
The University of Southern Mississippi

2018 ANNUAL FINANCIAL REPORT • UNAUDITED





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Management's Discussion and Analysis





MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) section introduces the financial statements and provides an analytical overview of its financial activities for the fiscal year ended June 30, 2018. Fiscal year 2017 data is presented for comparative purposes. Responsibility for the accuracy of the information and the completeness and fairness of its presentation, including all disclosures, rests with the management of the University. The Management's Discussion and Analysis section is designed to focus on current activities, resulting changes and currently known facts, and should be read in conjunction with the accompanying financial statements and notes thereto.

THE INSTITUTION

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

With a diverse student body of approximately 14,730 students from 70 foreign countries, all regions of the United States and every corner of Mississippi, we celebrate diversity in every sense of the word. The University offers undergraduate and graduate degree programs in four degree-granting colleges with 141 bachelor's degree programs. The Graduate School offers 127 master's degrees, 81 doctoral degrees, and 29 specialist's and certificate programs. A dual-campus university, Southern Miss serves students on campuses in Hattiesburg and Long Beach, in addition to five teaching and research sites in Mississippi. The University is home to the sixth-oldest acceptance-based

Honors College in the nation, along with nationally recognized programs in the arts, polymer science and business.

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

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

OVERVIEW OF FINANCIAL STATEMENTS

The University's financial statements present the financial condition, the results of operations and cash flows of the University, through three primary financial statements and notes to the financial statements. The three financial statements consist of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements. The financial statements of The University of Southern Mississippi Foundation, a component unit of the University, are presented discretely from the University; however, the 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, 2018, and 2017.

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, 2018, the University's assets and deferred outflows of resources reached \$785 million. Liabilities and deferred inflows of resources were \$485 million leaving a net position of \$300 million, an overall increase in net position of \$11 million compared to fiscal year 2017.

CONDENSED STATEMENT OF NET POSITION

	June 30, 2018	(Restated) June 30, 2017	Increase (Decrease)	Percent Change
Current Assets:				
Cash and cash equivalents	\$ 34,062,336	\$ 23,913,029	\$ 10,149,307	42.4%
Short term investments	4,273,057	4,850,278	(577,221)	-11.9%
Accounts receivable, net	27,940,262	23,451,443	4,488,819	19.1%
Other current assets	9,095,847	7,093,983	2,001,864	28.2%
Noncurrent Assets:				
Restricted cash and cash equivalents	3,853,995	1,489	3,852,506	258731.1%
Endowment and other long term investments	57,132,504	61,345,542	(4,213,038)	-6.9%
Capital assets, net	587,013,585	582,696,488	4,317,097	0.7%
Other noncurrent assets	25,022,156	26,719,655	(1,697,499)	-6.4%
Total Assets	\$ 748,393,741	\$ 730,071,907	\$ 18,321,834	2.5%
Deferred Outflows of Resources	\$ 36,894,626	\$ 56,583,438	\$ (19,688,812)	-34.8%
Total Assets and Deferred Outflows of Resources	\$ 785,288,367	\$ 786,655,345	(1,366,978)	-0.2%
Current Liabilities	\$ 40,033,835	\$ 39,608,317	\$ 425,518	1.1%
Noncurrent Liabilities	439,374,794	456,967,287	(17,592,493)	-3.8%
Total Liabilities	\$ 479,408,629	\$ 496,575,604	\$ (17,166,975)	-3.5%
Deferred Inflows of Resources	\$ 5,564,578	\$ 621,075	\$ 4,943,503	796.0%
Total Liabilities and Deferred Inflows of Resources	\$ 484,973,207	\$ 497,196,679	\$ (12,223,472)	-2.5%
Net Position:				
Net invested in capital assets	\$ 403,713,486	\$ 400,182,256	\$ 3,531,230	0.9%
Restricted	45,713,740	35,437,323	10,276,417	29.0%
Unrestricted	(149,112,067)	(146,160,913)	(2,951,154)	2.0%
Total Net Position	\$ 300,315,159	\$ 289,458,666	\$ 10,856,493	3.8%



THE UNIVERSITY'S ASSETS

A review of total assets reveals an increase of \$18.3 million for fiscal year 2018 over the prior fiscal year. The University's cash and cash equivalents include both current and noncurrent balances of \$34 million and \$3.9 million, respectively, at the end of fiscal year 2018. Noncurrent restricted cash and cash equivalents include funds held in escrow accounts to be used for specific capital purposes. The University considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents.

Short-term investments decreased \$600 thousand due to reinvestment of maturing assets to long-term investments. FEMA accounts receivable constitute the majority of the \$4.5 million increase in net accounts receivable.

Capital assets include land, land improvements, buildings and improvements, equipment, construction in progress and library materials. Net capital assets totaled \$587 million at June 30, 2018, compared to \$583 million at June 30, 2017. The Hattiesburg campus completed construction on two pedestrian pathways and began construction on a third. Construction was also completed on a new biological science facility at Lake Thoreau and near completion on the Joe Paul Theater located in the Thad Cochran Center. Major renovations began on the former business building, Joseph Green Hall, and were completed on the Lucas Administration Building. On the Gulf Park campus, construction was completed on the new North Academic Building.

Construction of a pedestrian pathway and a new Student Resource Center is underway. Construction was completed on a new state-of-the-art Toxicology facility at the Gulf Coast Research Laboratory (GCRL) site, as well as the new Marine Education Center. Major renovations to the Caylor Building on that site are near completion. Funding for construction projects is provided by the Bureau of Building, Grounds and Real Property Management, insurance proceeds, private giving, external grant funds and bond proceeds.

THE UNIVERSITY'S DEFERRED OUTFLOWS

The University's Deferred Outflows are comprised of debt amortization, the pension changes, and the Other Post-Employment Benefits (OPEB) liability related to the State and School Employees' Life and Health Insurance Plan. The pension changes and the OPEB liability are associated with compliance of GASB 68 and 75, respectively. Overall, Deferred Outflows decreased from \$56 million in fiscal year 2017 to \$36 million in fiscal year 2018. The accumulated deferred amount related to debt refunding increased by \$0.7 million, the deferred outflows related to the pension plan liability decreased by \$20.7 million, and the retroactive OPEB liability was \$0.5 million for 2017 and \$0.8 million for 2018. This represents portions of the effects of (1) the change in the University's proportion of the collective net pension liability and (2) differences during the measurement period between the University's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability that are not recognized in the University's pension expense.

Also, the University's contributions to the pension plan subsequent to the measurement date of the collective net pension liability are reported as deferred outflows of resources related to pensions. Lastly, it represents the University's proportionate share of the net OPEB liability for its employees who participate in the State and School Employees' Life and Health Insurance Plan. The net OPEB liability is measured as the total OPEB liability less the amount of the fiduciary net position of the plan.

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 decrease in noncurrent liabilities of \$17 million is primarily due to a change in the University's proportionate share of the net pension liability in order to comply with pension reporting requirements.

THE UNIVERSITY'S DEFERRED INFLOWS

Deferred Inflows increased \$5 million from fiscal year 2017 to fiscal year 2018. This line item represents the University's proportionate share of the difference between projected and actual earnings on the pension plan and OPEB, State and School Employees' Life and Health Insurance Plan. See Note 14 and 15 for further information related to the University's Pension Plan and OPEB Plan.

THE UNIVERSITY'S NET POSITION

Net position represents the residual interest in the University's assets and deferred outflows after all liabilities and deferred inflows are deducted. Net position increased from \$289 million in fiscal year 2017 to \$300 million in fiscal year 2018.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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



CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2018	(Restated) Fiscal Year 2017	Increase (Decrease)	Percent Change
Operating Revenues:				
Tuition and fees, net	\$ 90,237,285	\$ 91,255,328	\$ (1,018,043)	-1.1%
Grants and contracts	67,910,625	63,759,437	4,151,188	6.5%
Auxiliary enterprises	37,215,089	36,043,882	1,171,207	3.2%
Other operating revenues	8,023,470	8,982,957	(959,488)	-10.7%
Total Operating Revenues	\$ 203,386,468	\$ 200,041,604	\$ 3,344,864	1.7%
Operating Expenses	329,678,996	338,865,050	(9,186,054)	-2.7%
Operating Loss	\$ (126,292,528)	\$ (138,823,446)	\$ 12,530,918	-9.0%
Nonoperating Revenues (Expenses):				
State appropriations	\$ 82,066,545	\$ 94,402,297	\$ (12,335,753)	-13.1%
Other nonoperating revenue	35,188,465	34,935,324	253,141	0.7%
Interest on debt	(5,892,699)	(6,371,915)	479,217	-7.5%
Net Nonoperating Revenues	\$ 111,362,311	\$ 122,965,706	\$ (11,603,395)	-9.4%
Loss Before Other Revenues	\$ (14,930,217)	\$ (15,857,740)	\$ 927,523	-5.8%
Capital grants and gifts	\$ 14,341,952	\$ 8,920,642	\$ 5,421,310	60.8%
Capital appropriations	10,537,767	16,473,253	(5,935,486)	-36.0%
Other additions (deletions)	906,991	1,285,741	378,750	29.5%
Total Other Revenues	\$ 25,786,710	\$ 26,679,636	\$ (892,926)	-3.3%
Increase in Net Position	\$ 10,856,493	\$ 10,821,896	\$ 34,597	0.3%
Net Position:				
Net Position at Beginning of the Year	\$ 289,458,666	\$ 292,361,481	\$ (2,902,815)	-1.0%
Prior period adjustments	-	(13,724,711)	13,724,711	0.0%
Net Assets at Beginning of Year, restated	\$ 289,458,666	\$ 278,636,770	\$ 10,821,896	3.9%
Net Position at End of the Year	\$ 300,315,159	\$ 289,458,666	\$ 10,856,493	3.8%

The Statement of Revenues, Expenses and Changes in Net Position presents an increase in net position of \$11 million for fiscal year June 30, 2018. As noted in the statement, the University experienced operating losses of \$126 million and \$139 million in fiscal years 2018 and 2017, respectively. These operating losses highlight the University's dependence on nonoperating revenues, such as state appropriations, federal financial aid and private gifts, to meet its cost of operations.

OPERATING REVENUES

Total operating revenues for fiscal years ended June 30, 2018, and 2017 were \$203 million and \$200 million, respectively. Operating revenues include student tuition and fees that are

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

Although student enrollment showed a slight increase, the institutional changes in out-of-state tuition rates produced a 1.1% decrease in net tuition and fees revenue. This strategic non-resident tuition rate change increase was offset with a significant reduction of scholarship expenses, while growing the out-of-state student population. There was also a 10.7% decrease in other operating revenue associated with NCAA revenue received by the University in 2017. With less than a 2% increase in total operating revenues, the increases and

decreases within each operating revenue source essentially offset the other and the current revenue position maintained a stable position.

Grants and contracts operating revenues include restricted revenues made available by government agencies, as well as private agencies. Grants and contracts operating revenues continue to account for a significant portion of total operating revenues for the University. These revenues are recorded only to the extent the funds have been expended for exchange

transactions. Nonexchange grant revenues are recorded when received or when eligibility criteria have been met and are reported as nonoperating revenue.

In fiscal year 2018, the University experienced a \$4 million increase in grants and contracts revenues compared to fiscal year 2017. The majority of the increase is due to an increase in external federal funding for several Department of Defense contracts and grants and Department of Health and Human Services contracts and grants.

The following table details the University's grants and contracts operating revenues for the fiscal years ended June 30, 2018, and 2017:

	Fiscal Year 2018	(Restated) Fiscal Year 2017	Increase (Decrease)	Percent Change
Federal Award Sources:				
Department of Education	\$ 2,751,336	\$ 2,562,603	\$ 188,733	7.4%
National Science Foundation	3,691,777	3,712,378	(20,601)	-0.6%
Department of Defense	11,731,279	9,472,972	2,258,308	23.8%
NASA	1,453,130	1,431,099	22,031	1.5%
Department of Commerce	7,374,879	7,368,028	6,851	0.1%
Department of Health and Human Services	11,215,176	8,395,574	2,819,602	33.6%
Department of Agriculture	1,785,093	1,585,975	199,118	12.6%
Department of Justice	82,415	22,622	59,793	264.3%
Department of Homeland Security	1,380,800	600,739	780,061	129.9%
Department of Energy	53,066	190,079	(137,013)	-72.1%
Other	3,527,033	3,079,911	447,122	14.5%
Total Federal Sources	\$ 45,045,986	\$ 38,421,979	\$ 6,624,006	17.2%
State Award Sources:				
Financial Aid	\$ 6,004,075	\$ 5,637,080	\$ 366,995	6.5%
Department of Education	166,817	78,040	88,776	113.8%
Other	2,488,597	3,256,081	(767,484)	-23.6%
Total State Sources	\$ 8,659,489	\$ 8,971,202	\$ (311,713)	-3.5%
Other Sources	14,205,151	16,366,256	(2,161,105)	-13.2%
Total Grants and Contracts	\$ 67,910,625	\$ 63,759,437	\$ 4,151,188	6.5%

NONOPERATING REVENUES AND EXPENSES

The University's net nonoperating revenues of \$111 million assisted in offsetting some of the University's operating loss of \$126 million for 2018. The \$11.6 million decrease in net nonoperating revenues is principally due to a \$12 decrease in general state appropriations in 2018.

OPERATING EXPENSES

Operating expenses for the year ended June 30, 2018, totaling \$330 million, included \$207 million in compensation and benefits, \$83 million in supplies and other, \$21 million in scholarships, and \$18 million in depreciation.

