

THE UNIVERSITY
of SOUTHERN MISSISSIPPI
2014 ANNUAL FINANCIAL REPORT • UNAUDITED







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FINANCIAL
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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, 2014. Fiscal year 2013 data is presented for comparative purposes. Responsibility for the accuracy of the information and the completeness and fairness of its presentation, including all disclosures, rests with the management of the University. The Management's Discussion and Analysis section is designed to focus on current activities, resulting changes and currently known facts, and should be read in conjunction with the accompanying financial statements and notes thereto.

THE INSTITUTION

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

With a diverse student body of approximately 15,000 students from 63 foreign countries, all regions of the United States and every corner of Mississippi, we celebrate diversity in every sense of the word. The University offers undergraduate and graduate degree programs in six degree-granting colleges with more than 180 degree programs. A dual-campus university, Southern Miss serves students on campuses in Hattiesburg and Long Beach, in addition to five teaching and research sites in Mississippi and Online at Southern Miss.

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

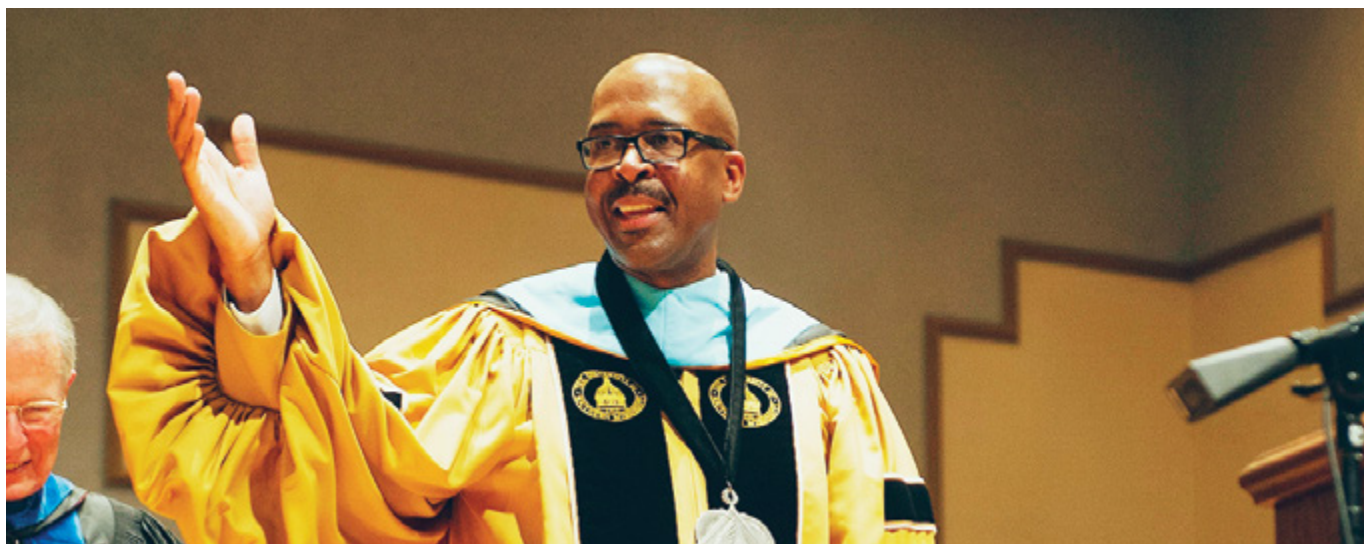
The University's financial statements present the financial condition, the results of operations and cash flows of the University, through three primary financial statements and notes to the financial statements. The three financial statements consist of the Statement of Net Position, the Statement of 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, liabilities and net position of the University as of the fiscal years ended June 30, 2014 and 2013.

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 minus liabilities) available to the University.

Net position is divided into three categories. The first category, invested in capital assets, net



Rodney D. Bennett is officially inaugurated as the 10th president of The University of Southern Mississippi on Friday, May 2, 2014.

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, 2014, the University's assets reached \$705 million, liabilities were \$259 million leaving a net position of \$446 million, an overall increase in net position of \$21 million from 2013.

CONDENSED STATEMENT OF NET POSITION

	June 30, 2014	June 30, 2013	Increase (Decrease)	Percent Change
Current Assets:				
Cash and cash equivalents	\$ 42,159,678	\$ 48,689,245	\$ (6,529,567)	-13.4%
Short term investments	2,650,321	6,156,759	(3,506,438)	-57.0%
Accounts receivable, net	33,722,059	31,523,968	2,198,091	7.0%
Other current assets	7,871,702	8,219,142	(347,440)	-4.2%
Noncurrent Assets:				
Restricted cash and cash equivalents	13,739,166	53,374,829	(39,635,663)	-74.3%
Endowment and other long term investments	46,554,452	33,247,239	13,307,213	40.0%
Capital assets, net	533,422,032	474,361,894	59,060,138	12.5%
Other noncurrent assets	24,835,856	25,258,222	(422,366)	-1.7%
Total Assets	\$ 704,955,266	\$ 680,831,298	\$ 24,123,968	3.5%
Current Liabilities	\$ 42,157,795	\$ 36,043,928	\$ 6,113,867	17.0%
Noncurrent Liabilities	216,787,951	219,573,910	(2,785,959)	-1.3%
Total Liabilities	\$ 258,945,746	\$ 255,617,838	\$ 3,327,908	1.3%
Net Position:				
Net invested in capital assets	\$ 359,798,904	\$ 337,724,607	\$ 22,074,297	6.5%
Restricted	14,261,513	14,932,442	(670,929)	-4.5%
Unrestricted	71,949,103	72,556,411	(607,308)	-0.8%
Total Net Position	\$ 446,009,520	\$ 425,213,460	\$ 20,796,060	4.9%

THE UNIVERSITY'S ASSETS

The University's cash and cash equivalents include both current and noncurrent balances of \$42 million and \$14 million, respectively, at the end of fiscal year 2014. 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. Total cash and cash equivalents decreased \$46 million in 2014 from the prior year principally because of the utilization of bond proceeds to make contractor payments for the construction of a new state of the art residential hall complex called Century Park South on the Hattiesburg campus.

Short term investments decreased \$3.5 million due to the liquidation of short term investments and reclassifications from long term to short term investments in 2014. The \$2 million increase in accounts receivable was attributable to the timing of receipts due from federal sources for externally sponsored projects along with the final payment from USM's insurance company for damages resulting from the February 2013 tornado. Endowment and other long term investments increased \$13 million due to the purchase of long term investments.

Capital assets include land, land improvements, buildings and improvements, equipment, construction in progress and library materials. Net capital assets totaled \$533 million at June 30, 2014, compared to \$474 million at June 30, 2013. The Hattiesburg campus had several construction

projects underway, including a new building to house the College of Business and a new residential hall complex. The Ogletree House along with the Fine Arts Complex, which includes Mannoni Performing Arts Center, Marsh Hall and George Hurst Building, all received major renovations during the year for repairs related to the tornado of February 2013. The Field Studies Building was a major construction project completed at Gulf Coast Research Lab during fiscal year 2014. 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 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 of \$6 million in current liabilities from 2013 to 2014 is primarily due to timing differences for amounts due to contractors and employees as well as increases in unearned revenues from externally funded projects. The decrease in noncurrent liabilities of \$3 million is largely due to a reduction in long term debt because of annual debt service payments.



Landscape work continues around the newly repaired Lake Byron.

THE UNIVERSITY'S NET POSITION

Net position represents the residual interest in the University's assets after all liabilities are deducted. Overall, net position increased \$21 million from fiscal year 2013 to fiscal year 2014. The majority of growth occurred in investments in capital assets due to building and construction in progress additions during 2014.

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.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)	Percent Change
Operating Revenues:				
Tuition and fees, net	\$ 90,611,644	\$ 86,917,284	\$ 3,694,360	4.3%
Grants and contracts	64,363,812	70,081,763	(5,717,951)	-8.2%
Auxiliary enterprises	30,117,956	27,883,793	2,234,163	8.0%
Other operating revenues	7,571,971	7,300,915	271,056	3.7%
Total Operating Revenues	\$ 192,665,383	\$ 192,183,755	\$ 481,628	0.3%
Operating Expenses	319,940,842	305,717,107	14,223,735	4.7%
Operating Loss	\$ (127,275,459)	\$ (113,533,352)	\$ (13,742,107)	-12.1%
Nonoperating Revenues (Expenses):				
State appropriations	\$ 85,342,768	\$ 82,336,669	\$ 3,006,099	3.7%
Other nonoperating revenue	49,624,845	42,256,280	7,368,565	17.4%
Interest on debt	(6,383,567)	(6,569,858)	186,291	2.8%
Net Nonoperating Revenues	\$ 128,584,046	\$ 118,023,091	\$ 10,560,955	8.9%
Gain Before Other Revenues	\$ 1,308,587	\$ 4,489,739	\$ (3,181,152)	-70.9%
Capital grants and gifts	\$ 4,896,119	\$ 3,227,436	\$ 1,668,683	51.7%
Capital appropriations	15,877,660	14,042,885	1,834,775	13.1%
Other additions (deletions)	(1,286,306)	(4,434,922)	3,148,616	71.0%
Total Other Revenues	\$ 19,487,473	\$ 12,835,399	\$ 6,652,074	51.8%
Increase in Net Position	\$ 20,796,060	\$ 17,325,138	\$ 3,470,922	20.0%
Net Position:				
Net Position at Beginning of the Year	425,213,460	407,888,322	17,325,138	4.2%
Net Position at End of the Year	\$ 446,009,520	\$ 425,213,460	\$ 20,796,060	4.9%



Hannah Roberts, a senior biochemistry major, wins the Miss University of Southern Mississippi Scholarship Pageant.

The Statement of Revenues, Expenses and Changes in Net Position presents an increase in net position of \$21 million and \$17 million for fiscal years ended June 30, 2014 and 2013, respectively. As noted in the statement, the University experienced operating losses in 2014 and 2013 of \$127 million and \$114 million, 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, 2014, and 2013 were \$193 million and \$192 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.

Tuition rates increased 6.4% for Mississippi residents and 4% for non-residents, but along with

the growth in gross tuition and fees, there was an increase in scholarship allowances as more student financial aid was applied to charges on student accounts for tuition and fees in fiscal year 2014 compared to fiscal year 2013. This resulted in a net tuition and fees increase of 4%. For auxiliary enterprises, athletic guarantees increased \$3 million for football.

