

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

2015 ANNUAL FINANCIAL REPORT · UNAUDITED





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FINANCIAL REPORT

UNAUDITED

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MANAGEMENT'S
DISCUSSION
AND
ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) section introduces the financial statements and provides an analytical overview of its financial activities for the fiscal year ended June 30, 2015. Fiscal year 2014 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.

A dual-campus university, Southern Miss serves students on campuses in Hattiesburg and Long Beach, in addition to teaching and research sites along the Mississippi Gulf Coast. We've recently been named the top university in the state for online learning through Online at Southern Miss. The University offers undergraduate and graduate degree programs in six degree-granting colleges with more than 180 degree programs. 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.

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

The University is home to the sixth-oldest acceptance-based Honors College in the nation, along with nationally recognized programs in the arts, polymer science and business. Since 2006, Southern Miss students have collected seven Goldwater Scholarships, three Truman Scholarships and 14 National Science Foundation Graduate Research Fellowships. Our Center for Undergraduate Research affords our students meaningful research opportunities, and as a proven leader in innovation, we conduct transformative research that translates into real-world solutions. As one of only 36 institutions in the nation accredited in all areas of the arts, we are a haven for creativity and artistic expression. In the classroom or lab, on the playing field, or in the performance hall, we strive to have a positive impact not only on our students, but also the world around us.

OVERVIEW OF FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year.

This statement reflects the various assets, deferred outflows, liabilities, deferred inflows and net position of the University as of the fiscal year ended June 30, 2015.

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

Net position is divided into three categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant and equipment owned by the University. The second category is restricted net position,

which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by donors and or external entities that have placed time or purpose restrictions on the use of the assets. The last category, unrestricted net position, discloses the net position available to the University for any lawful purpose of the University.

At June 30, 2015, the University's assets and deferred outflows of resources reached \$727 million. Liabilities and deferred inflows of resources were \$445 million, leaving a net position of \$282 million.

CONDENSED STATEMENT OF NET POSITION

	June 30, 2015	Re-stated June 30, 2014	Increase (Decrease)	Percent Change
Current Assets:				
Cash and cash equivalents	\$ 37,864,600	\$ 42,159,678	\$ (4,295,078)	-10.2%
Short term investments	3,700,849	2,650,321	1,050,528	39.6%
Accounts receivable, net	24,915,523	33,722,059	(8,806,536)	-26.1%
Other current assets	7,483,071	7,871,702	(388,631)	-4.9%
Noncurrent Assets:				
Restricted cash and cash equivalents	3,228,219	13,739,166	(10,510,947)	-76.5%
Endowment and other long term investments	51,384,537	46,554,452	4,830,085	10.4%
Capital assets, net	552,843,926	533,422,032	19,421,894	3.6%
Other noncurrent assets	25,064,465	24,835,856	228,609	0.9%
Total Assets	\$ 706,485,190	\$ 704,955,266	\$ 1,529,924	0.2%
Deferred Outflows of Resources	\$ 20,585,442	\$ -	20,585,442	100.0%
Total Assets and Deferred Outflows of Resources	\$ 727,070,632	\$ 704,955,266	22,115,366	3.1%
Current Liabilities	\$ 43,919,457	\$ 42,157,795	\$ 1,761,662	4.2%
Noncurrent Liabilities	\$ 377,158,013	\$ 389,004,483	\$ (11,846,470)	-3.0%
Total Liabilities	\$ 421,077,470	\$ 431,162,278	\$ (10,084,808)	-2.3%
Deferred Inflows of Resources	\$ 23,690,414	\$ -	\$ 23,690,414	100.0%
Total Liabilities and Deferred Inflows of Resources	\$ 444,767,884	\$ 431,162,278	\$ 13,605,606	3.2%
Net Position:				
Net invested in capital assets	\$ 369,761,720	\$ 359,798,904	\$ 9,962,816	2.8%
Restricted	18,998,236	14,261,513	4,736,723	33.2%
Unrestricted	(106,457,208)	(100,267,429)	(6,189,779)	6.2%
Total Net Position	\$ 282,302,748	\$ 273,792,988	\$ 8,509,760	3.1%

THE UNIVERSITY'S ASSETS

A review of total assets reveals an increase of \$1.5 million for fiscal year 2015 over the prior fiscal year. The University's cash and cash equivalents include both current and noncurrent balances of \$38 million and \$3 million, respectively, at the end of fiscal year 2015. 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 \$15 million in 2015 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 on the Hattiesburg campus. Purchases of new short-term and long-term investments with excess operating cash in order to maximize investment earnings also contributed to the decrease in cash and cash equivalents.

Short-term investments increased \$1 million due to new investments purchased, partially offset by reclassifications from short-term to long-term investments in 2015. The majority of the \$9 million decrease in accounts receivable was due to the collection of payments for closed project worksheets and the write-off of uncollectible receivables from the Federal Emergency Management Agency (FEMA)

related to Hurricane Katrina projects on the Gulf Coast. The timing on the receipt of payments from the Athletic Foundation to Athletics also contributed to the decrease in accounts receivable. Other long-term investments increased \$5 million due to the purchase of long-term government securities in order to yield additional investment income.

Capital assets include land, land improvements, buildings and improvements, equipment, construction in progress and library materials. Net capital assets totaled \$553 million at June 30, 2015, compared to \$533 million at June 30, 2014. The Hattiesburg campus had several major construction projects underway, including two new state-of-the-art academic buildings. Construction was completed for a new residential complex, and major renovations neared completion for the Fine Arts Complex, including Mannoni Performing Arts Center, Marsh Hall and George Hurst Building in response to damages caused by a tornado in 2013. On the Gulf Park campus, the Beach Park Place houses were converted to a Health and Wellness Center, Fitness Center and School of Social Work. Funding for construction projects is provided by the Bureau of Building, Grounds and Real Property Management, insurance proceeds, private giving, external grant funds and bond proceeds.

THE UNIVERSITY'S DEFERRED OUTFLOWS

A new category of deferred outflows as mandated by Governmental Accounting Standards Board (GASB) statement no. 65 contains \$3 million related to debt refunding losses incurred in the current fiscal year. These losses will be amortized as a component of interest expense over the life of the new debt incurred and will offset some of the interest savings realized as a result of the refunding effort. Also included in the balance for fiscal year 2015 is \$17 million related to the implementation of GASB statement no. 68, *Accounting and Financial Reporting for Pensions*, which represents portions of the effects of (1) the change in the University's proportion of the collective net pension liability and (2) differences during the measurement period between the University's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability that are not recognized in the University's pension expense. Also, the University's contributions to the pension plan subsequent to the measurement date of the collective net pension liability are reported as deferred outflows of resources related to pensions.

THE UNIVERSITY'S LIABILITIES

Current liabilities consist primarily of accounts payable, accrued liabilities, unearned revenues related to operations, and the portion of long-term debt that is due to be paid in the subsequent fiscal year. The majority of accounts payable and accrued liabilities represent amounts owed for salaries, wages and benefits and supplies and services. Unearned revenues consist primarily of tuition revenues for the second term of the summer semester, football ticket revenue for the fall season, and external funds received on a fixed payment schedule with the expectation of a deliverable and any unexpended funds to be returned at the end of the project. The increase of \$2 million in current liabilities from 2014 to 2015 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 \$12 million is largely due to a change in the University's proportionate share of net pension liability in order to comply with a GASB statement no. 68. Fiscal year 2014 was restated to reflect the added net pension liability of \$172 million. In fiscal year 2015, the net pension liability decreased to \$163 million, representing a \$9 million decrease. The remaining \$3 million decrease occurred because of annual debt service payments made in fiscal year 2015.

THE UNIVERSITY'S DEFERRED INFLOWS

The balance of \$23 million in deferred inflows also relates to the implementation of GASB standard no. 68 and represents the University's proportionate share of the difference between projected and actual earnings on the pension plan. See Note no. 13 for further information related to the University's pension plan.

THE UNIVERSITY'S NET POSITION

Net position represents the residual interest in the University's assets and deferred outflows after all liabilities and deferred inflows are deducted. With the implementation of GASB statement no. 68 and recognition of a net pension liability, restated net position for the University for fiscal year 2014 is \$274 million. Net position increased to \$282 million in fiscal year 2015.

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 non-operating, and the expenses paid by the University, both operating and non-operating, 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. Non-operating revenues are revenues received for which goods and services are not provided. For example, state educational appropriations are non-operating because they are provided to the University without the state legislature directly receiving commensurate goods and services in return for those revenues. Non-operating 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.



