease from 2012 to 2013.

Summary of Statement of Cash Flows

For the year ended June 30, 2014, less cash was used for operating activities, more 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 $2.8 million, ending the fiscal year with a cash balance of $21.9 million.

Factors Impacting Future Periods

The outlook for higher education and the University of Southern Indiana has become increasingly competitive with changing demographics, tuition cost concerns, and state funding changes. As an institution consistently generating revenues exceeding expenditures throughout its entire history, with no deferred maintenance, a pricing strategy allowing flexibility, and located in a state that ended the year with an annual budget surplus of $100 million and more than $2 billion in reserves, the University is well-positioned for this climate. 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% of its funding annually. USI currently carries an A1 rating on student fee debt and 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. For the 2013 -15 Biennial Budget, the University received a 5.1% 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 for institutions of its type. 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. All public higher education institutions in Indiana were asked to reduce operating draws by 2 percent in fiscal year 2014 and currently are budgeting a similar holdback in fiscal year 2015. The University is developing the 2015-17 Biennial budget request in preparation of a new budget from the 2015 Indiana General Assembly. The focus will be increased operating support from the State of Indiana and modest one-time repair and rehabilitation funding.

Included in the request is funding to renovate space to be vacated by the Indiana School of Medicine-Evansville (IUSME) which will move from its current location on the USI campus to downtown Evansville and funding to relocate certain USI academic functions from the main campus to the IUSME site in downtown Evansville.

The University is adding a Vice President for Enrollment Management position to the executive team to focus on recruitment, retention, and graduation of students. This positon will be key in moving the University forward in terms of processes and the use of technology in meeting strategic enrollment goals. The organizational structure of bringing admissions, financial assistance, registrar, and university division under one unit will synchronize a suite of student services and resources to attract and maintain quality students and successful graduates. In addition this position will be key in working with outside enrollment consultants, Noel Levitz, to identify key markets, to fine-tune the enrollment funnel, and assist academic efforts to identify growth programs for the University.

The 2015 fiscal year begins with a $50 million capital campaign by the University of Southern Indiana Foundation entering its last phase. The campaign has already raised nearly $48 million of that goal. This goal appears to be very obtainable by the December 2015 target date. Ground was broken in July for a 12,700 square-foot $5.75 million conference center and a visitor center is in the design phase, both funded primarily from the campaign. The campaign also focuses on student scholarships and scholarly funds for faculty that will benefit prospective students and academic endeavors.

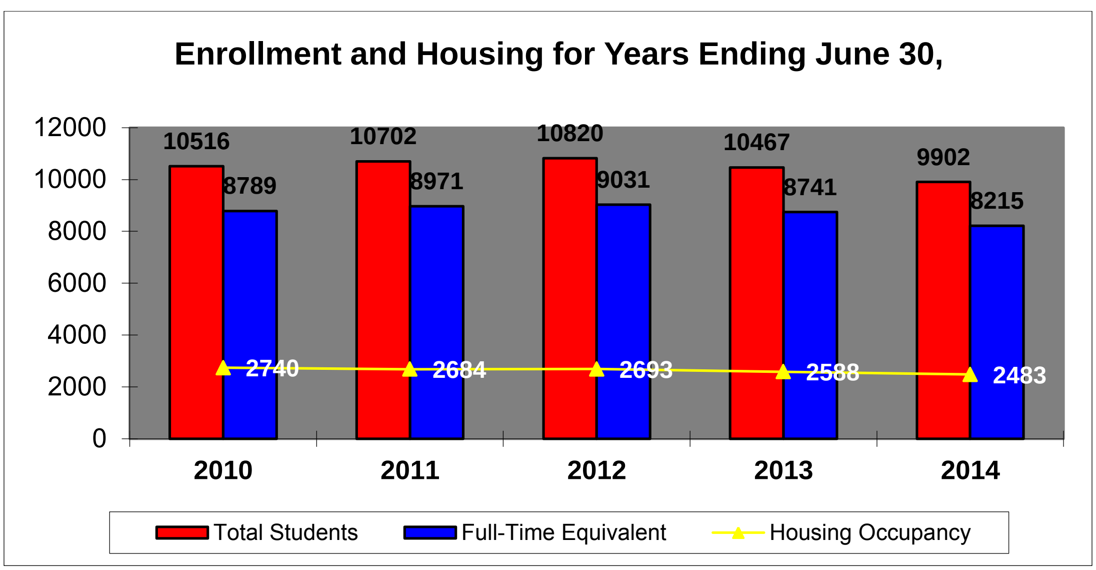
The 300 seat Teaching Theatre opens in the spring of 2015 and will benefit students with a desire to learn theatre in a professionally equipped venue. The $1.9 million Theatre support services building will be completed in the fall of 2014 and will provide an on campus location for set and costume design, fabrication, and storage.

