University of Southern Indiana

# Financial Report 2003

*ON THE COVER*

*Science and Education Center*

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# Board of Trustees 2002-2003

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# University Officers 2002-2003

**H. Ray Hoops**
*President*

**Robert W. Parrent**
*Vice President*
*for Student Affairs*

**Robert L. Reid**
*Provost and Vice President*
*for Academic Affairs*

**Robert W. Ruble**
*Vice President for*
*Business Affairs*
*and Treasurer*

**Sherrianne Standley**
*Vice President for*
*Advancement and*
*Assistant Secretary*

# Message From The President

**Dr. H. Ray Hoops**
President

Dear Friends,

Thanks to a partnership of state officials, business and community leaders, and educators, the University of Southern Indiana continues to serve regional and state needs, even in a time of fiscal constraint. During 2002-2003, enrollment grew to 9,675 with students coming from all of Indiana's 92 counties, 36 other states, and 33 nations.

Perhaps one of the most important academic developments in a decade is the addition of a baccalaureate program in engineering, approved last fall by the Indiana Commission for Higher Education. Developed in direct response to expressions of need from regional employers, the engineering program will replace engineering technology and allow USI's graduates to sit for the professional engineering license in all states. Given USI's ability to retain 80 percent of its graduates in the State of Indiana and an overwhelming share of those in southwestern Indiana, employers soon will have access to well-educated engineers so badly needed in the region.

We are appreciative of the opportunities given to us with the new $23.1 million Science and Education Center. We had hoped that housing science and education in one facility would lead to a cross pollination of ideas and techniques that would not only result in well-qualified science and education teachers, but also would engage in outreach to area teachers. We already are bringing K-12 educators to the Center in projects aimed at improving the teaching of science in the schools. With about $1 million in private support for equipment for the building, we also are able to assist regional manufacturers with highly specialized testing tools that our students also are learning to use.

We appreciate General Assembly and State Budget Committee support which has allowed planning to move forward for a new library. It will replace the current library which was constructed in 1971 to serve a student body of about 3,500 to 5,000. We hope to break ground in late spring and to be able to occupy the building by 2006.

The University of Southern Indiana appreciates the investment of resources that allows us to offer an excellent educational experience to students. In partnership with Community College of Indiana, we are positively affecting the postsecondary attainment level in southwestern Indiana. Since 1985 when USI became a separate state university and the first in the state to articulate coursework with Ivy Tech, the percentage of southwestern Indiana students who go on to postsecondary education has grown from 33 percent to 74 percent, outpacing both state and national statistics.

We are poised to assist the State of Indiana in reaching its goals and remain committed to our core values of being an institution which is needs-based, emphasizing excellence in teaching, committed to cost containment, and responsive to change.

Sincerely yours,

H. Ray Hoops

H. Ray Hoops
*President*

# Message From The Vice President

**Robert W. Ruble**
Vice President for
Business Affairs
and Treasurer

To the President and the Board of Trustees of the
University of Southern Indiana

I am pleased to present the University of Southern Indiana's audited financial report for the fiscal year ended June 30, 2003. The financial report has been prepared and presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB) for public colleges and universities. The University is regarded as a special-purpose government entity engaged only in business-type activities. As such, the financial report consists of the following basic statements: Management's Discussion and Analysis (MD&A); the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; the Statement of Cash Flows; and the Notes to the Financial Statements.

The financial statements provide a summary of the flow of economic resources during the fiscal year, the University's financial position at fiscal year end, comparative data from the previous fiscal year, and the net assets available for future use. The statements and the accompanying notes have been audited by the Indiana State Board of Accounts. Their opinion appears on the following page.

This report is a complete and permanent record of the financial status of the University of Southern Indiana for the period stated therein.

Robert W. Ruble
*Vice President for Business Affairs*
*and Treasurer*

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of University of Southern Indiana, a component unit of the State of Indiana, as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of University of Southern Indiana, as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2003, on our consideration of University of Southern Indiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

October 21, 2003

# Management's Discussion and Analysis

**University of Southern Indiana**
**Fiscal Year Ended June 30, 2003**

## Management's Discussion and Analysis

This portion of the University of Southern Indiana annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2003 with comparative data for the period ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements, the summary of significant accounting policies, and the notes to the financial statements.

The discussion and analysis is designed to focus on current activities, resulting changes, and current 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 summary of significant accounting policies, the notes to the financial statements, and the discussion and analysis are the responsibility of management.

## Using the Annual Report

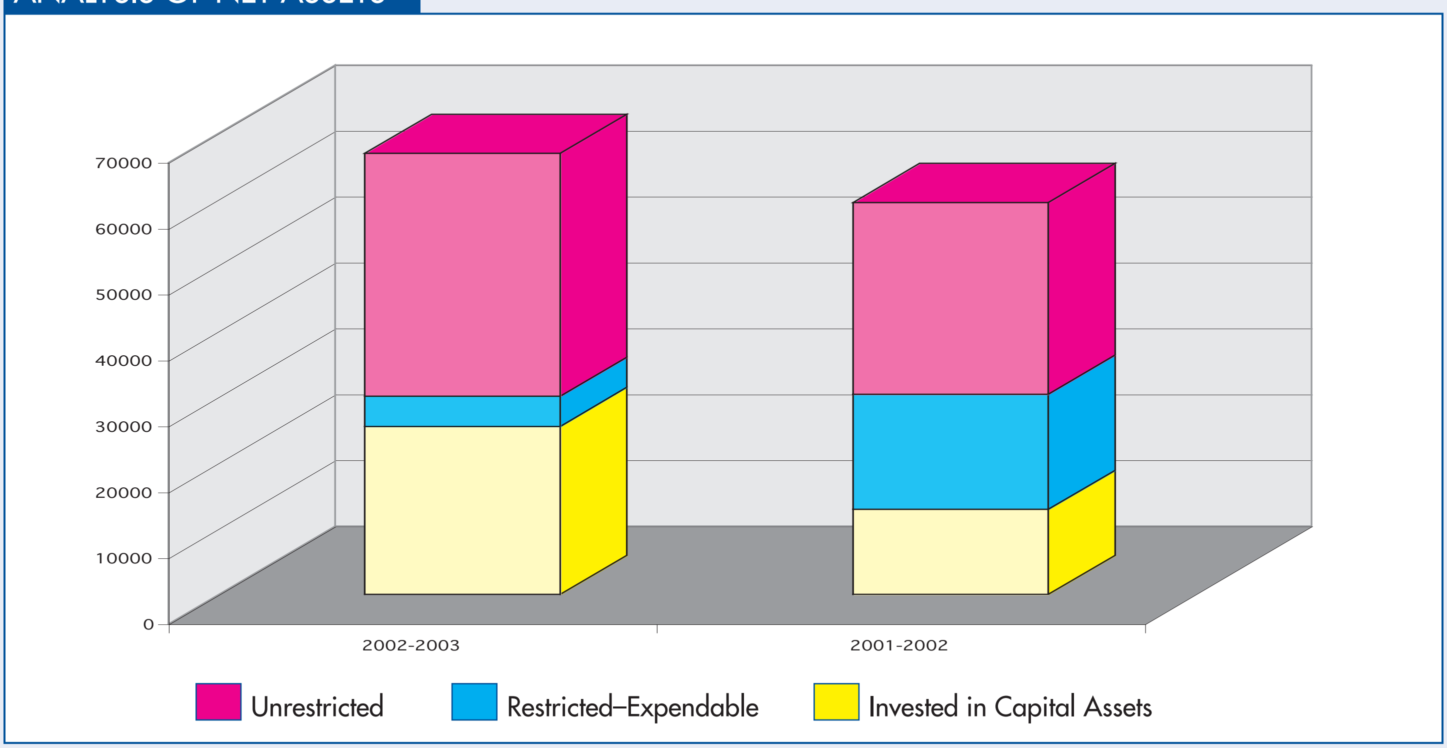
This annual report consists of a series of financial statements prepared from an entity-wide focus in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. These statements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

