University of Southern Indiana

Financial Report 2005

ON THE COVER

A reflective view the Science Center and Education Center

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Additional copies of this report may be obtained from:

Office of the Vice President for Business Affairs and Treasurer
Byron C. Wright Administration Building
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712-3596
Telephone: 812/464-8600
or from the Web site at www.usi.edu/busoff/annualreport.asp

Board of Trustees 2004-2005

Trustees of the University gather before the 2005 Commencement ceremony. They are (from left) Mark Day, G. Patrick Hoehn, Harolyn G. Torain, Bruce H. Baker, President H. Ray Hoops, James L. Will Sr., J. David Huber, Samuel J. Tucker, and Frank F. McDonald II.

University Officers 2004-2005

H. Ray Hoops
President

Robert W. Parrent
Vice President for Student Affairs

Linda L. M. Bennett
Provost and Vice President for Academic Affairs

Mark Rozewski
Vice President for Business Affairs and Treasurer

Cynthia S. Brinker
Vice President for Governmental Relations

Sherrianne Standley
Vice President for Advancement and Assistant Secretary

Message From The President

Dr. H. Ray Hoops
President

Dear Friends,

In 2005 the University of Southern Indiana celebrated its 40th anniversary—20 years as a regional campus and 20 years as a separate state university. We say the founders and supporters of the University had 20-20 vision, for these 40 years have yielded tremendous gains for the city of Evansville, the southwestern Indiana region, and the State of Indiana. For evidence, one has to look no farther than the number of regional high school graduates going on for postsecondary education. In 1985, when ISUE became USI, only 33 percent of high school graduates took postsecondary work. Today that figure outstrips state and national averages at an impressive 78 percent.

Once a commuter campus serving mostly local students, USI has emphasized accessibility and affordability while preserving its commitment to excellence in teaching. The result is a vibrant environment that over the history of the institution has attracted students from all 92 Indiana counties, all 50 states and the District of Columbia, and 86 nations. These students add to the diversity of the community at large, and an overwhelming number—about 80 percent—stay in Indiana after graduation, living and leading in ways that enhance all of our communities.

The University of Southern Indiana is grateful for the leadership given by state and local elected officials who have developed resources to support the University's growth. The University is also grateful for its many friends and alumni who continue to help close the gap between state funding and critical needs. With each major development, whether academic programs or classroom facilities, donors to the USI Foundation have been our strong partners, meeting our unmet needs. And friends also help keep college affordable by providing scholarship support for talented students from hard-working families. In the past year alone, more than 750 USI Foundation scholarships were awarded, totaling over $750,000.

As we embark on the next decade that will lead us to our 50th anniversary celebration, we continue our pledge to be whatever southern Indiana and the state need us to be, and to be as true to our values in the next four decades as we have been in the past.

Sincerely yours,

H. Ray Hoops

H. Ray Hoops
President

Message From The Vice President

Mark Rozewski
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, 2005. 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.

Mark Rozewski
Vice President for Business Affairs
and Treasurer

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2005 and 2004. 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 did not audit the financial statements of the component unit of the University as discussed in Note 16, which represents 100% of the assets and revenues of the discretely presented component unit. The financial statements of this component unit were audited by another auditor whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

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, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of University of Southern Indiana, as of June 30, 2005 and 2004, 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 December 5, 2005, on our consideration of Indiana State University'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

December 5, 2005

Management's Discussion and Analysis

Management's discussion and analysis reviews the financial performance of the University during the fiscal year ended June 30, 2005, and compares that performance with data from prior fiscal periods. It 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.

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

Statement of Net Assets

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

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

STATEMENT OF NET ASSETS June 30 (in thousands)	2005	2004	2003
Current Assets	$ 66,829	$ 78,565	$ 37,791
Noncurrent Assets:			
Capital assets, net of depreciation	131,078	124,470	121,509
Other noncurrent	21,777	14,099	11,617
Total Assets	**$219,684**	**$217,134**	**$170,917**
Current Liabilities	$ 15,246	$ 13,387	$ 12,662
Noncurrent Liabilities	126,688	131,202	91,299
Total Liabilities	**$140,934**	**$144,589**	**$103,961**
Net Assets:			
Invested in capital assets, net of debt	$ 25,008	$ 25,517	$ 25,504
Restricted–expendable	214	1,489	4,588
Unrestricted	53,528	45,539	36,864
Total Net Assets	**$ 78,750**	**$ 72,545**	**$ 66,956**

Assets

Current assets at June 30, 2005, consist predominantly of cash and cash equivalents, short-term investments, and cash on deposit with bond trustees. Also included are accounts receivables and inventories. Noncurrent assets include capital assets, net of depreciation, and long-term investments. Both current and noncurrent assets include lesser-valued resources that are grouped together and listed under the term *Other*.

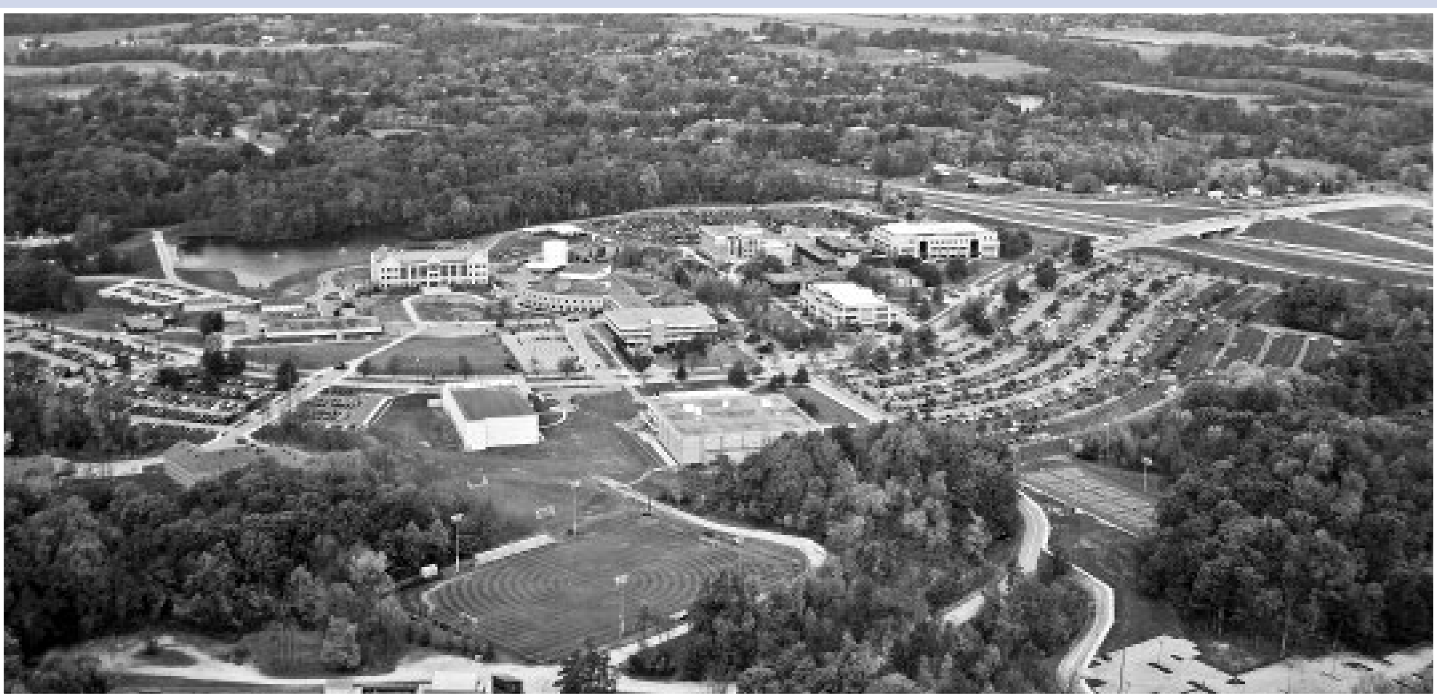
Total assets increased $2.6 million (1.2%) in 2005 compared to a $46.2 million (27.0%) increase in 2004. This smaller increase over 2004 is explained by the following fiscal year events:

- Deposits with bond trustees decreased $14.5 million in 2005 as funds were expended on the new David L. Rice Library project. In 2004, proceeds from two bond issues were deposited into project and debt service funds with the bond trustees resulting in the large increase in assets.
- Cash and cash equivalents, short-term investments, and long-term investments increased $10.5 million dollars, or 22.6%. The prior fiscal year increase was $5.7 million, or 13.9%.
- Accounts receivable decreased $2.5 million, or 36.9%. Accounts receivable in 2004 included a receivable from the State of Indiana for the twelfth-month appropriation payment of $2.8 million. Because the state has set aside the $2.9 million twelfth-month payment for 2005 indefinitely, this receivable has been reclassified as noncurrent.