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 2014, the University experienced a decrease in grants and contracts revenue. Federal

revenue alone had an \$8 million decrease. The federal grantmaking agencies endured budget cuts, and the federal sequestration resulted in agencies making fewer awards or reducing the amount of awards, or both. The Department of Justice and the Department of Homeland Security had especially large reductions in expenditures. The Department of Justice's 47% reduction was

largely caused by the winding down of three projects that had a funded amount of \$3 million. The Department of Homeland Security's 90% reduction in revenue was caused by the closing of around half of the fiscal year 2013 open projects. New awards for both agencies were much smaller in dollar value and are in the early stages in terms of spending and progress.

The following table details the University's grants and contracts operating revenues for the fiscal years ended June 30, 2014 and 2013:

	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2013</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Federal Award Sources:				
Department of Education	\$ 5,447,698	\$ 4,110,818	\$ 1,336,880	32.5%
National Science Foundation	3,391,083	3,803,477	(412,394)	-10.8%
Department of Defense	5,054,006	6,243,982	(1,189,976)	-19.1%
NASA	2,757,916	2,593,627	164,289	6.3%
Department of Commerce	8,269,250	8,792,845	(523,595)	-6.0%
Department of Health and Human Services	5,931,545	7,139,543	(1,207,998)	-16.9%
Department of Agriculture	1,022,798	1,543,786	(520,988)	-33.7%
Department of Justice	458,241	827,547	(369,306)	-44.6%
Department of Homeland Security	684,260	6,542,599	(5,858,339)	-89.5%
Department of Energy	107,102	166,536	(59,434)	-35.7%
Other	7,553,248	7,206,232	347,016	4.8%
Total Federal Sources	<u>\$ 40,677,147</u>	<u>\$ 48,970,992</u>	<u>\$ (8,293,845)</u>	-16.9%
State Award Sources:				
Financial Aid	\$ 5,820,616	\$ 5,369,509	\$ 451,107	8.4%
Department of Education	1,462,333	1,321,222	141,111	10.7%
Other	3,106,758	2,357,176	749,582	31.8%
Total State Sources	<u>\$ 10,389,707</u>	<u>\$ 9,047,907</u>	<u>\$ 1,341,800</u>	14.8%
Other Sources	<u>\$ 13,296,958</u>	<u>\$ 12,062,864</u>	<u>\$ 1,234,094</u>	10.2%
Total Grants and Contracts	<u>\$ 64,363,812</u>	<u>\$ 70,081,763</u>	<u>\$ (5,717,951)</u>	-8.2%

NONOPERATING REVENUES AND EXPENSES

The University's nonoperating revenues of \$129 million assisted in offsetting the University's operating loss of \$127 million for 2014. In fiscal year 2014, the University received \$85 million in state educational appropriations for operating purposes, \$36 million in private gifts and nonexchange grants and \$13 million in insurance proceeds. In fiscal year 2013, the University received \$82 million in state educational appropriations for operating purposes, \$36 million in private gifts and nonexchange grants and \$6 million in insurance proceeds.

Other nonoperating revenue consists of gifts and grants, investment income and other nonoperating revenue. The increase of \$7 million from fiscal year 2013 to fiscal year 2014 is attributable to increases of \$1 million in investment income, net of investment expense, and \$7 million in insurance proceeds related to damage resulting from the February 2013 tornado, partially offset by decreases in Federal Pell Grant awards. The Federal Pell Grant Program provides need-based grants to low-income undergraduate students to promote access to postsecondary education.

OPERATING EXPENSES

Operating expenses for the year ended June 30, 2014, totaling \$320 million, included \$190 million in compensation and benefits, \$88 million in supplies and other, \$25 million in scholarships, and \$17 million in depreciation.

A comparative summary of the University's expenses for the years ended June 30, 2014 and 2013 is as follows:

	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2013</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Expenses:				
Compensation and benefits	\$ 190,198,279	\$ 184,960,941	\$ 5,237,338	2.8%
Supplies and other	88,296,394	78,947,253	9,349,141	11.8%
Scholarships and fellowships	24,802,089	24,715,303	86,786	0.4%
Depreciation	<u>16,644,080</u>	<u>17,093,610</u>	<u>(449,530)</u>	-2.6%
 Total Operating Expenses	 <u>\$ 319,940,842</u>	 <u>\$ 305,717,107</u>	 <u>\$ 14,223,735</u>	 4.7%

For the year ended June 30, 2014, the compensation and benefits line item, which represents 59% of total operating expenses, increased by 3%. This increase is partially due to an increase in the employer share of the defined benefit pension plan from 14.26% to 15.75% in 2014. In addition, there was a slight increase in waivers provided to employees and/or their dependents in fiscal year 2014 compared to 2013.

Supplies and other consists of contractual services, utilities, commodities and travel expenses. The 12% increase in supplies and other is attributable to many factors, including increases in insurance premiums, student bad debt write-off, subcontract costs, utilities, contractual services for externally funded projects and travel for the athletic program.

There was a slight increase in scholarship and fellowship expenses which represents payments

made directly to students after awards have been applied against tuition and fees charged to student accounts. Depreciation expense decreased due to some equipment inventory reaching the end of its useful life in fiscal year 2013.

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

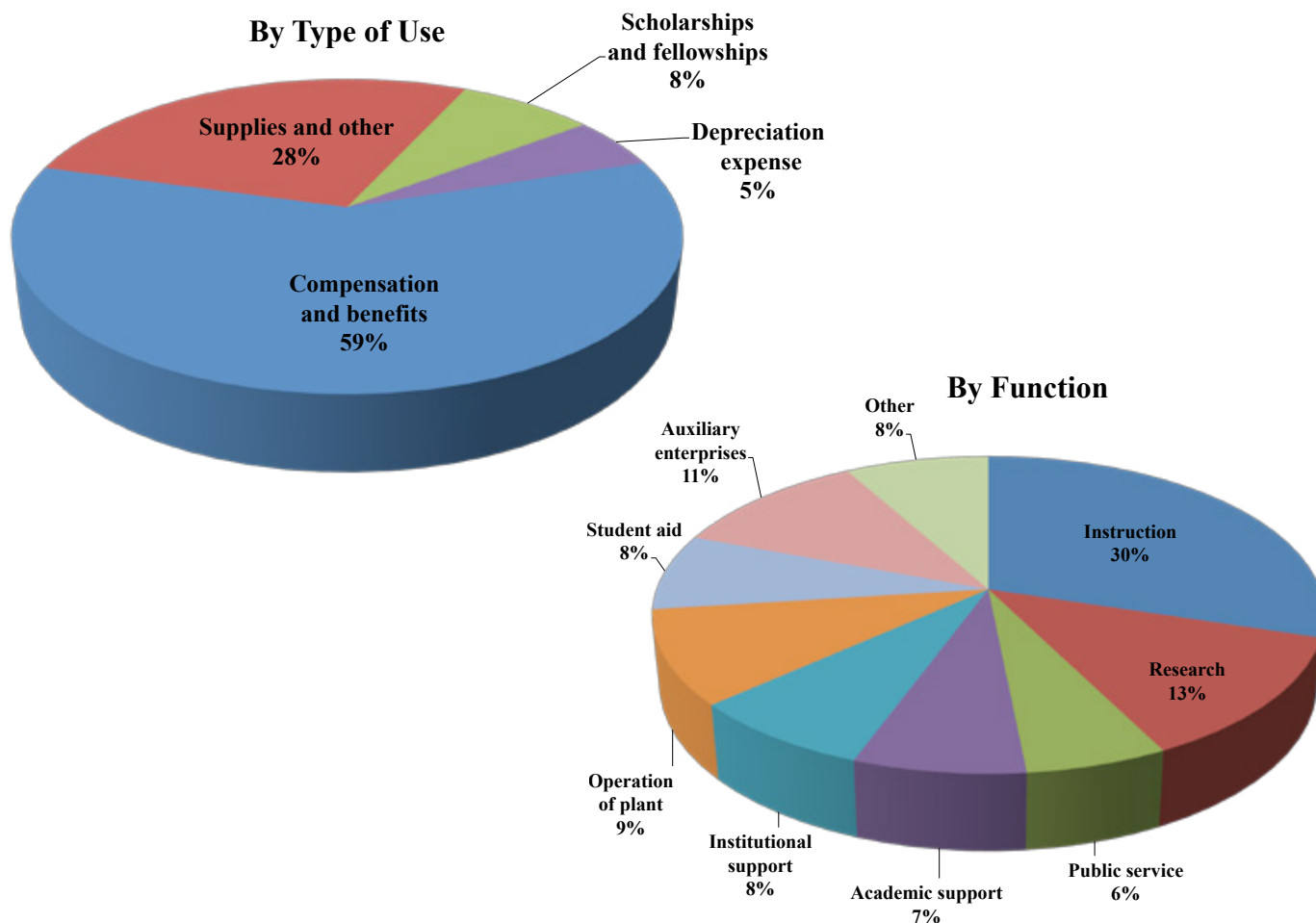


The handprints of the freshman class remain after the traditional painting of the Eagle Walk.

A comparative summary and a graphic illustration of the University's expenses by functional classification for the years ended June 30, 2014 and 2013 are as follows:

	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2013</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Expenses:				
Instruction	\$ 96,020,409	\$ 91,676,807	\$ 4,343,602	4.7%
Research	40,708,360	40,247,660	460,700	1.1%
Public service	18,747,297	19,047,024	(299,727)	-1.6%
Academic support	22,586,457	22,814,858	(228,401)	-1.0%
Student services	8,787,894	8,440,210	347,684	4.1%
Institutional support	24,617,402	21,666,929	2,950,473	13.6%
Operation of plant	31,124,959	26,597,023	4,527,936	17.0%
Student aid	24,804,832	24,710,215	94,617	0.4%
Auxiliary enterprises	35,603,594	33,266,679	2,336,915	7.0%
Provision for leave	273,884	135,744	138,140	101.8%
Loan fund expenses	21,674	20,348	1,326	6.5%
Depreciation	16,644,080	17,093,610	(449,530)	-2.6%
Total Operating Expenses	<u>\$ 319,940,842</u>	<u>\$ 305,717,107</u>	<u>\$ 14,223,735</u>	4.7%

FY 2014 OPERATING EXPENSES



Instructional expenses continued to represent the largest percentage of total operating expenses and consumed 50% of operating revenues for fiscal year 2014. Research expenditures accounted for 13% of total operating expenses and consumed 21% of operating revenues in fiscal year 2014.

