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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FEDERAL SINGLE AUDIT REPORT

INDIANA STATE UNIVERSITY

TERRE HAUTE, INDIANA

July 1, 2013 to June 30, 2014

FILED
03/06/2015

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SCHEDULE OF UNIVERSITY OFFICIALS

Office	Official	Term
President	Dr. Daniel J. Bradley	07-01-13 to 06-30-15
Vice President for Business Affairs, Finance, and University Treasurer	Diann E. McKee	07-01-13 to 06-30-15
Associate Vice President for Finance and Assistant Treasurer	Domenic Nepote	07-01-13 to 06-30-15
Associate Vice President and University Controller	Jeffrey J. Jacso	07-01-13 to 06-30-15
President of the Board of Trustees	Randall Minas	07-01-13 to 06-30-14
	Robert Baesler	07-01-14 to 06-30-15

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of Indiana State University (University), a component unit of the State of Indiana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 24, 2014. Our report includes a reference to other auditors who audited the financial statements of Indiana State University Foundation, as described in our report on the University's financial statements. The financial statements of Indiana State University Foundation were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

October 24, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; ON INTERNAL CONTROL OVER COMPLIANCE; AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

TO: THE OFFICIALS OF INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

Report on Compliance for the Major Federal Program

We have audited Indiana State University's (University) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2014. The University's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Unmodified Opinion on the Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the University, a component unit of the State of Indiana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 24, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

February 3, 2015

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the University. The schedule and notes are presented as intended by the University.

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
U.S. DEPARTMENT OF EDUCATION			
Direct Grant			
Student Financial Assistance Cluster			
Federal Supplemental Education Opportunity Grants	84.007		$ 250,897
Federal Work-Study Program	84.033		451,481
Federal Perkins Loan (FPL) - Federal Capital Contributions	84.038		8,199,596
Federal Pell Grant Program	84.063		19,761,577
Federal Direct Student Loans	84.268		67,740,585
Total for Student Financial Assistance Cluster			96,404,136
Direct Grant			
TRIO Cluster			
TRIO - Student Support Services	84.042	P042A101065	281,362
Total for TRIO Cluster			281,362
Total for Federal Grantor Agency			96,685,498
Research and Development Cluster			
U.S. DEPARTMENT OF AGRICULTURE			
Direct Grants			
Wildlife Services	10.028	12-7439-0773-CA	9,231
Forestry Research	10.652	11-JV-11330134-023	9,944
Total for Federal Grantor Agency			19,175
U.S. DEPARTMENT OF THE INTERIOR			
Direct Grant			
Endangered Species Conservation Recovery Implementation Funds	15.657	F13AC00080	16,025
Pass-Through Indiana Department of Natural Recourses			
Cooperative Endangered Species Conservation Fund	15.615	E2-14-WDP002	23,853
Pass-Through Indiana University			
State Wildlife Grants	15.634	E2-08-WDS13	15,596
Pass-Through Purdue University			
Assistance to State Water Resources Research Institutes	15.805	G11AP20078	112
Total for Federal Grantor Agency			55,586
U.S. DEPARTMENT OF JUSTICE			
Direct Grant			
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2012-ZA-BX-0001	97,574
Pass-Through Vigo County Public Defender's Office			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	EDS D3-13-7624	22,453
Total for Federal Grantor Agency			120,027
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-Through North Carolina Department of Transportation			
Highway Planning and Construction	20.205	MA-2013-01 RP2013-35	148,061
Total for Federal Grantor Agency			148,061
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Pass-Through Purdue University			
None Provided	43.xxx	NNX10AK66H	39,102
Total for Federal Grantor Agency			39,102
NATIONAL SCIENCE FOUNDATION			
Direct Grants			
Mathematical and Physical Sciences	47.049	CHE-1012629	88,752
Geosciences	47.050	Various	53,735
Computer and Information Science and Engineering	47.070	CCF-1311142	8,631
Biological Sciences	47.074	IOS-1052247	134,177
Social, Behavioral, and Economic Sciences	47.075	Various	66,126
Education and Human Resources	47.076	Various	216,884
ARRA - Trans - NSF Recovery Act Research Support	47.082	S394A090015	98,542
Pass-Through Consortium for Ocean Leadership			
Geosciences	47.050	CA OCE-0652315	9,365

