

2016 ANNUAL FINANCIAL REPORT • UNAUDITED

THE UNIVERSITY OF SOUTHERN MISSISSIPPI





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FINANCIAL REPORT
UNAUDITED

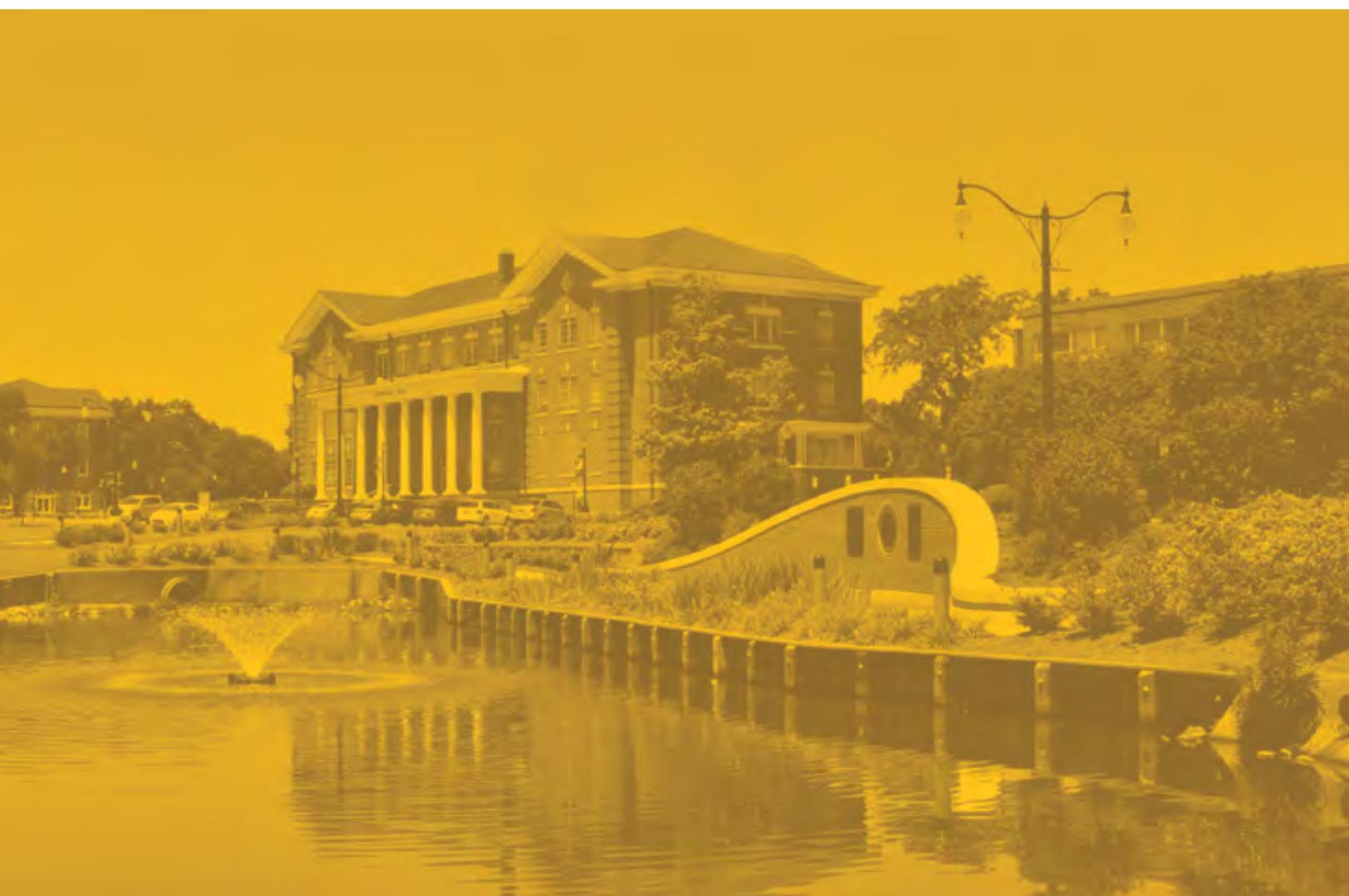


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MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) section introduces the financial statements and provides an analytical overview of its financial activities for the fiscal year ended June 30, 2016. Fiscal year 2015 data is presented for comparative purposes. Responsibility for the accuracy of the information and the completeness and fairness of its presentation, including all disclosures, rests with the management of the University. The Management's Discussion and Analysis section is designed to focus on current activities, resulting changes and currently known facts, and should be read in conjunction with the accompanying financial statements and notes thereto.

THE INSTITUTION

Founded in 1910, The University of Southern Mississippi is a comprehensive doctoral and research-driven university with a proud history and an eye on the future. In just 100 years, the University has grown from a small teachers' college into a premier research university that is a haven for the arts with a tradition of success in academics.

With a diverse student body of approximately 15,000 students from 71 foreign countries, all regions of the United States and every corner of Mississippi, we celebrate diversity in every sense of the word. The University offers undergraduate and graduate degree programs in six degree-granting colleges with more than 180 degree programs. A dual-campus university, Southern Miss serves students on campuses in Hattiesburg and Long Beach, in addition to five teaching and research sites in Mississippi. The University is home to the sixth-oldest acceptance-based Honors College in the nation, along with nationally recognized programs in the arts, polymer science and business.

Characterized by history and tradition, the Hattiesburg campus sits on 300 acres in the heart of the Pine Belt. More than 180 buildings dot a landscape that has been transformed into a pedestrian-friendly environment for students, employees and visitors.

Surrounded by live oak trees and sitting along the waters of the Gulf of Mexico sound, the 52-acre Gulf Park campus in Long Beach provides a beautiful setting for both learning and research. Not only is it the only beachfront campus in the state, but the Gulf Park campus offers educational opportunities ranging from freshman coursework to doctoral degree programs.

OVERVIEW OF FINANCIAL STATEMENTS

The University's financial statements present the financial condition, the results of operations and cash flows of the University, through three primary financial statements and notes to the financial statements. The three financial statements consist of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements. The financial statements of The University of Southern Mississippi Foundation, a component unit of the University, are presented discretely from the University; however, management's discussion and analysis focuses only on the University.

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year. This statement reflects the various assets, deferred outflows, liabilities, deferred inflows and net position of the University as of the fiscal year ended June 30, 2016 and 2015.

From the data presented, readers of the Statement of Net Position have the information to determine the assets available to continue the operations of the University. They may also determine how much the University owes employees, vendors and bondholders. Finally, the Statement of Net Position outlines the net position (assets and deferred outflows minus liabilities and deferred inflows) available to the University.

Net position is divided into three categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant and equipment owned by the University. The second category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The last category, unrestricted net position, discloses the net position available to the University for any lawful purpose of the University.

At June 30, 2016, the University's assets and deferred outflows of resources reached \$765 million. Liabilities and deferred inflows of resources were \$473 million, leaving a net position of \$292 million, an overall increase in net position of \$11 million compared to fiscal year 2015.



Majestic oak trees adorn the Hattiesburg campus.

Condensed Statement of Net Position

	June 30, 2016	(Audited) June 30, 2015	Increase (Decrease)	Percent Change
Current Assets:				
Cash and cash equivalents	\$ 39,030,118	\$ 37,864,600	\$ 1,165,518	3.1%
Short term investments	1,953,856	3,700,849	(1,746,993)	-47.2%
Accounts receivable, net	21,857,504	24,915,523	(3,058,019)	-12.3%
Other current assets	7,513,752	7,483,071	30,681	0.4%
Noncurrent Assets:				
Restricted cash and cash equivalents	147	3,228,219	(3,228,072)	-100.0%
Endowment and other long term investments	51,563,797	51,384,537	179,260	0.3%
Capital assets, net	568,657,439	552,843,926	15,813,513	2.9%
Other noncurrent assets	25,047,768	25,064,465	(16,697)	-0.1%
Total Assets	\$ 715,624,381	\$ 706,485,190	\$ 9,139,191	1.3%
Deferred Outflows of Resources	\$ 49,483,741	\$ 19,960,730	29,523,011	147.9%
Total Assets and Deferred Outflows of Resources	\$ 765,108,122	\$ 726,445,920	38,662,202	5.3%
Current Liabilities	\$ 44,123,492	\$ 43,919,457	\$ 204,035	0.5%
Noncurrent Liabilities	\$ 420,269,646	\$ 377,158,013	\$ 43,111,633	11.4%
Total Liabilities	\$ 464,393,138	\$ 421,077,470	\$ 43,315,668	10.3%
Deferred Inflows of Resources	\$ 8,353,503	\$ 23,690,414	\$ (15,336,911)	-64.7%
Total Liabilities and Deferred Inflows of Resources	\$ 472,746,641	\$ 444,767,884	\$ 27,978,757	6.3%
Net Position:				
Net invested in capital assets	\$ 380,175,410	\$ 369,761,720	\$ 10,413,690	2.8%
Restricted	27,081,788	18,998,236	8,083,552	42.5%
Unrestricted	(114,895,717)	(107,081,920)	(7,813,797)	7.3%
Total Net Position	\$ 292,361,481	\$ 281,678,036	\$ 10,683,445	3.8%

THE UNIVERSITY'S ASSETS

A review of total assets reveals an increase of \$9.1 million for fiscal year 2016 over the prior fiscal year. The University's cash and cash equivalents include both current and noncurrent balances of \$39 million and \$147, respectively, at the end of fiscal year 2016. Noncurrent restricted cash and cash equivalents include funds held in escrow accounts to be used for specific capital purposes. The University considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. Restricted cash and cash equivalents decreased \$3 million as the funds were spent to complete construction of a new residential hall complex on the Hattiesburg campus.

Short term investments decreased \$1.7 million due to an increase in purchases of long term investments, as well as reclassifications from short term to long term investments. Operating grants and contracts accounts receivable constitute the majority of the \$3 million decrease in net accounts receivable. The change occurred for a variety of reasons, including timing of receipts, write-off of uncollectable receivables, and an increased effort on timely collections of amounts due.

Capital assets include land, land improvements, buildings and improvements, equipment, construction in progress and library materials. Net capital assets totaled \$569 million at

June 30, 2016, compared to \$553 million at June 30, 2015. The Hattiesburg campus had several major construction projects underway, including a new state-of-the-art nursing building, marching band tower, and major renovations to the Lucas Administration Building. Construction was completed for a new College of Business, and major renovations were completed for the Fine Arts Complex, including Mannoni Performing Arts Center, Marsh Hall and George Hurst Building in response to damages caused by a tornado in 2013. On the Gulf Park campus, construction began on the new Business and Health Building, and the second floor of the nursing building was completed. Construction began on a new state of the art Toxicology facility and the Marine Education Center at the Gulf Coast Research Laboratory (GCRL) site. Funding for construction projects is provided by the Bureau of Building, Grounds and Real Property Management, insurance proceeds, private giving, external grant funds and bond proceeds.

THE UNIVERSITY'S DEFERRED OUTFLOWS

Deferred outflows increased from \$20 million in fiscal year 2015 to \$49 million in fiscal year 2016. Ten million dollars of the increase is due to debt refunding losses incurred in the current fiscal year. These losses will be amortized as a component of interest expense over the life of the new debt incurred and will offset some of the interest savings realized as a result of the refunding effort. The remaining increase of



Moffitt Health Center at Southern Miss opened in March 2016.

\$19 million is related to required pension reporting, which represents portions of the effects of (1) the change in the University's proportion of the collective net pension liability and (2) differences during the measurement period between the University's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability that are not recognized in the University's pension expense. Also, the University's contributions to the pension plan subsequent to the measurement date of the collective net pension liability are reported as deferred outflows of resources related to pensions.

THE UNIVERSITY'S LIABILITIES

Current liabilities consist primarily of accounts payable, accrued liabilities, unearned revenues related to operations, and the portion of long term debt that is due to be paid in the subsequent fiscal year. The majority of accounts payable and accrued liabilities represent amounts owed for salaries, wages and benefits and supplies and services. Unearned revenues consist primarily of tuition revenues for the second term of the summer semester, football ticket revenue for the fall season, and external funds received on a fixed payment schedule with the expectation of a deliverable and any unexpended funds to be returned at the end of the project. The increase in noncurrent liabilities of \$43 million is primarily due to a change in the University's proportionate share of the net pension liability in order to comply with pension reporting requirements.

THE UNIVERSITY'S DEFERRED INFLOWS

Deferred inflows decreased \$15 million from fiscal year 2015 to fiscal year 2016. This line item represents the University's proportionate share of the difference between projected and actual earnings on the pension plan. See Note no. 14 for further information related to the University's Pension Plan.

THE UNIVERSITY'S NET POSITION

Net position represents the residual interest in the University's assets and deferred outflows after all liabilities and deferred inflows are deducted. Net position increased from \$282 million in fiscal year 2015 to \$292 million in fiscal year 2016.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Changes in total net position as presented on the Statement of Net Position are based on the activity displayed in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of this statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, both operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods or services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state educational appropriations are nonoperating because they are provided to the University without the state legislature directly receiving commensurate goods and services in return for those revenues. Nonoperating revenues also include private gifts for other than capital purposes, federal financial aid, investment income, net unrealized appreciation or depreciation on the fair value of investments and interest expense.



