

THE UNIVERSITY *of* SOUTHERN MISSISSIPPI





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2017 ANNUAL 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, 2017. Fiscal year 2016 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 14,500 students from 72 foreign countries, all 50 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 140 undergraduate degree plans and over 220 graduate degree plans. 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, 2017 and 2016.

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, 2017, the University's assets and deferred outflows of resources reached \$792 million. Liabilities and deferred inflows of resources were \$488 million, leaving a net position of \$304 million, an overall increase in net position of \$11 million compared to fiscal year 2016.



The University's School of Ocean Science and Technology offers graduate and undergraduate studies in marine and coastal sciences.

CONDENSED STATEMENT *of* NET POSITION

	June 30, 2017	(Audited) June 30, 2016	Increase (Decrease)	Percent Change
Current Assets:				
Cash and cash equivalents	\$ 23,913,029	\$ 39,030,118	\$ (15,117,089)	-38.7%
Short term investments	4,850,278	1,953,856	2,896,422	148.2%
Accounts receivable, net	23,451,443	21,857,504	1,593,939	7.3%
Other current assets	7,093,983	7,334,079	(240,096)	-3.3%
Noncurrent Assets:				
Restricted cash and cash equivalents	1,489	147	1,342	912.9%
Endowment and other long term investments	61,345,542	51,563,797	9,781,745	19.0%
Capital assets, net	582,696,488	568,657,439	14,039,049	2.5%
Other noncurrent assets	26,719,655	25,227,441	1,492,214	5.9%
Total Assets	<u>\$ 730,071,907</u>	<u>\$ 715,624,381</u>	<u>\$ 14,447,526</u>	2.0%
Deferred Outflows of Resources	\$ 61,784,215	\$ 49,483,741	\$ 12,300,474	24.9%
Total Assets and Deferred Outflows of Resources	<u>\$ 791,856,122</u>	<u>\$ 765,108,122</u>	<u>26,748,000</u>	3.5%
Current Liabilities	\$ 39,608,317	\$ 44,123,492	\$ (4,515,175)	-10.2%
Noncurrent Liabilities	\$ 442,690,231	\$ 420,269,646	\$ 22,420,585	5.3%
Total Liabilities	<u>\$ 482,298,548</u>	<u>\$ 464,393,138</u>	<u>\$ 17,905,410</u>	3.9%
Deferred Inflows of Resources	\$ 6,046,927	\$ 8,353,503	\$ (2,306,576)	-27.6%
Total Liabilities and Deferred Inflows of Resources	<u>\$ 488,345,475</u>	<u>\$ 472,746,641</u>	<u>\$ 15,598,834</u>	3.3%
Net Position:				
Net invested in capital assets	\$ 399,656,086	\$ 380,175,410	\$ 19,480,676	5.1%
Restricted	35,437,323	27,081,788	8,355,535	30.9%
Unrestricted	<u>(131,582,761)</u>	<u>(114,895,717)</u>	<u>(16,687,044)</u>	14.5%
Total Net Position	<u>\$ 303,510,648</u>	<u>\$ 292,361,481</u>	<u>\$ 11,149,167</u>	3.8%



Students take advantage of studying outdoors in one of the University's many beautiful green spaces.

THE UNIVERSITY'S ASSETS

A review of total assets reveals an increase of \$14.4 million for fiscal year 2017 over the prior fiscal year. The University's cash and cash equivalents include both current and noncurrent balances of \$24 million and \$1,489, respectively, at the end of fiscal year 2017. 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.

Short term investments increased \$2.9 million due to additional short investments made by the University and reinvestment of maturing assets. Operating grants and contracts accounts receivable constitute the majority of the \$1.6 million increase in net accounts receivable.

Capital assets include land, land improvements, buildings and improvements, equipment, construction in progress and library materials. Net capital assets totaled \$583 million at June 30, 2017, compared to \$569 million at June 30, 2016. The Hattiesburg campus completed construction on four new parking lots and the new College of Nursing building. Construction began on a pedestrian pathway from Hillcrest Hall to Eagle Walk, as well as the Joe Paul Student Theater, located in Thad Cochran Center. Major renovations were also completed on The Pride of Mississippi Marching Band's practice field and the Lucas Administration

Building. On the Gulf Park campus, construction continues on the new Business and Health Building. Construction also continues on a new state of the art Toxicology facility and the Marine Education Center at the Gulf Coast Research Laboratory (GCRL). 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

The University's deferred outflows are comprised of debt amortization and the pension changes associated with compliance of GASB 68. Overall, deferred outflows increased from \$49 million in fiscal year 2016 to \$62 million in fiscal year 2017. The accumulated deferred amount related to debt refunding decreased by \$0.6 million. However, the deferred outflows related to an increase in the pension plan liability increased by \$13 million. This 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 \$22 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 \$2 million from fiscal year 2016 to fiscal year 2017. This line item represents the University's proportionate share of the difference between projected and actual earnings on the pension plan. See Note 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 \$292 million in fiscal year 2016 to \$304 million in fiscal year 2017.

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



The Gulf Coast Library on the University's Gulf Park campus serves students, faculty and staff in our coastal locations and houses the Academic Success Center and new 24-hour study space.

CONDENSED STATEMENT *of* REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2017	(Audited) Fiscal Year 2016	Increase (Decrease)	Percent Change
Operating Revenues:				
Tuition and fees, net	\$ 91,255,328	\$ 87,221,701	\$ 4,033,627	4.6%
Grants and contracts	63,759,437	67,789,391	(4,029,954)	-5.9%
Auxiliary enterprises	36,043,882	36,730,792	(686,910)	-1.9%
Other operating revenues	8,982,957	11,130,624	(2,147,667)	-19.3%
Total Operating Revenues	\$ 200,041,604	\$ 202,872,508	\$ (2,830,904)	-1.4%
Operating Expenses	338,537,779	331,561,502	6,976,277	2.1%
Operating Loss	\$ (138,496,175)	\$ (128,688,994)	\$ (9,807,181)	7.6%
Nonoperating Revenues (Expenses):				
State appropriations	\$ 94,402,297	\$ 92,043,437	\$ 2,358,860	2.6%
Other nonoperating revenue	34,935,324	30,436,808	4,498,516	14.8%
Interest on debt	(6,371,915)	(5,526,868)	(845,047)	15.3%
Net Nonoperating Revenues	\$ 122,965,706	\$ 116,953,377	\$ 6,012,329	5.1%
Loss Before Other Revenues	\$ (15,530,469)	\$ (11,735,617)	\$ (3,794,852)	32.3%
Capital grants and gifts	\$ 8,920,642	\$ 10,200,949	\$ (1,280,307)	-12.6%
Capital appropriations	16,473,253	10,633,166	5,840,087	54.9%
Other additions (deletions)	1,285,741	1,584,948	299,207	18.9%
Total Other Revenues	\$ 26,679,636	\$ 22,419,063	\$ 4,260,573	19.0%
Increase in Net Position	\$ 11,149,167	\$ 10,683,445	\$ 465,722	4.4%
Net Position:				
Net Position at Beginning of the Year	292,361,481	281,678,036	10,683,445	3.8%
Net Position at End of the Year	\$ 303,510,648	\$ 292,361,481	\$ 11,149,167	3.8%

The Statement of Revenues, Expenses and Changes in Net Position presents an increase in net position of \$11 million for fiscal year ended June 30, 2017. As noted in the statement, the University experienced operating losses of \$138 million and \$129 million in fiscal years 2017 and 2016, respectively. 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, 2017 and 2016, were \$200 million and \$203 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 student enrollment remained flat, the increase in tuition rates and additional enrollment initiatives produced a 4.6% increase in net tuition and fees revenue. With less than a 2% decrease in total operating revenues, the increases and decreases within each operating revenue source essentially offset the other and the current revenue position maintained a stable position. There was a 19.3% decrease from FY16 to FY17 in other operating revenue associated with miscellaneous income. In 2015, the public service commission ordered Mississippi Power Company to pay back over \$300 million in rate increases to customers. In FY16, the University received a one-time refund payment of \$2.3 million from Mississippi Power associated with this rate increase, which was included in miscellaneous income.

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 2017, the University experienced a \$4 million decrease in grants and contracts revenues compared to fiscal

year 2016. The majority of the decrease is due to a change in the classification of federal funding for several contracts and grants from operating revenue to nonoperating revenue, due to the nature of the funding received in each year.