Liabilities

Current liabilities at June 30, 2005, are primarily composed of accrued payroll and related deductions and the current portion of bonds payable. Also included are accounts payable, debt interest payable, and miscellaneous other liabilities. Noncurrent liabilities are predominately bonds payable. Also included are compensated absences, an unamortized bond premium, and miscellaneous other long-term liabilities. Total liabilities decreased $3.7 million (2.5%) in 2005 compared to an increase of $40.6 million in 2004. Activities during the year that influenced this change include the following:

- Accrued payroll and related deductions increased from $4.8 million to $5.5 million. This is a 13.7% increase compared to a 11.8% increase in the previous fiscal year. Changing from fully-insured health insurance plan to a cost plus funding arrangement increased liabilities $960 thousand at fiscal year end for incurred but unpaid claims.
- Two new bond issues caused long-term bonds payable to increase $38 million in 2004. There were no new bond issues during 2005. Paying down the existing debt caused a total decrease of $4.6 million in notes and bonds payable, debt interest payable, and unamortized bond premium for 2005.



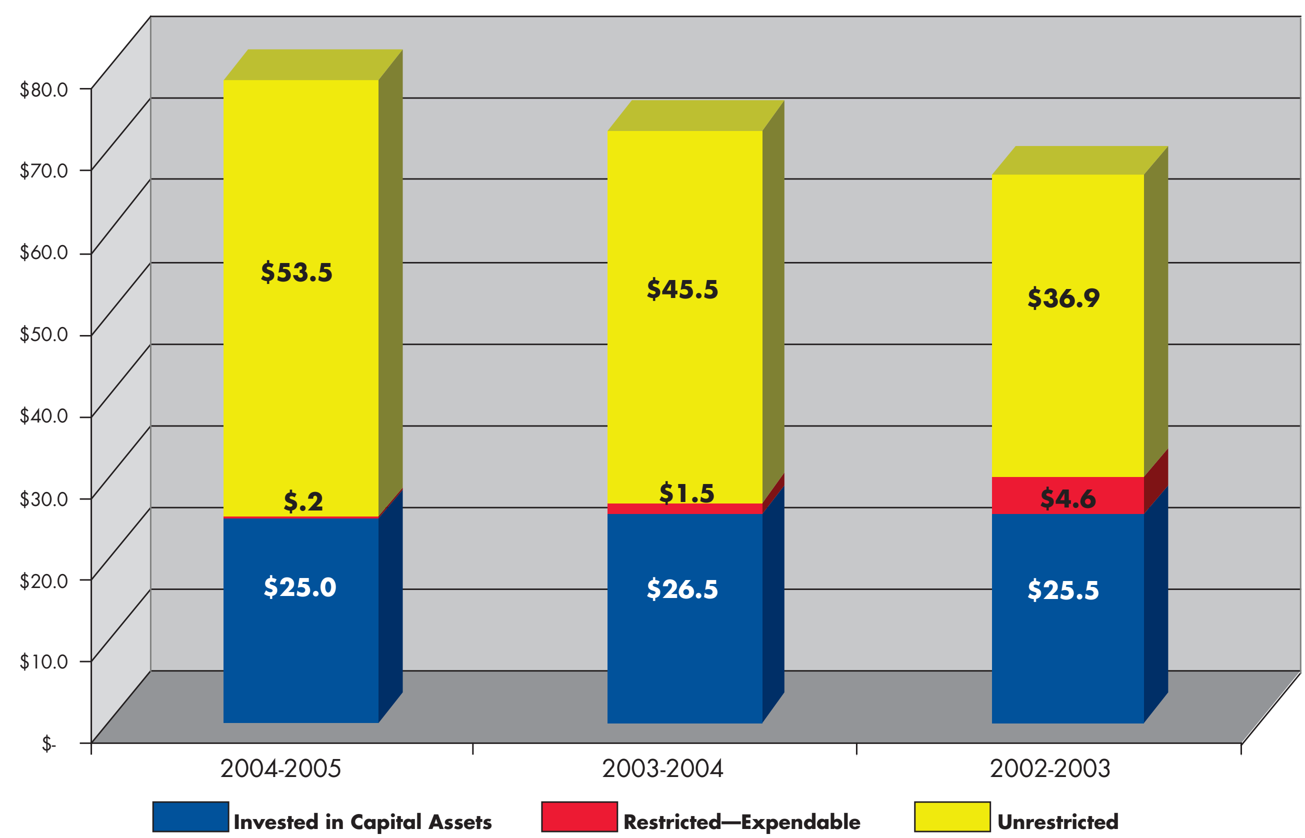
Aerial shot of campus looking west.

Net Assets

Net assets at June 30, 2005, were $6.2 million greater than on June 30, 2004. Restricted expendable assets decreased nearly $1.3 million reflecting the spending down of funds restricted for capital projects. Unrestricted assets increased $8 million and comprise 68% of total net assets. Of the $53.5 million in unrestricted net assets, $34.7 million have been internally designated as follows:

- $2.0 million reserve for replacement of administrative software system
- $2.5 million reserve for working capital
- $3.9 million reserve for outstanding encumbrances
- $2.6 million reserve for equipment and facilities maintenance and replacement
- $7.7 million reserve for auxiliary system operations
- $1.1 million reserve for University Center renovation and expansion
- $14.9 million reserve for special construction-related projects

ANALYSIS OF NET ASSETS (in millions)



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. Operating income is 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 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 truer measure of fiscal year net income is the amount shown on the statement as “Income/(expenses) before other revenues, expenses, gains, or losses”.

YEAR ENDED JUNE 30 (in thousands)	2005	2004	2003
Total operating revenues	$63,964	$59,919	$53,965
Total operating expenses	(95,800)	(90,954)	(81,141)
Operating losses	(31,836)	(31,035)	(27,176)
Net nonoperating revenues/(expenses)	37,738	35,533	34,179
Income/(expenses) before other revenues, expenses, gains, or losses	5,902	4,499	7,003
Capital gifts, grants, and appropriations	303	1,091	456
Increase (decrease) in net assets	**$ 6,205**	**$ 5,590**	**$ 7,459**

Revenues

Operating revenues increased $4.1 million (6.7%) this fiscal year compared to a $5.9 million (11.0%) increase in the previous fiscal year. All major components of operating revenue increased, but no revenue source increased significantly more than another.

- Net student fee revenue increased from $28.2 million in 2004 to $29.7 million in 2005. This 5.4% increase was due to increases in enrollment growth of 1.5% and student fee rates of 5.0%. The previous year's increase of 17.1% reflected a 2.3% enrollment growth and 8.4% student fee rate increase.
- Grants and contracts from federal, state, and nongovernmental agencies increased 8.1%, or $0.9 million. The University received 52% from federal agencies, 43% from state and local agencies, and 3% from nongovernmental entities. Of the total grant revenue, 85.4% provided financial aid to the University's students.
- Auxiliary enterprises revenue, after bad debt and room and board allowances, increased $1.4 million, or 7.8%, in 2005. The prior fiscal year increased $1.1 million, or 6.1%. Ruston Hall, a new residence facility with 222 beds, opened in the fall of 2004.