Honors College students conduct dolphin research.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2016	(Audited) Fiscal Year 2015	Increase (Decrease)	Percent Change
Operating Revenues:				
Tuition and fees, net	\$ 87,221,701	\$ 85,530,797	\$ 1,690,904	2.0%
Grants and contracts	67,789,391	61,357,605	6,431,786	10.5%
Auxiliary enterprises	36,730,792	35,496,840	1,233,952	3.5%
Other operating revenues	11,130,625	7,399,923	3,730,702	50.4%
Total Operating Revenues	\$ 202,872,509	\$ 189,785,165	\$ 13,087,344	6.9%
Operating Expenses	331,561,502	319,178,917	12,382,585	3.9%
Operating Loss	\$ (128,688,993)	\$ (129,393,752)	\$ 704,759	-0.5%
Nonoperating Revenues (Expenses):				
State appropriations	\$ 92,043,437	\$ 86,060,895	\$ 5,982,542	7.0%
Other nonoperating revenue	30,436,808	31,080,098	(643,290)	-2.1%
Interest on debt	(5,526,868)	(7,198,880)	1,672,012	-23.2%
Net Nonoperating Revenues	\$ 116,953,377	\$ 109,942,113	\$ 7,011,264	6.4%
Loss Before Other Revenues	\$ (11,735,616)	\$ (19,451,639)	\$ 7,716,023	-39.7%
Capital grants and gifts	\$ 10,200,949	\$ 9,139,293	\$ 1,061,656	11.6%
Capital appropriations	10,633,166	18,784,632	(8,151,466)	-43.4%
Other additions (deletions)	1,584,948	(587,238)	(2,172,186)	369.9%
Total Other Revenues	\$ 22,419,063	\$ 27,336,687	\$ (4,917,624)	-18.0%
Increase in Net Position	\$ 10,683,447	\$ 7,885,048	\$ 2,798,399	35.5%
Net Position:				
Net Position at Beginning of the Year	281,678,036	273,792,988	7,885,048	2.9%
Net Position at End of the Year	\$ 292,361,483	\$ 281,678,036	\$ 10,683,447	3.8%

The Statement of Revenues, Expenses and Changes in Net Position presents an increase in net position of \$11 million for fiscal year June 30, 2016. As noted in the statement, the University experienced operating losses in both 2016 and 2015 of \$129 million. These operating losses highlight the University's dependence on nonoperating revenues, such as state appropriations, federal financial aid and private gifts, to meet its cost of operations.

OPERATING REVENUES

Total operating revenues for fiscal years ended June 30, 2016, and 2015 were \$203 million and \$190 million, respectively. Operating revenues include student tuition and fees that are net of scholarship

allowances, grants and contracts, sales and services of educational departments, auxiliary enterprises and other operating revenues.

Although tuition rates increased 3.5% in fiscal year 2016 compared to fiscal year 2015, student enrollment declined 1.6%. The net impact resulted in an increase of 2% in net tuition and fees revenue. Operating revenues for auxiliary enterprises increased \$1 million, mostly related to an increase in revenues for Athletics, which is attributable to the success of the 2015 season for the football team.

Grants and contracts operating revenues include restricted revenues made available by government agencies, as well as private agencies. Grants and contracts operating revenues continue to account for

a significant portion of total operating revenues for the University. These revenues are recorded only to the extent the funds have been expended for exchange transactions. Nonexchange grant revenues are recorded when received or when eligibility criteria have been met and are reported as nonoperating revenue.

In fiscal year 2016, the University experienced a \$6 million increase in grants and contracts revenues compared to fiscal year 2015. The increase in federal grants and contracts revenues had been anticipated as there were several projects initiated in prior

years that were in the early stages of spending that were projected to increase revenue as the projects progressed. The federal and other categories saw the most increase in spending. For other with a 20.7% increase over fiscal year 2015, the Consortium for Oil Spill Exposure Pathways in Coastal River-Dominated Ecosystems project alone had a \$3.2 million increase in spending as the project got underway. One example of a federal grant is the Mississippi INBRE project with about a \$3 million increase in fiscal year 2016 compared to fiscal year 2015. The University also saw another year of increased award dollars.

The following table details the University's grants and contracts operating revenues for the fiscal years ended June 30, 2016, and 2015:

	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	Percent Change
Federal Award Sources:				
Department of Education	5,156,610	5,373,930	(217,320)	-4.0%
National Science Foundation	3,433,366	3,511,313	(77,946)	-2.2%
Department of Defense	4,594,246	4,766,155	(171,910)	-3.6%
NASA	1,288,910	1,422,962	(134,052)	-9.4%
Department of Commerce	7,567,386	8,323,537	(756,151)	-9.1%
Department of Health and Human Services	8,893,322	7,957,345	935,977	11.8%
Department of Agriculture	1,471,213	1,153,110	318,103	27.6%
Department of Justice	23,751	79,135	(55,384)	-70.0%
Department of Homeland Security	1,320,957	1,403,075	(82,118)	-5.9%
Department of Energy	3,212	39,263	(36,050)	-91.8%
Other	6,714,538	3,847,864	2,866,674	74.5%
Total Federal Sources	40,467,512	37,877,690	2,589,822	6.8%
State Award Sources:				
Financial Aid	6,735,088	6,411,476	323,612	5.0%
Department of Education	952,958	1,143,925	(190,967)	-16.7%
Other	3,217,608	2,321,825	895,782	38.6%
Total State Sources	10,905,654	9,877,226	1,028,428	10.4%
Other Sources	16,416,225	13,602,689	2,813,536	20.7%
Total Grants and Contracts	67,789,391	61,357,605	6,431,786	10.5%

NONOPERATING REVENUES AND EXPENSES

The University's net nonoperating revenues of \$117 million assisted in offsetting some of the University's operating loss of \$129 million for 2016. The \$7 million increase in net nonoperating revenues is principally due to an increase in state appropriations received in 2016 compared to 2015, in spite of a mid-year state budget cut of 2.2%. Most of the increase was earmarked specifically for Gulf Coast Research Laboratory operations. Also contributing to the increase in net nonoperating revenues is debt refinancing executed in both 2015 and 2016, which resulted in a decrease to interest expense in fiscal year 2016.

OPERATING EXPENSES

Operating expenses for the year ended June 30, 2016, totaling \$332 million, included \$200 million in compensation and benefits, \$90 million in supplies and other, \$25 million in scholarships, and \$17 million in depreciation.

A comparative summary of the University's expenses for the years ended June 30, 2016, and 2015 is as follows:

	Fiscal Year 2016	(Audited) Fiscal Year 2015	Increase (Decrease)	Percent Change
Operating Expenses:				
Compensation and benefits	\$ 200,053,118	\$ 190,783,010	\$ 9,270,108	4.9%
Supplies and other	89,907,543	88,875,154	1,032,389	1.2%
Scholarships and fellowships	24,465,432	22,826,385	1,639,047	7.2%
Depreciation	17,135,409	16,694,368	441,041	2.6%
Total Operating Expenses	\$ 331,561,502	\$ 319,178,917	\$ 12,382,585	3.9%

For the year ended June 30, 2016, total operating expenses increased \$12 million. Compensation and benefits comprise the majority of the increase. GASB 68 pension reporting requirements increased pension expenses by \$8 million. Fiscal year 2016 state appropriations for higher education were increased by the state legislature primarily to support a salary program for faculty and staff, which also contributed to the increase from fiscal year 2015 to 2016.

Scholarship expenses, which represent payments made directly to students after awards have been applied against tuition and fees charged to student accounts, increased \$2 million, as more refunds were issued to students in fiscal year 2016 compared to 2015. There was also an increase of \$1 million in supplies and other, which consists of contractual services, utilities, commodities and travel

expenses. Increases in travel and contractual services were partially offset by decreases in utilities and commodities.

In addition to their natural classification, operating expenses are also reported by their functional classification as defined by the National Association of College and University Business Officers (NACUBO). The functional classification of an operating expense is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. This method reflects amounts expended in areas such as instruction, research, and operations and maintenance, and is used most commonly for comparative reporting purposes among colleges and universities

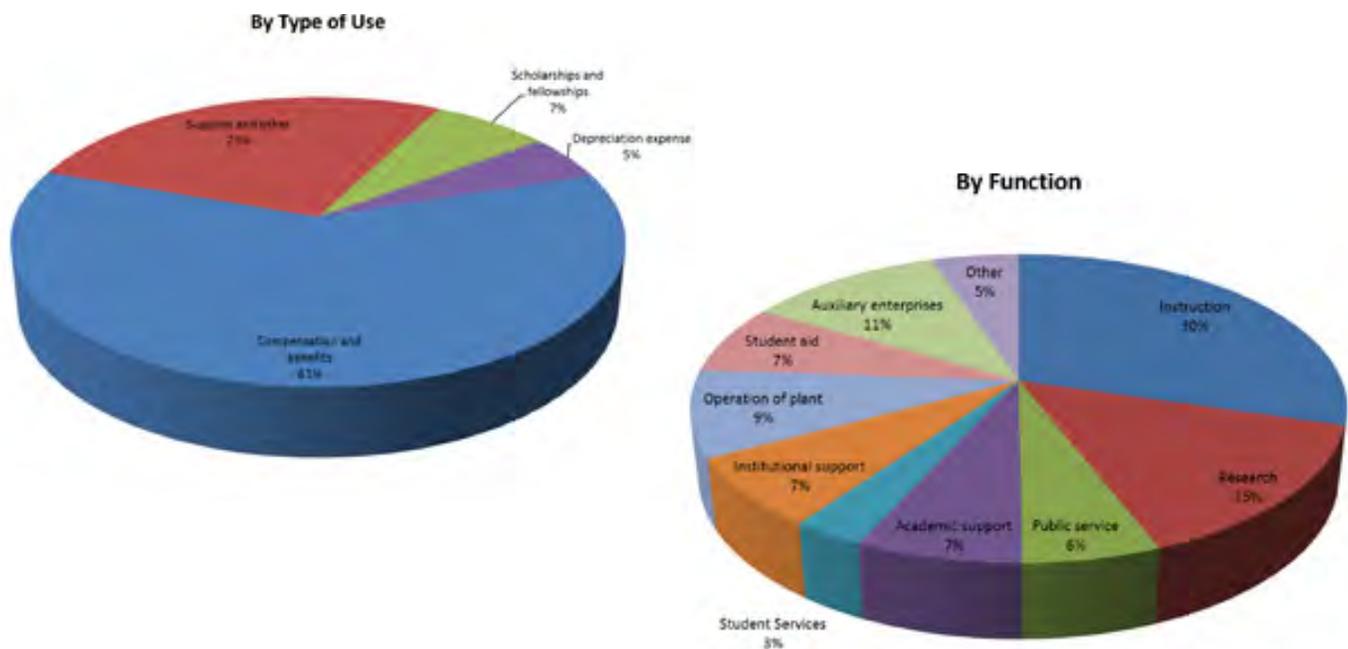


The Southern Miss Gulf Park campus in Long Beach is the only beachfront campus in the state.

A comparative summary and a graphic illustration of the University's expenses by functional classification for the years ended June 30, 2016, and 2015 are as follows:

	Fiscal Year 2016	(Audited) Fiscal Year 2015	Increase (Decrease)	Percent Change
Operating Expenses:				
Instruction	\$ 98,481,116	\$ 94,648,771	\$ 3,832,345	4.0%
Research	47,709,083	40,237,167	7,471,916	18.6%
Public service	18,544,162	17,662,300	881,862	5.0%
Academic support	23,328,822	23,591,279	(262,457)	-1.1%
Student services	9,940,103	9,250,029	690,074	7.5%
Institutional support	24,251,204	27,823,883	(3,572,679)	-12.8%
Operation of plant	29,934,046	29,186,053	747,993	2.6%
Student aid	24,465,432	22,826,385	1,639,047	7.2%
Auxiliary enterprises	37,772,123	37,258,682	513,441	1.4%
Depreciation	17,135,409	16,694,368	441,041	2.6%
Total Operating Expenses	\$ 331,561,502	\$ 319,178,917	\$ 12,382,585	3.9%

FY 2016 OPERATING EXPENSES



Instructional expenses continued to represent the largest percentage of total operating expenses and consumed 49% of operating revenues for fiscal year 2016. Research expenditures accounted for 14% of total operating expenses and consumed 24% of operating revenues in fiscal year 2016.

OTHER CHANGES IN NET POSITION

Capital grants and gifts revenue increased \$1 million largely due to FEMA reimbursements for construction of a new Toxicology building and Marine Education Center. State appropriations restricted for capital purposes decreased \$8 million due to a decrease in capital project activity in fiscal year 2016 compared to 2015.

CAPITAL ASSET AND DEBT ADMINISTRATION

The University must have campus facilities that are competitive to meet student enrollment goals. The University continues to execute its long-term plan to modernize and expand its teaching, research and student facilities with a balance of new construction and technology. The following are a few examples of how the University enhanced and improved the living-learning community of the main campus located in the heart of the Hattiesburg community during fiscal year 2016:

- Completion of Scianna Hall for the College of Business
- Continued construction on Asbury Hall for the College of Nursing
- Completion of renovations on the Fine Arts Complex, including Mannoni Performing Arts Center, Marsh Hall and George Hurst Building
- Continued construction of a pedestrian walkway from Pride Field to Scianna Hall
- Began extensive renovations to the historic Lucas Administration Building
- Constructed a state-of-the-art band tower facility for The Pride of Mississippi Marching Band

The University remains committed to the growth and improvement of the coastal operations. The Gulf Park campus completed the second floor addition to the Nursing Building and began construction on a new Business and Health Building. The Gulf Coast Research Laboratory continues to rebuild from the destruction caused by Hurricane Katrina in 2005. A new Toxicology building and Marine Education Center are currently under construction there.

At June 30, 2016, the University had \$187 million of debt outstanding, of which \$7 million was classified as current. Debt obligations bear interest at fixed rates ranging from 0.5% to 5.375% and mature at various dates through fiscal year 2043.

During fiscal year 2016, the S.M. Educational Building Corporation issued bonds totaling \$58,870,000 (Series 2016) for refunding portions of SMEBC bonds issued in February 2009 (Series 2009) and all of the Certificates of Participation issued by the University of Southern Mississippi Real Estate Foundation in November 2009 (Series 2009). Net proceeds of the refunding were deposited into irrevocable trusts for each of the refunded issues to provide all future debt service of the refunded debt. Accordingly, for financial reporting purposes, the defeased bonds and related trust accounts are not included in the financial statements. As a result of the refunding, the University reduced its debt service by \$8.7 million over the next 23 years and obtained an economic gain of \$5.5 million.