The following table details the University's grants and contracts operating revenues for the fiscal years ended June 30, 2017 and 2016:

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Percent Change
Federal Award Sources:				
Department of Education	2,562,603	5,156,610	(2,594,007)	-50.3%
National Science Foundation	3,712,378	3,433,366	279,012	8.1%
Department of Defense	9,472,972	4,594,246	4,878,726	106.2%
NASA	1,431,099	1,288,910	142,189	11.0%
Department of Commerce	7,368,028	7,567,386	(199,358)	-2.6%
Department of Health and Human Services	8,395,574	8,893,322	(497,748)	-5.6%
Department of Agriculture	1,585,975	1,471,213	114,762	7.8%
Department of Justice	22,622	23,751	(1,128)	-4.8%
Department of Homeland Security	600,739	1,320,957	(720,218)	-54.5%
Department of Energy	190,079	3,212	186,866	5816.9%
Other	3,079,911	6,714,538	(3,634,627)	-54.1%
Total Federal Sources	38,421,979	40,467,512	(2,045,533)	-5.1%
State Award Sources:				
Financial Aid	5,637,080	6,735,088	(1,098,008)	-16.3%
Department of Education	78,040	952,958	(874,918)	-91.8%
Other	3,256,081	3,217,608	38,473	1.2%
Total State Sources	8,971,202	10,905,654	(1,934,452)	-17.7%
Other Sources	16,366,256	16,416,225	(49,969)	-0.3%
Total Grants and Contracts	63,759,437	67,789,391	(4,029,954)	-5.9%



USM is among less than 1% of universities worldwide that have earned AACSB accreditation in both business and accounting.

NONOPERATING REVENUES AND EXPENSES

The University's net nonoperating revenues of \$123 million assisted in offsetting some of the University's operating loss of \$138 million for 2017. The \$6 million increase in net nonoperating revenues is principally due to an increase in contract and grants revenue received in 2017 compared to 2016. In fiscal year 2017, education and general state appropriation decreased by 5.9 million. However, this reduction was offset by two one-time general appropriations: one for the Gulf Coast Research Laboratory, and the other for a new endowment to support the Marine Science Program.

The overall net nonoperating revenue impact was a \$2 million increase in state appropriations received in 2017 over 2016.

OPERATING EXPENSES

Operating expenses for the year ended June 30, 2017, totaling \$339 million, included \$211 million in compensation and benefits, \$85 million in supplies and other, \$24 million in scholarships, and \$18 million in depreciation.

A comparative summary of the University's expenses for the years ended June 30, 2017 and 2016 is as follows:

	Fiscal Year 2017	(Audited) Fiscal Year 2016	Increase (Decrease)	Percent Change
Operating Expenses:				
Compensation and benefits	\$ 210,904,794	\$ 200,053,118	\$ 10,851,676	5.4%
Supplies and other	85,421,084	89,907,543	(4,486,459)	-5.0%
Scholarships and fellowships	24,156,988	24,465,432	(308,444)	-1.3%
Depreciation	18,054,913	17,135,409	919,504	5.4%
Total Operating Expenses	<u>\$ 338,537,779</u>	<u>\$ 331,561,502</u>	<u>\$ 6,976,277</u>	2.1%



In 2017, the College of Nursing celebrated 50 years of providing high-quality healthcare education to our communities.



Students enjoy the beautiful weather between classes on the Hattiesburg campus.

For the year ended June 30, 2017, total operating expenses increased \$7 million. Compliance with GASB 68 pension reporting requirements resulted in a \$13.8 million adjustment to benefits increasing pension expenses by \$8 million from FY16 to FY17. This pension increase was offset by a \$1.2 million reduction in travel, \$1.7 million decrease in contractual services provided, and \$1.1 million savings in commodities. Scholarship expenses, which represent payments made directly to students after awards have been applied against tuition and fees charged to student accounts, slightly decreased while depreciation expense increased by \$0.9 million.

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

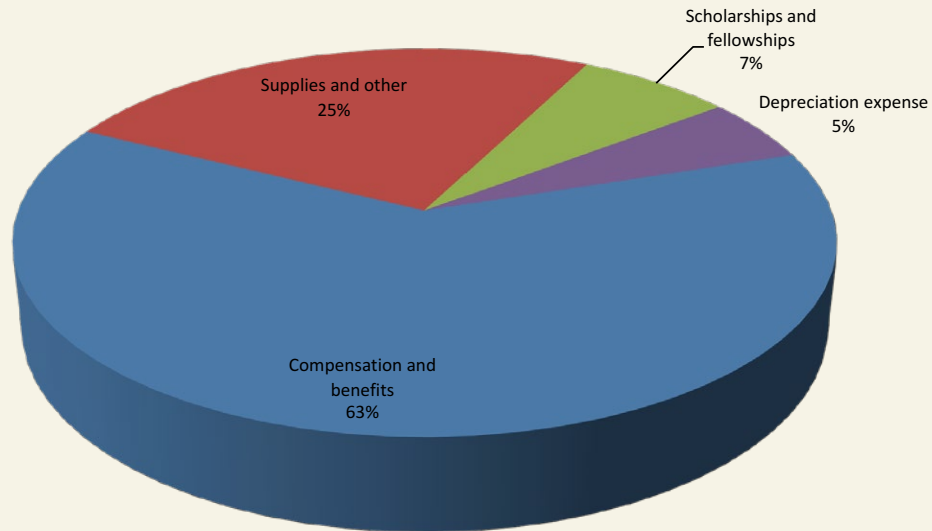
Officers (NACUBO). The functional classification of an operating expense is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. This method reflects amounts expended in areas such as instruction, research, and operations and maintenance and is used most commonly for comparative reporting purposes among colleges and universities.

A comparative summary and a graphic illustration of the University's expenses by functional classification for the years ended June 30, 2017 and 2016, are as follows:

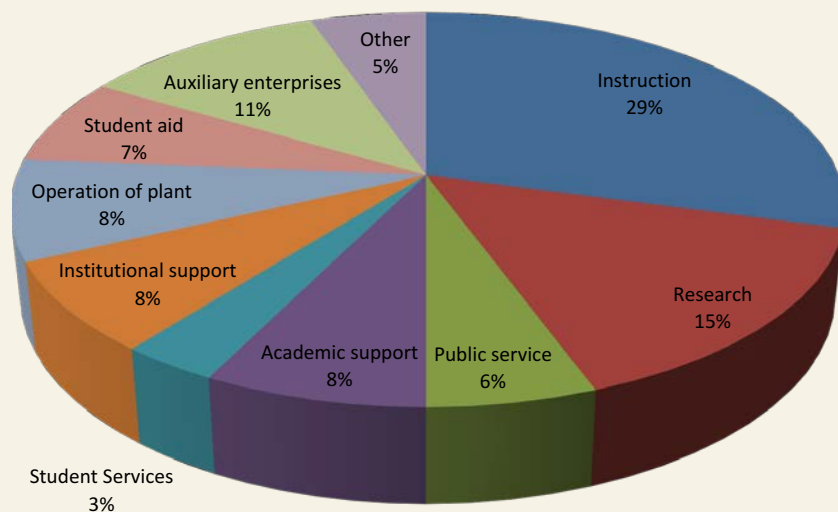
		(Audited)			
	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Percent Change	
Operating Expenses:					
Instruction	\$ 99,323,808	\$ 98,481,116	\$ 842,692	0.9%	
Research	50,444,422	47,709,083	2,735,339	5.7%	
Public service	18,896,509	18,544,162	352,347	1.9%	
Academic support	25,343,611	23,328,822	2,014,789	8.6%	
Student services	11,000,774	9,940,103	1,060,671	10.7%	
Institutional support	24,847,241	24,251,204	596,037	2.5%	
Operation of plant	28,317,456	29,934,046	(1,616,590)	-5.4%	
Student aid	24,156,988	24,465,432	(308,444)	-1.3%	
Auxiliary enterprises	38,152,057	37,772,123	379,934	1.0%	
Depreciation	18,054,913	17,135,409	919,504	5.4%	
Total Operating Expenses	<u>\$ 338,537,779</u>	<u>\$ 331,561,502</u>	<u>\$ 6,976,277</u>	2.1%	

FY 2017 OPERATING EXPENSES

BY TYPES OF USE



BY FUNCTION



Instructional expenses continued to represent the largest percentage of total operating expenses and consumed 50% of operating revenues for fiscal year 2017. Research expenditures accounted for 15% of total operating expenses and consumed 25% of operating revenues in fiscal year 2017.



Prospective students and their parents gather in Bennett Auditorium for Orientation on the Hattiesburg campus.

OTHER CHANGES IN NET POSITION

Capital grants and gifts revenue decreased \$1 million largely due to FEMA reimbursements received in 2016 for construction of a new Toxicology Building and Marine Education Center. State appropriations restricted for capital purposes increased \$6 million due to an increase in Bureau of Buildings project activity in fiscal year 2017 compared to 2016.

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 Hattiesburg campus during fiscal year 2017:

- Completion of Asbury Hall for the College of Nursing
- Completion of a pedestrian walkway from Pride Field to Scianna Hall
- Completion of three new parking lots with additional paving and lighting added to a fourth parking lot

- Continued extensive renovations to the historic Lucas Administration Building
- Completion of renovations and resurfacing of The Pride of Mississippi Marching Band's practice field
- Began construction on a pedestrian walkway from Hillcrest Hall to Eagle Walk
- Began construction on the Joe Paul Student Theater located in Thad Cochran Center

The University remains committed to the growth and improvement of its coastal locations. The Gulf Park campus in Long Beach continues construction on a new Business and Health Building. The Gulf Coast Research Laboratory in Ocean Springs continues to rebuild from the destruction caused by Hurricane Katrina in 2005, in addition to continued construction on the Toxicology Building and Marine Education Center.

At June 30, 2017, the University had \$180 million of debt outstanding, of which \$6.5 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.