OTHER CHANGES IN NET POSITION

Capital grants and gifts revenue increased \$2 million primarily due to additional federally funded capital projects in fiscal year 2014 compared to 2013. State appropriations restricted for capital purposes increased \$2 million due to an increase in expenditures for capital projects funded by the Bureau of Building, Grounds and Real Property Management. The decrease in other deletions in fiscal year 2014 compared to fiscal year 2013 is a result of capital asset losses recognized in fiscal year 2013 from the February 2013 tornado damage.

CAPITAL ASSET AND DEBT ADMINISTRATION

The University must have campus facilities that are competitive to meet student enrollment goals. The University continues to execute its long-term plan to modernize and expand its teaching, research and student facilities with a balance of new construction and technology. The following are a few examples of how the University enhanced and improved the living-learning community of the main campus located in the heart of the Hattiesburg community during fiscal year 2014:

- Continued construction on the Scianna Hall for the College of Business
- Continued construction on Century Park South residential complex
- Began construction on the Asbury Hall for the College of Nursing
- Continued renovation on the Fine Arts Complex, including Mannoni Performing Arts Center, Marsh Hall and George Hurst Building
- Completed pedestrian walkway at 31st Avenue

There are still lingering effects from the damage to the Gulf Coast facilities from Hurricane Katrina, which

struck the Gulf Coast in 2005. The University remains steadfast in the rebuilding effort for the coastal campus buildings and infrastructure. The Gulf Coast Research Laboratory completed construction of the Field Studies Building that was destroyed by Hurricane Katrina and began construction of the Toxicology building and Marine Education Center.

At June 30, 2014, the University had \$186 million of debt outstanding, of which \$4 million was classified as current. Debt obligations bear interest at fixed rates ranging from 1.29% to 5.375% and mature at various dates through fiscal year 2043.

For additional information concerning capital assets and debt obligations, see Notes 5, 8 and 11.

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 2014	Fiscal Year 2013	Increase (Decrease)	Percent Change
Cash and Cash Equivalents Provided (Used) by:				
Operating activities	\$ (104,182,076)	\$ (93,283,856)	\$ (10,898,220)	-11.7%
Noncapital financing activities	120,032,391	116,026,999	4,005,392	3.5%
Capital and related financing activities	(66,257,167)	21,192,053	(87,449,220)	-412.7%
Investing activities	4,241,622	12,782,135	(8,540,513)	-66.8%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (46,165,230)	\$ 56,717,331	\$(102,882,561)	-181.4%
Cash and Cash Equivalents - Beginning of the Year	102,064,074	45,346,743	56,717,331	125.1%
Cash and Cash Equivalents - End of the Year	<u>\$ 55,898,844</u>	<u>\$ 102,064,074</u>	<u>\$ (46,165,230)</u>	-45.2%



Dr. Fengwei Bai, assistant professor in the Department of Biological Sciences at Southern Miss, is leading a research team to study the mechanics of West Nile virus.

Major sources of funds included in operating activities for the year ended June 30, 2014, were net student tuition and fees of \$91 million, grants and contracts of \$66 million, and auxiliary enterprises of \$30 million. Major uses of funds included in operating activities were payments for employees' salaries and benefits of \$189 million, payments to suppliers of \$84 million, and scholarships and loans to students of \$24 million.

The overall net use of cash for operating activities increased. This was principally due to decreases in grants and contracts revenue and increases in payments to employees and vendors somewhat offset by increases in tuition and fees revenue.

Net cash provided by noncapital financing activities increased \$4 million overall. This increase was attributable to increases in both state appropriations and nonoperating gifts and grants.

Net cash used for capital and related financing activities increased \$87 million primarily due to contractor payments for the construction of Century Park South as well as other capital assets purchased in fiscal year 2014.

Net cash provided for investing activities decreased \$9 million in fiscal year 2014 compared to fiscal

year 2013. There was a reduction in funds available for investment purchases as proceeds from sales and maturities of investments were less than in fiscal year 2013. This reduction was partially offset with the receipt of insurance proceeds to cover damages to buildings and equipment from the February 2013 tornado.

ECONOMIC OUTLOOK

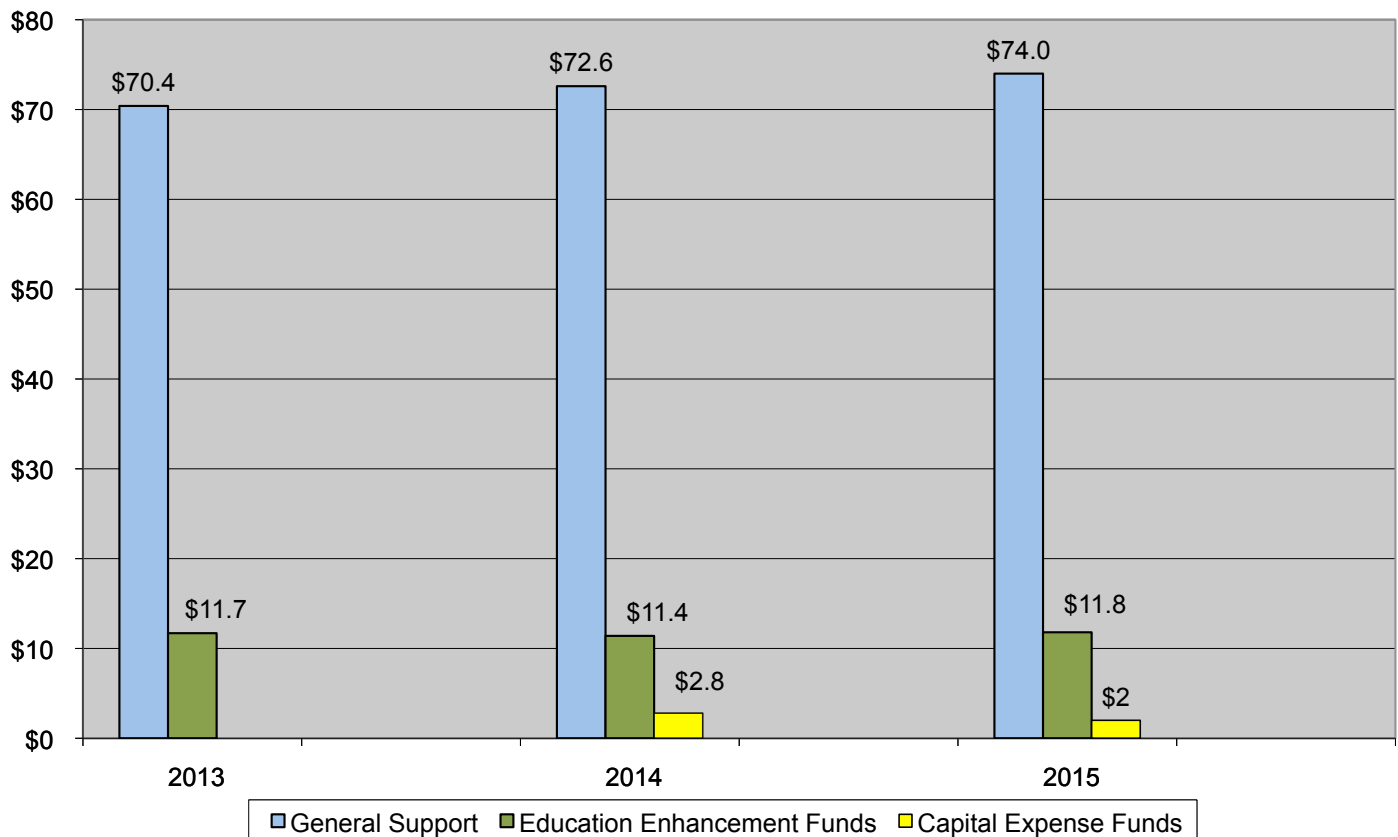
As opposed to recent years, the University's fiscal 2015 budget was prepared during a more stable economic time in the State of Mississippi. Fiscal year 2015 educational and general fund (E&G) budgeted state appropriations increased \$1.8 million to \$85.8 million. This reflects a 2.1% increase from fiscal 2014 actual receipts. In addition to the \$85.8 million stated above, the University will also receive one-time capital expense funds in fiscal year 2015 in the amount of \$2 million. These much needed funds are to be used to cover capital expenditures. While this is considered one-time funding, the University also received capital expense funds in fiscal year 2014 in the amount of \$2.8 million. These funds were used for capital expenditures as well as used to offset costs associated with a tornado that delivered extensive damage to various parts of the University in fiscal year 2013.

As a public institution, the University relies heavily upon appropriations from the State of Mississippi to operate. The economic position of the University is directly related to that of the State of Mississippi as approximately 41% of the

University's budgeted educational and general revenue comes from state appropriations. This figure has changed dramatically the last five years as 48% of our actual E&G revenue came from state appropriations in 2010.

The chart below shows the various types of appropriations received for fiscal years 2013 and 2014 and budgeted for fiscal year 2015.

STATE APPROPRIATIONS FY 2013 AND 2014 AND BUDGETED FY 2015
(\$ in millions)



Budgeted General Support appropriations, which are considered to be more permanent in nature, increased \$1.4 million, or 1.9%, for fiscal year 2015 compared to actual receipts from fiscal year 2014. The Educational Enhancement Fund (EEF) appropriation amount, which was 13.1% of state funding in 2014, is estimated to increase slightly to \$11.8 million. EEF will make up approximately 13.4% of the University's total educational and general state funding in 2015 which will subject the University to slightly more volatility. This appropriation funding source is derived from sales tax collections equivalent to one cent of every dollar sold that is subject to taxation and is allocated specifically for education (K-12, community colleges and higher education).

State financial support for the University continues to decline as a percent of our total revenue, while fixed costs of operations are on the upswing. In an effort to offset increased operational and deferred maintenance costs, a 3.5% resident tuition rate increase as well as a 3.5% non-resident tuition rate increase was requested by the University and approved by the IHL Board. This rate increase went into effect for the fall 2015 semester. There exists a direct relationship between the growth of state support and the University's ability to control tuition growth as declines in state appropriations affect tuition levels. A crucial element to the University's future will continue to be our relationship with the State of Mississippi as we work to maintain competitive tuition while providing an outstanding college education to our students.







