AGENDA

JOINT FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA BOARD OF TRUSTEES

November 1, 2007

(FINANCE/AUDIT)

1. REVIEW OF AUDITED FINANCIAL STATEMENTS

A report will be presented on the audited financial statements for the fiscal year ending June 30, 2007. Attachment A includes excerpts of the statements. Additional information will be available at the meeting on November 1, 2007.

2. REVIEW OF VOLUNTARY EMPLOYEES' BENEFIT ASSOCIATION (VEBA) TRUST RECOMMENDATIONS

At its meeting on September 6, 2007, the Finance/Audit Committee discussed the investment performance of the Voluntary Employees' Benefit Association Trust and requested additional information regarding the Trust. A report and recommendations will be presented.

(FINANCE/AUDIT AND CONSTRUCTION)

3. APPROVAL OF RECOMMENDATION FOR AUTHORIZING RESOLUTION TO DELEGATE AUTHORITY TO THE FINANCE/AUDIT AND CONSTRUCTION COMMITTEES FOR THE UNIVERSITY CENTER EXPANSION/RENOVATION PROJECT

To proceed with planning and requests for approval for the construction of the University Center Expansion/Renovation Project, action may be required between regular meetings of the Board of Trustees. It is recommended that the following authorizing resolution be presented to the Board of Trustees for approval at its meeting on November 1, 2007.

WHEREAS, the University of Southern Indiana Board of Trustees wishes to proceed with the planning and construction of the University Center Expansion/Renovation Project as submitted in the 2003-2005 Capital Improvement Budget Request, authorized by the 2003 Indiana General Assembly, and supplemented by the 2006 Indiana General Assembly; and

WHEREAS, the project, not eligible for fee replacement, received bonding authorization in the amount of $13.75 million from the General Assembly; and

WHEREAS, this bonding authorization will be supplemented by the proceeds of previous borrowing and various reserves and fund balances, such that a $17,650,000 project is planned; and

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

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

FURTHER RESOLVED that the Treasurer is authorized to issue a Request for Proposal to solicit investment banking firms interested in providing service to the University in financing the University Center Expansion/Renovation Project;

FUTHER RESOLVED that the Finance/Audit Committee is authorized to evaluate results of investment banking proposals; accept a proposal or reject all proposals; approve all financing plans on behalf of the Board of Trustees; and report its actions to the Board;

FURTHER RESOLVED that the President is authorized to request the Indiana Commission for Higher Education, the Indiana State Budget Committee, and the Governor of the State of Indiana to approve the University Center Expansion/Renovation Project.

4. APPROVAL OF RECOMMENDATION FOR AUTHORIZING RESOLUTION TO DELEGATE AUTHORITY TO THE FINANCE/AUDIT AND CONSTRUCTION COMMITTEES FOR THE BUSINESS AND ENGINEERING CENTER PROJECT

To proceed with planning and requests for approval for the construction of the Business and Engineering Center Project, action may be required between regular meetings of the Board of Trustees. It is recommended that the following authorization resolution be presented to the Board of Trustees for approval at its meeting on November 1, 2007.

WHEREAS, the University of Southern Indiana Board of Trustees wishes to proceed with the planning and construction of the Business and Engineering Center project as submitted in the 2005-2007 Capital Improvement Budget Request, with design authorized by the 2005 Indiana General Assembly and construction funding authorized by the 2007 Indiana General Assembly; and

WHEREAS, the project, which is eligible for fee replacement, therefore received additional bonding authorization in the amount of $29,900,000 from the General Assembly; and

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

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

FURTHER RESOLVED that the Treasurer is authorized to issue a Request for Proposal to solicit investment banking firms interested in providing service to the University in financing the Business and Engineering Center Project;

FURTHER RESOLVED that the Finance/Audit Committee is authorized to evaluate the results of investment banking proposals; accept a proposal or reject all proposals; approve all financing plans on behalf of the Board of Trustees; and report its actions to the Board;

FURTHER RESOLVED that the President is authorized to request the Indiana Commission for Higher Education, the Indiana State Budget Committee, and the Governor of the State of Indiana to approve the Business and Engineering Center Project.