The University continues to monitor benefit costs and this past year implemented plan changes that will substantially reduce long-term retiree liability costs. Faculty, administrators, and support staff hired on or after July 1, 2014 are no longer eligible for retiree medical, dental, or life insurance. Current employees whose age plus years of service add up to 57 or more or whose full-time benefits-eligible service was ten years or more maintained retiree medical and dental benefits upon retirement. Those current employees who did not meet the criteria of age and years of service are no longer eligible to receive retiree medical or dental benefits. All employees hired before July 1, 2014 maintained a retiree life insurance benefit. Additionally changes were made to the defined benefit contribution plan for faculty and administrators. The plan was changed to be an 11 percent contribution for all new and existing employees effective July 1, 2014. The former plan was 11 percent of the first $10,800 in salary and 15 percent of the remaining salary. Employees participating in the former plan were given a one-time salary adjustment to make this change neutral to their compensation package. The support staff retirement plan was also modified during this process. Current support staff hired before June 30, 2014 or re-hired support staff previously participating in the Public Employees Retirement Fund of Indiana (PERF) will continue in that program which has a 14 percent employer contribution. Staff hired after July 1, 2014 will now participate in a new defined contribution plan with a seven percent employer contribution.

USI maintains its reputation as a great value in higher education as we approach our 50th anniversary in 2015. The University's market position, value, quality, and pricing has helped to broaden the catchment area for prospective students while greatly increasing student quality during a period of challenging economic times. The fall 2014 class, although smaller in number than its preceding class, is the strongest academic class in the history of the University in terms of entering grade point average and test scores. The University has seen these quality efforts yield an increase in retention and anticipate this will have an exponential effect in enrollment as this class matriculates.

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 strategically changing its enrollment model. Its focus on improving the quality of incoming freshman and increasing student retention rates rate has changed its historically growing enrollment patterns. The plan to narrow the enrollment funnel in the short-term is anticipated to strengthen the University in the future. Total enrollment for academic years ending 2010 through 2014 reflects a decrease of 5.8 percent; full-time equivalents for the same period decreased 6.5 percent. Full-time students represent 83 percent of the total student population. Housing occupancy has been consistently well in excess of 90% the past five-year period, and was so again on the first day of classes in the current year despite the overall enrollment decline. The following graph illustrates enrollment and housing occupancy for the five-year period 2010 to 2014.



UNIVERSITY OF SOUTHERN INDIANA
Statement of Net Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 21,936,804	$ 24,762,134
Short-term investments	21,644,606	14,327,480
Accounts receivable, net	10,895,313	9,250,324
Inventories	1,675,538	1,223,497
Deposit with bond trustee	265,212	7,969,594
Other current assets	765,416	904,665
Total current assets	$ 57,182,889	$ 58,437,694
Noncurrent Assets		
Long-term investments	$ 55,192,997	$ 54,644,883
Deposit with bond trustee	119,368	1,451,649
Capital assets, net	181,263,730	174,595,186
Other noncurrent assets	-	88,029
Total noncurrent assets	$ 236,576,095	$ 230,779,747
Total Assets	**$ 293,758,984**	**$ 289,217,441**
DEFERRED OUTFLOW OF RESOURCES		
Hedging derivative instruments	$ 1,914,508	$ 2,084,296
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,404,211	$ 1,742,335
Accrued payroll, benefits, and deductions	6,387,804	6,239,741
Notes, bonds, and leases payable	11,422,849	11,403,825
Debt interest payable	1,504,123	1,600,785
Unearned revenue	1,591,357	1,569,188
Other current liabilities	800,046	691,513
Total current liabilities	$ 23,110,390	$ 23,247,387
Noncurrent Liabilities		
Notes, bonds, and leases payable	$ 111,537,489	$ 122,702,673
Unamortized bond premium	673,785	756,447
Derivative instruments-interest rate swap	1,914,508	2,084,296
Other postemployment benefits	10,894,079	7,767,094
Compensated absences and termination benefits	2,508,660	2,485,485
Other noncurrent liabilities	45,636	40,978
Total noncurrent liabilities	$ 127,574,157	$ 135,836,973
Total Liabilities	**$ 150,684,547**	**$ 159,084,360**
NET POSITION		
Net investment in capital assets	$ 56,485,861	$ 45,158,020
Restricted		
Expendable		
Capital Project	1,165,400	2,930,199
Debt Service	119,368	123,383
Scholarship, research, and other	119,774	87,468
Unrestricted	87,098,542	83,918,307
Total Net Position	**$ 144,988,945**	**$ 132,217,377**

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

UNIVERSITY OF SOUTHERN INDIANA
Statement of Revenue, Expenses, and Change in Net Position
Years ended June 30, 2014 and 2013

	2014	2013
REVENUES		
Operating Revenues		
Student fees	$ 65,416,903	$ 65,572,346
Scholarship discounts & allowances	(17,215,063)	(19,204,530)
Grants and contracts	1,778,263	1,691,211
Auxiliary enterprises	25,822,633	25,232,231
Room & board discounts & allowances	(27,275)	(35,042)
Other operating revenues	2,244,499	2,596,422
Total operating revenues	$ 78,019,960	$ 75,852,638
EXPENSES		
Operating Expenses		
Compensation:		
Salaries & Wages	$ 56,840,465	$ 55,764,457
Benefits	26,642,962	25,821,554
Student financial aid	10,862,701	9,287,177
Utilities	5,698,582	5,394,878
Supplies and other services	27,215,142	35,659,396
Depreciation	12,949,474	12,369,911
Total operating expenses	$ 140,209,326	$ 144,297,373
Operating loss	$ (62,189,366)	$ (68,444,735)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$ 54,414,192	$ 51,964,674
Gifts	2,495,498	2,280,567
Federal grants and contracts	12,856,111	14,014,945
State and local grants and contracts	8,328,714	8,346,915
Nongovernmental grants and contracts	290,778	283,283
Investment income (net of investment expense of $64,852 and $64,399 for 2014 and 2013)	1,082,796	(486,512)
Interest on capital asset-related debt	(4,638,389)	(6,353,071)
Other non-operating expenses	(66,179)	(363,736)
Net non-operating revenues	$ 74,763,521	$ 69,687,065
Income before other revenues, expenses, gains, or losses	$ 12,574,155	$ 1,242,330
Capital grants and gifts	$ 197,413	$ 584,078
Increase in net position	$ 12,771,568	$ 1,826,408
NET POSITION		
Net position – beginning of year	$ 132,217,377	$ 130,390,969
Net position – end of year	**$ 144,988,945**	**$ 132,217,377**