A comparative summary of the University's expenses for the years ended June 30, 2018, and 2017 is as follows:

	Fiscal Year 2018	(Restated) Fiscal Year 2017	Increase (Decrease)	Percent Change
Operating Expenses:				
Compensation and benefits	\$ 206,843,505	\$ 211,232,066	\$ (4,388,562)	-2.1%
Supplies and other	83,131,617	85,421,083	(2,289,467)	-2.7%
Scholarships and fellowships	21,277,200	24,156,988	(2,879,788)	-11.9%
Depreciation	18,426,675	18,054,913	371,762	2.1%
Total Operating Expenses	\$ 329,678,996	\$ 338,865,050	\$ (9,186,054)	-2.7%

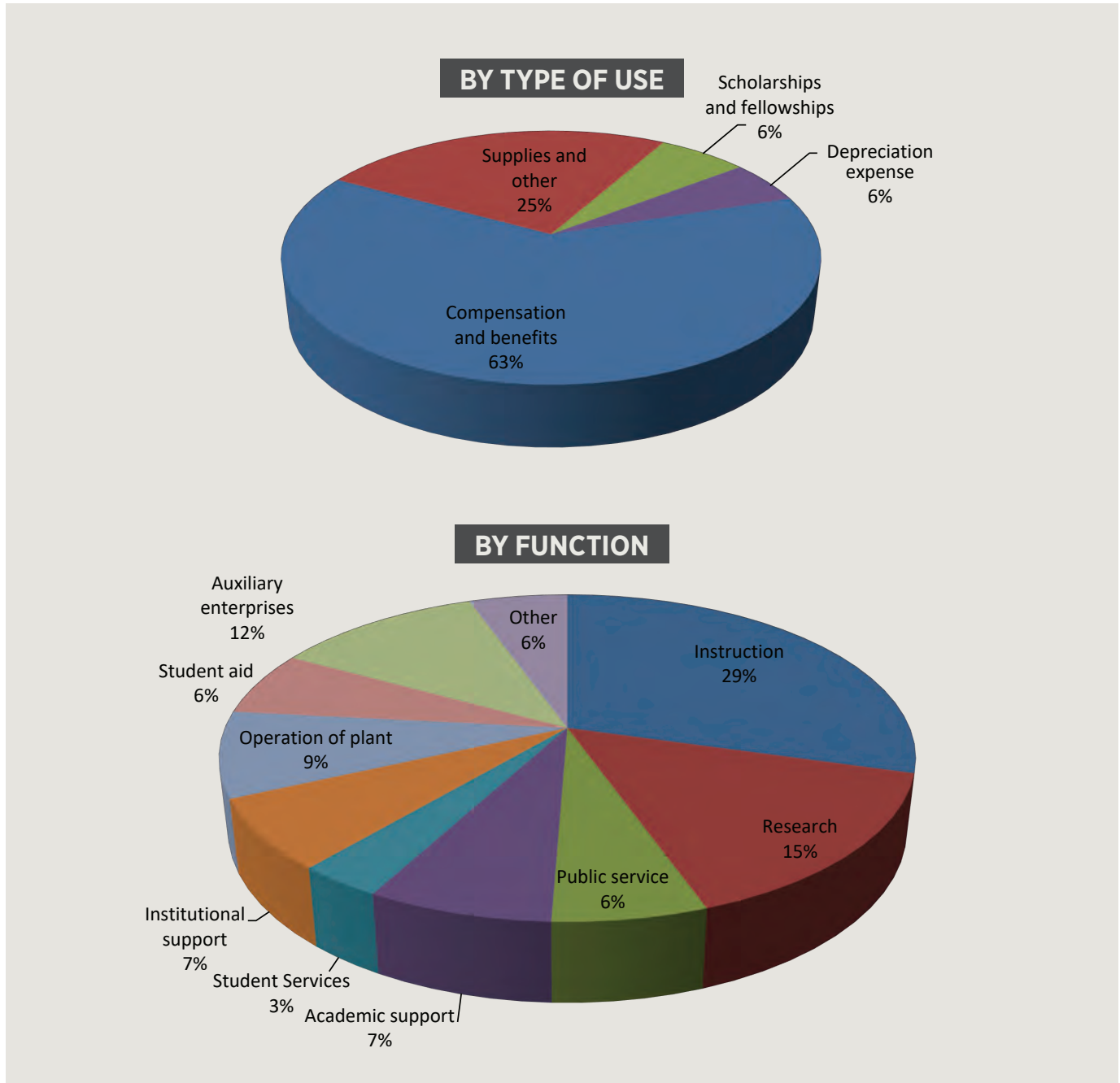
For the year ended June 30, 2018, total operating expenses decreased \$9 million. Compliance with GASB 68 pension reporting requirements resulted in a \$13.3 million adjustment to benefits decreasing pension expenses by \$.8 million from FY17 to FY18. This pension decrease was in addition to a \$3 million decrease in contractual services provided and a \$2.9 million decrease in scholarship expenses, which represent payments made directly to students after awards have been applied against tuition and fees charged to student accounts. The significant scholarship expense reduction is in direct relation to the strategic out-of-state tuition price reduction in order to increase the non-resident student population.

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

A comparative summary and a graphic illustration of the University's expenses by functional classification for the years ended June 30, 2018, and 2017 are as follows:

	Fiscal Year 2018	(Restated) Fiscal Year 2017	Increase (Decrease)	Percent Change
Operating Expenses:				
Instruction	\$ 97,125,813	\$ 99,422,353	\$ (2,296,541)	-2.3%
Research	49,875,722	50,478,528	(602,805)	-1.2%
Public service	20,428,966	18,926,021	1,502,946	7.9%
Academic support	23,872,497	25,370,454	(1,497,957)	-5.9%
Student services	11,023,289	11,019,892	3,397	0.0%
Institutional support	21,659,396	24,902,895	(3,243,499)	-13.0%
Operation of plant	27,952,101	28,348,052	(395,952)	-1.4%
Student aid	21,277,200	24,156,988	(2,879,788)	-11.9%
Auxiliary enterprises	38,037,338	38,184,954	(147,617)	-0.4%
Depreciation	18,426,675	18,054,913	371,762	2.1%
Total Operating Expenses	\$ 329,678,996	\$ 338,865,050	\$ (9,186,054)	-2.7%

FY 2018 OPERATING EXPENSES



Instructional expenses continued to represent the largest percentage of total operating expenses and consumed 48% of operating revenues for fiscal year 2018. Research expenditures accounted for 15% of total operating expenses and consumed 25% of operating revenues in fiscal year 2018.

OTHER CHANGES IN NET POSITION

Capital grants and gifts revenue increased \$5 million largely due to \$6.7 million received in 2018 from FEMA for the Marine Education Center located at the Gulf Coast Research Laboratory site. This was offset with a reduction in capital

private gifts, which relates to \$1.5 million received in 2017 for Asbury Hall, the new College of Nursing and Health Professions facility completed that year. State appropriations restricted for capital purposes decreased \$6 million due to a decrease in Bureau of Buildings project activity in fiscal year 2018 compared to 2017.

CAPITAL ASSET AND DEBT ADMINISTRATION

The University must have campus facilities that are competitive to meet student enrollment goals. The University continues to execute its long-term plan to modernize and expand its

teaching, research, and student facilities with a balance of new construction and technology. The following are a few examples of how the University enhanced and improved the living-learning community of the main campus located in the heart of the Hattiesburg community during fiscal year 2018:

- Completion of a pedestrian walkway from Hillcrest Hall to Eagle Walk
- Completion of extensive renovations to the historic Lucas Administration Building
- Completion of a biological sciences facility at Lake Thoreau Environmental Center
- Continued construction on the Joe Paul Theater located in Thad Cochran Center
- Began construction on a pedestrian walkway from Lake Byron to Highway 49
- Began major renovations to Joseph Green Hall
- Redesign and improvement of all campus signage and wayfinding

The University remains committed to the growth and improvement of the coastal locations. The Gulf Park campus completed construction on a new North Academic Building and began construction of a pedestrian pathway and a new Student Resource Center. The Gulf Coast Research Laboratory continues to rebuild from the destruction caused by Hurricane Katrina in 2005, in addition to continued construction on the Marine Education Center.

At June 30, 2018, the University had \$175 million of debt outstanding, of which \$6.3 million was classified as current. Debt obligations bear interest at fixed rates ranging from 0.5% to 5.375% and mature at various dates through fiscal year 2043.

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

STATEMENT OF CASH FLOWS

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

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

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

CONDENSED STATEMENT OF CASH FLOWS

	Fiscal Year 2018	(Revised) Fiscal Year 2017	Increase (Decrease)	Percent Change
Cash and Cash Equivalents Provided (Used) by:				
Operating activities	\$ (99,911,119)	\$ (113,030,563)	\$ 13,119,444	-11.6%
Noncapital financing activities	116,900,317	128,252,918	(11,352,601)	-8.9%
Capital and related financing activities	(9,078,527)	(17,960,378)	8,881,851	-49.5%
Investing activities	6,091,143	(12,377,726)	18,468,869	149.2%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 14,001,814	\$ (15,115,749)	\$ 29,117,563	-192.6%
Cash and Cash Equivalents - Beginning of the Year	23,914,518	39,030,265	(15,115,747)	-38.7%
Cash and Cash Equivalents - End of the Year	\$ 37,916,331	\$ 23,914,518	\$ 14,001,813	58.5%

Major sources of funds included in operating activities for the year ended June 30, 2018, were net student tuition and fees of \$92 million, grants and contracts of \$62 million, and auxiliary enterprises of \$36 million. Major uses of funds included in operating activities were payments for employees' salaries and benefits of \$194 million, payments to suppliers of \$72 million, and scholarships and loans to students of \$24 million.

Net cash used by operating activities decreased by \$13.1 million in comparison to last year. Cash received from operating grants and contracts and other receipts was higher in FY18 in comparison to FY17. Cash paid to suppliers was lower due to a new net 45 accounts payable policy implemented for the University in 2018. Other contributing factors to the decrease in cash used for operating activities was a decrease in payments to employees for salaries and benefits, along with a decrease in scholarships and loans issued to students.

Net cash provided by noncapital financing activities decreased by \$11.3 million. The University received two, one-time state appropriations for the Marine Science Endowment and the Gulf Coast Research Laboratory in 2017. However, the majority of the decrease was due to an \$11 million budget cut in state appropriations. This was the primary source of cash in noncapital financing activities. As such, senior management continues to work toward viable approaches for balancing the decrease in state appropriations while finding the right combination of investments in current and future revenue generation and pursuing opportunities that provide cost savings solutions.

Net cash used for capital and related financing activity was reduced by \$8.9 million. Evidence of managements' commitment to cost savings is apparent in the \$3.6 million reduction of cash paid for capital assets. There was also a \$4.5 million increase in capital grants and contracts received in 2018 as compared to 2017.

Net cash provided by investing activity increased by \$18.5 million in FY18 compared to FY17. In addition to the reinvestment of called or maturing investments, \$7.7 million was sold in short and long-term investments.

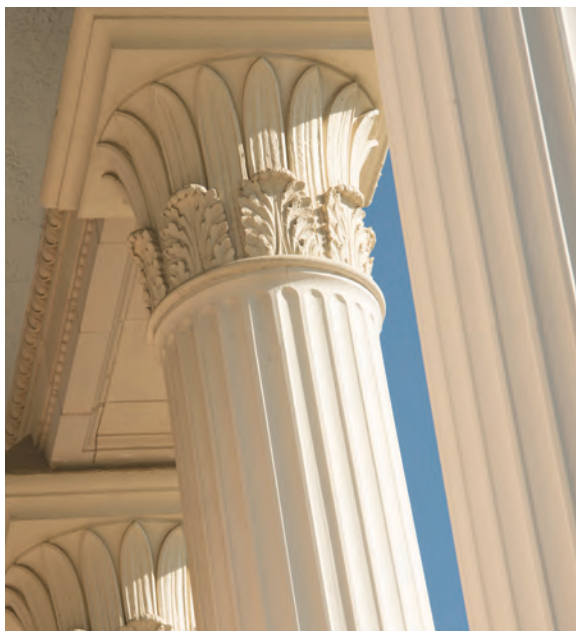
ECONOMIC OUTLOOK

With enrollment levels up and state appropriations down in FY18 compared to FY17, the University is enthusiastic about the progress we have made but continues to find strategic ways to overcome the challenges facing the higher education industry. While changes in state appropriations create financial constraints that are difficult to manage and often impose unforeseen reductions in the workforce and the need to find additional cost-saving solutions, the University has continued to improve recruiting and retention efforts to position the University to compete more effectively for enrollment in existing and new markets. At the very time strategic investments are needed, the University is dealing with fewer resources to make such strategic investments, as a result of the revenue loss in the E&G Fund.

In response to these continued challenges, the senior management team, in consultation with departments and groups across the University, developed budget plans that ensured that the University would reduce planned expenditures while making careful use of reserves to support enrollment management initiatives, compliance activities, and critical program plans. As a result of those efforts, the University concluded the fiscal year having reduced the expenditure base, set aside one-time reserves, and making necessary investments that would enhance enrollment in the fall of 2018.