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
NATIONAL SCIENCE FOUNDATION (continued)			
Pass-Through Tuskegee University			
Education and Human Resources	47.076	DUE-1102997	38,109
Pass-Through Harrisburg University of Science and Technology			
Education and Human Resources	47.076	11224488	300
Total for Federal Grantor Agency			714,621
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Pass-Through Indiana Department of Environmental Management			
Great Lakes Program	66.469	A305-2-70	25,169
Total for Federal Grantor Agency			25,169
U.S. DEPARTMENT OF ENERGY			
Direct Grant			
Office of Science Financial Assistance Program	81.049	DE-FG02-06ER46304	107,717
Total for Federal Grantor Agency			107,717
Total for Research and Development Cluster			1,229,459
Other Federal Awards			
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through Indiana Department of Education			
Child and Adult Care Food Program	10.558	None Provided	27,049
Total for Federal Grantor Agency			27,049
U.S. DEPARTMENT OF LABOR			
Pass-Through Vincennes University			
Workforce Investment Act (WIA) Cluster			
WIA Youth Activities	17.259	C1-3-WIB-2-07	14,180
Total for Federal Grantor Agency			14,180
FEDERAL COMMUNICATIONS COMMISSION			
Direct Grant			
National Deaf-Blind Equipment Distribution Program (NDBEDP)	32.xxx	None Provided	122,453
Total for Federal Grantor Agency			122,453
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Pass-Through Purdue University			
Unknown	43.xxx	None Provided	342
Unknown	43.xxx	NNX10AK66H	750
Total for Federal Grantor Agency			1,092
INSTITUTE OF MUSEUM AND LIBRARY SCIENCE			
Pass-Through Indiana State Library			
Grants to States	45.310	A64-14-15L-7A	10,000
Total for Federal Grantor Agency			10,000
NATIONAL ENDOWMENT FOR THE HUMANITIES			
Pass-Through American Library Association			
Unknown	45.xxx	None Provided	250
Total for Federal Grantor Agency			250
SMALL BUSINESS ADMINISTRATION			
Direct Grant			
Special Initiative	59.000	SBAHQ-8-I-0059	56,537
Pass-Through Indiana Small Business Administration			
Small Business Development Centers	59.037	Various	137,052
Total for Federal Grantor Agency			193,589
U.S. DEPARTMENT OF EDUCATION			
Pass-Through Indiana Department of Education			
Special Education Cluster			
Special Education - Grants to States	84.027	Various	3,382,195

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
U.S. DEPARTMENT OF EDUCATION (continued)			
Pass-Through Indiana University			
Special Education Cluster			
Special Education - Grants to States	84.027	Various	8,666
Total for Special Education Cluster			3,390,861
Direct Grants			
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	Various	187,541
Child Care Access Means Parents in School	84.335	P335A100289	88,840
Pass-Through Indiana Commission for Higher Education			
Improving Teacher Quality State Grants	84.367	Various	119,531
Total for Federal Grantor Agency			3,786,773
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through Indiana University			
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	Various	74,398
Pass-Through Purdue University			
Injury Prevention and Control Research and State and Community Based Programs	93.136	4201-47580	1,638
Pass-Through Indiana Family & Social Services Administration			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	A55-3-84-13-PS-0286	65,983
Block Grants for Prevention and Treatment of Substance Abuse	93.959	A55-3-84-13-IM-0286	126,553
Total for Federal Grantor Agency			268,572
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES			
Pass-Through State of Indiana - Serve Indiana			
AmeriCorps	94.006	Various	169,890
Total for Federal Grantor Agency			169,890
Total federal awards expended			$ 102,508,804

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

INDIANA STATE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Indiana State University (University) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs.