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

UNIVERSITY OF SOUTHERN INDIANA
Statement of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Tuition and fees	$ 46,691,037	$ 45,939,078
Grants and contracts	1,906,145	2,356,718
Payments to suppliers	(27,959,784)	(35,490,878)
Payments for utilities	(5,698,582)	(5,394,878)
Payments to employees	(56,691,543)	(55,787,273)
Payments for benefits	(23,493,661)	(23,561,050)
Payments for scholarships	(10,862,701)	(9,287,177)
Loans issued to students	-	(232,502)
Collection of loans to students	2,217	235,739
Auxiliary enterprises receipts	25,640,288	24,993,160
Sales and services of educational depts.	900,815	818,660
Other receipts (payments)	1,276,903	1,992,542
Net cash used by operating activities	**$ (48,288,866)**	**$ (53,417,861)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$ 54,414,192	$ 51,964,674
Gifts and grants for other than capital purposes	23,971,101	24,925,711
Other non-operating receipts (payments)	63,008	(197,265)
Net cash provided by noncapital financing activities	**$ 78,448,301**	**$ 76,693,120**
Cash Flows from Capital Financing Activities		
Proceeds from capital debt	$ -	$ 58,685,000
Capital grants and gifts	285,442	615,610
Bond financing costs	(66,179)	(363,738)
Purchase of capital assets	(18,843,374)	(10,221,091)
Principal paid on capital debt	(11,920,804)	(55,589,160)
Interest paid on capital debt and leases	(4,817,713)	(7,069,826)
Deposits with trustees	9,036,663	(9,066,602)
Net cash used by capital financing activities	**$ (26,325,965)**	**$ (23,009,807)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	$ 24,273,201	$ 31,380,303
Interest on investments	638,420	1,131,262
Purchase of investments	(31,570,421)	(39,205,096)
Net cash used by investing activities	**$ (6,658,800)**	**$ (6,693,531)**
Net increase (decrease) in cash	$ (2,825,330)	$ (6,428,079)
Cash – beginning of year	24,762,134	31,190,213
Cash – end of year	**$ 21,936,804**	**$ 24,762,134**

UNIVERSITY OF SOUTHERN INDIANA
Statement of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	$ (62,189,366)	$ (68,444,735)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	12,949,474	12,369,911
Provision for uncollectible accounts	74,566	37,571
Changes in assets and liabilities:		
Receivables	(1,719,555)	29,166
Inventories	(452,040)	(28,484)
Other assets	13,389	543,782
Accounts payable	(144,539)	(278,313)
Unearned revenue	22,169	(367,620)
Deposits held for others	4,659	4,620
Employee and retiree benefits	3,150,160	2,713,004
Loans to students	2,217	3,237
Net cash used by operating activities:	**$ (48,288,866)**	**$ (53,417,861)**

Noncash Transactions		
Unrealized gain/(loss) on short-term investments	$ (53,054)	$ 12,977
Unrealized gain/(loss) on long-term investments	(821,124)	(1,455,175)
Bonds payable – LT and ST Series H and I	-	10,956,335
Bonds payable – LT and ST Series K	-	(10,956,335)
Equipment	774,644	-
Capital lease	(774,644)	-
Net noncash transactions	**$ (874,178)**	**$ (1,442,198)**

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

NOTE 1 – Summary of Significant Accounting Policies

The University of Southern Indiana was established in 1985 as described in the Indiana Code (IC 21-24-1 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 16 in the *Notes to Financial Statements* for current-year activity and accumulated depreciation on the various classes of assets.

The University owns a collection of museum exhibit items located in Historic New Harmony. The collection consists of 2,800 objects that are primarily 19th century decorative arts, furniture, prints, medical equipment, and textiles. The collection consists of both donated and purchased items. Historic New Harmony does not place a monetary value on the collection because the museum is organized as a public trust which acts as a steward for the public in collecting, protecting, preserving, and interpreting objects. A well-documented inventory is maintained, but the value is unknown and therefore not included in the capitalized asset value at June 30, 2014.

The University owns a permanent art collection whose primary function and aim is education in accordance with one element of the University's mission: to enhance the cultural awareness of its students, faculty, staff, and the citizens of southwestern Indiana. The collection consists of both donated and purchased items. Some of the donated pieces were received without appraised values. Collection pieces which have been appraised or otherwise valued total $2,233,293. The currently-known value is not included in the capitalized asset value at June 30, 2014.

Net Position
Net position represents the difference between all other elements in the Statement of Net Position, and it includes three components.

<u>Net investment in capital assets</u> consists of capital assets, net of accumulated depreciation and outstanding debt. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of the assets are included in this component.