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 2017	(Audited) Fiscal Year 2016	Increase (Decrease)	Percent Change
Cash and Cash Equivalents Provided (Used) by:				
Operating activities	\$ (113,030,563)	\$ (103,726,539)	\$ (9,304,024)	9.0%
Noncapital financing activities	128,252,918	120,984,197	7,268,721	6.0%
Capital and related financing activities	(17,960,378)	(22,830,362)	4,869,984	-21.3%
Investing activities	(12,377,726)	3,510,145	(15,887,871)	452.6%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (15,115,749)	\$ (2,062,552)	\$ (13,053,197)	632.9%
Cash and Cash Equivalents - Beginning of the Year	39,030,265	41,092,819	(2,062,554)	-5.0%
Cash and Cash Equivalents - End of the Year	<u>\$ 23,914,518</u>	<u>\$ 39,030,265</u>	<u>\$ (15,115,747)</u>	-38.7%

Major sources of funds included in operating activities for the year ended June 30, 2017, were net student tuition and fees of \$92 million, grants and contracts of \$60 million, and auxiliary enterprises of \$36 million. Major uses of funds included in operating activities were payments for employees' salaries and benefits of \$198 million, payments to suppliers of \$75 million, and scholarships and loans to students of \$30 million.

Net cash used by operating activities increased by \$9.3 million in comparison to last year. Cash received from operating grants and contracts and other receipts was lower in FY17 in comparison to FY16. Other factors contributing to the increase in cash used for operating activities was an increase in payments to employees for salaries and benefits, along with an increase in loans issued to students.

Net cash provided by noncapital financing activities increased by \$7.3 million. The University received two one-time state appropriations for the Marine Science Endowment and the Gulf Coast Research Laboratory, as previously mentioned. However, the overall cash increase of these two one-time payments was offset by the University's mid-year state appropriation budget cuts. Unlike operating grants and contracts, nonoperating gifts and grants for purposes other than capital increased in comparison to last fiscal year. This was the primary source of cash in noncapital financing activities. As such, senior management continues to work toward viable approaches for balancing the decrease in state appropriations while finding the right combination of investments in current and future revenue generation and pursuing opportunities that provide cost savings solutions.

Net cash used for capital and related financing activity was reduced by \$4.9 million. Evidence of managements' commitment to cost savings is apparent in the \$5.5 million reduction of cash paid for capital assets. This decrease was offset slightly by the increase in interest paid on capital debt and leases in fiscal year 17.

Net cash provided by investing activity decreased by \$15.9 million in FY17 compared to FY16. In addition to the reinvestment of called or maturing investments, operating cash was used in order to improve investment returns and maintain comparable long-term investment balances.

ECONOMIC OUTLOOK

Although enrollment levels remained flat, the University was once again challenged by mid-year reductions in state appropriations during FY 2017. As state appropriations is one of the largest revenue sources for the University's Educational and General (E&G) Fund and supports a significant portion of University operations, mid-year reductions 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 continued challenges, the senior management team, in consultation with departments and groups across the University, developed budget plans that ensured that the University would reduce planned expenditures while making careful use of reserves to support 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 one-time reserves, and made necessary investments that would enhance enrollment in the fall of 2017.

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.

Allyson Easterwood
Interim Vice President for Finance and Administration



The University of Southern Mississippi offers more than 140 undergraduate academic degree plans and more than 220 graduate degree plans.



FINANCIAL STATEMENTS



STATEMENT *of* NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

Assets and Deferred Outflows	Year Ended June 30	
	2017	(Audited) 2016
Current Assets:		
Cash and cash equivalents	\$ 23,913,029	\$ 39,030,118
Short term investments (Note 2)	4,850,278	1,953,856
Accounts receivables, net (Note 4)	23,451,443	21,857,504
Student notes receivables, net (Note 5)	2,256,682	2,024,771
Inventories	273,909	283,449
Prepaid expenses	4,563,392	5,025,859
Total current assets	<u>\$ 59,308,733</u>	<u>\$ 70,175,557</u>
Non-Current Assets:		
Restricted cash and cash equivalents	\$ 1,489	\$ 147
Endowment investments (Note 2)	9,365,631	3,886,799
Other long term investments (Note 2)	51,979,911	47,676,998
Student notes receivable, net (Note 5)	26,719,655	25,227,441
Capital assets, net (Note 6)	582,696,488	568,657,439
Total noncurrent assets	<u>\$ 670,763,174</u>	<u>\$ 645,448,824</u>
Total assets	<u>\$ 730,071,907</u>	<u>\$ 715,624,381</u>
Deferred outflows of resources:		
Accumulated deferred amount of debt refundings	12,422,956	13,035,219
Pension related deferred outflows	49,361,259	36,448,522
Total deferred outflows of resources	<u>\$ 61,784,215</u>	<u>\$ 49,483,741</u>
Total assets and deferred outflows of resources	<u><u>\$ 791,856,122</u></u>	<u><u>\$ 765,108,122</u></u>
Liabilities, Deferred Inflows and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	\$ 18,213,288	\$ 19,162,658
Unearned revenues (Note 8)	13,579,938	16,320,237
Accrued leave liabilities-current portion (Note 9)	1,262,000	1,230,000
Long term liabilities-current portion (Note 9)	6,525,066	7,362,999
Other current liabilities	28,025	47,598
Total Current liabilities	<u>\$ 39,608,317</u>	<u>\$ 44,123,492</u>
Non-current liabilities:		
Net pension liability (Note 9)	\$ 233,764,776	\$ 204,738,145
Deposits refundable (Note 9)	9,686	13,543
Accrued leave liabilities (Note 9)	9,052,876	8,815,982
Long term liabilities (Note 9)	173,595,042	180,119,817
Other non-current liabilities (Note 9)	26,267,851	26,582,159
Total non-current liabilities	<u>\$ 442,690,231</u>	<u>\$ 420,269,646</u>
Total liabilities	<u>\$ 482,298,548</u>	<u>\$ 464,393,138</u>
Deferred inflows of resources:		
Difference between projected and actual earnings on pension plan	\$ 6,046,927	\$ 8,353,503
Total liabilities and deferred inflows of resources	<u><u>\$ 488,345,475</u></u>	<u><u>\$ 472,746,641</u></u>
Net Position:		
Net Invested in Capital Assets	\$ 399,656,086	\$ 380,175,410
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	5,569,090	569,090
Expendable:		
Scholarships and fellowships	1,128,596	794,387
Debt service	16,673,576	16,172,431
Loans	5,558,647	5,618,165
Other purposes	6,507,414	3,927,715
Unrestricted	(131,582,761)	(114,895,717)
Total net position	<u><u>\$ 303,510,648</u></u>	<u><u>\$ 292,361,481</u></u>

CONSOLIDATED STATEMENTS *of* FINANCIAL POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Assets	2017	2016
Cash and cash equivalents	\$ 3,122,635	1,085,377
Accrued earnings	134,539	129,284
Prepaid assets and other receivables (note 2)	421,452	1,002,168
Pledges receivable, net (note 3)	4,950,614	8,224,516
Investments (notes 4 and 5)	107,101,292	96,668,501
Amounts due from externally managed trusts (note 6)	5,102,951	4,883,516
Net investment in direct financing lease (note 7)	284,307	479,945
Property and equipment, net (note 8)	27,155	38,183
Total assets	<u>\$ 121,144,945</u>	<u>112,511,490</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 438,862	371,992
Gift annuities payable	263,831	286,181
Life estate payable	33,489	—
Total liabilities	<u>736,182</u>	<u>658,173</u>
Net assets:		
Unrestricted	6,348,577	6,024,035
Temporarily restricted (note 9)	37,181,815	33,689,732
Permanently restricted (note 10)	76,878,371	72,139,550
Total net assets	<u>120,408,763</u>	<u>111,853,317</u>
Total liabilities and net assets	<u>\$ 121,144,945</u>	<u>112,511,490</u>