For additional information concerning capital assets and debt obligations, see Notes 6, 9 and 12.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the sources and uses of cash during the fiscal year. This statement classifies sources and uses of cash into the four categories defined by GASB which are as follows:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

The primary purpose of the statement is to provide relevant information about the cash receipts and cash payments of the University during a specific period of time. The Statement of Cash Flows helps users evaluate the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

Condensed Statement of Cash Flows

	Fiscal Year 2016	(Audited) Fiscal Year 2015	Increase (Decrease)	Percent Change
Cash and Cash Equivalents Provided (Used) by:				
Operating activities	\$ (103,726,538)	\$ (105,978,190)	\$ 2,251,652	-2.1%
Noncapital financing activities	120,984,198	117,069,704	3,914,494	3.3%
Capital and related financing activities	(22,830,360)	(21,050,822)	(1,779,538)	8.5%
Investing activities	3,510,148	(4,846,717)	8,356,865	172.4%
 Net Increase (Decrease) in Cash and Cash Equivalents	 \$ (2,062,552)	 \$ (14,806,025)	 \$ 12,743,473	 -86.1%
 Cash and Cash Equivalents - Beginning of the Year	 41,092,820	 55,898,844	 (14,806,024)	 -26.5%
 Cash and Cash Equivalents - End of the Year	 \$ 39,030,267	 \$ 41,092,819	 \$ (2,062,552)	 -5.0%

Major sources of funds included in operating activities for the year ended June 30, 2016, were net student tuition and fees of \$88 million, grants and contracts of \$71 million, and auxiliary enterprises of \$35 million. Major uses of funds included in operating activities were payments for employees' salaries and benefits of \$195 million, payments to suppliers of \$79 million, and scholarships and loans to students of \$30 million.

The overall net use of cash for operating activities decreased. This was principally due to an increase in net tuition and fees and grants and contracts revenues partially offset by increases in scholarships and payments to employees for salaries and benefits.

Net cash provided by noncapital financing activities increased \$4 million overall. This increase is related to the increase in state appropriations. Net cash used for capital and related financing activities increased \$2 million primarily due to a decrease in capital expense funds received from the state combined with an increase in capital assets purchased.

Net cash provided for investing activities increased \$8 million in fiscal year 2016 compared to fiscal year 2015. Although there were more purchases of investments in 2016 compared to 2015, there were also more funds available for investment purchases as proceeds from sales and maturities of investments increased.



University researchers are creating high-performance head protection materials.

ECONOMIC OUTLOOK

In fiscal year 2016, the University was challenged by two significant economic factors—an enrollment decline and the associated loss of tuition and a mid-year reduction in state appropriations. As these are the two largest revenue sources for the University's Educational and General (E&G) Fund and support the majority of University operations, declines in both sources presented significant challenges to manage. At the same time, the University has been working to improve recruiting and retention efforts to position the University to compete more effectively for enrollment in existing and new markets. In short, at the very time when strategic investments were needed, the University was dealing with having fewer resources with which to make such strategic investments as a result of the revenue loss in the E&G Fund.

In response to these challenges, the senior management team, in consultation with departments and groups across the University, developed budget plans that ensured the University would reduce planned expenditures while making careful use of reserves to support strategic investments in scholarships, enrollment management initiatives, compliance activities and critical program plans. As a result of those efforts, the University concluded the fiscal year having reduced the expenditure base, set aside reserves, and making necessary investments that would enhance enrollment in the fall of 2016. Based on fall 2016 enrollment, it now appears that those efforts are paying off, as headcount enrollment increased slightly while full-time equivalent enrollment and credit hour production increases were more substantial. In addition, both persistence rates and the quality of the incoming class increased over prior years.

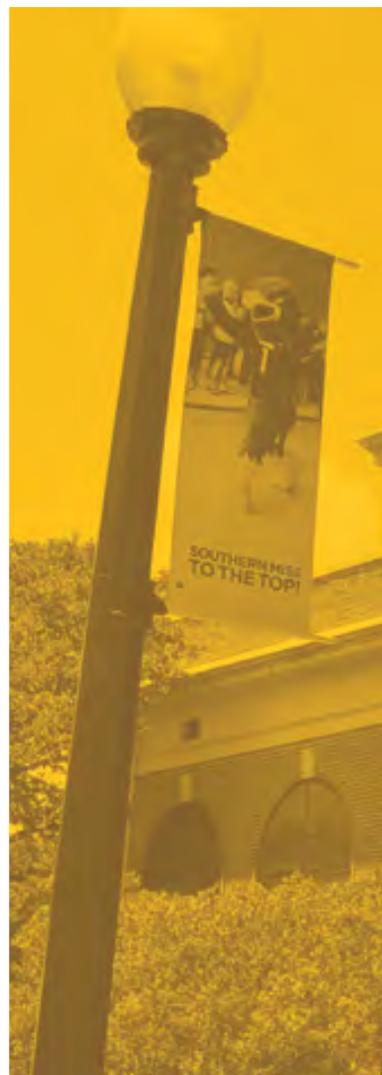
The combined effect of these changes is a stable outlook, but that outlook is tempered by an ongoing dependence on state appropriations. To better stabilize the University's financial position during this period of substantial change in the public higher education industry, management must remain vigilant in transitioning to a market-driven, tuition-dependent institution and manage the University's operations accordingly.

Douglas H. Vinzant, D.P.A.
Vice President for Finance and Administration



Communication students take advantage of group study spaces.





FINANCIAL STATEMENTS



STATEMENT OF NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

Assets and Deferred Outflows	Year Ended June 30	
	2016	(Audited) 2015
Current Assets:		
Cash and cash equivalents	\$ 39,030,118	\$ 37,864,600
Short term investments (Note 2)	1,953,856	3,700,849
Accounts receivables, net (Note 4)	21,857,504	24,915,523
Student notes receivables, net (Note 5)	2,204,444	2,158,645
Inventories	283,449	346,734
Prepaid expenses	5,025,859	4,977,692
Total current assets	<u>\$ 70,355,230</u>	<u>\$ 73,964,043</u>
Non-Current Assets:		
Restricted cash and cash equivalents	\$ 147	\$ 3,228,219
Endowment investments (Note 2)	3,886,799	3,947,169
Other long term investments (Note 2)	47,676,998	47,437,368
Student notes receivable, net (Note 5)	25,047,768	25,064,465
Capital assets, net (Note 6)	568,657,439	552,843,926
Total noncurrent assets	<u>\$ 645,269,151</u>	<u>\$ 632,521,147</u>
Total assets	<u>\$ 715,624,381</u>	<u>\$ 706,485,190</u>
Deferred outflows of resources:		
Accumulated deferred amount of debt refundings	\$ 13,035,219	\$ 3,458,794
Pension related deferred outflows	36,448,522	16,501,936
Total deferred outflows of resources	<u>\$ 49,483,741</u>	<u>\$ 19,960,730</u>
Total assets and deferred outflows of resources	<u>\$ 765,108,122</u>	<u>\$ 726,445,920</u>
Liabilities, Deferred Inflows and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	\$ 19,162,658	\$ 19,702,384
Unearned revenues (Note 8)	16,320,237	16,232,433
Accrued leave liabilities-current portion (Note 9)	1,230,000	1,180,000
Long term liabilities-current portion (Note 9)	7,362,999	6,758,725
Other current liabilities	47,598	45,915
Total Current liabilities	<u>\$ 44,123,492</u>	<u>\$ 43,919,457</u>
Non-current liabilities:		
Net pension liability (Note 9)	\$ 204,738,145	\$ 163,430,215
Deposits refundable (Note 9)	13,543	33,223
Accrued leave liabilities (Note 9)	8,815,982	8,883,335
Long term liabilities (Note 9)	180,119,817	178,110,173
Other non-current liabilities (Note 9)	26,582,159	26,701,067
Total non-current liabilities	<u>\$ 420,269,646</u>	<u>\$ 377,158,013</u>
Total liabilities	<u>\$ 464,393,138</u>	<u>\$ 421,077,470</u>
Deferred inflows of resources:		
Difference between projected and actual earnings on pension plan	\$ 8,353,503	\$ 23,690,414
Total liabilities and deferred inflows of resources	<u>\$ 472,746,641</u>	<u>\$ 444,767,884</u>
Net Position:		
Net Invested in Capital Assets	\$ 380,175,410	\$ 369,761,720
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	569,090	569,090
Expendable:		
Scholarships and fellowships	794,387	443,662
Debt service	16,172,431	7,677,356
Loans	5,618,165	5,838,450
Other purposes	3,927,715	4,469,678
Unrestricted	(114,895,717)	(107,081,920)
Total net position	<u>\$ 292,361,481</u>	<u>\$ 281,678,036</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 1,085,377	1,014,651
Accrued earnings	129,284	116,679
Prepaid assets and other receivables (note 2)	1,002,168	244,369
Pledges receivable, net (note 3)	8,224,516	12,052,041
Investments (notes 4 and 5)	96,668,501	97,824,663
Amounts due from externally managed trusts (note 6)	4,883,516	817,080
Net investment in direct financing lease (note 7)	479,945	634,855
Property and equipment, net (note 8)	38,183	69,485
Total assets	\$ 112,511,490	112,773,823
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 371,992	758,795
Gift annuities payable	286,181	305,330
Total liabilities	658,173	1,064,125
Net assets:		
Unrestricted	6,024,035	5,392,868
Temporarily restricted (note 9)	33,689,732	42,722,252
Permanently restricted (note 10)	72,139,550	63,594,578
Total net assets	111,853,317	111,709,698
Total liabilities and net assets	\$ 112,511,490	112,773,823

See accompanying notes to consolidated financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	Year Ended June 30	
	2016	(Audited) 2015
Operating revenues:		
Tuition and fees:	\$ 131,212,467	\$ 129,514,463
Less: Scholarship Allowances	(43,840,766)	(43,983,666)
Less: Bad Debt Expense	(150,000)	-
Net tuition and fees	\$ 87,221,701	\$ 85,530,797
Federal grants and contracts	40,467,512	37,877,690
State grants and contracts	10,905,654	9,877,226
Nongovernmental grants and contracts	16,416,225	13,602,689
Sales and services of educational departments	3,087,960	2,722,438
Auxiliary enterprises:		
Student housing	16,453,997	16,304,185
Food services	2,736,904	2,938,666
Bookstore	1,283,000	1,283,000
Athletics	14,116,888	13,021,954
Other auxiliary revenues	4,552,297	4,169,926
Less auxiliary enterprise scholarship allowances	(2,412,294)	(2,220,891)
Other operating revenues, net	8,042,665	4,677,485
Total operating revenues	\$ 202,872,509	\$ 189,785,165
Operating expenses:		
Salaries and wages	\$ 142,861,102	\$ 141,598,117
Fringe benefits	57,192,016	49,184,893
Travel	8,711,485	7,760,865
Contractual services	55,420,032	53,325,674
Utilities	9,859,093	10,533,388
Scholarships and fellowships	24,465,432	22,826,385
Commodities	15,916,933	17,255,227
Depreciation	17,135,409	16,694,368
Total operating expenses (Note 11)	\$ 331,561,502	\$ 319,178,917
Operating Loss	\$ (128,688,993)	\$ (129,393,752)
Nonoperating revenues (expenses):		
State appropriations	\$ 92,043,437	\$ 86,060,895
Gifts and grants	28,643,063	30,142,832
Investment income	1,793,745	937,266
Interest expense on capital asset-related debt	(5,526,868)	(7,198,880)
Total nonoperating revenues (expenses), net	\$ 116,953,377	\$ 109,942,113
Loss before other revenues, expenses, gains and losses	\$ (11,735,616)	\$ (19,451,639)
Other revenues, expenses, gains and losses:		
Capital grants and gifts	10,200,949	9,139,293
State appropriations restricted for capital purposes	10,633,166	18,784,632
Other additions	2,395,486	713,145
Other deletions	(810,539)	(1,300,383)
Change in net position	\$ 10,683,447	\$ 7,885,048
Net position - beginning of year, as adjusted	281,678,036	273,792,988
Net position - end of year	\$ 292,361,483	\$ 281,678,036

CONSOLIDATED STATEMENTS OF ACTIVITIES

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 2,100,023	2,997,493	7,312,426	12,409,942
Net investment gain (loss) (note 4)	1,470,364	(1,901,597)	33,138	(398,095)
Change in value of split interest agreements	—	(992)	87,922	86,930
Other	38,084	30,516	2,878	71,478
Total revenues, gains (losses) and other support	<u>3,608,471</u>	<u>1,125,420</u>	<u>7,436,364</u>	<u>12,170,255</u>
Changes in restrictions:				
Change in restriction by donors	10,022	(1,118,630)	1,108,608	—
Net assets released from restrictions (note 11)	9,039,310	(9,039,310)	—	—
Total changes in restrictions	<u>9,049,332</u>	<u>(10,157,940)</u>	<u>1,108,608</u>	<u>—</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	9,605,938	—	—	9,605,938
Supporting services:				
General and administrative	1,557,489	—	—	1,557,489
Fundraising	863,209	—	—	863,209
Total supporting services	<u>2,420,698</u>	<u>—</u>	<u>—</u>	<u>2,420,698</u>
Total expenses	<u>12,026,636</u>	<u>—</u>	<u>—</u>	<u>12,026,636</u>
Change in net assets	631,167	(9,032,520)	8,544,972	143,619
Net assets at beginning of year	5,392,868	42,722,252	63,594,578	111,709,698
Net assets at end of year	<u>\$ 6,024,035</u>	<u>33,689,732</u>	<u>72,139,550</u>	<u>111,853,317</u>

See accompanying notes to consolidated financial statements.