The purpose of the Schedule is to present a summary of those activities of the University for the year ended June 30, 2014, which have been financed by the U. S. Government (federal awards). For purposes of the Schedule, federal awards include all federal assistance and procurement relationships entered into directly between the University and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. The Schedule presents only a selective portion of the activities of the University, therefore, it is not intended to and does not present the financial position, change in financial position, or cash flows of the University.

Note 2. Federal Direct Student Loans

The Schedule includes Federal Direct Student Loans which were not made by the University but were received by its students. The University is responsible only for the performance of certain administrative duties with respect to these loans.

The number of guaranteed loans and the total amount processed for each Direct Loan Program for the year ended June 30, 2014, were as follows:

Program Title	Number of Students	Loan Amount
Direct Loan Program (Subsidized and Unsubsidized)	7,775	$ 57,255,845
Direct PLUS Loans (Parent and Graduate PLUS Loans)	1,143	10,484,740
Totals	8,918	$ 67,740,585

Note 3. Federal Perkins Student Loan Program

The University participates in the Federal Perkins Loan Program. A revolving loan fund is maintained for the administration of the program, the balances and transactions relating to the program are included in the University's financial statements. The Schedule includes the entire amount of the revolving loan fund including the outstanding loans to students. The following schedule represents loans outstanding as of June 30, 2014:

Program Title	Federal CFDA Number	Amount
Federal Perkins Loan Program	84.038	$ 8,199,596

Note 4. Subrecipients

Of the federal expenditures presented in the Schedule, the University provided federal awards to subrecipients as follows for the year ended June 30, 2014:

Program Title	Federal CFDA Number	Amount
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	$ 21,350
National Deaf-Blind Equipment Distribution Program (NDBEDP)	32.xxx	86,500
Unknown	43.xxx	5,936
Social, Behavioral, and Economic Sciences	47.075	12,485
Special Initiative	59.000	49,000
Special Education - Grants to States	84.027	377,298
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	28,260
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	26,188
Block Grants for Prevention and Treatment of Substance Abuse	93.959	98,047
Total		$ 705,064

INDIANA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of *OMB Circular A-133*?	no

Identification of Major Program:

Name of Federal Program or Cluster
Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

No matters are reportable.

Section III - Federal Award Findings and Questioned Costs

No matters are reportable.

INDIANA STATE UNIVERSITY

2013-2014

Financial Report

Indiana State University

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Financial Report 2013-2014

Message from the President

Greetings on behalf of the Trustees, Faculty, Administration and Students of Indiana State University:

This annual financial report for the fiscal year ending June 30, 2014, reflects Indiana State University's commitment to excellence in higher education and faithful stewardship of public funds. Our mission—both in concept and in execution—is to help transform student lives through excellent teaching, experiential learning, and genuine community engagement. The enthusiasm for that important and satisfying work is balanced with a conscious recognition that a public institution must finance that mission with care and good judgment.

In the past few months, we have celebrated remarkable events in the life of Indiana State. In August, we opened the newly constructed Reeve Hall—the first new student housing facility in over 40 years. Student enrollment continues to increase with 13,183 students enrolled for the Fall 2014 semester. This is a significant feat and is the largest enrollment at Indiana State since 1971. For the second year in a row, Washington Monthly ranked Indiana State first in the nation for the community service performed by its students, totaling 1.4 million hours last year. It is an exciting time to be a Sycamore.

This report includes Financial Statements with accompanying Financial Statement Notes, the Independent Auditor's Report, and the Management Discussion and Analysis. These statements were prepared in accordance with guidelines established by the Governmental Accounting Standards Board (GASB) and were audited by the Indiana State Board of Accounts.

Please note the financial statements for the Indiana State University Foundation are included as a component unit of the University in accordance with GASB Statement No. 39. This information is included to provide a more inclusive reflection of the University's financial health.