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	
	2017	(Audited) 2016
Operating revenues:		
Tuition and fees:	\$ 137,201,836	\$ 131,212,467
Less: Scholarship Allowances	(45,496,508)	(43,840,766)
Less: Bad Debt Expense	(450,000)	(150,000)
Net tuition and fees	\$ 91,255,328	\$ 87,221,701
Federal grants and contracts	38,421,979	40,467,512
State grants and contracts	8,971,202	10,905,654
Nongovernmental grants and contracts	16,366,256	16,416,225
Sales and services of educational departments	3,166,270	3,087,960
Auxiliary enterprises:		
Student housing	16,138,632	16,453,997
Food services	2,745,164	2,736,904
Bookstore	1,083,000	1,283,000
Athletics	12,893,525	14,116,888
Other auxiliary revenues	6,039,679	4,552,297
Less auxiliary enterprise scholarship allowances	(2,856,118)	(2,412,294)
Other operating revenues, net	5,816,687	8,042,664
Total operating revenues	\$ 200,041,604	\$ 202,872,507
Operating expenses:		
Salaries and wages	\$ 145,112,008	\$ 142,861,102
Fringe benefits	65,792,787	57,192,016
Travel	7,522,560	8,711,485
Contractual services	53,698,057	55,420,032
Utilities	9,418,457	9,859,093
Scholarships and fellowships	24,156,988	24,465,432
Commodities	14,782,009	15,916,933
Depreciation	18,054,913	17,135,409
Total operating expenses (Note 11)	\$ 338,537,779	\$ 331,561,502
Operating Loss	\$ (138,496,175)	\$ (128,688,994)
Nonoperating revenues (expenses):		
State appropriations	\$ 94,402,297	\$ 92,043,437
Gifts and grants	34,655,586	28,643,063
Investment income	279,738	1,793,745
Interest expense on capital asset-related debt	(6,371,915)	(5,526,868)
Total nonoperating revenues (expenses), net	\$ 122,965,706	\$ 116,953,377
Loss before other revenues, expenses, gains and losses	\$ (15,530,469)	\$ (11,735,617)
Other revenues, expenses, gains and losses:		
Capital grants and gifts	8,920,642	10,200,949
State appropriations restricted for capital purposes	16,473,253	10,633,166
Other additions	1,315,308	2,395,486
Other deletions	(29,567)	(810,539)
Change in net position	\$ 11,149,167	\$ 10,683,445
Net position - beginning of year, as adjusted	292,361,481	281,678,036
Net position - end of year	\$ 303,510,648	\$ 292,361,481

CONSOLIDATED STATEMENTS *of* ACTIVITIES

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Year ended June 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support:				
Contributions	\$ 1,966,283	3,098,705	5,104,139	10,169,127
Net investment gain (note 4)	1,611,191	8,874,527	111,610	10,597,328
Change in value of split interest agreements	—	(1,709)	(620,114)	(621,823)
Other	34,948	39,506	84	74,538
Total revenues, gains and other support	3,612,422	12,011,029	4,595,719	20,219,170
Changes in restrictions:				
Change in restriction by donors	(10,603)	(132,499)	143,102	—
Net assets released from restrictions (note 11)	8,386,447	(8,386,447)	—	—
Total changes in restrictions	8,375,844	(8,518,946)	143,102	—
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	8,797,840	—	—	8,797,840
Supporting services:				
General and administrative	1,625,659	—	—	1,625,659
Fundraising	1,240,225	—	—	1,240,225
Total supporting services	2,865,884	—	—	2,865,884
Total expenses	11,663,724	—	—	11,663,724
Change in net assets	324,542	3,492,083	4,738,821	8,555,446
Net assets at beginning of year	6,024,035	33,689,732	72,139,550	111,853,317
Net assets at end of year	\$ 6,348,577	37,181,815	76,878,371	120,408,763

See accompanying notes to consolidated financial statements.

Year ended June 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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 and other support	3,608,471	1,125,420	7,436,364	12,170,255
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	9,049,332	(10,157,940)	1,108,608	—
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	2,420,698	—	—	2,420,698
Total expenses	12,026,636	—	—	12,026,636
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	\$ 6,024,035	33,689,732	72,139,550	111,853,317

See accompanying notes to consolidated financial statements.

STATEMENT *of* CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	<u>2017</u>	<u>(Audited) 2016</u>
Operating activities:		
Tuition and Fees	\$ 91,852,086	\$ 88,139,121
Grants and Contracts	59,610,750	71,305,323
Sales and Services of Educational Departments	3,166,270	3,087,960
Payments to Suppliers	(75,145,937)	(79,147,343)
Payments to Employees for Salaries and Benefits	(198,380,078)	(195,234,174)
Payments for Utilities	(9,415,334)	(9,800,410)
Payments for Scholarships and Fellowships	(24,222,747)	(24,655,699)
Loans Issued to Students and Employees	(6,010,938)	(5,119,648)
Collection of Loans to Students and Employees	4,352,395	4,853,679
Auxiliary Enterprise Charges:		
Student Housing	14,913,940	15,164,925
Food Services	2,319,500	2,340,503
Bookstore	931,230	1,133,296
Athletics	11,701,181	11,865,301
Other Auxiliary Enterprises	5,965,370	4,541,605
Other Receipts	5,331,749	7,799,022
Net cash used by operating activities	<u>\$ (113,030,563)</u>	<u>\$ (103,726,539)</u>
Noncapital financing activities:		
State Appropriations	\$ 94,044,073	\$ 92,329,326
Gifts and Grants for Other Than Capital Purposes;	34,456,917	28,562,425
Federal Loan Program Receipts	82,001,259	85,156,666
Federal Loan Program Disbursements	(82,229,759)	(85,065,902)
Other Sources	(19,572)	1,682
Net cash provided by noncapital financing activities	<u>\$ 128,252,918</u>	<u>\$ 120,984,197</u>
Capital and related financing activities:		
Proceeds from Capital Debt	\$ -	\$ 70,793,434
Cash Paid for Capital Assets	(15,101,758)	(20,690,388)
Capital Appropriations Received		-
Capital Grants and Contracts Received	8,961,108	8,846,868
Proceeds from Sales of Capital Assets	56,042	37,896
Principal Paid on Capital Debt and Leases	(7,362,709)	(68,179,517)
Interest Paid on Capital Debt and Leases	(6,476,993)	(5,387,714)
Other Sources	1,993,499	800,118
Other Uses	(29,567)	(9,051,059)
Net cash used by capital and related financing activities	<u>\$ (17,960,378)</u>	<u>\$ (22,830,362)</u>
Investing activities:		
Proceeds from Sales and Maturities of Investments	\$ 16,882,589	\$ 36,207,239
Interest Received on Investments	929,531	853,890
Purchases of Investments	(30,189,846)	(33,550,984)
Net cash provided (used) by investing activities	<u>\$ (12,377,726)</u>	<u>\$ 3,510,145</u>
Net change in cash and cash equivalents	<u>\$ (15,115,749)</u>	<u>\$ (2,062,554)</u>
Cash and cash equivalents - beginning of year	39,030,265	41,092,819
Cash and cash equivalents - end of year	<u>\$ 23,914,518</u>	<u>\$ 39,030,265</u>

STATEMENT *of* CASH FLOWS

CONTINUED

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

Operating Income (Loss)	\$ (138,496,174)	\$ (128,688,993)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	18,054,913	17,135,406
Other	450,000	150,000
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	(1,989,142)	2,504,384
Inventories	9,540	63,285
Prepaid Expenses	462,467	(48,168)
Other Assets	(13,112,736)	(19,946,586)
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	(615,792)	(769,644)
Unearned Revenue	(2,740,298)	87,802
Deposits Refundable	(3,857)	(19,680)
Accrued Leave Liability	268,894	(17,353)
Loans to Students and Employees	(2,038,433)	(148,011)
Other Liabilities	26,720,055	25,971,019
Total Adjustments	<u>\$ 25,465,611</u>	<u>\$ 24,962,454</u>
Net cash used by operating activities	<u>\$ (113,030,563)</u>	<u>\$ (103,726,539)</u>
Reconciliation of cash and cash equivalents:		
Current assets - cash and cash equivalents	23,913,029	39,030,118
Noncurrent assets - restricted cash and cash equivalents	<u>1,489</u>	<u>147</u>
Cash and cash equivalents - end of year	<u>\$ 23,914,518</u>	<u>\$ 39,030,265</u>
ENTER NON-CASH TRANSACTIONS BELOW: (See GASB #9, Paragraph 37)		
1) State Appropriations Restricted for Capital Purposes	\$ 16,473,253	\$ 10,633,166
2) Unrealized Gain/(Loss) on Fair Value of Investments	(877,809)	1,105,197
3) Donation of Capital Assets	518,952	1,595,368
	<u>\$ 16,114,396</u>	<u>\$ 13,333,731</u>

STATEMENT *of* CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,555,446	143,619
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,028	31,302
Gain on disposal of property and equipment	—	(2,400)
Fair value of donated assets	(41,305)	—
Realized and unrealized (gains) losses on investments, net	(8,904,311)	2,220,923
Receipts of permanently restricted contributions	(4,668,279)	(3,068,592)
Permanently restricted dividends and interest	(9,513)	(73,231)
Change in amounts due from externally managed trusts	(219,435)	(4,066,436)
Change in gift annuities and pooled income fund	(32,984)	17,534
Change in life estate payable	33,489	—
Present value adjustments to annuities	25,984	71,304
Transfer of property to the University	—	25,000
Changes in operating assets and liabilities:		
Accrued earnings	(5,255)	(12,605)
Prepaid assets and other receivables	580,716	(757,799)
Pledges receivable, net	3,273,902	3,827,525
Accounts payable	66,870	(386,803)
Net cash used in operating activities	<u>(1,333,647)</u>	<u>(2,030,659)</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	—	2,400
Purchases of investments	(10,012,788)	(20,318,335)
Proceeds from sales and maturities of investments	8,558,597	19,211,040
Principal payments received under direct financing lease	195,638	154,910
Net cash used in investing activities	<u>(1,258,553)</u>	<u>(949,985)</u>
Cash flows from financing activities:		
Receipts of permanently restricted contributions	4,668,279	3,068,592
Permanently restricted dividends and interest	9,513	73,231
Change in investments subject to annuity agreements	—	(38,650)
Annuity payments	(48,334)	(51,803)
Net cash provided by financing activities	<u>4,629,458</u>	<u>3,051,370</u>
Net increase in cash and cash equivalents	2,037,258	70,726
Cash and cash equivalents at beginning of year	<u>1,085,377</u>	<u>1,014,651</u>
Cash and cash equivalents at end of year	<u>\$ 3,122,635</u>	<u>1,085,377</u>

See accompanying notes to consolidated financial statements.



