

MINUTES
JOINT MEETING
FINANCE/AUDIT AND CONSTRUCTION COMMITTEES
UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES
November 10, 2003

The Finance/Audit and Construction Committees of the University of Southern Indiana Board of Trustees met in joint session on Monday, November 10, 2003, in Carter Hall in the University Center. Present were Chair G. Patrick Hoehn and Trustees Tina M. Kern-Raibley and Jim L. Will Sr. Also in attendance were Vice President for Business Affairs Robert W. Ruble and Vice President for Governmental Relations Cynthia S. Brinker.

The meeting was called to order at 11:10 a.m.

(FINANCE/AUDIT)

1. REVIEW OF 2003 AUDITED FINANCIAL STATEMENTS

Mr. Hoehn called on Vice President Ruble, who introduced Director of Internal Audit Diana Biggs. Mrs. Biggs began her overview of the 2001 audited financial statements with a report on the section titled Management's Discussion and Analysis, including the Statement of Net Assets, the Statement of Cash Flows, and Factors Impacting Future Periods. Mrs. Biggs also reviewed the financial statements and related notes (Attachment A). She noted that 2004 will be the first year the financial statements of the University of Southern Indiana Foundation will be included in the University's financial statements.

2. REVIEW OF RECOMMENDATION OF REQUEST FOR GENERAL REPAIR AND REHABILITATION FUNDS

This request authorizes President Hoops to request approval of the Indiana Commission for Higher Education, the State Budget Committee, and the Governor of the State of Indiana for appropriation of general repair and rehabilitation funds for the following projects:

Renovate Byron C. Wright Administration Building Forum Wing Lecture Hall II	\$85,000
Repair and paint Robert C. Orr Center Metal Roof	15,103

On a motion by Mr. Will, seconded by Mrs. Kern-Raibley, the committee approved a recommendation of the proposed request for general repair and rehabilitation funds to the Board of Trustees for approval at its meeting on November 10, 2003.

3. APPROVAL OF BUDGET APPROPRIATIONS, ADJUSTMENTS, AND TRANSFERS

On a motion by Mrs. Kern-Raibley, seconded by Mr. Will, the budget appropriations, adjustments, and transfers in Attachment B were approved.

(CONSTRUCTION)

4. REPORT OF CHANGE ORDERS ISSUED BY THE VICE PRESIDENT FOR BUSINESS AFFAIRS
(Attachment C)

Vice President Ruble reviewed the change orders in Attachment C.

5. REVIEW OF RESPONSES TO A REQUEST FOR PROPOSAL FOR ARCHITECTURAL AND DESIGN SERVICES FOR THE CONSTRUCTION OF A PARKING GARAGE AND THE SELECTION OF A FIRM TO PROVIDE SERVICES

At its meeting on September 10, 2003, the Board of Trustees approved a resolution to proceed with the planning and construction of a parking garage and authorized the Construction Committee to act on behalf of the Board in selecting an architect for the project. The University received three responses to its *Request for Proposal for the Construction of a Parking Garage* from the firms of Edmund L. Hafer and Associates, Inc., Professional Consultants, Inc., and Veazey Parrott Durkin and Shoulders, Inc. The proposals, summarized in Attachment D, were reviewed.

On a motion by Mrs. Kern-Raibley, seconded by Mr. Will, the firm of Professional Consultants, Inc. was selected to provide architectural and engineering services for the parking garage project.

There being no further business, the meeting adjourned at 11:50 a.m.



UNIVERSITY OF SOUTHERN INDIANA

FINANCIAL STATEMENTS

FOR FISCAL YEAR ENDING JUNE 30, 2003

Prepared by

Diana M. Biggs, CPA CIA
Director of Internal Audit

FINANCE/AUDIT COMMITTEE
BOARD OF TRUSTEES
NOVEMBER 10, 2003



STATE OF INDIANA

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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

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.

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.

STATEMENT OF NET ASSETS	2003 (in thousands)	2002 (in thousands)	% 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	12.3

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:

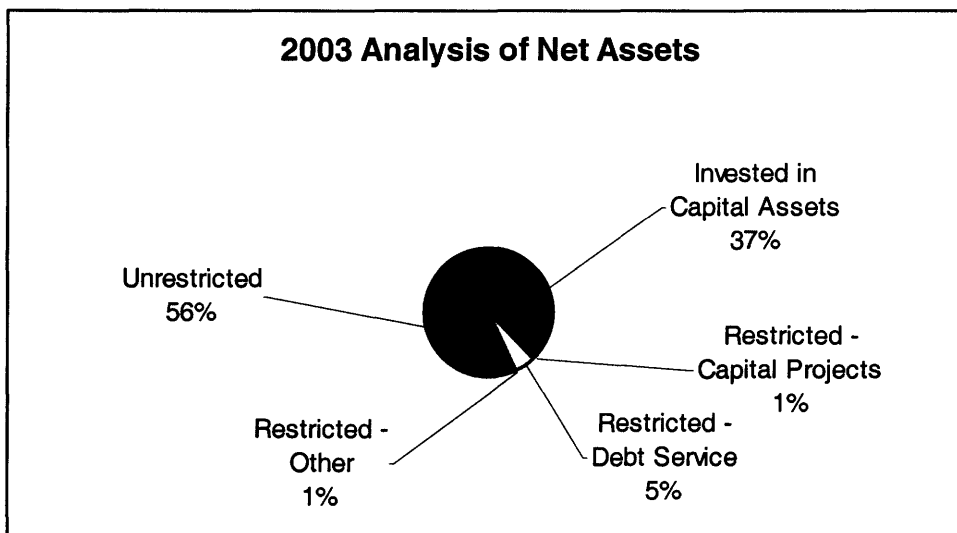
- The total liability for compensated absences increased \$99.5 thousand.
- Accrued payroll and related deductions increased slightly from \$4.1 million to \$4.3 million.
- All other liabilities combined decreased from \$5 million to \$4.7 million.

- 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: an overall increase net income and more of the net income 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 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".

	2003 (in thousands)	2002 (in thousands)	% Change
Total operating revenues	\$53,965	\$47,054	15
Total operating expenses	(81,141)	(76,954)	5
Operating losses	(27,176)	(29,901)	
Net nonoperating revenues/(expenses)	34,179	33,407	2
Income/(expenses) before other revenues, expenses, gains or losses	7,003	3,506	
Capital gifts, grants and appropriations	456	175	161
Special item - change in accounting policy	0	(3,595)	
Increase/(decrease) in net assets	\$7,459	\$86	103*

*Percentage increase in net assets excluding special items.

Revenues

Operating revenues increased 15% over the previous fiscal year. All major components of operating revenue increased as follows:

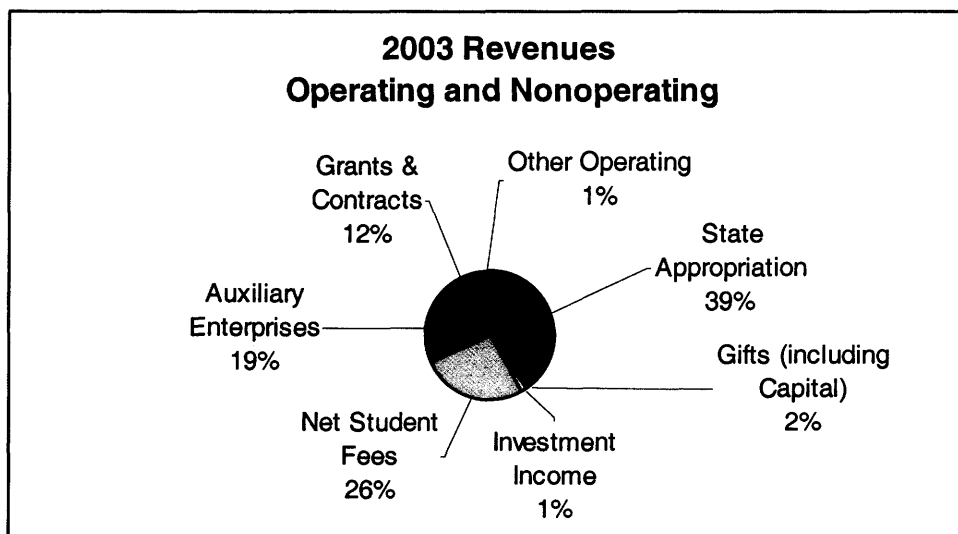
- Net student fee revenues increased from \$20.7 million in 2002 to \$24.1 million in 2003. This 16.2% increase was due to increases in enrollment growth of 3.3% and student fee rates of 9.9%.
- Grants and contracts from federal, state, and nongovernmental agencies increased 8.2%, or \$3.4 million, over 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:



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 except as otherwise noted. Changes in expense categories were as follows:

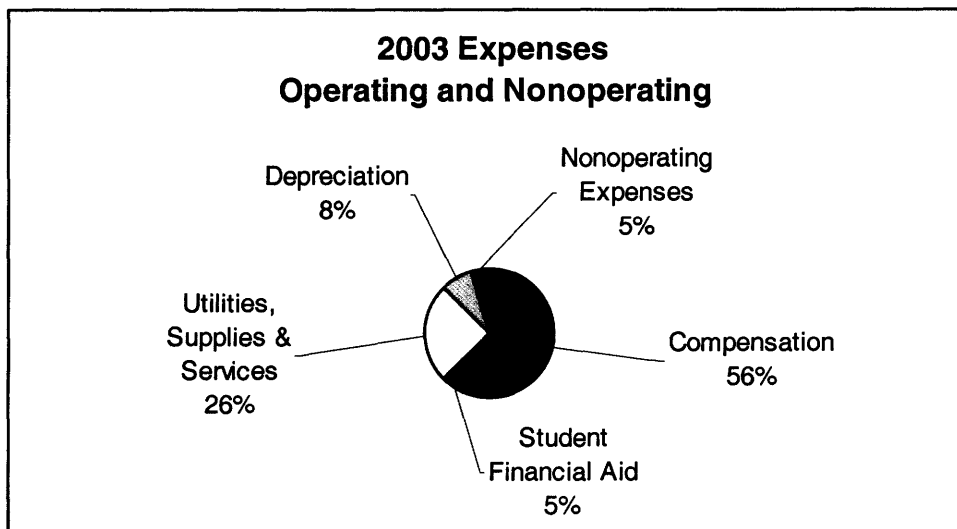
- Compensation (salaries, wages and benefits) increased 7.0%, from \$45.3 million to \$48.4 million. In addition to staffing increases caused by enrollment growth, promotions and annual raises in salary contributed to this change.

- 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:



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 103%.

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:

STATEMENT OF CASH FLOWS	2003 (in thousands)	2002 (in thousands)	% Change
Net cash (used) provided by			
operating activities	(\$20,599)	(\$22,645)	(6)
noncapital financing activities	36,960	34,186	8
capital financing activities	(7,010)	(12,942)	(46)
investing activities	(6,471)	3,055	(312)
Net increase in cash	\$2,879	\$1,655	74

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.

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.

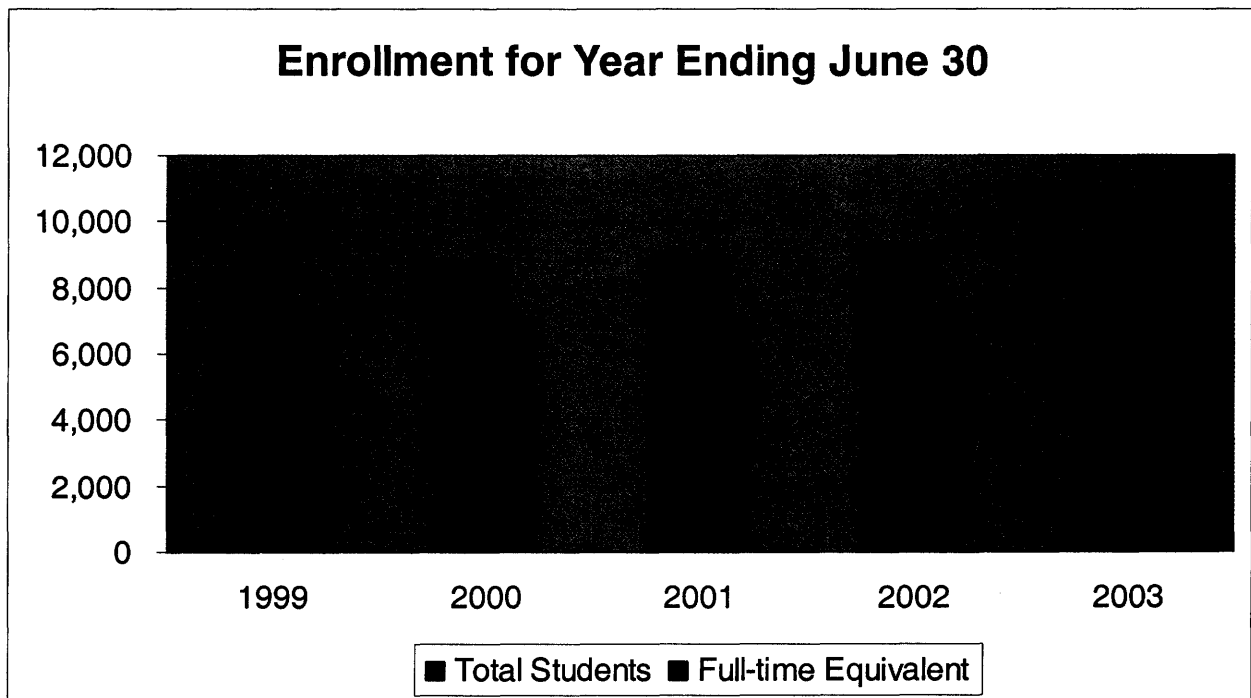
The University is planning to erect a \$4 million parking garage to replace parking space that will be lost because of future plant expansions. The garage will provide parking for approximately 200 vehicles, incorporate a refuse collection system and an emergency generator, and provide space for the 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:



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 also 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.