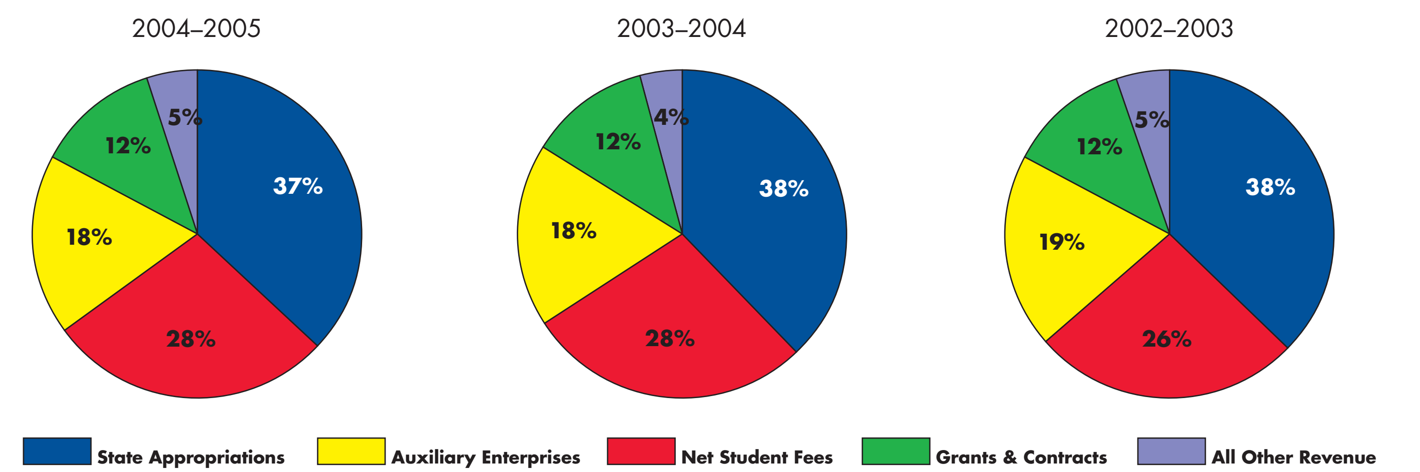
Nonoperating revenues experienced a net increase of 6.2% for the fiscal year ended June 30, 2005, compared to a 7.5% increase in the prior fiscal year.

- State appropriations for general operating support increased 2.1%, from $39.0 million in 2004 to $39.8 million, in 2005.
- Gift revenues increased 10.8% and 8.3% for 2005 and 2004 respectively. Of the $1.6 million gifts received in 2005, more than 99% came from the USI Foundation for scholarships, educational grants, academic enhancements, athletics, and other university support.
- Investment income increased 103.4%, from $0.5 million to $2.1 million, this fiscal year. The University had $10.5 million more dollars invested during the current fiscal year than the previous year which accounts for the substantial increase in this income.

Other revenues include capital appropriations from the state and capital gifts from the USI Foundation. The state awarded $100,103 for both 2004 and 2005. Capital gifts of $202,879 in 2005 and $990,700 in 2004 were received for purchase of classroom equipment and major renovation projects.

Total revenues (operating, nonoperating, and other) increased $5.7 million in fiscal year 2005 compared to a $9.4 million increase in 2004. The graph below shows the composition of the University's revenue for the fiscal years 2003–2005.

REVENUE CHARTS



Expenses

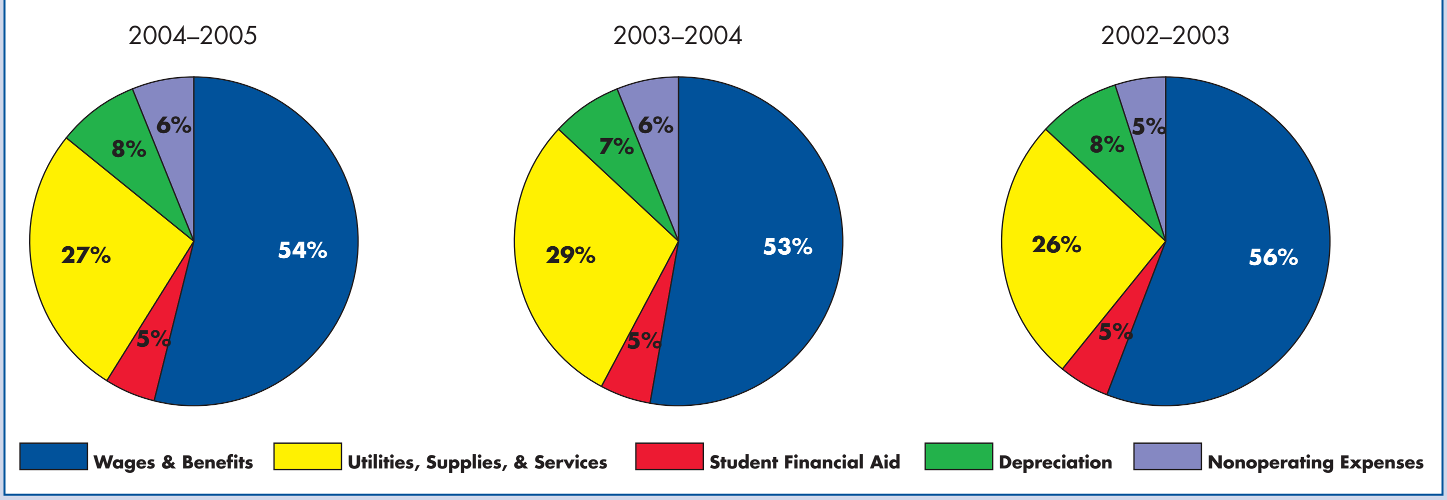
Operating expenses for fiscal year 2005 were $95.8 million, an increase of $4.8 million, or 5.3%, over the previous fiscal year. Except as noted otherwise, the increase in operating expenses is a result of enrollment growth, staffing increases, and an increase in campus plant facilities. Changes in expense categories were as follows:

- Compensation (salaries, wages, and benefits) comprise 56.9% of total operating expenses and increased 5.7%. This is down from the 6.5% increase in the prior fiscal year. Staffing increases caused by enrollment growth, promotions, and annual raises in salary contributed to this change in both years.
- Student financial aid increased from $4.9 million to $5.6 million, or 13.3%. The prior year increase was slightly less than $0.7 million, or 15.7%.
- Utilities increased 24.6%, or nearly double the prior year's increase of 12.7%. This reflects the sharply rising cost of natural gas and other commodities.
- Supplies and other services decreased $1.1 million, or 4.2%, compared to last year's increase of $5.6 million, or 28.3%. The 2004 fiscal year expenses reflected purchases of furniture, lab equipment, computers and computer software, and other supplies to equip and service the Pott School of Science and Engineering and the Bower-Suhrheinrich School of Education and Human Services classroom building, which opened in fall 2003.
- Depreciation increased $1.7 million, or 26.5%. Full year depreciation for the classroom building mentioned above and the Ruston Hall residence facility account for $1.2 million of the increase. Another $0.3 million reflects depreciation on servers and network equipment needed for the new campus-wide administrative software system.

Nonoperating expenses consist of interest on capital asset-related debt and other costs associated with issuing bonds and refinancing debt. These expenditures increased less than $100 thousand this year compared to $1.5 million increase in 2004. The University issued two new revenue bonds and advance refunded two older bond series in fiscal year 2004 incurring $0.5 million in bond issuance costs and $0.4 million loss on early retirement of debt that does not exist in 2005.