We are deeply grateful to the State of Indiana for its longstanding commitment to higher education and support of Indiana State University. We trust that the results of our work reflected in this report and our continued investments in strategic programs and facilities reflect the University's commitment to manage its resources prudently for our students, employees, and Indiana's citizens.

Sincerely,

Daniel J. Bradley
President


Indiana State University

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Indiana State University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Indiana State University Foundation, a component unit of the University as discussed in Note 1, which represents 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Indiana State University Foundation, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the University as of June 30, 2014 and 2013, and the respective changes in financial position, where applicable, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide an assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Message from the President, Home Counties of Indiana State University Students, and Board of Trustees and University Administration are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Message from the President, Home Counties of Indiana State University Students, and Board of Trustees and University Administration have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

October 24, 2014

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Indiana State University (the University) for the 2013-2014 fiscal year ended June 30, 2014. This overview complies with Governmental Accounting Standards Board (GASB) principles, GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38.

Also presented is selected comparative information for the 2012-2013 fiscal year. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes that follow this section.

Indiana State University is a research intensive, residential institution offering instruction at the associate, bachelor, master, and doctoral levels. The University offers a diverse range of degree programs through a framework of 45 departmental units in five academic colleges and various divisions. Located in Terre Haute, Indiana, with 12,448 students, Indiana State University is a significant economic engine for the Wabash Valley and the State of Indiana.

Financial Highlights

The University's financial position continues to be strong, with an increase in net position of $18.3 million for the fiscal year ending June 30, 2014. This continues a trend of solid financial performance and adds to the increase of $12.6 million in the fiscal year ending June 30, 2013.

Operating revenues for the fiscal year were $120.7 million, as compared to $113.3 million for fiscal year 2013, an increase of 6.5 percent over the previous year. Net tuition and fees and net auxiliary income were up $4.7 million and $2.5 million respectively, which reflect enrollment growth and the largest incoming freshmen class in the school's history.

Operating expenses were $227.6 million for fiscal year 2014. This represents a $14.7 million increase from the previous year's expenditures. Compensation and employee benefits expense increased by $8.1 million. Supplies and expenses grew by $3.9 million. Utilities expenses increased by $1.2 million. Scholarships and fellowships and depreciation grew by $1.2 million and $0.3 million, respectively.

Net non-operating revenues grew by $9 million. Investment income, which includes both realized and unrealized gains and losses, increased $5.5 million as interest rates decreased during the year which led to a positive effect on bond prices. Non-operating grants and contract revenue increased $4.4 million reflecting the growth in federal and state student financial aid resulting from continued enrollment increases.

Capital appropriations grew by $2.5 million representing $1.4 million for repair and rehabilitation funding to be used for the replacement of the Science Building roof from the State of Indiana and $0.7 million for the renovation of Normal Hall. Capital gifts and grants increased $1.4 million due to the donation of property and a gift used for the Gibson Track and Field Complex.

Using the Financial Statements

The University's financial report includes three financial statements: (1) the Statement of Net Position; (2) the Statement of Revenues, Expenses, and Changes in Net Position; and (3) the Statement of Cash Flows.

The Statement of Net Position provides a summary view of the assets, liabilities, deferred inflows and outflows, and net position of the University and classifies assets and liabilities as either current or non-current. Current assets include those that may be used to support regular ongoing operations, such as cash and cash equivalents, accounts receivable, and inventories. Current liabilities are those items which are estimated to become due and payable within the next fiscal year. Non-current assets include capital assets, certain receivables, and long-term investments. Non-current liabilities include long-term bonds and leases payable.

The Statement of Revenues, Expenses, and Changes in Net Position summarizes financial performance for the year and explains the changes in the year-end net position on the Statement of Net Position.

The Statement of Cash Flows reconciles the beginning and ending balances of cash and cash equivalents and identifies all sources and uses of cash during the fiscal year.