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

Allyson Easterwood
Vice President for Finance and Administration





Financial Statements



STATEMENT OF NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

Assets and Deferred Outflows	Year Ended June 30	
	2018	(Restated) 2017
Current Assets:		
Cash and cash equivalents	\$ 34,062,336	\$ 23,913,029
Short term investments (Note 2)	4,273,057	4,850,278
Accounts receivables, net (Note 4)	27,940,262	23,451,443
Student notes receivables, net (Note 5)	3,218,596	2,256,682
Inventories	286,477	273,909
Prepaid expenses	5,590,773	4,563,392
Total current assets	<u>\$ 75,371,501</u>	<u>\$ 59,308,733</u>
Non-Current Assets:		
Restricted cash and cash equivalents	\$ 3,853,995	\$ 1,489
Endowment investments (Note 2)	9,601,385	9,365,631
Other long term investments (Note 2)	47,531,118	51,979,911
Student notes receivable, net (Note 5)	25,022,156	26,719,655
Capital assets, net (Note 6)	587,013,585	582,696,488
Total noncurrent assets	<u>\$ 673,022,240</u>	<u>\$ 670,763,174</u>
Total assets	<u>\$ 748,393,741</u>	<u>\$ 730,071,907</u>
Deferred outflows of resources:		
Accumulated deferred amount of debt refundings	13,143,288	12,422,956
Pension related deferred outflows	22,871,272	43,608,137
OPEB related deferred outflows	880,066	552,345
Total deferred outflows of resources	<u>\$ 36,894,626</u>	<u>\$ 56,583,438</u>
Total assets and deferred outflows of resources	<u>\$ 785,288,367</u>	<u>\$ 786,655,345</u>
Liabilities, Deferred Inflows and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	\$ 20,312,256	\$ 18,213,288
Unearned revenues (Note 8)	12,260,913	13,579,938
Accrued leave liabilities-current portion (Note 9)	1,145,242	1,262,000
Long term liabilities-current portion (Note 9)	6,289,502	6,525,066
Other current liabilities	25,923	28,025
Total Current liabilities	<u>\$ 40,033,835</u>	<u>\$ 39,608,317</u>
Non-current liabilities:		
Net pension liability (Note 9)	\$ 222,060,208	\$ 233,764,776
Net OPEB liability	14,037,705	14,277,056
Deposits refundable (Note 9)	9,626	9,686
Accrued leave liabilities (Note 9)	8,215,321	9,052,876
Long term liabilities (Note 9)	168,824,071	173,595,042
Other non-current liabilities (Note 9)	26,227,863	26,267,851
Total non-current liabilities	<u>\$ 439,374,794</u>	<u>\$ 456,967,287</u>
Total liabilities	<u>\$ 479,408,629</u>	<u>\$ 496,575,604</u>
Deferred inflows of resources:		
Difference between projected and actual earnings on pension plan	\$ 4,849,783	\$ 621,075
OPEB related deferred inflows	714,795	-
Total liabilities and deferred inflows of resources	<u>\$ 484,973,207</u>	<u>\$ 497,196,679</u>
Net Position:		
Net Invested in Capital Assets	\$ 403,713,486	\$ 400,182,256
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	5,569,090	5,569,090
Expendable:		
Scholarships and fellowships	1,621,707	1,128,596
Debt service	23,277,358	16,673,576
Loans	5,865,395	5,558,647
Other purposes	9,380,190	6,507,414
Unrestricted	(149,112,067)	(146,160,913)
Total net position	<u>\$ 300,315,159</u>	<u>\$ 289,458,666</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Assets	2018	2017
Cash and cash equivalents	\$ 2,996,270	\$ 3,122,635
Accrued earnings	153,608	134,539
Prepaid assets and other receivables (note 2)	1,383,924	421,452
Pledges receivable, net (note 3)	10,671,148	4,950,614
Investments (notes 4 and 5)	113,822,707	107,101,292
Amounts due from externally managed trusts (note 6)	5,644,811	5,102,951
Net investment in direct financing lease (note 7)	-	284,307
Property and equipment, net (note 8)	301,248	27,155
Total assets	<u>\$ 134,973,716</u>	<u>\$ 121,144,945</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 457,939	\$ 438,862
Gift annuities payable	244,184	263,831
Life estate payable	31,107	33,489
Total liabilities	<u>\$ 733,230</u>	<u>\$ 736,182</u>
Net assets:		
Unrestricted	7,356,199	6,348,577
Temporarily restricted (note 9)	44,802,423	37,181,815
Permanently restricted (note 10)	82,081,864	76,878,371
Total net assets	<u>\$ 134,240,486</u>	<u>\$ 120,408,763</u>
Total liabilities and net assets	<u>\$ 134,973,716</u>	<u>\$ 121,144,945</u>

See accompanying notes to consolidated financial statements.



STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	Year Ended June 30	
	2018	(Restated) 2017
Operating revenues:		
Tuition and fees:	\$ 131,507,020	\$ 137,201,836
Less: Scholarship Allowances	(40,819,735)	(45,496,508)
Less: Bad Debt Expense	(450,000)	(450,000)
Net tuition and fees	\$ 90,237,285	\$ 91,255,328
Federal grants and contracts	45,045,986	38,421,979
State grants and contracts	8,651,489	8,971,202
Local grants and contracts	8,000	-
Nongovernmental grants and contracts	14,205,151	16,366,256
Sales and services of educational departments	3,055,711	3,166,270
Auxiliary enterprises:		
Student housing	17,984,839	16,138,632
Food services	3,071,295	2,745,164
Bookstore	721,105	1,083,000
Athletics	12,199,076	12,893,525
Other auxiliary revenues	6,318,528	6,039,679
Less auxiliary enterprise scholarship allowances	(3,079,755)	(2,856,118)
Other operating revenues, net	4,967,760	5,816,687
Total operating revenues	\$ 203,386,468	\$ 200,041,604
Operating expenses:		
Salaries and wages	\$ 144,933,204	\$ 145,112,008
Fringe benefits	61,910,301	66,120,058
Travel	7,242,555	7,522,560
Contractual services	50,686,237	53,698,057
Utilities	9,620,627	9,418,457
Scholarships and fellowships	21,277,200	24,156,988
Commodities	15,582,198	14,782,009
Depreciation	18,426,675	18,054,913
Total operating expenses (Note 11)	\$ 329,678,996	\$ 338,865,050
Operating Loss	\$ (126,292,528)	\$ (138,823,446)
Nonoperating revenues (expenses):		
State appropriations	\$ 82,066,545	\$ 94,402,297
Gifts and grants	34,156,505	34,655,586
Investment income	1,031,961	279,738
Interest expense on capital asset-related debt	(5,892,699)	(6,371,915)
Total nonoperating revenues (expenses), net	\$ 111,362,312	\$ 122,965,706
Loss before other revenues, expenses, gains and losses	\$ (14,930,216)	\$ (15,857,740)
Other revenues, expenses, gains and losses:		
Capital grants and gifts	14,341,952	8,920,642
State appropriations restricted for capital purposes	10,537,767	16,473,253
Other additions	1,571,155	1,315,308
Other deletions	(664,165)	(29,567)
Change in net position	\$ 10,856,493	\$ 10,821,896
Net position - beginning of year, as adjusted	289,458,666	292,361,481
Prior period adjustments	-	(13,724,711)
Net position - beginning of year, as restated	289,458,666	278,636,770
Net position - end of year	\$ 300,315,159	\$ 289,458,666

CONSOLIDATED STATEMENTS OF ACTIVITIES

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Year ended June 30, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support:				
Contributions	\$ 2,213,304	\$ 10,799,668	\$ 4,401,150	\$ 17,414,122
Net investment gain (note 4)	1,694,378	4,834,766	148,654	6,677,798
Change in value of split interest agreements	-	(1,069)	(108,492)	(109,561)
Other	487,525	45,529	30	533,084
Total revenues, gains and other support	\$ 4,395,207	\$ 15,678,894	\$ 4,441,342	\$ 24,515,443
Changes in restrictions:				
Change in restriction by donors	-	(762,151)	762,151	-
Net assets released from restrictions (note 11)	7,296,135	(7,296,135)	-	-
Total changes in restrictions	\$ 7,296,135	\$ (8,058,286)	\$ 762,151	\$ -
Expenses:				
Program services:				
Contributions and support for The University of Southern Mississippi	\$ 7,731,325	\$ -	\$ -	\$ 7,731,325
Supporting services:				
General and administrative	1,634,969	-	-	1,634,969
Fundraising	1,317,426	-	-	1,317,426
Total supporting services	\$ 2,952,395	\$ -	\$ -	\$ 2,952,395
Total expenses	\$ 10,683,720	\$ -	\$ -	\$ 10,683,720
Change in net assets	\$ 1,007,622	\$ 7,620,608	\$ 5,203,493	\$ 13,831,723
Net assets at beginning of year	6,348,577	37,181,815	76,878,371	120,408,763
Net assets at end of year	\$ 7,356,199	\$ 44,802,423	\$ 82,081,864	\$ 134,240,486

See accompanying notes to consolidated financial statements.

Year ended June 30, 2017

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

See accompanying notes to consolidated financial statements.

STATEMENT OF CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI

	2018	(Restated) 2017
Operating activities:		
Tuition and Fees	\$ 91,710,833	\$ 91,852,086
Grants and Contracts	61,514,755	59,610,750
Sales and Services of Educational Departments	3,055,711	3,166,270
Payments to Suppliers	(72,371,525)	(75,145,937)
Payments to Employees for Salaries and Benefits	(193,662,636)	(198,380,078)
Payments for Utilities	(9,990,107)	(9,415,334)
Payments for Scholarships and Fellowships	(21,798,872)	(24,222,747)
Loans Issued to Students and Employees	(2,360,563)	(6,010,938)
Collection of Loans to Students and Employees	3,235,686	4,352,395
Auxiliary Enterprise Charges:		
Student Housing	16,384,313	14,913,940
Food Services	2,551,625	2,319,500
Bookstore	563,708	931,230
Athletics	9,759,789	11,701,181
Other Auxiliary Enterprises	6,396,284	5,965,370
Other Receipts	5,099,881	5,331,749
Net cash used by operating activities	\$ (99,911,119)	\$ (113,030,563)
Noncapital financing activities:		
State Appropriations	\$ 83,020,999	\$ 94,044,073
Gifts and Grants for Other Than Capital Purposes;	33,763,218	34,456,917
Federal Loan Program Receipts	84,242,658	82,001,259
Federal Loan Program Disbursements	(84,124,455)	(82,229,759)
Other Uses	(2,103)	(19,572)
Net cash provided by noncapital financing activities	\$ 116,900,317	\$ 128,252,918
Capital and related financing activities:		
Proceeds from Capital Debt	\$ 45,664,517	\$ -
Cash Paid for Capital Assets	(11,515,143)	(15,101,758)
Capital Appropriations Received	-	-
Capital Grants and Contracts Received	13,509,025	8,961,108
Proceeds from Sales of Capital Assets	41,621	56,042
Principal Paid on Capital Debt and Leases	(50,499,322)	(7,362,709)
Interest Paid on Capital Debt and Leases	(5,980,613)	(6,476,993)
Other Sources	1,085,883	1,993,501
Other Uses	(1,384,496)	(29,567)
Net cash used by capital and related financing activities	\$ (9,078,527)	\$ (17,960,376)
Investing activities:		
Proceeds from Sales and Maturities of Investments	\$ 10,077,236	\$ 16,882,589
Interest Received on Investments	1,554,294	929,531
Purchases of Investments	(5,540,387)	(30,189,846)
Net cash provided (used) by investing activities	\$ 6,091,143	\$ (12,377,726)
Net change in cash and cash equivalents	\$ 14,001,814	\$ (15,115,747)
Cash and cash equivalents - beginning of year	23,914,518	39,030,265
Cash and cash equivalents - end of year	\$ 37,916,331	\$ 23,914,518

STATEMENT OF CASH FLOWS

(CONTINUED)

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (126,292,528)	\$ (138,823,446)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	18,426,675	18,054,913
Other	450,000	450,000
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	(5,354,922)	(1,989,142)
Inventories	(12,569)	9,540
Prepaid Expenses	(1,027,382)	462,467
Other Assets	20,409,144	(7,359,613)
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	2,068,679	(615,792)
Unearned Revenue	(1,319,025)	(2,740,298)
Deposits Refundable	(60)	(3,857)
Accrued Leave Liability	(954,313)	268,894
Loans to Students and Employees	695,597	(2,038,433)
Other Liabilities	(7,000,416)	21,294,203
Total Adjustments	<u>\$ 26,381,409</u>	<u>\$ 25,792,883</u>
Net cash used by operating activities	<u>\$ (99,911,119)</u>	<u>\$ (113,030,563)</u>
Reconciliation of cash and cash equivalents:		
Current assets - cash and cash equivalents	\$ 34,062,336	\$ 23,913,029
Noncurrent assets - restricted cash and cash equivalents	<u>3,853,995</u>	<u>1,489</u>
Cash and cash equivalents - end of year	<u>\$ 37,916,331</u>	<u>\$ 23,914,518</u>
ENTER NON-CASH TRANSACTIONS BELOW: (See GASB #9, Paragraph 37)		
1) State Appropriations Restricted for Capital Purposes	\$ 10,537,767	\$ 16,473,253
2) Unrealized Gain/(Loss) on Fair Value of Investments	697,658	(877,809)
3) Donation of Capital Assets	41,621	518,952
	<u>\$ 11,277,046</u>	<u>\$ 16,114,396</u>