Fans show their school spirit through Tailgating displays at The District.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2015	Re-stated Fiscal Year 2014	Increase (Decrease)	Percent Change
Operating Revenues:				
Tuition and fees, net	\$ 85,530,797	\$ 90,611,644	\$ (5,080,847)	-5.6%
Grants and contracts	61,357,605	64,363,812	(3,006,207)	-4.7%
Auxiliary enterprises	35,496,840	30,117,956	5,378,884	17.9%
Other operating revenues	7,399,923	7,571,971	(172,048)	-2.3%
Total Operating Revenues	\$ 189,785,165	\$ 192,665,383	\$ (2,880,218)	-1.5%
Operating Expenses	318,554,205	319,940,842	(1,386,637)	-0.4%
Operating Loss	\$ (128,769,040)	\$ (127,275,459)	\$ (1,493,581)	1.2%
Nonoperating Revenues (Expenses):				
State appropriations	\$ 86,060,895	\$ 85,342,768	\$ 718,127	0.8%
Other nonoperating revenue	31,080,098	49,624,845	(18,544,747)	-37.4%
Interest on debt	(7,198,880)	(6,383,567)	(815,313)	12.8%
Net Nonoperating Revenues	\$ 109,942,113	\$ 128,584,046	\$ (18,641,933)	-14.5%
Gain Before Other Revenues	\$ (18,826,927)	\$ 1,308,587	\$ (20,135,514)	-1538.7%
Capital grants and gifts	\$ 9,139,293	\$ 4,896,119	\$ 4,243,174	86.7%
Capital appropriations	18,784,632	15,877,660	2,906,972	18.3%
Other additions (deletions)	(587,238)	(1,286,306)	699,068	-54.3%
Total Other Revenues	\$ 27,336,687	\$ 19,487,473	\$ 7,849,214	40.3%
Increase in Net Position	\$ 8,509,760	\$ 20,796,060	\$ (12,286,300)	-59.1%
Net Position:				
Net Position at Beginning of the Year	273,792,988	425,213,460	(151,420,472)	-35.6%
Prior period adjustments	-	(172,216,532)	172,216,532	-100.0%
Net Assets at Beginning of Year, restated	\$ 273,792,988	\$ 252,996,928	\$ 20,796,060	8.2%
Net Position at End of the Year	\$ 282,302,748	\$ 273,792,988	\$ 8,509,760	3.1%

The Statement of Revenues, Expenses and Changes in Net Position presents an increase in net position of \$9 million for fiscal year ended June 30, 2015. As noted in the statement, the University experienced operating losses in 2015 and 2014 of \$129 million and \$127 million, respectively. These operating losses highlight the University's dependence on non-operating 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, 2015 and 2014, were \$190 million and \$193 million, respectively. Operating revenues include student tuition and fees that are net of scholarship

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

Although tuition rates increased 3.5% in fiscal year 2015 compared to fiscal year 2014, enrollment declined 3.5%. There was also an increase in scholarship allowances as more student financial aid was applied to charges on student accounts for tuition and fees in fiscal year 2015 compared to fiscal year 2014. This resulted in a net tuition and fees decrease of 6%.

Operating revenues for auxiliary enterprises increased \$5 million, but most of the increase was due to a reclassification of revenues from non-operating to operating for athletics and food services, coupled with a decrease in the scholarship allowance.

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. Non-exchange grant revenues are recorded when received or when eligibility criteria have been met and are reported as non-operating revenue.

In fiscal year 2015, the University experienced a \$3 million decrease in grants and contracts revenues compared to fiscal

year 2014. The decrease in federal grants and contracts revenues was largely attributable to the completion of a Housing and Urban Development (HUD) housing renovation project in the prior year and a reduction in NASA project expenditures in fiscal year 2015. Several new Department of Health and Human Services projects offset these decreases to some extent. The vast majority of other decreases reflect closeouts of smaller projects. Looking forward, many new awards are in the early stages of spending and progress, and the University expects increased operating revenues from grants and contracts in the coming fiscal year.

The following table details the University's grants and contracts operating revenues for the fiscal years ended June 30, 2015 and 2014:

	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)	Percent Change
Federal Award Sources:				
Department of Education	\$ 5,373,930	\$ 5,447,698	\$ (73,767)	-1.4%
National Science Foundation	3,511,313	3,391,083	120,230	3.5%
Department of Defense	4,766,155	5,054,006	(287,850)	-5.7%
NASA	1,422,962	2,757,916	(1,334,954)	-48.4%
Department of Commerce	8,323,537	8,269,250	54,288	0.7%
Department of Health and Human Services	7,957,345	5,931,545	2,025,800	34.2%
Department of Agriculture	1,153,110	1,022,798	130,312	12.7%
Department of Justice	79,135	458,241	(379,106)	-82.7%
Department of Homeland Security	1,403,075	684,260	718,815	105.0%
Department of Energy	39,263	107,102	(67,839)	-63.3%
Other	3,847,864	7,553,249	(3,705,385)	-49.1%
Total Federal Sources	\$ 37,877,690	\$ 40,677,147	\$ (2,799,457)	-6.9%
State Award Sources:				
Financial Aid	\$ 6,411,476	\$ 5,820,616	\$ 590,860	10.2%
Department of Education	1,143,925	1,462,333	(318,408)	-21.8%
Other	2,321,825	3,106,758	(784,933)	-25.3%
Total State Sources	\$ 9,877,226	\$ 10,389,707	\$ (512,481)	-4.9%
Other Sources	\$ 13,602,689	\$ 13,296,958	\$ 305,730	2.3%
Total Grants and Contracts	\$ 61,357,605	\$ 64,363,812	\$ (3,006,207)	-4.7%

NON-OPERATING REVENUES AND EXPENSES

The University's non-operating revenues of \$110 million assisted in offsetting some of the University's operating loss of \$129 million for 2015. In fiscal year 2015, the University received slightly more in state educational appropriations for operating purposes. The decrease of \$19 million in other

non-operating revenue is attributable to several factors, including some reclassifications of auxiliary enterprises revenue from non-operating to operating, decreases in financial aid provided from federal sources, as well as a decrease in revenues from insurance proceeds. The University reached a final settlement with the insurance carrier related to claims from the tornado of 2013 in fiscal year 2014 so no insurance proceeds were received in fiscal year 2015.

OPERATING EXPENSES

Operating expenses for the year ended June 30, 2015, totaling \$319 million, included \$190 million in compensation and benefits, \$89 million in supplies and other, \$23 million in scholarships, and \$17 million in depreciation.

A comparative summary of the University's expenses for the years ended June 30, 2015 and 2014, is as follows:

	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)	Percent Change
Operating Expenses:				
Compensation and benefits	\$ 190,158,298	\$ 190,198,279	\$ (39,981)	0.0%
Supplies and other	88,875,154	88,296,394	578,760	0.7%
Scholarships and fellowships	22,826,385	24,802,089	(1,975,704)	-8.0%
Depreciation	16,694,368	16,644,080	50,288	0.3%
Total Operating Expenses	\$ 318,554,205	\$ 319,940,842	\$ (1,386,637)	-0.4%

For the year ended June 30, 2015, total operating expenses decreased \$1 million. Scholarship expenses, which represent payments made directly to students after awards have been applied against tuition and fees charged to student accounts, decreased \$2 million as fewer refunds were distributed to students in fiscal year 2015 compared to 2014. This decrease was partially offset by an increase of \$0.5 million in supplies and other, which consists of contractual services, utilities, commodities and travel expenses. The increase was largely due to purchases of new furniture to equip the new residential complex that opened in fiscal year 2015.

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.