UNIVERSITY OF SOUTHERN INDIANA

PRELIMINARY FINANCIAL STATEMENTS

FOR FISCAL YEAR ENDING JUNE 30, 2007

Prepared by

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Director of Internal Audit

UNIVERSITY OF SOUTHERN INDIANA
Statement of Revenue, Expenses, and Change in Net Assets
Years ended June 30, 2007 and 2006

	2007	2006
REVENUES		
Operating Revenues		
Student fees	$44,495,090	$ 41,605,858
Scholarship discounts and allowances	(10,128,591)	(9,196,258)
Federal grants and contracts	6,744,794	6,306,558
State and local grants and contracts	6,126,237	5,731,816
Non-governmental grants and contracts	808,539	639,909
Auxiliary enterprises	21,658,523	21,489,359
Room and board discounts and allowances	(597,826)	(555,423)
Other operating revenues	1,281,408	1,929,296
Total operating revenues	$70,388,175	$67,951,115
EXPENSES		
Operating Expenses		
Compensation:		
Salaries and Wages	$43,904,323	$ 42,597,372
Benefits (Notes 10, 11 & 12)	14,722,063	13,976,659
Student financial aid	5,595,685	5,653,167
Utilities	3,905,803	4,027,017
Supplies and other services	29,631,652	28,871,502
Depreciation	9,302,831	8,328,213
Total operating expenses	$107,062,357	$103,453,930
Operating income (loss)	$ (36,674,182)	$ (35,502,815)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$41,854,128	$40,951,727
Gifts	2,069,262	1,948,189
Investment income (net of investment expense of $24,755 and $54,498 for 2007 and 2006)	3,972,838	2,436,686
Interest on capital asset-related debt	(5,813,367)	(5,547,903)
Bond issuance costs	(13,126)	(68,988)
Other non-operating revenues (expenses)	(93,504)	(130,862)
Net non-operating revenues	$41,976,232	$39,588,849
Income (Expense) before other revenues, expenses, gains, or losses	$5,302,050	$4,086,037
Capital grants and gifts	804,631	67,167
Total other revenues	804,631	67,167
Increases (Decreases) in net assets	$6,106,681	$4,153,201
NET ASSETS		
Net assets – beginning of year	$82,903,196	$78,749,992
Net assets – end of year	**$89,009,877**	**$82,903,196**

UNIVERSITY OF SOUTHERN INDIANA
Statement of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Tuition and fees	$33,656,827	$ 32,316,761
Grants and contracts	13,015,166	12,721,677
Payments to suppliers	(29,173,098)	(29,245,293)
Payments for utilities	(3,905,803)	(4,027,017)
Payments to employees	(43,850,353)	(41,944,671)
Payments for benefits	(15,177,906)	(13,704,577)
Payments for scholarships	(5,595,685)	(5,653,167)
Loans issued to students	(315,935)	(417,184)
Collection of loans to students	357,166	435,127
Auxiliary enterprises receipts	21,791,256	20,299,961
Sales and services of educational depts.	133,130	128,702
Other receipts (payments)	(1,664,904)	1,629,109
Net cash used by operating activities	**($ 30,730,139)**	**($ 27,460,572)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$43,079,798	$ 40,971,607
Gifts and grants for other than capital purposes	2,069,262	1,948,189
Other non-operating receipts (payments)	(66,991)	115,941
Net cash provided by Noncapital financing activities	**$45,082,069**	**$ 43,035,737**
Cash Flows from Capital Financing Activities		
Proceeds from capital debt	$3,825,000	$ 50,000
Capital grants and gifts	963,391	177,673
Bond financing costs	(106,630)	(199,850)
Purchase of capital assets	(3,501,136)	(14,696,527)
Principal paid on capital debt	(5,656,434)	(5,727,110)
Interest paid on capital debt and leases	(5,938,982)	(5,656,842)
Proceeds from deposit with trustee	1,743,885	19,138,484
Net cash used by capital financing activities	**$(8,670,905)**	**($ 6,914,172)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	$33,830,503	$ 23,849,862
Interest on investments	3,967,159	2,023,577
Purchase on investments	(45,549,848)	(39,329,268)
Change in deposit with trustee	128,017	263,242
Net cash used by investing activities	**$(7,624,169)**	**($ 13,192,587)**
Net increase in cash	$(1,943,145)	($ 4,531,594)
Cash – beginning of year	17,365,826	21,897,420
Cash – end of year	**$15,422,681**	**$ 17,365,826**

UNIVERSITY OF SOUTHERN INDIANA
Statement of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	$(36,674,182)	($ 35,502,812)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	9,302,831	8,328,213
Provision for uncollectible accounts	15,415	11,896
Changes in assets and liabilities:		
Receivables	(3,002,255)	(1,427,880)
Inventories	(190,048)	(33,918)
Other assets	(963,911)	107,622
Accounts payable	24,994	28,452
Deferred revenue	476,228	443,981
Deposits held for others	17,821	9,474
Compensated absences	221,736	556,457
Loans to students	41,231	17,943
Net cash used by operating activities:	**$(30,730,139)**	**($ 27,460,572)**