CONSOLIDATED STATEMENTS OF CASH FLOWS

THE UNIVERSITY OF SOUTHERN MISSISSIPPI FOUNDATION

Years ended June 30, 2018 and 2017

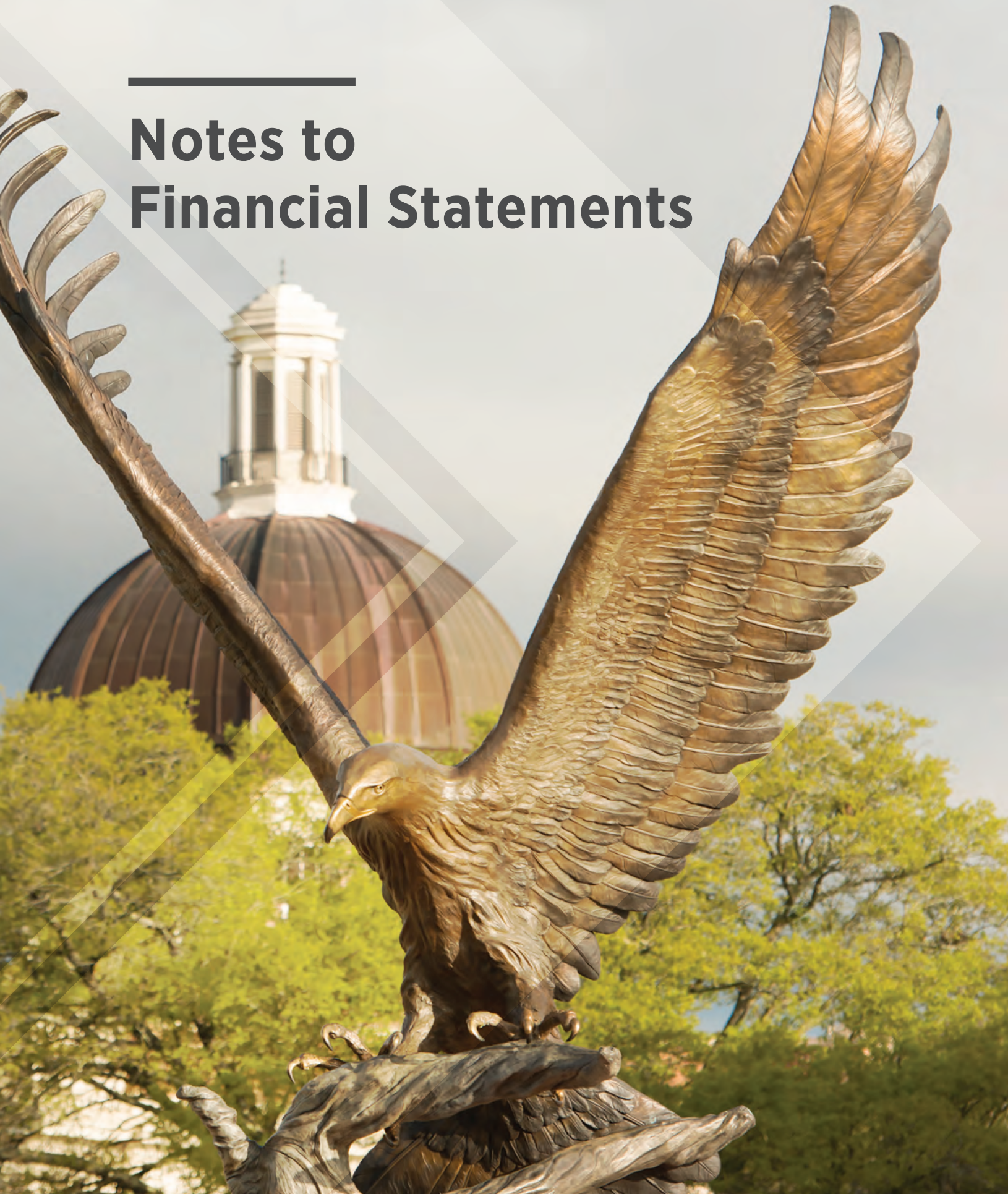
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 13,831,723	\$ 8,555,446
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	16,357	11,028
Fair value of donated property and equipment	(15,325)	-
Fair value of donated real estate and life estate	(22,000)	(41,305)
Realized and unrealized (gains) losses on investments, net	(4,488,167)	(8,904,311)
Loss on disposition of life insurance policy	568	-
Gain on disposal of furniture and equipment	(10,611)	-
Receipts of permanently restricted contributions	(2,437,414)	(4,668,279)
Permanently restricted dividends and interest	(27,647)	(9,513)
Change in amounts due from externally managed trusts	(541,860)	(219,435)
Change in gift annuities	(11,030)	(32,984)
Change in life estate payable	(2,382)	33,489
Present value adjustments to annuities	28,687	25,984
Changes in operating assets and liabilities:		
Accrued earnings	(19,069)	(5,255)
Prepaid assets and other receivables	(962,472)	580,716
Pledges receivable, net	(5,720,534)	3,273,902
Accounts payable	19,077	66,870
Net cash used in operating activities	<u>\$ (362,099)</u>	<u>\$ (1,333,647)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(72,876)	-
Purchases of investments	(35,533,732)	(10,012,788)
Proceeds from sales and maturities of investments	33,332,946	8,558,597
Principal payments received under direct financing lease	92,669	195,638
Net cash used in investing activities	<u>\$ (2,180,993)</u>	<u>\$ (1,258,553)</u>
Cash flows from financing activities:		
Receipts of permanently restricted contributions	2,437,414	4,668,279
Permanently restricted dividends and interest	27,647	9,513
Annuity payments	(48,334)	(48,334)
Net cash provided by financing activities	<u>\$ 2,416,727</u>	<u>\$ 4,629,458</u>
Net (decrease) increase in cash and cash equivalents	<u>\$ (126,365)</u>	<u>\$ 2,037,258</u>
Cash and cash equivalents at beginning of year	<u>3,122,635</u>	<u>1,085,377</u>
Cash and cash equivalents at end of year	<u>\$ 2,996,270</u>	<u>\$ 3,122,635</u>

See accompanying notes to consolidated financial statements.





Notes to Financial Statements



NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Reporting Entity

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

The current 12 Board members of the IHL system were appointed by the Governor and approved by the Senate for 12-year terms as follows: one from each of the seven Congressional districts, one from each of the three Supreme Court districts, and two appointed from the state-at-large. The Mississippi Constitution was amended in 2003 to change the length of terms and appointment districts for Board members. New appointments will occur from the three current Supreme Court districts for terms of nine years. The amendment provides for these new appointments and tenures to be gradually implemented. Full implementation occurred in 2012.

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

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

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

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

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

During the year ended June 30, 2018, the Foundation distributed \$7.7 million to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained at 118 College Drive #5210, Hattiesburg, MS 39406 or at usmfoundation.com.

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

Investments are summarized as follows at June 30, 2018, and 2017:

	2018	2017
Investment Strategy:		
Fixed Income:		
U.S. Government securities	\$ 1,920,630	\$ 1,408,876
Corporate bonds	5,853,993	6,607,128
Mutual funds	37,534,557	27,886,123
Other fixed income securities	3,774,271	3,656,241
Total fixed income	<u>\$ 49,083,451</u>	<u>\$ 39,558,368</u>
Equities:		
Mutual and common stock funds	\$ 49,583,039	\$ 55,622,272
Total equities	<u>\$ 49,583,039</u>	<u>\$ 55,622,272</u>
Alternative investments		
Hedge funds	\$ 8,922,430	\$ 6,365,885
Real estate investment funds	3,194,622	2,937,743
Private equity funds	337,460	-
Total alternative investments	<u>\$ 12,454,512</u>	<u>\$ 9,303,628</u>
Cash surrender value of insurance policies	\$ 2,584,413	\$ 2,529,687
Other	117,292	87,337
Total investments	<u>\$ 113,822,707</u>	<u>\$ 107,101,292</u>

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

	2018			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net of expenses of \$513,752)	\$ 1,902,567	\$ 259,417	\$ 27,647	\$ 2,189,631
Realized gains (losses), net	113,220	5,501,459	73,696	5,688,375
Unrealized gains (losses), net	(320,870)	(926,649)	47,311	(1,200,208)
Total	<u>\$ 1,694,917</u>	<u>\$ 4,834,227</u>	<u>\$ 148,654</u>	<u>\$ 6,677,798</u>
	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest (net expenses of \$387,207)	\$ 1,712,294	\$ (28,790)	\$ 9,513	\$ 1,693,017
Realized gains (losses), net	(23,411)	387,569	1,594	365,752
Unrealized gains, net	(77,692)	8,515,748	100,503	8,538,559
Total	<u>\$ 1,611,191</u>	<u>\$ 8,874,527</u>	<u>\$ 111,610</u>	<u>\$ 10,597,328</u>

Basis of Presentation

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

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

Basis of Accounting

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

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

New Accounting Standard

The University of Southern Mississippi implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This

standard was applied to fiscal year 2018 statements, and 2017 statements have been restated for comparison. The statement requires employers to recognize their proportionate share of the liability associated with postemployment benefits other than pension (OPEB) provided to employees. The OPEB liability is measured as “the total OPEB liability (TOL) less the amount of the OPEB plan’s fiduciary net position. The statement also requires a determination of an OPEB expense (OE), including amounts for service cost, interest on the TOL, employee contributions, administrative expenses, other cash flows during the year, recognition of increases/decreases in the TOL due to changes in the benefit structure, actual versus expected experience, actuarial assumption changes, and recognition of investment gains and losses.”

¹ All actuarial data was provided to the University by IHL.

² State of Mississippi Institutions of Higher Learning, Notes to the Financial Statements, June 30, 2018.

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.

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

Collections

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

Accounts Payable and Accrued Liabilities

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

Unearned Revenues

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

Deposits Refundable

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

Income Taxes

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

Compensated Absences

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

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

Pensions

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

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations;

(2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method.

Government Advances Refundable

The University participates in the Federal Perkins Loan and Nursing Loan Programs, which are funded through a combination of federal and institutional resources. The portion of the Federal Perkins Loan program that has been funded with federal funds is ultimately refundable to the U.S. government upon the termination of the University's participation in the program. The portion that would be refundable if the program was terminated has been presented as other long-term liabilities and approximated \$26 million as of June 30, 2018.

Classification of Revenues and Expenses

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

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

Nonoperating revenues and expenses have the characteristics of non-exchange transactions and are defined in GASB No. 9, *Reporting Cash Flows of Proprietary Fund Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34. Examples of nonoperating revenues include state appropriations, gifts and contributions, and investment income. Included in nonoperating gifts and grants are federally awarded student financial aid program revenues of approximately \$29 million for the year ending June 30, 2018. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.



Auxiliary Enterprise Activities

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

Scholarship Discounts and Allowances

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

Net Position

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

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

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

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

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

NOTE 2 CASH AND INVESTMENTS

Cash, Cash Equivalents and Short-Term Investments

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

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

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

Investments

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

The following table summarizes the fair value of investments at June 30, 2018, and 2017:

<u>Statement of Net Position Classification</u>	<u>June 30, 2018 Fair Value</u>	<u>June 30, 2017 Fair Value</u>
Short term investments - current assets	\$ 4,273,057	\$ 4,850,278
Noncurrent assets:		
Endowment investments	9,601,385	9,365,631
Other long term investments	47,531,118	51,979,911
Total	<u>\$ 61,405,561</u>	<u>\$ 66,195,820</u>

The following table presents the fair value of investments by type at June 30, 2018, and 2017:

<u>Investment Type</u>	<u>June 30, 2018 Fair Value</u>	<u>June 30, 2017 Fair Value</u>
U.S. government agency obligations	\$ 33,614,957	\$ 40,463,950
Collateralized mortgage obligations	10,521,738	7,286,371
Mortgage backed securities	-	-
U.S. Treasury obligations	4,478,637	6,490,858
Certificates of deposit	2,397,144	1,831,422
Domestic equity mutual funds	633,307	639,429
International equity mutual funds	403,928	330,830
Fixed income mutual funds	601,176	644,357
Money market funds	331,476	320,560
Domestic equity securities	4,754,432	4,571,213
Non-US equity securities	231,097	238,619
Municipal bonds	1,906,745	1,955,412
Corporate bonds	1,530,924	1,422,799
Total	<u>\$ 61,405,561</u>	<u>\$ 66,195,820</u>

Custodial Credit Risk

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

department or agent but not in the government's name. The University did not have any investments exposed to custodial credit risk as of June 30, 2018.

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, 2018, and 2017, the University had the following investments subject to interest rate risk:

Investment Type	Fair Value	June 30, 2018			
		Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. government agency obligations	\$ 33,614,956	\$ 1,084,783	\$ 26,048,768	\$ 6,139,204	\$ 342,201.17
Collateralized mortgage obligations	10,521,738	4,519,305	-	-	6,002,432.36
U.S. Treasury obligations	4,478,637.24	665,972	3,442,610	294,078	75,976.81
Certificates of deposit - negotiable	1,869,960	55,565	1,814,394	-	-
Fixed income mutual funds	601,176.36	-	305,262.07	295,914.29	-
Municipal bonds	1,906,745	108,865	1,797,880	-	-
Corporate bonds	1,530,924	100,274	1,010,831	306,392	113,426.81
Total	\$ 54,524,136	\$ 6,534,764	\$ 34,419,746	\$ 7,035,588	\$ 6,534,037

Investment Type	Fair Value	June 30, 2017			
		Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. government agency obligations	\$ 40,463,950	\$ 7,254,887	\$ 26,798,336	\$ 6,317,993	\$ 92,734.22
Collateralized mortgage obligations	7,286,371	363,982	-	-	6,922,388.87
U.S. Treasury obligations	6,490,858	949,054	5,220,974	269,341	51,487.37
Certificates of deposit - negotiable	1,313,318	750,748	562,570	-	-
Fixed income mutual funds	644,357	-	644,356.99	-	-
Municipal bonds	1,955,413	113,745	1,841,668	-	-
Corporate bonds	1,422,799	159,101	840,274	330,701	92,722.64
Total	\$ 59,577,066	\$ 9,591,517	\$ 35,908,180	\$ 6,918,036	\$ 7,159,333



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, 2018, the University had the following investments subject to credit risk:

2018 Credit Risk		
Rating	June 30, 2018 Fair Value	June 30, 2017 Fair Value
AAA	\$ 26,640,939	\$ 36,554,097
Aaa	-	-
AA	5,902,029	8,310,143
A	713,782	788,927
BA	6,484	-
BAA	204,741	301,955
BBB	-	-
Rating not available	11,434,542	5,276,743
Total	\$ 44,902,517	\$ 51,231,865

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, 2018:

Issuer	June 30, 2018	
	Fair Value	% of Total Investments
Federal National Mortgage Association	\$ 14,426,941	19.4%
Federal Home Loan Bank	12,373,138	20.1%
Federal Farm Credit Bank	5,904,689	9.6%
Federal Home Loan Mortgage Corporation	5,330,297	5.2%

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

Foreign Currency Risk

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses foreign currency risk. The University's exposure to foreign currency risk was limited to American Depository Receipts (ADRs) for non-U.S. equities of \$231,097 and \$238,619 at June 30, 2018, and 2017, respectively, and investments in international equity mutual funds of \$403,298 and \$330,830 at June 30, 2018, and 2017, respectively.