**University of Southern Indiana
 Statement of Net Assets**

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	<u>37,791,484</u>	<u>46,879,209</u>
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	<u>133,125,896</u>	<u>120,103,813</u>
Total Assets	<u>170,917,380</u>	<u>166,983,022</u>
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	<u>12,662,298</u>	<u>11,269,850</u>
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	<u>91,299,380</u>	<u>96,216,777</u>
Total Liabilities	<u>103,961,678</u>	<u>107,486,627</u>
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	<u>66,955,702</u>	<u>59,496,395</u>

University of Southern Indiana
Statement of Revenues, Expenses, and Changes in Net Assets
for the Fiscal Year Ended June 30

REVENUES	2003	2002
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	<u>53,965,086</u>	<u>47,053,645</u>
 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 9)	<u>81,140,706</u>	<u>76,954,453</u>
Operating income (loss)	<u>(27,175,620)</u>	<u>(29,900,808)</u>
 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	<u>34,179,309</u>	<u>33,406,845</u>
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	<u>455,618</u>	<u>175,303</u>
Increases (Decreases) in net assets before changes in accounting policy	7,459,307	3,681,340
Capitalization threshold increased, net assets written off (Note 9)	-	(3,594,550)
Increases (Decreases) in net assets	<u>7,459,307</u>	<u>86,790</u>
 NET ASSETS		
Net assets -- beginning of year	<u>59,496,395</u>	<u>59,409,605</u>
Net assets -- end of year	<u>66,955,702</u>	<u>59,496,395</u>

University of Southern Indiana
Statement of Cash Flows
For the 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 suppliers	(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	<u>\$ (20,599,275)</u>	<u>\$ (22,644,656)</u>
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 electronic [85100 & 85103]	(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	<u>\$ 36,959,732</u>	<u>\$ 34,186,062</u>
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	<u>\$ (7,010,131)</u>	<u>\$ (12,941,967)</u>

	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	<u>\$ (6,471,051)</u>	<u>\$ 3,055,424</u>
Net increase in cash	\$ 2,879,275	1,654,863
Cash - beginning of year	16,398,831	14,743,968
Cash - end of year	<u>\$ 19,278,106</u>	<u>\$ 16,398,831</u>

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 (Auxiliary housing, Eagle card)	(94,953)	24,730
Compensated absences	99,535	130,449
Loans to students	28,029	57,082
Net cash used by operating activities:	<u>\$ (20,599,275)</u>	<u>\$ (22,644,656)</u>

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

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 also 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 also 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.

Prepays 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 I – Investments, Cash & Equivalents

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
US Treasury & agency obligations		8,702,833		8,702,833	9,014,499

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	Interest Rates	Maturity Date	Original Issue Date	Outstand		30, 2003
				Principal	Total	
Student Fee Bonds						
Student Union	6.5% to 9.75%	2003	1985	\$85,000		\$89,144
Series D, Health Professions Center	2.25% to 5.6%	2015	1993	17,126,247		27,253,093
Series E, University Center Expansion	4.0% to 6.0%	2015	1995	3,445,000		4,904,223
Series F, Liberal Arts Center	3.55% to 4.7%	2013	1998	10,475,000		13,525,943
Series G, Fitness & Recreational Facility	0% to 10%	2019	1999	4,700,000		5,194,550
Series H, Science & Education Building	3.5% to 5.0%	2021	2001	25,260,000		39,162,281
Auxiliary System Bonds						
Series 2001A, Student Housing Facilities	4.0% to 5.0%	2018	2001	21,655,000		31,930,050
Series 2001B, Student Housing Facilities	0% to 10%	2021	2001	10,700,000		12,327,000
Notes Payable						
Energy Conservation Loan	5.68%	2007	2007	880,589		983,252
Total				\$94,326,836		\$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 a 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

Year	Bonds	Notes	Total Principal	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
2008-09	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
2021	10,700,000		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 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 \$3,116,212 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 9 percent and 3 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 3 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 ten 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 is disclosed in the tables below for three past fiscal years.

PERF – Schedule of Funding Progress (dollars in thousands)

Year	Valued Assets	Actuarial Cost (ARC)	Excess (unfunded) Accumulated Liability (G)	Funded Ratio (A/B)	Actual Covered Payroll (C)	Excess (unfunded) contribution (D)
2000	\$4,225	\$3,666	\$559	115.2%	\$5,764	9.7%
2001	4,385	386	(386)	108.8%	6,274	6.2%
2002	5,327	5,487	(160)	97.1%	7,045	(2.3%)

PERF – Development of 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%; 2001 at 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 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 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 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. 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:

<u>Years of Service</u>	<u>University</u>	<u>Employee</u>
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.

Table II

	2002	2001	2002	2001	2002	2001	2002	2001
	INSTRUCTION	BENEFITS	FINANCIAL AID	UTILITIES	SUPPLIES & OTHER SVCS	DEPRECIATION	2002	2001
Instruction	\$19,314,504	\$5,242,628			\$1,380,620		\$25,937,752	\$26,716,013
Academy Support		1,145,016			2,405,473		3,590,499	3,550,499
Student Services	2,869,310	942,290			1,308,221		5,119,820	4,890,176
Institutional Support		716,700			1,798,714		2,515,414	2,515,414
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	277,643	7,892	4,026,524		33,143		4,345,102	4,345,102
Public Service	685,473	155,172			664,950		1,505,594	1,586,602
Research		1,142			165,698		166,840	166,840
Auxiliary Enterprises	3,210,862	870,357	146,534	585,487	10,291,432	2,384,177	17,488,849	13,345,534
Plant					23,804		23,804	23,804
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 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.