The Governmental Accounting Standards Board (GASB) requires the inclusion of financial statements for all significant University component units. As of June 30, 2014 the Indiana State University Foundation is the only component unit to be included. The Foundation is a nonprofit organization that is subject to reporting guidelines governed by the Financial Accounting Standards Board (FASB); accordingly, certain revenue recognition criteria and presentation features are different from established GASB standards. No modifications have been made to the Indiana State University Foundation's financial information in the University's financial reporting presentation for these differences.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, liabilities and deferred inflows and outflows. The difference between total assets, total liabilities, and total deferred inflows and outflows is the net position, which is one measure of the financial condition of the University. Changes in net position are an indicator of whether the overall financial condition has improved or declined during the year. Assets, liabilities, and deferred inflows and outflows are generally measured at historical values in accordance with generally accepted accounting principles. One notable exception is investments, which are recorded at fair value as of the date of the financial statements. A summarized comparison of the University's assets, liabilities, deferred inflows and outflows, and net position at June 30, 2014 and 2013 is as follows:

Statement of Net Position (in millions)

	2014	2013
Current assets	$ 66.0	$ 59.7
Non-current assets:		
Deposit with bond trustee	0.1	0.1
Notes receivable	4.5	4.1
Other long-term investments	115.9	110.4
Net OPEB asset	16.3	14.2
Capital assets, net	384.0	365.3
Other	0.7	0.6
Total assets	$ 587.5	$ 554.4
Deferred outflows of resources	$ 1.9	$ 2.2
Current liabilities	$ 32.3	$ 29.9
Non-current liabilities	146.7	134.4
Total liabilities	$ 179.0	$ 164.3
Deferred inflows of resources	$ 1.7	$ 1.9
Net position	$408.7	$390.4

Assets and Deferred Outflows of Resources

Current assets consist primarily of cash, operating investments, and accounts receivable. Non-current assets consist primarily of capital assets net of depreciation, long-term investments, notes receivable net of allowance, and the net other post-employment benefit (OPEB) asset. Current and non-current assets totaled $66 million and $521.5 million, respectively, at June 30, 2014, compared to $59.7 million and $494.7 million at June 30, 2013. Total assets increased by six percent or $33.1 million. The University had $1.9 million of deferred outflows at June 30, 2014. Key changes in assets were as follows:

- Cash and cash equivalents (which include liquid investments maturing within 90 days) decreased by $0.5 million, while short-term investments, and long-term investments increased by $3.9 million and $5.4 million respectively. These increases resulted in an overall increase in cash and investments of $8.8 million. Bond proceeds held in cash and short-term investments for the renovation of Mills Hall and Science Laboratories

comprise $3.3 million of this increase while the remaining is attributed to the reinvestment of interest earned and the realized gain from investments.

- Accounts receivable increased by $1.4 million because of increased tuition revenue related to enrollment growth.
- In 2014, the University recorded a $1.8 million state receivable related to state funds granted for the renovation of Normal Hall and the repair of the roof of the Science Building.
- The net OPEB asset increased by $2.1 million to reflect changes in the actuarial valuation caused by an increase in the plan participants' share of cost.
- Capital assets grew by $18.8 million. This growth reflects the majority completion of Reeve Hall, Science Lab renovations, renovation of Normal Hall, and a $1.1 million capital gift of land and buildings by The Sherwin-Williams Company.

Liabilities and Deferred Inflows of Resources

Current liabilities include accounts payable, accrued compensation, unearned revenue, and the current portion of long-term debt. Non-current liabilities consist primarily of the non-current portion of long-term debt and advances from the federal government. Deferred inflows of resources consist of the Service Concession Arrangement with Sodexo. Current liabilities increased by $2.4 million and non-current liabilities increased by $12.3 million, for an overall increase in total liabilities of 9 percent or $14.7 million. This increase is related to the following:

- Total bonds payable increased from $133.7 million in 2013 to $147.3 million in 2014. This $13.7 million change reflects the addition of the $17.5 million Housing and Dining Revenue bond, Series 2014, and bond premium for the renovation of Mills Hall, the addition of the $4.6 million Student Fee bond, Series P, for the renovation of Science Labs, and the payment of $8.4 million in bond principal during the fiscal year.
- Total lease payable grew from $0.8 million to $1.6 million. In 2014, the University entered into a new, five-year capital lease agreement with Ricoh USA, Inc. to replace copiers and printers across campus.