Noncash Transactions		
Unrealized (gain) loss on short-term investments	$5,692	($ 56,359)
Unrealized (gain) loss on long-term investments	286,440	690,759
Net Noncash transactions	**$292,133**	**$ 634,400**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 -- Summary of Significant Accounting Policies

The University of Southern Indiana was established in 1985 as described in the Indiana Code (IC 21-24-1 through IC 21-24-4-1). The University is managed by a nine-member board of trustees whose members are appointed by the governor. The board must include at least one alumnus, one resident of Vanderburgh County, and one full-time student in good standing. Each member must be a citizen of the United States and a resident of Indiana. Trustees serve staggered four-year terms 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 to the tri-state area. The University also must receive authorization from the State before undertaking major capital projects. As a component unit, public higher education institutions, as a group, will be discretely presented on the Comprehensive Annual Financial Report issued annually by the State of Indiana.

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

Accounting Methods and Policies

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

- Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.
- Restricted revenues and receivables resulting from non-exchange transactions are recognized when all applicable eligibility requirements are met. Resources received before eligibility requirements are met are recorded as deferred revenues.
- Revenue from major sources is susceptible to accrual if the amount is measurable.
- Internal service activity, referred to as chargeback income/expense, has been eliminated from the statement of activities to prevent the double-counting of expenses and the recognition of self-generated revenue.

Capital Assets Accounting Policies
The University established a capitalization threshold of $5,000 and a useful life greater than two years. The University records depreciation for all capital assets with the exception of land and historical sites. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful life of each capital asset group is as follows:

- Building components (shell, roof, utilities, and internal) -- 8-50 years
- Equipment -- 5-15 years
- Land improvements -- 15 years
- Infrastructure -- 25 years
- Library materials -- 10 years

Plant assets are removed from the records at the time of disposal. See Note 15 in the *Notes to Financial Statements* for current-year activity and accumulated depreciation on the various classes of assets.

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 support the cultural awareness of its students, faculty, staff, and the citizens of southwestern Indiana. The collection consists of both donated and purchased items. Many of the donated pieces were received without appraised values. Collection pieces which have been appraised or purchased are valued at $710,496. Appraised values for the remaining collection will be obtained over future periods. The currently-known value is not included in the capitalized asset value at June 30, 2007.

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

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

Investments are recognized in the accounting records at cost on the date of purchase. For financial statement presentation, they are reported at the market value in effect on June 30 of the current fiscal year. Unrealized gain or loss is included with interest income on the Statement of Revenues, Expenses, and Changes in Net Assets.

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

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

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

NOTE 2 – Deposit and Investment Risk Disclosures
It is the policy of the University of Southern Indiana to manage the investment portfolio of the University in a manner described in Section 30-4-3-3 of the Indiana Code. Authorized investments include obligations of the U.S. Treasury and U.S. government agencies, certificates of deposit, repurchase agreements, money market mutual funds, savings, and negotiable order-of-withdrawal accounts. Investments with Indiana institutions are limited to those banks, savings banks, and savings and loan institutions that provide deposit insurance for university funds under Indiana statutes by the Public Deposit Insurance Fund, in addition to the amounts insured by agencies of the United States government (FDIC/SAIF). Investments with non-Indiana institutions must be insured by agencies of the U.S. government to the maximum statutory amount of $100,000.

Deposits – At June 30, 2007, the bank balances of the University's operating demand deposit accounts were $15,059,317, of which $429,047 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 was exposed to custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or collateral securities that are in the possession of an outside party.

Investments – The University's investments at June 30, 2007, 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	759,417	1%	$759,417			
Repurchase agreements	14,149,993	18%	14,149,993			
Certificates of deposit	39,410,291	51%	37,886,776	1,523,515		
U S Treasury & agency securities	22,934,487	30%	769,959	18,653,238	1,786,755	1,724,535
Totals	**$77,254,188**	100%	**$53,566,145**	**$20,176,754**	**$1,786,755**	**$1,724,535**
Maturity %	100%		70%	26%	2%	2%

Investment custodial credit risk – This is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the $77.3 million invested, $21.1 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. The remaining $1.8 million in U.S. government securities and $14.1 million in repurchase agreements are 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/SAID, 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 a larger percentage (70 percent) of investments in cash equivalents and short-term investments to be in a position to take advantage of the best rates in a timely fashion as well as sustaining adequate cash flow for operating needs.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Of the total U.S. government securities listed in the table above, $21.2 million are invested in government-sponsored enterprises that are neither guaranteed or insured by the full faith and credit of the U.S. Treasury, and, therefore have more credit risk than any direct obligation of the U.S. Treasury.