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

	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003	Accumulated Depreciation	Net Capital
Land	\$ 3,904,384	\$ 466,900	\$ 9,800	\$ 4,361,484		\$ 4,361,484
Infrastructure	3,599,418	49,375		3,648,793	1,021,813	2,626,980
Auxiliary Buildings	51,405,486	955,074	131,828	52,228,732	16,172,015	36,056,717
Library Materials	6,719,751	489,221	5,417	7,203,555	5,125,847	2,077,708
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	\$61,441,531	\$121,508,576

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. A summary of the activity in the trust for the year ending June 30, 2003, is as follows:

VEBA TRUST

Fund balance at June 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

Funds will accumulate in the trust for at least ten 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.

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.

BUDGET APPROPRIATIONS, ADJUSTMENTS, AND TRANSFERS

1. Additional Appropriation of Income

From:	Unappropriated Current Operating Funds		
To:	1-10200	School of Liberal Arts Supplies and Expense	1,974
To:	1-10260	Political Science and Philosophy Supplies and Expense	1,000
To:	1-10300	Pott School of Science and Engineering Personal Services	3,000
To:	1-10320	Engineering Supplies and Expense	1,984
To:	1-10700	School of Business Personal Services	3,125
From:	Unappropriated Designated Funds		
To:	2-23300	School of Business Revolving Fund Supplies and Expense	50
To:	2-23305	Center for Business and Economic Research Supplies and Expense	2,700
To:	2-25301	Faculty Research – Professor M. Aakhus Supplies and Expenses	6,837
To:	2-25302	Faculty Research – Professor P. Aakhus Supplies and Expenses	2,000
To:	2-25303	Faculty Research – Professor Bandoli Supplies and Expenses	387
To:	2-25304	Faculty Research – Professor Bordelon Personal Services Supplies and Expenses	1,920 2,839
To:	2-25305	Faculty Research – Professor Latorre Personal Services	500
To:	2-25306	Faculty Research – Professor Morrison Personal Services Supplies and Expenses	840 224
To:	2-25307	Faculty Research – Professor Norman Personal Services Supplies and Expenses	1,815 219
To:	2-25308	Faculty Research – Professor Schwieger Supplies and Expenses	2,720

To:	2-25309	Faculty Research – Professor Shaw Personal Services Supplies and Expenses	2,336 2,261
To:	2-25310	Faculty Research – Professor Slavkin Personal Services Supplies and Expenses	1,750 1,484
To:	2-25311	Faculty Research – Professor White Personal Services Supplies and Expenses	2,150 2,139
To:	2-26000	Center for Teaching and Learning Excellence Supplies and Expenses	20,000
From:	Unappropriated Auxiliary Funds		
To:	3-30200	University Center Supplies and Expense	3,299
To:	3-30602	Baseball Supplies and Expense	550
To:	3-30603	Men’s Tennis Supplies and Expense	110
To:	3-30610	Men’s Soccer Supplies and Expense	200
To:	3-30617	Women’s Golf Supplies and Expense	5,110
To:	3-36210	Intramurals Programs Supplies and Expense	3,454
From:	Unappropriated Restricted Funds		
To:	4-45001	Pell Grants Supplies and Expenses	2,498,327
To:	4-45002	SEOG - Federal Supplemental Educational Opportunity Grant Supplies and Expenses	219,540
To:	4-45004	College Work Study Program Personal Services	300,000
To:	4-45081	Indiana Council for Economic Education - Economic Education Grant Supplies and Expenses	15,000
To:	4-45085	IU School of Medicine – Research - Professor Stith Supplies and Expenses	10,169
To:	4-45089	IU School of Medicine – Mechanisms of Signal Transduction of a GHB Action Supplies and Expenses	37,409
To:	4-45090	IU School of Medicine – General Account Personal Services Supplies and Expenses	294,106 92,989

To:	4-45091	IU School of Medicine – Special Needs Supplies and Expenses	641
To:	4-45096	IU School of Medicine – Research - Professor Aldrich Personal Services Supplies and Expenses	17,710 12,290
To:	4-45103	IU School of Medicine – Effect of Dietary Protein Source Study Personal Services Supplies and Expenses	9,000 15,092
To:	4-46005	Community Development Action Program Personal Services Supplies and Expenses	34,000 2,534
To:	4-46006	U.S. Department of Commerce - Economic Development Supplies and Expenses	50,000
To:	4-46367	Indiana Academy of Science - Spottail Darter Study Personal Services Supplies and Expenses	61 18
To:	4-46437	Susan G. Komen Breast Cancer Foundation - Witness Project Personal Services Supplies and Expenses	11,102 37,017
To:	4-46439	Welborn Foundation - Breast and Cervical Cancer Early Detection Project Personal Services	25,999