Establishment of the School of Ocean Science and Technology has positioned USM as a regionally, nationally and internationally recognized leader in marine science.



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 12 Board members of the IHL system were appointed by the Governor and approved by the Senate for 12-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, 2017, the Foundation distributed \$8.8 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 or at usmfoundation.com.

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

Investments are summarized as follows at June 30, 2017 and 2016:

	2017	2016
Investment Strategy:		
Fixed Income:		
U.S. Government securities	1,408,876	1,195,130
Corporate bonds	6,607,128	6,073,335
Mutual funds	27,886,123	27,313,405
Other fixed income securities	3,656,241	4,486,679
Total fixed income	39,558,368	39,068,549
Equities:		
Mutual and common stock funds	55,622,272	47,396,182
Total equities	55,622,272	47,396,182
Alternative investments		
Hedge funds	6,365,885	4,984,804
Real estate investment funds	2,937,743	2,700,067
Total alternative investments	9,303,628	7,684,871
Cash surrender value of insurance policies	2,529,687	2,472,867
Other	87,337	46,032
Total investments	107,101,292	96,668,501

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

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$387,207)	\$ 1,712,294	(28,790)	9,513	1,693,017
Realized gains (losses), net	(23,411)	387,569	1,594	365,752
Unrealized gains (losses), net	(77,692)	8,515,748	100,503	8,538,559
Total	\$ 1,611,191	8,874,527	111,610	10,597,328
	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	\$ 1,470,364	(1,901,597)	33,138	(398,095)

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 nonoperating 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 charges 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 Health Services 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.



The Southern Miss Jazz and Blues Festival is held each spring on the Gulf Park campus in Long Beach.



Southern Miss is one of only 36 institutions in the nation accredited in theatre, art and design, dance and music.

DEPOSITS REFUNDABLE

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

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 at \$26 million as of June 30, 2017.

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 nonoperating 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 \$28 million for the year ending June 30, 2017. 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.

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.

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, 2017 and 2016:

<u>Statement of Net Position Classification</u>	<u>June 30, 2017 Fair Value</u>	<u>June 30, 2016 Fair Value</u>
Short term investments - current assets	\$ 4,850,278	\$ 1,953,856
Noncurrent assets:		
Endowment investments	9,365,631	3,886,799
Other long term investments	<u>51,979,911</u>	<u>47,676,998</u>
Total	<u>\$ 66,195,820</u>	<u>\$ 53,517,653</u>

The following table presents the fair value of investments by type at June 30, 2017 and 2016:

Investment Type	June 30, 2017 Fair Value	June 30, 2016 Fair Value
U.S. government agency obligations	\$ 40,463,950	\$ 29,677,952
Collateralized mortgage obligations	7,286,371	10,316,298
Mortgage backed securities	-	-
U.S. Treasury obligations	6,490,858	6,592,855
Certificate of deposit	1,831,422	1,521,671
Domestic equity mutual funds	639,429	284,908
International equity mutual funds	330,830	-
Fixed income mutual funds	644,357	302,348
Money market funds	320,560	258,886
Domestic equity securities	4,571,213	1,584,524
Non-US equity securities	238,619	435,054
Municipal bonds	1,955,412	1,957,958
Corporate bonds	1,422,799	585,199
Total	<u>\$ 66,195,820</u>	<u>\$ 53,517,653</u>

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, 2017.



The University of Southern Mississippi Gulf Park campus is the only beachfront campus in the state.



The environmentally certified, state-of-the-art residence complex, Century Park South, provides 954 beds for freshmen and other scholarship students and also houses the Moffitt Health Center.

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, 2017 and 2016, the University had the following investments subject to interest rate risk:

		June 30, 2017			
Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. government agency obligations	\$ 40,463,950	\$ 7,254,887	\$ 26,798,336	\$ 6,317,993	\$ 92,734
Collateralized mortgage obligations	7,286,371	363,982	-	-	6,922,389
U.S. Treasury obligations	6,490,858	949,054	5,220,974	269,341	51,487
Certificates of deposit - negotiable	1,313,318	750,748	562,570	-	-
Fixed income mutual funds	644,357	-	644,356.99	-	-
Municipal bonds	1,955,413	113,745	1,841,668	-	-
Corporate bonds	1,422,799	159,101	840,274	330,701	92,723
Total	<u>\$ 59,577,066</u>	<u>\$ 9,591,517</u>	<u>\$ 35,908,180</u>	<u>\$ 6,918,036</u>	<u>\$ 7,159,333</u>

		June 30, 2016			
Investment Type	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	<u>\$ 50,437,748</u>	<u>\$ 3,122,533</u>	<u>\$ 41,136,176</u>	<u>\$ 5,314,243</u>	<u>\$ 864,795</u>

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 & Poors or Moody's. As of June 30, 2017, the University had the following investments subject to credit risk:

Rating	June 30, 2017 Fair Value	June 30, 2016 Fair Value
AAA	\$ 36,554,097	\$ 1,506,025
Aaa	-	14,030
AA	8,310,143	35,088,011
A	788,927	265,983
BA	-	14,037
BAA	301,955	109,650
BBB	-	109,856
Rating not available	5,276,743	3,439,051
Total	\$ 51,231,865	\$ 40,546,643

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, 2017:

Issuer	June 30, 2017	
	Fair Value	% of Total Investments
Federal National Mortgage Association	\$ 18,031,060	22.4%
Federal Home Loan Bank	12,160,928	18.4%
Federal Farm Credit Bank	9,248,531	14.0%
Federal Home Loan Mortgage Corporation	6,230,187	6.0%
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%

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 Depositary Receipts (ADRs) for non-U.S. equities of \$238,619 and \$435,054 at June 30, 2017 and 2016, respectively, and investments in international equity mutual funds of \$330,830 at June 30, 2017.



The University of Southern Mississippi has earned Gold status as a Military Friendly® School for 2018 by Victory Media Inc., one of only 10 research institutions in the U.S. to receive that distinction.

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, 2017 and 2016.

	2017			
	Level 1	Level 2	Level 3	Total
Investment strategy:				
Fixed income:				
U.S. Government securities	\$ 45,063,083	\$ 9,178,097	\$ -	\$ 54,241,180
Corporate bonds	1,422,799	-	-	1,422,799
Certificates of deposit	578,509	1,252,913	-	1,831,422
Other fixed income securities	320,560	-	-	320,560
Total fixed income	47,384,951	10,431,010	-	57,815,961
Equities:				
Common stocks	-	-	-	-
Common stock funds	6,765,244	-	-	6,765,244
Mutual funds	1,614,616	-	-	1,614,616
Index funds	-	-	-	-
Total equities	8,379,860	-	-	8,379,860
Hedge funds	-	-	-	-
Venture capital	-	-	-	-
Other short-term investments	-	-	-	-
Total investments	\$ 55,764,811	\$ 10,431,010	\$ -	\$ 66,195,821

Investment fair value measurement continued from page 40

	2016			
	Level 1	Level 2	Level 3	Total
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	38,164,562	10,788,300	-	48,952,862
Equities:				
Common stocks	-	-	-	-
Common stock funds	3,977,536	-	-	3,977,536
Mutual funds	471,656	115,600	-	587,256
Index funds	-	-	-	-
Total equities	4,449,192	115,600	-	4,564,792
Hedge funds	-	-	-	-
Venture capital	-	-	-	-
Other short-term investments	-	-	-	-
Total investments	\$ 42,613,754	\$ 10,903,900	\$ -	\$ 53,517,654

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, 2017 and 2016:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Student tuition	\$ 6,534,358	\$ 6,708,173
Scholarships	349,146	230,567
Auxiliary enterprises and other operating activities	3,960,701	3,939,859
Federal, state and private grants and contracts	14,132,925	13,028,275
State appropriations	1,862,715	1,504,492
Accrued interest	183,653	126,329
Other	<u>827,945</u>	<u>269,809</u>
Total Accounts Receivable	\$ 27,851,443	\$ 25,807,504
Less allowance for doubtful accounts	<u>(4,400,000)</u>	<u>(3,950,000)</u>
Accounts Receivable, Net	<u>\$ 23,451,443</u>	<u>\$ 21,857,504</u>



Southern Miss is home to the sixth-oldest acceptance-based Honors College in the nation and the oldest in Mississippi.