Concentration of credit risk – This is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's policy limits the investments in any one Indiana institution to 25 percent of the total portfolio of cash, certificate of deposits, and repurchase agreements as valued at the end of the preceding month. Operating funds which are invested in overnight repurchase agreements as part of the cash management program are excluded from the 25 percent limit. At June 30, 2007, the University was in compliance with that policy.

Foreign currency risk – This is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University does not have any global investments and, therefore, is not exposed to foreign currency risk.

NOTE 3 - Accounts Receivable
Accounts receivable are recorded net of allowance for uncollectible student fees of $266,808 and auxiliary services fees of $137,864. Prior-year allowances were $251,055 for student fee receivables and $139,256 for auxiliary services receivables. The accounts receivable balance for the 2006-07 fiscal year includes $2,909,409 in net student receivables and $5,700,440 in external receivables.

NOTE 4 – Due from State of Indiana
The twelfth payment of the 2005 fiscal year general operating appropriations ($2,834,700) was set aside until such time if and when the state assigned sufficient funds to pay some or all of the payment due. Senate Bill 345, enacted during the 2006 legislative session, appropriated funds from Indiana's general fund to the budget agency to pay a portion ($1,225,670) of the payment due during the 2006-07 fiscal year. Of the remaining unpaid balance of $1,612,030, half will be paid during the 2007-08 fiscal year and half will be paid in 2008-09. The funds are to be used for general repair and rehabilitation rather than general operating. When received, USI will treat the payment as reducing its claim to the amount budgeted for general operating appropriations for fiscal year ending 2005. For financial statement presentation, $806,015 has been reclassified from noncurrent to a current receivable and included as a restricted net asset. The final portion of $806,015 remains a noncurrent receivable.

NOTE 5 – Debt Related to Capital Assets
Notes Payable – In January 1997, the University issued two promissory notes totaling $2,127,318 to provide financing for an energy management performance contract. The remaining balance of $137,374 on the promissory notes was paid in full during the 2006-07 fiscal year. A new promissory note was issued in 2007 for interim financing on multiple projects. See Note 7 for more details.

Bonds Payable – Outstanding bonds payable at June 30, 2007, total $118,269,488 and are identified in the following schedule and in Note 6.

						June 30, 2007		
SCHEDULE OF BONDS AND NOTES PAYABLE	*Issue Date*	*Interest Rate*	*Current Year Rate*	*Maturity Date*	*Original Issue Amount*	*Principal Outstanding*	*Interest Outstanding*	***Total Outstanding***
Student Fee Bonds								
Series D, Health Professions Center	1993	2.25% to 5.8%	5.45%	2015	$24,678,101	$2,749,488	$4,765,512	**$7,515,000**
Series F, Liberal Arts Center	1998	3.55% to 4.7%	4.50%	2013	15,280,000	6,990,000	1,258,265	**8,248,265**
Series G, Recreation & Fitness Center	1999	0% to 10%*	3.70%	2019	4,700,000	3,900,000	1,129,850	**5,029,850**
Series H, Science & Education Center	2001	3.5% to 5.0%	4.00%	2021	25,260,000	21,645,000	9,270,358	**30,915,358**
Series I, Library Construction	2004	2.0% to 5.375%	3.00%	2023	49,590,000	45,590,000	19,578,900	**65,168,900**
Auxiliary System Bonds								
Series 2001A, Student Housing Facilities	2001	4.0% to 5.0%	5.00%	2018	23,775,000	17,685,000	5,817,625	**23,502,625**
Series 2001B, Student Housing Facilities	2001	0% to 10%*	3.63%	2021	10,800,000	10,000,000	4,505,840	**14,505,840**
Series 2003, Student Housing Facilities	2003	2.5% to 4.5%	3.00%	2024	8,005,000	7,435,000	3,116,140	**10,551,140**
Total					**$162,088,101**	**$115,994,488**	**$49,442,490**	**$165,436,978**

*These are variable interest bonds with daily, weekly, or term rates. The rates listed above are the average rates paid during the fiscal year. Not included in the table above is $2,275,000 drawn on a bond issued in June 2006 or $1,600,000 drawn on the interim financing note issued in June 2007. See Notes 6 and 7 for a full description of this debt.