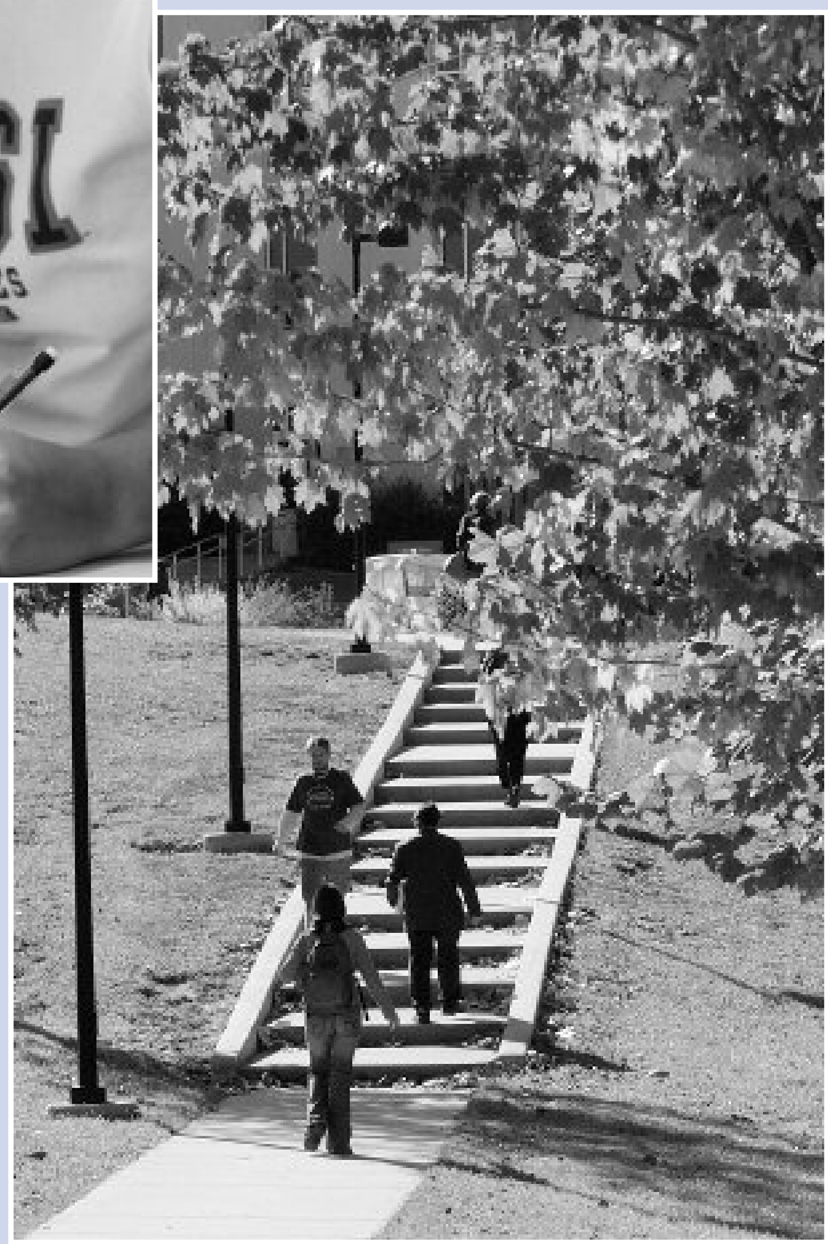
Total expenses (operating and nonoperating) increased $5 million in fiscal year 2005 compared to an $11.1 million increase in 2004. The composition of total expenses for both years is depicted by major category in the graph below:

EXPENSE CHARTS



Change in Net Assets

The difference between revenues and expenses results in an increase or decrease in net assets. For fiscal year ending June 30, 2005, net assets increased $6.2 million compared to a $5.6 million increase for fiscal year ending June 30, 2004. Total revenues increased at a greater rate than total expenses during fiscal year 2005.



On campus

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 2005, 2004, and 2003:

STATEMENT OF CASH FLOWS Year ended June 30 (in thousands)	2005	2004	2003
Net cash (used) provided by			
operating activities	($22,713)	($25,230)	($20,599)
noncapital financing activities	41,447	40,582	36,960
capital financing activities	(10,272)	(10,157)	(7,010)
investing activities	(7,785)	(3,253)	(6,471)
Net increase in cash	**$ 687**	**$ 1,941**	**$ 2,879**

Operating activities

- Cash used by operating activities decreased $2.5 million over the prior fiscal year compared to a $4.6 million increase from 2003 to 2004.
- Student fees and auxiliary enterprises provided the largest inflow in cash for all fiscal years.
- Payments to employees (wages and benefits) and suppliers caused the largest outflow of cash for all fiscal years.

Noncapital financing activities

- Cash provided by noncapital financing activities increased $0.9 million over the prior fiscal year compared to a $3.6 million increase from 2003 to 2004.
- State appropriations provided the largest cash inflow in all fiscal years.

Capital financing activities

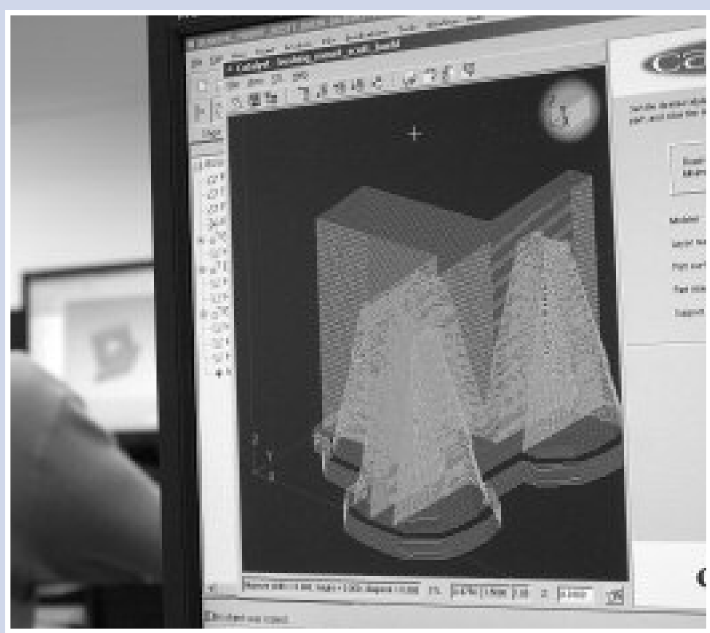
- Cash used for capital financing activities increased $0.1 million in 2005 compared to a $3.1 million increase in 2004.
- Deposits with bond trustees generated the largest cash inflow for fiscal year 2005 as bond proceeds were held for the David L. Rice Library construction project. Proceeds from capital debt, $60.6 million, provided the largest cash inflow in 2004.
- Purchase of capital assets generated the largest cash outflow as funds were expended on the David L. Rice Library project.
- Principal paid on capital debt in 2005 used $4.9 million compared to $20.7 used in 2004.

Investing activities

- Cash used by investing activities increased $4.3 million during 2005 compared to a $3.2 million decrease in 2004.
- Proceeds from sales and maturities of investments decreased $0.9 million in 2005 and purchases of investments increased $4.9 million.

Summary of Statement of Cash Flows

- For the year ended June 30, 2005, less cash was used for operating activities, more cash was provided by noncapital financing activities, more cash was used by capital financing activities, and more cash was used by investing activities. As a result of these activities, the University increased its cash position by $0.7 million, ending the fiscal year with a cash balance of $21.9 million.



An engineering computer laboratory.

Factors Impacting Future Periods

Construction for the new David L. Rice Library continues. This is a $30.7 million project that consists of a new library facility including furniture, fixtures, and equipment; retrofitting the existing library for offices, classrooms, and meeting rooms; construction of a distribution services facility; and redirection of the campus access road. Completion of the new library is expected by summer 2006, but construction on the related projects will continue for another two or more years.

The Indiana General Assembly granted USI $9.75 million in bonding authority only (no student fee replacement) for renovation and expansion of the University Center (UC), which will provide additional and/or renovated space for the bookstore, food service, student activities, and student organizations. The UC will expand into the current library building once the new library is constructed, providing additional conference and meeting spaces. This project is currently in the planning stage. The State Budget Committee and the Indiana Commission for Higher Education must approve this project and the financing plan before USI can proceed further.

The 2005 legislature authorized the University to borrow funds for three capital projects:

- increase the size of the Recreation, Fitness, and Wellness Center,
- complete the basement of the Bower-Suhrheinrich College of Education and Human Services building, and
- expand the physical plant facility and develop plans for a new College of Business facility.

The University will issue bonds in the amount of $7.25 million, secured by a demand on student fees, to construct and equip the addition to the Recreation, Fitness, and Wellness Center. Interim debt will be issued during early calendar year 2007 for these three interrelated projects.