<u>Restricted net position--expendable</u> consists of resources which the University is legally or contractually obligated to use in accordance with restrictions imposed by parties external to the institution.

<u>Unrestricted net position</u> is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources which do not qualify for classification as net investment in capital assets or restricted net position-expendable.

Operating Revenues and Expenses
Operating revenues of the University consist of student fees, exchange grants and contracts, interest on 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 contracts, 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 Position.

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). During the 2013-2014 fiscal year, the University applied GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, and GASB Statement 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25* as required.

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 and its students. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs.

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

During the year ended June 30, 2014, the USI Foundation distributed $2,698,665 in direct and indirect support to the University for both restricted and unrestricted purposes. 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 Boulevard, Evansville, IN 47712.

NOTE 3 – Cash and Investments
Under authority granted by IC 21-24-3, the Board of Trustees authorizes management to invest in obligations of the U.S. Treasury and U.S. government agencies, certificates of deposit, repurchase agreements, money market mutual funds, savings, and negotiable order-of-withdrawal accounts. Investments with Indiana institutions are limited to those banks, savings banks, and savings and loan institutions that provide deposit insurance for university funds under Indiana statutes by the Public Deposit Insurance Fund, in addition to the amounts insured by agencies of the United States government -- Federal Deposit Insurance Corporation/Savings Association Insurance Fund (FDIC/SAIF). Investments with non-Indiana institutions must be insured by agencies of the U.S. government to the maximum statutory amount of $250,000.

Deposits – At June 30, 2014, the bank balances of the University's operating demand deposit accounts were $18,587,815, of which $375,266 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.

Cash equivalents and investments – The University's cash equivalents and investments at June 30, 2014, are identified in the table below:

			Investment Maturities (in Years)			
Investment Type	**Market Value**	**Type %**	**Less than 1 year**	**1 – 5 years**	**6 – 10 years**	**More than 10 years**
Money market accounts	$4,369,296	4%	$4,369,296			
Repurchase agreements	17,567,508	18%	17,567,508			
Certificates of deposit	31,239,506	32%	18,953,610	12,285,895		
U S Treasury & agency securities	45,598,098	46%	2,690,996	21,881,571	20,705,169	320,361
Totals	**$98,774,408**	100%	**$43,581,411**	**$34,167,467**	**$20,705,169**	**$320,361**
Maturity %	100%		44%	35%	21%	0%

Investment custodial credit risk – This is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University investment policy does not contain legal or policy requirements which limit exposure to custodial credit risk for deposits or investments, but preference is given to Indiana institutions based on the additional insurance coverage provided by the State. Of the almost $98.8 million invested, $45.6 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 nearly $17.6 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 44 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. The University does not have a formal policy for credit risk. Of the total U.S. government securities listed in the table above, $43.8 million are invested in government-sponsored enterprises that are neither guaranteed or insured by the full faith and credit of the U.S. Treasury, and, therefore have more credit risk than any direct obligation of the U.S. Treasury.

Concentration of credit risk – This is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy limits the investments in any one Indiana institution to 25 percent of the total portfolio of cash, certificate of deposits, and repurchase agreements as valued at the end of the preceding month. Operating funds which are invested in overnight repurchase agreements as part of the cash management program are excluded from the 25 percent limit. At June 30, 2014, the University is 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 investment policy does not authorize global investments. Therefore, it is not exposed to foreign currency risk.

NOTE 4 – Accounts Receivable

The following schedule summarizes accounts receivable at June 30, 2014, compared to the previous fiscal year.

	2014	**2013**
Student receivables	$ 8,534,931	$ 6,863,044
Auxiliary enterprises	1,285,434	1,257,098
Grants and contracts	636,114	689,312
Other	1,466,983	1,394,453
Current accounts receivable, gross	11,923,462	10,203,907
Allowance for uncollectible accounts	(1,028,149)	(953,583)
Current accounts receivable, net	$ 10,895,313	$ 9,250,324
Noncurrent accounts receivable	$ -	$ 88,029

NOTE 5 – Derivative Instruments
The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2014, classified by type and the fair value changes of those derivative instruments are as follows.

		Change in Fair Value		Fair Value at June 30, 2014	
Derivative Instrument	**Type**	**Amount**	**Classification**	**Amount**	**Current Notional**
Series 2006	Cash flow hedge: Pay-fixed interest rate swap	$78,118	Derivative Instrument Interest Rate Swap	$(940,469)	$5,645,234
Series 2008A	Cash flow hedge: Pay-fixed interest rate swap	$91,671	Derivative Instrument Interest Rate Swap	$(974,038)	$8,650,000

As of June 30, 2014, 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, 2014, 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	$5,645,234	1/1/2008	1/1/2028	65% of 3 mo. USD-LIBOR-BBA	A2
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2008 Bonds	$8,650,000	7/1/2008	10/1/2021	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, 2014, with Series 2006 having a balance of $940,469 and Series 2008A having a balance of $974,038. Because both of the derivative instruments and the debts being hedged are with the same counterparty, there is no credit risk exposure. The fair value of the derivative instruments would simply be netted against the payoff of the debts.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely 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, 2014, total $122,702,674 and are identified in the following schedule.