FINANCIAL STATEMENTS

STATEMENT of NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	June 30	
	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 42,159,678	\$ 48,689,245
Short term investments (Note 2)	2,650,321	6,156,759
Accounts receivable, net (Note 3)	33,722,059	31,523,968
Student notes receivable, net (Note 4)	2,265,385	2,239,957
Inventories	358,638	382,104
Prepaid expenses	5,247,679	5,597,081
Total Current Assets	\$ 86,403,760	\$ 94,589,114
Noncurrent Assets:		
Restricted cash and cash equivalents	\$ 13,739,166	\$ 53,374,829
Endowment investments (Note 2)	3,963,947	3,570,501
Other long term investments (Note 2)	42,590,505	29,676,738
Student notes receivable, net (Note 4)	24,835,856	25,258,222
Capital assets, net of accumulated depreciation (Note 5)	533,422,032	474,361,894
Total Noncurrent Assets	\$ 618,551,506	\$ 586,242,184
Total Assets	\$ 704,955,266	\$ 680,831,298
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 6)	\$ 21,999,083	\$ 16,944,602
Unearned revenues (Note 7)	14,652,436	12,833,458
Accrued leave liabilities - current portion (Note 8)	1,150,000	1,350,000
Long term liabilities - current portion (Note 8)	4,334,193	4,870,287
Other current liabilities	22,083	45,581
Total Current Liabilities	\$ 42,157,795	\$ 36,043,928
Noncurrent Liabilities:		
Deposits refundable (Note 8)	\$ 32,743	\$ 31,594
Accrued leave liabilities (Note 8)	8,840,189	8,366,305
Long term liabilities (Note 8)	181,179,107	184,112,155
Other noncurrent liabilities (Note 8)	26,735,912	27,063,856
Total Noncurrent Liabilities	\$ 216,787,951	\$ 219,573,910
Total Liabilities	\$ 258,945,746	\$ 255,617,838
Net Position		
Net invested in capital assets	\$ 359,798,904	\$ 337,724,607
Restricted for:		
Nonexpendable:		
Other purposes	569,090	569,090
Expendable:		
Scholarships and fellowships	153,182	511,777
Research	87,895	41,237
Debt service	2,985,414	4,912,442
Loans	5,350,685	5,320,031
Other purposes	5,115,247	3,577,865
Unrestricted	71,949,103	72,556,411
Total Net Position	\$ 446,009,520	\$ 425,213,460

See accompanying summary of significant accounting policies and notes to the financial statements.

CONSOLIDATED STATEMENTS of FINANCIAL POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Assets	June 30	
	2014	2013
Cash and cash equivalents	\$ 8,260,263	3,443,807
Accrued earnings	108,915	128,945
Prepaid assets and other receivables	1,447,102	191,436
Pledges receivable, net	17,255,245	14,068,836
Investments (Note 1)	87,964,720	83,246,601
Amounts due from externally managed trusts	856,903	744,271
Net investment in direct financing lease	798,668	955,285
Property and equipment, net	144,874	234,801
Total assets	\$ 116,836,690	103,013,982
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 562,123	669,070
Line of credit	—	782,113
Gift annuities payable	343,582	353,685
Total liabilities	905,705	1,804,868
Net assets:		
Unrestricted	5,128,785	4,735,798
Temporarily restricted	51,563,139	41,477,728
Permanently restricted	59,239,061	54,995,588
Total net assets	115,930,985	101,209,114
Total liabilities and net assets	\$ 116,836,690	103,013,982

STATEMENT of REVENUES, EXPENSES and CHANGES in NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	Year Ended June 30	
	2014	2013
Operating Revenues:		
Tuition and fees	\$ 128,961,632	\$ 123,742,078
Less: Scholarship allowances	(38,349,988)	(36,424,794)
Less: Bad debt expense	-	(400,000)
Net tuition and fees	\$ 90,611,644	\$ 86,917,284
Federal grants and contracts	40,677,147	48,970,992
State grants and contracts	10,389,707	9,047,907
Nongovernmental grants and contracts	13,296,958	12,062,864
Sales and services of educational departments	2,780,109	2,163,377
Auxiliary enterprises:		
Student housing	16,136,221	16,355,327
Food services	1,837,980	1,805,837
Bookstore	1,383,000	1,183,000
Athletics	10,689,484	8,212,089
Other auxiliary revenues	3,670,631	3,676,316
Less: Auxiliary enterprise scholarship allowances	(3,599,360)	(3,348,776)
Other operating revenues	4,791,862	5,137,538
Total Operating Revenues	\$ 192,665,383	\$ 192,183,755
Operating Expenses:		
Salaries and wages	\$ 140,285,920	\$ 138,014,010
Fringe benefits	49,912,359	46,946,931
Travel	7,908,562	7,172,420
Contractual services	53,744,522	47,346,114
Utilities	10,621,747	8,760,389
Scholarships and fellowships	24,802,089	24,715,303
Commodities	16,021,563	15,668,330
Depreciation expense	16,644,080	17,093,610
Total Operating Expenses (Note 9)	\$ 319,940,842	\$ 305,717,107
Operating Loss	\$ (127,275,459)	\$ (113,533,352)
Nonoperating Revenues (Expenses):		
State appropriations	\$ 85,342,768	\$ 82,336,669
Gifts and grants	35,817,913	36,294,572
Investment income, net of investment expense	1,018,494	(39,518)
Interest expense on capital asset - related debt	(6,383,567)	(6,569,858)
Other nonoperating revenue	12,788,438	6,001,226
Total Net Nonoperating Revenues (Expenses)	\$ 128,584,046	\$ 118,023,091
Gain before Other Revenues, Expenses, Gains and Losses	\$ 1,308,587	\$ 4,489,739
Capital grants and gifts	4,896,119	3,227,436
State appropriations restricted for capital purposes	15,877,660	14,042,885
Other additions	446,337	465,392
Other deletions	(1,732,643)	(4,900,314)
Net Increase in Net Position	\$ 20,796,060	\$ 17,325,138
Net Position:		
Net Position - Beginning of the Year	425,213,460	407,888,322
Net Position - End of the Year	\$ 446,009,520	\$ 425,213,460

See accompanying summary of significant accounting policies and notes to the financial statements.

CONSOLIDATED STATEMENTS of ACTIVITIES

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Year Ended June 30, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support:				
Contributions	\$ 1,774,415	12,935,419	3,619,804	18,329,638
Net investment gain	1,524,510	8,883,008	168,123	10,575,641
Change in value of split interest agreements	—	2,101	54,744	56,845
Other	44,973	29,943	111	75,027
Total revenues, gains and other support	<u>3,343,898</u>	<u>21,850,471</u>	<u>3,842,782</u>	<u>29,037,151</u>
Changes in restrictions:				
Change in restriction by donors	(93,935)	(306,756)	400,691	—
Net assets released from restrictions	11,458,304	(11,458,304)	—	—
Total changes in restrictions	<u>11,364,369</u>	<u>(11,765,060)</u>	<u>400,691</u>	<u>—</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	11,732,008	—	—	11,732,008
Total program services	<u>11,732,008</u>	<u>—</u>	<u>—</u>	<u>11,732,008</u>
Supporting services:				
General and administrative	1,596,007	—	—	1,596,007
Fundraising	987,265	—	—	987,265
Total supporting services	<u>2,583,272</u>	<u>—</u>	<u>—</u>	<u>2,583,272</u>
Total expenses	<u>14,315,280</u>	<u>—</u>	<u>—</u>	<u>14,315,280</u>
Increase in net assets	392,987	10,085,411	4,243,473	14,721,871
Net assets at beginning of year	4,735,798	41,477,728	54,995,588	101,209,114
Net assets at end of year	<u>\$ 5,128,785</u>	<u>51,563,139</u>	<u>59,239,061</u>	<u>115,930,985</u>

Year Ended June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support:				
Contributions	\$ 1,895,849	5,544,433	2,397,304	9,837,586
Net investment gain	1,105,691	4,845,499	77,516	6,028,706
Change in value of split interest agreements	—	(836)	82,385	81,549
Other	73,117	39,644	70,662	183,423
Total revenues, gains and other support	<u>3,074,657</u>	<u>10,428,740</u>	<u>2,627,867</u>	<u>16,131,264</u>
Changes in restrictions:				
Change in restriction by donors	1,831	(124,124)	122,293	—
Net assets released from restrictions	8,497,903	(8,497,903)	—	—
Total changes in restrictions	<u>8,499,734</u>	<u>(8,622,027)</u>	<u>122,293</u>	<u>—</u>
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	8,987,404	—	—	8,987,404
Total program services	<u>8,987,404</u>	<u>—</u>	<u>—</u>	<u>8,987,404</u>
Supporting services:				
General and administrative	1,612,000	—	—	1,612,000
Fundraising	1,078,338	—	—	1,078,338
Total supporting services	<u>2,690,338</u>	<u>—</u>	<u>—</u>	<u>2,690,338</u>
Total expenses	<u>11,677,742</u>	<u>—</u>	<u>—</u>	<u>11,677,742</u>
Increase (decrease) in net assets	(103,351)	1,806,713	2,750,160	4,453,522
Net assets at beginning of year	4,839,149	39,671,015	52,245,428	96,755,592
Net assets at end of year	<u>\$ 4,735,798</u>	<u>41,477,728</u>	<u>54,995,588</u>	<u>101,209,114</u>