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 1,847,693	3,684,355	2,331,508	7,863,556
Net investment gain (note 4)	1,442,572	292,479	66,693	1,801,744
Change in value of split interest agreements	—	(590)	(99,904)	(100,494)
Other	44,774	32,071	22	76,867
Total revenues, gains and other support	<u>3,335,039</u>	<u>4,008,315</u>	<u>2,298,319</u>	<u>9,641,673</u>
Changes in restrictions:				
Change in restriction by donors	(10,614)	(2,046,584)	2,057,198	—
Net assets released from restrictions (note 11)	10,802,618	(10,802,618)	—	—
Total changes in restrictions	<u>10,792,004</u>	<u>(12,849,202)</u>	<u>2,057,198</u>	<u>—</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	11,158,123	—	—	11,158,123
Supporting services:				
General and administrative	1,633,572	—	—	1,633,572
Fundraising	1,071,265	—	—	1,071,265
Total supporting services	<u>2,704,837</u>	<u>—</u>	<u>—</u>	<u>2,704,837</u>
Total expenses	<u>13,862,960</u>	<u>—</u>	<u>—</u>	<u>13,862,960</u>
Change in net assets	264,083	(8,840,887)	4,355,517	(4,221,287)
Net assets at beginning of year	5,128,785	51,563,139	59,239,061	115,930,985
Net assets at end of year	<u>\$ 5,392,868</u>	<u>42,722,252</u>	<u>63,594,578</u>	<u>111,709,698</u>

See accompanying notes to consolidated financial statements.

STATEMENT OF CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	2016	(Audited) 2015
Operating activities:		
Tuition and Fees	\$ 88,139,121	\$ 85,920,716
Grants and Contracts	71,305,323	66,730,209
Sales and Services of Educational Departments	3,087,960	2,722,438
Payments to Suppliers	(79,147,343)	(79,954,340)
Payments to Employees for Salaries and Benefits	(195,234,174)	(191,472,146)
Payments for Utilities	(9,800,410)	(10,542,099)
Payments for Scholarships and Fellowships	(24,655,698)	(23,030,454)
Loans Issued to Students and Employees	(5,119,648)	(6,017,967)
Collection of Loans to Students and Employees	4,853,679	5,544,791
Auxiliary Enterprise Charges:		
Student Housing	15,164,926	15,629,248
Food Services	2,340,503	2,952,087
Bookstore	1,133,296	1,317,243
Athletics	11,865,301	13,223,865
Other Auxiliary Enterprises	4,541,605	4,155,665
Other Receipts	7,799,022	6,842,554
Net cash used by operating activities	\$ (103,726,538)	\$ (105,978,190)
Noncapital financing activities:		
State Appropriations	\$ 92,329,326	\$ 86,515,083
Gifts and Grants for Other Than Capital Purposes;	28,562,425	30,655,318
Federal Loan Program Receipts	85,156,666	86,826,481
Federal Loan Program Disbursements	(85,065,902)	(86,951,010)
Other Sources	1,682	23,832
Net cash provided by noncapital financing activities	\$ 120,984,198	\$ 117,069,704
Capital and related financing activities:		
Proceeds from Capital Debt	\$ 70,793,434	\$ 59,579,586
Cash Paid for Capital Assets	(20,690,388)	(19,816,492)
Capital Appropriations Received	-	2,971,278
Capital Grants and Contracts Received	8,846,870	8,469,445
Proceeds from Sales of Capital Assets	37,896	13,163
Principal Paid on Capital Debt and Leases	(68,179,516)	(60,223,988)
Interest Paid on Capital Debt and Leases	(5,387,714)	(7,690,331)
Other Sources	800,118	433,175
Other Uses	(9,051,059)	(4,786,658)
Net cash used by capital and related financing activities	\$ (22,830,360)	\$ (21,050,822)

STATEMENT OF CASH FLOWS

CONTINUED

Investing activities:		
Proceeds from Sales and Maturities of Investments	\$ 36,207,239	\$ 18,863,864
Interest Received on Investments	853,893	937,802
Purchases of Investments	<u>(33,550,984)</u>	<u>(24,648,383)</u>
Net cash used by investing activities	<u>\$ 3,510,148</u>	<u>\$ (4,846,717)</u>
Net change in cash and cash equivalents	<u>\$ (2,062,552)</u>	<u>\$ (14,806,025)</u>
Cash and cash equivalents - beginning of year	<u>41,092,820</u>	<u>55,898,844</u>
Cash and cash equivalents - end of year	<u>\$ 39,030,267</u>	<u>\$ 41,092,819</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ (128,688,993)	\$ (129,393,752)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	17,135,406	16,694,368
Other	150,000	624,712
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	2,504,384	8,684,667
Inventories	63,285	11,904
Prepaid Expenses	(48,168)	269,987
Other Assets	(19,946,586)	(17,590,348)
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	(769,644)	(2,296,700)
Unearned Revenue	87,802	1,579,997
Deposits Refundable	(19,680)	480
Accrued Leave Liability	(17,353)	73,146
Loans to Students and Employees	(148,011)	(156,713)
Other Liabilities	<u>25,971,019</u>	<u>15,520,062</u>
Total Adjustments	<u>\$ 24,962,454</u>	<u>\$ 23,415,562</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (103,726,539)</u>	<u>\$ (105,978,190)</u>
Reconciliation of cash and cash equivalents:		
Current assets - cash and cash equivalents	39,030,118	37,864,600
Noncurrent assets - restricted cash and cash equivalents	<u>147</u>	<u>3,228,219</u>
Cash and cash equivalents - end of year	<u>\$ 39,030,265</u>	<u>\$ 41,092,819</u>

STATEMENT OF CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 143,619	(4,221,287)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	31,302	56,390
Gain on disposal of property and equipment	(2,400)	(1,001)
Fair value of donated assets	—	(25,000)
Realized and unrealized losses on investments, net	2,220,923	18,625
Receipts of permanently restricted contributions	(3,068,592)	(2,331,508)
Permanently restricted dividends and interest	(73,231)	(13,666)
Change in amounts due from externally managed trusts	(4,066,436)	39,823
Change in gift annuities and pooled income fund	17,534	6,660
Present value adjustments to annuities	71,304	12,349
Transfer of property to the University	25,000	90,000
Changes in operating assets and liabilities:		
Accrued earnings	(12,605)	(7,764)
Prepaid assets and other receivables	(757,799)	1,202,733
Pledges receivable, net	3,827,525	5,203,204
Accounts payable	(386,803)	196,672
Net cash (used in) provided by operating activities	(2,030,659)	226,230
Cash flows from investing activities:		
Proceeds from sale of property and equipment	2,400	20,000
Purchases of investments	(20,318,335)	(20,771,737)
Proceeds from sales and maturities of investments	19,211,040	10,821,509
Principal payments received under direct financing lease	154,910	163,813
Net cash used in investing activities	(949,985)	(9,766,415)
Cash flows from financing activities:		
Receipts of permanently restricted contributions	3,068,592	2,331,508
Permanently restricted dividends and interest	73,231	13,666
Change in investments subject to annuity agreements	(38,650)	(4,467)
Annuity payments	(51,803)	(46,134)
Net cash provided by financing activities	3,051,370	2,294,573
Net increase (decrease) in cash and cash equivalents	70,726	(7,245,612)
Cash and cash equivalents at beginning of year	1,014,651	8,260,263
Cash and cash equivalents at end of year	\$ 1,085,377	1,014,651

See accompanying notes to consolidated financial statements.





NOTES TO FINANCIAL STATEMENTS



NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The University of Southern Mississippi is a public, comprehensive, research-extensive university. Our primary mission is to cultivate intellectual development and creativity through the generation, dissemination, application and preservation of knowledge.

REPORTING ENTITY

The Mississippi Constitution was amended in 1943 to create a Board of Trustees of State Institutions of Higher Learning (IHL). This constitutional Board provides management and control of Mississippi's system of public higher education. The Board members are to be appointed by the Governor with the approval of the Senate. The IHL is considered a component unit of the State of Mississippi reporting entity.

The current twelve Board members of the IHL System were appointed by the Governor and approved by the Senate for twelve-year terms as follows: one from each of the seven Congressional districts, one from each of the three Supreme Court districts, and two appointed from the state-at-large. The Mississippi Constitution was amended in 2003 to change the length of terms and appointment districts for Board members. New appointments will occur from the three current Supreme Court districts for terms of nine years. The amendment provides for these new appointments and tenures to be gradually implemented. Full implementation occurred in 2012.

The University of Southern Mississippi has established its own educational building corporation (SMEBC, a nonprofit corporation incorporated in the State of Mississippi) in accordance with Section 37-101-61 of the Mississippi Code Annotated of 1972. The purpose of this corporation is for the acquisition of land and the construction, improvements and equipping of facilities for the University. In accordance with Governmental Accounting Standards Board (GASB) Statements No. 14 and No. 61, this educational building corporation is deemed a component unit of the University and is included as a blended component unit in the general purpose financial statements.

The University of Southern Mississippi has established its own Real Estate Foundation to engage in the design-build delivery system of auxiliary facilities as authorized by Section 37-101-44, Mississippi Code Annotated. The purpose of this Foundation is to construct, improve and

equip auxiliary facilities for the University. In accordance with Governmental Accounting Standards Board (GASB) Statements No. 14 and No. 61, this Foundation is deemed a component unit of the University and is included as a blended component unit in the general purpose financial statements.

The University of Southern Mississippi Foundation is a legally separate, tax-exempt organization. The Foundation raises and manages funds that predominately act to supplement the resources that are available to the University in support of its programs. The Board of Directors of the Foundation consists of alumni and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or incomes thereon, which the Foundation holds and invests, are restricted to the activities of the University by donors. Because the majority of these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Although the University is the primary beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Third parties dealing with the University, the IHL, and the State of Mississippi (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all the foregoing conditions and limitations.

During the year ended June 30, 2016, the Foundation distributed \$9.6 million to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained at 118 College Drive #5210, Hattiesburg, MS 39406-0001 or at www.usmfoundation.com.

The following investment disclosures pertain to The University of Southern Mississippi Foundation:

Investments are summarized as follows at June 30, 2016, and 2015:	Investment Strategy:	2016	2015
	Fixed Income:		
	U.S. Government securities	\$ 2,936,203	\$ 3,430,583
	Corporate bonds	6,073,335	5,846,610
	Mutual funds	27,313,405	25,636,245
	Other fixed income securities	2,745,606	3,299,636
	Total fixed income	<u>\$ 39,068,550</u>	<u>\$ 38,213,075</u>
	Equities:		
	Mutual and common stock funds	47,396,182	49,368,285
	Total equities	<u>\$ 47,396,182</u>	<u>\$ 49,368,285</u>
	Alternative investments		
	Hedge funds	3,474,362	3,788,381
	Structured credit funds	1,510,442	1,567,715
	Real estate investment funds	2,700,067	2,419,042
	Total alternative investments	<u>\$ 7,684,871</u>	<u>\$ 7,775,138</u>
	Cash surrender value of insurance policies	2,472,867	2,397,134
	Other	46,032	71,032
	Total investments	<u>\$ 96,668,501</u>	<u>\$ 97,824,663</u>

The following schedule summarizes the net investment gain (loss) and related net asset classification in the consolidated statement of activities:

	2016			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Dividends and interest (net of expenses of \$374,618)	\$ 1,455,283	\$ 294,314	\$ 73,231	\$ 1,822,828
Realized gains (losses), net	(104,507)	1,224,250	43,193	1,162,936
Unrealized gains, net	119,588	(3,420,161)	(83,286)	(3,383,859)
Total	<u>\$ 1,470,364</u>	<u>\$ (1,901,597)</u>	<u>\$ 33,138</u>	<u>\$ (398,095)</u>
	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Dividends and interest (net of expenses of \$350,000)	\$ 1,596,462	\$ 210,242	\$ 13,666	\$ 1,820,370
Realized gains (losses), net	(57,982)	2,232,578	11,430	2,186,026
Unrealized gains, net	(95,908)	(2,150,341)	41,597	(2,204,652)
Total	<u>\$ 1,442,572</u>	<u>\$ 292,479</u>	<u>\$ 66,693</u>	<u>\$ 1,801,744</u>

BASIS OF PRESENTATION

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and Statement No. 35, Basic Financial Statements and Management’s Discussion and Analysis of Public Colleges and Universities, issued in June and November 1999, respectively. The University follows the “business-type activities” reporting requirements of GASB Statement No. 34, which provides a comprehensive presentation of the University’s financial activities.

The Foundation is a private, nonprofit corporation that reports under the Financial Accounting Standards Board (FASB) Statement No. 117, Financial Reporting for Not-for-Profit Organizations. 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 statement information in the University’s financial reporting entity for these differences.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when reduced to a legal or contractual obligation to pay. All significant intra-institutional transactions have been eliminated.

Grant and contract revenues, which are received or receivable from external sources, are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements. State appropriations are recognized as non-operating revenues when eligibility requirements are satisfied.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

The University’s investments are invested in various types of investment securities and in various companies within various markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near

term and that such change could materially affect the amounts reported in the University’s financial statements.

Significant estimates also include the determination of the allowances for uncollectible accounts and notes receivable. As a result, there is at least a reasonable possibility that recorded estimates associated with these assets could change by a material amount in the near term.

In connection with the preparation of the financial statements, management evaluated subsequent events through the date the financial statements were available to be issued.

CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

SHORT-TERM INVESTMENTS

Short term investments are investments that are not cash equivalents but mature within the next fiscal year.

ACCOUNTS RECEIVABLE, NET

Accounts receivable consist mainly of tuition and fee charged to students, as well as amounts due from federal and state governments and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to University grants and contracts. Accounts receivable are recorded net of an allowance for doubtful accounts.

STUDENT NOTES RECEIVABLE, NET

Student notes receivable consist of federal, state and institutional loans made to students for the purpose of paying tuition and fee charges. Loan balances that are expected to be paid during the next fiscal year are presented on the Statement of Net Position as current assets. Those balances that are either in deferment status or expected to be paid back beyond the next fiscal year are presented as noncurrent assets on the Statement of Net Position. Student notes receivable are recorded net of an allowance for doubtful accounts.

INVENTORIES

Inventories consist of items stocked for repairs, maintenance, retail operations and the student pharmacy. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out (“FIFO”) basis or the weighted average cost basis.