						June 30, 2014		
SCHEDULE OF BONDS AND NOTES PAYABLE	*Issue Date*	*Interest Rate*	*Current Year Rate*	*Maturity Date*	*Original Issue Amount*	*Principal Outstanding*	*Interest Outstanding*	***Total Outstanding***
Student Fee Bonds								
Series D, Health Professions Center	1993	2.25% to 5.80%	5.80%	2015	$24,678,101	$487,440	$1,182,560	**$1,670,000**
Series G, Recreation & Fitness Center	1999	0.00% to 10.00%*	0.15%	2019	4,700,000	2,000,000	11,100	**2,011,100**
Series 2006, Recreation & Fitness Center	2006	4.67%	4.67%	2028	7,250,000	5,645,234	2,033,602	**7,678,836**
Series J, Business and Engineering Center	2009	2.50% to 5.00%	5.00%	2028	50,185,000	41,570,000	18,554,893	**60,124,893**
Series K-1, Teaching Theatre	2012	2.00% to 4.00%	3.00%	2032	12,300,000	10,960,000	4,544,875	**15,504,875**
Series K-2, Refund Series I	2012	1.25%	1.25%	2015	3,545,000	2,370,000	29,750	**2,399,750**
Series K-3, Refund Series H and I	2012	1.90%	1.90%	2023	42,840,000	38,960,000	3,510,630	**42,470,630**
Auxiliary System Bonds								
Series 2003, Student Housing Facilities	2003	3.00% to 4.50%	3.75%	2024	8,005,000	5,130,000	1,319,789	**6,449,789**
Series 2008A, Student Housing Facilities	2008	3.97%	3.97%	2021	9,800,000	8,650,000	2,104,100	**10,754,100**
Series 2011A, Student Housing Facilities	2011	1.63%	1.63%	2016	11,550,000	6,930,000	169,439	**7,099,439**
Total					**$174,853,101**	**$122,702,674**	**$33,460,738**	**$156,163,412**

*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 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 0.15 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
2014-15	$ 11,267,567		$ 11,267,567	$ 4,644,834	$ 15,912,401
2015-16	11,552,766		11,552,766	4,389,250	15,942,016
2016-17	10,360,798		10,360,798	3,520,895	13,881,693
2017-18	8,261,281		8,261,281	3,275,331	11,536,612
2018-19	8,572,488		8,572,488	3,053,104	11,625,592
2019-24	46,618,341		46,618,341	10,586,189	57,204,530
2024-29	23,049,433		23,049,433	3,743,535	26,792,968
2029-33	3,020,000		3,020,000	247,600	3,267,600
Total	**$ 122,702,674**	**$0**	**$ 122,702,674**	**$ 33,460,738**	**$ 156,163,412**

NOTE 7 – Lease Obligations

For the fiscal year ended June 30, 2014, the University spent $142,634 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 $97,575 to lease off-campus facilities, $31,339 for equipment, and $13,720 for vehicle leases.

The University also has lease agreements with Xerox Corporation for the use of copiers that are substantively lease-purchases. These capital lease obligations are included in the Statement of Net Position and future scheduled payments under these agreements are illustrated in the schedule below.

Fiscal year ending June 30	Lease Payments
2015	$155,599
2016	59,530
2017	30,242
2018	12,786
Total minimum lease payments	$258,157
Less interest	(492)
Total principal payments outstanding	$257,665

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

The total cumulative compensated absence liability is $2,467,486 and $2,313,740 for June 30, 2014 and 2013, respectively. The current year change represents a $145,983 increase in accrued vacation; a $3,877 decrease in sick leave liability; a $10,871 increase in Social Security and Medicare taxes; and a $770 increase in Public Employees' Retirement Fund (PERF) contributions. During the fiscal year, $173,939 was paid out to terminating employees. Payout for terminating employees in fiscal year 2014-15 is expected to increase approximately 99 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $345,600 of the total compensated absence liability is classified as a current liability and the remaining $2,121,886 is classified as a noncurrent liability.

NOTE 9 – Termination Benefits Liability
GASB Statement No. 47, *Accounting for Termination Benefits,* requires the University to recognize a liability and an expense for voluntary termination benefits, such as early-retirement incentives, when the offer is accepted and the amount can be estimated. Members of USI's regular full-time faculty and administrative staff who have been employed in an eligible position prior to January 1, 1999, who have 15 or more consecutive years of service, and who are age 60 or older may receive early-retirement benefits upon request. These benefits include a lump-sum retirement service pay calculated as a percent of final-year salary based on length of service, not to exceed 25 percent, and continued contribution to retirement annuity contracts through the end of the fiscal year in which the retiree reaches age 66. Salaries are assumed to increase at a rate of 1.8 percent annually for purposes of calculating this liability.

USI has 27 retirees currently receiving early-retirement benefits, 12 of whose benefits stop after this fiscal year, and seven more who have arranged to begin receiving benefits within the next three years. The liability for these benefits totals $668,700 at June 30, 2014. Of that amount, $281,926 is expected to be paid out during the following fiscal year, and the remaining $386,774 has been classified as noncurrent. This liability will change annually as more employees elect this benefit and as benefits for current retirees end.

NOTE 10 – Retirement Plans
Substantially all regular employees of the University are covered by either the *Teachers Insurance and Annuity Association-College Retirement Equities Fund Retirement Plan* (TIAA-CREF) or the *Public Employees' Retirement Fund* (PERF). The TIAA-CREF plan is an IRC 403(b) defined contribution plan; PERF is a defined benefit plan under IRC 401(a) and a state plan described in IC 5-10.2 and 5-10.3. The University contributed $6,525,052 to these programs in fiscal year 2013-14, which represents approximately 11.5 percent of the total University payroll and 13.8 percent of the benefit-eligible employees' payroll for the same period.