One of the key questions 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 to this question is found in the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

## Statement of Net Assets

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

## ANALYSIS OF NET ASSETS



## STATEMENT OF NET ASSETS

| As of June 30 | 2003 (in thousands) | 2002 (in thousands) | Percent Change |
|---|---|---|---|
| Current Assets | $37,791 | $46,879 | (19.4) |
| Noncurrent Assets: | | | |
| Capital assets, net of depreciation | 121,509 | 112,334 | 8.2 |
| Other noncurrent | 11,617 | 7,770 | 49.5 |
| **Total Assets** | **$170,917** | **$166,983** | **2.4** |
| Current Liabilities | $12,662 | $11,270 | 12.4 |
| Noncurrent Liabilities | 91,299 | 96,217 | (5.1) |
| **Total Liabilities** | **$103,961** | **$107,487** | **(3.3)** |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | $25,504 | $12,926 | 97.3 |
| Restricted | 4,588 | 17,475 | (73.7) |
| Unrestricted | 36,864 | 29,095 | 26.7 |
| **Total Net Assets** | **$66,956** | **$59,496** | **12.5** |

Net assets are one gauge of financial health. Over time, increases or decreases in net assets are indicators of the improvement or decline of the University's financial health when considered with other facts such as enrollment levels and the condition of facilities.

Current assets at June 30, 2003, consist predominantly of cash and cash equivalents, short-term investments, and accounts receivable. Noncurrent assets include capital assets net of depreciation and long-term investments. Total assets increased $3.9 million, or 2.4%. This modest increase is explained by the following fiscal year events:

- $11.7 million in bond funds held on deposit with the trustee at June 30, 2002, were liquidated during the current fiscal year to finish construction of the new Science and Education Center. Of these funds, $3.2 million were moved into money market accounts until needed. This resulted in a net decrease in current assets and an increase in noncurrent capital assets.
- $1.2 million in bond funds held on deposit with the trustee at June 30, 2002, were paid out in interest to bondholders.
- Cash and cash equivalents, short-term investments, and long-term investments increased by $10.6 million dollars, some of which is attributable to the bond funds discussed above.
- Accounts receivable increased only slightly. Both 2003 and 2002 include a receivable from the State of Indiana for the twelfth-month appropriation payment of $2.7 million and $2.6 million respectively.

Current liabilities at June 30, 2003, are primarily composed of accounts payable, accrued payroll and related deductions, the current portion of bonds and notes payable, and miscellaneous other liabilities. Noncurrent liabilities include bonds and notes payable and compensated absences. Total liabilities decreased $3.5 million, or 3.3%. Activities during the year that influenced this change include the following:

- The total liability for compensated absences increased $99.5 thousand.
- Accrued payroll and related deductions increased slightly from $4.1 million to $4.3 million.
- All other liabilities combined decreased from $5 million to $4.7 million.
- Total bonds payable decreased $3.5 million as the result of payments made against existing debt. No new debt was added this fiscal year.

Net assets at June 30, 2003, were $7.5 million, or 12.5%, greater than on June 30, 2002. The greatest change occurred when assets restricted for capital projects in the prior fiscal year were expended during this fiscal year for capital assets. This caused a major shift in those asset classifications from 2002 to 2003.

Unrestricted assets increased $7.8 million. The reason for this is twofold: (1) there was an increase in total net income for the year, and (2) more of the net income was set aside into reserve funds for operating and maintenance purposes. Of the total $36.9 million in unrestricted net assets, $14.8 million have been internally designated as follows:

- $1.5 million reserve for replacement of administrative software system
- $1.8 million reserve for working capital
- $3.0 million reserve for outstanding encumbrances
- $3.5 million reserve for equipment and facilities maintenance and replacement
- $5.0 million reserve for auxiliary system operations and debt service

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

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

Activities are reported as either operating or nonoperating. Student fees, financial aid revenue from grants and scholarships, and revenues from auxiliary enterprises are the major sources of operating income, which are reduced by bad debts and discounts and allowances for scholarships, room, and board. The 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, depicted in the table below, is that state appropriations are required to be classified as nonoperating revenues. This creates large operating deficits for public universities which rely heavily on state funding to meet their missions and goals. A more accurate 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 REVENUES AND EXPENSES

| Year ended June 30 | 2003 (in thousands) | 2002 (in thousands) | Percent Change |
|---|---|---|---|
| Total operating revenues | $53,965 | $47,054 | 14.7 |
| Total operating expenses | (81,141) | (76,954) | 5.4 |
| Operating losses | (27,176) | (29,901) | |
| Net nonoperating revenues/(expenses) | 34,179 | 33,407 | 2.3 |
| Income/(expenses) before other revenues, expenses, gains or losses | 7,003 | 3,506 | |
| Capital gifts, grants and appropriations | 456 | 175 | 160.6 |
| Special item—change in accounting policy | 0 | (3,595) | |
| **Increase (decrease) in net assets** | **$ 7,459** | **$ 86** | **102.6*** |

*Percentage increase in net assets excluding special items.

### Revenues

Operating revenues increased 14.7% over the previous fiscal year. All major components of operating revenue increased as follows:

- Net student fee revenues increased from $20.7 million in 2002 to $24.1 million in 2003. This 16.2% increase was due to increases in enrollment growth of 3.3% and student fee rates of 9.9%.
- Grants and contracts from federal, state, and nongovernmental agencies increased 8.2%, or $3.4 million, over the prior fiscal year. The University received 72% from federal agencies, 25% from state agencies, and 3% from nongovernmental entities. Of the total grant revenue, 90% provided financial aid to the University's students.
- Sales and services of educational departments increased 26.9% over fiscal year 2002. This income represents revenue that is a byproduct of the University's primary mission of educating students. It includes income from health professional practice units, video and information technology practice units, student publications, student theatre and choir, printing services, and other academic-related activities.
- Auxiliary enterprises revenue, after bad debt and room and board allowances, increased $2.4 million, or 16.1%. This increase was due in large part to increases in enrollment growth and the opening of a new residence hall in the fall of 2002. These events caused increases in bookstore sales and housing occupancy.
- Other income includes contracted services, facilities rentals, and miscellaneous sales and services. This revenue increased 30.2% over the previous fiscal year.

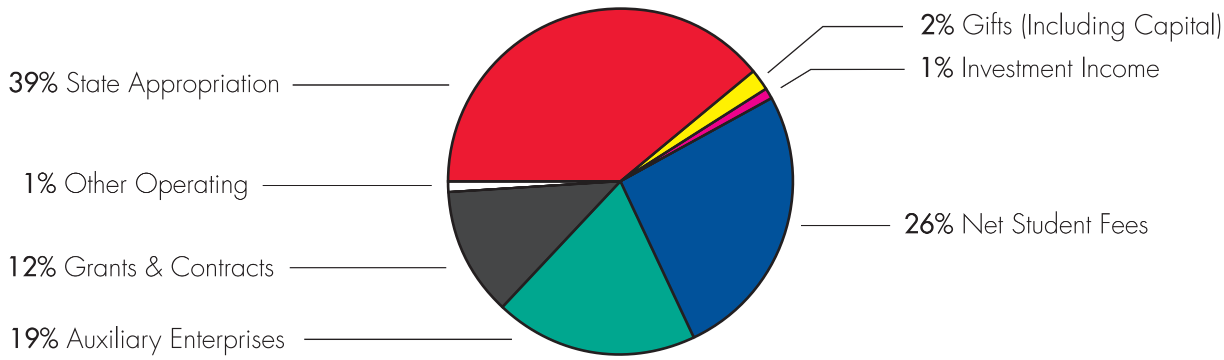
Nonoperating revenues experienced a net decrease of .4% for the fiscal year ended June 30, 2003:

- State appropriations for general operating support increased .3%, from $35.5 million in 2002 to $35.6 million in 2003.
- Gift revenues increased 8.7%, from $1.3 million to $1.4 million. All gifts were received from the USI Foundation for scholarships, educational grants, academic enhancements, athletics, and other university support.
- Investment income decreased 21.9%, from $1.6 million to $1.2 million. Lower interest rates were the primary cause of the decrease in income.