PREPAID EXPENSES

Prepaid expenses consist of expenditures that are related to projects, programs, activities or revenues of future fiscal periods.

NONCURRENT RESTRICTED CASH AND INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or noncurrent assets are classified as noncurrent assets in the Statement of Net Position.

ENDOWMENT INVESTMENTS

Endowment investments are generally subject to the restrictions of donor gift instruments. They include true endowment funds, which are funds received from a donor with the restriction that only the income is to be utilized, and funds functioning as endowments, which are funds established by the governing board to function like an endowment fund but may be totally expended at any time at the discretion of the governing board.

OTHER LONG TERM INVESTMENTS

Investments are reported at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position.

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. For movable property, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional categories. See Note 5 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activity facilities.

COLLECTIONS

On occasion, the University may obtain collections of art or historical treasures (usually as private donations to the institution). These collections are usually held for public exhibition, education or research. The University is not required to capitalize these collections and, in practice, generally does not capitalize their value in the financial presentation.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of amounts owed to vendors, contractors or accrued items such as interest, wages and salaries.

UNEARNED REVENUES

Unearned revenues include amounts received for tuition, fees, and certain auxiliary activities prior to the end of the fiscal year, but related to the subsequent accounting period. It also includes amounts received from grant and contract sponsors that have not yet been earned.

DEPOSITS REFUNDABLE

Deposits refundable represent good faith deposits from students to secure admission to various programs and to reserve housing assignments.



Hardy Hall – Gulf Park Campus

INCOME TAXES

The University of Southern Mississippi is considered an agency of the state and is treated as a governmental entity for tax purposes. As such, the University generally is not subject to federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the University does remain subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded because, in the opinion of management, there is no significant amount of taxes on such unrelated business income.

COMPENSATED ABSENCES

Twelve-month employees earn annual personal leave at a rate of 12 hours per month for zero to three years of service; 14 hours per month for three to eight years of service; 16 hours per month for eight to fifteen years of service; and 18 hours per month for fifteen years of service and over. There is no requirement that annual leave be taken, and there is no maximum accumulation. At termination, these employees are paid for up to 240 hours of accumulated leave.

Nine-month employees earn major medical leave at a rate of 13 1/3 hours per month for one month to three years of service; 14 1/5 hours per month for three to eight years of service; 15 2/5 hours per month for eight to fifteen years of service; and 16 hours per month for fifteen years of service and over. There is no limit on the accumulation of major medical leave. At retirement, these employees are paid for up to 240 hours of accumulated major medical leave.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that

are classified as noncurrent assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method.

GOVERNMENT ADVANCES REFUNDABLE

The University participates in the Federal Perkins Loan and Nursing Loan Programs, which are funded through a combination of federal and institutional resources. The portion of the Federal Perkins Loan program that has been funded with federal funds is ultimately refundable to the U.S. government upon the termination of the University's participation in the program. The portion that would be refundable if the program was terminated has been presented as other long term liabilities and approximated \$27 million as of June 30, 2016.

CLASSIFICATION OF REVENUES AND EXPENSES

The University has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues and expenses have the characteristics of exchange transactions. These transactions can be defined as an exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) most federal, state and local grants and contracts (non-Title IV financial aid); and (4) other operating revenues. Examples of operating expenses include (1) employee compensation, benefits and related expenses; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, supplies and other services; (4) professional fees; and (5) depreciation expenses related to certain capital assets.

Nonoperating revenues and expenses have the characteristics of non-exchange transactions and are defined in GASB No. 9, *Reporting Cash Flows of Proprietary Fund Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34. Examples of non-operating revenues include state appropriations, gifts and contributions, and investment income. Included in nonoperating gifts and grants are federally awarded student financial aid program revenues of approximately \$27 million for the year ending June 30, 2016. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.

AUXILIARY ENTERPRISE ACTIVITIES

Auxiliary enterprises typically exist to furnish goods or services to students, faculty or staff, and charge a fee directly related to, although not necessarily equal to, the cost of the goods or services. One distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Examples are residence halls, food services and intercollegiate athletic programs (only if they are essentially self-supporting). The general public may be served incidentally by auxiliary enterprises.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a University basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

NET POSITION

Net position represents the difference between all other elements in a statement of financial position and is displayed in three components - net investment in capital assets, net of related debt; restricted and unrestricted.

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted nonexpendable: Net position subject to externally imposed constraints that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

Restricted expendable: Net position whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.

Unrestricted: Net positions that are not subject to externally imposed constraints. Unrestricted net positions may be designated for specific purposes by action of management or the Board or may otherwise be limited by contractual agreements with outside parties. Substantially, all unrestricted net positions are designated for academic, research and outreach programs and initiatives, operating and stabilization reserves, capital projects, and capital asset renewals and replacements.

NEW ACCOUNTING STANDARD

The IHL System adopted GASB Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016. The statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.



Lake Thoreau Environmental Center serves as a research center for students and faculty while providing educational outreach to the Hattiesburg community.

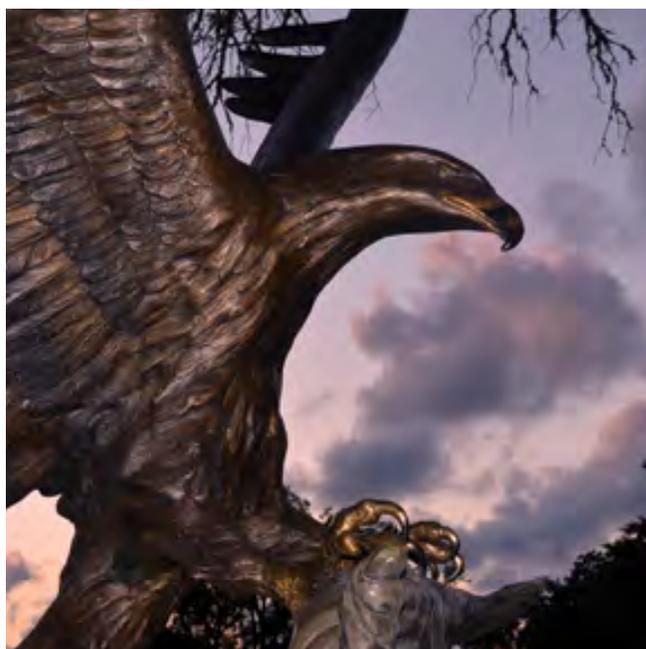
NOTE 2 CASH AND INVESTMENTS

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Investment policies as set forth by the IHL Board of Trustees policy and state statute authorize the University to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements. The system's investment policy is governed by state statute (Section 27-105-33, MS Code Ann. 1972) and the Uniform Management of Institutional Funds Act of 1998.

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University's endowments are included as noncurrent. Short term investments are investments that are not cash equivalents but mature within the next fiscal year.

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code Annotated (1972). Under this program, the universities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC.



Lofty Return, a bronze eagle statue, can be seen on both the Hattiesburg and Gulf Park campuses.

INVESTMENTS

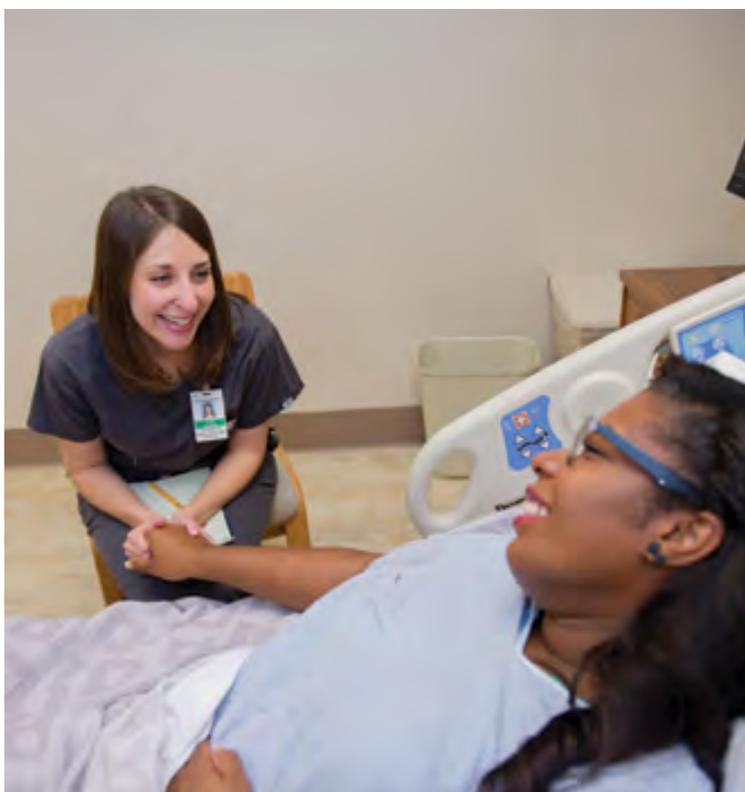
Investment policies as set forth by Board policy as authorized by Section 37-101-15, Mississippi Code Annotated (1972), authorizes the universities to invest in equity securities, bonds and other securities. An institution may at its discretion adopt policies affecting investments beyond the standards cited above. Investments are reported at fair value (market).

The following table summarizes the fair value of investments at June 30, 2016, and 2015:

<u>Statement of Net Position Classification</u>	<u>June 30, 2016 Fair Value</u>	<u>June 30, 2015 Fair Value</u>
Short term investments - current assets	\$ 1,953,856	\$ 3,700,849
Noncurrent assets:		
Endowment investments	3,886,799	3,947,169
Other long term investments	47,676,998	47,437,368
Total	\$ 53,517,653	\$ 55,085,386

The following table presents the fair value of investments by type at June 30, 2016, and 2015:

Investment Type	June 30, 2016 Fair Value	June 30, 2015 Fair Value
U.S. government agency obligations	\$ 29,677,952	\$ 33,009,528
Collateralized mortgage obligations	10,316,298	8,608,124
Mortgage backed securities	-	-
U.S. Treasury obligations	6,592,855	6,631,433
Certificate of deposit	1,521,671	2,264,094
Domestic equity mutual funds	284,908	102,336
International equity mutual funds	-	85,757
Fixed income mutual funds	302,348	285,984
Money market funds	258,886	186,865
Domestic equity securities	1,584,524	1,777,915
Non-US equity securities	435,054	493,041
Municipal bonds	1,957,958	889,698
Corporate bonds	585,199	750,611
Total	\$ 53,517,653	\$ 55,085,386



The College of Health at Southern Miss provides numerous areas of study in a variety of health-related fields.

CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy for custodial credit risk. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name. The University did not have any investments exposed to custodial credit risk as of June 30, 2016.

INTEREST RATE RISK

Interest rate risk is defined as the risk a government may face should interest rate variances affect the fair value of investments. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses interest rate risk.

As of June 30, 2016, and 2015, the University had the following investments subject to interest rate risk:

Investment Type	June 30, 2016				
	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. government agency obligations	\$ 29,677,952	\$ 430,813	\$ 26,477,371	\$ 2,235,090	\$ 534,678
Collateralized mortgage obligations	10,316,298	1,437,322	7,791,900	1,002,274	84,801
U.S. Treasury obligations	6,592,855	1,202,515	5,200,676	150,767	38,897
Certificates of deposit - negotiable	1,005,138	-	1,005,138	-	-
Fixed income mutual funds	302,348	-	302,348	-	-
Municipal bonds	1,957,958	-	15,808	1,822,540	119,610
Corporate bonds	585,199	51,883	342,935	103,572	86,809
Total	\$ 50,437,748	\$ 3,122,533	\$ 41,136,176	\$ 5,314,243	\$ 864,795

Investment Type	June 30, 2015				
	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. government agency obligations	\$ 33,009,528	\$ 3,203,741	\$ 27,281,327	\$ 927,602	\$ 1,596,859
Collateralized mortgage obligations	8,608,124	728,094	7,880,030	-	-
U.S. Treasury obligations	6,631,433	1,864,657	4,760,780	-	5,997
Fixed income mutual funds	1,752,698	-	1,752,698	-	-
Municipal bonds	285,984	-	285,984	-	-
Corporate bonds	889,698	255,030	523,481	-	111,187
	750,611	121,903	377,738	138,853	112,117
Total	\$ 51,928,076	\$ 6,173,425	\$ 42,862,036	\$ 1,066,455	\$ 1,826,159

CREDIT RISK

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses credit risk. The ratings are issued upon standards set by Standard & Pools or Moody's.

The following table summarizes the fair value of investments at June 30, 2016, and 2015:

Rating	June 30, 2016 Fair Value	June 30, 2015 Fair Value
AAA	\$ 1,506,025	\$ 1,264,390
Aaa	14,030	221,075
AA	35,088,011	35,089,938
A	265,983	2,233,439
BA	14,037	13,872
BAA	109,650	133,972
BBB	109,856	36,566
Rating not available	3,439,051	4,379,060
Total	\$ 40,546,643	\$ 43,372,312

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses concentration of credit risk.

The University had the following investments that represent more than five percent of investments as of June 30, 2016, and 2015:	Issuer	June 30, 2016	
		Fair Value	% of Total Investments
	Federal National Mortgage Association	\$ 17,912,966	33.5%
	Federal Home Loan Bank	7,261,728	13.6%
	Federal Farm Credit Bank	6,152,714	11.5%
	Federal Home Loan Mortgage Corporation	5,368,592	10.0%
		June 30, 2015	
	Issuer	Fair Value	% of Total Investments
	Federal National Mortgage Association	\$ 11,450,240	20.8%
	Federal Home Loan Bank	14,187,413	25.8%
	Federal Farm Credit Bank	7,259,506	13.2%
	Federal Home Loan Mortgage Corporation	6,796,162	12.3%

FOREIGN CURRENCY RISK

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses foreign currency risk. The University's exposure to foreign currency risk was limited to American Depository Receipts (ADRs) for non-U.S. equities of \$435,054 and \$493,041 at June 30, 2016, and 2015, respectively, and investments in international equity mutual funds of \$85,757 at June 30, 2015.