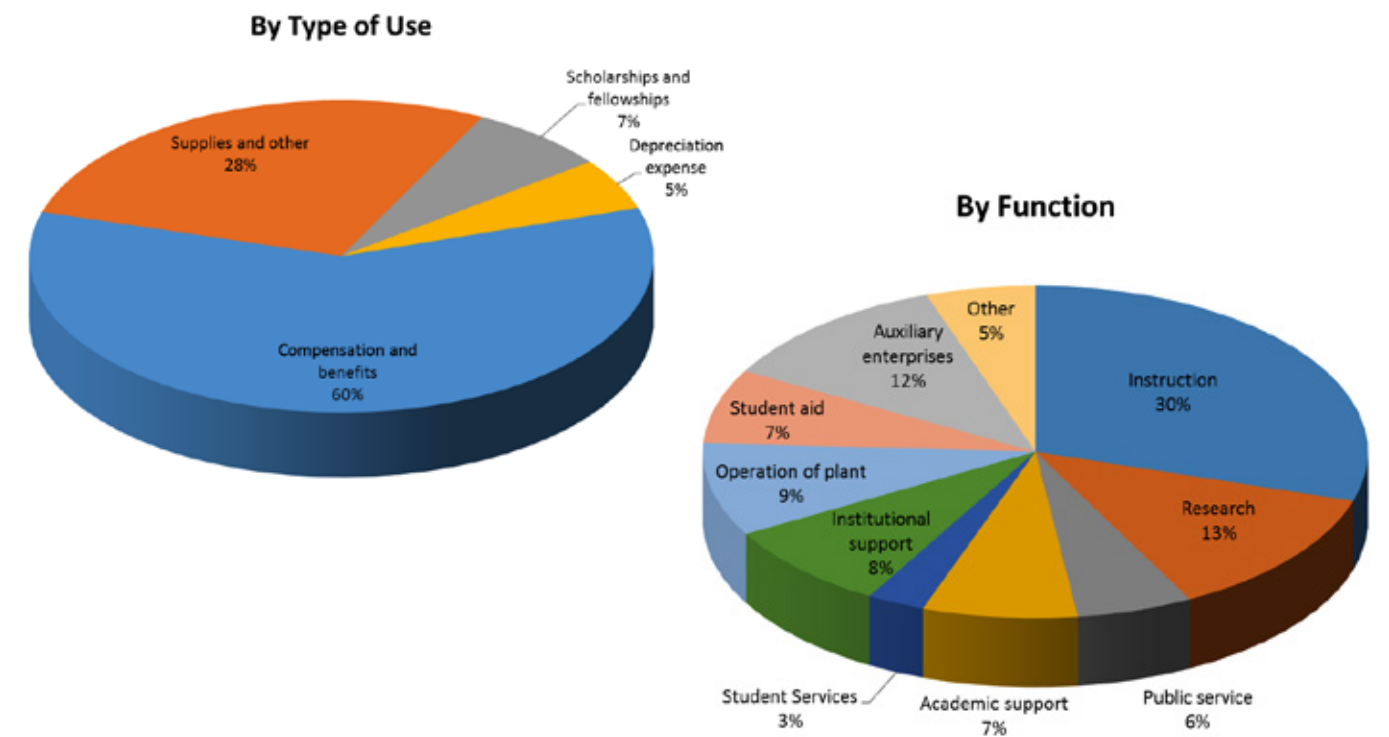


Students help clean up during the 2015 Big Event, a university-wide day of service.

A comparative summary and graphic illustration of the University's expenses by functional classification for the years ended June 30, 2015 and 2014, are as follows:

	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)	Percent Change
Operating Expenses:				
Instruction	\$ 94,648,771	\$ 96,020,409	\$ (1,371,638)	-1.4%
Research	40,237,167	40,708,360	(471,193)	-1.2%
Public service	17,662,300	18,747,297	(1,084,997)	-5.8%
Academic support	23,591,279	22,586,457	1,004,822	4.4%
Student services	9,250,029	8,787,894	462,135	5.3%
Institutional support	27,199,171	24,912,960	2,286,211	9.2%
Operation of plant	29,186,053	31,124,959	(1,938,906)	-6.2%
Student aid	22,826,385	24,804,832	(1,978,447)	-8.0%
Auxiliary enterprises	37,258,682	35,603,594	1,655,088	4.6%
Depreciation	16,694,368	16,644,080	50,288	0.3%
Total Operating Expenses	\$ 318,554,205	\$ 319,940,842	\$ (1,386,637)	-0.4%

FY 2015 OPERATING EXPENSES



Instructional expenses continued to represent the largest percentage of total operating expenses and consumed 50% of operating revenues for fiscal year 2015. Research expenditures accounted for 13% of total operating expenses and consumed 21% of operating revenues in fiscal year 2015.

OTHER CHANGES IN NET POSITION

Capital grants and gifts revenue increased \$4 million largely due to gifts received from donors for the new Nursing building and additional federally funded capital projects in fiscal year 2015 compared to 2014. State appropriations restricted for capital purposes increased \$3 million due to an increase in expenditures for capital projects funded by the Bureau of Building, Grounds and Real Property Management. The University received more donated capital assets, and fewer fixed assets were disposed of in fiscal year 2015 compared to 2014, which created most of the decrease in other additions or deletions.

CAPITAL ASSET AND DEBT ADMINISTRATION

The University must have campus facilities that are competitive to meet student enrollment goals. The University continues to execute its long-term plan to modernize and expand its teaching, research and student facilities with a balance of new construction and technology. The following are a few examples of how the University enhanced and improved the living-learning community of the Hattiesburg campus during fiscal year 2015:

- Continued construction on Scianna Hall for the College of Business
- Completed Century Park South residential complex and the connecting of Moffitt Health Center
- Continued construction on 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
- Began development of a pedestrian walkway from Pride Field to Scianna Hall

The University remains committed to the growth and improvement of the Gulf Park campus and its coastal teaching and research sites. The Gulf Park campus completed renovations to the Beach Park Place houses, which now house the Health and Wellness Center, Fitness Center and School of Social Work. Also, construction on the second floor addition to the Nursing Building began in fiscal year 2015.

The Gulf Coast Research Laboratory continues to rebuild from the destruction caused by Hurricane Katrina in 2005. A new Toxicology Building and Marine Education Center are in the beginning stages of construction.

At June 30, 2015, the University had \$185 million of debt outstanding, of which \$7 million was classified as current. Debt obligations bear interest at fixed rates ranging from 0.5% to 5.375% and mature at various dates through fiscal year 2043.

During fiscal year 2015, the S.M. Educational Building Corporation issued bonds totaling \$55,290,000 (Series 2015A & 2015B) for refunding portions of SMEBC bonds issued in June 2006 (Series 2006A & 2006B) and April 2007 (Series 2007). Net proceeds of the refunding were deposited into irrevocable trusts for each of the refunded issues to provide all future debt service of the refunded debt. Accordingly, for financial reporting purposes, the defeased bonds and related trust accounts are not included in the financial statements. As a result of the refunding, the University reduced its debt service by \$6.6 million over the next 19 years and obtained an economic gain of \$5.1 million.

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 2015	Fiscal Year 2014	Increase (Decrease)	Percent Change
Cash and Cash Equivalents Provided (Used) by:				
Operating activities	\$ (105,978,190)	\$ (104,182,076)	\$ (1,796,114)	1.7%
Noncapital financing activities	117,069,704	120,032,391	(2,962,687)	-2.5%
Capital and related financing activities	(21,050,822)	(66,257,167)	45,206,345	-68.2%
Investing activities	(4,846,717)	4,241,622	(9,088,339)	-214.3%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (14,806,025)	\$ (46,165,230)	\$ 31,359,205	-67.9%
Cash and Cash Equivalents - Beginning of the Year	55,898,844	102,064,074	(46,165,230)	-45.2%
Cash and Cash Equivalents - End of the Year	\$ 41,092,819	\$ 55,898,844	\$ (14,806,025)	-26.5%

Major sources of funds included in operating activities for the year ended June 30, 2015, were net student tuition and fees of \$86 million, grants and contracts of \$67 million, and auxiliary enterprises of \$37 million. Major uses of funds included in operating activities were payments for employees' salaries and benefits of \$192 million, payments to suppliers of \$80 million, and scholarships and loans to students of \$29 million.

The overall net use of cash for operating activities increased. This was principally due to a decrease in net tuition and fees revenue and increases in payments to employees and vendors. This decrease was somewhat offset by the reclassification of revenue for athletics and food services previously discussed in this narrative.



The University's newest research vessel, *Point Sur*, arrives at the Port of Gulfport.