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

The University of Southern Indiana Auxiliary System Revenue Bonds, Series 2001A; the Auxiliary System Variable Rate Demand Revenue Bonds, Series 2001B; and Auxiliary System Revenue Bonds, Series 2003, 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 and Auxiliary System Revenue Bond Series 2001B are variable rate bonds currently bearing interest at daily, weekly, and term rates ranging between zero and 10 percent. The rates in effect at June 30, and the rates used to calculate the future debt service requirements, were 3.83 percent for Series G and 3.73 percent for Series 2001B. 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
2007-08	$7,017,056	See Note 7	$7,017,056	$5,737,783	$14,354,839
2008-09	7,273,768		7,273,768	5,473,508	12,747,276
2009-10	7,636,540		7,636,540	5,179,665	12,816,205
2010-11	7,130,364		7,130,364	4,858,429	11,988,793
2011-12	7,430,216		7,430,216	4,538,290	11,968,506
2012-17	35,776,544		35,776,544	16,970,091	52,746,635
2017-22	36,255,000		36,255,000	6,276,225	42,531,225
2022-27	7,475,000		7,475,000	408,500	7,883,500
Total	**$ 115,994,488**	**$0**	**$ 115,994,488**	**$ 49,442,490**	**$ 165,436,978**

Not included in the table above are the principal and interest on a bond issued in June 2006 and the note issued in June 2007. See Notes 6 and 7 for a full description of this debt.

NOTE 6 – 2006 Bond Issue

In June 2006, the University issued a Junior Lien Student Fee Bond, Series 2006, in the amount of $7,250,000 to construct and equip an addition to the University's Recreation and Fitness Center. This issue carries a formula-driven variable interest rate based upon LIBOR that changes quarterly through December 31, 2007. During the variable rate period, the University is able to execute draws on the approved amount and incur interest expense only on the monies acquired. As of June 30, 2007, the University had drawn down $2,275,000 of the approved bond amount. Effective January 1, 2008, the interest rate will be fixed at 4.67 percent with a 20-year amortization based upon a swap agreement entered into with Old National Bank of Evansville.

NOTE 7 – Interim Financing

In June 2007, the University entered into a $6.6 million promissory note for the interim financing of multiple projects: architectural and engineering fees for a future Business and Engineering Center; completion of the lower level of the Education Center; and expansion of the physical plant facility. This debt was issued as bank qualified with a plan to refund it when the debt for the Business and Engineering Center is issued. The note bears interest at a variable rate per annum. The initial rate is 4.03 percent through September 30, 2007; thereafter, the rate will be a formula-driven variable based on LIBOR and adjusted every six months. As of June 30, 2007, the University had drawn down $1,600,000 of the maximum principal amount.

NOTE 8 - Compensated Absence Liability

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

The total cumulative compensated absence liability reflected in the Statement of Net Assets is $2,013,013 and $1,847,109 for June 30, 2007 and 2006 respectively. The current year change represents $140,250 increase in accrued vacation; $8,063 increase in sick leave liability; $11,346 increase in Social Security and Medicare taxes; and $6,246 increase in Public Employees' Retirement Fund (PERF) contributions. During the fiscal year, $102,665 was paid out to terminating employees. Payout for terminating employees in fiscal year 2007-08 is expected to increase approximately 40 percent because of the number who will have reached the requisite retirement age and years of service. For that reason, $147,633 of the total compensated absence liability is classified as a current liability and the remaining $1,865,380 is classified as a non-current liability.

NOTE 9 – Termination Benefits Liability
The Governmental Accounting Standards Board (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 severance pay calculated as a percent of final-year salary based on length of service, not to exceed 25 percent, and continued contribution to retirement annuity contracts through the end of the fiscal year in which the retiree reaches age 66. Salaries are assumed to increase at a rate of 3.5 percent annually for purposes of calculating this liability.

USI has 17 retirees currently receiving early-retirement benefits, five of whose benefits stop after this fiscal year, and twelve more who have arranged to begin receiving benefits within the next three years. The liability for these benefits total $975,671 at June 30, 2007. Of that amount, $302,413 is expected to be paid out during the following fiscal year, and the remaining $673,258 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 *State of Indiana Public Employees' Retirement Fund* (PERF). A small number of employees are covered under the *Indiana State Teachers' Retirement Fund* (STRF). The TIAA-CREF plan is an IRC 403(b) defined contribution plan; PERF and STRF are defined benefit plans under IRC 401(a) and are state plans described in IC 5-10.2-2 and 5-10.3. The University contributed $4,452,782 to these programs in fiscal year 2006-07, which represents approximately 10 percent of the total University payroll and 12 percent of the benefit-eligible employees' payroll for the same period.