The University honors its graduates during fall and spring Commencement ceremonies each year.

NOTE 3 INVESTMENT FAIR VALUE MEASUREMENT

In compliance with GASB Statement No. 72, Fair Value Measurement and Application, the following tables present the financial assets carried at fair value by level within the valuation hierarchy, as of June 30, 2016, and 2015:

	2016			Total
	Level 1	Level 2	Level 3	
Investment strategy:				
Fixed income:				
U.S. Government securities	\$ 37,170,819	\$ 9,416,286	\$ -	\$ 46,587,105
Corporate bonds	218,323	366,876	-	585,199
Certificates of deposit	516,534	1,005,138	-	1,521,672
Other fixed income securities	258,886	-	-	258,886
Total fixed income	<u>38,164,562</u>	<u>10,788,300</u>	<u>-</u>	<u>48,952,862</u>
Equities:				
Common stocks	-	-	-	-
Common stock funds	3,977,536	-	-	3,977,536
Mutual funds	471,656	115,600	-	587,256
Index funds	-	-	-	-
Total equities	<u>4,449,192</u>	<u>115,600</u>	<u>-</u>	<u>4,564,792</u>
Hedge funds	-	-	-	-
Venture capital	-	-	-	-
Other short-term investments	-	-	-	-
Total investments	<u>\$ 42,613,754</u>	<u>\$ 10,903,900</u>	<u>\$ -</u>	<u>\$ 53,517,654</u>

	2015			Total
	Level 1	Level 2	Level 3	
Investment strategy:				
Fixed income:				
U.S. Government securities	\$ 41,938,513	\$ 6,392,972	\$ -	\$ 48,331,485
Corporate bonds	204,266	546,345	-	750,611
Certificates of deposit	511,396	1,752,698	-	2,264,094
Other fixed income securities	186,865	-	-	186,865
Total fixed income	<u>42,841,040</u>	<u>8,692,014</u>	<u>-</u>	<u>51,533,054</u>
Equities:				
Common stocks	-	-	-	-
Common stock funds	3,160,654	-	-	3,160,654
Mutual funds	474,077	-	-	474,077
Index funds	-	-	-	-
Total equities	<u>3,634,731</u>	<u>-</u>	<u>-</u>	<u>3,634,731</u>
Hedge funds	-	-	-	-
Venture capital	-	-	-	-
Other short-term investments	-	-	-	-
Total investments	<u>\$ 46,475,771</u>	<u>\$ 8,692,014</u>	<u>\$ -</u>	<u>\$ 55,167,785</u>

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted (unadjusted) prices in active markets for identical financial assets or liabilities that the government has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the financial asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2016, and 2015:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Student tuition	\$ 6,708,173	\$ 6,967,649
Scholarships	230,567	256,124
Auxiliary enterprises and other operating activities	3,939,859	2,207,457
Federal, state and private grants and contracts	13,028,275	17,082,788
State appropriations	1,504,492	1,790,381
Accrued interest	126,329	83,423
Other	<u>269,809</u>	<u>327,700</u>
 Total Accounts Receivable	 \$ 25,807,504	 \$ 28,715,523
 Less allowance for doubtful accounts	 <u>(3,950,000)</u>	 <u>(3,800,000)</u>
 Accounts Receivable, Net	 <u>\$ 21,857,504</u>	 <u>\$ 24,915,523</u>



The Century Park South residential complex is also home to the Luckyday program and Moffitt Health Center.

NOTE 5 NOTES RECEIVABLE FROM STUDENTS

Notes receivable from students are payable in installments over a period of up to ten years, commencing twelve months from the date of separation from the institution or the date that the enrollment status of the student drops below half-time.

The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the University at June 30, 2016, and 2015:

	Interest Rates	2016		
		June 30, 2016	Current Portion	Noncurrent Portion
Perkins student loans	3% to 5%	\$ 29,323,186	\$ 2,187,202	\$ 27,135,984
Institutional loans	0% to 3%	122,366	17,509	\$ 104,857
Nursing faculty loans	3%	706,660	35,482	\$ 671,178
Total Notes Receivable		\$ 30,152,212	\$ 2,240,193	\$ 27,912,019
Less allowance for doubtful accounts		(2,900,000)	(35,749)	(2,864,251)
Notes Receivable, Net		\$ 27,252,212	\$ 2,204,444	\$ 25,047,768

	Interest Rates	2015		
		June 30, 2015	Current Portion	Noncurrent Portion
Perkins student loans				
Institutional loans	3% to 5%	\$ 29,288,516	\$ 2,163,030	\$ 27,125,486
Nursing faculty loans	0% to 3%	124,499	17,685	106,814
	3%	510,095	22,874	487,221
Total Notes Receivable		\$ 29,923,110	\$ 2,203,589	\$ 27,719,521
Less allowance for doubtful accounts		(2,700,000)	(44,944)	(2,655,056)
Notes Receivable, Net		\$ 27,223,110	\$ 2,158,645	\$ 25,064,465



Former Golden Eagle and NFL quarterback, Brett Favre, was recently inducted into the Pro Football Hall of Fame.



SOUTHERN

1



SOUTHERN MISS
GOLDEN EAGLES





The University celebrated the completion of its Gulf Park campus gateway entrance on April 29.

NOTE 6 CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2016, and 2015, respectively, is presented as follows:

	2016			
	July 1, 2015	Additions	Deletions	June 30, 2016
Nondepreciable Capital Assets:				
Land	\$ 17,302,141	\$ 306,570	\$ -	\$ 17,608,711
Construction in progress	56,130,482	23,787,575	43,199,331	36,718,726
Total Nondepreciable Capital Assets	\$ 73,432,623	\$ 24,094,145	\$ 43,199,331	\$ 54,327,437
Depreciable Capital Assets:				
Improvements other than buildings	\$ 47,241,236	\$ 4,234,811	\$ -	\$ 51,476,047
Buildings	534,802,272	40,137,263	-	574,939,535
Equipment	73,847,439	7,673,844	2,642,553	78,878,730
Assets under capital lease	1,993,738	-	-	1,993,738
Libraries	66,757,632	150,747	20,166	66,888,213
Total Cost of Depreciable Capital Assets	\$ 724,642,317	\$ 52,196,665	\$ 2,662,719	\$ 774,176,263
Total Cost of Capital Assets	\$ 798,074,940	\$ 76,290,810	\$ 45,862,050	\$ 828,503,700
Less Accumulated Depreciation for:				
Improvements other than buildings	\$ 13,386,891	\$ 1,645,710	\$ -	\$ 15,032,601
Buildings	111,593,865	10,361,962	-	121,955,827
Equipment	56,102,937	3,640,142	2,499,996	57,243,083
Assets under capital lease	1,035,807	277,493	-	1,313,300
Libraries	63,111,514	1,210,102	20,166	64,301,450
Total Accumulated Depreciation	\$ 245,231,014	\$ 17,135,409	\$ 2,520,162	\$ 259,846,261
Capital Assets, Net	\$ 552,843,926	\$ 59,155,401	\$ 43,341,888	\$ 568,657,439

Capital assets continued from page 43

	2015			
	July 1, 2014	Additions	Deletions	June 30, 2015
Nondepreciable Capital Assets:				
Land	\$ 16,202,070	\$ 1,100,071	\$ -	\$ 17,302,141
Construction in progress	90,617,511	29,350,723	63,837,752	56,130,482
Total Nondepreciable Capital Assets	\$ 106,819,581	\$ 30,450,794	\$ 63,837,752	\$ 73,432,623
Depreciable Capital Assets:				
Improvements other than buildings	\$ 44,293,925	\$ 2,947,311	\$ -	\$ 47,241,236
Buildings	472,243,005	62,756,759	197,492	534,802,272
Equipment	72,034,132	3,664,123	1,850,816	73,847,439
Assets under capital lease	1,817,610	206,448	30,320.00	1,993,738
Libraries	66,585,928	204,077	32,373	66,757,632
Total Cost of Depreciable Capital Assets	\$ 656,974,600	\$ 69,778,718	\$ 2,111,001	\$ 724,642,317
Total Cost of Capital Assets	\$ 763,794,181	\$ 100,229,512	\$ 65,948,753	\$ 798,074,940
Less Accumulated Depreciation for:				
Improvements other than buildings	\$ 11,734,124	\$ 1,652,767	\$ -	\$ 13,386,891
Buildings	102,452,315	9,185,832	44,282	111,593,865
Equipment	53,728,867	4,132,919	1,758,849	56,102,937
Assets under capital lease	801,284	264,540	30,017	1,035,807
Libraries	61,655,559	1,488,328	32,373	63,111,514
Total Accumulated Depreciation	\$ 230,372,149	\$ 16,724,386	\$ 1,865,521	\$ 245,231,014
Capital Assets, Net	\$ 533,422,032	\$ 83,505,126	\$ 64,083,232	\$ 552,843,926

Depreciation is computed on a straight-line basis with the exception of the library materials category, which is computed using a composite method. The following useful lives, salvage values and capitalization thresholds are used to compute depreciation:

	Estimated Useful Lives	Salvage Value	Capitalization Threshold
Buildings	40 years	20%	\$ 50,000
Improvements other than buildings	20 years	20%	25,000
Equipment	3 - 15 years	1 - 10%	5,000
Library materials	10 years	0%	0

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2016, and 2015:

AP & Accrued Liabilities

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Payable to vendors and contractors	\$ 8,945,641	\$ 8,211,106
Accrued salaries, wages and employee withholdings	7,913,096	9,061,097
Accrued interest	2,445,353	2,306,199
Other	<u>(141,432)</u>	<u>123,982</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 19,162,658</u>	<u>\$ 19,702,384</u>

All amounts are considered current and expected to be settled within one year.

NOTE 8 UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30, 2016, and 2015:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Tuition and fees	\$ 6,486,620	\$ 5,977,877
Athletics ticket sales	1,315,190	1,360,431
Federal, state and private grants and contracts	8,214,477	8,597,436
Auxiliary room and board	224,841	206,890
Other	<u>79,108</u>	<u>89,800</u>
Total Unearned Revenues	<u>\$ 16,320,237</u>	<u>\$ 16,232,433</u>

All amounts are considered current and will be fully recognized within one year.

NOTE 9 LONG TERM LIABILITIES



Students, faculty and staff stay healthy using exercise facilities on both the Hattiesburg and Gulf Park campuses.

Long term liabilities include notes and bonds payable, certificates of participation, capital lease obligations, compensated absences, federal loan fund contingency, and certain other liabilities that are expected to be liquidated at least one year from fiscal year end. This contingency represents the federal portion of the Perkins Loan program, which would be due and payable to the U.S. government if the University ceases to participate in this program.

The University has one note payable, which was issued to construct a football stadium scoreboard on the Hattiesburg campus. Bonds payable consist of debt instruments issued for the construction of buildings, major renovations and improvements on the Hattiesburg campus. Certificates of participation were issued for the construction of a parking garage on the Hattiesburg campus.

The University participates in the master lease/purchase program, which is a centralized program maintained by the IHL Board office of the Mississippi Institutions for Higher Learning in which the universities' essential governmental-use equipment needs are consolidated into and financed as one request. This consolidation means the cost of issuance is lower, and the institutions collectively receive a better interest rate than they would have received individually. Lease terms for equipment purchased through the master lease/purchase program cover a period not to exceed five years. The University has the option to prepay all outstanding payments less any unearned interest to fully satisfy the obligation. There is also a fiscal funding addendum stating that if funds are not appropriated for periodic payment for any future fiscal period, the lessee will not be obligated to pay the remainder of the total payments due beyond the end of the current fiscal period.

The University exclusively leases a Beechcraft King Air 200 airplane from The University of Southern Mississippi Foundation. The lease is for a five-year term with automatic one-year renewals thereafter. In no event shall the agreement with renewals extend beyond 10 years in length.

The University entered into a lease/purchase contract with Key Government Finance Inc., a financing partner of Cisco Systems Capital Corp. The purpose of the lease was to finance equipment needed to expand an existing Voice over Internet Protocol (VoIP) deployment at the University's Hattiesburg and Gulf Park campuses. The principal amount financed of \$1,754,754 will be paid in five annual installments of \$356,901 at .75% interest rate totaling \$1,784,507.

Information regarding original issue amounts, interest rates and maturity dates for bonds, notes and capital leases included in the long term liabilities balance at June 30, 2016, is listed in the following schedules. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided (see pages 47 and 48).