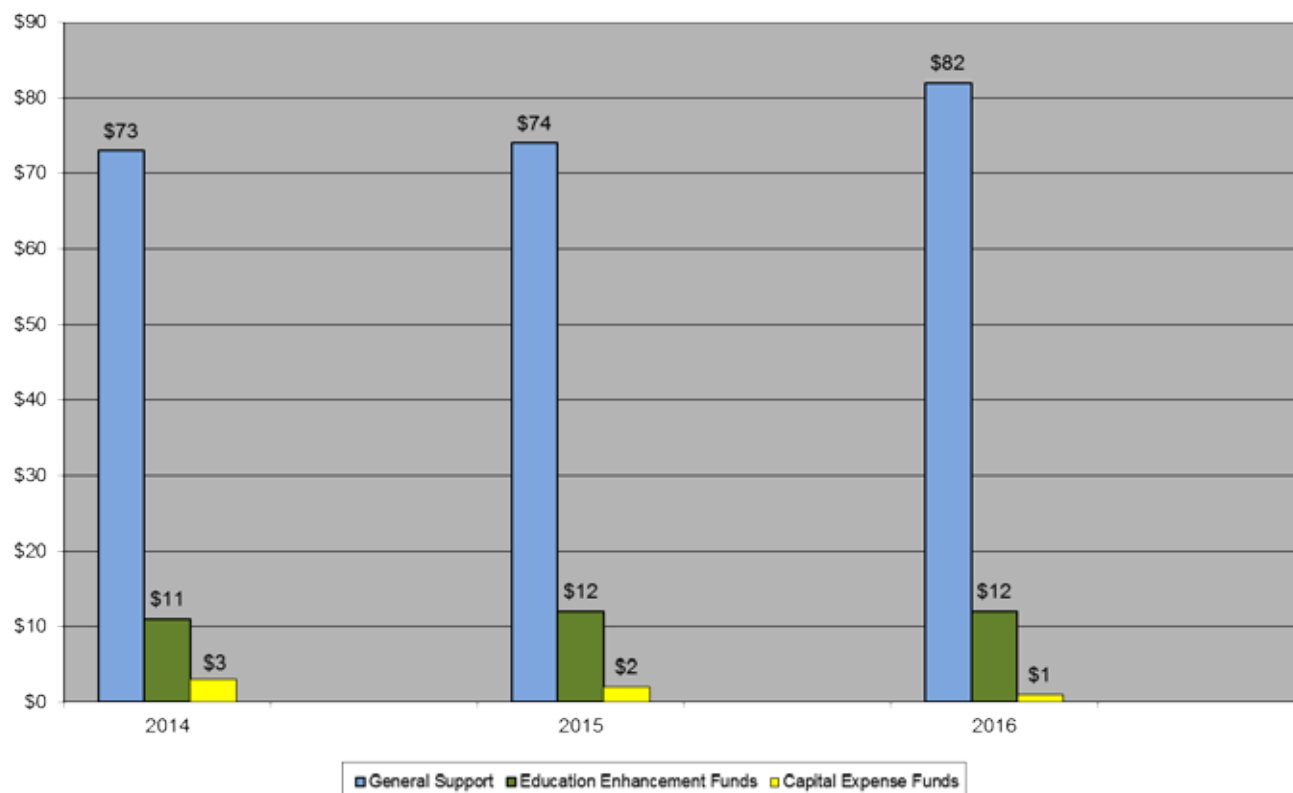
Net cash provided by noncapital financing activities decreased \$3 million overall. This decrease was attributable to the reclassification of gift revenue from non-operating revenue to operating revenue discussed previously, partially offset by an increase in state appropriations.

Net cash used for capital and related financing activities decreased \$45 million primarily due to a reduction in contractor payments for the Century Park South residential complex. Other significant transactions that contributed to the decrease in cash used were additional capital appropriations received from the State of Mississippi, as well as private capital gifts received for Asbury Hall.

Net cash provided for investing activities decreased \$9 million in fiscal year 2015 compared to fiscal year 2014. Although there were more funds available for investment purchases as proceeds from sales and maturities of investments increased, the combination of additional investment purchases, as well as a reduction in receipts of insurance proceeds, resulted in an overall decrease.

The chart below shows the various types of appropriations received for fiscal years 2014 and 2015 and estimated for fiscal year 2016.

STATE APPROPRIATION FY 2014 AND 2015 AND EST. FY 2016 (\$ IN MILLIONS)



ECONOMIC OUTLOOK

As opposed to recent years, the University’s fiscal 2016 budget was prepared during a more stable economic time in the State of Mississippi. Fiscal year 2016 educational and general fund (E&G) budgeted state appropriations increased \$8 million to \$94 million. This reflects a 9% increase from fiscal 2015 actual receipts. In addition to the \$94 million stated above, the University will also receive one-time capital expense funds in fiscal year 2016 in the amount of \$1 million. These much-needed funds are to be used to cover capital expenditures at the Gulf Coast Research Laboratory. The University received capital expense funds in fiscal year 2015 in the amount of \$2 million. These funds were used to make much-needed building and parking lot repairs on the Hattiesburg campus.

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 43% of the University’s budgeted educational and general fund revenue comes from state appropriations.



A campus street was dedicated to Ray Guy in honor of his induction in to the Pro Football Hall of Fame.

Budgeted general support appropriations, which are considered to be more permanent in nature, increased \$8 million, or 11%, for fiscal year 2016 compared to actual receipts from fiscal year 2015. Five million dollars of this increase is earmarked for the Gulf Coast Research Laboratory. The Educational Enhancement Fund (EEF) appropriation amount, which was 14% of state funding in 2015, is estimated to remain at \$12 million for fiscal year 2016. EEF will make up approximately 13% of the University’s total educational and general state funding in 2016. 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 continue to rise. In an effort to offset increased operational costs, a 3.5% tuition rate increase was requested by the University and approved by the Institutions of Higher Learning (IHL) Board. This rate increase went into effect for the fall 2015 semester. A direct relationship exists 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.



Members of the inaugural cohort of the Kennard Scholars Program

FINANCIAL STATEMENTS



STATEMENT OF NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

Assets and Deferred Outflows	2015
Current Assets:	
Cash and cash equivalents	\$ 37,864,600
Short term investments (Note 2)	3,700,849
Accounts receivables, net (Note 3)	24,915,523
Student notes receivables, net (Note 4)	2,158,645
Inventories	346,734
Prepaid expenses	4,977,692
Total current assets	\$ 73,964,043
Non-Current Assets:	
Restricted cash and cash equivalents	\$ 3,228,219
Endowment investments (Note 2)	3,947,169
Other long term investments (Note 2)	47,437,368
Student notes receivable, net (Note 4)	25,064,465
Capital assets, net (Note 5)	552,843,926
Total noncurrent assets	\$ 632,521,147
Total assets	\$ 706,485,190
Deferred outflows of resources:	
Difference between expected and actual experience	\$ 2,549,465
Changes in proportionate share	1,017,859
Contributions subsequent to the measurement date	13,559,324
Accumulated deferred amount of debt refundings	3,458,794
Total deferred outflows of resources	\$ 20,585,442
Total assets and deferred outflows of resources	\$ 727,070,632
Liabilities, Deferred Inflows and Net Position	
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities (Note 6)	\$ 19,702,384
Unearned revenues (Note 7)	16,232,433
Accrued leave liabilities-current portion (Note 8)	1,180,000
Long term liabilities-current portion (Note 8)	6,758,725
Other current liabilities	45,915
Total Current liabilities	\$ 43,919,457
Non-current liabilities:	
Net pension liability (Note 8)	\$ 163,430,215
Deposits refundable (Note 8)	33,223
Accrued leave liabilities (Note 8)	8,883,335
Long term liabilities (Note 8)	178,110,173
Other non-current liabilities (Note 8)	26,701,067
Total non-current liabilities	\$ 377,158,013
Total liabilities	\$ 421,077,470
Deferred inflows of resources:	
Difference between projected and actual earnings on pension plan	\$ 23,690,414
Total liabilities and deferred inflows of resources	\$ 444,767,884
Net Position:	
Net Invested in Capital Assets	\$ 369,761,720
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	569,090
Expendable:	
Scholarships and fellowships	443,662
Debt service	7,677,356
Loans	5,838,450
Other purposes	4,469,678
Unrestricted	(106,457,208)
Total net position	\$ 282,302,748

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Assets	June 30, 2015 and 2014	
	2015	2014
Cash and cash equivalents	\$ 1,014,651	8,260,263
Accrued earnings	116,679	108,915
Prepaid assets and other receivables (note 2)	244,369	1,447,102
Pledges receivable, net (note 3)	12,052,041	17,255,245
Investments (notes 4 and 5)	97,824,663	87,964,720
Amounts due from externally managed trusts (note 6)	817,080	856,903
Net investment in direct financing lease (note 7)	634,855	798,668
Property and equipment, net (note 8)	69,485	144,874
Total assets	\$ 112,773,823	116,836,690
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 758,795	562,123
Gift annuities payable	305,330	343,582
Total liabilities	1,064,125	905,705
Net assets:		
Unrestricted	5,392,868	5,128,785
Temporarily restricted (note 9)	42,722,252	51,563,139
Permanently restricted (note 10)	63,594,578	59,239,061
Total net assets	111,709,698	115,930,985
Total liabilities and net assets	\$ 112,773,823	116,836,690