<u>Faculty and Administrative Staff</u> Eligible employees may participate in the TIAA-CREF Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA-CREF, or another university-sponsored retirement plan, for at least one year prior to eligible employment at USI. The University contributes 11 percent of each participating employee's base appointment salary up to $10,800 and 15 percent of the base appointment salary above $10,800. The University contributed $3,758,992 to this plan for 512 participating employees for fiscal year ending June 30, 2007, and $3,619,103 for 477 participating employees for fiscal year ending June 30, 2006. The annual payroll for this group totaled $28,814,614 and $27,481,962 for fiscal years ending June 30, 2007 and 2006 respectively.

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

The University also contributes to STRF for three faculty and administrative employees who were grandfathered into the plan. STRF is a cost-sharing, multiple-employer public retirement program that provides retirement benefits to plan members and beneficiaries. The STRF retirement benefit consists of the pension provided by employer contributions, plus an annuity provided by the members' contributions, and the interest credited to the member's account. The University has elected to contribute the employer and employee share of required contributions, currently seven percent and three percent of employees' wages for employer and employee respectively. This has totaled $20,704 and $24,568 for fiscal years ending June 30, 2007 and 2006 respectively.

STRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the State Teachers' Retirement Fund, 150 West Market Street, Suite 300, Indianapolis, IN 46204, or by calling 317/232-3860.

Support Staff Employees in eligible positions and who work at least half-time participate in PERF, a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the State of Indiana. There are two parts to this plan: an annuity savings plan to which the University contributes 3 percent of the employee's salary, and a defined benefit agent multi-employer plan to which the University contributed 5.5 percent of the employee's salary this fiscal year. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit part of the plan after ten years of employment. The University contributed $673,087 for 393 employees participating in PERF during the 2006-07 fiscal year and $588,240 for 337 employees participating during 2005-06.

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

PERF – Schedule of Funding Progress (dollars in thousands)

Fiscal Year Ending June 30	Actuarial Value of Plan Assets (A)	Actuarial Accrued Liability (B)	Underfunded/ (Overfunded) Accrued Liability (C)	Funded Ratio (A/B)	Actual Covered Payroll (D)	Underfunded/ (Overfunded) Liability as % of Payroll (C/D)
2004	4,571	4,300	(271)	106.3%	7,606	(3.6%)
2005	5,046	5,148	102	98.0%	7,843	1.3%
2006	6,669	6,794	125	98.2%	7,919	1.6%

PERF – Development of Net Pension Obligation

	2004	*2005*	*2006*
Annual Required contribution (ARC) *	$251,893	$273,415	$346,217
Interest on Net Pension Obligation @ 7.25%	(25,016)	(35,940)	(36,418)
Adjustments to ARC **	28,507	(40,956	(41,501)
Annual Pension Cost (APC)	255,384	196,519	268,298
Contributions made by USI ***	406,062	285,029	347,463
Decrease in Net Pension Obligation	(150,678)	(88,510)	(79,165)
Net Pension Obligation, Beginning of Year	(345,045)	(495,723)	(584,233)
Net Pension Obligation, End of Year	**($495,723)**	**($584,233)**	**($663,398)**

* Determined to be equal to the same percent of salary as the entire State of Indiana

** Net Pension Obligation at beginning of year divided by amortization factor of 12.1037

*** Percentage of APC contributed: 2004 at 159.0%; 2005 at 145.0%; and 2006 at 129.5%

The required contribution was determined as part of the actuarial valuation as of July 1, 2006, using the Entry Age Normal Cost Method. The actuarial assumptions included: (a) 7.25 percent investment rate of return (net of administrative services), (b) projected salary increases of 4 percent per year, and (c) 1.5 percent per year cost-of-living adjustments. Current-year information concerning funding and obligation was not available at the time of this report.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Public Employees' Retirement Fund, Harrison Building, Suite 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317/232-4162.

NOTE 11 – Risk Management

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

The University has three health care plans for full-time benefit-eligible employees and three plans for retirees. Two of the plans for employees and two for retirees are funded under a cost-plus arrangement whereby the University is billed for actual claims paid by the insurer on behalf of the covered participants plus an administrative fee. The majority of employees and retirees, 84 percent and 89 percent respectively, participate in the fully-funded cost-plus plan. For fiscal year ended on June 30, 2007, the University's contribution to these health care plans totaled $5,855,255 for 851 employees and 114 retirees. For the same period, employees and retirees made contributions totaling $1,499,708.