Faculty and Administrators 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. For the 2013-14 fiscal year, the University paid 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 $5,172,941 to this plan for 616 participating employees for fiscal year ending June 30, 2014, and $4,982,448 for 605 participating employees for fiscal year ending June 30, 2013. The annual payroll for this group totaled $37,814,557 and $36,395,954 for fiscal years ending June 30, 2014 and 2013 respectively.

To address the anticipated continued increase in retirement plan costs, management created a benefits study group to review the retirement plan for faculty and administrators and to develop recommendations for changes. As a result, the following revisions, subject to any provisions or limitations required by the Internal Revenue Code, were approved by the USI Board of Trustees on March 6, 2014.

- Amend the defined contribution plan to allow for a fixed employer contribution of 11 percent of appointment salary, to take effect at the beginning of the next plan year, July 1, 2014.
- When the employer contribution is amended, include a grandfather clause that allows the following two groups to continue to receive the current 11 percent/15 percent contribution:
    - Retired employees who have already begun an early retirement benefit period before or on July 1, 2014, for the remainder of the post-retirement contribution period; and
    - Disabled retired employees who have been or will be determined to be eligible for post-retirement benefits under the Long-Term Disability plan in place through December 31, 2013, with the Standard, for disabilities that are determine to have begun in 2013 or earlier, even if approved after 2013, for the length of such disability period.
- Provide a special one-time base salary increase to all full-time faculty and administrators hired on or before June 30, 2014, and to written offers for full-time faculty and administrators extended on or before March 6, 2014, equal to the amount of the University contribution decrease on their June 30, 2014, salary, plus the faculty or administrator's actual Social Security tax (if any) and Medicare tax on that one-time basis salary increase.

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 worked at least half-time participated 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 11.2 percent of the employee's salary this fiscal year. Employees were 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 $1,352,111 for 423 employees participating in PERF during the 2013-14 fiscal year and $1,213,808 for 421 employees participating during 2012-13.

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 the most recently available 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)
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%
2013	4,948	9,584	4,636	51.6%	9,558	48.5%

PERF – Development of Net Pension Obligation

	2011	*2012*	*2013*
Annual Required Contribution (ARC) *	$877,375	$912,708	$921,537
Interest on Net Pension Obligation @ 7%	(38,109)	(18,868)	(7,886)
Adjustments to ARC **	43,873	21,721	9,180
Annual Pension Cost (APC)	883,139	915,561	922,831
Contributions made by USI ***	608,260	762,856	924,684
Change in Net Pension Obligation	274,879	152,705	(1,853)
Net Pension Obligation, Beginning of Year	(544,421)	(269,542)	(116,837)
Net Pension Obligation, End of Year	**($269,542)**	**($116,837)**	**($118,690)**

* Pro rata portion of total ARC for State.

** Net Pension Obligation at beginning of year divided by amortization factor of 12.409 for 2011 and 2012 and 12.727 for 2013.

*** Percentage of APC contributed: 2011 at 69%; 2012 at 83%; 2013 at 100%.

The required contribution was set equal to a pro rata portion of the total ARC for the State based on the June 30, 2011, valued ARC percentage and the actual payroll of each employer. 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.

To address the anticipated continued increase in retirement plan costs, management created a benefits study group to review the retirement plan for support staff and to develop recommendations for changes. Because PERF benefits are provided under provisions of Indiana Code, the University has determined that such benefits must continue to be provided for existing eligible support staff and for any re-hired support staff member who was in a PERF-eligible position during a previous period of employment. For newly hired staff, the USI Board of Trustees approved a new defined contribution plan on March 6, 2014. The new plan applies only to new hired support staff in regular assignments with a 50 percent or greater schedule with an employment date on or after July 1, 2014, and no prior PERF-eligible employment with the University. The new plan will be established with TIAA-CREF, with the same immediate vesting and other features of the defined contribution plan for faculty and administrators, but with a fixed employer contribution of seven percent of compensation and using the PERF definition of eligible compensation.

NOTE 11 – Risk Management

The University is exposed to various risks of loss: torts; errors or omissions; theft, damage to property or destruction of assets; vehicle losses; job-related illness or injuries to employees; and natural disasters. The University manages these risks through a combination of risk retention and risk transfer, or the purchase of commercial insurance. Property insurance for buildings and contents and other special form coverage is subject to a deductible of $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 then a 2% deductible for building, contents and business income; a minimum deductible of $50,000 for flood for each loss; and a $50,000 minimum deductible for “Windstorm” meaning wind, wind driven rain or hail. 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 available for new enrollment of full-time benefit-eligible employees plus one plan frozen to new participants; two of these plans 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. For fiscal year ended on June 30, 2014, the University’s contribution to these health care plans totaled $9,317,390 for 1,044 employees and $1,319,155 for 324 retirees. For the same period, employees and retirees made contributions totaling $2,779,775 and $531,315 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 a significant portion of the aggregate liability beyond 125 percent of expected claims. The liability for medical claims incurred but not reported at June 30, 2014, 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 2013-14 fiscal year are as follows:

Beginning liability, June 30, 2013	$2,725,453
Claims incurred	11,181,371
Claims paid	(10,031,682)
Ending liability, June 30, 2014	$3,875,142

NOTE 12 – VEBA Trust

The University established a Voluntary Employees' Benefit Association (VEBA) Trust for the purpose of providing medical, dental, and life insurance benefits to employees who retire after attaining age 60 with at least ten years of service and to employees who retire under the Rule of 85. Historically, the trust has been 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. In 2013, management elected to discontinue contributions from employees and retirees in anticipation of changes to retiree insurance coverage. As a result, University contributions were funded from exclusively from designated reserve funds during the most recent fiscal year.