The newly constructed Reeve Hall

Capital and Debt Activities

An important element in the continuing quality of academic programs, research activities, and student residential life is the sustained commitment to the development and renewal of the University's capital assets. The University continues to implement its Campus Master Plan with new construction, renovation, and modernization of existing facilities. Please refer to Note 3 in the Financial Statement Notes for activities in capital assets, including additions and deductions of capital assets in the current fiscal year.

Reeve Hall—The new residence hall located on the north side of campus is the first residence hall to be constructed in over 40 years. The residence hall features eight small group housing units to accommodate a total of 352 students. While physically connected, each unit has its own separate entrance and living space. The housing is designed for use by small groups, including student organizations, living learning communities, and Greek communities. The overall cost of the Reeve Hall residence complex is $25.8 million with $4.8 million funded from Housing and Dining reserves and $21 million from proceeds of the Series 2012 Bonds. Reeve Hall is to be completed for fall 2014 occupancy.

Life Science/Chemistry Lab Renovation—The University issued $4.6 million of Student Fee Bonds, Series P, on October 24, 2013. This issue was a tax-exempt, bank qualified direct placement. Bond proceeds with an interest rate of 2.18%, net of issuance costs, resulted in $4.5 million for the Science Lab renovations. The renovations of Life Science and Chemistry laboratories create spaces that meet contemporary safety and access standards mandated by federal law and enable the use of current instructional technologies.

Normal Hall Renovation—Construction has begun on Normal Hall, the oldest academic building on campus, to house the University College and Center for Student Success. The $16 million project is being funded by the State of Indiana. Originally dedicated in 1910, the neo-classical building served as Indiana State's library until 1973 and was then used as storage/office space for arts and various archives. The building's original features of a grand staircase and stained-glass dome will be restored, as well as creation of new classrooms, mentoring, and tutoring areas. A "stack" addition constructed in 1955 has been removed and is to be replaced with a transparent glass addition to provide space for an elevator, restrooms, and stairwells. The renovation is scheduled to be completed in summer 2015.

Mills Hall Renovation—Beginning in the summer of 2014, this project is the first phase of a comprehensive renovation of Sycamore Towers. The Mills Hall renovation of approximately 100,000 square feet of residence hall space will provide living and learning spaces that are attractive to prospective and returning students and provide up to 366 beds. The overall cost of the project is an estimated $20.7 million. The University issued $16.4 million of Housing and Dining Revenue Bonds, Series 2014, on June 11, 2014. The bond proceeds of $17.5 million included $1.1 million of net bond premium less issuance cost and underwriters discount of $0.3 million, and netted $17.2 million to be used for the Mills Hall project. $3.5 million will be funded from Housing and Dining System reserves.

Gibson Track and Field Complex—Construction began in spring 2014 on the first new athletic facility in 25 years. The Gibson Track and Field Complex is the first major project in Terre Haute's Riverscape development area. The complex was named in recognition of a gift from the Gibson family to be used for the project. The cost of $4.3 million will be funded by interest income, commissions, and private donor support.

500 Wabash Housing Project—The State Budget Committee approved, in December 2013, a plan for a student housing and retail complex in downtown Terre Haute. The five-story building with an estimated cost of $18.7 million will provide approximately 260 beds for upper level students in the top four floors with retail space on the ground floor. A private developer will construct the building and be responsible for leasing the retail space while the University will lease the residential portion with an option to purchase. Construction began in spring 2014 with the building to be ready for occupancy by fall 2015.