Other revenues include capital appropriations and capital gifts and grants. The University received $70,000 in capital appropriations in fiscal year 2002, but the State cancelled capital appropriations for 2003. Capital gifts of $456,000 were received from the USI Foundation for purchase of classroom equipment and major renovation projects.

Total revenues increased by more than $7 million, or 8.2%. The graph below shows the composition of the University's revenue for the fiscal year ending June 30, 2003:

## 2003 REVENUES–Operating and Nonoperating




## Expenses

Operating expenses for fiscal year 2003 were $81.1 million, an increase of $4.2 million, or 5.4%, over the previous fiscal year. Except as noted otherwise, the increase in operating expenses is a result of enrollment growth and staffing increases. Changes in expense categories were as follows:

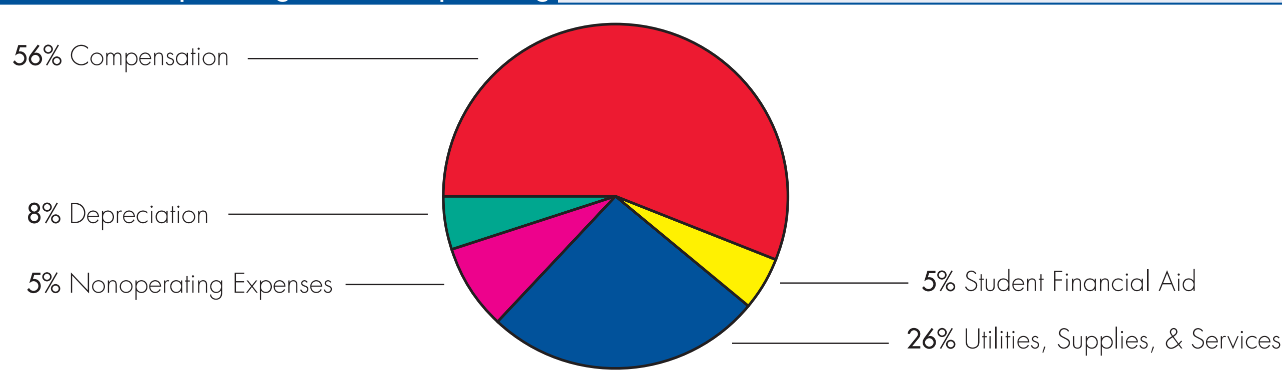
- Compensation (salaries, wages and benefits) increased 7.0%, from $45.3 million to $48.4 million. In addition to staffing increases caused by enrollment growth, promotions and annual raises in salary contributed to this change.
- Student financial aid increased from $3.9 million to $4.2 million, or 6.9%.
- Utilities decreased 8.9% over the previous fiscal year. The University was able to negotiate lower rates for bulk purchases of natural gas before the prices increased.
- Supplies and other services increased $1.4 million, or 7.6%.
- Depreciation expense decreased $0.4 million, or 6.0%. The capitalization threshold increased significantly in 2002, creating fewer assets and less depreciation overall than in previous years.

Nonoperating expenses consist of interest on capital asset-related debt and bond costs. These expenditures decreased $0.9 million, or 18.3%, because no new debt was issued in the 2003 fiscal year.

In 2002 the capitalization threshold increased from $1,000 to $5,000, causing a special item which reduced net assets $3.6 million that year. There are no special items to be reported for the 2003 fiscal year.

The composition of total expenses is depicted by major category in the graph below:

## 2003 EXPENSES–Operating and Nonoperating




## Change in Net Assets

Net assets increased $7.5 million over the previous fiscal year. Although there was a slight decrease in nonoperating revenue, the increase in operating revenue and capital gifts more than offset the decrease. Total operating and nonoperating expense increased $3.3 million dollars in fiscal year 2003, but the change in accounting policy that created the special item expense of $3.6 million in 2002 mitigates the increase in total expenses this year. Excluding the special item in the previous year, the percentage increase to net assets in fiscal year 2003 is 102.6%.

## 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 2003 and 2002.

### Operating activities

- Cash used by operating activities decreased $1.3 million over the prior year.
- Student fees and auxiliary enterprises provided the largest inflow in cash for both fiscal years.
- Payments to employees and suppliers caused the largest outflow of cash for both fiscal years.

### Noncapital financing activities

- Cash provided by noncapital financing activities increased $2.8 million over the previous fiscal year.
- State appropriations provided the largest cash inflow in both fiscal years.

### Capital financing activities

- Cash flow used for capital financing activities decreased $5.9 million in 2003.
- Deposits with bond trustees generated the largest cash inflow for fiscal year 2003 and the largest cash outflow for fiscal year 2002.
- Purchases of capital assets and interest on capital debt created the greatest outflow of cash as bond proceeds received in 2002 were used to pay for the construction of the Science and Education Center and related financing costs.
- Principal paid on capital debt decreased in 2003 by $3.3 million. An interim financing note of $3.4 million was paid off in 2002 with proceeds from the bond issue. This reduction was offset by a $100,000 increase in total bond principal payments in 2003.

### Investing activities

- Cash provided from investing activities decreased by $9.5 million during 2003.
- Proceeds from sales and maturities of investments decreased $4.4 over the prior year.
- Interest on investments decreased $0.5 million in fiscal year 2003.
- Purchases of investments, a cash outflow, increased $4.5 million as reserves were increased to mitigate the effects of the reduction of state appropriations for operations and capital projects.

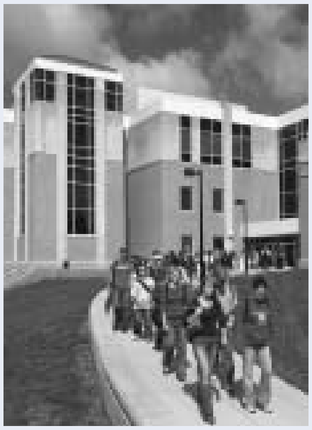
### Summary of Statement of Cash Flows

Less cash was used for operating activities, more cash was provided by noncapital financing activities, less cash was used by capital financing activities, and less cash was provided by investing activities. As a result of these activities, the University increased its cash position by $2.8 million, ending the fiscal year with a cash balance of $19.2 million.

### STATEMENT OF CASH FLOWS

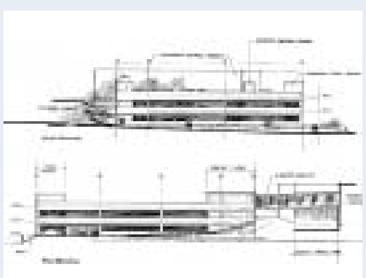
| Year ended June 30 | 2003 (in thousands) | 2002 (in thousands) | Percent Change |
|---|---|---|---|
| Net cash (used) provided by | | | |
| operating activities | ($20,599) | ($22,645) | (9.0) |
| noncapital financing activities | 36,960 | 34,186 | 8.1 |
| capital financing activities | (7,010) | (12,942) | (45.8) |
| investing activities | (6,471) | 3,055 | (311.8) |
| **Net increase in cash** | **$2,879** | **$1,655** | **73.9** |

## Factors Impacting Future Periods



The Science and Education Center, under construction for the past two fiscal years, was placed into service in the fall of 2003. This is the largest building on the USI campus and includes specialized classrooms, laboratories, and offices for the Pott School of Science and Engineering, the Bower-Suhrheinrich School of Education and Human Services, University Division Advising, and Academic Skills Center. As of June 30, the construction-in-progress costs for the project were $22.6 million with an expected cost-to-complete of an additional $2.6 million.

Ruston Hall, a new student residence hall, is scheduled to open in fall 2004. Bonds for $8 million were sold in July 2003 and construction has begun. This 220-bed facility will generate additional room rental revenue and meal plan income.



The University is planning to erect a $4 million parking garage to replace parking space that will be lost because of future plant expansions. The garage will provide parking for approximately 200 vehicles, incorporate a refuse collection system and an emergency generator, and provide space for the University's Security Office. Pending State approvals, construction will begin early next year. The scheduled completion time is the spring of 2005.