The University does not anticipate that the VEBA Trust will pay for all post-retirement benefits. Instead, funds from the trust will be used to reduce the increasing burden of such expenses on the current operating funds during future years. A summary of the activity in the trust for the year ending June 30, 2014, follows.

VEBA TRUST	MARKET
Fund balance at July 1, 2013	$16,204,569
Transfer from University reserves	150,000
Employee/employer contributions	-
Retiree/employer contributions	-
Reinvested net earnings	337,110
Net gain/(loss) on sales of trust investments	410,719
Less: Management fees and taxes	(49,449)
Net change in market value	2,134,100
Fund balance at June 30, 2014	**$19,187,049**

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

NOTE 13 – Other Postemployment Benefits (OPEB)
Plan Description. The USI Voluntary Employees' Benefit Association (VEBA) Trust is a single-employer defined benefit healthcare plan administered by the Old National Trust Company. The VEBA Trust was established for the purpose of providing medical and dental benefits to eligible retirees and their spouses. The USI Board of Trustees has the authority to establish or amend the benefit provisions of the plan. Old National Trust Company does not provide a stand-alone financial report of the USI VEBA Trust, but the plan assets and financial activity are included as part of its publicly-available audited financial report. That report may be obtained by writing to Old National Bancorp, One Main Street, Evansville, IN 47708, or by calling (800) 731-2265.

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, 2014, USI contributed $1,673,610 to the plan, including $1,523,610 for current premiums (approximately 74 percent of total premiums), and $150,000 to prefund benefits. Plan members receiving benefits contributed $531,315, or approximately 26 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 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.

	2012	2013	2014
Annual required contribution	$4,379,913	$4,379,913	$4,890,274
Interest on net OPEB obligation	178,983	306,573	450,491
Adjustment to annual required contribution	(213,541)	(355,220)	(540,169)
Annual OPEB cost	4,345,355	4,331,266	4,800,596
Contributions made	(2,145,520)	(1,849,922)	(1,673,610)
Increase (decrease) in net OPEB obligation	2,199,835	2,481,344	3,126,986
Net OPEB obligation, beginning of year	3,085,915	5,285,750	7,767,094
Net OPEB obligation, end of year	$5,285,750	$7,767,094	$10,894,080

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
6-30-2012	$4,345,355	49.4%	$5,285,750
6-30-2013	$4,331,266	42.7%	$7,767,094
6-30-2014	$4,800,596	34.9%	$10,894,080

Funded Status and Funding Progress. As of June 30, 2014, the plan was 35 percent funded. The actuarial accrued liability (AAL) for benefits was $54,936,503, and the actuarial value of assets was $19,187,049, resulting in an unfunded actuarial accrued liability (UAAL) of $35,749,454. The covered payroll (annual payroll of active employees covered by the plan) was $49,585,343, and the ratio of the UAAL to covered payroll was 72.1 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)
6-30-2012	$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%
6-30-2014	$19,187,049	$54,936,503	$35,749,454	34.93%	$49,585,343	72.10%

Actuarial Methods and Assumptions. 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 for July 1, 2013, 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 (7 percent) on the asset classes held in the VEBA Trust and the expected USI internal rate of return (3 percent) on general assets. The actuarial value of VEBA Trust assets for the purposes of determining the annual recommended contribution is the market value of the assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount on an open basis over a 30-year period.

Other assumptions that have factored into the actuarial evaluations to date are based on the University's plan for retiree insurance eligibility. Under the current plan, full-time, benefits-eligible employees who retire from the University with 10 years of service and who are at least age 60, as well as those who meet the rule of 85 or who become totally disabled as designated by the long-term disability insurer, are entitled to continue medical, dental, and life insurance benefits under the terms of the plans during the period of retirement or disability. An annual healthcare cost trend rate has been assumed for each benefit. The rates range from 9 percent in fiscal year 2014 and declines annually until they reach 4.5 percent in fiscal year 2031. Retiree contributions are assumed to increase according to these rates.

Future Changes to Retiree Healthcare Plans. To address the anticipated continued increase in retiree healthcare costs outlined in the actuarial report, management created a benefits study group to review retiree benefit plans and to develop recommendations for changes to those plans. As a result, the following revisions, subject to any provisions or limitations required by the Internal Revenue Code, were approved by the USI Board of Trustees on March 6, 2014.