NOTE 3 INVESTMENT FAIR VALUE MEASUREMENT

In compliance with GASB Statement No. 72, *Fair Value Measurement and Application*, the following tables present the financial assets carried at fair value by level within the valuation hierarchy, as of June 30, 2018, and 2017.

	2018			Total
	Level 1	Level 2	Level 3	
Investment strategy:				
U.S. Treasury securities	\$ 4,478,637	\$ -	\$ -	\$ 4,478,637
Fixed income mutual funds	601,176	-	-	601,176
U.S. Government agency securities	-	33,614,957	-	33,614,957
Mortgage obligations and asset backed securities	-	10,521,738	-	10,521,738
Corporate bonds and notes	-	1,530,924	-	1,530,924
Certificates of deposit	-	2,397,144	-	2,397,144
Municipal bonds	-	1,906,745	-	1,906,745
Money market funds	-	331,476	-	331,476
Repurchase agreements	-	-	-	-
Total fixed income	\$ 5,079,813	\$ 50,302,984	\$ -	\$ 55,382,797
Equity securities:				
Domestic equity securities	\$ 4,754,432	\$ -	\$ -	\$ 4,754,432
Equity mutual funds	1,037,235	-	-	1,037,235
International equity	-	-	-	-
Total equities	\$ 5,791,667	\$ -	\$ -	\$ 5,791,667
Investments measured at NAV as a practical expedient:				
Equity long/short hedge funds	\$ -	\$ -	\$ -	\$ -
Venture capital	-	-	-	-
Mississippi State Foundation Investment Pool	-	-	-	-
University of Mississippi Foundation Investment Pool	-	-	-	-
Other miscellaneous investments	-	-	-	231,096
Total investments measured at NAV	-	-	-	\$ 231,096
Total investments measured at fair value	-	-	-	\$ 61,405,560

	2017			Total
	Level 1	Level 2	Level 3	
Investment strategy:				
Fixed income:				
U.S. Treasury securities	\$ 6,490,858	\$ -	\$ -	\$ 6,490,858
Fixed income mutual funds	644,357	-	-	644,357
U.S. Government agency securities	-	40,463,950	-	40,463,950
Mortgage obligations and asset backed securities	-	7,286,371	-	7,286,371
Corporate bonds and notes	-	1,422,799	-	1,422,799
Certificates of deposit	-	1,831,422	-	1,831,422
Municipal bonds	-	1,955,412	-	1,955,412
Money market funds	-	320,560	-	320,560
Repurchase agreements	-	-	-	-
Total fixed income	\$ 7,135,215	\$ 53,280,514	\$ -	\$ 60,415,729
Equity securities:				
Domestic equity securities	\$ 4,571,213	\$ -	\$ -	\$ 4,571,213
Equity mutual funds	970,259	-	-	970,259
International equity	-	-	-	-
Total equities	\$ 5,541,472	\$ -	\$ -	\$ 5,541,472
Investments measured at NAV as a practical expedient:				
Equity long/short hedge funds	\$ -	\$ -	\$ -	\$ -
Venture capital	-	-	-	-
Mississippi State Foundation Investment Pool	-	-	-	-
University of Mississippi Foundation Investment Pool	-	-	-	-
Other miscellaneous investments	-	-	-	238,619
Total investments measured at NAV	-	-	-	\$ 238,619
Total investments measured at fair value	-	-	-	\$ 66,195,820

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

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

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

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2018, and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Student tuition	\$ 5,633,105	\$ 6,534,358
Scholarships	330,327	349,146
Auxiliary enterprises and other operating activities	5,409,070	3,960,701
Federal, state and private grants and contracts	19,777,839	14,132,925
State appropriations	908,262	1,862,715
Accrued interest	186,651	183,653
Other	<u>545,008</u>	<u>827,945</u>
 Total Accounts Receivable	 \$ 32,790,262	 \$ 27,851,443
 Less allowance for doubtful accounts	 <u>(4,850,000)</u>	 <u>(4,400,000)</u>
 Accounts Receivable, Net	 <u>\$ 27,940,262</u>	 <u>\$ 23,451,443</u>





NOTE 5 NOTES RECEIVABLE FROM STUDENTS

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

The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the University at June 30, 2018, and 2017:

	Interest Rates	2018		
		June 30, 2018	Current Portion	Noncurrent Portion
Perkins student loans	3% to 5%	\$ 30,421,650	\$ 3,239,612	\$ 27,182,038
Institutional loans	0% to 3%	119,695	1,587	118,108
Nursing faculty loans	3%	969,408	18,929	950,479
Total Notes Receivable		\$ 31,510,752	\$ 3,260,128	\$ 28,250,624
Less allowance for doubtful accounts		(3,270,000)	(41,532)	(3,228,468)
Notes Receivable, Net		\$ 28,240,752	\$ 3,218,596	\$ 25,022,156

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

NOTE 6 CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2018, and 2017, respectively, is presented as follows:

	2018			
	July 1, 2017	Additions	Deletions	June 30, 2018
Nondepreciable Capital Assets:				
Land	\$ 17,586,191	\$ 25,253	\$ -	\$ 17,611,444
Construction in progress	27,187,110	16,749,930	19,047,652	24,889,388
Total Nondepreciable Capital Assets	\$ 44,773,301	\$ 16,775,183	\$ 19,047,652	\$ 42,500,832
Depreciable Capital Assets:				
Improvements other than buildings	\$ 52,361,330	\$ 8,412,771	\$ -	\$ 60,774,101
Buildings	611,910,231	11,107,992	-	623,018,223
Equipment	78,935,916	10,833,166	6,517,255	83,251,828
Assets under capital lease	1,993,738	-	1,993,738	-
Libraries	66,965,911	155,781	508,450	66,613,242
Total Cost of Depreciable Capital Assets	\$ 812,167,126	\$ 30,509,711	\$ 9,019,443	\$ 833,657,395
Total Cost of Capital Assets	\$ 856,940,427	\$ 47,284,894	\$ 28,067,095	\$ 876,158,227
Less Accumulated Depreciation for:				
Improvements other than buildings	\$ 16,952,322	\$ 1,995,505	\$ -	\$ 18,947,827
Buildings	132,979,170	11,711,060	-	144,690,230
Equipment	57,566,531	5,678,550	3,017,522	60,227,559
Assets under capital lease	1,590,794	157,119	1,747,913	-
Libraries	65,155,124	632,352	508,450	65,279,026
Total Accumulated Depreciation	\$ 274,243,940	\$ 20,174,586	\$ 5,273,885	\$ 289,144,641
Capital Assets, Net	\$ 582,696,487	\$ 27,110,308	\$ 22,793,209	\$ 587,013,586

	2017			
	July 1, 2016	Additions	Deletions	June 30, 2017
Nondepreciable Capital Assets:				
Land	\$ 17,608,711	\$ 202,783	\$ 225,303	\$ 17,586,191
Construction in progress	36,718,726	28,814,586	38,346,202	27,187,110
Total Nondepreciable Capital Assets	\$ 54,327,437	\$ 29,017,369	\$ 38,571,505	\$ 44,773,301
Depreciable Capital Assets:				
Improvements other than buildings	\$ 51,476,047	\$ 885,283	\$ -	\$ 52,361,330
Buildings	574,939,535	37,133,796	163,100	611,910,231
Equipment	78,878,730	3,646,831	3,589,645	78,935,916
Assets under capital lease	1,993,738	-	-	1,993,738
Libraries	66,888,213	157,044	79,346	66,965,911
Total Cost of Depreciable Capital Assets	\$ 774,176,263	\$ 41,822,954	\$ 3,832,091	\$ 812,167,126
Total Cost of Capital Assets	\$ 828,503,700	\$ 70,840,323	\$ 42,403,596	\$ 856,940,427
Less Accumulated Depreciation for:				
Improvements other than buildings	\$ 15,032,601	\$ 1,919,721	\$ -	\$ 16,952,322
Buildings	121,955,827	11,023,343	-	132,979,170
Equipment	57,243,083	3,901,338	3,577,890	57,566,531
Assets under capital lease	1,313,300	277,494	-	1,590,794
Libraries	64,301,450	933,020	79,346	65,155,124
Total Accumulated Depreciation	\$ 259,846,261	\$ 18,054,915	\$ 3,657,236	\$ 274,243,940
Capital Assets, Net	\$ 568,657,439	\$ 52,785,408	\$ 38,746,360	\$ 582,696,487

Depreciation is computed on a straight-line basis with the exception of the library materials category, which is computed using a composite method.

The following useful lives, salvage values and capitalization thresholds are used to compute depreciation:

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

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30, 2018, and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Payable to vendors and contractors	\$ 10,577,788	\$ 9,426,544
Accrued salaries, wages and employee withholdings	7,027,134	6,223,814
Accrued interest	2,252,361	2,340,275
Other	<u>454,973</u>	<u>222,654</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 20,312,256</u>	<u>\$ 18,213,288</u>

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

NOTE 8 UNEARNED REVENUES

Unearned revenues consisted of the following as of June 30, 2018, and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Tuition and fees	\$ 6,609,236	\$ 6,522,092
Athletics ticket sales	1,069,385	1,251,448
Federal, state and private grants and contracts	4,249,911	5,480,731
Auxiliary room and board	249,825	320,867
Other	<u>82,556</u>	<u>4,800</u>
Total Unearned Revenues	<u>\$ 12,260,913</u>	<u>\$ 13,579,938</u>

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



NOTE 9 LONG-TERM LIABILITIES

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

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

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

exceed five years. The University has the option to prepay all outstanding payments less any unearned interest to fully satisfy the obligation. There is also a fiscal funding addendum stating that if funds are not appropriated for periodic payment for any future fiscal period, the lessee will not be obligated to pay the remainder of the total payments due beyond the end of the current fiscal period.

The University 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. The final principal payment for this lease agreement was made this fiscal year in the amount of \$354,235.

Information regarding original issue amounts, interest rates and maturity dates for bonds, notes and capital leases included in the long-term liabilities balance at June 30, 2018, is listed in the following schedules. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Description and Purpose	Original Issue	Annual Interest Rate	Maturity (Fiscal Year)	2018			Due Within One Year	
				July 1, 2017	June 30, 2018	June 30, 2018		
Bonded Debt:								
SMEBC Series 2009	49,900,000	2.75-5.375%	Serially to 2037	\$ 1,775,000	\$ -	\$ 455,000	\$ 1,320,000	\$ 585,000
SMEBC Series 2013- refunding	51,875,000	2.00-5.00%	Serially to 2043	47,680,000	-	39,230,000	8,450,000	320,000
SMEBC Series 2015A	38,600,000	2.00-5.00%	Serially to 2034	37,890,000	-	1,210,000	36,680,000	1,290,000
SMEBC Series 2015B	16,690,000	0.50-3.25%	Serially to 2027	14,150,000	-	2,190,000	11,960,000	2,225,000
SMEBC Series 2016	58,870,000	2.00-5.00%	Serially to 2040	58,560,000	-	335,000	58,225,000	345,000
SMEBC Series 2017	44,005,000		Serially to 2043		44,005,000	600,000	43,405,000	165,000
Total Bonded Debt				\$ 160,055,000	\$ 44,005,000	\$ 44,020,000	\$ 160,040,000	\$ 4,930,000
Unamortized Premium								
SMEBC Series 2009			Original	Unamortized Portion	Additions	Deletions	June 30, 2018	Due Within One Year
SMEBC Series 2013A								
SMEBC Series 2013B- initial issuance	\$ 5,469,262		\$ 4,633,713	\$ -	\$ -	\$ 4,633,713	\$ -	\$ -
SMEBC Series 2013B- refunding	81,700		81,700	-	7,074	-	-	-
SMEBC Series 2015A	4,289,586		3,557,203	-	402,527	-	-	-
SMEBC Series 2015B	-		-	-	-	-	-	-
SMEBC Series 2016	11,923,434		11,097,243	-	811,318	-	-	-
SMEBC Series 2017	1,577,817		-	1,577,817	19,470	-	-	-
Unamortized Premium				19,288,158	1,659,517	5,874,102	15,073,573	1,359,502
Total Bonded Debt, net				\$ 179,343,158	\$ 45,664,517	\$ 49,894,102	\$ 175,113,573	\$ 6,289,502
Capital Leases:								
Beechcraft King Air	1,585,165	4.50%	Monthly to 2019	250,985	-	250,985	-	-
Voice over IP System	1,754,754	0.75%	Annually to 2018	354,235	-	354,235	-	-
Total Capital Leases				\$ 605,220	\$ -	\$ 605,220	\$ -	\$ -
Revenue Notes:								
SMEBC Series 2007A	3,160,000	1.29%	Semi-annually to 2018	171,730	-	171,730	-	-
Total Revenue Notes				\$ 171,730	\$ -	\$ 171,730	\$ -	\$ -
Other Long Term Liabilities:								
Net Pension Liability				\$ 233,764,776	\$ -	\$ 11,704,568	\$ 222,060,208	\$ -
OPEB Liability				14,277,056	-	239,351	14,037,705	-
Accrued leave liabilities				10,314,876	(954,313)	-	9,360,563	1,145,242
Deposits refundable				9,686	-	60	9,626	-
Other noncurrent liabilities				26,267,851	-	39,988	26,227,863	-
Total Other Liabilities				\$ 284,634,245	\$ (954,313)	\$ 11,983,967	\$ 271,695,965	\$ 1,145,242
Total				\$ 464,754,354	\$ 44,710,203	\$ 62,655,020	\$ 446,809,537	\$ 7,434,744
Due within one year							7,434,744	
Total Long Term Liabilities							\$ 439,374,794	