The University assumes the risk for medical claims exceeding the maximum expected cost but has mitigated the additional risk by purchasing specific and aggregate stop loss coverage at 125 percent of the expected claims liability. The University also has established a reserve to cover any unpaid liability beyond 125 percent. The liability for medical claims incurred but not reported at June 30, 2007, 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 2007 fiscal year are as follows:

Beginning liability, June 30, 2006	$ 657,078
Claims incurred	5,832,206
Claims paid	4,949,709
Ending liability, June 20, 2007	$1,539,756

NOTE 12 – Post-retirement Health Care Benefits

The University provides post-retirement medical, dental, and life insurance benefits, as authorized by the Board of Trustees, to all employees who retire from the University after attaining age 60 with at least ten years of service and to those retiring under the Rule of 85.

The University contributes 75 percent of the group plan premium for medical/dental coverage for the retirees (and dependents) who were active employees as of June 30, 1993. For retirees who were hired on or after July 1, 1993, the University will contribute to the group-plan premium on the following schedule:

Years of Service	University	Employee
10-14	25%	75%
15-19	50%	50%
20 +	75%	25%

The University offers two group term life insurance plans: original and revised. Whichever plan the retiree participated in during active employment is the plan that continues during the period of retirement. Under the original plan, the coverage is reduced to 50 percent of the highest volume attained during employment, with a maximum of $20,000. Under the revised plan, the coverage is reduced to $5,000. The University pays the entire premium for both plans. Accidental Death and Dismemberment coverage terminates on the retirement date under both plans.

In the future, a VEBA Trust (see Note 13) will help defray the costs of providing post-retirement benefits. In fiscal year 2006-07, the University paid $391,231 to provide these benefits to 114 retirees and 69 spouses and dependents. This expense for fiscal year 2005-06 was $473,442 for 118 retirees and 59 spouses and dependents.

NOTE 13 - VEBA Trust

The University established a Voluntary Employees' Benefit Association (VEBA) trust for the purpose of providing retiree medical benefits for retired employees (excluding key employees as defined by Section 416 of the Internal Revenue Code) of USI and their dependents. The trust is funded from three sources: University contributions and reserves designated by the Board of Trustees for this purpose, employee payroll deductions for post-retirement benefits, and retiree contributions for medical insurance premiums. Funds will accumulate in the trust for several years before any disbursements are made. The University does not anticipate that the trust will pay for all post-retirement benefits, but rather be used to reduce the increasing burden of such expenses on the current operating funds. A summary of the activity in the trust for the year ending June 30, 2007, is as follows:

VEBA TRUST	**MARKET**
Fund balance at July 1, 2006	$5,746,766
Transfer from University reserves	500,000
Transfer of employee/employer contributions	150,051
Transfer of retiree/employer contributions	18,923
Reinvested net earnings	287,630
Net gain/(loss) on sales of trust investments	145,300
Less: Management fees and taxes	(22,475)
Net change in market value	431,497
Fund balance at June 30, 2007	**$7,257,792**

An actuarial valuation completed in 2007 projected the total present value of future benefits at $31.2 million. This amount, less the $7.3 million assets currently in the trust, leaves the present value for future post-retirement health care costs for current retirees and active employees at approximately $24 million as of July 1, 2007.

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

NOTE 14 – Functional Expenditures

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

FUNCTION	SALARIES & WAGES	BENEFITS	SCHOLAR-SHIPS	UTILITIES	SUPPLIES & OTHER SVCS	DEPRECIATION	2007 TOTAL	2006 TOTAL
Instruction	$22,347,703	$6,569,058			$1,645,453		$30,562,214	$30,074,885
Academic Support	4,746,315	1,471,559			4,092,007		10,309,881	9,260,751
Student Services	3,433,019	1,250,201			2,530,954		7,214,174	5,789,145
Institutional Support	6,277,029	2,613,038			2,288,732		11,178,799	12,341,675
Operation & Maintenance of Plant	2,595,156	1,181,759		3,194,406	4,494,136	6,691,525	18,156,982	17,793,400
Student Aid	182,827	354,355	5,283,815		7,248		5,828,245	5,845,648
Public Service	862,207	225,357			658,841		1,746,405	1,460,202
Research	56,715	11,982			152,082		220,778	317,740
Auxiliary Enterprises	3,403,353	1,044,753	311,870	711,397	13,762,199	2,611,306	21,844,879	20,570,485
TOTAL	**$43,904,323**	**$14,722,063**	**$5,595,685**	**$3,905,803**	**$29,631,652**	**$9,302,831**	**$107,062,357**	**$103,453,930**

NOTE 15 – Construction in Progress

Construction in progress at year-end totals $3.3 million (see capital assets table below). Projects soon to be completed include the addition of an emergency generator for the physical plant and emergency power upgrade for the University Center. Also near completion are the landscaping and hardscape installation of the central campus quadrangle, and the interior/exterior completion and furnishing of the lower level of the Education Center. The total expended to date for these projects is $2.5 million, and the estimated additional cost to complete is $1.5 million.