NOTE 5 *NOTES RECEIVABLE FROM STUDENTS*

Notes receivable from students are payable in installments over a period of up to 10 years, commencing 12 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, 2017 and 2016:

		2017		
	Interest Rates	June 30, 2017	Current Portion	Noncurrent Portion
Perkins student loans	3% to 5%	\$ 31,259,079	\$ 2,243,886	\$ 29,015,193
Institutional loans	0% to 3%	121,000	17,831	103,169
Nursing faculty loans	3%	866,258	41,482	824,776
Total Notes Receivable		\$ 32,246,337	\$ 2,303,199	\$ 29,943,138
Less allowance for doubtful accounts		(3,270,000)	(46,517)	(3,223,483)
Notes Receivable, Net		<u>\$ 28,976,337</u>	<u>\$ 2,256,682</u>	<u>\$ 26,719,655</u>

		2016		
	Interest Rates	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		<u>\$ 27,252,212</u>	<u>\$ 2,204,444</u>	<u>\$ 25,047,768</u>



Incoming students on the Hattiesburg campus paint the Eagle Walk during Golden Eagle Welcome Week.



Southern Miss is home to a diverse student body representing 72 countries, all 50 states, and every county in Mississippi.

NOTE 6 CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2017 and 2016, respectively, is presented as follows:

	2017			
	July 1, 2016	Additions	Deletions	June 30, 2017
Nondepreciable Capital Assets:				
Land	\$ 17,608,711	\$ 202,783	\$ 225,303	\$ 17,586,191
Construction in progress	36,718,726	28,814,587	38,346,202	27,187,111
Total Nondepreciable Capital Assets	\$ 54,327,437	\$ 29,017,370	\$ 38,571,505	\$ 44,773,302
Depreciable Capital Assets:				
Improvements other than buildings	\$ 51,476,047	\$ 885,283	\$ -	\$ 52,361,330
Buildings	574,939,535	37,133,796	163,100	611,910,231
Equipment	78,878,730	3,646,831	3,589,645	78,935,916
Assets under capital lease	1,993,738	-	-	1,993,738
Libraries	66,888,213	157,044	79,346	66,965,911
Total Cost of Depreciable Capital Assets	\$ 774,176,263	\$ 41,822,954	\$ 3,832,091	\$ 812,167,126
Total Cost of Capital Assets	\$ 828,503,700	\$ 70,840,324	\$ 42,403,596	\$ 856,940,428
Less Accumulated Depreciation for:				
Improvements other than buildings	\$ 15,032,601	\$ 1,919,721	\$ -	\$ 16,952,322
Buildings	121,955,827	11,023,343	-	132,979,170
Equipment	57,243,083	3,901,338	3,577,890	57,566,531
Assets under capital lease	1,313,300	277,494	-	1,590,794
Libraries	64,301,450	933,020	79,346	65,155,124
Total Accumulated Depreciation	\$ 259,846,261	\$ 18,054,915	\$ 3,657,236	\$ 274,243,940
Capital Assets, Net	\$ 568,657,439	\$ 52,785,409	\$ 38,746,360	\$ 582,696,488

	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

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, 2017 and 2016:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Payable to vendors and contractors	\$ 9,426,544	\$ 8,945,641
Accrued salaries, wages and employee withholdings	6,223,814	7,913,096
Accrued interest	2,340,275	2,445,353
Other	<u>222,654</u>	<u>(141,432)</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 18,213,288</u>	<u>\$ 19,162,658</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, 2017 and 2016:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Tuition and fees	\$ 6,522,092	\$ 6,486,620
Athletics ticket sales	1,251,448	1,315,190
Federal, state and private grants and contracts	5,480,731	8,214,477
Auxiliary room and board	320,867	224,841
Other	<u>4,800</u>	<u>79,108</u>
Total Unearned Revenues	<u>\$ 13,579,938</u>	<u>\$ 16,320,237</u>

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



Southern Style is a diverse group of student leaders who serve as the official hosts for the University's Hattiesburg campus.



The Southern Miss College of Nursing accounts for 23.55% of nursing bachelor's degrees awarded in the state of Mississippi.

NOTE 9 *LONG TERM LIABILITIES*

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.

The University participates in the master lease/purchase program, which is a centralized program maintained by the IHL Board office of the Mississippi Institutions of 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 a .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, 2017, is listed in the following schedules. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Total Long Term Liabilities

Description and Purpose	Original Issue	Annual Interest Rate	Maturity (Fiscal Year)	2016			
				July 1, 2015	Additions	Deletions	June 30, 2016
Bonded Debt:							
SMEBC Series 2002	17,285,000	3.00-5.38%	Serially to 2012	\$ -	\$ -	\$ -	\$ -
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
Total Revenue Notes				\$ 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	\$ -
Total Certificates of Participation				\$ 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



The Department of Dance is an accredited institutional member of the National Association of Schools of Dance (NASD).

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 Services 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 2.00% to 5.00%, 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 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.

Accounts payable and accrued liabilities consisted of the following as of June 30, 2017 and 2016:

Fiscal Year	Bonded Debt	Capital Leases	Notes Payable	Interest	Total
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	5,515,000	-	-	6,486,401	12,001,401
2023 - 2027	28,350,000	-	-	28,985,169	57,335,169
2028 - 2032	40,685,000	-	-	21,496,380	62,181,380
2033 - 2037	40,705,000	-	-	11,182,413	51,887,413
2038 - 2042	20,460,000	-	-	4,100,775	24,560,775
2043	4,535,000	-	-	226,750	4,761,750
Totals	<u>\$ 160,055,000</u>	<u>\$ 605,219</u>	<u>\$ 171,730</u>	<u>\$ 99,927,177</u>	<u>\$ 260,759,126</u>

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
2018	\$ 1,360,620
2019	604,185
2020	345,507
2021	234,356
2022	<u>61,824</u>
Total Minimum Payments Required	<u><u>\$ 2,606,491</u></u>

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, 2017 and 2016, was \$1,563,232 and \$1,271,551, respectively.

NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the year ended June 30, 2017 and 2016, respectively:

Functional Classification	2017						
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Depreciation Expense
Instruction	\$ 64,503,834	\$ 26,663,594	\$ 1,987,982	\$ 4,094,645	\$ 6,132	\$ -	\$ -
Research	18,046,650	10,098,993	1,535,125	17,210,921	246,535	-	-
Public service	9,838,136	4,170,850	529,232	3,180,957	10,556	-	-
Academic support	13,122,147	5,099,018	361,528	5,873,175	473	-	-
Student services	5,845,317	2,534,195	171,877	1,445,954	-	-	-
Institutional support	12,072,156	7,405,427	166,448	4,582,718	10,670	-	-
Operation of plant	7,721,453	4,432,798	21,622	8,407,488	5,824,558	-	-
Student aid	-	-	-	-	-	24,156,988	-
Auxiliary enterprises	13,962,316	5,387,911	2,748,746	8,902,199	3,319,533	-	-
Depreciation	-	-	-	-	-	-	18,054,913
Total Operating Expenses	\$ 145,112,008	\$ 65,792,787	\$ 7,522,560	\$ 53,698,057	\$ 9,418,457	\$ 24,156,988	\$ 18,054,913
Functional Classification	2016						
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Depreciation Expense
Instruction	\$ 64,880,667	\$ 24,837,978	\$ 2,477,649	\$ 4,164,126	\$ 8,254	\$ -	\$ -
Research	16,777,457	8,882,313	1,322,173	16,750,229	233,502	-	-
Public service	9,667,907	3,406,895	536,922	3,792,315	32,098	-	-
Academic support	12,478,393	4,246,293	401,753	4,967,993	1,765	-	-
Student services	5,709,630	2,033,857	290,787	1,121,329	-	-	-
Institutional support	11,678,707	5,561,756	229,916	5,800,235	17,345	-	-
Operation of plant	7,715,485	3,732,867	21,125	10,600,763	6,236,440	-	-
Student aid	-	-	-	-	-	24,465,432	-
Auxiliary enterprises	13,952,856	4,490,055	3,431,159	8,223,041	3,329,688	-	-
Depreciation	-	-	-	-	-	-	17,135,409
Total Operating Expenses	\$ 142,861,102	\$ 57,192,016	\$ 8,711,485	\$ 55,420,032	\$ 9,859,093	\$ 24,465,432	\$ 17,135,409
Total Operating Expenses	\$ 142,861,102	\$ 57,192,016	\$ 8,711,485	\$ 55,420,032	\$ 9,859,093	\$ 24,465,432	\$ 17,135,409