2017

Description and Purpose	Original Issue	Annual Interest Rate	Maturity (Fiscal Year)	2017			Due Within One Year
				July 1, 2016	Additions	Deletions	
Bonded Debt:							
SMEBC Series 2007	27,190,000	4.00-5.00%	Serially to 2034	580,000	\$ -	\$ 580,000	\$ -
SMEBC Series 2009	49,900,000	2.75-5.375%	Serially to 2037	2,110,000	-	335,000	1,775,000
SMEBC Series 2013	51,875,000	2.00-5.00%	Serially to 2043	48,665,000	-	985,000	47,680,000
SMEBC Series 2015A	38,600,000	2.00-5.00%	Serially to 2034	38,345,000	-	455,000	37,890,000
SMEBC Series 2015B	16,690,000	0.50-3.25%	Serially to 2027	16,315,000	-	2,165,000	14,150,000
SMEBC Series 2016	58,870,000	2.00-5.00%	Serially to 2040	58,870,000	-	310,000	58,560,000
Total Bonded Debt				\$ 164,885,000	\$ -	\$ 4,830,000	\$ 160,055,000
Unamortized Premium				20,683,069	-	1,394,911	19,288,158
Total Bonded Debt, net				\$ 185,568,069	\$ -	\$ 6,224,911	\$ 179,343,158
Capital Leases:							
Beechcraft King Air	1,585,165	4.50%	Monthly to 2019	409,501	-	158,517	250,985
Voice over IP System	1,754,754	0.75%	Annually to 2018	705,825	-	351,590	354,235
Total Capital Leases				\$ 1,115,326	\$ -	\$ 510,107	\$ 605,220
Revenue Notes:							
SMEBC Series 2007A	3,160,000	1.29%	Semi-annually to 2018	799,421	-	627,691	171,730
Other Long Term Liabilities:							
Net Pension Liability				\$ 204,738,145	\$ -	\$ -	\$ -
OPEB				-	-	-	14,277,056
1262000+6525066				10,045,982	268,894	-	10,314,876
Deposits refundable				13,543	-	3,857	9,686
Other noncurrent liabilities				26,582,159	-	314,308	26,267,851
Total Other Liabilities				\$ 241,379,829	\$ 268,894	\$ 318,165	\$ 284,634,245
Total				\$ 428,862,645	\$ 268,894	\$ 7,680,874	\$ 464,754,353
Due within one year							7,787,066
Total Long Term Liabilities							\$ 456,967,286

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 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.

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

S.M. Educational Building Corporation issued bonds totaling \$44,005,000 in December 2017 (Series 2017) for a partial refunding of SMEBC bonds issued in May 2013 (Series 2013) for the Century Park South facilities. Outstanding coupons bear interest at rates ranging from 2.00% to 5.00% with final maturity in September 2043. 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.

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 was scheduled to be retired in September 2017.

Scheduled maturities of Long-Term Liabilities at June 30, 2018:

<u>Fiscal Year</u>	<u>Bonded Debt</u>	<u>Capital Leases</u>	<u>Notes Payable</u>	<u>Interest</u>	<u>Total</u>
2019	4,930,000	-	-	6,656,234	11,586,234
2020	5,300,000	-	-	6,543,059	11,843,059
2021	5,635,000	-	-	6,411,901	12,046,901
2022	5,690,000	-	-	6,221,251	11,911,251
2023 - 2027	29,300,000	-	-	27,577,669	56,877,669
2028 - 2032	41,800,000	-	-	19,924,431	61,724,431
2033 - 2037	41,865,000	-	-	9,566,413	51,431,413
2038 - 2042	21,020,000	-	-	3,082,650	24,102,650
2043	4,500,000	-	-	165,225	4,665,225
Totals	<u>\$ 160,040,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,148,833</u>	<u>\$ 246,188,833</u>

NOTE 10 OPERATING LEASES

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

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

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 1,474,692
2020	815,040
2021	605,743
2022	399,141
2023	<u>294,465</u>
Total Minimum Payments Required	<u>\$ 3,589,081</u>

Total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal years ending June 30, 2018, and 2017, was \$1,511,476 and \$1,563,232, respectively.



NOTE 11 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional classification were as follows for the year ended June 30, 2018, and 2017, respectively:

Crosswalk of functional expenses shown in the statements to the natural classes adjusted for indirect costs allocation									
Functional Classification	2018								
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$ 62,640,730	\$ 26,528,307	\$ 1,761,184	\$ 3,836,343	\$ 6,594	\$ -	\$ 2,352,655	\$ -	\$ 97,125,813
Research	19,481,631	9,601,979	1,350,212	15,514,256	276,563	-	3,651,082	-	49,875,722
Public service	10,405,602	3,985,385	615,012	4,183,740	7,281	-	1,231,946	-	20,428,966
Academic support	12,696,215	4,682,521	222,407	5,301,302	-	-	970,052	-	23,872,497
Student services	5,975,484	2,352,548	198,795	1,430,035	-	-	1,066,426	-	11,023,289
Institutional support	11,645,085	5,482,048	208,863	3,839,275	5,272	-	478,853	-	21,659,396
Operation of plant	7,705,510	3,997,927	9,855	8,411,714	6,112,309	-	1,714,785	-	27,952,101
Student aid	-	-	-	-	-	21,277,200	-	-	21,277,200
Auxiliary enterprises	14,382,946	5,279,587	2,876,227	8,169,573	3,212,607	-	4,116,398	-	38,037,338
Depreciation	-	-	-	-	-	-	-	18,426,675	18,426,675
Total Operating Expenses	\$ 144,933,204	\$ 61,910,301	\$ 7,242,555	\$ 50,686,237	\$ 9,620,627	\$ 21,277,200	\$ 15,582,197	\$ 18,426,675	\$ 329,678,996

Note: IDC is subtracted from contractual services by function

2017									
Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$ 64,503,834	\$ 26,762,139	\$ 1,987,982	\$ 4,094,645	\$ 6,132	\$ -	\$ 2,067,621	\$ -	\$ 99,422,353
Research	18,046,650	10,133,099	1,535,125	17,210,921	246,535	-	3,306,198	-	50,478,528
Public service	9,838,136	4,200,361	529,232	3,180,957	10,556	-	1,166,778	-	18,926,021
Academic support	13,122,147	5,125,861	361,528	5,873,175	473	-	887,270	-	25,370,454
Student services	5,845,317	2,553,313	171,877	1,445,954	-	-	1,003,431	-	11,019,892
Institutional support	12,072,156	7,461,081	166,448	4,582,718	10,670	-	609,822	-	24,902,895
Operation of plant	7,721,453	4,463,394	21,622	8,407,488	5,824,558	-	1,909,539	-	28,348,052
Student aid	-	-	-	-	-	24,156,988	-	-	24,156,988
Auxiliary enterprises	13,962,316	5,420,809	2,748,746	8,902,199	3,319,533	-	3,831,351	-	38,184,954
Depreciation	-	-	-	-	-	-	-	18,054,913	18,054,913
Total Operating Expenses	\$ 145,112,008	\$ 66,120,058	\$ 7,522,560	\$ 53,698,057	\$ 9,418,457	\$ 24,156,988	\$ 14,782,009	\$ 18,054,913	\$ 338,865,050

Note: IDC is subtracted from contractual services by function

NOTE 12 CONSTRUCTION COMMITMENTS AND FINANCING

The University has contracted or made commitments for various construction projects as of June 30, 2018. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Projects	2018				
	Total Costs	Remaining Estimated Costs to Complete	Funded by Federal Sources	Funded by State Sources	Institutional Funds
Joseph Green Hall Renovation	\$ 13,012,552	\$ 8,886,749	\$ -	\$ 8,886,749	\$ -
Marine Education Center Building	16,869,369	1,002,038	-	-	1,002,038
University Signage and Wayfinding	601,460	95,112	-	-	95,112
Cochran Center Theatre	2,376,206	168,376	-	-	168,376
MDOT-Gulf Park Bear Bayou Scenic Overlook	605,450	375,707	-	310,893	64,814
MDOT-Lake Byron to Hwy 49 Pathway	399,701	290,071	-	232,057	58,014
GP Student Resource Center	300,000	87,828	-	-	87,828
McCain Library Envelope Repairs	2,100,000	2,048,191	-	2,048,191	-
Spirit Park Alumni Pavilion	500,000	495,200	-	-	495,200
President's Home Support Building	250,000	245,710	-	-	245,710
Caylor Building R & R	2,184,574	760,568	-	760,568	-
Total	\$ 39,199,312	\$ 14,455,550	\$ -	\$ 12,238,458	\$ 2,217,092

NOTE 13 DONOR RESTRICTED ENDOWMENTS

The net appreciation on investments of donor restricted endowments as of June 30, 2018, and 2017, that is available for authorization for expenditure is \$4,046,539 and

\$3,815,767, respectively. This amount is included in the Statement of Net Position as endowment investments.

NOTE 14 PENSION AND OTHER EMPLOYEE BENEFIT PLANS

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

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

The employees of the University are covered by one of the pension plans outlined above (collectively, the Plans). The Plans do not provide for measurements of assets and pension benefit obligations for individual entities. The measurement date of the Plans is June 30, 2017, and 2016 for fiscal years 2018 and 2017, respectively.

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

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

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

DISCLOSURES UNDER GASB STATEMENT NO. 68

The pension disclosures that follow for fiscal years 2018 and 2017 include all disclosures for GASB Statement No. 68 using the latest valuation reports available (June 30, 2017). For fiscal year 2018, the measurement date for the PERS defined benefit plan is June 30, 2017. For fiscal year 2017, the measurement date for the PERS defined benefit plan is June 30, 2016. The University is presenting net pension liability as of June 30, 2017, and 2016 for the fiscal years 2018 and 2017 financials, respectively.

(A) PERS DEFINED BENEFIT PLAN Plan Description

The PERS of Mississippi was created with the purpose of providing pension benefits for all state and public education employees, sworn officers of the Mississippi Highway

Safety Patrol, other public employees whose employers have elected to participate in PERS, and elected members of the State Legislature and the President of the Senate. PERS administers a cost-sharing, multiple-employer defined benefit pension plan. PERS is administered by a 10-member Board of Trustees that includes the State Treasurer; one gubernatorial appointee, who is a member of PERS; two state employees; two PERS retirees; and one representative each from public schools and community colleges, state universities, municipalities, and counties. With the exception of the State Treasurer and the gubernatorial appointee, all members are elected to staggered six-year terms by the constituents they represent.

MEMBERSHIP AND BENEFITS PROVIDED

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

Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of



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

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

CONTRIBUTIONS

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

Policies for PERS provide for employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. PERS members were required to contribute 9.00% of their annual pay. The institution's contractually required contribution rate for the years ended June 30, 2018, and 2017, was 15.75% for each year of annual payroll. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plans based on a five-year smoothed expected return with 20.00% of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates are determined using the entry age actuarial cost method and include provisions for an annual 3.00% cost-of-living increase calculated according to the terms of the respective plan. Contributions from the University are recognized when legally due, based on statutory requirements.

EMPLOYER CONTRIBUTIONS

The University of Southern Mississippi's contributions to PERS for the year ended June 30, 2018, was \$13.6 million. The University's proportionate share was calculated on the basis of historical contributions. Although GASB Statement No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocation on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the University that are not representative of future

contribution effort are excluded in the determination of employer's proportionate share. Examples of employer contributions not representative of future contribution

efforts are contributions toward the purchase of employee service and employer contributions paid by employees in connection with early retirement.

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

Plan	Proportionate share of contributions	Allocation percentage of proportionate share of collective pension amount	Change in proportionate share of collective pension amount
PERS Defined Benefit:			
2018	\$ 13,496,839	1.34%	0.03%

LONG-TERM EXPECTED RATE OF RETURN

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis, in which best estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges

are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2018, and 2017 are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
U.S. Broad	27.00 %	4.60 %
International equity	18.00	4.50
Emerging markets equity	4.00	4.75
Global	12.00	4.75
Fixed income	18.00	0.75
Real assets	10.00	3.50
Private equity	8.00	5.10
Emerging debt	2.00	2.25
Cash	1.00	0.00
	100.00	

NET PENSION LIABILITY

The University of Southern Mississippi's proportion of the net pension liability at June 30, 2018 is as follows:

Plan	Proportion of net pension liability	Proportionate share of net pension liability
PERS Defined Benefit:		
2018	1.336%	\$ 222,060,208

DISCOUNT RATE

For the year ended June 30, 2018, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%) for the year ended June 30, 2018. Based on those

assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following table presents The University of Southern Mississippi's proportionate share of the net pension liability of the cost-sharing plan for 2018, calculated using the discount rate of 7.75%, as well as what the University's

net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
University of Southern Mississippi proportionate share of net pension liability 2018	291,246,788	222,060,208	164,620,313

ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results

are compared with past expectations and new estimates are made about the future. Mississippi state statute requires that an actuarial experience study be completed at least once in each five-year period. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2012, to June 30, 2016.