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. Moody's staff visited the USI campus in May 2004 and reaffirmed these ratings.

Rice Library construction September 2005.

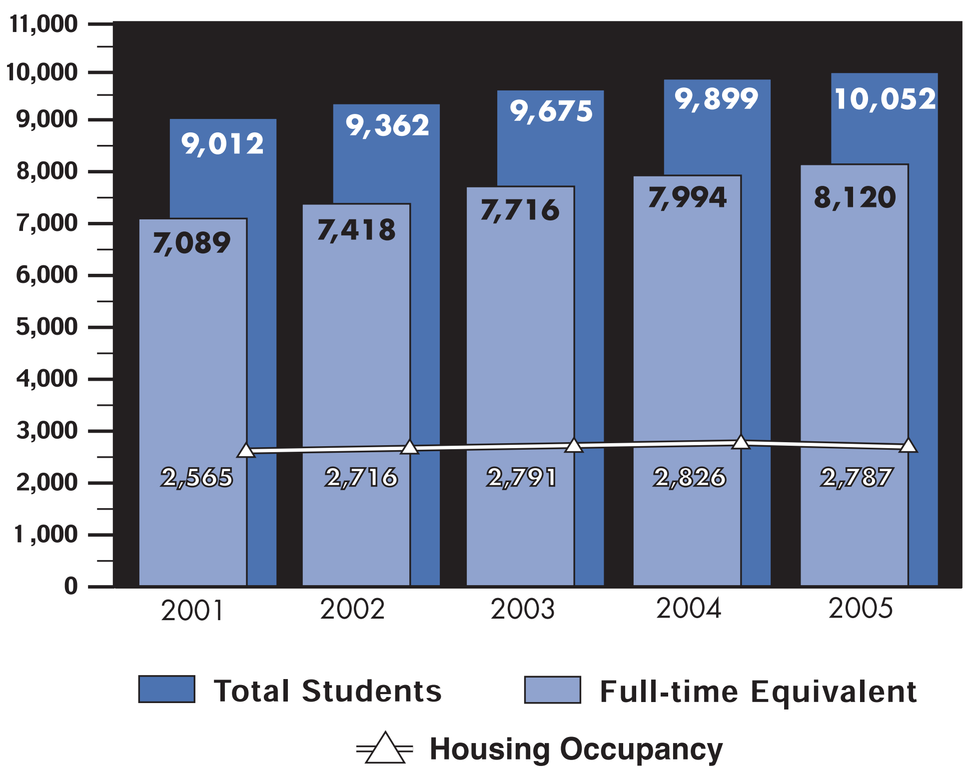
The State of Indiana's revenue performance continued below projection, and the amount of State funding has been affected by this condition:

- Repair and rehabilitation funds have been severely restricted and were funded at only 25% of the 2003-05 biennial funding-formula amounts in fiscal year 2005. Funding will increase to 50% for fiscal year 2006.
- Enrollment-change funding decreased 6% per FTE and was funded at 90% of the 2003-05 biennial funding-formula amounts in fiscal year 2005. Enrollment-change funding will increase to the full formula amount per FTE in 2006, but it will be funded at only 60% of the funding formula amount.
- Funding for personal services, supplies and expenses, and student aid received an inflationary increase of only .5% in 2005. Student aid funding will not increase in 2006, but personal services, supplies and expenses will receive a 1% increase.
- Finally, the twelfth monthly appropriation payment for fiscal year 2005 has been deferred indefinitely. As a result, the receivable has been reclassified from current to noncurrent in the statement of net assets.

The University has incurred costs for training, equipment, and software to implement a new campus-wide administrative software system. The project is projected to cost approximately $3 million for the system, including additional hardware and implementation costs that are not yet fully defined. This new system will increase efficiencies and functionality within the University. The project will be completed in 2006.

The University's total enrollment for academic years ending 2001 through 2005 has increased 11.5%; full-time equivalents for the same period have increased 14.5%. Full-time students now represent 76% of the total student population. The University is maturing and growing as a residential campus, and housing occupancy has increased 8.7% over the same five-year period. The following graph illustrates the enrollment growth and housing occupancy for the five-year period, 2001 to 2005.

ENROLLMENT FOR YEAR ENDING JUNE 30



Statement of Net Assets

As of June 30	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents (Note 1)	$ 21,897,420	$ 21,219,228
Short-term investments (Note 1)	16,431,898	11,628,619
Accounts Receivable (Note 2)	4,207,024	6,663,489
Inventories	1,794,797	1,865,797
Deposit with bond trustee	21,549,557	36,039,168
Other current assets	947,995	1,148,347
Total current assets	66,828,691	78,564,648
Noncurrent Assets		
Long-term investments (Note 1)	18,543,125	13,536,940
Capital assets, net (Note 12 and 13)	131,078,182	124,470,374
Due from the State of Indiana (Note 3)	2,857,580	
Other noncurrent assets	376,473	562,042
Total noncurrent assets	152,855,360	138,569,356
Total Assets	**$219,684,051**	**$217,134,004**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,352,378	$ 1,435,387
Accrued payroll and deductions	5,494,869	4,834,377
Notes payable (Note 4)	261,570	247,322
Bonds payable (Note 4)	5,369,738	4,683,920
Debt interest payable	1,742,186	1,385,127
Other current liabilities	1,025,554	800,714
Total current liabilities	15,246,296	13,386,847
Noncurrent Liabilities		
Notes payable (Note 4)	233,176	415,912
Bonds payable (Note 4)	121,513,547	126,883,285
Unamortized bond premium	1,771,963	1,870,406
Compensated absences (Note 5)	1,752,518	1,623,899
Other noncurrent liabilities	416,559	408,418
Total noncurrent liabilities	125,687,763	131,201,920
Total Liabilities	**$140,934,058**	**$144,588,767**
NET ASSETS		
Invested in capital assets, net of related debt	$ 25,008,003	$ 25,516,499
Restricted		
Expendable (Note 6)		
Instruction, scholarship, research, and other	9,970	55,040
Capital projects	204,525	1,434,273
Unrestricted	53,527,494	45,539,425
Total Net Assets	**$ 78,749,992**	**$ 72,545,237**

Component Unit

University of Southern Indiana Foundation
Statement of Financial Position
June 30, 2005

Assets

Cash	$ 24,622
Accounts and interest receivable	119,641
Contributions receivable, net of allowance; 2005 – $20,000, 2004 – $18,000	2,819,764
Investments	41,535,732
Beneficial interest in perpetual trusts	2,767,902
Beneficial interest in Community Foundation	66,360
Real estate held for investment	314,005
Land	166,025
Buildings and leasehold improvements, net of accumulated depreciation; 2005 – $92,119, 2004 – $946,324	833,620
Land and buildings held for sale, net of accumulated depreciation; $1,000,679	3,015,210
Property management deposits	99,686
Cash value of life insurance	134,916
Prepaid expenses	2,839
Total assets	$51,900,322

Liabilities and Net Assets

Liabilities	
Accounts payable	$ 20,683
Notes payable	3,585,416
Annuities payable	2,158,053
Deposits	2,639
Payable to related parties	737,747
Total liabilities	6,504,538
Net Assets	
Unrestricted	6,987,161
Temporarily restricted	17,910,743
Permanently restricted	20,497,880
Total net assets	45,395,784
Total liabilities and net assets	$51,900,322