2016

Description and Purpose	Original Issue	Annual Interest Rate	Maturity (Fiscal Year)	2016			Due Within One Year
				July 1, 2015	Additions	Deletions	
Bonded Debt:							
SMEBC Series 2006A	24,855,000	3.63-5.00%	Serially to 2027	\$ 1,765,000	\$ -	\$ 1,765,000	\$ -
SMEBC Series 2006B	18,725,000	3.63-5.00%	Serially to 2032	395,000	-	395,000	-
SMEBC Series 2007	27,190,000	4.00-5.00%	Serially to 2034	1,115,000	-	535,000	580,000
SMEBC Series 2009	49,900,000	2.75-5.375%	Serially to 2037	49,785,000	-	47,675,000	2,110,000
SMEBC Series 2013	51,875,000	2.00-5.00%	Serially to 2043	49,960,000	-	1,295,000	48,665,000
SMEBC Series 2015A	38,600,000	2.00-5.00%	Serially to 2034	38,600,000	-	255,000	38,345,000
SMEBC Series 2015B	16,690,000	0.50-3.25%	Serially to 2027	16,690,000	-	375,000	16,315,000
SMEBC Series 2016	58,870,000	2.00-5.00%	Serially to 2040	-	58,870,000	-	58,870,000
Total Bonded Debt				\$ 158,310,000	\$ 58,870,000	\$ 52,295,000	\$ 164,885,000
Unamortized Premium				9,347,664	11,923,434	588,029	20,683,069
Total Bonded Debt, net				\$ 167,657,664	\$ 70,793,434	\$ 52,883,029	\$ 185,568,069
Capital Leases:							
Beechcraft King Air	1,585,165	4.50%	Monthly to 2019	\$ 568,017	\$ -	\$ 158,516	\$ 409,501
Voice over IP System	1,754,754	0.75%	Annually to 2018	1,054,788	-	348,963	705,825
Total Capital Leases				\$ 1,622,805	\$ -	\$ 507,479	\$ 1,115,326
Revenue Notes:							
SMEBC Series 2007A	3,160,000	1.29%	Semi-annually to 2018	\$ 1,333,429	\$ -	\$ 534,008	\$ 799,421
Certificates of Participation:							
Parking Garage Project, Series 2009	15,520,000	2.00-5.125%	Semi-annually to 2040	\$ 14,255,000	\$ -	\$ 14,255,000	\$ -
Other Long Term Liabilities:							
Net Pension Liability				\$ 163,430,215	\$ 41,307,930	\$ -	\$ 204,738,145
Accrued leave liabilities				10,063,335	-	17,353	10,045,982
Deposits refundable				33,223	-	19,680	13,543
Other noncurrent liabilities				26,701,067	-	118,908	26,582,159
Total Other Liabilities				\$ 36,797,625	\$ -	\$ 155,941	\$ 241,379,829
Total				\$ 221,666,523	\$ 70,793,434	\$ 68,335,457	\$ 428,862,645
Due within one year							8,592,999
Total Long Term Liabilities							\$ 420,269,646

2015

Description and Purpose	Original Issue	Annual Interest Rate	Maturity (Fiscal Year)	2015			Due Within One Year
				July 1, 2014	Additions	Deletions	
Bonded Debt:							
SMEBC Series 2006A	24,855,000	3.63-5.00%	Serially to 2027	\$ 19,235,000	\$ -	\$ 17,470,000	\$ 1,765,000
SMEBC Series 2006B	18,725,000	3.63-5.00%	Serially to 2032	16,975,000	-	16,580,000	395,000
SMEBC Series 2007	27,190,000	4.00-5.00%	Serially to 2034	25,120,000	-	24,005,000	1,115,000
SMEBC Series 2009	49,900,000	2.75-5.375%	Serially to 2037	49,900,000	-	115,000	49,785,000
SMEBC Series 2013	51,875,000	2.00-5.00%	Serially to 2043	50,345,000	-	385,000	49,960,000
SMEBC Series 2015A	38,600,000	2.00-5.00%	Serially to 2034	-	38,600,000	-	38,600,000
SMEBC Series 2015B	16,690,000	0.50-3.25%	Serially to 2027	-	16,690,000	-	16,690,000
Total Bonded Debt				\$ 161,575,000	\$ 55,290,000	\$ 58,555,000	\$ 158,310,000
Unamortized Premium				5,449,678	4,289,586	391,600	9,347,664
Total Bonded Debt, net				\$ 167,024,678	\$ 59,579,586	\$ 58,946,600	\$ 167,657,664
Capital Leases:							
Beechcraft King Air	1,585,165	4.50%	Monthly to 2019	\$ 726,533	\$ -	\$ 158,516	\$ 568,017
Football coaches' headsets	65,969	3.41%	Semi-annually to 2015	13,312	-	13,312	-
Voice over IP System	1,754,754	0.75%	Annually to 2018	1,401,145	-	346,357	1,054,788
Total Capital Leases				\$ 2,140,990	\$ -	\$ 518,185	\$ 1,622,805
Revenue Notes:							
SMEBC Series 2007A	3,160,000	1.29%	Semi-annually to 2018	\$ 1,787,632	\$ -	\$ 454,203	\$ 1,333,429
Certificates of Participation:							
Parking Garage Project, Series 2009	15,520,000	2.00-5.125%	Semi-annually to 2040	\$ 14,560,000	\$ -	\$ 305,000	\$ 14,255,000
Other Long Term Liabilities:							
Net Pension Liability				\$ 172,216,532	\$ 15,001,955	\$ 23,788,272	\$ 163,430,215
Accrued leave liabilities				9,990,189	205,734	132,588	10,063,335
Deposits refundable				32,743	10,400	9,920	33,223
Other noncurrent liabilities				26,735,912	-	34,845	26,701,067
Total Other Liabilities				\$ 36,758,844	\$ 216,134	\$ 177,353	\$ 200,227,840
Total				\$ 222,272,144	\$ 59,795,720	\$ 60,401,341	\$ 385,096,738
Due within one year							7,938,725
Total Long Term Liabilities							\$ 377,158,013

BONDS PAYABLE

S.M. Educational Building Corporation issued bonds totaling \$24,855,000 in June 2006 (Series 2006A) for the refunding of portions of SMEBC bonds issued December 1997 (Series 1997B), May 2001 (Series 2001A and 2001B) and June 2002 (Series 2002). Outstanding coupons bear interest rates ranging from 3.625% to 5.00%, payable semi-annually with final maturity in March 2027.

S.M. Educational Building Corporation issued bonds totaling \$18,725,000 in June 2006 (Series 2006B) to provide funds for the construction of The Village housing project on the Hattiesburg campus. The bonds bear interest at rates ranging from 3.625% to 5.00%, payable semi-annually with a final maturity in March 2032.

S.M. Educational Building Corporation issued bonds totaling \$27,190,000 in April 2007 (Series 2007) to provide funds for the expansion, construction, renovation and related infrastructure improvements to Pete Taylor Park and M.M. Roberts Stadium located on the Hattiesburg campus. The bonds bear interest at rates ranging from 4.00% to 5.00%, payable semi-annually with a final maturity in March 2034.

S.M. Educational Building Corporation issued bonds totaling \$49,900,000 in February 2009 (Series 2009) to provide funds for the construction, equipping and landscaping of student housing facilities, including appropriate external infrastructure improvements such as parking, utilities, streets and drives on the Hattiesburg campus. The bonds bear interest rates ranging from 2.75% to 5.375%, payable semi-annually with a final maturity in September 2036.

S.M. Educational Building Corporation issued bonds totaling \$51,875,000 in June 2013 (Series 2013) to provide funds for the construction, furnishing and equipping of a 954-bed student residential complex on the Hattiesburg campus known as Century Park South, which includes a new student health clinic, administrative offices and a large multi-purpose space, and demolishing of abandoned facilities. A portion of the proceeds (\$1,160,000) were utilized to refund all of the outstanding SMEBC Revenue Bonds, Series 1997A (Payne Center Project) originally issued in December 1997 in the principal amount of \$5,335,000. The bonds bear interest at rates ranging from 2% to 5%, payable semi-annually with a final maturity in March 2043.

S.M. Educational Building Corporation issued bonds totaling \$55,290,000 in April 2015 (Series 2015A & 2015B) for refunding of portions of SMEBC bonds issued in June 2006 (Series 2006A & 2006B) and April 2007 (Series 2007). Outstanding coupons bear interest at rates ranging from .50% to 5.00% with final maturity in March 2034. Net proceeds of the refunding were deposited into irrevocable trusts for each of the refunded issues to provide all future debt service of the



Southern Miss has a diverse student body of approximately 15,000 students.

refunded debt. Accordingly, for financial reporting purposes, the defeased bonds and related trust accounts are not included in the financial statements. As a result of the refunding, the University reduced its debt service by \$6.6 million over the next 19 years and obtained an economic gain of \$5.1 million.

S.M. Educational Building Corporation issued bonds totaling \$58,870,000 in February 2016 (Series 2016) for refunding of portions of SMEBC bonds issued in February 2009 (Series 2009) and all of the Certificates of Participation issued through the University of Southern Mississippi Real Estate Foundation in November 2009 (Series 2009). Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with final maturity in September 2039. Net proceeds of the refunding were deposited into irrevocable trusts for each of the refunded issues to provide all future debt service of the refunded debt. Accordingly, for financial reporting purposes, the defeased bonds and related trust accounts are not included in the financial statements. As a result of the refunding, the University reduced its debt service by \$8.7 million over the next 23 years and obtained an economic gain of \$5.6 million.

NOTES PAYABLE

S.M. Educational Building Corporation issued revenue notes (Series 2007) in December 2007 to provide funds for the construction of the stadium scoreboard on the Hattiesburg campus. The original issuance was \$3,160,000 payable semi-annually with a fixed interest rate of 6.29%. On August 27, 2013, a First Amendment to the Indenture was executed, reducing the interest rate to a fixed rate of 1.29% on the remainder of payments due from March 1, 2014, to September 1, 2017. This note is scheduled to be retired in September 2017.

CERTIFICATES OF PARTICIPATION

The University of Southern Mississippi Real Estate Foundation issued Certificates of Participation (Series 2009) in November 2009 to provide funds for a parking facility for students, faculty and staff, including, but not limited to, the construction, equipping and landscaping of a ground level and four elevated levels of parking consisting of approximately 1,200 parking spaces. The original issuance was \$15,520,000 payable semi-annually with an interest rate ranging from 2% to 5.125% and a maturity of September 2039.

Scheduled maturities of Long Term Liabilities at June 30, 2016:

Fiscal Year	Bonded Debt	Capital Leases	Notes Payable	Interest	Total
2017	4,830,000	510,106	627,691	7,259,640	13,227,437
2018	4,440,000	512,752	171,730	7,040,214	12,164,696
2019	4,765,000	92,467	-	6,933,915	11,791,382
2020	5,135,000	-	-	6,801,509	11,936,509
2021	5,465,000	-	-	6,673,651	12,138,651
2022 - 2026	27,085,000	-	-	30,189,101	57,274,101
2027 - 2031	37,920,000	-	-	23,231,850	61,151,850
2032 - 2036	43,765,000	-	-	13,288,050	57,053,050
2037 - 2041	22,750,000	-	-	5,105,638	27,855,638
2042 - 2043	8,730,000	-	-	663,250	9,393,250
Totals	\$ 164,885,000	\$ 1,115,325	\$ 799,421	\$ 107,186,818	\$ 273,986,564

NOTE 10 OPERATING LEASES

Property under operating leases is composed of office space, land, computer software and equipment.

The following is a schedule by years of the future minimum rental payments required under those operating leases:

Fiscal Year	Amount
2017	\$ 1,317,082
2018	691,913
2019	353,835
2020	265,108
2021	187,229
Total Minimum Payments Required	\$ 2,815,167

Total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal years ending June 30, 2016, and 2015, was \$1,271,551 and \$1,556,099, respectively.

NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the years ended June 30, 2016, and 2015, respectively:

Functional Classification	2016									
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total	
Instruction	\$ 64,880,667	\$ 24,837,978	\$ 2,477,649	\$ 4,164,126	\$ 8,254	\$ -	\$ 2,112,441	\$ -	\$ 98,481,116	
Research	16,777,457	8,882,313	1,322,173	16,750,229	233,502	-	3,743,409	-	47,709,083	
Public service	9,667,907	3,406,895	536,922	3,792,315	32,098	-	1,108,026	-	18,544,162	
Academic support	12,478,393	4,246,293	401,753	4,967,993	1,765	-	1,232,624	-	23,328,822	
Student services	5,709,630	2,033,857	290,787	1,121,329	-	-	784,499	-	9,940,103	
Institutional support	11,678,707	5,561,756	229,916	5,800,235	17,545	-	963,244	-	24,251,204	
Operation of plant	7,715,485	3,732,867	21,125	10,600,763	6,236,440	-	1,627,365	-	29,934,046	
Student aid	-	-	-	-	-	24,465,432	-	-	24,465,432	
Auxiliary enterprises	13,952,856	4,490,055	3,431,159	8,223,041	3,329,688	-	4,345,324	-	37,772,123	
Depreciation	-	-	-	-	-	-	-	17,135,409	17,135,409	
Total Operating Expenses	\$ 142,861,102	\$ 57,192,016	\$ 8,711,485	\$ 55,420,032	\$ 9,859,093	\$ 24,465,432	\$ 15,916,933	\$ 17,135,409	\$ 331,561,502	
Functional Classification	2015									
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total	
Instruction	\$ 64,165,038	\$ 21,904,795	\$ 2,560,148	\$ 3,963,794	\$ 1,045	\$ -	\$ 2,053,951	\$ -	\$ 94,648,771	
Research	16,763,782	8,106,435	1,187,342	11,020,998	248,362	-	2,910,248	-	40,237,167	
Public service	9,580,133	2,619,475	595,771	3,632,778	14,170	-	1,219,973	-	17,662,300	
Academic support	12,231,616	3,465,243	366,979	5,796,333	1,243	-	1,729,865	-	23,591,279	
Student services	5,859,198	1,569,062	261,044	856,308	-	-	704,417	-	9,250,029	
Institutional support	12,089,636	5,128,499	217,689	9,628,705	2,615	-	756,739	-	27,823,883	
Operation of plant	7,417,505	2,890,624	(16,962)	9,873,157	7,044,093	-	1,977,636	-	29,186,053	
Student aid	-	-	-	-	-	22,826,385	-	-	22,826,385	
Auxiliary enterprises	13,491,209	3,500,760	2,588,854	8,553,601	3,221,860	-	5,902,398	-	37,258,682	
Depreciation	-	-	-	-	-	-	-	16,694,368	16,694,368	
Total Operating Expenses	\$ 141,598,117	\$ 49,184,893	\$ 7,760,865	\$ 53,325,674	\$ 10,533,388	\$ 22,826,385	\$ 17,255,227	\$ 16,694,368	\$ 319,178,917	

NOTE 12 CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted or made commitments for various construction projects as of June 30, 2016. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Projects	2016				
	Total Costs to Complete	Funded by Federal Sources	Funded by State Sources	Funded by Other Sources	Institutional Funds
Administration Building Major Renovation	2,317,423	-	1,180,173	-	1,137,250
School of Nursing Building	9,672,439	-	3,672,439	5,000,000	1,000,000
Bolton Hall Renovation	3,199,838	-	3,199,838	-	-
Gulf Park Business and Health Building	4,599,702	-	4,599,702	-	-
Joseph Green Hall Renovation	11,358,460	-	11,358,460	-	-
GCRL Toxicology Replacement	3,726,132	3,678,305	-	-	47,827
Marine Education Center Building	9,452,873	5,807,995	3,644,878	-	-
Pride Field Major Renovation	1,184,313	-	-	-	1,184,313
MDOT Pride Field - Scianna Hall Pathway	51,663	-	41,330	-	10,333
University Signage and Wayfinding	100,000	-	-	-	100,000
Gulf Park Gateway	71,250	-	-	-	71,250
Pride Field Band Director's Tower	155,658	-	-	-	155,658
Payne Center Lighting Upgrade	30,000	-	-	-	30,000
MDOT Eagle Walk-Hillcrest Pathway	404,043	-	323,234	-	80,809
Starbucks HVAC Upgrade	466,707	-	-	-	466,707
Aerospace Composites Test Lab	74,350	-	-	-	74,350
Cochran Center Theatre	2,386,392	-	-	-	2,386,392
MDOT-Gulf Park Bear Bayou Scenic Overlook	126,594	-	101,275	-	25,319
McCarty Hall Roof Replacement	357,257	-	-	-	357,257
35th Avenue Parking Lot	831,196	-	-	-	831,196
34th Avenue Parking Lot	654,925	-	-	-	654,925
Ross Blvd. Parking Lot	1,287,030	-	-	-	1,287,030
Forrest County Hall Chiller Replacement	198,241	-	-	-	198,241
Football Scoreboard Wind Damage	100,000	-	-	-	100,000
Total	\$ 52,806,486	\$ 9,486,300	\$ 28,121,329	\$ 5,000,000	\$ 10,198,857

NOTE 13 DONOR RESTRICTED ENDOWMENTS

The net appreciation on investments of donor restricted endowments as of June 30, 2016, and 2015, that is available for authorization for expenditure is \$3,331,953 and \$3,386,607, respectively. This amount is included in the Statement of Net Position as endowment investments.