The University is well into the planning and design work on several projects that make up the remaining $800,000 of construction in progress. These projects include expansion of the campus Recreation and Fitness Center, expansion and renovation of the McDonald West student housing recreation building, construction of a new maintenance shop/storeroom/distribution services center, the Business and Engineering Center, the McCutchan Art Center, and a loop road. These projects will continue for at least three years and are estimated to cost approximately $45 million to complete.

NOTE 16 – Capital Assets, Net of Accumulated Depreciation

The table below displays the increase in total capital assets from $220.4 million at July 1, 2006, to $223.5 million on June 30, 2007. Gross capital assets, less accumulated depreciation of $91.8 million, equal net capital assets of $131.6 million at June 30, 2007.

Capital Assets	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007	Accumulated Depreciation	Net Capital Assets
Land	$4,018,934	$55,000	$26,000	$4,047,934		$ 4,047,934
Land Improvements	5,714,935			5,714,935	3,344,451	2,370,485
Infrastructure	3,648,793			3,648,793	1,169,349	2,479,444
Educational Buildings	101,065,353	23,303,441		124,368,794	45,208,288	79,160,505
Auxiliary Buildings	59,303,511	149,836	114,000	59,339,347	25,999,500	33,339,848
Equipment	12,303,095	1,820,771	794,343	13,329,523	9,182,999	4,146,524
Library Materials	9,100,961	640,396	2,766	9,738,591	6,925,003	2,813,588
Museum Exhibits	1,046,035		1,046,035	0*		0
Art Collection	582,620		582,620	0*		0
Construction in Progress	23,607,802	3,211,545	23,532,874	3,286,473		3,286,473
Totals	**$220,392,039**	**$29,180,990**	**$26,098,638**	**$223,474,390**	**$91,829,590**	**$131,644,801**

* The University's fine art collection and the museum exhibits collection were removed from capitalized assets this fiscal year. Current accounting standards do not require that art collections or museum exhibit items be included as capital assets. The challenges surrounding the valuation process and ongoing efforts required to maintain accurate values exceed the benefits of including valuation data and warranted the removal of these items from capital assets. The University continues to catalog all art and museum pieces, and maintains an inventory of items for tracking purposes, but will no longer account for them as capital assets on the financial statements. Descriptive information about the collections is included in Note 1 – Summary of Significant Accounting Policies.

NOTE 17 - Interrelated Organization

The University of Southern Indiana/New Harmony Foundation, Inc. was formed in 1986 to assist in supporting and developing Historic New Harmony, an auxiliary enterprise of USI which operates in New Harmony, an historic town in southwestern Indiana thirty miles from campus. During fiscal year 2006-07, the Foundation contributed $108,092 to Historic New Harmony operations and capital projects. At June 30, 2007, the stated value of the USI/NH Foundation's net assets was $612,170. These assets are not included in the financial statements of the University.

NOTE 18 – Component Units
The University of Southern Indiana Foundation is a legally separate, tax-exempt entity formed in 1969 to provide support for the University of Southern Indiana, its faculty and students, and to promote educational, scientific, charitable, and related activities and programs exclusively for the benefit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. During the year ended June 30, 2007, the USI Foundation distributed $2,943,009 in direct and indirect support to the University for both restricted and unrestricted purposes.

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

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

SUPPLEMENTARY INFORMATION

Five-Year Comparative Data	2006-07	2005-06	2004-05	2003-04	2002-03
Enrollment (Fall Semester)					
Total students	10,021	10,004	10,050	9,899	9,675
Undergraduates	9,298	9,252	9,217	9,154	8,998
Women	6,110	6,106	6,120	6,028	5,898
African American	473	418	424	400	371
Other minority	237	171	151	151	135
International	81	74	83	73	67
Age 25 plus	2,198	2,262	2,358	2,300	2,243
Indiana residents	8,894	8,921	8,946	8,778	8,536
Full-time equivalent	8,284	8,181	8,120	7,994	7,716
Degrees Granted (Academic Year)					
Masters	190	227	229	164	154
Baccalaureate	1,154	1,114	1,151	1,096	1,010
Associate	172	163	159	150	165
Faculty (Fall Semester)					
Full-time	293	296	284	278	276
Percentage tenured	36	39	41	41	44
Part-time (FTE)	152	145	150	150	142
FTE students/FTE faculty	18.6	18.6	18.7	18.7	18.5

This information is presented as additional data and is not subject to the audit opinion expressed by the Indiana State Board of Accounts.