Statement of Revenues, Expenses, and Changes in Net Assets

Fiscal Year Ended June 30	2005	2004
REVENUES		
Operating Revenues		
Student fees	$ 39,111,394	$ 36,837,634
Scholarship discounts and allowances	(9,373,805)	(8,635,912)
Federal grants and contracts	6,896,061	6,393,563
State and local grants and contracts	5,713,421	5,039,334
Nongovernmental grants and contracts	715,408	895,808
Sales and services of educational departments	160,876	268,697
Auxiliary enterprises	20,273,801	18,730,283
Room and board discounts and allowances	(560,192)	(459,707)
Other operating revenues	1,027,471	849,364
Total operating revenues	$ 63,964,435	$ 59,919,064
EXPENSES		
Operating Expenses		
Compensation:		
Salaries and Wages	$ 41,167,363	$ 39,644,012
Benefits (Notes 7, 8, and 9)	13,329,428	11,925,835
Student financial aid	5,560,843	4,909,846
Utilities	3,177,330	2,549,653
Supplies and other services	24,356,256	25,435,134
Depreciation	8,209,153	6,489,209
Total operating expenses	$ 95,800,373	$ 90,953,689
Operating income (loss)	(31,835,938)	(31,034,625)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 39,847,889	$ 39,023,803
Gifts	1,642,280	1,481,680
Investment income (net of investment expense of $59,788 and $20,847 for 2005 and 2004)	2,060,802	467,956
Interest on capital asset-related debt	(5,595,691)	(4,591,001)
Loss on early retirement of debt		(437,776)
Bond issuance costs	(17,396)	(503,919)
Other non-operating revenues (expenses)	(200,173)	92,614
Net non-operating revenues	$ 37,737,711	$ 35,533,357
Income (Expense) before other revenues, expenses, gains, or losses	5,901,773	4,498,732
Capital appropriations	100,103	100,103
Capital grants and gifts	202,879	990,700
Total other revenues	$ 302,982	$ 1,090,803
Increases (Decreases) in net assets	6,204,755	5,589,535
NET ASSETS		
Net assets—beginning of year	72,545,237	66,955,702
Net assets—end of year	**$ 78,749,992**	**$ 72,545,237**

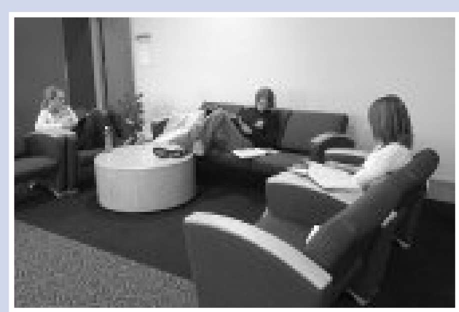
Component Unit

University of Southern Indiana Foundation
Statement of Activities
Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions	$ 5,767	$ 4,047,537	$ 3,014,416	$ 7,067,720
Change in value of split-interest agreements	—	(92,219)	(35,563)	(127,782)
Rental income	800,656	—	—	800,656
Miscellaneous income	87,227	86,814	—	174,041
Reclassification of donor intent	(130,399)	(71,540)	201,939	0
Net assets released from restrictions	1,811,677	(1,811,677)	—	0
Total revenues and other support	2,574,928	2,158,915	3,180,792	7,914,635
EXPENSES				
Programs – University of Southern Indiana				
Scholarships and awards	756,347	—	—	756,347
Educational grants and academic enhancements	347,724	—	—	347,724
Athletic support	230,875	—	—	230,875
Other University support	1,102,354	—	—	1,102,354
Capital projects	78,954	—	—	78,954
Community outreach	81,525	—	—	81,525
Total program services	2,597,779	0	0	2,597,779
Management and general	334,261	—	—	334,261
Fundraising	182,760	—	—	182,760
Uncollectible pledge loss	—	50,795	—	50,795
Total expenses	3,114,800	50,795	0	3,165,595
OTHER CHANGES				
Investment income, net	845,556	2,265,140	21,571	3,132,267
Change in value of beneficial interest in trusts	—	2,098	(9,796)	(7,698)
Gain (loss) on sale of property	21,900	—	—	21,900
Total other changes	867,456	2,267,238	11,775	3,146,469
Change in Net Assets	327,584	4,375,358	3,192,567	7,895,509
Net Assets, Beginning of Year	6,659,577	13,535,385	17,305,313	37,500,275
Net Assets, End of Year	$ 6,987,161	$ 17,910,743	$ 20,497,880	$ 45,395,784

Statement of Cash Flows

Fiscal Year Ended June 30	2005	2004
Cash Flows from Operating Activities		
Tuition and fees	$ 29,454,118	$ 27,992,299
Grants and contracts	13,537,851	12,145,812
Payments to suppliers	(23,926,405)	(25,882,288)
Payments for utilities	(3,177,330)	(2,549,653)
Payments to employees	(42,542,357)	(39,403,548)
Payments for benefits	(11,596,913)	(11,522,802)
Payments for scholarships	(5,560,843)	(4,909,846)
Loans issued to students	(741,466)	(328,952)
Collection of loans to students	766,995	396,093
Auxiliary enterprises receipts	19,446,874	18,197,279
Sales and services of educational depts.	160,876	268,697
Other receipts (payments)	1,465,957	366,619
Net cash used by operating activities	**$ (22,712,643)**	**$ (25,230,290)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$ 39,764,044	$ 38,902,116
Gifts and grants for other than capital purposes	1,642,281	1,481,680
Stafford and PLUS loans	(15,661)	24,807
Student, faculty and staff organization agency transactions	57,138	20,095
Other nonoperating receipts (payments)		153,191
Net cash provided by Noncapital financing activities	**$ 41,447,802**	**$ 40,581,889**
Cash Flows from Capital Financing Activities		
Proceeds from capital debt		$ 60,606,819
Capital appropriations	100,103	100,103
Capital grants and gifts	362,143	500,380
Bond financing costs	(217,569)	(590,540)
Purchase of capital assets	(14,816,961)	(9,451,046)
Principal paid on capital debt	(4,852,408)	(20,708,324)
Interest paid on capital debt and leases	(5,337,075)	(4,924,746)
Deposit with trustee	14,489,611	(35,689,700)
Net cash used by capital financing activities	**$ (10,272,156)**	**$ (10,157,054)**

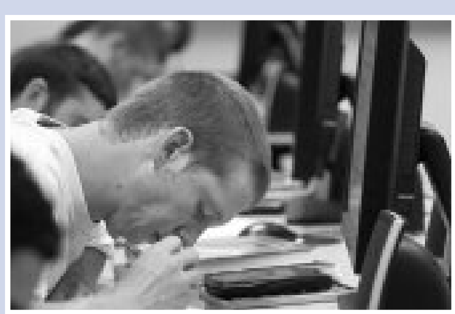


Statement of Cash Flows–continued

Fiscal Year Ended June 30	2005	2004
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	$ 13,597,494	$ 14,452,135
Interest on investments	2,069,491	878,096
Purchase of investments	(23,451,795)	(18,583,654)
Net cash used by investing activities	**$ (7,784,810)**	**$ (3,253,423)**
Net increase in cash	$ 678,192	$ 1,941,122
Cash – beginning of year	21,219,228	19,278,106
Cash – end of year	**$ 21,897,420**	**$ 21,219,228**

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (31,835,938)	$ (31,034,625)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	8,209,153	6,489,209
Provision for uncollectible accounts	66,125	(24,087)
Changes in assets and liabilities:		
Receivables	(383,395)	(656,496)
Inventories	70,999	(279,737)
Other assets	237,277	(397,400)
Accounts payable	579,833	340,811
Deferred revenue	(266,417)	152,074
Deposits held for others	447,653	(22,449)
Compensated absences	136,539	135,269
Loans to students	25,528	67,141
Net cash used by operating activities:	**$ (22,712,643)**	**$ (25,230,290)**

Noncash Transactions		
Unrealized (gain) loss on investments	44,838	410,140
Short and long-term investments	(44,838)	(410,140)
Accounting loss on early retirement of debt		(342,776)
Interest on capital asset-related debt		342,776



Notes to Financial Statements

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, 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 discreetly 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 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

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 13 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 total 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. Collection pieces, whose values have been determined by appraisal or purchase price, total $271,518. 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, 2005.

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.

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.

NOTE 1 – Investments, Cash, and Equivalents

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, 2005, the bank balances of the University's operating demand deposit accounts were $5,026,116, of which $705,453 was covered by federal depository insurance. The remaining balance was insured by the Public Deposit Insurance Fund, which covers all public funds held in approved Indiana depositories. None of these funds were exposed to custodial credit risk, which is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or collateral securities that are in the possession of an outside party.