The following table provides a summary of the actuarial methods and assumptions used to determine the contribution rate reported for PERS for the year ended June 30, 2018:

	2018
Valuation date	June 30, 2017
Asset valuation method	Market value
Actuarial assumptions:	
Inflation rate	3.00 %
Salary increases	3.25
Investment rate of return	7.75

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022 with rates set forward one year for males with adjustments.

PENSION EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (UNAUDITED)

For the year ended June 30, 2018, the non-cash impact of GASB Statement No. 68 and 75 on fringe benefits expense was \$13.3 million and \$147,723, respectively.

	Total fringe benefits expense	Non-cash change in net pension liability and related deferred inflows and outflows due to GASB 68	Non-cash change in net OPEB liability and related deferred inflows and outflows due to GASB 75	Fringe benefits expense excluding non-cash impact of GASB 68 and 75
University of Southern Mississippi	61,910,302	(13,261,004)	(147,723)	48,501,575

Deferred outflows of resources were related to differences between expected and actual experience, changes of assumptions, and contributions made after the measurement date. The difference between expected and actual experience with regard to economic and demographic

factors is amortized over the average of the expected remaining service life of active and inactive members, which is approximately five years. The first year of amortization is recognized as pension expense with the remaining years shown as a deferred outflow of resources.

See the following tables for deferred outflows and inflows of resources for the University:

Differences between expected and actual experience	Deferred outflows				Deferred inflows			
	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	Net difference between projected and actual investment earnings on pension plan investment	Changes of assumptions	Differences between expected and actual experience	Total deferred inflows of resources
3,190,295	4,935,529	1,289,228	13,456,220	22,871,272	2,851,088	378,387	1,620,308	4,849,783

Contributions subsequent to the measurement date of \$13.4 million reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as net deferred outflows of resources and net deferred inflows of resources related to pensions as of June 30, 2018, will be recognized in pension expense as follows:

Deferred outflows of resources year ended June 30							
2019	2020	2021	2022	2023	Total		
7,171,348	1,750,634	493,070			9,415,052		
Deferred inflows of resources year ended June 30							
2019	2020	2021	2022	2023	Total		
3,370,433	-	2,638,561	-	171,485	4,289,395	-	4,849,783

(B) ORP DEFINED CONTRIBUTION PLAN

The Optional Retirement Plan (ORP) was established by the Mississippi Legislature in 1990 to help attract qualified and talented institutions of higher learning faculty. The membership of the ORP is composed of teachers and administrators of The University of Southern Mississippi appointed or employed on or after July 1, 1990, who elect to

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



The ORP uses the accrual basis of accounting. Investments are reported at fair value, based on quoted market prices. Employees immediately vest in plan contributions upon

entering the plan. The University's contributions to the ORP for the year ended June 30, 2018, was \$6.5 million, which equaled its required contribution for the period.

NOTE 15 POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

PLAN DESCRIPTION

In addition to providing pension benefits, the University provides other postemployment benefits (OPEB), such as health care and life insurance benefits to all eligible retirees and dependents. The State and School Employees' Life and Health Insurance Plan (the Plan) is self-insured and financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan.

The 14-member board is comprised of the Chairman of the Workers' Compensation Commission; the State Personnel Director; the Commissioner of Insurance; the Commissioner of Higher Education; the State Superintendent of Public Education; the Executive Director of the Department of Finance and Administration; the Executive Director of the Mississippi Community College Board; the Executive Director of the Public Employees' Retirement System; two appointees of the Governor; the Chairman of the Senate Insurance Committee, or his designee; the Chairman of the House of Representatives Insurance Committee, or his designee; the Chairman of the Senate Appropriations Committee, or his designee; and the Chairman of the House of Representatives' Appropriations Committee, or his designee. The Board has a fiduciary responsibility to manage the funds of the Plan. The Plan maintains a budget approved by the Board.

MEMBERSHIP AND BENEFITS PROVIDED

The Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan for units of state government, political subdivisions, community colleges and school districts. A trust was created June 28, 2018, for the OPEB Plan and, while no trust was in place for the June 30, 2017, plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age-adjusted.

CONTRIBUTIONS

Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance will have the full cost of such insurance premium deducted monthly from his state retirement plan check or direct billed for the cost of the premium if the retirement check is insufficient to pay for the premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance.

Pursuant to the authority granted by Mississippi Statute, the Board has the authority to establish and change premium rates for the participants, employers and other contributing entities. An outside consulting actuary advises the Board regarding changes in premium rates. If premium rates are changed, they generally become effective at the beginning of the next calendar year or next fiscal year.

Plan participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to the Plan. If the assets of the Plan were to be exhausted, participants would not be responsible for the Plan's liabilities.

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

The audited financial report for the Plan can be found at knowyourbenefits.dfa.ms.gov.

At June 30, 2017, the Plan provided health coverage to 334 employer units.

Disclosures Under GASB Statement No. 75

The disclosures that follow for fiscal year 2018 include all disclosures for GASB Statement No. 75 using the latest valuation report available (June 30, 2017). For fiscal year 2018, the measurement date for the State and School Employees' Life and Health Insurance Plan is June 30, 2017. The University is presenting net OPEB liability as of June 30, 2017, for the fiscal year 2018 financials.

Proportionate Share Allocation Methodology

The basis for an employer's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the plan in the fiscal year of all employers.

This allocation was utilized because the level of premiums contributed by each employer is the same for any employee, regardless of plan participation elections made by an employee.

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the University reported a liability of \$14.0 million for its proportionate share of the net OPEB liability (NOL). The NOL was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. At June 30, 2018, the University's proportion was 1.79%.

For the year ended June 30, 2018, the University recognized OPEB expense of \$696,760. The University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Changes in proportion and differences between employer OPEB benefit payments and proportionate share of OPEB benefit payments	Deferred outflows		Deferred inflows	
	Implicit rate subsidy	Total deferred outflows of resources	Changes of assumptions	Total deferred inflows of resources
\$ 281,618	\$ 598,448	\$ 880,066	\$ 714,795	\$ 714,795

OPEB payments subsequent to the measurement date (implicit rate subsidy) of \$598,448 reported as deferred outflows of resources will be recognized as a reduction of the NOL for the year ended June 30, 2019.

Deferred outflows of resources and deferred inflows of resources are calculated at the plan level and are allocated to employers based on their proportionate share. Changes in employer proportion, an employer specific deferral,

is amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. The average remaining service life determined as of the beginning of the June 30, 2017, measurement period is 6.7 years. Employers are required to recognize pension expense based on their proportionate share of collective OPEB expense plus amortization of employer specific deferrals.

Other amounts reported for deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Deferred outflows (inflows) of resources year ended June 30						
2019	2020	2021	2022	2023	Thereafter	Total
\$ (75,996)	\$ (75,996)	\$ (75,996)	\$ (75,996)	\$ (75,996)	\$ (53,197)	\$ (433,177)



Actuarial Methods and Assumptions

The net OPEB liability in the June 30, 2017, actuarial valuation was determined using the following assumptions:

Valuation date	June 30, 2017
Measurement date	June 30, 2017
Experience study	April 18, 2017
Actuarial assumptions:	
Cost method	Entry age normal
Inflation rate	3.00 %
Long-term expected rate of return	N/A
Discount rate	3.56 %
Projected cash flows	N/A
Projected salary increases	3.25% - 18.50%
Healthcare cost trend rates	7.75% decreasing to 5.00% by 2023

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future.

Mortality

Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward one year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward four years for males and three years for females.

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2017 (measurement date), was based on an average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

Long-term Expected Rate of Return

Since there were no assets in a trust as of the measurement date, there is no projection of cash flows for the plan and no long-term expected rate of return on plan assets.

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following table presents the NOL of the University, calculated using the discount rate of 3.56%, as well as what the University's NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current rate:

	Discount Rate Sensitivity		
	1% Decrease	Current	1% Increase
	(2.56%)	discount rate (3.56%)	(4.56%)
The University of Southern Mississippi proportionate share of NOL 2018	14,408,432	14,037,705	13,761,624

Sensitivity of Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following table presents the NOL of the University, calculated using the health care cost trend rates, as well as what the University's NOL would be if it were calculated using a health care cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Health Care Cost Trend Rates Sensitivity		
	1% Decrease	Current	1% Increase
		discount rate	
The University of Southern Mississippi proportionate share of NOL 2018	12,964,762	14,037,705	15,262,582

Non-cash Impact on Fringe Benefits Expense

For the year ended June 30, 2018, the non-cash impact of GASB Statement Nos. 68 and 75 on fringe benefits expense was \$13.3 million and \$147,723, respectively.

Year ended June 30, 2018			
Total fringe benefits expense	Non-cash change in net pension liability and related deferred inflows and outflows due to GASB 68	Non-cash change in net OPEB liability and related deferred inflows and outflows due to GASB 75	Fringe benefits expense excluding non-cash impact of GASB 68 and 75
61,910,302	(13,261,004)	(147,723)	48,501,575

NOTE 16 FEDERAL DIRECT LENDING AND FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAMS

The institution distributed \$84,124,455 and \$82,229,759 for the years ended June 30, 2018, and 2017, respectively, for student loans through the U.S. Department of Education lending programs. These distributions and their related funding sources are included as noncapital financing disbursements and receipts in the Statement of Cash Flows.

NOTE 17 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:

	2018	2017
Total Current Assets	\$ 6,289,502	\$ 6,525,066
Total Noncurrent Assets	168,824,071	173,595,042
Total Assets	\$ 175,113,573	\$ 180,120,108
Total Current Liabilities	\$ 6,289,502	\$ 6,525,066
Total Noncurrent Liabilities	168,824,071	173,595,042
Total Liabilities	\$ 175,113,573	\$ 180,120,108
Total Net Position	\$ -	\$ -
Total Operating Revenues	\$ -	\$ -
Total Operating Expenses	-	-
Operating Income (Loss)	\$ -	\$ -
Total Nonoperating Revenues	\$ 5,907,339	\$ 6,345,791
Total Nonoperating Expenses	5,907,339	6,345,791
Change in Net Position	\$ -	\$ -

NOTE 18 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 19 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 2018.

NOTE 20 RISK MANAGEMENT

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

The Workers' Compensation Fund (WC Fund) provides a mechanism for the University to fund and budget for the costs of providing worker compensation benefits to eligible employees. The WC Fund does not pay benefits directly to employees. Funds are set aside in trust, and a third-party administrator is utilized to distribute the benefits to eligible employees. University payment to the Worker's Compensation Program for the fiscal year ended June 30, 2018, and 2017, was \$494,163 and \$709,042, respectively.

The Unemployment Trust Fund (Unemployment Fund) operates in the same manner as the Workers' Compensation Fund. The Unemployment Fund does not pay benefits directly to eligible former employees, rather it reimburses the Mississippi Department of Employment Security for benefits it pays directly to former employees. University payment to the Unemployment Fund for the fiscal year ended June 30, 2018, and 2017, was \$354,623 and \$216,518, respectively.

The University participates in the State Institutions of Higher Learning Tort Fund (IHL Tort Fund). In accordance with Section 11-46-1, et. seq., Mississippi Code Annotated (1972), the Mississippi Tort Claims Board authorized the Board of Trustees of State Institutions of Higher Learning to establish a fund in order to self-insure a certain portion of its liability under the Mississippi Tort Claims Act and professional liability claims. Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against public universities. A maximum liability limit of \$500,000 per occurrence is currently permissible. The University's payment for the IHL Tort Fund for the fiscal year ended June 30, 2018, and 2017, was \$16,287 and \$155,781, respectively.

During the year ended June 30, 2003, the IHL Tort Fund was authorized by the IHL Board, which subsequently acquired an educator's legal liability policy with a deductible of \$1 million of IHL Tort Fund net assets toward any future payment of this deductible. The University's payment for the blanket public official bond was \$2,800 for the fiscal years ended June 30, 2018, and 2017.

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, 2018, and 2017, was \$99,726 and \$97,546, respectively.

NOTE 21 RELATED PARTY

The University has a long-term lease agreement with The University of Southern Mississippi Athletic Foundation (Foundation) for facilities to be constructed on property donated to the Foundation for the use and benefit of the University's golf teams. The Foundation will raise funds for the construction of golf facilities, and upon completion of the construction of Phase 1 and Phase 2, the University will pay rent to the Foundation in the amount of two percent of the cost of the facilities. Until completion of Phase 1 and 2, the University will pay rent in the amount of \$1,000 per year to the Foundation. The term of the lease agreement is 20 years, and the University has the right to extend the agreement for an additional six, five-year option periods.

NOTE 22 RESTATEMENT

The University's audited numbers as of June 30, 2017, have been restated. The exhibits below compare the audited 2017 fiscal year end totals to the restated 2017 fiscal year end totals.