See accompanying notes to consolidated financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	2015
Operating revenues:	
Tuition and fees:	\$ 129,514,463
Less scholarship allowances	(43,983,666)
Net tuition and fees	\$ 85,530,797
Federal grants and contracts	37,877,690
State grants and contracts	9,877,226
Nongovernmental grants and contracts	13,602,689
Sales and services of educational departments	2,722,438
Auxiliary enterprises:	
Student housing	16,304,185
Food services	2,938,666
Bookstore	1,283,000
Athletics	13,021,954
Other auxiliary revenues	4,169,926
Less auxiliary enterprise scholarship allowances	(2,220,891)
Interest earned on loans to students	4,480
Other operating revenues, net	4,673,005
Total operating revenues	\$ 189,785,165
Operating expenses:	
Salaries and wages	\$ 141,598,117
Fringe benefits	48,560,181
Travel	7,760,865
Contractual services	53,325,674
Utilities	10,533,388
Scholarships and fellowships	22,826,385
Commodities	17,255,227
Depreciation	16,694,368
Total operating expenses (Note 10)	\$ 318,554,205
Operating Loss	\$ (128,769,040)
Nonoperating revenues (expenses):	
State appropriations	\$ 86,060,895
Gifts and grants	30,142,832
Investment income	937,266
Interest expense on capital asset-related debt	(7,198,880)
Total nonoperating revenues (expenses), net	\$ 109,942,113
Loss before other revenues, expenses, gains and losses	\$ (18,826,927)
Other revenues, expenses, gains and losses:	
Capital grants and gifts	9,139,293
State appropriations restricted for capital purposes	18,784,632
Other additions	713,145
Other deletions	(1,300,383)
Change in net position	\$ 8,509,760
Net position - beginning of year, as adjusted (Note 1)	273,792,988
Net position - end of year	\$ 282,302,748

CONSOLIDATED STATEMENTS OF ACTIVITIES

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

	Year ended June 30, 2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support:				
Contributions	\$ 1,847,693	3,684,355	2,331,508	7,863,556
Net investment gain (note 4)	1,442,572	292,479	66,693	1,801,744
Change in value of split interest agreements	—	(590)	(99,904)	(100,494)
Other	44,774	32,071	22	76,867
Total revenues, gains and other support	3,335,039	4,008,315	2,298,319	9,641,673
Changes in restrictions:				
Change in restriction by donors	(10,614)	(2,046,584)	2,057,198	—
Net assets released from restrictions (note 11)	10,802,618	(10,802,618)	—	—
Total changes in restrictions	10,792,004	(12,849,202)	2,057,198	—
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	11,158,123	—	—	11,158,123
Supporting services:				
General and administrative	1,633,572	—	—	1,633,572
Fundraising	1,071,265	—	—	1,071,265
Total supporting services	2,704,837	—	—	2,704,837
Total expenses	13,862,960	—	—	13,862,960
Change in net assets	264,083	(8,840,887)	4,355,517	(4,221,287)
Net assets at beginning of year	5,128,785	51,563,139	59,239,061	115,930,985
Net assets at end of year	\$ 5,392,868	42,722,252	63,594,578	111,709,698
	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 (note 4)	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	3,343,898	21,850,471	3,842,782	29,037,151
Changes in restrictions:				
Change in restriction by donors	(93,935)	(306,756)	400,691	—
Net assets released from restrictions (note 11)	11,458,304	(11,458,304)	—	—
Total changes in restrictions	11,364,369	(11,765,060)	400,691	—
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	11,732,008	—	—	11,732,008
Supporting services:				
General and administrative	1,596,007	—	—	1,596,007
Fundraising	987,265	—	—	987,265
Total supporting services	2,583,272	—	—	2,583,272
Total expenses	14,315,280	—	—	14,315,280
Change 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	\$ 5,128,785	51,563,139	59,239,061	115,930,985

STATEMENT OF CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

STATEMENT OF CASH FLOWS

CONTINUED

	<u>2015</u>
Operating activities:	
Tuition and Fees	\$ 85,920,716
Grants and Contracts	66,730,209
Sales and Services of Educational Departments	2,722,438
Payments to Suppliers	(79,954,340)
Payments to Employees for Salaries and Benefits	(191,472,146)
Payments for Utilities	(10,542,099)
Payments for Scholarships and Fellowships	(23,030,454)
Loans Issued to Students and Employees	(6,017,967)
Collection of Loans to Students and Employees	5,544,791
Auxiliary Enterprise Charges:	
Student Housing	15,629,248
Food Services	2,952,087
Bookstore	1,317,243
Athletics	13,223,865
Other Auxiliary Enterprises	4,155,665
Other Receipts	6,842,554
Net cash used by operating activities	<u>\$ (105,978,190)</u>
Noncapital financing activities:	
State Appropriations	\$ 86,515,083
Gifts and Grants for Other Than Capital Purposes	30,655,318
Federal Loan Program Receipts	86,826,481
Federal Loan Program Disbursements	(86,951,010)
Other Sources	23,832
Net cash provided by noncapital financing activities	<u>\$ 117,069,704</u>
Capital and related financing activities:	
Proceeds from Capital Debt	\$ 59,579,586
Cash Paid for Capital Assets	(19,816,492)
Capital Appropriations Received	2,971,278
Capital Grants and Contracts Received	8,469,445
Proceeds from Sales of Capital Assets	13,163
Principal Paid on Capital Debt and Leases	(60,223,988)
Interest Paid on Capital Debt and Leases	(7,690,331)
Other Sources	433,175
Other Uses	(4,786,658)
Net cash used by capital and related financing activities	<u>\$ (21,050,822)</u>
Investing activities:	
Proceeds from Sales and Maturities of Investments	\$ 18,863,864
Interest Received on Investments	937,802
Purchases of Investments	(24,648,383)
Net cash used by investing activities	<u>\$ (4,846,717)</u>
Net change in cash and cash equivalents	<u>\$ (14,806,025)</u>
Cash and cash equivalents - beginning of year	55,898,844
Cash and cash equivalents - end of year	<u>\$ 41,092,819</u>

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

Operating Income (Loss)	\$ (128,769,040)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation expense	16,694,368
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Receivables, Net	8,220,967
Inventories	11,904
Prepaid Expenses	(16,856,661)
Other Assets	
Increase (Decrease) in Liabilities:	
Accounts Payables and Accrued Liabilities	(10,467,053)
Unearned Revenue	25,270,412
Deposits Refundable	480
Accrued Leave Liability	73,146
Loans to Students and Employees	(156,713)
Total Adjustments	<u>\$ 22,790,850</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (105,978,190)</u>
Reconciliation of cash and cash equivalents:	
Current assets - cash and cash equivalents	37,864,600
Noncurrent assets - restricted cash and cash equivalents	3,228,219
Cash and cash equivalents - end of year	<u>\$ 41,092,819</u>

ENTER NON-CASH TRANSACTIONS BELOW: (See GASB #9, Paragraph 37)

1) State Appropriations Restricted for Capital Purposes	\$ 15,813,354
2) Unrealized Gain/(Loss) on Fair Value of Investments	(1,228)
3) Donation of Capital Assets	279,969
4) Capital Assets Acquired from Capital Leases	206,448
	<u>\$ 16,298,543</u>

STATEMENT OF CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

	Years ended June 30, 2015 and 2014	
	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (4,221,287)	14,721,871
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	56,390	125,821
(Gain) loss on disposal of property and equipment	(1,001)	2,888
Fair value of donated assets	(25,000)	—
Realized and unrealized (gains) losses on investments, net	18,625	(8,994,839)
Permanently restricted contributions	(2,331,508)	(2,325,549)
Permanently restricted dividends and interest	(13,666)	(14,749)
Change in amounts due from externally managed trusts	39,823	(112,632)
Change in gift annuities and pooled income fund	6,660	(48,455)
Present value adjustments to annuities	12,349	42,883
Transfer of property to the University	90,000	—
Changes in operating assets and liabilities:		
Accrued earnings	(7,764)	20,030
Prepaid assets and other receivables	1,202,733	(1,255,666)
Pledges receivable, net	5,203,204	(3,186,409)
Accounts payable	196,672	(106,947)
Net cash provided by (used in) operating activities	226,230	(1,131,753)
Cash flows from investing activities:		
Purchases of property and equipment	—	(71,841)
Proceeds from sale of property and equipment	20,000	33,059
Purchases of investments	(20,771,737)	(19,213,136)
Proceeds from sales and maturities of investments	10,821,509	23,538,311
Principal payments received under direct financing lease	163,813	156,617
Net cash (used in) provided by investing activities	(9,766,415)	4,443,010
Cash flows from financing activities:		
Principal payments on line of credit	—	(782,113)
Permanently restricted contributions	2,331,508	2,325,549
Permanently restricted dividends and interest	13,666	14,749
Change in investments subject to annuity agreements	(4,467)	—
Annuity payments	(46,134)	(52,986)
Net cash provided by financing activities	2,294,573	1,505,199
Net (decrease) increase in cash and cash equivalents	(7,245,612)	4,816,456
Cash and cash equivalents at beginning of year	8,260,263	3,443,807
Cash and cash equivalents at end of year	\$ 1,014,651	8,260,263
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ —	1,823

See accompanying notes to consolidated financial statements.





NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

REPORTING ENTITY

The Mississippi Constitution was amended in 1943 to create a Board of Trustees of State Institutions of Higher Learning (IHL). This constitutional Board provides management and control of Mississippi's system of public higher education. The Board members are to be appointed by the Governor with the approval of the Senate. The 12 member board is comprised of four members from each Supreme Court district. The terms are staggered so that all members have a term of nine years. The IHL is considered a component unit of the State of Mississippi reporting entity.

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, 2015, the Foundation distributed \$11.2 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, 2015

	2015
Fixed Income:	
U.S. Government securities	3,430,583
Corporate bonds	5,846,610
Mutual funds	25,636,245
Index funds	-
Other fixed income securities	3,299,636
Total fixed income	<u>38,213,075</u>
Equities:	
Common stocks	-
Mutual and common stock funds	49,368,285
Index funds	-
Total equities	<u>49,368,285</u>
Alternative investments:	
Hedge funds	3,788,381
Structured credit funds	1,567,715
Real estate owned	-
Real estate investment funds	2,419,042
Total alternative investments	<u>7,775,138</u>
Cash surrender value of insurance policies	2,397,134
Other	71,032
Total investments	<u>97,824,663</u>

THE FOLLOWING SCHEDULE SUMMARIZES THE NET INVESTMENT GAIN (LOSS) AND RELATED NET ASSET CLASSIFICATION IN THE CONSOLIDATED STATEMENT OF ACTIVITIES

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$350,000)	\$ 1,596,462	210,242	13,666	1,820,370
Realized gains (losses), net	(57,982)	2,232,578	11,430	2,186,026
Unrealized gains, net	(95,908)	(2,150,341)	41,597	(2,204,652)
Total	<u>\$ 1,442,572</u>	<u>292,479</u>	<u>66,693</u>	<u>1,801,744</u>

BASIS OF PRESENTATION

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

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

BASIS OF ACCOUNTING

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

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

USE OF ESTIMATES

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

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

possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the University’s financial statements.

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

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

CASH EQUIVALENTS

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

SHORT-TERM INVESTMENTS

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

ACCOUNTS RECEIVABLE, NET

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

STUDENT NOTES RECEIVABLE, NET

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

INVENTORIES

Inventories consist of items stocked for repairs, maintenance, retail operations and the student 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.



Dr. Julie Howdeshell talks about the University’s Quality Enhancement Plan.

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 2015 was approximately \$0.5 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 15 years of service; and 18 hours per month for 15 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 15 years of service; and 16 hours per month for 15 years of service and over. There is no limit on the accumulation of major medical leave. At retirement, these employees are paid for up to 240 hours of accumulated major medical leave.

PENSIONS

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

NONCURRENT LIABILITIES

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

one year, are to be paid from funds that are classified as noncurrent assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method 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 \$27 million as of June 30, 2015.

CLASSIFICATION OF REVENUES AND EXPENSES

The University has classified its revenues and expenses as either operating or non-operating 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.

Non-operating revenues and expenses have the characteristics of non-exchange transactions and are defined in GASB No. 9, *Reporting Cash Flows of Proprietary Fund Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34. Examples of non-operating revenues include state appropriations, gifts and contributions, and investment income. Included in non-operating gifts and grants are federally awarded student financial aid program revenues of approximately \$28 million for the year ending June 30, 2015. Examples of non-operating 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.

NEW ACCOUNTING STANDARD

The University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the year ended June 30, 2015. The statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result, costs related to the pension plan previously expensed were adjusted through an adjustment to net position as of July 1, 2013.

The implementation of this standard resulted in a net pension liability, and the effect of adoption is a reduction of beginning net position.

THE FOLLOWING SCHEDULE SUMMARIZES THE IMPACT ON NET POSITION FOR FISCAL YEAR 2014.

Net position - beginning of period, as previously reported	\$ 425,213,460
Less: proportionate share of net pension liability	<u>(185,174,524)</u>
Beginning of period, as adjusted	240,038,936
Change in net position, as previously reported	20,796,060
Impact of GASB No. 68 implementation	<u>12,957,992</u>
Change in net position, as adjusted	<u>33,754,052</u>
Net position - end of period, as adjusted	<u>\$ 273,792,988</u>

NOTE 2 CASH AND INVESTMENTS

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

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

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

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



Winners of this year's Eagles Write! celebration..

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, 2015

Statement of Net Position Classification	June 30, 2015 Fair Value
Short term investments - current assets	\$ 3,700,849
Noncurrent assets:	
Endowment investments	3,947,169
Other long term investments	47,437,368
Total	\$ 55,085,386

THE FOLLOWING TABLE PRESENTS THE FAIR VALUE OF INVESTMENTS BY TYPE AT JUNE 30, 2015

Investment Type	June 30, 2015 Fair Value
U.S. government agency obligations	\$ 33,009,528
Collateralized mortgage obligations	8,608,124
Mortgage backed securities	-
U.S. Treasury obligations	6,631,433
Certificate of deposit	2,264,094
Domestic equity mutual funds	102,336
International equity mutual funds	85,757
Fixed income mutual funds	285,984
Money market funds	186,865
Domestic equity securities	1,777,915
Non-US equity securities	493,041
Municipal bonds	889,698
Corporate bonds	750,611
Total	\$ 55,085,386

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, 2015.

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, 2015, the University had the following investments subject to interest rate risk:

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

CREDIT RISK

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

As of June 30, 2015, the University had the following investments subject to credit risk:

Rating	June 30, 2015 Fair Value
AAA	\$ 1,264,390
Aaa	221,075
AA	35,089,938
A	2,233,439
BA	13,872
BAA	133,972
BBB	36,566
Rating not available	4,379,060
Total	\$ 43,372,312

CONCENTRATION OF CREDIT RISK

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

The University had the following investments that represent more than five percent of investments as of June 30, 2015:

Issuer	June 30, 2015	
	Fair Value	% of Total Investments
Federal National Mortgage Association	\$11,450,240	20.8%
Federal Home Loan Bank	14,187,413	25.8%
Federal Farm Credit Bank	7,259,506	13.2%
Federal Home Loan Mortgage Corporation	6,796,162	12.3%

FOREIGN CURRENCY RISK

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment. The State of Mississippi Institutions of Higher Learning System does not presently have a formal

policy that addresses foreign currency risk. The University's exposure to foreign currency risk was limited to investments in international equity mutual funds of \$85,757 at June 30, 2015, and American Depository Receipts (ADRs) for non-U.S. equities of \$493,041 at June 30, 2015.

**NOTE 3
ACCOUNTS RECEIVABLE**

ACCOUNTS RECEIVABLE CONSISTED OF THE FOLLOWING AS OF JUNE 30, 2015

	<u>June 30, 2015</u>
Student tuition	\$ 6,967,649
Scholarships	256,124
Auxiliary enterprises and other operating activities	2,207,457
Federal, state and private grants and contracts	17,082,788
State appropriations	1,790,381
Accrued interest	83,423
Other	<u>327,700</u>
 Total Accounts Receivable	 \$ 28,715,523
 Less allowance for doubtful accounts	 <u>(3,800,000)</u>
 Accounts Receivable, Net	 <u>\$ 24,915,523</u>



Members of The Pride of Mississippi Marching Band greet their fans during a football game.

**NOTE 4
NOTES RECEIVABLE FROM STUDENTS**

Notes receivable from students are payable in installments over a period of up to 10 years, commencing 12 months from the date of separation from the institution or the date that the enrollment status of the student drops below half-time.