Artist's rendering of Normal Hall Renovation

Artist's rendering of Gibson Track and Field Complex

The University continues to work assertively to manage its financial resources efficiently, including the issuance of debt to finance capital projects. Indiana State University Housing and Dining System Revenue Bonds, Series 2014, issued during fiscal year 2014 had an underlying credit rating of (A-1) from Moody's and (AA-) from Fitch Ratings. Both Moody's and Fitch Ratings assigned a stable outlook to the series 2014 bonds, listing consistent positive University operating performance, enrollment related revenue growth and student enrollment, prudent financial management, and solid balance sheet resources.

Net Position

Net position represents the residual value of the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The University's net position at June 30, 2014 and 2013 are summarized in the table that follows:

Net Position (in millions)

	2014	2013
Net investment in capital assets	$ 255.0	$ 248.2
Restricted		
Non-expendable	0.7	0.6
Expendable	5.6	5.5
Unrestricted	147.4	136.1
Total net position	$408.7	$ 390.4

Net investment in capital assets reflects the University's capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of these assets.

Restricted net position is subject to externally imposed restrictions governing its use. Restricted non-expendable net position is funds held for scholarships and fellowships. Restricted expendable net position includes funds for research, loans, and funds limited to construction and renovation.

Although unrestricted net position is not subject to externally imposed stipulations, all of the University's unrestricted net position has been internally designated for various ongoing needs of the University, including debt service, capital projects, University initiatives, benefit claims, technology improvements, and academic and administrative activities.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position present the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013 is as follows:

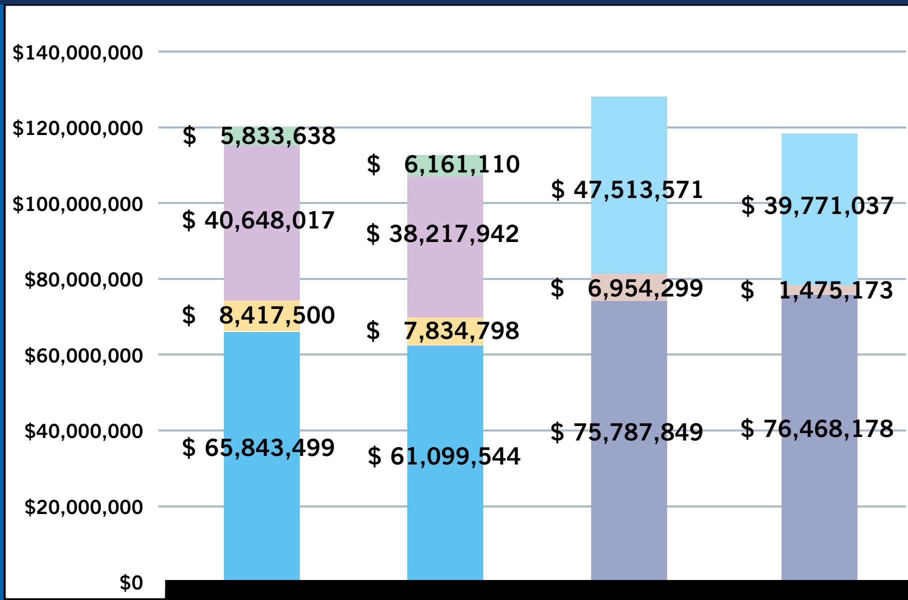
Revenues, Expenses, and Changes in Net Position (in millions)

	2014	2013
Operating revenues:		
Tuition and fees (net of scholarship & other allowances of $38.6 million for 2014 and $34.6 million for 2013)	$ 65.8	$ 61.1
Grants and contracts	8.4	7.8
Auxiliary enterprises fees and services (net of scholarship & other allowances of $10.1 million for 2014 and $9.4 million for 2013)	40.7	38.2
Other	5.8	6.2
Total operating revenue	$ 120.7	$ 113.3
Operating expenses	(227.6)	(212.9)
Operating Loss	($ 106.9)	($ 99.6)
Non-operating revenues (expenses):		
State appropriations	$ 75.8	$ 76.5
Investment income (net of investment expenses of $0.5 million for 2014 and $0.5 million for 2013)	7.0	1.5
Non-operating grants & contracts revenue	38.8	34.4
Capital appropriations	2.5	—
Capital grants and gifts	1.8	0.4
Other non-operating revenues and expenses	4.1	4.4
Interest on capital asset related debt	(4.8)	(5.0)
Net non-operating and other revenues	$ 125.2	$ 112.2
Increase in net position	$ 18.3	$ 12.6
Net position, beginning of year	390.4	377.8
Net position, end of year	$ 408.7	$ 390.4