Note: IDC is subtracted from contractual services by function

NOTE 12**CONSTRUCTION COMMITMENTS AND FINANCING**

The University has contracted or made commitments for various construction projects as of June 30, 2017. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Projects	2017				
	Total Costs	Remaining Estimated Costs to Complete	Funded by Federal Sources	Funded by State Sources	Institutional Funds
Administration Building Major Renovation	3,778,190	1,548,235	-	916,517	631,718
Bolton Hall Renovation	3,200,000	3,047,928	-	3,047,928	-
Gulf Park Business and Health Building	7,000,000	2,984,030	-	2,970,310	13,720
Joseph Green Hall Renovation	12,900,000	12,512,777	-	12,512,777	-
Marine Education Center Building	16,869,369	5,159,266	159,266	5,000,000	-
Pride Field Major Renovation	1,200,000	12,212	-	-	12,212
MDOT Pride Field - Scianna Hall Pathway	1,043,337	5,000	-	-	5,000
University Signage and Wayfinding	491,592	20,000	-	-	20,000
Payne Center Lighting Upgrade	175,000	27,448	-	-	27,448
MDOT Eagle Walk-Hillcrest Pathway	548,854	67,249	-	13,500	53,749
Cochran Center Theatre	2,400,000	1,880,311	-	-	1,880,311
MDOT-Gulf Park Bear Bayou Scenic Overlook	160,000	126,594	-	25,300	101,294
35th Avenue Parking Lot	775,273	43,897	-	-	43,897
34th Avenue Parking Lot	725,000	105,440	-	-	105,440
Ross Blvd. Parking Lot	1,350,000	833,359	-	-	833,359
GCRL Oceanography Bldg Renovations	503,506	298,392	-	-	298,392
Lake Thoreau Primate Facility	439,852	13,775	-	-	13,775
MDOT-Lake Byron to Hwy 49 Pathway	335,637	315,888	-	63,000	252,888
4th Street Parking Lot	375,848	8,000	-	-	8,000
3403 Pearl Street	127,450	126,000	-	-	126,000
3709 Pearl Street	229,700	225,000	-	-	225,000
108 N. 35th Avenue	142,850	142,000	-	-	142,000
GP Student Resource Center	300,000	279,100	-	279,100	-
Total	<u>\$ 55,071,458</u>	<u>\$ 29,781,901</u>	<u>\$ 159,266</u>	<u>\$ 24,828,432</u>	<u>\$ 4,794,203</u>

NOTE 13**DONOR RESTRICTED ENDOWMENTS**

The net appreciation on investments of donor restricted endowments as of June 30, 2017 and 2016, that is available for authorization for expenditure is \$3,815,767 and \$3,331,953, respectively. This amount is included in the Statement of Net Position as endowment investments

PENSION AND OTHER EMPLOYEE BENEFIT PLANS

The University of Southern Mississippi participates in the following separately administered plans maintained by the Public Employees' Retirement System of Mississippi (PERS):

Plan type	Plan name
Multiple-employer, defined benefit	PERS Defined Benefit Plan
Multiple-employer, defined contribution	Optional Retirement Plan (ORP) Defined Contribution Plan

The employees of the University are covered by one of the pension plans outlined above (collectively, the plans). The plans do not provide for measurements of assets and pension benefit obligations for individual entities. The measurement date of the plans is June 30, 2016 and 2015, for fiscal years 2017 and 2016, respectively.

The funding methods and determination of benefits payable were established by the legislative acts creating such plans, as amended, and in general, provide that the funds are to be accumulated from employee contributions, participating entity contributions, and income from the investment of accumulated funds. The plans are administered by a separate board of trustees.

Information included within this note is based on the certification provided by consulting actuary, Cavanaugh Macdonald Consulting, LLC.

A stand-alone audited financial report is issued for the plans and can be obtained at pers.ms.gov.

DISCLOSURE UNDER GASB 68

The pension disclosures that follow for fiscal years 2017 and 2016 include all disclosures for GASB 68 using the latest valuation reports available (June 30, 2016). For fiscal year 2017, the measurement date for the PERS defined benefit plan is June 30, 2016. For fiscal year 2016, the measurement date for the PERS defined benefit plan is June 30, 2015. The University is presenting net pension liability as of June 30, 2016 and 2015, for the fiscal year 2017 and 2016 financials, respectively.

(A) PERS DEFINED BENEFIT PLAN**Plan Description**

The Public Employees' Retirement System (PERS) of Mississippi was created with the purpose of providing pension benefits for all state and public education employees, sworn officers of the Mississippi Highway Safety Patrol, other public employees whose employers have elected to participate in PERS, and elected members of the State Legislature and the President of the Senate. PERS administers a cost-sharing, multiple-employer defined benefit pension plan. PERS is administered by a 10-member Board of Trustees that includes the State Treasurer, one gubernatorial appointee who is a member of PERS, two state employees, two PERS retirees, and one representative, each from public schools and community colleges, state universities, municipalities and counties. With the exception of the State Treasurer and the gubernatorial appointee, all members are elected to staggered six-year terms by the constituents they represent.

MEMBERSHIP AND BENEFITS PROVIDED

Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the state of Mississippi (the state), state universities, community and junior colleges, and teachers and employees of the public school districts. Members and employers are statutorily required to contribute certain percentages of salaries and wages as specified by the Board of Trustees. A member who terminates employment from all covered employers and who is not eligible to receive monthly retirement benefits may request a full refund of his or her accumulated member contributions plus interest. Upon withdrawal of contributions, a member forfeits service credit represented by those contributions.

Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0% of their average compensation for each year of creditable service up to, and including, 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0% compounded for each fiscal year thereafter.

CONTRIBUTIONS

Plan provisions and the board of trustees' authority to determine contribution rates are established by Miss. Code Ann. § 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi legislature.

Policies for PERS provide for employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. PERS members were required to contribute 9% of their annual pay. The institution's contractually required contribution rate for the years ended June 30, 2017 and 2016, was 15.75% for each year of annual payroll. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plans based on a five-year smoothed expected return with 20% of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates are determined using the entry age actuarial cost method and include provisions for an annual 3.0% cost-of-living increase calculated according to the terms of the respective plan. Contributions from the University are recognized when legally due, based on statutory requirements.

EMPLOYER CONTRIBUTIONS

The University of Southern Mississippi's contributions to PERS for the years ended June 30, 2017 and 2016, were \$13,496,839 and \$13,185,913, respectively. The University's proportionate share was calculated on the basis of historical contributions. Although GASB 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocation on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the University that are not representative of future contribution effort are excluded in the determination of employer's proportionate share. Examples of employer contributions not representative of future contribution efforts are contributions toward the purchase of employee service and employer contributions paid by employees in connection with early retirement.

The following table provides the institution's contributions used in the determination of its proportionate share of collective pension amount reported:

Plan	Proportionate share of contributions	Allocation percentage of proportionate share of collective pension amount	Change in proportionate share of collective pension amount
PERS Defined Benefit:			
2017	\$ 13,185,913	1.308690 %	-0.015788 %
2016	13,032,470	1.324478	-0.021937

LONG-TERM EXPECTED RATE OF RETURN

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. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 and 2016, 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>	

NET PENSION LIABILITY

The University of Southern Mississippi's proportion of the net pension liability at June 30, 2017 and 2016, is as follows:

Plan	Proportion of net pension liability	Proportionate share of net pension liability
PERS Defined Benefit:		
2017	1.308690 %	\$ 233,764,776
2016	1.324478	204,738,247

DISCOUNT RATE

For the years ended June 30, 2017 and 2016, the discount rate used to measure the total pension liability was 7.75%. 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%) for the years ended June 30, 2017 and 2016. 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.

SENSITIVITY OF NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following tables present The University of Southern Mississippi's proportionate share of the net pension liability of the cost-sharing plan for 2017 and 2016, calculated using the discount rate of 7.75%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
University of Southern Mississippi proportionate share of net pension liability			
2017	299,738,854	233,764,776	179,027,676
2016	269,863,766	204,738,145	150,696,242

ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Mississippi state statute requires that an actuarial experience study be completed at least once in each five-year period. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010, to June 30, 2014. The latest experience study was performed after the June 30, 2016, valuation was complete; it covers the four-year period from July 1, 2012, to June 30, 2016, and was issued on April 18, 2017.

The following table provides a summary of the actuarial methods and assumptions used to determine the contribution rate reported for PERS for the years ended June 30, 2017 and 2016:

	2017	2016
Valuation date	June 30, 2016	June 30, 2015
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Inflation rate	3.00 %	3.00 %
Salary increases	3.75	3.75
Investment rate of return	7.75	7.75

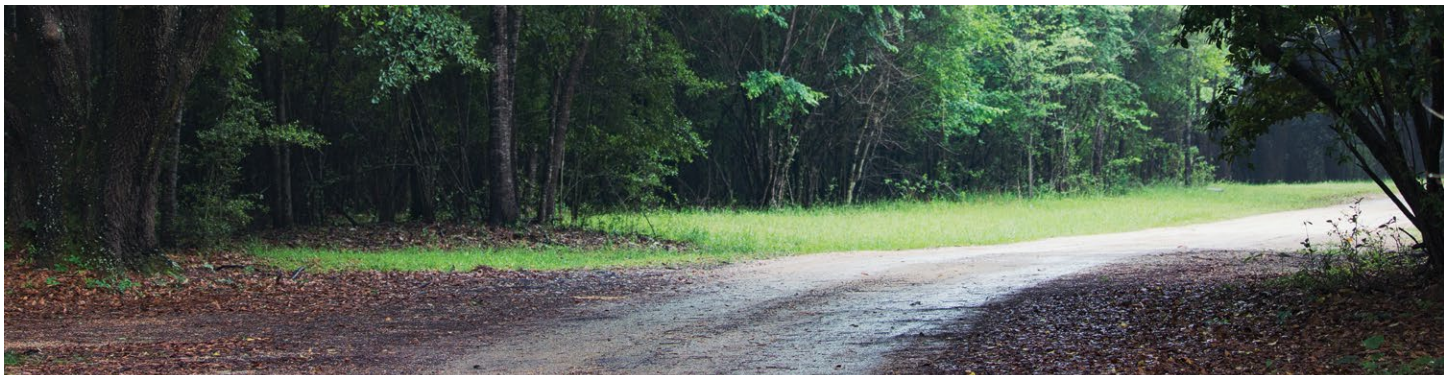
Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016 with male rates set forward one year.