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

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



Southern Miss football defensive back, Justin Abston

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2015, is presented as follows:

	2015			
	July 1, 2014	Additions	Deletions	June 30, 2015
Nondepreciable Capital Assets:				
Land	\$ 16,202,070	\$ 1,100,071	\$ -	\$ 17,302,141
Construction in progress	90,617,511	29,350,723	63,837,752	56,130,482
Total Nondepreciable Capital Assets	\$ 106,819,581	\$ 30,450,794	\$ 63,837,752	\$ 73,432,623
Depreciable Capital Assets:				
Improvements other than buildings	\$ 44,293,925	\$ 2,947,310	\$ -	\$ 47,241,235
Buildings	472,243,005	62,756,759	197,492	534,802,272
Equipment	72,034,132	3,664,123	1,850,816	73,847,439
Assets under capital lease	1,817,610	206,448	30,320.00	1,993,738
Libraries	66,585,928	204,077	32,373	66,757,632
Total Cost of Depreciable Capital Assets	\$ 656,974,600	\$ 69,778,717	\$ 2,111,001	\$ 724,642,316
Total Cost of Capital Assets	\$ 763,794,181	\$ 100,229,511	\$ 65,948,753	\$ 798,074,939
Less Accumulated Depreciation for:				
Improvements other than buildings	\$ 11,734,124	\$ 1,652,767	\$ -	\$ 13,386,891
Buildings	102,452,315	9,185,832	44,282	111,593,865
Equipment	53,728,867	4,132,919	1,758,849	56,102,937
Assets under capital lease	801,284	264,540	30,017	1,035,807
Libraries	61,655,559	1,488,328	32,373	63,111,514
Total Accumulated Depreciation	\$ 230,372,149	\$ 16,724,386	\$ 1,865,521	\$ 245,231,014
Capital Assets, Net	\$ 533,422,032	\$ 83,505,125	\$ 64,083,232	\$ 552,843,926

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

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

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2015
Payable to vendors and contractors	\$ 8,211,106
Accrued salaries, wages and employee withholdings	9,061,097
Accrued interest	2,306,199
Other	123,982
Total Accounts Payable and Accrued Liabilities	\$ 19,702,384

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

NOTE 7 UNEARNED REVENUES

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

	June 30, 2015
Tuition and fees	\$ 5,977,877
Athletics ticket sales	1,360,431
Federal, state and private grants and contracts	8,597,436
Auxiliary room and board	206,890
Other	89,800
Total Unearned Revenues	\$ 16,232,433

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



A ribbon-cutting ceremony for Scianna Hall, new home to the College of Business on the Hattiesburg campus, was held September 4, 2015.

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 Hattiesburg campus.

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



Students in the Southern Miss Theatre department perform *By The Way, Meet Vera Stark*

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, 2015, is listed in the following schedules. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.



Laura Whitmore, a Department of Marine Science master's student, worked at the North Pole on a research cruise earlier this year.

Description and Purpose	Original Issue	Annual Interest Rate	Maturity (Fiscal Year)	2015			Due Within One Year
				July 1, 2014	Additions	Deletions	
Bonded Debt:							
SMEBC Series 2002	17,285,000	3.00-5.38%	Serially to 2012	\$ -	\$ -	\$ -	\$ -
SMEBC Series 2006A	24,855,000	3.63-5.00%	Serially to 2027	19,235,000	-	17,470,000	1,765,000
SMEBC Series 2006B	18,725,000	3.63-5.00%	Serially to 2032	16,975,000	-	16,580,000	395,000
SMEBC Series 2007	27,190,000	4.00-5.00%	Serially to 2034	25,120,000	-	24,005,000	535,000
SMEBC Series 2009	49,900,000	2.75-5.375%	Serially to 2037	49,900,000	-	115,000	225,000
SMEBC Series 2013	51,875,000	2.00-5.00%	Serially to 2043	50,345,000	-	385,000	1,295,000
SMEBC Series 2015A	38,600,000	2.00-5.00%	Serially to 2034	-	38,600,000	-	255,000
SMEBC Series 2015B	16,690,000	0.50-3.25%	Serially to 2027	-	16,690,000	-	375,000
Total Bonded Debt				\$ 161,575,000	\$ 55,290,000	\$ 58,555,000	\$ 4,845,000
Unamortized Premium				5,449,678	4,289,586	391,600	557,237
Total Bonded Debt, net				\$ 167,024,678	\$ 59,579,586	\$ 58,946,600	\$ 5,402,237
Capital Leases:							
Beecheriff King Air	1,585,165	4.50%	Monthly to 2019	\$ 726,533	\$ -	\$ 158,516	\$ 158,517
Football coaches' headsets	65,969	3.41%	Semi-annually to 2015	13,312	-	13,312	-
Voice over IP System	1,754,754	0.75%	Annually to 2018	1,401,145	-	346,357	348,963
Total Capital Leases				\$ 2,140,990	\$ -	\$ 518,185	\$ 507,480
Revenue Notes:							
SMEBC Series 2007A	3,160,000	1.29%	Semi-annually to 2018	\$ 1,787,632	\$ -	\$ 454,203	\$ 534,008
Total Revenue Notes				\$ 1,787,632	\$ -	\$ 454,203	\$ 534,008
Certificates of Participation:							
Parking Garage Project, Series 2009	15,520,000	2.00-5.125%	Semi-annually to 2040	\$ 14,560,000	\$ -	\$ 305,000	\$ 315,000
Total Certificates of Participation				\$ 14,560,000	\$ -	\$ 305,000	\$ 315,000
Other Long Term Liabilities:							
Net pension liability				\$ 172,216,532	\$ 15,001,955	\$ 23,788,272.00	\$ -
Accrued leave liabilities				9,990,189	205,734	132,588	1,180,000
Deposits refundable				32,743	10,400	9,920	-
Other noncurrent liabilities				26,735,912	-	34,845	-
Total Other Liabilities				\$ 36,758,844	\$ 216,134	\$ 177,353	\$ 1,180,000
Total				\$ 222,272,144	\$ 59,795,720	\$ 60,401,341	\$ 7,938,725
Due within one year							\$ 213,727,798
Total Long Term Liabilities							\$ 7,938,725

BONDS PAYABLE

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

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

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

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

S.M. Educational Building Corporation issued bonds totaling \$51,875,000 in June 2013 (Series 2013) to provide funds for the construction, furnishing and equipping of a 954-bed student residential complex on the 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.

S.M. Educational Building Corporation issued bonds totaling \$55,290,000 in April 2015 (Series 2015A & 2015B) for refunding of portions of SMEBC bonds issued in June 2006 (Series 2006A & 2006B) and April 2007 (Series 2007). Outstanding coupons bear interest at rates ranging from .50%

to 5.00% with final maturity in March 2034. Net proceeds of the refunding were deposited into irrevocable trusts for each of the refunded issues to provide all future debt service of the refunded debt. Accordingly, for financial reporting purposes, the defeased bonds and related trust accounts are not included in the financial statements. As a result of the refunding, the University reduced its debt service by \$6.6 million over the next 19 years and obtained an economic gain of \$5.1 million.

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.



College of Business students compete at the spring Southern Entrepreneurship Program.

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, 2015:

Fiscal Year	Bonded Debt	Capital Leases	Notes Payable	Certificates of Participation	Interest	Total
2016	\$ 4,845,000	\$ 507,480	\$ 534,008	\$ 315,000	\$ 7,338,015	\$ 13,539,502
2017	4,520,000	510,106	627,691	330,000	7,442,412	13,430,209
2018	4,105,000	512,752	171,730	340,000	7,326,376	12,455,858
2019	4,420,000	92,467	-	355,000	7,212,977	12,080,444
2020	4,785,000	-	-	370,000	7,072,836	12,227,836
2021 - 2025	24,785,000	-	-	2,110,000	32,531,357	59,426,357
2026 - 2030	33,075,000	-	-	2,665,000	26,008,178	61,748,178
2031 - 2035	41,355,000	-	-	3,435,000	16,349,125	61,139,125
2036 - 2040	23,810,000	-	-	4,335,000	6,535,272	34,680,272
2041 - 2043	12,610,000	-	-	-	1,293,750	13,903,750
Totals	\$ 158,310,000	\$ 1,622,805	\$ 1,333,429	\$ 14,255,000	\$ 119,110,298	\$ 294,631,532

NOTE 9 OPERATING LEASES

Property under operating leases is composed of office space, land, computer software and equipment. The following is a schedule by years of the future minimum rental payments required under those operating leases:

Fiscal Year	Amount
2016	\$1,157,490
2017	520,957
2018	273,926
2019	100,072
2020	28,211
Total Minimum Payments Required	\$2,080,656