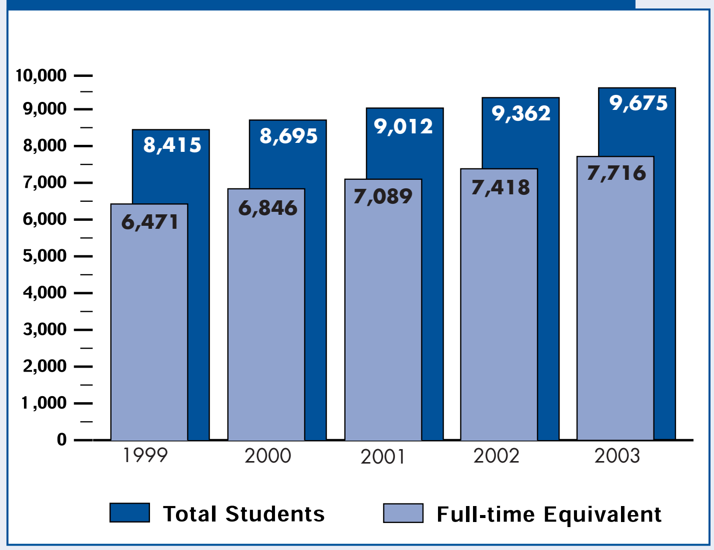
The USI Board of Trustees, the Indiana General Assembly, and the State Budget Committee have approved the construction of a $30.7 million library construction project. Pending final approvals of the financing plan, work will begin in late spring 2004; completion is expected by summer 2006.

Moody's Investors Service assigned an A2 rating to the University's debt obligations in November 2001. In July 2003, Moody's reviewed and rated the auxiliary system bonds as A3. Both ratings will serve the University well in future borrowing needs.

The State of Indiana continues to experience financial difficulties, and the amount of State funding could be affected by these difficulties. Technology funding was eliminated for the biennium ending June 2003; one monthly appropriation payment has been deferred during the coming year; and repair and rehabilitation funds have been severely restricted.

The total enrollment of the University from 1999 to 2003 has increased 15%; full-time equivalents for the same period have increased 19%. The University is becoming a more residential campus and all signs point to that trend continuing. The following graph illustrates the growth for the five-year period, 1999 to 2003:

ENROLLMENT FOR YEAR ENDING JUNE 30




Two records were set for the fall of 2003. USI has its largest ever freshman class (2,079 freshmen began classes in the fall of 2003) and the largest number of credit hours ever taken (118,949). This 3% increase in credit hours over fall of 2002 will generate additional student fee revenue for the coming fiscal year.

The enrollment for the baccalaureate engineering program for the fall of 2003 surpassed all expectations. Enrollment was anticipated to be 84 students for this first year but has already grown to 200 students. The future for this program appears to be very bright.

The University will begin implementing a new campus-wide administrative software system during the 2004 fiscal year. This project is projected to cost approximately $3 million for the system, including additional implementation costs and hardware that are not yet fully defined. This new system will increase efficiencies and functionality within the University.

# Statement of Net Assets

| As of June 30 | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 1) | $ 19,278,106 | $ 16,369,680 |
| Short-term investments | 9,999,528 | 6,260,247 |
| Accounts receivable, net (Note 2) | 5,861,219 | 5,602,022 |
| Inventories | 1,586,060 | 1,374,193 |
| Deposit with bond trustee | 349,468 | 16,530,154 |
| Other current assets | 717,103 | 742,913 |
| Total current assets | 37,791,484 | 46,879,209 |
| **Noncurrent Assets** | | |
| Restricted cash and cash equivalents | —— | 29,151 |
| Long-term investments | 11,444,652 | 7,463,756 |
| Capital assets, net (Note 10 and 11) | 121,508,537 | 112,333,550 |
| Other noncurrent assets | 172,707 | 277,356 |
| Total noncurrent assets | 133,125,896 | 120,103,813 |
| **Total Assets** | **170,917,380** | **166,983,022** |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 1,602,804 | 1,346,193 |
| Accrued payroll and deductions | 4,326,149 | 4,112,191 |
| Notes payable | 233,851 | 221,113 |
| Bonds payable (Note 3) | 4,699,042 | 3,560,030 |
| Other current liabilities | 1,800,452 | 2,030,323 |
| Total current liabilities | 12,662,298 | 11,269,850 |
| **Noncurrent Liabilities** | | |
| Notes payable | 646,738 | 880,611 |
| Bonds payable | 88,747,205 | 93,446,247 |
| Compensated absences (Note 4) | 1,474,570 | 1,364,099 |
| Other noncurrent liabilities | 430,867 | 525,820 |
| Total noncurrent liabilities | 91,299,380 | 96,216,777 |
| **Total Liabilities** | **103,961,678** | **107,486,627** |
| **NET ASSETS** | | |
| **Invested in capital assets, net of related debt** | 25,504,193 | 12,925,608 |
| **Restricted** | | |
| Expendable | | |
| Instruction, research & other | 8,965 | 41,030 |
| Loans | 497,300 | 471,903 |
| Capital projects | 548,759 | 15,354,397 |
| Debt service | 3,532,779 | 1,607,975 |
| **Unrestricted** | 36,863,706 | 29,095,482 |
| **Total Net Assets** | **$ 66,955,702** | **$ 59,496,395** |

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

| Fiscal Year Ended June 30 | 2003 | 2002 |
|---|---|---|
| **REVENUES** | | |
| **Operating Revenues** | | |
| Student fees | $ 31,987,672 | $ 27,501,903 |
| Scholarship discounts & allowances | (7,897,656) | (6,766,099) |
| Federal grants and contracts | 6,265,233 | 5,578,806 |
| State and local grants and contracts | 4,287,771 | 4,082,410 |
| Nongovernmental grants and contracts | 828,484 | 835,459 |
| Sales and services of educational departments | 356,535 | 281,606 |
| Auxiliary enterprises | 17,500,030 | 15,100,260 |
| Room & board discounts & allowances | (282,501) | (267,024) |
| Other operating revenues | 919,518 | 706,324 |
| Total operating revenues | 53,965,086 | 47,053,645 |
| **EXPENSES** | | |
| **Operating Expenses** | | |
| Compensation: | | |
| Salaries & wages | 37,562,637 | 35,306,345 |
| Benefits (Notes 5, 6, and 7) | 10,869,291 | 9,963,503 |
| Student financial aid | 4,243,058 | 3,967,846 |
| Utilities | 2,263,255 | 2,485,474 |
| Supplies and other services | 19,639,651 | 18,258,644 |
| Depreciation | 6,562,814 | 6,972,641 |
| Total operating expenses (Note 8) | 81,140,706 | 76,954,453 |
| Operating income (loss) | (27,175,620) | (29,900,808) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 35,622,236 | 35,520,201 |
| Gifts | 1,367,563 | 1,257,601 |
| Investment income (net of investment expense of $6,855 and $7,943) | 1,249,126 | 1,599,730 |
| Interest on capital asset-related debt | (4,025,769) | (4,053,294) |
| Bond issuance costs | (569) | (759,861) |
| Other nonoperating revenues (expenses) | (33,278) | (157,532) |
| Net nonoperating revenues | 34,179,309 | 33,406,845 |
| Income (Expense) before other revenues, expenses, gains or losses | 7,003,689 | 3,506,037 |
| Capital appropriations | —— | 70,000 |
| Capital grants and gifts | 455,618 | 105,303 |
| Total other revenues | 455,618 | 175,303 |
| Increases (Decreases) in net assets before changes in accounting policy | 7,459,307 | 3,681,340 |
| Capitalization threshhold increased, net assets written off (Note 9) | —— | (3,594,550) |
| Increases (Decreases) in net assets | 7,459,307 | 86,790 |
| **NET ASSETS** | | |
| Net assets – beginning of year | 59,496,395 | 59,409,605 |
| **Net assets – end of year** | **$ 66,955,702** | **$ 59,496,395** |