2. Transfer and Appropriation of Funds

From:	1-10000	General Instruction	
To:	3-32003	Lincoln Amphitheatre Personnel Services	3,685
From:	1-10200	School of Liberal Arts	
To:	3-32003	Lincoln Amphitheatre Personnel Services	4,094
From:	2-20050	Student Services Operations	
To:	2-20120	Multicultural Center Supplies and Expense	1,800
From:	2-22500	Corporate Training Program	
To:	1-10300	School of Science and Engineering Personal Services	3,000
From:	2-22500	Corporate Training Program	
To:	1-10320	Engineering Supplies and Expense	2,561
From:	6-61350	Science and Education Center	
To:	1-10800	School of Education Capital Outlay	10,000

3. Transfer of Funds

From:	1-19999	Transfers-Out	
To:	2-22500	Corporate Training Program	7,659
From:	2-22500	Corporate Training Program	
To:	1-09100	Transfers-In	1,294
From:	6-60100	Special Projects	
To:	6-60115	Renovation of Forum Wing and Human Resources Offices	425,000

**Report to University of Southern Indiana Board of Trustees
November 10, 2003**

Change Orders Issued by the Vice President for Business Affairs

On September 6, 2001, the Board of Trustees adopted a procedure related to changes in construction contracts which included the following: "Change orders up to \$25,000 may be issued by the Vice President for Business Affairs and reported to the Board of Trustees at its next meeting." Consistent with that policy, the following change orders have been issued.

PROJECT: Science and Education Center

<u>Description</u>	<u>Contractor</u>	<u>Amount</u>
<u>CO3, Contract 04</u> Provide and install pavers on southeast entrance canopy roof.	U. S. Industries Group, Inc.	\$3,500.00
<u>CO 4, Contract 09</u> Allowance closeout.	Simms Painting Co., Inc.	(\$47.00)
<u>CO 3, Contract 10</u> Allowance closeout.	Harry J. Kloeppel and Associates, Inc.	(\$1,163.00)

UNIVERSITY CENTER
PARKING GARAGE

PROPOSALS FOR ARCHITECTURAL
AND ENGINEERING SERVICES



University of Southern Indiana
Physical Plant Department

22 October 2003

UNIVERSITY CENTER PARKING GARAGE

PROPOSALS FOR ARCHITECTURAL AND ENGINEERING SERVICES

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University of Southern Indiana
Parking Garage Project Summary
August 29, 2003

The University of Southern Indiana proposes construction of a 200-space parking garage west of and attached to the University Center near Carter Hall. The parking garage will replace a surface parking lot which will be lost when the new library is constructed, and will address the University's overall need for additional parking.

The existing Security Building will be removed as a part of this project and the footprint of the parking garage will extend over the former Security Building. Replacement space for the Security Office will be provided on the ground level of the parking garage.

The garage also will house an emergency generator and a trash disposal facility for the University Center.

The cost of adding the Security Office, the emergency generator, and the trash disposal facility to this project is estimated at \$1,000,000. The total project cost is \$4,000,000.

\$3,000,000	200 parking spaces @ \$15,000 each
600,000	Security Office: 4,000 gross square feet @ \$150/gsf
200,000	Emergency generator (equipment and building)
<u>200,000</u>	Trash disposal facility (compactor, dumpster area)
\$4,000,000	

Because of its central campus location, the parking garage will require an exterior finish that will closely resemble existing academic buildings. Extending at least three floors high, the new facility will also screen the view of the physical plant's chilled water tower from much of campus.

The funding plan is as follows:

\$3,000,000	Bonding authority (debt service paid by parking system)
600,000	University reserves
<u>400,000</u>	University Center reserves
\$4,000,000	



REQUEST FOR PROPOSAL FOR ARCHITECTURAL AND ENGINEERING SERVICES FOR CONSTRUCTION OF A PARKING GARAGE

The University of Southern Indiana asks for a Proposal for Architectural and Engineering Services from selected firms for the design and construction of a parking garage. The parking garage will provide for approximately 200 parking spaces. The garage is also expected to provide space for an emergency generator and trash disposal facility for the University Center and office space for the Department of Safety and Security. The selected design firm(s) will initially prepare conceptual and/or schematic plans and estimate costs for the project. Upon the University receiving the necessary approvals to proceed with the project and of our financial plan, the design firm(s) will prepare construction plans and documents to seek bids for the work and to construct the garage.