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

NOTE 10 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Functional Classification	2015							Total	
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities		Depreciation Expense
Instruction	\$ 64,165,038	\$ 21,904,795	\$ 2,560,148	\$ 3,963,794	\$ 1,045	\$ -	\$ 2,053,951	\$ -	\$ 94,648,771
Research	16,763,782	8,106,435	1,187,342	11,020,998	248,362	-	2,910,248	-	40,237,167
Public service	9,580,133	2,619,475	595,771	3,632,778	14,170	-	1,219,973	-	17,662,300
Academic support	12,231,616	3,465,243	366,979	5,796,333	1,243	-	1,729,865	-	23,591,279
Student services	5,859,198	1,569,062	261,044	856,308	-	-	704,417	-	9,250,029
Institutional support	12,089,636	4,503,787	217,689	9,628,705	2,615	-	756,739	-	27,199,171
Operation of plant	7,417,505	2,890,624	(16,962)	9,873,157	7,044,093	-	1,977,636	-	29,186,053
Student aid	-	-	-	-	-	22,826,385	-	-	22,826,385
Auxiliary enterprises	13,491,209	3,500,760	2,588,854	8,553,601	3,221,860	-	5,902,398	-	37,258,682
Depreciation	-	-	-	-	-	-	-	16,694,368	16,694,368
Total Operating Expenses	\$ 141,598,117	\$ 48,560,181	\$ 7,760,865	\$ 53,325,674	\$ 10,533,388	\$ 22,826,385	\$ 17,255,227	\$ 16,694,368	\$ 318,554,205



NOTE 11 CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted or made commitments for various construction projects as of June 30, 2015. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Projects	2015			
	Total Costs to Complete	Funded by Federal Sources	Funded by State Sources	Institutional Funds
College Hall Restoration/Renovation	\$ 10,212	\$ -	\$ 10,212	\$ -
College of Business Building	5,757,758	-	5,757,758	-
Administration Building Major Renovation	2,871,836	-	2,871,836	-
College of Nursing Building	20,112,417	1,786,419	12,389,917	5,936,081
College of Nursing Building - Design	195,453	-	-	195,453
GCRL Toxicology Replacement	99,489	99,489	-	-
Marsh Hall Major Renovation	10,000	-	-	10,000
Mannoni PAC Major Renovation	10,000	-	-	10,000
George Hurst Major Renovation	10,000	-	-	10,000
Marine Education Center Building	13,260,000	13,260,000	-	-
MDOT Pride Field - Scianna Hall Pathway	12,950	-	-	12,950
3501 Morningside Drive	82,500	-	-	82,500
3401 Pearl Street	118,750	-	-	118,750
Bond Hall ADA Elevator	3,500	-	-	3,500
Walker Science Mechanical System	2,289,092	-	-	2,289,092
Gulf Park Nursing Second Floor	394,738	-	-	394,738
University Signage and Wayfinding	173,839	-	-	173,839
Hillcrest Roof Replacement	156,260	-	-	156,260
Gulf Park Gateway	484,831	-	-	484,831
Soccer Field	130,172	-	-	130,172
Pride Field Turf/Director's Tower	9,100	-	-	9,100
Total	\$ 46,192,897	\$ 15,145,908	\$ 21,029,723	\$ 10,017,266

NOTE 12 DONOR RESTRICTED ENDOWMENTS

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



Southern Miss Alumna and Miss Mississippi 2015, Hannah Roberts, finishes first runner-up in the Miss America 2016 competition.

NOTE 13 PENSION PLAN

PLAN DESCRIPTION

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

VESTING PERIOD

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

FUNDING POLICY

PERS members are required to contribute 9.0% of their annual salary, and the institution is required to contribute at

an actuarially determined rate. The actuarially determined rate was 15.75% of annual covered payroll at June 30, 2015 and 2014. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The University's contributions to PERS for the years ending June 30, 2015, 2014 and 2013, were \$13,657,183, \$12,957,992 and \$11,647,861, respectively. ORP contribution rates are identical to the PERS rates. University contributions for the years ending June 30, 2015, 2014 and 2013 approximated \$6,435,381, \$6,192,688 and \$5,497,944, respectively. Such contributions equaled the required contributions for each respective year.

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

At June 30, 2015, the University reported a liability of \$163.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The University's proportionate share of the net pension liability as of June 30, 2014 and 2013, was 1.35% and 1.34%, respectively.

For the year ended June 30, 2015, the University recognized pension expense of \$11,434,630. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources					Deferred inflows of resources			
Differences between expected and actual experience	Changes of assumptions	Changes in proportion and differences between Employer contributions and proportionate share of contributions	Contributions subsequent to the measurement date	Total deferred outflows of resources	Differences between expected and actual experience	Net difference between projected and actual investment earnings on pension plan investments	Changes of assumptions	Total deferred inflows of resources
\$ 2,549,465.18	-	\$ 1,017,859.23	\$ (97,851.60)	\$ 3,469,472.80	-	\$ 23,690,414.27	-	\$ 23,690,414.27

\$97,852 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as an increase to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Deferred Inflows of Resources, <i>net</i>
The University of Southern Mississippi:	
2016	\$ 4,639,394
2017	4,639,394
2018	4,921,700
2019	5,922,602
2020	-
Thereafter	-
Total	<u>\$ 20,123,090</u>

ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2014
Actuarial cost method	Entry age, normal
Actuarial assumptions:	
Discount rate	8.00%
Inflation	3.50%
Payroll growth	4.25%
Projected salary increase	4.50-20.00% ⁽¹⁾
Investment rate of return	8.00% ⁽²⁾

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an

actuarial experience study for the period July 1, 2008, to June 30, 2012. The experience report is dated June 12, 2013.

DISCOUNT RATE

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense, and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

SENSITIVITY OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 8.00%, as well as what the IHL System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate:

The University of Southern Mississippi	1% Decrease (7.00%)	Current discount rate (8.00%)	1% Increase (9.00%)
Net pension liability	\$ 222,804,127	\$ 163,430,221	\$ 113,903,556

PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

SCHEDULE OF THE UNIVERSITY OF SOUTHERN MISSISSIPPI'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF MISSISSIPPI

LAST 10 FISCAL YEARS*

Proportion of the net pension liability	1.3464%
Proportionate share of the net pension liability	\$ 163,430,221
Covered-employee payroll	\$ 82,272,965
Proportionate share of the net pension liability as percentage of covered-employee payroll	198.64%
Plan fiduciary net position	\$ 24,877,119
Plan fiduciary net position as a percentage of the total pension liability	67.21%

NOTES TO SCHEDULE:

CHANGES IN ASSUMPTIONS

In 2013 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2013. In 2013, withdrawal rates, pre-retirement mortality rates, disability rates and retirement rates were adjusted to more closely reflect actual experience. In 2013, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

*Fiscal year 2015 was the first year of implementation; therefore, only one year is presented.

SCHEDULE OF USM CONTRIBUTIONS**PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF MISSISSIPPI****LAST 10 FISCAL YEARS***

Statutorily required employer contribution	\$	12,957,992
Contributions in relation to statutorily required contributions		<u>12,957,992</u>
Annual contribution deficiency (excess)		-
Covered-employee payroll	\$	82,272,965
Actual contributions as a percentage of covered-employee payroll		15.75%

NOTES TO SCHEDULE:**VALUATION DATE**

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Price inflation	3.50 percent
Salary increase	4.50 percent to 20.00 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

*Fiscal year 2015 was the first year of implementation; therefore, only one year is presented.

NOTE 14**FEDERAL DIRECT LENDING AND FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAMS**

The institution distributed \$86,951,010 for the year ended June 30, 2015, 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 combined information for the SMEBC and The University of Southern Mississippi Real Estate Foundation is presented below:

	2015
Total Current Assets	\$ 6,251,245
Total Noncurrent Assets	<u>176,994,848</u>
Total Assets	\$ 183,246,093
Total Current Liabilities	6,251,245
Total Noncurrent Liabilities	<u>176,994,848</u>
Total Liabilities	\$ 183,246,093
Total Net Position	<u>\$ -</u>
Total Operating Revenues	
Total Operating Expenses	
Operating Income (Loss)	\$ -
Total Nonoperating Revenues	7,769,599
Total Nonoperating Expenses	<u>7,769,599</u>
Change in Net Position	\$ -

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 2015.



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's compensation benefits to eligible employees. The WC Fund does not pay benefits directly to employees. Funds are set aside in trust, and a third party administrator is utilized to distribute the benefits to eligible employees. University payment to the Worker's Compensation Program for the fiscal year ended June 30, 2015, was \$890,859.

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

NOTE 19 RELATED PARTY

The University has a long-term lease agreement with The University of Southern Mississippi Athletic Foundation (Foundation) for facilities to be constructed on property donated to the Foundation for the use and benefit of the University's golf teams. The Foundation will raise funds for the construction of golf facilities, and upon completion of the construction of Phase 1 and Phase 2, the University will

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

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

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

pay rent to the Foundation in the amount of two percent of the cost of the facilities. Until completion of Phase 1 and 2, the University will pay rent in the amount of \$1,000 per year to the Foundation. The term of the lease agreement is 20 years, and the University has the right to extend the agreement for an additional six five-year option periods.



2015 ANNUAL

FINANCIAL REPORT

UNAUDITED



THE UNIVERSITY OF
SOUTHERN
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