# Statement of Cash Flows

| Fiscal Year Ended June 30 | 2003 | 2002 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Student fees | $ 24,045,701 | $ 20,575,446 |
| Grants and contracts | 11,107,814 | 10,195,898 |
| Payments to supppliers | (19,594,907) | (17,797,057) |
| Payments for utilities | (2,263,255) | (2,485,474) |
| Payments to employees | (37,456,432) | (35,496,661) |
| Payments for benefits | (10,662,003) | (9,537,860) |
| Payments for scholarships | (4,243,058) | (3,967,846) |
| Loans issued to students and employees | (404,076) | (521,686) |
| Collection of loans to students and employees | 432,105 | 578,768 |
| Auxiliary enterprises charges | 17,175,724 | 14,615,783 |
| Sales and services of educational depts | 356,535 | 281,606 |
| Other receipts (payments) | 906,577 | 914,427 |
| **Net cash used by operating activities** | **(20,599,275)** | **(22,644,656)** |
| **Cash Flows from Noncapital Financing Activities** | | |
| State appropriations | 35,599,202 | 32,891,187 |
| Gifts and grants for other than capital purposes | 1,367,563 | 1,260,240 |
| Stafford & PLUS loans | (17,783) | (3,552) |
| Student, faculty & staff organization agency transactions | (47,405) | 123,151 |
| Other nonoperating receipts (payments) | 58,155 | (84,964) |
| **Net cash provided by noncapital financing activities** | **36,959,732** | **34,186,062** |
| **Cash Flows from Capital Financing Activities** | | |
| Proceeds from capital debt | — | 25,260,000 |
| Capital appropriations | — | 70,000 |
| Capital grants and gifts | 459,466 | 290,415 |
| Bond financing costs | (92,002) | (627,240) |
| Purchases of capital assets | (15,737,801) | (12,313,581) |
| Principal paid on capital debt and leases | (3,781,165) | (7,070,459) |
| Interest paid on capital debt and leases | (4,039,315) | (3,912,083) |
| Deposit with trustee | 16,180,686 | (14,639,019) |
| **Net cash used by capital financing activities** | **$ (7,010,131)** | **$(12,941,967)** |

# Statement of Cash Flows—continued

| Fiscal Year Ended June 30 | 2003 | 2002 |
|---|---|---|
| **Cash Flows from Investing Activities** | | |
| Proceeds from sales and maturities of investments | $ 8,548,312 | $ 13,098,065 |
| Interest on investments | 1,029,397 | 1,524,805 |
| Purchase of investments | (16,048,760) | (11,567,446) |
| **Net cash provided (used) by investing activities** | **(6,471,051)** | **3,055,424** |
| Net increase in cash | 2,879,275 | 1,654,863 |
| Cash–beginning of year | 16,398,831 | 14,743,968 |
| **Cash–end of year** | **$ 19,278,106** | **$ 16,398,831** |

| | | |
|---|---|---|
| **Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:** | | |
| Operating income (loss) | $ (27,175,620) | $ (29,900,808) |
| **Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:** | | |
| Depreciation expense | 6,562,814 | 6,972,641 |
| Provision for uncollectable accounts | 42,169 | 97,251 |
| Changes in assets and liabilities: | | |
| Receivables | (278,332) | (617,854) |
| Inventories | (211,867) | 46,917 |
| Other assets | 98,583 | 3,376 |
| Accounts payable | 470,569 | 519,548 |
| Deferred revenue | (140,202) | 22,012 |
| Deposits held for others | (94,953) | 24,730 |
| Compensated absences | 99,535 | 130,449 |
| Loans to students | 28,029 | 57,082 |
| **Net cash used by operating activities:** | **$ (20,599,275)** | **$ (22,644,656)** |

| | | |
|---|---|---|
| **Noncash Transactions** | | |
| Unrealized gain on investments | $ (219,729) | $ (74,925) |
| Long-term investments | 219,729 | 74,925 |

# Summary of Significant Accounting Policies

## Summary of Significant Accounting Policies

The University of Southern Indiana was established in 1985 as described in the Indiana Code (IC 20-12-64-1 through IC 20-12-64-14). 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. The financial reporting emphasizes the entity as a whole rather than the individual fund groups—unrestricted, restricted, loans, agency, and plant funds—that comprise the whole.

The University 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 must receive authorization from the State before undertaking major capital projects. As a component unit, public higher education institutions, as a group, will be discreetly presented on the Comprehensive Annual Financial Report issued annually by the State of Indiana.

The University maintains a close relationship with the USI Foundation, Inc., a legally separate, tax-exempt organization that raises funds primarily to provide scholarships and awards to our students. The Foundation also assists the University by raising funds for special capital projects, provides financial support to the athletics program, and provides grants for faculty enhancement activities. The Foundation is not currently considered a component unit of the University, and its assets are not included in these financial statements.

## 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 nonexchange 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

During fiscal year 2002 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, historical sites, art, and museum objects. 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 11, Table III, 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 of undetermined value. The primary function and aim of the collection is education in accordance with 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. Attempts will be made during the following fiscal year to determine the value of this collection and to capitalize the asset as appropriate.

## 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 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 tax 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 activities.

Prepaids 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.

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 our knowledge, USI has not adopted any Financial Accounting Standard Board (FASB) statements issued after November 30, 1989.

# Notes to Financial Statements

## NOTE 1 – Investments, Cash and Equivalents

The Board of Trustees determines the investment policy of the University. The University invests in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, repurchase agreements, savings and money market accounts, and negotiable order of withdrawal accounts. At June 30, 2003, cash and equivalents are stated at cost, which approximates market; short-term and long-term investments are stated at market value (See Table I).

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.

The University's cash and investments are categorized in Table I to give an indication of the level of risk assumed at year end. Category 1 includes insured or registered securities held by the University or its agent in the University's name; Category 2 contains uninsured or unregistered securities held by the financial institution or agent in the University's name; and Category 3 represents uninsured and unregistered securities held by the financial institution or its agent but not in the University's name.

### TABLE 1–INVESTMENTS, CASH & EQUIVALENTS

| | Category | | | Carrying | Market |
|---|---|---|---|---|---|
| Investment Type | 1 | 2 | 3 | Amount | Value |
| Demand deposits | $ 9,469,184 | | | $ 9,469,184 | $ 9,469,184 |
| Certificates of deposits | 11,629,682 | | | 11,629,682 | 11,629,682 |
| Repurchase agreements | | | 10,659,070 | 10,659,070 | 10,659,070 |
| U.S. Treasury & agency obligations | | 8,702,833 | | 8,702,833 | 9,014,499 |
| **Totals** | **$21,098,866** | **$8,702,833** | **$10,659,070** | **$40,460,769** | **$40,772,435** |

## NOTE 2 – Accounts Receivable

Accounts receivable are recorded net of allowance for uncollectible student fees of $204,683 and auxiliary services fees of $131,695. Prior year allowances were $174,645 for student fee receivables and $119,564 for auxiliary services receivables. The accounts receivable balance for FY 2003 includes the $2,652,048 twelfth-month appropriation payment due from the state of Indiana.

## NOTE 3 – 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 note has a fixed interest rate of 5.68%, and the balance outstanding at June 30, 2003, is $880,589.

**Bonds Payable –** Outstanding bonds payable at June 30, 2003, total $93,446,247 and are identified in the following schedule of bonds and notes payable.