Your proposal should address the following:

- Evidence of experience in the design of parking structures.
- Explanation of team structure, including other firms to be part of the team and a thorough listing of responsibilities of each team member and which phase of the Project they will be involved with.
- Identification of the firm and authorizing representative of the firm who will enter into and sign the Owner-Architect Contract.
- Identification of key person(s) primarily responsible for the architectural design, civil, structural, mechanical and electrical engineering, and construction administration for this project.
- Proposed fee or fee arrangement for architectural design, engineering analysis and design, and other services for the conceptual and/or schematic design and projected costs. Please provide a listing of services to be provided in this fee.
- Proposed fee or fee arrangement for design development, construction documents, bidding and construction administration phases for the project. Please provide a listing of services to be provided in this fee.
- Description of services not included in the fee(s) proposed above that in your judgment might be needed for the planning and design of the project.
- Description of expenses not included in the proposed fees and a listing and estimated costs of these expenses that you will ask reimbursement for.

Attached is our Parking Garage Project Summary for your help in submitting a proposal. The team selected to perform the design services for this project will be expected to enter into our Owner-Architect Contract as shown in the attached sample contract.

Physical Plant

8600 University Boulevard Evansville, Indiana 47712 812/464-1782 FAX 812/465-7159



Please submit ten (10) copies of the proposal, signed by an authorizing representative of your firm, before 4:00 P.M. on October 7, 2003 at the office of:

Mr. Stephen P. Helfrich
Director-Facilities Operations and Planning
8600 University Boulevard
Evansville, IN 47712

Questions should be directed to Stephen P. Helfrich, Director of Facilities Operations and Planning, at 812-464-1782.

Physical Plant

8600 University Boulevard Evansville, Indiana 47712 812/464-1782 FAX 812/465-7159

BASIC INFORMATION

FIRM/ADDRESS	AUTHORIZING REPRESENTATIVE	CONSULTING FIRMS
Edmund L. Hafer & Associates, PC		
21 Southeast Third Street Suite 800 Evansville, Indiana 47708 www.haferassociates.com phone: 812.422.4187 facsimile: 812.421.6776	Edmund L. Hafer, Jr., AIA Principal-in-Charge	Losch Engineering Corporation Palatine, Illinois
Professional Consultants, Inc.		
112 Ingle Street Evansville, Indiana 47708 www.pcidesign.com phone: 812.425.4262 facsimile: 812.464.7338	R. Michael Ingram Senior Project Manager	Consulting Engineers Group Mount Prospect, Illinois RTM Consultants, Inc. Indianapolis, Indiana
Veazey Parrott Durkin & Shoulders, Inc.		
528 Main Street Suite 400 Evansville, Indiana 47708 www.vpdsweb.com phone: 812.423.7729 facsimile: 812.425.4561	Michael R. Shoulders, AIA President and CEO	Biagi, Chance, Cummins, London, Titzer, Inc. Evansville, Indiana Graef, Anhalt, Schloemer & Associates Milwaukee, Wisconsin

DESIGN TEAM - KEY PERSONNEL

LEAD FIRM/CONSULTING FIRMS	KEY PERSONNEL	TITLE/RESPONSIBILITIES
Edmund L. Hafer & Associates, PC		
Edmund L. Hafer & Associates, PC	Edmund L. Hafer, Jr., AIA	Principal-in-Charge
	David Wills, AIA	Project Manager
	Steven R. Pugh, AIA	Contract Documents/Estimating
	Dan Engelbrecht, AIA	Architect, Landscape Architect, Site Planning
	Dianne Maretta	Interior Designer
	Ronald W. Steinhart, PE	Mechanical Engineering
	Matthew J. Brockman, PE	Electrical Engineering
Losch Engineering Corporation	Kenneth R. Kowall, PE, SE, AIA	Parking Design, Structural Engineering
Professional Consultants, Inc.		
Professional Consultants, Inc.	Scott Albin, PE	General Manager
	Mike Ingram	Project Manager, Project Coordinator
	Rupert Conduct, AIA	Lead Architect
	Jerry Brasher, PE	Civil Site Design
	Matt Conkling, PE	HVAC Design
	Pennye Roarke, PE	Plumbing Design
	Helen Fisher, PE	Electrical Design
	Mike Gosnell	Quality Control
Consulting Engineering Group	Jeff Carlson, PE	Structural and Parking Layout Consultant
	Charles Cullen	Parking Layout
	Scott Winch	Structural Analysis & Design
	Bradley Morrison	Structural Analysis & Design
	Reynaldo Ymson	Structural CAD Coordinator
RTM Consultants, Inc.	Doug Trent	Code Consultant
Veazey Parrot Durkin & Shoulders, Inc.		
Veazey Parrott Durkin & Shoulders, Inc.	Michael R. Shoulders, AIA, AICP	Chief Architectural Principal-in-Charge
	William M. Brown, AIA	Project Architect
	Del Stevens, AIA	Architectural Design
	Morris Thomas, Associate AIA	Architectural Project Manager
	Bruce Thompson	Construction Administration
	Thomas H. Durkin, PE	Mechanical Engineering
	Larry Fox, CIPE	Chief Plumbing and Piping Designer
	Samuel C. Nation, PE	Chief Electrical Engineer
Graef, Anhalt, Schoelmer & Associates, Inc.	Dewey L Hemba, PE	Structural Project Manager
	William Surna	Parking Planner
Biagi, Chance, Cummins, London & Titzer, Inc.	Dennis Verkamp, PE	Chief Civil Engineer