INCOME TAXES

(a) PERS Defined Benefit Plan

Plan Description: The IHL System participates in either the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan or the Optional Retirement Plan (ORP), a multiple-employer defined contribution plan established in 1990. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issued a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement IHL System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 601.359.3589 or 1.800.444.PERS.

Vesting Period: In 2007, the Mississippi Legislature amended the PERS Plan to change the vesting period from four to eight years for members who entered the IHL System after July 1, 2007. A member who entered the IHL System prior to July 1, 2007 is still subject to the four-year vesting period provided that the member does not subsequently refund their account balance.

Funding Policy: PERS members are required to contribute 9.0% of their annual salary, and the institution is required to contribute at an actuarially determined rate. The actuarially determined rate was 15.75% of annual covered payroll at June 30, 2016 and 2015. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The University's contributions to PERS for the years ended June 30, 2016, 2015, and 2014, were \$13,175,623, \$13,032,470, and \$12,957,992, respectively. Such contributions equaled the required contributions for each respective year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2016, the University reported a liability of \$204.7 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The University's proportionate share of the net pension liability as of June 30, 2015, and 2014, was 1.32 and 1.35, respectively. For the year ended June 30, 2016, the University recognized pension expense of \$19,200,056.

At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources					Deferred inflows of resources			
	Differences between expected and actual experience	Changes of assumptions	Changes in proportion and differences between Employer contributions and proportionate share of contributions	Contributions subsequent to the measurement date	Total deferred outflows of resources	Differences between expected and actual experience	Net difference between projected and actual investment earnings on pension plan investments	Changes of assumptions	Total deferred inflows of resources
The University of Southern Mississippi	4,783,208	17,637,499	1,017,858	13,009,957	36,448,522	-	8,353,503	-	8,353,503

\$13,009,957 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a decrease to the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Deferred outflow of resources year ended June 30					Total
	2017	2018	2019	2020		
The University of Southern Mississippi	\$ 6,300,690	6,300,690	6,300,690	4,536,495		23,438,565
						-
	Deferred inflow of resources year ended June 30					Total
	2017	2018	2019	2020	2021	
The University of Southern Mississippi	\$ 1,670,701	1,670,701	1,670,701	1,670,701	1,670,699	8,353,503

Actuarial Assumptions:
The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	30-Jun-15
Measurement date	30-Jun-15
Actuarial cost method	Entry age
Actuarial assumptions:	
Discount rate	7.75%
Inflation	3.00%
Payroll growth	3.75%
Projected salary increase	3.75-19.00% (1)
Investment rate of return	7.75% (2)

(1) Depending on age, service, and type of employment, including inflation

(2) Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016 with male rates set forward one year.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2010, to June 30, 2014. The experience report is dated May 4, 2015.

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was

projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
U.S. Broad	34.00%	5.20%
International equity	19.00%	5.00%
Emerging markets equity	8.00%	5.45%
Fixed income	20.00%	0.25%
Real assets	10.00%	4.00%
Private equity	8.00%	6.15%
Cash	1.00%	-0.50%
	<u>100.00%</u>	

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 7.75%, as well as what the IHL System's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
The University of Southern Mississippi			
Net pension liability	269,863,677	204,738,145	150,696,193

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

event of death, provides funds for their beneficiaries, through an arrangement by which contributions are made to this plan. The current contribution rate of both the employee and the University are identical to that of the PERS defined contribution plan.

(b) ORP Defined Contribution Plan

The Optional Retirement Plan (ORP) was established by the Mississippi Legislature in 1990 to help attract qualified and talented institutions of higher learning faculty. The membership of the ORP is composed of teachers and administrators appointed or employed on or after July 1, 1990, who elect to participate in ORP and reject membership in PERS. The ORP provides funds at retirement for employees and, in the

The ORP uses the accrual basis of accounting. Investments are reported at fair value, based on quoted market prices. Employees immediately vest in plan contributions upon entering the plan. The University's contributions to the ORP for the years ended June 30, 2016, 2015, and 2014, were \$6,576,041, \$6,435,381, and \$6,192,688, respectively, which equaled its required contribution for the period.

Required Supplementary Information (Unaudited) Schedule of Proportionate Share of Net Pension Liability For the years ended June 30, 2016 and 2015:

	Proportionate share of the net pension liability	Proportionate share of the net pension liability	FY 2015 Covered- employee payroll	Proportionate share of the net pension liability as a percentage of its covered-employee payroll	PERS fiduciary net position as a percentage of the total pension liability
The University of Southern Mississippi:					
2016	1.32%	\$ 204,738,180	\$ 82,745,841	247.43%	61.70%
2015	1.35%	\$ 163,430,215	\$ 82,272,965	199.00%	67.00%

Schedule of Proportionate Share of Contributions for the years ended June 30, 2016, and 2015:

	Proportionate share of contributions	Required contributions	Contribution deficiency (excess)	FY 2016 Covered- employee payroll	Contribution as a percentage of covered-employee payroll
The University of Southern Mississippi:					
2016	\$ 13,009,957	\$ (13,009,957)	\$ -	\$ 82,602,900	15.75%
2015	\$ 12,934,612	\$ (12,934,612)	\$ -	\$ 82,124,521	15.75%

Notes to Required Supplementary Information - June 30, 2016

(1) Schedule of Proportionate Share of Net Pension Liability

This schedule presents historical trend information about the University's proportionate share of the net pension liability for its employees who participate in the PERS. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the plan. Information related to years prior to 2015 is not available; therefore, trend information will be accumulated to display a ten-year presentation.

(2) Schedule of Proportionate Share of the University's Contributions

The required contributions and percentage of those contributions actually made are presented in the schedule.

Information related to years prior to 2015 is not available; therefore, trend information will be accumulated to display a ten-year presentation.

(3) Changes in Assumptions and Benefit Terms

Changes of assumptions: Amounts reported for fiscal year 2016 reflect changes in assumptions since the last measurement date based on an actuarial experience study for the period July 1, 2010, to June 30, 2014. The experience study report is dated May 4, 2015. The change in TPL due to changes in actuarial assumptions is spread over the remaining service life of the entire PERS membership just like plan experience.

Change of benefit terms: Amounts reported for fiscal year 2016 reflect no changes in benefit terms.



The University commissioned its newest research vessel, the R/V *Jim Franks*, in 2016.

NOTE 15 FEDERAL DIRECT LENDING AND FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAMS

The institution distributed \$85,065,902 and \$86,951,010 for the years ended June 30, 2016, and 2015, respectively, for student loans through the U.S. Department of Education lending programs. These distributions and their related funding sources are included as noncapital financing disbursements and receipts in the Statement of Cash Flows.

NOTE 16 FOUNDATIONS AND AFFILIATED PARTIES

The University has six affiliated organizations that were evaluated in accordance with GASB Statement No. 61, The Financial Reporting Entity: Omnibus, which the University adopted on July 1, 2012. These organizations were formed exclusively for the benefit of the University and serve to promote, encourage and assist with educational, scientific, literary, research, athletic, facility improvement and service activities of the University and its affiliates. These organizations include the S.M. Educational Building Corporation (SMEBC), The University of Southern Mississippi Foundation, The University of Southern Mississippi Research Foundation, The University of Southern Mississippi Athletic Foundation, The

University of Southern Mississippi Real Estate Foundation and The University of Southern Mississippi Alumni Association. These affiliated entities are audited separately and, with the exception of The University of Southern Mississippi Foundation, The University of Southern Mississippi Real Estate Foundation and SMEBC, have not been included in these financial statements. The University of Southern Mississippi Foundation financial statements are presented discreetly following the University's financial statements. In accordance with paragraph 54a of GASB Statement No. 61, the SMEBC and The University of Southern Mississippi Real Estate Foundation are reported as blended component units

Required condensed combined information for the SMEBC and The University of Southern Mississippi Real Estate Foundation is presented below:

	<u>2016</u>	<u>2015</u>
Total Current Assets	\$ 6,852,892	\$ 6,251,245
Total Noncurrent Assets	179,514,598	176,994,848
Total Assets	\$ 186,367,490	\$ 183,246,093
Total Current Liabilities	6,852,892	6,251,245
Total Noncurrent Liabilities	179,514,598	176,994,848
Total Liabilities	\$ 186,367,490	\$ 183,246,093
Total Net Position	\$ -	\$ -
Total Operating Revenues		
Total Operating Expenses		
Operating Income (Loss)	\$ -	\$ -
Total Nonoperating Revenues	6,148,288	7,769,599
Total Nonoperating Expenses	6,148,288	7,769,599
Change in Net Position	\$ -	\$ -

NOTE 17 CONTINGENCIES

The University is party to various lawsuits arising out of the normal course of operations. Historically, the University has not experienced significant losses from such actions. After taking into consideration legal counsel's evaluation of pending actions, the University is of the opinion that the outcome thereof will not have a material effect on its financial statements.

The University also participates in certain federally sponsored programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement from the granting agency for expenditures disallowed under the terms of the grant. Management believes disallowances, if any, will not have a material adverse impact on the financial position of the University.

NOTE 18 IMPAIRMENT OF CAPITAL ASSETS

GASB No. 42 establishes accounting and financial reporting standards for impairment of capital assets. Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. There were no capital assets considered impaired in fiscal year 2016.

NOTE 19 RISK MANAGEMENT

Several types of risk are inherent in the operation of an institution of higher learning. The University deals with these risks in several manners. One of these methods is the pooling of resources among institutions. The eight public Mississippi universities have pooled their resources to establish professional and general liability trust funds. Funds have been established for Workers' Compensation, Unemployment and Tort Liability.

The Workers' Compensation Fund (WC Fund) provides a mechanism for the University to fund and budget for the costs of providing worker compensation benefits to eligible employees. The WC Fund does not pay benefits directly to employees. Funds are set aside in trust, and a third-party administrator is utilized to distribute the benefits to eligible employees. University payment to the Worker's Compensation Program for the fiscal year ended June 30, 2016, and 2015, was \$732,009 and \$890,859, respectively.

The Unemployment Trust Fund (Unemployment Fund) operates in the same manner as the Workers' Compensation Fund. The Unemployment Fund does not pay benefits directly to eligible former employees, rather it reimburses the Mississippi Department of Employment Security for benefits it pays directly to former employees. University payment to the Unemployment Fund for the fiscal year ended June 30, 2016, and 2015, was \$225,672 and \$220,211, respectively.

The University participates in the State Institutions of Higher Learning Tort Fund (IHL Tort Fund). In accordance with Section 11-46-1, et. seq., Mississippi Code Annotated (1972), the Mississippi Tort Claims Board authorized the Board of Trustees of State Institutions of Higher Learning to establish a fund in order to self-insure a certain portion of its liability under the Mississippi Tort Claims Act and professional liability claims. Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against public universities. A maximum liability limit of \$500,000 per occurrence is currently permissible. The University's payment for the IHL Tort Fund for the fiscal year ended June 30, 2016, and 2015, was \$348,078 and \$376,729, respectively.

During the year ended June 30, 2003, the IHL Tort Fund was authorized by the IHL Board, which subsequently acquired an educator's legal liability policy with a deductible of \$1 million of IHL Tort Fund net assets toward any future payment of this deductible. The University's payment for the blanket public official bond for the fiscal year ended June 30, 2016, and 2015, was \$2,800 and \$2,450, respectively.

The Tort Claims Pool also purchases a fleet automobile policy. The University's payment for the fleet automobile policy for the fiscal year ended June 30, 2016, and 2015, was \$94,281 and \$94,085, respectively.

NOTE 20 RELATED PARTY

The University has a long term lease agreement with The University of Southern Mississippi Athletic Foundation (Foundation) for facilities to be constructed on property donated to the Foundation for the use and benefit of the University's golf teams. The Foundation will raise funds for the construction of golf facilities, and upon completion of the construction of Phase 1 and Phase 2, the University will pay rent to the Foundation in the amount of two percent of the cost of the facilities. Until completion of Phase 1 and 2, the University will pay rent in the amount of \$1,000 per year to the Foundation. The term of the lease agreement is twenty years, and the University has the right to extend the agreement for an additional six five-year option periods.



THE UNIVERSITY OF
**SOUTHERN
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