Investments – The University's investments at June 30, 2005, are identified in the table below:

INVESTMENTS

Investment Type	Market Value	Type %	Investment Maturities (in Years) Less than 1 year	1–5 years	6–10 years
Money market accounts	$ 5,424,617	10%	$ 5,424,617		
Repurchase agreements	3,906,990	7%	3,906,990		
Certificates of deposit	28,172,223	49%	20,140,078	8,032,145	
U S Treasury and agency securities	19,368,613	34%	8,857,633	7,400,208	3,110,772
Totals	**$56,872,443**	100%	**$38,329,318**	**$15,432,353**	**$3,110,772**
Maturity %		100%	67%	27%	6%

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 $56.9 million invested, $15 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 $4.4 million in U.S. government securities and $3.9 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 maintains a larger percentage (67%) 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, $19,350,141 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 as valued at the end of the preceding month. At June 30, 2005, 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 2 – Accounts Receivable

Accounts receivable are recorded net of allowance for uncollectible student fees of $244,077 and auxiliary services fees of $134,338. Prior year allowances were $170,566 for student fee receivables and $141,725 for auxiliary services receivables. The accounts receivable balance for FY 2005 includes $2,656,334 in net student receivables and $1,550,690 in external receivables.

NOTE 3 – Due from State of Indiana

The twelfth payment of the 2005 fiscal year appropriations has been set aside until such time if and when the state assigns sufficient funds to pay, or the budget director determines there are sufficient funds to pay, some or all of the payment due. As a result, $2,857,580 appropriation receivable from the state has been reclassified from a current to a noncurrent receivable.

NOTE 4 – 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 percent, and the balance outstanding at June 30, 2005, is $398,960.

Bonds Payable – Outstanding bonds payable at June 30, 2005, total $126,883,285 and are identified in the following schedule of bonds and notes payable.

SCHEDULE OF BONDS AND NOTES PAYABLE

	Issue Date	Interest Rate	Current Year Rate	Maturity Date	Original Issue Amount	June 30, 2005 Principal Outstanding	June 30, 2005 Interest Outstanding	June 30, 2005 Total Outstanding
Student Fee Bonds								
Series D, Health Professions Center	1993	2.25% to 5.8%	5.25%	2015	$ 24,678,101	$ 3,608,285	$5,581,714	$ 9,189,999
Series F, Liberal Arts Center	1998	3.55% to 4.7%	4.40%	2013	15,280,000	8,810,000	2,077,155	10,887,155
Series G, Fitness and Recreational Facility*	1999	0% to 10%	1.88%	2019	4,700,000	4,300,000	890,650	5,190,650
Series H, Science and Education Building	2001	3.5% to 5.0%	3.50%	2021	25,260,000	23,520,000	11,520,184	35,040,184
Series I, Library Construction	2004	2.0% to 5.375%	2.00%	2023	49,590,000	48,485,000	24,211,350	72,696,350
Auxiliary System Bonds								
Series 2001A, Student Housing Facilities	2001	4.0% to 5.0%	4.00%	2018	23,775,000	19,755,000	7,690,875	27,445,875
Series 2001B, Student Housing Facilities*	2001	0% to 10%	1.87%	2021	10,800,000	10,400,000	3,252,200	13,652,200
Series 2003, Student Housing Facilities	2003	2.5% to 4.5%	2.50%	2024	8,005,000	8,005,000	3,717,140	11,722,140
Notes Payable								
Energy Conservation Loan	1997	5.68%	5.68%	2007	2,127,318	398,960	22,814	421,774
Total					$164,215,419	$127282,245	$58,964,082	$186,246,327

* These are variable interest bonds with daily, weekly, or term rates capped at 10%. The current year rates listed above are the average rates paid during the fiscal year.

The University of Southern Indiana Student Fee Bonds Series D of 1993, Series F of 1998, Series G of 1999, Series H of 2001, 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 2.35 percent for Series G and 2.30 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:

NOTE 5 – 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 reflected in the Statement of Net Assets is $1,795,942 and $1,659,403 for June 30, 2005 and 2004 respectively. The current year change represents $119,053 increase in accrued vacation, $13,075 increase in sick leave liability; $10,108 increase in social security and Medicare taxes; and $5,697 decrease in PERF contributions. During the fiscal year, $43,424 was paid out to terminating employees. Payout for terminating employees in fiscal year 2005-06 is expected to be at least equal to the current fiscal year payout. For that reason, $43,424 of the total compensated absence liability has been classified as a current liability and the remaining $1,752,518 is classified as a non-current liability.

ANNUAL DEBT SERVICE REQUIREMENTS

Fiscal Year	Bonds	Notes	Total Principal	Total Interest	Total Debt Service
2005-06	$ 5,369,738	$ 261,570	$ 5,631,308	$ 5,932,675	$ 11,563,981
2006-07	5,519,060	137,390	5,656,450	5,752,958	11,409,408
2007-08	7,017,056		7,017,056	5,537,062	12,554,118
2008-09	7,273,768		7,273,768	5,278,608	12,552,376
2009-10	7,636,540		7,636,540	4,990,585	12,627,125
2010-15	36,475,368		36,475,368	20,123,103	56,598,471
2015-20	35,041,755		35,041,755	9,530,696	44,572,451
2020-25	22,550,000		22,550,000	1,818,395	24,368,395
Total	**$ 126,883,285**	**$ 398,960**	**$ 127,282,245**	**$ 58,964,082**	**$ 186,246,327**

NOTE 6 – Net Assets Reclassification

Net assets for 2004 have been recast: $4,575,673 in restricted net assets has been reclassified to unrestricted. Funds that were believed to have been restricted for debt service, capital projects, and loan programs by external agencies and regulations were determined upon closer scrutiny to be internally designated for those purposes. Per GASB 34, internally designated fund balances are unrestricted rather than restricted.

NOTE 7 – 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 $4,085,357 to these programs in fiscal year 2004-05, 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 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 $3,544,534 to this plan for 475 participating employees for fiscal year ending June 30, 2005 and $3,245,243 for 459 participating employees for fiscal year ending June 30, 2004. The annual payroll for this group totaled $30,255,995 and $28,986,985 for fiscal years ending June 30, 2005 and 2004 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 6.82 percent and 3 percent of employees' wages for employer and employee respectively. This has totaled $23,628 and $22,940 for fiscal years ending June 30, 2005 and 2004 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 3 percent of the employee's salary, and a defined benefit agent multi-employer plan to which the University contributed 3.8 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 $517,196 for 330 employees participating in PERF during the 2004-05 fiscal year and $628,199 for 337 employees participating during 2003-04.

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 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)	Unfunded (Overfunded) Accrued Liability (C)	Funded Ratio (A/B)	Actual Covered Payroll (D)	Unfunded (Overfunded) Liability as % of Payroll (C/D)
2002	$5,327	$5,487	$160	97.1%	$7,045	2.3%
2003	5,881	5,262	(619)	111.8%	7,305	(8.5%)
2004	4,571	4,300	(271)	106.3%	7,606	(3.6%)

PERF–DEVELOPMENT OF NET PENSION OBLIGATION

	2002	2003	2004
Annual Required contribution (ARC) *	$327,726	$349,754	$251,893
Interest on Net Pension Obligation @ 7.25%	(24,049)	(24,266)	(25,016)
Adjustments to ARC **	26,154	27,653	28,507
Annual Pension Cost (APC)	329,831	353,141	255,384
Contributions made by USI ***	332,832	363,478	406,062
Decrease in Net Pension Obligation	(3,001)	(10,337)	(150,678)
Net Pension Obligation, Beginning of Year	(331,707)	(334,708)	(345,045)
Net Pension Obligation, End of Year	($334,708)	($345,045)	($495,723)

* 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: 2002 at 100.9%; 2003 at 102.9%; and 2004 at 159.0%

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 8 – 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 9.

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 also are available to allow participants to pay eligible expenses on a pre-tax 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 plans 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 $4,782,663 for 845 current employees in fiscal year 2004-05 and $4,217,232 for 860 current employees in fiscal year 2003-04.