STATEMENT of CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	Year Ended June 30	
	2014	2013
Cash Flows from Operating Activities:		
Tuition and fees	\$ 91,465,262	\$ 85,931,215
Grants and contracts	66,228,774	75,284,586
Sales and services of educational departments	2,780,109	2,163,377
Payments to suppliers	(73,857,464)	(72,751,771)
Payments for employees' salaries and benefits	(189,081,679)	(184,050,939)
Payments for utilities	(10,608,344)	(8,847,409)
Payments for scholarships and fellowships	(24,489,766)	(24,365,408)
Loans issued to students	(4,057,705)	(2,385,431)
Collection of loans to students	4,454,643	3,586,004
Auxiliary enterprise charges:		
Student housing	15,591,603	15,945,283
Food services	1,844,872	1,783,664
Bookstore	1,418,915	1,198,013
Athletics	7,736,281	4,792,098
Other auxiliary enterprises	3,723,087	3,706,026
Other receipts	2,669,336	4,726,836
Net Cash Used by Operating Activities	<u>\$ (104,182,076)</u>	<u>\$ (93,283,856)</u>
Cash Flows from Noncapital Financing Activities:		
State appropriations	\$ 84,508,178	\$ 82,367,316
Gifts and grants for other than capital purposes	35,735,009	33,930,805
Federal loan program receipts	96,719,783	97,112,521
Federal loan program disbursements	(96,907,081)	(97,413,105)
Other sources	(23,498)	29,462
Net Cash Provided by Noncapital Financing Activities	<u>\$ 120,032,391</u>	<u>\$ 116,026,999</u>
Cash Flows from Capital Financing Activities:		
Proceeds from capital debt	\$ 1,754,754	\$ 57,344,262
Cash paid for capital assets	(58,989,066)	(24,060,285)
Capital grants and contracts received	3,790,163	2,996,799
Proceeds from sales of capital assets	34,691	36,152
Principal paid on capital debt and leases	(5,223,896)	(4,557,286)
Interest paid on capital debt and leases	(6,064,765)	(6,258,268)
Other sources	446,337	590,993
Other uses	(2,005,385)	(4,900,314)
Net Cash Provided (Used) by Financing Activities	<u>\$ (66,257,167)</u>	<u>\$ 21,192,053</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	\$ 13,843,060	\$ 43,347,455
Interest received on investments	782,979	847,545
Purchases of investments	(23,172,855)	(37,414,091)
Proceeds from insurance	12,788,438	6,001,226
Net Cash Provided by Investing Activities	<u>\$ 4,241,622</u>	<u>\$ 12,782,135</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (46,165,230)</u>	<u>\$ 56,717,331</u>
Cash and Cash Equivalents - Beginning of the Year	102,064,074	45,346,743
Cash and Cash Equivalents - End of the Year	<u><u>\$ 55,898,844</u></u>	<u><u>\$ 102,064,074</u></u>

STATEMENT of CASH FLOWS

CONTINUED

	Year Ended June 30	
	2014	2013
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss		
Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense		
Bad debt expense	\$ 16,644,080	\$ 17,093,610
Changes in Assets and Liabilities:	-	400,000
(Increase) decrease in assets:		
Receivables, net		
Inventories		
Prepaid expenses	(1,009,547)	481,400
Increase (decrease) in liabilities:	23,466	13,434
Accounts payables and accrued liabilities	349,402	(1,038,643)
Deferred revenues		
Deposits refundable	4,922,976	(657,598)
Accrued leave liability	1,818,978	2,922,934
Loans to students	1,150	(158)
	273,884	135,745
Total Adjustments	68,994	898,772
Net Cash Used by Operating Activities	\$ 23,093,383	\$ 20,249,496
Noncash Capital and Related Financing and Investing Activities:	\$ (104,182,076)	\$ (93,283,856)
Capital assets appropriated by the State of Mississippi		
Donations of capital assets	\$ 14,222,110	\$ 14,042,885
	837,492	127,948

See accompanying summary of significant accounting policies and notes to the financial statements.

CONSOLIDATED STATEMENTS of CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

	Year Ended June 30	
	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 14,721,871	4,453,522
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	125,821	112,549
Loss on disposal of property and equipment	2,888	—
Fair value of donated assets	—	(230,000)
Realized and unrealized gains on investments, net	(8,994,839)	(4,568,734)
Permanently restricted contributions	(2,325,549)	(2,462,000)
Permanently restricted dividends and interest	(14,749)	(16,059)
Change in amounts due from externally managed trusts	(112,632)	548,137
Change in gift annuities and pooled income fund	(48,455)	(35,153)
Present value adjustments to annuities	42,883	10,252
Changes in operating assets and liabilities:		
Accrued earnings	20,030	63,634
Prepaid assets and other receivables	(1,255,666)	519,077
Pledges receivable, net	(3,186,409)	3,536,942
Accounts payable	(106,947)	561,947
Net cash (used in) provided by operating activities	(1,131,753)	2,494,114
Cash flows from investing activities:		
Purchases of property and equipment	(71,841)	(85,164)
Proceeds from sale of property and equipment	33,059	—
Purchases of investments	(19,213,136)	(110,013,035)
Proceeds from sales and maturities of investments	23,538,311	103,674,451
Principal payments received under direct financing lease	156,617	149,739
Net cash provided by (used in) investing activities	4,443,010	(6,274,009)
Cash flows from financing activities:		
Principal payments on line of credit	(782,113)	(175,000)
Permanently restricted contributions	2,325,549	2,462,000
Permanently restricted dividends and interest	14,749	16,059
Change in investments subject to annuity agreements	—	(63,769)
Annuity payments	(52,986)	(49,650)
Net cash provided by financing activities	1,505,199	2,189,640
Net increase (decrease) in cash and cash equivalents	4,816,456	(1,590,255)
Cash and cash equivalents at beginning of year	3,443,807	5,034,062
Cash and cash equivalents at end of year	\$ 8,260,263	3,443,807
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,823	15,427







NOTES
to
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 1

SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

REPORTING ENTITY

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

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

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

the University and is included as a blended component unit in the general purpose financial statements.

The University of Southern Mississippi has established its own Real Estate Foundation to engage in the design-build delivery system of auxiliary facilities as authorized by Section 37-101-44, Mississippi Code Annotated. The purpose of this Foundation is to construct, improve and equip auxiliary facilities for the University. In accordance with Governmental Accounting Standards Board (GASB) Statements No. 14 and No. 61, this Foundation is deemed a component unit of the University and is included as a blended component unit in the general purpose financial statements.

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

Although the University is the primary beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not

have the power or authority to mortgage, pledge or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Third parties dealing with the University, the IHL and the State of Mississippi (or any agency thereof) should not rely upon the financial statements of the Foundation

for any purpose without consideration of all the foregoing conditions and limitations.

During the year ended June 30, 2014, the Foundation distributed \$11.4 million to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained at 118 College Drive #5210, Hattiesburg, MS 39406-0001 or at www.usmfoundation.com.

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

Investments are summarized as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fixed income:		
U.S. Government securities	\$ 2,776,460	4,001,986
Corporate bonds	6,008,760	5,069,639
Mutual funds	25,223,504	27,480,999
Index funds	—	15,233
Other fixed income securities	3,699,367	3,246,868
Total fixed income	<u>37,708,091</u>	<u>39,814,725</u>
Equities:		
Common stocks	—	123,381
Mutual and common stock funds	45,681,935	40,784,638
Index funds	—	95,919
Total equities	<u>45,681,935</u>	<u>41,003,938</u>
Alternative investments:		
Real estate owned	90,000	102,000
Real estate investment funds	2,111,592	43,179
Total alternative investments	<u>2,201,592</u>	<u>145,179</u>
Cash surrender value of insurance policies	2,327,070	2,236,727
Other	46,032	46,032
Total investments	<u>\$ 87,964,720</u>	<u>83,246,601</u>

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

	<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Dividends and interest (net of expenses of \$256,993)	\$ 1,459,541	106,512	14,749	1,580,802
Realized gains (losses), net	(159,891)	1,911,399	4,641	1,756,149
Unrealized gains, net	224,860	6,865,097	148,733	7,238,690
Total	<u>\$ 1,524,510</u>	<u>8,883,008</u>	<u>168,123</u>	<u>10,575,641</u>
	<u>2013</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Dividends and interest (net of expenses of \$309,719)	\$ 1,314,641	129,272	16,059	1,459,972
Realized gains, net	62,761	9,482,679	120,814	9,666,254
Unrealized losses, net	(271,711)	(4,766,452)	(59,357)	(5,097,520)
Total	<u>\$ 1,105,691</u>	<u>4,845,499</u>	<u>77,516</u>	<u>6,028,706</u>

BASIS OF PRESENTATION

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

The Foundation is a private, nonprofit corporation that reports under the *Financial Accounting Standards Board (FASB) Statement No. 117, Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial statement information in the University’s financial reporting entity for these differences.

BASIS OF ACCOUNTING

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

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



Guests visit the opening of the Department of Art and Design's Graphic Design Senior Show.

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

INVENTORIES

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

PREPAID EXPENSES

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

NONCURRENT RESTRICTED CASH AND INVESTMENTS

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

ENDOWMENT INVESTMENTS

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

fund but may be totally expended at any time at the discretion of the governing board.

OTHER LONG TERM INVESTMENTS

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

CAPITAL ASSETS

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

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional categories. See Note 5 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. Capitalized interest for fiscal year 2014 was approximately \$2 million. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activity facilities.

COLLECTIONS

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

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

UNEARNED REVENUES

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

DEPOSITS REFUNDABLE

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

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.

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 effective with the Series 2013 bond issue.

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 these programs 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 programs. The portion that would be refundable if the programs are terminated has been presented as other long-term liabilities and approximated \$26,735,912 and \$27,063,856 as of June 30, 2014 and 2013, respectively.

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, investment income and insurance proceeds. Included in nonoperating gifts and grants are federally awarded student financial aid program revenues of approximately \$29,049,248 and \$29,786,153 for the years ending June 30, 2014 and 2013, respectively. 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

The University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2013, and as a result, began reporting equity balances (previously referred to as “Net Assets”) as “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.

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.



The annual Golden Eagle Powwow focuses on the history and lifeways of Southeastern American Indians.

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, 2014 and 2013:

<u>Statement of Net Position Classification</u>	<u>June 30, 2014 Fair Value</u>	<u>June 30, 2013 Fair Value</u>
Short term investments - current assets	\$ 2,650,321	\$ 6,156,759
Noncurrent assets:		
Endowment investments	3,963,947	3,570,501
Other long term investments	<u>42,590,505</u>	<u>29,676,738</u>
Total	<u>\$ 49,204,773</u>	<u>\$ 39,403,998</u>

The following table presents the fair value of investments by type at June 30, 2014 and 2013:

<u>Investment Type</u>	<u>June 30, 2014 Fair Value</u>	<u>June 30, 2013 Fair Value</u>
U.S. government agency obligations	\$ 34,755,095	\$ 24,282,554
Collateralized mortgage obligations	9,219,102	9,630,559
Mortgage backed securities	-	547,708
U.S. Treasury obligations	362,598	134,373
Certificate of deposit	509,865	507,830
Domestic equity mutual funds	239,839	1,111,088
International equity mutual funds	235,941	231,826
Fixed income mutual funds	478,799	770,238
Money market funds	186,263	185,832
Domestic equity securities	1,309,371	554,758
Non-US equity securities	474,350	-
Municipal bonds	920,038	1,027,490
Corporate bonds	<u>513,512</u>	<u>419,742</u>
Total	<u>\$ 49,204,773</u>	<u>\$ 39,403,998</u>



Southern Miss officials and other dignitaries officially break ground on the College of Nursing's Asbury Hall.