FEE PROPOSAL

	Edmund L. Hafer & Associates, PC	Professional Consultants, Inc.	Veazey Parrott Durkin & Shoulders, Inc.
Estimated Construction Cost	\$3,775,000	\$3,775,000	\$3,775,000
Programming/Schematic Design			
Schematic Design	\$42,000 1.11%*	\$30,000 0.80%*	\$37,750* 1.00%
Design/Construction Services		\$180,000	\$188,750*
Design Development	\$31,500		
Construction Documents	\$84,000		
Bidding and Negotiation	\$10,500		
Construction Administration	\$42,000		
LUMP SUM TOTAL	\$377,500	\$210,000	\$226,500
PERCENTAGE OF CONSTRUCTION COST	10.0%	5.5%	6.0%

Reimbursable Expenses - estimated	**	**	**
Travel			\$2,500
Printing		\$3,000	\$6,500
Project Photography			\$1,500
Renderings			\$4,500
Models			\$5,500
Fees for Potential Variances			\$1,500
Plan Filing Fees		\$2,000	\$1,850
Soil Investigation Report		\$5,000	
Surveying and Topographical Maps		\$6,000	
Independent Testing Services		\$5,000	

* not indicated in firm proposal - based on estimated construction cost

** reimbursable expenses not shown are not specifically indicated, will be billed as required

DESIGN SERVICES

Services Associated with Proposed Fee	Edmund L. Hafer & Associates, PC	Professional Consultants, Inc.	Veazey Parrot Durkin & Shoulders, Inc.
Schematic Design Services			
Schematic Design Drawings and Renderings			
Schematic Engineering Drawings			
Schematic Phase Cost Estimate			
Design Development/Construction Document Services			
Working Drawings			
Cost Estimating			
Civil/Site Design			
Architectural Design			
Structural Design			
Mechanical Design			
Electrical Design			
Parking Design			
Bidding			
Construction Administration			
Parking Consultant - probable fees and revenue			

Services Associated with Reimbursable Expenses

Travel Expenses			
Printing of Bid Documents			
Project Photography required by Contractor			
Renderings/Models			
Fees for Code Variances			
Plan Filing Fees			
Subsurface Investigation			
Independent Testing Service Fees			

services included
 not indicated

FIRM EXPERIENCE

LEAD FIRM/CONSULTING	PROJECT NAME/LOCATION	SIZE
Edmund L. Hafer & Associates, PC		
Edmund L. Hafer & Associates, PC	3rd Street Parking Garage* Evansville, Indiana	630 spaces
	Casino Aztar Parking Garage* Evansville, Indiana	1668 spaces
	Sycamore Street Parking Garage* Evansville, Indiana	600 spaces
Losch Engineering Corporation		
	North Central College Parking Deck Naperville, Illinois	630 spaces
	VA Regional Parking Garage Chicago, Illinois	not listed
	500 W Erie Street Parking Garage Chicago, Illinois	not listed
	Corridors Three Parking Garage* Downers Grove, Illinois	900 spaces
	Illinois Valley Community Hospital Garage* Peru, Illinois	200 spaces
	Commonwealth Edison Parking Garage* Oakbrook, Illinois	340 spaces
Professional Consultants, Inc.		
Professional Consultants, Inc.	American General Finance** Evansville, Indiana	210 spaces
Consulting Engineers Group***		
	Old National Bank Garage Evansville, Indiana	650 spaces
	Westfield Shopping (parking garage) Des Peres, Missouri	not listed
	3rd Street Parking Garage Evansville, Indiana	630 spaces
	hospital parking garage Boston, Massachusetts	no listed
	Casino Aztar Parking Garage Evansville, Indiana	1668 spaces
	university parking garage San Antonio, Texas	200 spaces

LEAD FIRM/CONSULTING	PROJECT NAME/LOCATION	
Veazey Parrott Durkin & Shoulders, Inc.		
Veazey Parrott Durkin & Shoulders, Inc.	American General Finance Evansville, Indiana	210 spaces
	Evansville-Vanderburgh Central Library Evansville, Indiana	150 spaces
	Old National Bank Garage Evansville, Indiana	650 spaces
Graef, Anhalt, Schoelmer & Associates, Inc.***	University of Wisconsin Parking Structure Expansion Madison, Wisconsin	264 spaces
	Marquette University Parking Structure Milwaukee, Wisconsin	1100 spaces
	Parking Structure Master Plan & Downtown Streetscape Sturgeon Bay, Wisconsin	not listed

* Representative work of Kenneth R. Kowall

** Representative work of Rupert Condict

*** Additional examples of work available in firm proposal