### SCHEDULE OF BONDS AND NOTES PAYABLE

| | Issue Date | Interest Rates | Current Year Rate | Maturity Date | Original Issue Amount | Outstanding at June 30, 2003 Principal | Interest | Total |
|---|---|---|---|---|---|---|---|---|
| **Student Fee Bonds** | | | | | | | | |
| Student Union | 1985 | 6.50% to 9.75% | 9.60% | 2003 | $ 1,050,000 | $ 85,000 | $ 4,144 | $ 89,144 |
| Series D, Health Professions Center | 1993 | 2.25% to 5.60% | 4.75% | 2015 | 26,478,101 | 17,126,247 | 10,126,846 | 27,253,093 |
| Series E, University Center Expansion | 1995 | 4.00% to 6.00% | 4.75% | 2015 | 4,425,000 | 3,445,000 | 1,459,223 | 4,904,223 |
| Series F, Liberal Arts Center | 1998 | 3.55% to 4.70% | 4.20% | 2013 | 15,280,000 | 10,475,000 | 3,050,943 | 13,525,943 |
| Series G, Fitness & Recreational Facility | 1999 | 0.00% to 10.0% | 1.32%* | 2019 | 4,700,000 | 4,700,000 | 494,550 | 5,194,550 |
| Series H, Science & Education Building | 2001 | 3.50% to 5.00% | 4.83% | 2021 | 25,260,000 | 25,260,000 | 13,902,281 | 39,162,281 |
| **Auxiliary System Bonds** | | | | | | | | |
| Series 2001A, Student Housing Facilities | 2001 | 4.00% to 5.00% | 4.00% | 2018 | 23,775,000 | 21,655,000 | 10,275,050 | 31,930,050 |
| Series 2001B, Student Housing Facilities | 2001 | 0.00% to 10.0% | 1.27%* | 2021 | 10,800,000 | 10,700,000 | 1,627,000 | 12,327,000 |
| **Notes Payable** | | | | | | | | |
| Energy Conservation Loan | 1997 | 5.68% | 5.68% | 2007 | 2,127,318 | 880,589 | 102,663 | 983,252 |
| Total | | | | | $112,095,419 | $94,326,836 | $41,042,700 | $135,369,536 |

* These are variable interest bonds with daily, weekly, or term rates. The rates listed above are the average rates paid during the fiscal year.

The University of Southern Indiana Student Fee Bonds Series H of 2001, Series G of 1999, Series F of 1998, Series E of 1995, Series D of 1993, and the Student Union Refunding Bonds of 1985 are secured by a pledge of and first lien on student fees.

The University of Southern Indiana Auxiliary System Revenue Bonds, Series 2001A, and the Auxiliary System Variable Rate Demand Revenue Bonds, Series 2001B, 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 bond series 2001B are variable rate bonds currently bearing interest at daily, weekly, and term rates ranging between 0% and 10%. The rates in effect at June 30, and the rates used to calculate the future debt service requirements, were 1.05% for series G and 1.0% 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 | Principal | Total Interest | Total |
|---|---|---|---|---|---|
| 2003-04 | $ 4,699,042 | $ 233,851 | $ 4,932,893 | $ 4,128,988 | $ 9,061,881 |
| 2004-05 | 4,848,920 | 247,322 | 5,096,242 | 3,974,064 | 9,070,306 |
| 2005-06 | 4,994,737 | 261,570 | 5,256,307 | 3,809,792 | 9,066,099 |
| 2006-07 | 5,159,060 | 137,846 | 5,296,906 | 3,619,134 | 8,916,040 |
| 2007-08 | 5,337,056 | | 5,337,056 | 3,423,125 | 8,760,181 |
| 2008-13 | 27,884,554 | | 27,884,554 | 13,823,813 | 41,708,367 |
| 2013-18 | 22,847,878 | | 22,847,878 | 7,164,310 | 30,012,188 |
| 2018-22 | 17,675,000 | | 17,675,000 | 1,099,474 | 18,774,474 |
| **Total** | **$93,446,247** | **$880,589** | **$94,326,836** | **$41,042,700** | **$135,369,536** |

## NOTE 4 – 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 the defined benefit pension plan (PERF).

The total cumulative compensated absence liability presented on the Statement of Net Assets is $1,524,134 and $1,424,599 for June 30, 2003 and 2002 respectively. The current year change represents a $70,291 increase in accrued vacation; a $18,678 increase in sick leave liability; a $6,806 increase in Social Security and Medicare taxes; and a $3,760 increase in PERF contributions. During the fiscal year, $42,532 was paid out to terminating employees; $49,564 is estimated to be paid out during fiscal year 2004.

## NOTE 5 – 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 $3,723,019 to these programs in fiscal year 2002-03, which represents approximately 10 percent of the total University payroll and 11 percent of the benefit-eligible employees' payroll for the same period.

**Faculty and Administrative Staff** Eligible employees may participate in the TIAA-CREF Retirement Plan upon the completion of one year of employment. Participation may begin sooner if the employee was a participant in TIAA-CREF, or another University-sponsored retirement plan, for at least two years prior to eligible employment at USI. The University contributes 11percent 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 $3,116,212 to this plan for 465 participating employees for fiscal year ending June 30, 2003, and $2,961,436 for 402 participating employees for fiscal year ending June 30, 2002. The annual payroll for this group totaled $27,329,211 and $23,696,821 for fiscal years ending June 30, 2003 and 2002 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 their 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 both the employer and employee share of required contributions, which are currently nine percent and three percent of employees' wages for employer and employee respectively. This has totaled $29,078 and $27,417 for fiscal years ending June 30, 2003 and 2002 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 Teacher's Retirement Fund, 150 West Market Street, Suite 300, Indianapolis, IN 46204, or by calling 317/232-3860.

**Clerical and 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 three percent of the employee's salary, and a defined benefit agent multi-employer plan to which the University currently contributes 5.2 percent of the employee's salary. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit part of the plan after 10 years of employment. The University contributed $577,729 for 325 employees participating in PERF during the 2002-03 fiscal year, and $535,995 for 318 employees participating during 2001-02.

As of July 1, 1997, the latest year for which actuarial data are available, the total pension benefit obligation of the defined benefit plan was $5,695,466,720 for the State of Indiana and its municipalities. The University of Southern Indiana is one participant in this plan. Actuarial information related to the University's portion of the plan for the past three fiscal years is disclosed in the tables on page 20.

## PERF–SCHEDULE OF USI'S FUNDING PROGRESS

(dollars in thousands)

| Fiscal Year Ending June 30 | Actuarial Value of Plan Assets (A) | Actuarial Accrued Liability (B) | Excess (Unfunded) Accrued Liability (C) | Funded Ratio (A/B) | Actual Covered Payroll (D) | Excess (Unfunded) Liability as % of Payroll (C/D) |
|---|---|---|---|---|---|---|
| 2000 | $4,225 | $3,666 | $ 559 | 115.2% | $5,764 | 9.7% |
| 2001 | $4,771 | $4,385 | $ 386 | 108.8% | $6,274 | 6.2% |
| 2002 | $5,327 | $5,487 | ($160) | 97.1% | $7,045 | (2.3%) |

## PERF–DEVELOPMENT OF USI'S NET PENSION OBLIGATION

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Annual Required Contribution (ARC) * | $327,726 | $241,938 | $223,074 |
| Interest on Net Pension Obligation @ 7.25% | (24,049) | (18,934) | (11,229) |
| Adjustments to ARC ** | 26,154 | 20,471 | 12,074 |
| Annual Pension Cost (APC) | 329,831 | 243,475 | 223,919 |
| Contributions made by USI *** | 332,832 | 314,017 | 330,201 |
| Decrease in Net Pension Obligation | (3,001) | (70,542) | (106,282) |
| Net Pension Obligation, Beginning of Year | (331,707) | (261,165) | (154,883) |
| **Net Pension Obligation, End of Year** | **($334,708)** | **($331,707)** | **($261,165)** |

* 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 12.683
*** Percentage of APC contributed: 2002 at 100.9%; 2001at 129.0%; and 2000 at 147.5%

The required contribution was determined as part of the actuarial valuation using the projected unit cost method. The actuarial assumptions included: (a) 7.25 percent investment rate of return (net of administrative services), (b) projected salary increases of five percent per year, and (c) two 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 6 – Medical and Life Insurance Plans

The University requires participation in the group life insurance program as a condition of employment. Health and dental insurance is an optional benefit available through health care providers. Both the University and the employee contribute to the cost of this benefit on a share-the-cost basis. Benefits available to retirees are described in Note 7.