- End retiree medical, dental, and life insurance coverage for all employees who are hired on or after July 1, 2014.
- Continue a life insurance benefit at retirement or disability retirement for all full-time, benefit-eligible employees who are hired on or before June 30, 2014.
- Continue the option of medical and dental insurance at retirement for all full-time, benefit-eligible employees hired on or before June 30, 2014, whose age plus years of service on July 1, 2014 equals or exceeds 57 points, or whose benefits-eligible service as of that date is 10 or more years, and for any disabled retiree whose beginning date of disability was on or before June 30, 2014.
- End the option of medical and dental insurance at retirement for all full-time, benefits-eligible employees whose age plus years of service as of July 1, 2014, is less than 57 points and whose benefits-eligible service as of that date is less than 10 years.

NOTE 14 – 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	2014 TOTAL	2013 TOTAL
Instruction	$29,491,003	$10,024,387			$2,968,983		$42,484,373	$41,688,863
Academic Support	5,526,263	2,196,728			4,907,155		12,630,146	11,906,237
Student Services	4,252,466	1,756,440			2,158,504		8,167,410	8,231,622
Institutional Support	8,099,263	6,826,963			2,063,960		16,990,186	17,666,098
Operation & Maintenance of Plant	3,657,580	2,049,161		4,667,266	1,789,777		12,163,784	12,665,102
Depreciation						12,949,474	12,949,474	12,369,911
Student Aid	12,414	875,069	10,862,701		288		11,750,472	10,288,465
Public Service	1,380,178	495,555			1,093,817		2,969,550	2,880,952
Research	142,115	31,346			196,914		370,375	377,182
Auxiliary Enterprises	4,279,183	2,387,313		1,031,316	12,035,744		19,733,556	26,222,941
TOTAL	**$56,840,465**	**$26,642,962**	**$10,862,701**	**$5,698,582**	**$27,215,142**	**$12,949,474**	**$140,209,326**	**$144,297,373**

NOTE 15 – Construction in Progress

Construction in progress at year-end totals $16.6 million (see capital assets table below). Projects under construction include the Teaching Theatre; the Teaching Theatre Support Building; painting the exterior of the Atheneum in New Harmony; replacement of the air handling units in the Technology Center; repair and replacement of the asphalt on Clarke Lane; renovation of the Baker, Mount, Hammond, and Chase apartment buildings in the McDonald East student housing complex and the Wallace apartment building in the O'Daniel South student housing complex; renovation of the lower level of the Science Center; the first phase of the renovation of the Orr Center; and renovation of the Scholar's Retreat House in New Harmony. The total expended to date on the projects is $16.2 million, and the estimated additional cost to complete them is $7.1 million.

Projects in planning and design include a Visitor's Center, The Griffin Center, a new Children's Learning Center; an advising center in the College of Liberal Arts; street lighting on Bennett Lane; improvements to parking lots A, B and C; replacement of the roofs on the Bowen, Craig, and Gates apartment buildings in the O'Daniel North student housing complex; an upgrade of the energy management system; renovation of the Sub Connection restaurant in the University Center West; renovation of the Technology Center; renovation of office space in the Science Center for Disability Resources; and renovation of office space for Veterans Support Services. Amounts expended to date on the projects total $405,749, and the projects have a total estimated remaining cost of approximately $9.4 million.

NOTE 16 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $316.3 million at July 1, 2013, to $335.9 million on June 30, 2014. Gross capital assets, less accumulated depreciation of $154.6 million, equal net capital assets of $181.3 million at June 30, 2014.

Capital Assets	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Accumulated Depreciation	Net Capital Assets
Land	$4,622,923	202,532		$4,825,455		$4,825,455
Land Improvements	13,221,504	459,350		13,680,854	7,270,611	6,410,243
Infrastructure	6,869,779	873,926		7,743,705	2,214,832	5,528,873
Educational Buildings	155,544,892	5,031,617		160,576,509	70,989,262	89,587,247
Auxiliary Buildings	100,628,556	5,055,889	50,000	105,634,445	53,966,997	51,667,448
Equipment	20,056,808	2,208,566	80,790	22,184,584	16,595,250	5,589,334
Library Materials	3,759,368	86,658	8,881	3,837,145	3,065,347	771,798
Capital Lease Equipment		774,644		774,644	517,599	257,045
Construction in Progress	11,631,205	12,329,659	7,334,577	16,626,287		16,626,287
Totals	**$316,335,035**	**$27,022,841**	**$7,474,248**	**$335,883,628**	**$154,619,898**	**$181,263,730**

Summary of Construction Change Orders
Authorized by the Vice President for Finance and Administration
November 6, 2014

TEACHING THEATRE PROJECT

Alva Electric

CO-E12	Extend mechanical room devices from the wall to allow for insulation installation	$	1,657

Empire Contractors, Inc. - General Contractors

CO-G48	Extended drywall and structure from window jamb to brick	$	2,227
CO-G49	Install Linoleum flooring in lower corridor instead of finshed concrete	$	3,343
CO-G50	Exterior Brick Remediation	$	7,309
CO-G51	Modifications to wood floor due to additional penetrations	$	3,888
CO-G52	Modifications to light fixtures in the vomitory	$	1,731
CO-G53	Accoustical drape split	$	294
CO-G54	Fire Strobe and LCD relocation	$	1,321
CO-G55	Relocation of roof storm drain and piping	$	1,668
CO-G56	Revisions to catwalks and finwall	$	8,110
CO-G57	Addition of a retaining wall	$	7,181

Deig Brothers Lumber and Construction Co. - Mechanical Contractors

CO-M14	AHU Warranty	$	4,186
CO-M15	Relocate temporary FP and FD connection	$	6,715