The Mississippi Legislature honors former University of Southern Mississippi football star Ray Guy, recently elected to the Pro Football Hall of Fame.

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, 2014 or 2013.

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, 2014 and 2013, the University had the following investments subject to interest rate risk:

Investment Type	June 30, 2014				
	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. government agency obligations	\$ 34,755,095	\$ 21,352	\$ 28,798,956	\$ 3,573,733	\$ 2,361,054
Collateralized mortgage obligations	9,219,102	2,140,457	7,078,645	-	-
U.S. Treasury obligations	362,598	141,101	125,056	58,578	37,863
Fixed income mutual funds	478,799	-	430,663	48,136	-
Municipal bonds	920,038	-	277,313	531,665	111,060
Corporate bonds	513,512	50,885	284,388	124,355	53,884
Total	<u>\$ 46,249,144</u>	<u>\$ 2,353,795</u>	<u>\$ 36,995,021</u>	<u>\$ 4,336,467</u>	<u>\$ 2,563,861</u>
Investment Type	June 30, 2013				
	Fair Value	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. government agency obligations	\$ 24,282,554	\$ -	\$ 21,612,788	\$ 1,237,594	\$ 1,432,172
Collateralized mortgage obligations	9,630,559	5,547,816	3,882,686	-	200,057
Mortgage backed securities	547,708	-	-	7,395	540,313
U.S. Treasury obligations	134,373	-	44,935	66,626	22,812
Fixed income mutual funds	770,238	-	-	770,238	-
Municipal bonds	1,027,490	101,113	267,935	552,770	105,672
Corporate bonds	419,742	40,036	219,332	131,684	28,690
Total	<u>\$ 36,812,664</u>	<u>\$ 5,688,965</u>	<u>\$ 26,027,676</u>	<u>\$ 2,766,307</u>	<u>\$ 2,329,716</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, 2014 and 2013, the University had the following investments subject to credit risk:

Rating	June 30, 2014 Fair Value	June 30, 2013 Fair Value
AAA	\$ -	\$ 15,611
Aaa	29,995	-
AA	34,532,147	24,642,951
A	282,977	201,951
BBB	155,708	119,209
Rating not available	8,200,330	9,332,353
Total	\$ 43,201,157	\$ 34,312,075

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, 2014 and 2013:

Issuer	June 30, 2014	
	Fair Value	% of Total Investments
Federal National Mortgage Association	\$ 12,717,120	25.8%
Federal Home Loan Bank	13,611,571	27.7%
Federal Farm Credit Bank	9,223,825	18.8%
Federal Home Loan Mortgage Corporation	5,736,292	11.7%
Issuer	June 30, 2013	
	Fair Value	% of Total Investments
Federal National Mortgage Association	\$ 11,353,016	28.8%
Federal Home Loan Bank	7,315,016	18.6%
Federal Farm Credit Bank	7,305,506	18.5%
Federal Home Loan Mortgage Corporation	6,121,067	15.5%

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 investments in international equity mutual funds of \$235,941 and \$231,826 at June 30, 2014 and 2013, respectively, and American Depository Receipts (ADRs) for non-U.S. equities of \$474,350 at June 30, 2014, and none at June 30, 2013.

NOTE 3

ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2014 and 2013:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Student tuition	\$ 7,797,857	\$ 8,140,753
Scholarships	457,096	777,319
Auxiliary enterprises and other operating activities	4,356,871	4,021,581
Federal, state and private grants and contracts	20,574,231	20,600,363
State appropriations	2,244,569	1,409,979
Accrued interest	92,201	89,614
Other	1,999,234	284,359
	<hr/>	<hr/>
Total Accounts Receivable	\$ 37,522,059	\$ 35,323,968
	<hr/>	<hr/>
Less allowance for doubtful accounts	(3,800,000)	(3,800,000)
	<hr/>	<hr/>
Accounts Receivable, Net	<u>\$ 33,722,059</u>	<u>\$ 31,523,968</u>



Fans tailgate in The District before a home football game.



Students studying abroad pose in front of the Eiffel Tower in Paris, France.

NOTE 4 NOTES RECEIVABLE FROM STUDENTS

Notes receivable from students are payable in installments over a period of up to ten years, commencing twelve months from the date of separation from the institution or the date that the enrollment status of the student drops below half-time. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the University at June 30, 2014 and 2013:

	Interest Rates	2014		
		June 30, 2014	Current Portion	Noncurrent Portion
Perkins student loans	3% to 5%	\$ 29,227,189	\$ 2,355,018	\$ 26,872,171
Institutional loans	0% to 3%	128,872	18,320	110,552
Nursing faculty loans	3%	445,180	14,136	431,044
Total Notes Receivable		\$ 29,801,241	\$ 2,387,474	\$ 27,413,767
Less allowance for doubtful accounts		(2,700,000)	(122,089)	(2,577,911)
Notes Receivable, Net		<u>\$ 27,101,241</u>	<u>\$ 2,265,385</u>	<u>\$ 24,835,856</u>
	Interest Rates	2013		
		June 30, 2013	Current Portion	Noncurrent Portion
Perkins student loans	3% to 5%	\$ 29,352,857	\$ 2,355,778	\$ 26,997,079
Institutional loans	0% to 3%	135,661	19,479	116,182
Nursing faculty loans	3%	409,661	8,875	400,786
Total Notes Receivable		\$ 29,898,179	\$ 2,384,132	\$ 27,514,047
Less allowance for doubtful accounts		(2,400,000)	(144,175)	(2,255,825)
Notes Receivable, Net		<u>\$ 27,498,179</u>	<u>\$ 2,239,957</u>	<u>\$ 25,258,222</u>



The DuBard School for Language Disorders raises funds through its annual DuBard Speakeasy event.

NOTE 5 CAPITAL ASSETS

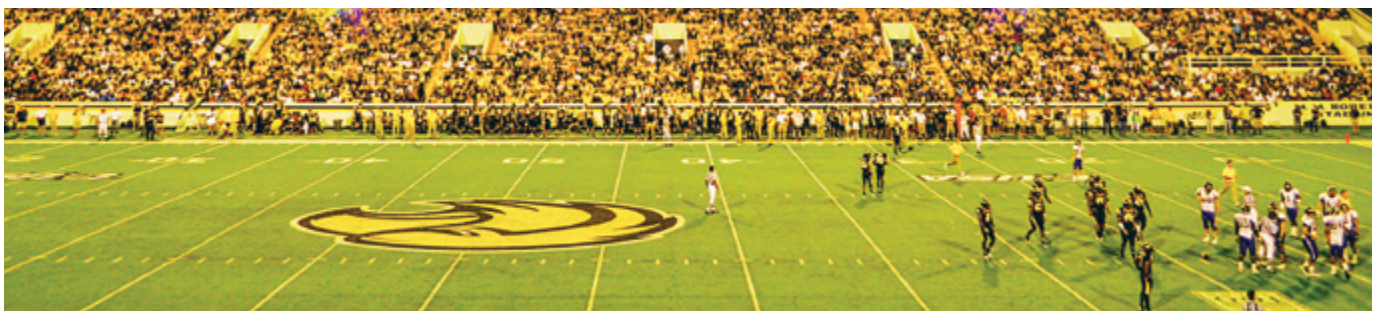
A summary of changes in capital assets for the years ended June 30, 2014 and 2013, respectively, is presented as follows:

	2014			
	July 1, 2013	Additions	Deletions	June 30, 2014
Nondepreciable Capital Assets:				
Land	\$ 15,576,531	\$ 625,539	\$ -	\$ 16,202,070
Construction in progress	23,701,646	71,675,817	4,759,952	90,617,511
Total Nondepreciable Capital Assets	\$ 39,278,177	\$ 72,301,356	\$ 4,759,952	\$ 106,819,581
Depreciable Capital Assets:				
Improvements other than buildings	\$ 39,711,519	\$ 4,582,406	\$ -	\$ 44,293,925
Buildings	472,600,608	2,271,001	2,628,604	472,243,005
Equipment	72,642,312	3,487,270	4,095,450	72,034,132
Assets under capital lease	1,615,485	202,125	-	1,817,610
Libraries	66,391,169	232,294	37,535	66,585,928
Total Cost of Depreciable Capital Assets	\$ 652,961,093	\$ 10,775,096	\$ 6,761,589	\$ 656,974,600
Total Cost of Capital Assets	\$ 692,239,270	\$ 83,076,452	\$ 11,521,541	\$ 763,794,181
Less Accumulated Depreciation for:				
Improvements other than buildings	\$ 10,121,086	\$ 1,613,038	\$ -	\$ 11,734,124
Buildings	93,744,744	9,019,257	311,686	102,452,315
Equipment	53,347,286	4,181,667	3,800,086	53,728,867
Assets under capital lease	652,616	148,668	-	801,284
Libraries	60,011,644	1,681,450	37,535	61,655,559
Total Accumulated Depreciation	\$ 217,877,376	\$ 16,644,080	\$ 4,149,307	\$ 230,372,149
Capital Assets, Net	\$ 474,361,894	\$ 66,432,372	\$ 7,372,234	\$ 533,422,032

	2013			
	June 30, 2012	Additions	Deletions	June 30, 2013
Nondepreciable Capital Assets:				
Land	\$ 14,796,476	\$ 859,055	\$ 79,000	\$ 15,576,531
Construction in progress	21,450,330	28,611,655	26,360,339	23,701,646
Total Nondepreciable Capital Assets	\$ 36,246,806	\$ 29,470,710	\$ 26,439,339	\$ 39,278,177
Depreciable Capital Assets:				
Improvements other than buildings	\$ 38,215,670	\$ 4,822,293	\$ 3,326,444	\$ 39,711,519
Buildings	447,138,867	31,062,389	5,600,648	472,600,608
Equipment	71,200,793	3,434,092	1,992,573	72,642,312
Assets under capital lease	1,671,398	-	55,913	1,615,485
Libraries	66,392,533	317,036	318,400	66,391,169
Total Cost of Depreciable Capital Assets	\$ 624,619,261	\$ 39,635,810	\$ 11,293,978	\$ 652,961,093
Total Cost of Capital Assets	\$ 660,866,067	\$ 69,106,520	\$ 37,733,317	\$ 692,239,270
Less Accumulated Depreciation for:				
Improvements other than buildings	\$ 9,971,759	\$ 1,522,177	\$ 1,372,850	\$ 10,121,086
Buildings	88,215,588	8,803,439	3,274,282	93,744,745
Equipment	50,478,695	4,814,618	1,946,028	53,347,285
Assets under capital lease	553,292	154,676	55,353	652,615
Libraries	58,475,992	1,854,053	318,400	60,011,645
Total Accumulated Depreciation	\$ 207,695,326	\$ 17,148,963	\$ 6,966,913	\$ 217,877,376
Capital Assets, Net	\$ 453,170,741	\$ 51,957,557	\$ 30,766,404	\$ 474,361,894

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:

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



The Southern Miss football team prepares to run a play.