**UNIVERSITY OF SOUTHERN MISSISSIPPI
STATEMENT OF NET POSITION**

Assets and Deferred Outflows	Year Ended June 30, 2017	
	(Restated)*	(Audited)
Current Assets:		
Cash and cash equivalents	\$ 23,913,029	\$ 23,913,029
Short term investments (Note 2)	4,850,278	4,850,278
Accounts receivables, net (Note 4)	23,451,443	23,451,443
Student notes receivables, net (Note 5)	2,256,682	2,256,682
Inventories	273,909	273,909
Prepaid expenses	4,563,392	4,563,392
Total current assets	\$ 59,308,733	\$ 59,308,733
Non-Current Assets:		
Restricted cash and cash equivalents	\$ 1,489	\$ 1,489
Endowment investments (Note 2)	9,365,631	9,365,631
Other long term investments (Note 2)	51,979,911	51,979,911
Student notes receivable, net (Note 5)	26,719,655	26,719,655
Capital assets, net (Note 6)	582,696,488	582,696,488
Total noncurrent assets	\$ 670,763,174	\$ 670,763,174
Total assets	\$ 730,071,907	\$ 730,071,907
Deferred outflows of resources:		
Accumulated deferred amount of debt refundings	12,422,956	12,422,956
Pension related deferred outflows	43,608,137 *	49,361,259
OPEB related deferred outflows	552,345 *	-
Total deferred outflows of resources	\$ 56,583,438 *	\$ 61,784,215
Total assets and deferred outflows of resources	\$ 786,655,345	\$ 791,856,122
Liabilities, Deferred Inflows and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	\$ 18,213,288	\$ 18,213,288
Unearned revenues (Note 8)	13,579,938	13,579,938
Accrued leave liabilities-current portion (Note 9)	1,262,000	1,262,000
Long term liabilities-current portion (Note 9)	6,525,066	6,525,066
Other current liabilities	28,025	28,025
Total Current liabilities	\$ 39,608,317	\$ 39,608,317
Non-current liabilities:		
Net pension liability (Note 9)	\$ 233,764,776 *	\$ 233,764,776
Net OPEB liability	14,277,056	-
Deposits refundable (Note 9)	9,686	9,686
Accrued leave liabilities (Note 9)	9,052,876	9,052,876
Long term liabilities (Note 9)	173,595,042	173,595,042
Other non-current liabilities (Note 9)	26,267,851	26,267,851
Total non-current liabilities	\$ 456,967,287	\$ 442,690,231
Total liabilities	\$ 496,575,604	\$ 482,298,548
Deferred inflows of resources:		
Difference between projected and actual earnings on pension plan	\$ 621,075 *	\$ 6,046,927
Total liabilities and deferred inflows of resources	\$ 497,196,679	\$ 488,345,475
Net Position:		
Net Invested in Capital Assets	\$ 400,182,256 *	\$ 399,656,086
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	5,569,090	5,569,090
Expendable:		
Scholarships and fellowships	1,128,596	1,128,596
Debt service	16,673,576	16,673,576
Loans	5,558,647	5,558,647
Other purposes	6,507,414	6,507,414
Unrestricted	(146,160,913) *	(131,582,761)
Total net position	\$ 289,458,666	\$ 303,510,648

UNIVERSITY OF SOUTHERN MISSISSIPPI
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30, 2017	
	(Restated)*	(Audited)
Operating revenues:		
Tuition and fees:	\$ 137,201,836	\$ 137,201,836
Less: Scholarship Allowances	(45,496,508)	(45,496,508)
Less: Bad Debt Expense	(450,000)	(450,000)
Net tuition and fees	<u>\$ 91,255,328</u>	<u>\$ 91,255,328</u>
Federal grants and contracts	38,421,979	38,421,979
State grants and contracts	8,971,202	8,971,202
Local grants and contracts	-	-
Nongovernmental grants and contracts	16,366,256	16,366,256
Sales and services of educational departments	3,166,270	3,166,270
Auxiliary enterprises:		
Student housing	16,138,632	16,138,632
Food services	2,745,164	2,745,164
Bookstore	1,083,000	1,083,000
Athletics	12,893,525	12,893,525
Other auxiliary revenues	6,039,679	6,039,679
Less auxiliary enterprise scholarship allowances	(2,856,118)	(2,856,118)
Other operating revenues, net	5,816,687	5,816,687
Total operating revenues	<u>\$ 200,041,604</u>	<u>\$ 200,041,604</u>
Operating expenses:		
Salaries and wages	\$ 145,112,008	\$ 145,112,008
Fringe benefits	66,120,058 *	65,792,787
Travel	7,522,560	7,522,560
Contractual services	53,698,057	53,698,057
Utilities	9,418,457	9,418,457
Scholarships and fellowships	24,156,988	24,156,988
Commodities	14,782,009	14,782,009
Depreciation	18,054,913	18,054,913
Total operating expenses (Note 11)	<u>\$ 338,865,050</u>	<u>\$ 338,537,779</u>
Operating Loss	<u>\$ (138,823,446) *</u>	<u>\$ (138,496,175)</u>
Nonoperating revenues (expenses):		
State appropriations	\$ 94,402,297	\$ 94,402,297
Gifts and grants	34,655,586	34,655,586
Investment income	279,738	279,738
Interest expense on capital asset-related debt	(6,371,915)	(6,371,915)
Total nonoperating revenues (expenses), net	<u>\$ 122,965,706</u>	<u>\$ 122,965,706</u>
Loss before other revenues, expenses, gains and losses	<u>\$ (15,857,740)</u>	<u>\$ (15,530,469)</u>
Other revenues, expenses, gains and losses:		
Capital grants and gifts	\$ 8,920,642	\$ 8,920,642
State appropriations restricted for capital purposes	16,473,253	16,473,253
Other additions	1,315,308	1,315,308
Other deletions	(29,567)	(29,567)
Change in net position	<u>\$ 10,821,896</u>	<u>\$ 11,149,167</u>
Net position - beginning of year, as adjusted	292,361,481	292,361,481
Prior period adjustments	(13,724,711) *	-
Net position - beginning of year, as restated	278,636,770	292,361,481
Net position - end of year	<u><u>\$ 289,458,666</u></u>	<u><u>\$ 303,510,648</u></u>

**UNIVERSITY OF SOUTHERN MISSISSIPPI
STATEMENT OF CASH FLOWS**

	<u>Year Ended June 30, 2017</u>	
	<u>(Restated)*</u>	<u>(Audited)</u>
Operating activities:		
Tuition and Fees	\$ 91,852,086	\$ 91,852,086
Grants and Contracts	59,610,750	59,610,750
Sales and Services of Educational Departments	3,166,270	3,166,270
Payments to Suppliers	(75,145,937)	(75,145,937)
Payments to Employees for Salaries and Benefits	(198,380,078)	(198,380,078)
Payments for Utilities	(9,415,334)	(9,415,334)
Payments for Scholarships and Fellowships	(24,222,747)	(24,222,747)
Loans Issued to Students and Employees	(6,010,938)	(6,010,938)
Collection of Loans to Students and Employees	4,352,395	4,352,395
Auxiliary Enterprise Charges:		
Student Housing	14,913,940	14,913,940
Food Services	2,319,500	2,319,500
Bookstore	931,230	931,230
Athletics	11,701,181	11,701,181
Other Auxiliary Enterprises	5,965,370	5,965,370
Other Receipts	5,331,749	5,331,749
Net cash used by operating activities	<u>\$ (113,030,563)</u>	<u>\$ (113,030,563)</u>
Noncapital financing activities:		
State Appropriations	\$ 94,044,073	\$ 94,044,073
Gifts and Grants for Other Than Capital Purposes;	34,456,917	34,456,917
Federal Loan Program Receipts	82,001,259	82,001,259
Federal Loan Program Disbursements	(82,229,759)	(82,229,759)
Other Sources	(19,572)	(19,572)
Net cash provided by noncapital financing activities	<u>\$ 128,252,918</u>	<u>\$ 128,252,918</u>
Capital and related financing activities:		
Proceeds from Capital Debt	\$ -	\$ -
Cash Paid for Capital Assets	(15,101,758)	(15,101,758)
Capital Appropriations Received		
Capital Grants and Contracts Received	8,961,108	8,961,108
Proceeds from Sales of Capital Assets	56,042	56,042
Principal Paid on Capital Debt and Leases	(7,362,709)	(7,362,709)
Interest Paid on Capital Debt and Leases	(6,476,993)	(6,476,993)
Other Sources	1,993,501	1,993,499
Other Uses	(29,567)	(29,567)
Net cash used by capital and related financing activities	<u>\$ (17,960,376)</u>	<u>\$ (17,960,378)</u>
Investing activities:		
Proceeds from Sales and Maturities of Investments	\$ 16,882,589	\$ 16,882,589
Interest Received on Investments	929,531	929,531
Purchases of Investments	(30,189,846)	(30,189,846)
Proceeds from Insurance		
Net cash provided (used) by investing activities	<u>\$ (12,377,726)</u>	<u>\$ (12,377,726)</u>
Net change in cash and cash equivalents	<u>\$ (15,115,747)</u>	<u>\$ (15,115,749)</u>
Cash and cash equivalents - beginning of year	39,030,265	39,030,265
Cash and cash equivalents - end of year	<u>\$ 23,914,518</u>	<u>\$ 23,914,518</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (138,823,446)	* \$ (138,496,174)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	18,054,913	18,054,913
Other	450,000	450,000
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables, Net	(1,989,142)	(1,989,142)
Inventories	9,540	9,540
Prepaid Expenses	462,467	462,467
Other Assets	(7,359,613)	* (13,112,736)
Increase (Decrease) in Liabilities:		
Accounts Payables and Accrued Liabilities	(615,792)	(615,792)
Unearned Revenue	(2,740,298)	(2,740,298)
Deposits Refundable	(3,857)	(3,857)
Accrued Leave Liability	268,894	268,894
Loans to Students and Employees	(2,038,433)	(2,038,433)
Other Liabilities	21,294,203	* 26,720,055
Total Adjustments	<u>\$ 25,792,883</u>	<u>\$ 25,465,611</u>
Net cash used by operating activities	<u>\$ (113,030,563)</u>	<u>\$ (113,030,563)</u>
Reconciliation of cash and cash equivalents:		
Current assets - cash and cash equivalents	23,913,029	23,913,029
Noncurrent assets - restricted cash and cash equivalents	1,489	1,489
Cash and cash equivalents - end of year	<u>\$ 23,914,518</u>	<u>\$ 23,914,518</u>
ENTER NON-CASH TRANSACTIONS BELOW: (See GASB #9, Paragraph 37)		
1) State Appropriations Restricted for Capital Purposes	\$ 16,473,253	\$ 16,473,253
2) Unrealized Gain/(Loss) on Fair Value of Investments	(877,809)	(877,809)
3) Donation of Capital Assets	518,952	518,952
	<u>\$ 16,114,396</u>	<u>\$ 16,114,396</u>



Required Supplementary Information (unaudited)



REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Proportionate Share of Net Pension Liability *GASB 67 Paragraph 32(b)* — Year ended June 30, 2018

	<u>Proportionate share of the net pension liability</u>	<u>Proportionate share of the net pension liability</u>	<u>Estimated Covered-employee payroll provided by PERS</u>	<u>Proportionate share of the net pension liability as a percentage of its covered-employee payroll</u>	<u>PERS fiduciary net position as a percentage of the total pension liability</u>
2015	1.35%	163,430,215	82,272,965	199.00%	67.00%
2016	1.32%	204,738,145	82,745,841	247.43%	61.70%
2017	1.31%	233,764,776	83,720,083	279.22%	57.47%
2018	1.34%	222,060,208	85,694,216	259.13%	61.49%

Schedule of Proportionate Share of Contributions *GASB 67 Paragraph 32(c)* — Year ended June 30, 2018

	<u>Proportionate share of contributions</u>	<u>Required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Actual Covered-employee payroll</u>	<u>Contribution as a percentage of covered-employee payroll</u>
2015	12,934,612	12,934,612	-	82,124,521	15.75%
2016	13,009,957	13,009,957	-	82,602,902	15.75%
2017	13,118,547	13,118,547	-	83,292,362	15.75%
2018	13,456,220	13,456,220	-	85,436,317	15.75%

Schedule of Proportionate Share of the Net OPEB Liability *GASB 74 Paragraph 36(a)* — June 30, 2018

	<u>Proportionate share of the net OPEB liability</u>	<u>Proportionate share of the net OPEB liability</u>	<u>Covered-employee payroll</u>	<u>Proportionate share of the net OPEB liability as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total OPEB liability</u>
2018	1.79%	14,037,705	80,380,864	17.46%	0.00%

Schedule of Proportionate Share of the Net OPEB Liability *GASB 74 Paragraph 36(a)* — June 30, 2018

	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2018	781,368	552,341	229,027	80,380,864	0.69%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

June 30, 2018

1. Net Pension Liability

(a) Schedule of Proportionate Share of the Net Pension Liability

This schedule presents historical trend information about the University's proportionate share of the net pension liability for its employees who participate in the PERS. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the plan. Information related to previous years is not available; therefore, trend information will be accumulated to display a 10-year presentation.

(b) Schedule of Proportionate Share of Contributions to the PERS Defined Benefit Plan

The required contributions and percentage of those contributions actually made are presented in the schedule. Information related to previous years is not available; therefore, trend information will be accumulated to display a 10-year presentation.

(c) Changes in Assumptions and Benefit Terms (pension plan)

Changes of assumptions:

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022;
- The wage inflation assumption was reduced from 3.75% to 3.25%;
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience; and
- The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.
- In fiscal year 2018, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Changes of benefit terms: Amounts reported for fiscal year 2018 reflect no changes in benefit terms.

2. Net OPEB liability

(a) Schedule of Proportionate Share of the Net OPEB Liability

This schedule presents historical trend information about the University's proportionate share of the net OPEB liability for its employees who participate in the State and School Employees' Life and Health Insurance Plan. The net OPEB liability is measured as the total OPEB liability less the amount of the fiduciary net position of the plan. Information related to previous years is not available; therefore, trend information will be accumulated to display a 10-year presentation.

(b) Schedule of Proportionate Share of Employer Contributions to the State and School Employees' Life and Health Insurance Plan

The required contributions and percentage of those contributions actually made are presented in the schedule. Information related to previous years is not available; therefore, trend information will be accumulated to display a 10-year presentation.

(c) Changes in Assumptions and Benefit Terms (OPEB Plan)

Changes of assumptions: The SEIR was changed from 3.01% for the prior measurement date to 3.56% to the current measurement date.

Changes of benefit terms: Amounts reported for fiscal year 2018 reflect no changes in benefit terms.





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THE UNIVERSITY OF
**SOUTHERN
MISSISSIPPI**

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