NOTE 9 – Postretirement Health Care Benefits

In addition to the benefit plans described in Note 8, 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 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 hired in 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 10) will help defray the costs of providing post retirement benefits. In fiscal year 2004-05, the University paid $431,802 to provide these benefits to 112 retirees and 53 spouses and dependents. This expense for fiscal year 2003-04 was $428,384 for 104 retirees and 47 spouses and dependents.

NOTE 10 -- 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 §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 for this purpose, employee payroll deductions for postretirement 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 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, 2005, is as follows:

VEBA TRUST

	COST	MARKET
Fund balance at July 1, 2004	$3,814,594	$3,927,434
Transfer from University reserves	250,000	250,000
Transfer of employee/employer contributions	146,796	146,796
Transfer of retiree/employer contributions	17,497	17,497
Reinvested net earnings	103,314	103,314
Net gain/(loss) on sales of trust investments	37,593	37,593
Less: Management fees and taxes	(32,998)	(32,998)
Net change in market value	NA	208,443
Fund balance at June 30, 2005	**$4,336,795**	**$4,658,079**

An actuarial valuation completed in 2005 projected the accumulated liability for future postretirement health care for current retirees and active employees at approximately $31 million as of July 1, 2005. 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.

NOTE 11 – 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, the table below presents the University's 2004-05 operating expenses by functional classification.

FUNCTIONAL EXPENDITURES

FUNCTION	SALARIES and WAGES	BENEFITS	SCHOLAR-SHIPS	UTILITIES	SUPPLIES and OTHER SVCS	DEPRECIATION	2005 TOTAL	2004 TOTAL
Instruction	$21,064,424	$ 6,171,801			$ 1,692,893		$28,929,118	$27,913,254
Academic Support	4,059,754	1,427,787			3,793,249		9,280,790	8,169,290
Student Services	3,179,668	1,137,892			1,451,887		5,769,447	5,590,209
Institutional Support	5,732,953	2,310,213			2,600,166		10,643,332	11,227,074
Operation and Maintenance of Plant	2,376,896	1,002,903		2,471,177	2,387,928	5,729,528	13,968,432	12,985,030
Student Aid	303,795	15,471	5,247,259		2,553		5,569,078	5,014,049
Public Service	763,003	198,185			730,959		1,692,147	1,789,200
Research	45,466	12,335			109,601		167,402	212,746
Auxiliary Enterprises	3,641,404	1,052,841	313,584	706,153	11,587,020	2,479,625	19,780,627	18,052,837
TOTAL	**$41,167,363**	**$13,329,428**	**$5,560,843**	**$3,177,330**	**$24,356,256**	**$8,209,153**	**$95,800,373**	**$90,953,689**

NOTE 12 – Construction in Progress

Construction in progress at year end totals $13.4 million (see capital assets table below). Of that amount, $11.8 million represents expenditures on the new David L Rice Library. Construction will continue for another year, and the completed project, which includes renovation of the old library and other related projects, is expected to cost $30.7 million.

The University is midway through implementation of a $3 million campus-wide, integrated administrative software system. The finance and human resources components of the system were installed and operational at fiscal year end and have been capitalized. Still in progress is installation of the alumni, student, and financial aid components of the system. At fiscal year end, $1.1 million had been expended for equipment, training, and software for these components. The project will be completed in 2006.

The remaining construction-in-progress balance reflects costs for constructing additional parking for student housing and at other areas on campus. This project will be completed during the next fiscal year at an estimated cost to complete of approximately $238,000.

NOTE 13 – Capital Assets, net of Accumulated Depreciation

The table below displays the increase in total capital assets from $192.4 million at July 1, 2004, to $206.8 million on June 30, 2005. Gross capital assets, less accumulated depreciation of $75.7 million, equal net capital assets of $131.1 million at June 30, 2005.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

CAPITAL ASSETS	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005	Accumulated Depreciation	Net Capital Assets
Land	$ 4,055,134			$4,055,134		$ 4,055,134
Land Improvements	4,967,250			4,967,250	2,750,963	2,216,287
Infrastructure	3,648,793			3,648,793	1,354,731	2,294,062
Educational Buildings	101,039,963	27,590	2,200	101,065,353	37,196,838	63,868,515
Auxiliary Buildings	52,228,732	7,236,030	27,590	59,437,172	21,036,449	38,400,723
Equipment	9,444,834	1,918,825	713,006	10,650,652	7,424,585	3,226,067
Library Materials	7,799,514	662,467	430	8,461,551	5,928,625	2,532,926
Museum Exhibits	1,052,220			1,052,220		1,052,220
Construction in Progress	8,164,714	13,169,113	7,901,579	13,432,248		13,432,248
Totals	**$192,401,154**	**$ 23,014,024**	**$ 8,644,805**	**$206,770,373**	**$ 75,692,191**	**$131,078,182**

NOTE 14 – 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, medical malpractice, as well as life, and disability insurance, are insured by commercial insurance subject to various deductibles. A reserve fund is maintained for auto collision claims on both University-owned and leased vehicles. No liability exists at the balance sheet date for unpaid claims.

Beginning January 2005, the University changed from a fully insured health insurance plan to a cost plus funding arrangement with its primary health care insurer. Under this arrangement the University is billed for actual claims paid by the insurer on behalf of covered participants plus administrative services. The University assumes additional risk under this arrangement, but the purchase of specific and aggregate stop loss coverage at 125% of the expected claims liability limits the overall exposure. The University holds reserves to mitigate this liability in the short term. After a full year's experience on this plan, the University will be better able to determine the level of reserves necessary to continue alleviating the liability. At fiscal year end, this liability equaled $960,730 in incurred but unpaid claims.

NOTE 15 – 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, a small town in southwestern Indiana thirty miles from campus. During fiscal year 2004-05, the foundation contributed $54,925 to Historic New Harmony Operations. At June 30, 2005, the stated value of USI-NH Foundation's net assets was $349,693. These assets are not included in the financial statements of the University.

NOTE 16 – 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, 2005, the USI Foundation distributed $1,699,596 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 Foundation maintains it 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 in the following classifications:

Permanently Restricted – Contributions are subject to donor-imposed stipulations. Net assets are to be maintained by the Foundation in perpetuity.

Temporarily Restricted – Contributions are subject to donor-imposed stipulations which are met by actions of the Foundation and/or the passage of time. Net assets are released from restrictions when expenses are incurred which satisfy the donor-restricted purposes or by the occurrence of other events specified by donors.

Unrestricted – Contributions and net assets are not subject to donor-imposed restrictions. Unrestricted assets support the operations of the Foundation, or they may be internally designated to support specific programs.

Complete financial statements, including explanatory notes, for the USI Foundation can be obtained from the Business Affairs office at 8600 University Blvd., Evansville, IN 47712.

Supplementary Information

FIVE-YEAR COMPARATIVE DATA

	2004-05	2003-04	2002-03	2001-02	2000-01
Enrollment (Fall Semester)					
Total Students	10,052	9,899	9,675	9,362	9,012
Undergraduates	9,217	9,154	8,988	8,783	8,539
Women	6,120	6,028	5,898	5,660	5,439
African American	424	400	371	328	289
Other Minority	151	151	135	136	113
International	83	73	67	64	47
Age 25 plus	2,358	2,300	2,243	2,201	2,084
Indiana Residents	8,946	8,778	8,536	8,335	8,114
Full-time Equivalent	8,120	7,994	7,716	7,418	7,089
Degrees Granted (Academic Year)					
Master	186	164	154	152	144
Baccalaureate	1,101	1,096	1,010	1,049	1,016
Associate	152	150	165	155	16
Faculty (Fall Semester)					
Full-time	284	278	276	264	255
Percentage Tenured	41	41	44	45	47
Part-time (FTE)	150	150	142	137	113
FTE Students/FTE Faculty	18.7	18.7	18.5	18.5	19.3

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

A class discussion in the Art Studio lobby.

Home Counties of USI Students (Fall 2004)

Fall 2004

Indiana (all 92 counties)	8,946
Out-of-State (36 states)	1,021
International (34 countries)	85
Total Enrollment	**10,052**

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.

P05-9042

University of Southern Indiana
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Evansville, Indiana 47712