NOTE 6
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2014 and 2013:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Payable to vendors and contractors	\$ 10,148,822	\$ 6,692,599
Accrued salaries, wages and employee withholdings	8,191,207	7,334,446
Accrued interest	2,797,632	2,478,830
Other	861,422	438,727
Total Accounts Payable and Accrued Liabilities	<u>\$ 21,999,083</u>	<u>\$ 16,944,602</u>

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

NOTE 7
UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30, 2014 and 2013:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Tuition and fees	\$ 6,505,531	\$ 6,332,368
Athletics ticket sales	1,218,858	1,073,254
Federal, state and private grants and contracts	6,580,354	5,041,660
Auxiliary room and board	195,746	270,526
Other	151,947	115,650
Total Unearned Revenues	<u>\$ 14,652,436</u>	<u>\$ 12,833,458</u>

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



Jennifer Torres, professor in the Department of Art and Design, wins the Seawall Art Award.

NOTE 8 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. Certificates of participation were issued for the construction of a parking garage on the main campus.

The University participates in the master lease/purchase program, which is a centralized program maintained by the IHL Board office of the Mississippi Institutions for Higher Learning in which the universities' essential governmental-use equipment needs are consolidated into and financed as one request. This consolidation means the cost of issuance is lower and the institutions collectively receive a better interest rate than they would have received individually. Lease terms for equipment purchased through the master lease/purchase program cover a period not to exceed five years. The University has the option to prepay all outstanding payments less any unearned interest

to fully satisfy the obligation. There is also a fiscal funding addendum stating that if funds are not appropriated for periodic payment for any future fiscal period, the lessee will not be obligated to pay the remainder of the total payments due beyond the end of the current fiscal period.

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

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

Information regarding original issue amounts, interest rates and maturity dates for bonds, notes, certificates of participation and capital leases included in the long term liabilities balance at June 30, 2014 and 2013, is listed in the following schedules. Schedules detailing the annual requirements necessary to amortize the outstanding debt are also provided.



Gulf Park students and employees join together to celebrate the Big Event, a university-wide community service project.

2014

Description and Purpose	Original Issue	Annual Interest Rate	Maturity (Fiscal Year)	2014			Due Within One Year	
				July 1, 2013	Additions	Deletions		June 30, 2014
Bonded Debt:								
SMEBC Series 2006A	\$ 24,855,000	3.63-5.00%	Serially to 2027	\$ 20,860,000	\$ -	\$ 1,625,000	\$ 19,235,000	\$ 1,690,000
SMEBC Series 2006B	18,725,000	3.63-5.00%	Serially to 2032	17,275,000	-	300,000	16,975,000	345,000
SMEBC Series 2007	27,190,000	4.00-5.00%	Serially to 2034	25,570,000	-	450,000	25,120,000	505,000
SMEBC Series 2009	49,900,000	2.75-5.375%	Serially to 2037	49,900,000	-	-	49,900,000	115,000
SMEBC Series 2013	51,875,000	2.00-5.00%	Serially to 2043	51,875,000	-	1,530,000	50,345,000	385,000
Total Bonded Debt	\$ 165,480,000			\$ 165,480,000	\$ -	\$ 3,905,000	\$ 161,575,000	\$ 3,040,000
Unamortized Premium				5,469,262	-	19,584	5,449,678	16,805
Total Bonded Debt, Net				\$ 170,949,262	\$ -	\$ 3,924,584	\$ 167,024,678	\$ 3,056,805
Capital Leases:								
Beechcraft King Air	1,585,165	4.50%	Monthly to 2019	\$ 885,050	\$ -	\$ 158,517	\$ 726,533	\$ 158,516
Football coaches' headsets	65,969	3.41%	Semi-annually to 2015	26,308	-	12,996	13,312	13,312
Voice over IP system	1,754,754	0.75%	Annually to 2018	-	1,754,754	353,609	1,401,145	346,357
Total Capital Leases				\$ 911,358	\$ 1,754,754	\$ 525,122	\$ 2,140,990	\$ 518,185
Revenue Notes:								
SMEBC Series 2007A	3,160,000	1.29%	Semi-annually to 2018	\$ 2,166,822	\$ -	\$ 379,190	\$ 1,787,632	\$ 454,203
Certificates of Participation:								
Parking Garage Project, Series 2009	15,520,000	2.00-5.125%	Semi-annually to 2040	\$ 14,955,000	\$ -	\$ 395,000	\$ 14,560,000	\$ 305,000
Other Long Term Liabilities:								
Accrued leave liabilities				\$ 9,716,305	\$ 362,529	\$ 88,645	\$ 9,990,189	\$ 1,150,000
Deposits refundable				31,594	1,149	-	32,743	-
Other noncurrent liabilities				27,063,856	-	327,944	26,735,912	-
Total Other Liabilities				\$ 36,811,755	\$ 363,678	\$ 416,589	\$ 36,758,844	\$ 1,150,000
Total				\$ 225,794,197	\$ 2,118,432	\$ 5,640,485	\$ 222,272,144	\$ 5,484,193
Due within one year							5,484,193	
Total Long Term Liabilities							\$ 216,787,951	

2013

Description and Purpose	Original Issue	Annual Interest Rate	Maturity (Fiscal Year)	2013			Due Within One Year
				July 1, 2012	Additions	Deletions	
Bonded Debt:							
SMEBC Series 1997A	\$ 5,335,000	4.20-6.00%	Serially to 2016	\$ 1,535,000	\$ -	\$ 1,535,000	\$ -
SMEBC Series 2006A	24,855,000	3.63-5.00%	Serially to 2027	22,420,000	-	1,560,000	20,860,000
SMEBC Series 2006B	18,725,000	3.63-5.00%	Serially to 2032	17,535,000	-	260,000	17,275,000
SMEBC Series 2007	27,190,000	4.00-5.00%	Serially to 2034	25,995,000	-	425,000	25,570,000
SMEBC Series 2009	49,900,000	2.75-5.375%	Serially to 2037	49,900,000	-	-	49,900,000
SMEBC Series 2013	51,875,000	2.00-5.00%	Serially to 2043	-	51,875,000	-	51,875,000
Total Bonded Debt				\$ 117,385,000	\$ 51,875,000	\$ 3,780,000	\$ 165,480,000
Unamortized Premium				-	5,469,262	-	5,469,262
Total Bonded Debt, net				\$ 117,385,000	\$ 57,344,262	\$ 3,780,000	\$ 170,949,262
Capital Leases:							
Audiology evaluation equipment	32,640	5.16%	Monthly to 2013	\$ 5,530	\$ -	\$ 5,530	\$ -
Audiology diagnosis equipment	41,269	5.16%	Monthly to 2013	6,993	-	6,993	-
Beechcraft King Air	1,585,165	4.50%	Monthly to 2019	1,043,567	-	158,517	885,050
Football coaches' headsets	65,969	3.41%	Semi-annually to 2015	38,872	-	12,564	26,308
Total Capital Leases				\$ 1,094,962	\$ -	\$ 183,604	\$ 911,358
Revenue Notes:							
SMEBC Series 2007A	3,160,000	6.29%	Semi-annually to 2018	\$ 2,475,505	\$ -	\$ 308,683	\$ 2,166,822
Certificates of Participation:							
Parking Garage Project, Series 2009	15,520,000	2.00-5.125%	Semi-annually to 2040	\$ 15,240,000	\$ -	\$ 285,000	\$ 14,955,000
Other Long Term Liabilities:							
Accrued leave liabilities				\$ 9,580,560	\$ 135,745	\$ -	\$ 9,716,305
Deposits refundable				31,751	-	157	31,594
Other noncurrent liabilities				27,365,658	-	301,802	27,063,856
Total Other Liabilities				\$ 36,977,969	\$ 135,745	\$ 301,959	\$ 36,811,755
Total				\$ 173,173,436	\$ 57,480,007	\$ 4,859,246	\$ 225,794,197
Due within one year							<u>6,220,287</u>
Total Long Term Liabilities							<u>\$ 219,573,910</u>



President Rodney D. Bennett distributes “diplomas” during the 40th anniversary graduation at The Children’s Center.

BONDS PAYABLE

S.M. Educational Building Corporation (SMEBC) issued bonds totaling \$5,335,000 in December 1997 (Series 1997A) for the refunding of SMEBC bonds issued September 1991 (Series 1991). The original bond issue provided funds for the construction of the Payne Center on the Hattiesburg campus. The outstanding bonds were currently refunded as part of the Series 2013 issue in June 2013.

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 main campus of Hattiesburg known as Century Park South, which includes a new student health clinic, administrative offices and a large multi-purpose space, and demolishing of abandoned facilities. A portion of the proceeds (\$1,160,000) were utilized to refund all of the outstanding SMEBC Revenue Bonds, Series 1997A (Payne Center Project) originally issued in December 1997 in the principal amount of \$5,335,000. The bonds bear interest at rates ranging from 2% to 5%, payable semi-annually with a final maturity in March 2043.



The Southern Arena Theatre presents "One Man, Two Guvnors" by Richard Bean as part of their summer program.