PENSION EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the years ended June 30, 2017 and 2016, The University of Southern Mississippi's proportionate share of pension expense was \$28.8 million and \$19.5 million, respectively, related to the PERS defined benefit plan. Deferred outflows of resources were related to differences between expected and actual experience, differences between projected and actual investment earnings, and contributions made after the measurement date. The difference between expected and actual experience with regard to economic and demographic factors is amortized over the average of the expected remaining service life of active and inactive members, which is approximately five years. The first year of amortization is recognized as pension expense with the remaining years shown as a deferred outflow of resources.

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

2017								
Deferred outflows						Deferred inflows		
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	Net difference between projected and actual investment earnings on pension plan investments	Total deferred outflows of resources	Net difference between projected and actual investment earnings on pension plan investments	Changes of assumptions	Total deferred inflows of resources
\$ 6,564,117	11,153,125	(135,602)	13,307,324	18,472,295	49,361,259	5,425,744	621,183	\$ 6,046,927
2016								
Deferred outflows						Deferred inflows		
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	Net difference between projected and actual investment earnings on pension plan investments	Total deferred outflows of resources	Net difference between projected and actual investment earnings on pension plan investments	Changes of assumptions	Total deferred inflows of resources
\$ 4,783,208	17,637,499	1,017,858	13,009,957	-	36,448,522	8,353,503	-	\$ 8,353,503



Located just a few miles west of the Hattiesburg campus, the Lake Thoreau Environmental Center at USM is connected to campus by the Longleaf Trace.

Contributions subsequent to the measurement date of \$13,307,324 and \$13,009,957 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016, respectively.

Other amounts reported as net deferred outflows of resources and net deferred inflows of resources related to pensions as of June 30, 2017, will be recognized in pension expense as follows:

Deferred Outflow of Resources Year Ended June 30						
2018	2019	2020	2021	2022	Thereafter	Total
\$ 10,360,326	10,360,326	10,360,326	4,972,957	-	-	\$ 36,053,935

Deferred Inflow of Resources Year Ended June 30						
2018	2019	2020	2021	2022	Thereafter	Total
\$ 1,209,385	1,209,385	1,209,385	1,209,385	1,209,387	-	\$ 6,046,927

(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 of The University of Southern Mississippi 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 IHL system employees and, in the 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 IHL system are identical to that of the PERS defined contribution plan.

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 of Southern Mississippi's contributions to the ORP for the years ended June 30, 2017 and 2016, were \$6,669,524 and \$6,576,041, respectively, which equaled its required contribution for the period.

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

The institution distributed \$82,229,759 and \$85,065,902 for the years ended June 30, 2017 and 2016, 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:

	2017	2016
Total Current Assets	\$ 6,525,066	\$ 6,852,892
Total Noncurrent Assets	173,595,042	179,514,598
Total Assets	\$ 180,120,108	\$ 186,367,490
 Total Current Liabilities	 6,525,066	 6,852,892
Total Noncurrent Liabilities	173,595,042	179,514,598
Total Liabilities	\$ 180,120,108	\$ 186,367,490
 Total Net Position	 \$ -	 \$ -
 Total Operating Revenues		
Total Operating Expenses		
Operating Income (Loss)	\$ -	\$ -
 Total Nonoperating Revenues	 6,345,791	 6,148,288
Total Nonoperating Expenses	6,345,791	6,148,288
 Change in Net Position	 \$ -	 \$ -



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 and through Online at Southern Miss.

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 2017.

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, 2017 and 2016 was \$709,042 and \$732,009, 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, 2017 and 2016, was \$216,518 and \$225,672, 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, 2017 and 2016, was \$155,781 and \$348,078, 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 was \$2,800 for both fiscal years ended June 30, 2017 and 2016.

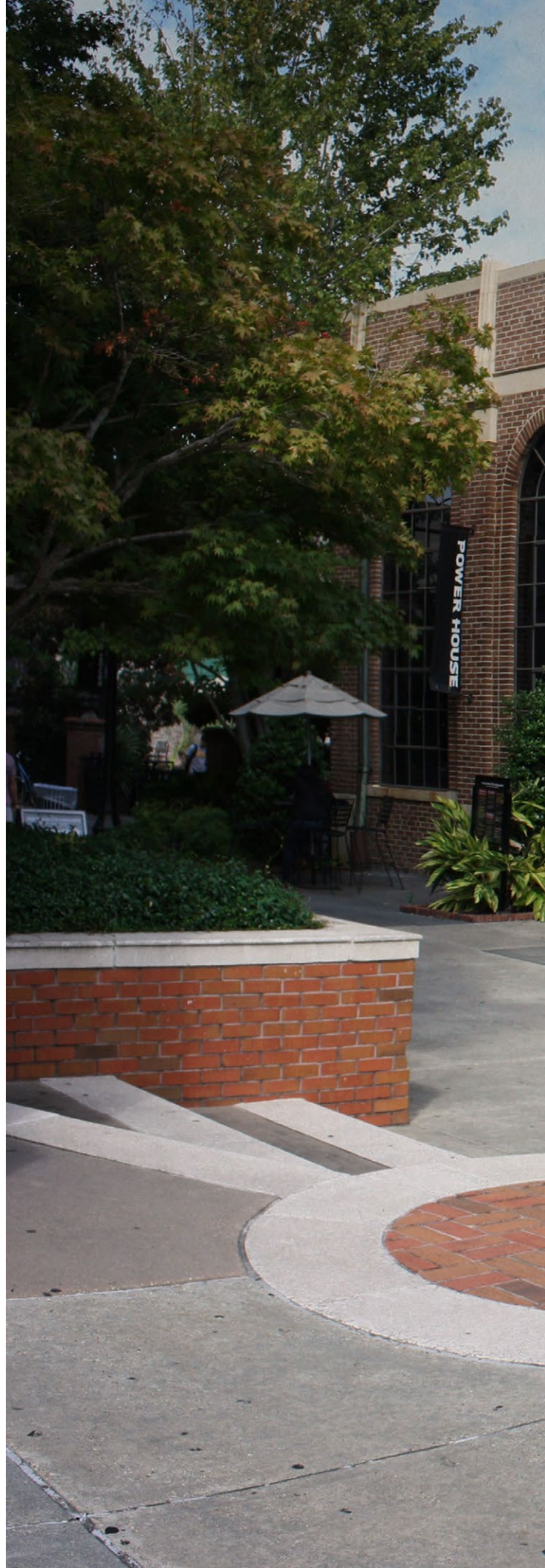
The Tort Claims Pool also purchases a fleet automobile policy. The University's payment for the fleet automobile policy for the fiscal year ended June 30, 2017 and 2016, was \$97,546 and \$94,281, respectively.

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 20 years, and the University has the right to extend the agreement for an additional six five-year option periods.



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.



REQUIRED SUPPLEMENTARY INFORMATION *(unaudited)*

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TEAM

REQUIRED SUPPLEMENTARY INFORMATION *(unaudited)*

Schedule of Proportionate Share of Net Pension Liability For the years ended June 30

	Proportionate share of the net pension liability	Proportionate share of the net pension liability	Estimated Covered-employee payroll provided by PERS	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
University of Southern Mississippi:					
2015	1.35%	163,430,215	82,272,965	199.00%	67.00%
2016	1.32%	204,738,145	82,745,841	247.43%	61.70%
2017	1.31%	233,764,776	83,720,083	279.22%	57.47%

Schedule of Proportionate Share of Contributions For the years ended June 30

	Proportionate share of contributions	Required contributions	Contribution deficiency (excess)	Actual Covered-employee payroll	Contribution as a percentage of covered-employee payroll
University of Southern Mississippi:					
2015	12,934,612	(12,934,612)	-	82,124,521	15.75%
2016	13,009,957	(13,009,957)	-	82,602,900	15.75%
2017	13,307,324	(13,307,324)	-	84,490,944	15.75%



The Hardy Hall Ballroom, which seats approximately 150 people, often serves as host to lectures, conference meetings and other special events on the Gulf Park campus.



A proven leader in innovation, USM conducts transformative research that translates into real-world solutions.

PENSION EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

1. SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

This schedule presents historical trend information about The University of Southern Mississippi'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 previous years is not available; therefore, trend information will be accumulated to display a 10-year presentation.

2. SCHEDULE OF PROPORTIONATE SHARE OF IHL SYSTEM'S CONTRIBUTIONS

The required contributions and percentage of those contributions actually made are presented in the schedule. Trend information will be accumulated to display a 10-year presentation.

3. CHANGES IN ASSUMPTIONS AND BENEFIT TERMS

Changes of assumptions: In 2016, the assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

Changes of benefit terms: Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the *Wall Street Journal* on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.







THE UNIVERSITY OF
**SOUTHERN
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