University employees can contribute to health and life insurance premiums on a pre-tax basis through a Section 125 Flexible Benefit Plan. Flexible Spending Accounts for unreimbursed health, dependent care, and alternative insurance expenses are also available to allow participants to pay eligible expenses on a pretax basis.

CONCERN is a comprehensive employee assistance program offered through Deaconess Service Corporation to University employees and members of their households. The program offers assessment, short-term counseling, and referrals at no cost to the employee.

Long-term disability insurance benefits are provided to benefit-eligible employees after three years of employment. The cost of this benefit is paid entirely by the University.

The insurance coverages described above are contracted yearly and rates are based on claims experience and/or the demographics of participants. To provide these benefits the University paid $3,629,256 for 811 current employees in fiscal year 2002-03 and $3,462,687 for 783 current employees in fiscal year 2001-02.

## NOTE 7 – Postretirement Health Care Benefits

In addition to the retirement plans described in Note 6, the University provides postretirement 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 10 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. The University will contribute on a revised years-of-service and premium contribution schedule for retirees who hired in on or after July 1, 1993:

| 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. The University pays the entire premium up to $18,000; the retiree contributes $.25/month/$1,000 beyond $18,000 coverage. Under the revised plan, the coverage is reduced to $5,000 and the University pays the entire premium. Accidental Death and Dismemberment coverage terminates on the retirement date under both plans.

In the future, a VEBA Trust (see Note 14) will help defray the costs of providing post retirement benefits. In fiscal year 2002-03, the University paid $329,521 to provide these benefits to 98 retirees and 35 spouses and dependents. This expense for fiscal year 2001-02 was $302,760 for 102 retirees and 37 spouses and dependents.

## NOTE 8 – 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. To satisfy these needs, Table II presents the University's 2002-03 operating expenses by functional classification.

## NOTE 9 – Change in Capitalization Threshold

The University increased its capitalization threshold from $1,000 to $5,000 during the prior fiscal year, which caused $5,980,519 in previously capitalized assets, reduced by $2,385,969 in correlating accumulated depreciation, to be expensed. As a result, net assets decreased by $3,594,550 in fiscal year 2001-02, which is reflected as a special item on the Statement of Revenues, Expenses, and Changes in Net Assets. There were no special items to report for the current fiscal year.

## NOTE 10 – Construction in Progress

Expenditures for the Science and Education Classroom Building at June 30, 2003, are $22.6 million. The building will be completed and in service for the fall 2003 academic semester at an additional cost to complete of approximately $2.6 million.

Other expenditures reflected in construction in progress are costs for planning and constructing additional parking, student housing, and a new library. These projects are in line to be completed over the next three years at an expected total cost of $39 million.

### TABLE II

| FUNCTION | SALARIES & WAGES | BENEFITS | FINANCIAL AID | UTILITIES | SUPPLIES & OTHER SVCS | DEPRECIATION | 2003 TOTAL | 2002 TOTAL |
|---|---|---|---|---|---|---|---|---|
| Instruction | $ 19,314,504 | $ 5,242,628 | | | $ 1,380,620 | | $ 25,937,752 | $ 26,716,013 |
| Academic Support | 3,722,784 | 1,145,016 | | | 2,405,473 | | 7,273,273 | 5,315,878 |
| Student Services | 2,869,310 | 942,290 | | | 1,308,221 | | 5,119,820 | 4,890,176 |
| Institutional Support | 5,228,050 | 1,716,760 | | | 1,798,714 | | 8,743,524 | 8,870,287 |
| Operation & Maintenance of Plant | 2,178,884 | 784,035 | | 1,677,768 | 1,562,593 | 4,178,637 | 10,381,917 | 12,005,177 |
| Student Aid | 297,638 | 9,892 | 4,096,524 | | 33,143 | | 4,437,197 | 3,895,285 |
| Public Service | 685,473 | 155,172 | | | 664,950 | | 1,505,594 | 1,586,602 |
| Research | 55,132 | 3,142 | | | 165,698 | | 223,972 | 280,741 |
| Auxiliary Enterprises | 3,210,862 | 870,357 | 146,534 | 585,487 | 10,291,432 | 2,384,177 | 17,488,849 | 13,345,534 |
| Loan Funds | | | | | 28,808 | | 28,808 | 48,761 |
| **TOTAL** | **$37,562,637** | **$10,689,291** | **$4,243,058** | **$2,263,255** | **$19,639,651** | **$6,562,814** | **$81,140,706** | **$76,954,453** |

## NOTE 11 – Capital Assets, net of Accumulated Depreciation

Table III displays the increase in total capital assets from $167.2 million at July 1, 2002, to $182.9 million on June 30, 2003. The additions to construction in progress account for most of the increase to capital assets this fiscal year. Gross capital assets, less accumulated depreciation of $61.4 million, equal net capital assets of $121.5 million at June 30, 2003.

### TABLE III

| CAPITAL ASSETS | Balance June 30, 2002 | Additions | Deletions | Balance June 30, 2003 | Accumulated Depreciation | Net Capital Assets |
|---|---|---|---|---|---|---|
| Land | $ 3,904,384 | $ 466,900 | $ 9,800 | $ 4,361,484 | | $ 4,361,484 |
| Land Improvements | 4,435,464 | 486,872 | | 4,922,336 | 2,157,499 | 2,764,837 |
| Infrastructure | 3,599,418 | 49,375 | | 3,648,793 | 1,021,813 | 2,626,980 |
| Educational Buildings | 77,466,572 | 39,866 | 30,320 | 77,476,118 | 30,943,699 | 46,532,419 |
| Auxiliary Buildings | 51,405,486 | 955,074 | 131,828 | 52,228,732 | 16,172,015 | 36,056,717 |
| Equipment | 8,564,529 | 1,077,230 | 655,728 | 8,986,031 | 6,020,698 | 2,965,333 |
| Library Materials | 6,719,751 | 489,221 | 5,417 | 7,203,555 | 5,125,847 | 2,077,708 |
| Museum Exhibits | 1,052,220 | | | 1,052,220 | | 1,052,220 |
| Construction in Progress | 10,064,482 | 13,006,356 | | 23,070,838 | | 23,070,838 |
| **Totals** | **$167,212,306** | **$16,570,894** | **$833,093** | **$182,950,107** | **$61,441,571** | **$121,508,536** |

## NOTE 12 – Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illness or injuries to employees; and health and other medical benefits provided to employees and their dependents. The University manages these risks of loss through combinations of risk retention and commercial insurance. For buildings and contents, and other special form coverages, the University has risk retention up to $25,000 per occurrence. General liability, commercial crime, worker's compensation, commercial auto (except collision), medical malpractice, as well as all medical, life, and disability insurance, are handled through fully insured commercial policies. A reserve fund is maintained to cover claims resulting from auto collision of University-owned and third-party vehicles. No liability exists at the balance sheet date for unpaid claims.

## NOTE 13 – Interrelated Organizations

The University of Southern Indiana Foundation, Inc. is a separate nonprofit organization formed in 1969 to assist in support and development of the University. During fiscal year 2002-03, the Foundation donated $1,892,534 to the University, primarily for scholarships and capital projects. At June 30, 2003, the stated value of USI Foundation's net assets approximates $29.7 million. The financial statements of the University do not include these assets.

The University of Southern Indiana-New Harmony Foundation, Inc. was formed in 1986 to assist in supporting and developing Historic New Harmony, a small town in southwestern Indiana thirty miles from campus. During fiscal year 2002-03 this entity contributed $82,599 to the operation of Historic New Harmony. At June 30, 2003, the stated value of USI-NH Foundation's net assets was $317,813. These assets are not included in the financial statements of the University.

## NOTE 14 – VEBA Trust

The University established a Voluntary Employees' Benefit Association (VEBA) trust for the purpose of providing retiree medical benefits for retired employees of USI and their dependents and for the purpose of providing medical benefits, disability benefits, and other forms of permitted welfare benefits for employees of USI and their dependents and beneficiaries and COBRA participants.