NOTES PAYABLE

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

CERTIFICATES OF PARTICIPATION

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

Scheduled maturities of Long Term Liabilities at June 30, 2014:

Fiscal Year	Bonded Debt	Capital Leases	Notes Payable	Certificates of Participation	Interest	Total
2015	\$ 3,056,805	\$ 518,185	\$ 454,203	\$ 305,000	\$ 8,499,951	\$ 12,834,144
2016	4,296,456	507,480	534,008	315,000	8,287,653	13,940,597
2017	4,260,175	510,106	627,691	330,000	8,107,882	13,835,854
2018	3,876,160	512,752	171,730	340,000	7,963,007	12,863,649
2019	4,287,408	92,467	-	355,000	7,748,286	12,483,161
2020 - 2024	24,906,588	-	-	2,020,000	34,937,486	61,864,074
2025 - 2029	31,257,557	-	-	2,535,000	28,792,237	62,584,794
2030 - 2034	43,603,950	-	-	3,265,000	17,795,633	64,664,583
2035 - 2039	29,300,475	-	-	4,215,000	6,251,793	39,767,268
2040 - 2043	18,179,104	-	-	880,000	136,696	19,195,800
Totals	<u>\$ 167,024,678</u>	<u>\$ 2,140,990</u>	<u>\$ 1,787,632</u>	<u>\$ 14,560,000</u>	<u>\$ 128,520,624</u>	<u>\$ 314,033,924</u>

NOTE 9

NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the years ended June 30, 2014 and 2013, respectively:

Functional Classification	2014								2013									
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$ 63,113,967	\$ 23,778,574	\$ 2,491,704	\$ 4,224,344	\$ 85	\$ -	\$ 2,411,735	\$ -	\$ 96,020,409	\$ 61,301,811	\$ 22,588,448	\$ 2,527,385	\$ 3,508,215	\$ 404	\$ -	\$ 1,750,544	\$ -	\$ 91,676,807
Research	18,044,789	6,523,648	1,260,522	11,386,945	247,831	-	3,244,625	-	40,708,360	19,169,036	6,398,600	1,284,168	10,124,288	224,863	-	3,046,705	-	40,247,660
Public service	8,784,595	2,536,868	476,265	5,689,018	48,310	-	1,212,241	-	18,747,297	9,622,401	2,664,178	463,635	4,978,411	45,495	-	1,272,904	-	19,047,024
Academic support	11,879,707	3,558,395	402,920	5,296,577	1,807	-	1,447,051	-	22,586,457	12,166,403	3,544,382	322,901	5,382,485	1,570	-	1,397,117	-	22,814,858
Student services	5,437,518	1,632,907	186,615	759,566	-	-	771,288	-	8,787,894	5,263,266	1,579,287	130,729	698,686	-	-	768,242	-	8,440,210
Institutional support	12,131,898	4,901,703	267,839	6,652,386	(300)	-	663,876	-	24,617,402	11,195,097	3,904,837	146,555	5,252,673	16	-	1,167,751	-	21,666,929
Operation of plant	7,201,572	3,024,072	(5,292)	11,691,186	7,277,038	-	1,936,383	-	31,124,959	6,633,924	2,765,762	(7,091)	9,245,812	5,959,653	-	1,998,963	-	26,597,023
Student aid	2,697	46	-	-	-	24,802,089	-	-	24,804,832	-	(1,678)	-	(3,410)	24,715,303	-	-	-	24,710,215
Auxiliary enterprises	13,689,177	3,682,262	2,827,989	8,022,826	3,046,976	-	4,334,364	-	35,603,594	12,662,072	3,367,371	2,304,138	8,138,606	2,528,388	-	4,266,104	-	33,266,679
Provision for leave	-	273,884	-	-	-	-	-	-	273,884	-	135,744	-	-	-	-	-	-	135,744
Depreciation	-	-	-	-	-	-	-	16,644,080	16,644,080	-	-	-	-	-	-	-	17,093,610	17,093,610
Loan fund expenses	-	-	-	21,674	-	-	-	-	21,674	-	-	-	20,348	-	-	-	-	20,348
Total Operating Expenses	\$ 140,285,920	\$ 49,912,359	\$ 7,908,562	\$ 53,744,522	\$ 10,621,747	\$ 24,802,089	\$ 16,021,563	\$ 16,644,080	\$ 319,940,842	\$ 138,014,010	\$ 46,946,931	\$ 7,172,420	\$ 47,346,114	\$ 8,760,389	\$ 24,715,303	\$ 15,668,330	\$ 17,093,610	\$ 305,717,107

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:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 1,414,001
2016	352,428
2017	261,509
2018	182,407
2019	<u>39,740</u>
Total Minimum Payments Required	<u>\$ 2,250,085</u>

The 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, 2014 and 2013, was \$1,573,936 and \$2,621,182, respectively.

NOTE 11
CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted or made commitments for various construction projects as of June 30, 2014. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

<u>Projects</u>	2014			
	<u>Total Costs to Complete</u>	<u>Funded by Federal Sources</u>	<u>Funded by State Sources</u>	<u>Institutional Funds</u>
College of Business building	\$ 7,352,402	\$ -	\$ 7,352,402	\$ -
Century Park South	7,152,393	-	-	7,152,393
GCRL Toxicology replacement	190,755	190,755	-	-
Southern Hall major renovation	405,940	-	-	405,940
Marsh Hall major renovation	207,984	-	-	207,984
Mannoni PAC major renovation	207,984	-	-	207,984
George Hurst major renovation	207,984	-	-	207,984
Ogletree major renovation	253,337	-	-	253,337
Marine Education Center building	320,709	320,709	-	-
Village drainage	94,000	-	-	94,000
Lucas Fountain renovation	212,541	-	-	212,541
Elizabeth Hall parking lot	36,603	-	-	36,603
Code Blue upgrades	27,346	-	-	27,346
Beach Park Place house renovations	481,108	-	-	481,108
Total	<u>\$ 17,151,086</u>	<u>\$ 511,464</u>	<u>\$ 7,352,402</u>	<u>\$ 9,287,220</u>

NOTE 12
DONOR RESTRICTED ENDOWMENTS

The net appreciation on investments of donor restricted endowments as of June 30, 2014 and 2013, that is available for authorization for expenditure is \$3,415,053 and \$3,018,383, respectively. This amount is included in the Statement of Net Position as endowment investments.



Seymour leads the annual Homecoming parade down the Eagle Walk.

NOTE 13 PENSION PLAN

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

Vesting Period – In 2007, the Mississippi Legislature amended the PERS plan to change the vesting period from four to eight years for members who entered the IHL System after July 1, 2007. A member who entered the System prior to July 1, 2007, is still subject to the four year vesting period

provided that the member does not subsequently refund their account balance.

Funding Policy – PERS members are required to contribute 9% of their annual covered salary, and the institution is required to contribute at an actuarially determined rate. At June 30, 2012, the actuarially determined rate was 12.93% of annual covered payroll. On July 1, 2012, the rate increased to 14.26% and then increased to 15.75% effective July 1, 2013. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The institutional contributions to PERS for the years ending June 30, 2014 and 2013, were \$12,958,228 and \$11,647,861, respectively, equal to the required contributions for each year.

The membership of the ORP is composed of teachers and administrators appointed or employed on or after July 1, 1990, who elect to participate in ORP and reject membership in PERS. Membership in ORP is offered as a recruitment tool for the universities. The University’s contributions to ORP for the years ending June 30, 2014 and 2013, were \$6,192,688 and \$5,497,944, respectively, equal to the required contributions for each year.

NOTE 14

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

The institution distributed \$96,907,081 and \$97,413,105 for the years ended June 30, 2014 and 2013, 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 15

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 combining information for the SMEBC and the University of Southern Mississippi Real Estate Foundation is presented below:

	<u>2014</u>	<u>2013</u>
Total Current Assets	3,816,008	4,698,774
Total Noncurrent Assets	183,372,310	183,372,310
Total Assets	\$ 187,188,318	\$ 188,071,084
Total Current Liabilities	3,816,008	4,698,774
Total Noncurrent Liabilities	183,372,310	183,372,310
Total Liabilities	\$ 187,188,318	\$ 188,071,084
Total Net Assets	\$ -	\$ -
Total Operating Revenues	-	-
Total Operating Expenses	-	-
Operating Income (Loss)	\$ -	\$ -
Total Nonoperating Revenues	6,340,859	6,529,739
Total Nonoperating Expenses	6,340,859	6,529,739
Change in Net Assets	\$ -	\$ -

NOTE 16 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 17 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 2014.



The Mississippi Opera and the Southern Opera and Musical Theatre Company present "The Merry Widow."

NOTE 18 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 Workers' Compensation Program for the fiscal years ended June 30, 2014 and 2013, were \$671,560 and \$811,766, 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 years ended June 30, 2014 and 2013, were \$219,292 and \$248,508, 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 years ended June 30, 2014 and 2013, were \$628,730 and \$491,930 respectively.

During the year ended June 30, 2003, the IHL Tort Fund was authorized by the IHL Board which subsequently acquired an educator's legal liability policy with a deductible of \$1 million of IHL Tort Fund net assets toward any future payment of this deductible. The University's payment for the blanket public official bond for fiscal years ended June 30, 2014 and 2013, were \$2,800 and \$3,150, respectively.

The Tort Claims Pool also purchases a fleet automobile policy. The University's payment for the fleet automobile policy for the fiscal years ended June 30, 2014 and 2013, were \$94,292 and \$90,886, respectively.

NOTE 19 RELATED PARTY

The University entered into a long term lease agreement with The University of Southern Mississippi Athletic Foundation (Foundation) for facilities to be constructed on property donated to the Foundation for the use and benefit of the University's golf teams. The Foundation will raise funds for the construction of golf facilities and upon completion of the construction of Phase 1

and Phase 2, the University will pay rent to the Foundation in the amount of two percent of the cost of the facilities. Until completion of Phase 1 and 2, the University will pay rent in the amount of \$1,000 per year to the Foundation. The term of the lease agreement is twenty years and the University has the right to extend the agreement for an additional six five-year option periods.





2014 ANNUAL
FINANCIAL
REPORT
UNAUDITED



THE UNIVERSITY OF
SOUTHERN
MISSISSIPPI®

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OFFICE OF THE CONTROLLER

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