The trust is funded from three sources: University contributions and reserves designated by the Board for this purpose, employee payroll deductions for postretirement benefits, and retiree contributions for medical insurance premiums. Funds will accumulate in the trust for at least 10 years before any disbursements are made. The University does not anticipate that the trust will pay for all postretirement 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, 2003, is as follows:

### VEBA TRUST

| Fund balance at July 1, 2002, at Cost | $3,376,689 |
|---|---:|
| Transfer from University reserves | 0 |
| Transfer of employee/employer contributions | 135,725 |
| Transfer of retiree/employer contributions | 14,244 |
| Reinvested net earnings | 78,689 |
| Net gain/(loss) on sales on investments | (51,324) |
| Less: Management fees | (17,089) |
| **Fund balance at June 30, 2003 at Cost** | **$3,536,934** |
| **Fund balance at June 30, 2003 at Market Value** | **$3,362,306** |

An actuarial evaluation, completed in 1999, projects the accumulated liability for future postretirement health care for current retirees and active employees at approximately $11.3 million as of July 1, 1999. This liability is expected to increase each year through the foreseeable future.

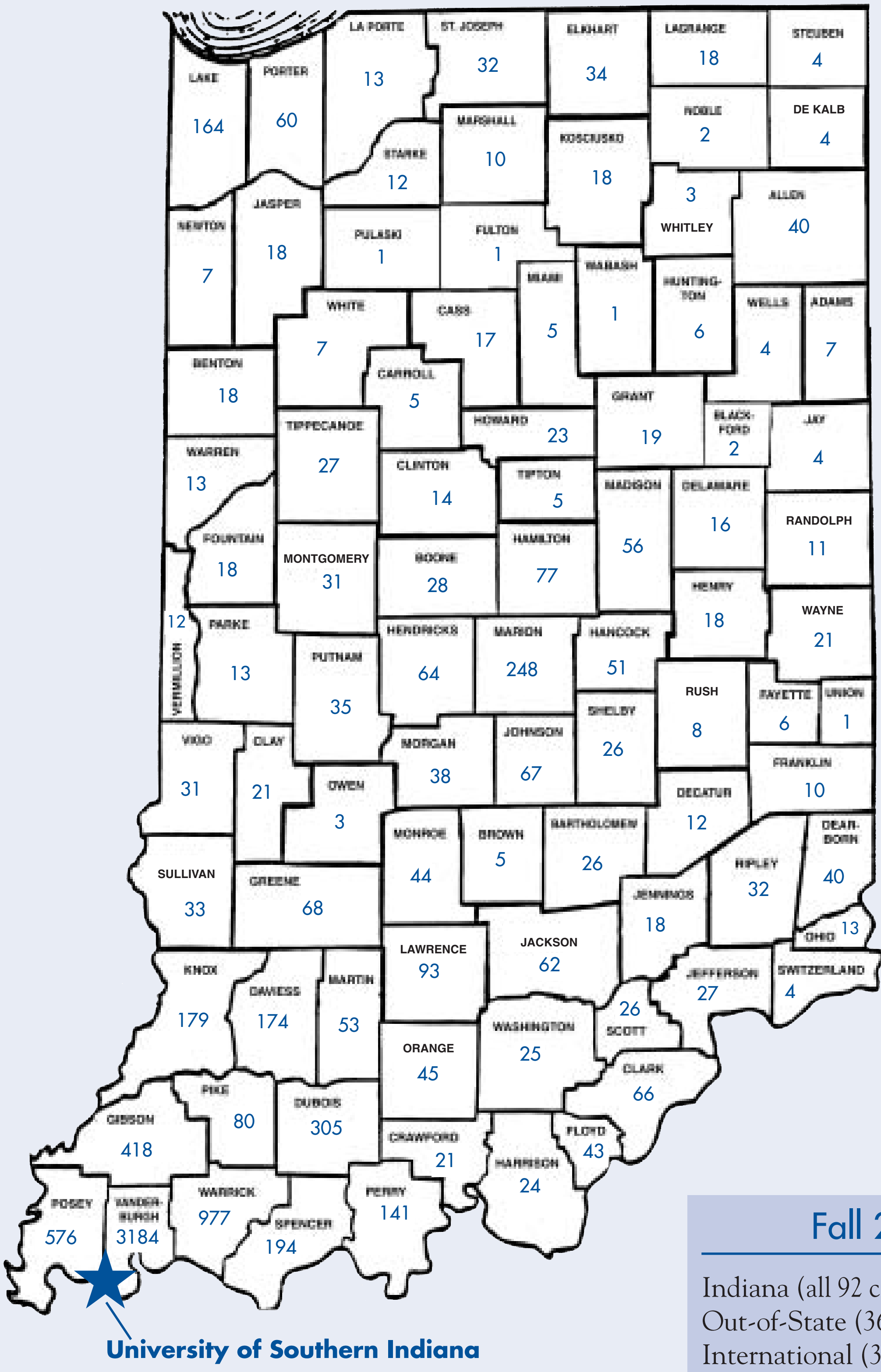
Funds that are placed into the trust cannot revert to the University under any circumstances; therefore, the financial statements of the University do not include the value of these assets.

# Supplementary Information

### FIVE-YEAR COMPARATIVE DATA

| | 2002-03 | 2001-02 | 2000-01 | 1999-00 | 1998-99 |
|---|---:|---:|---:|---:|---:|
| **Enrollment (Fall Semester)** | | | | | |
| Total Students | 9,675 | 9,362 | 9,012 | 8,695 | 8,415 |
| Undergraduates | 8,662 | 8,783 | 8,539 | 8,217 | 7,935 |
| Women | 5,898 | 5,660 | 5,439 | 5,174 | 5,065 |
| African American | 371 | 328 | 289 | 257 | 276 |
| Other Minority | 135 | 136 | 113 | 121 | 143 |
| International | 67 | 64 | 47 | 39 | 32 |
| Age 25 plus | 2,243 | 2,201 | 2,084 | 2,043 | 2,204 |
| Indiana Residents | 8,236 | 8,335 | 8,114 | 7,878 | 7,660 |
| Full-time Equivalent | 7,716 | 7,418 | 7,089 | 6,846 | 6,471 |
| **Degrees Granted (Academic Year)** | | | | | |
| Master | 154 | 152 | 144 | 119 | 163 |
| Baccalaureate | 1,010 | 1,049 | 1,016 | 914 | 819 |
| Associate | 165 | 155 | 160 | 160 | 177 |
| **Faculty (Fall Semester)** | | | | | |
| Full-time | 276 | 264 | 255 | 253 | 238 |
| Percentage Tenured | 44 | 45 | 47 | 42 | 42 |
| Part-time (FTE) | 142 | 137 | 113 | 122 | 115 |
| FTE Students/FTE Faculty | 19 | 19 | 19 | 18 | 18 |

# Home Counties of USI Students (Fall 2002)




## Fall 2002

| | |
|---|---|
| Indiana (all 92 counties) | 8,536 |
| Out-of-State (36 states) | 1,072 |
| International (33 countries) | 67 |
| **Total Enrollment** | **9,675** |

*It is the policy of the University of Southern Indiana to be in full compliance with all federal and state non-discrimination and Equal Opportunity laws, orders, and regulations relating to race, sex, religion, disability, age, national origin, sexual orientation, or status as a disabled veteran or veteran of the Vietnam era. Questions or concerns should be directed to the Affirmative Action Officer, USI Human Resources Department, University of Southern Indiana, 8600 University Boulevard, Evansville, Indiana 47712.*

*The Disabled Student Services program is provided to help students overcome or compensate for obstacles related to a physical, emotional, or learning disability. Resources include a reader/taping service, test accomodations service, tutors, sign language interpreter service, notetaker supplies, literature, and personal assistance. Program staff work with all offices to insure that reasonable and approriate accommodations are provided to students with disabilities. A detailed brochure is available from the Counseling Center. Students requesting services must register with the Disabled Student Services program in the Counseling Center at least 60 days prior to date needed.*

P03-5220

University of Southern Indiana
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Evansville, Indiana 47712