One of the University's greatest strengths is its diverse stream of revenues that supplement student fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. To supplement student tuition the University will continue to aggressively seek funding from all possible sources consistent with its mission and will direct the financial resources realized from these efforts to fund University operating priorities.

The following is a comparative graphic illustration of revenues by source (both operating and non-operating), which are used to fund the University's ongoing activities. As the following chart indicates, tuition and state appropriations remain the primary sources of funding for the University's academic programs. It should be noted that significant recurring sources of the University's revenues, including state appropriations, are considered non-operating revenues.

Revenues by Source (operating and non-operating)



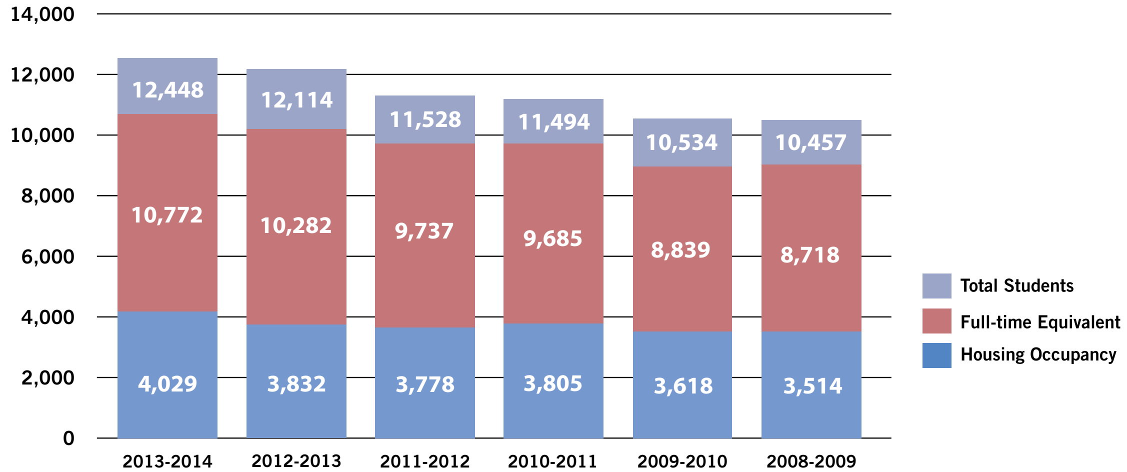
	Operating 2014	Operating 2013	Non-operating 2014	Non-operating 2013
Other non-operating/capital revenues			$ 47,513,571	$ 39,771,037
Investment income			$ 6,954,299	$ 1,475,173
State appropriations			$ 75,787,849	$ 76,468,178
Other operating revenues	$ 5,833,638	$ 6,161,110		
Auxiliary enterprises fees and services, net	$ 40,648,017	$ 38,217,942		
Federal, state, and local grants and contracts	$ 8,417,500	$ 7,834,798		
Tuition and fees, net	$ 65,843,499	$ 61,099,544		

Operating revenues increased by $7.4 million for the fiscal year 2014. The following attributed to the increase:

- Net tuition and fee income grew by $4.7 million. Growth in the number of returning students, graduate enrollment, and a large class of new freshmen grew the fall student head count to 12,448, an increase of 334 from fall 2012. The graduate student enrollment of 2,180 is a record number, and related to new master's and doctoral programs in health care and a growing professional MBA program.
- Net auxiliary enterprises fees and services revenue increased by $2.5 million. This reflects growth in housing and dining income due to increased occupancy. Parking services also showed growth for the year.
- State appropriations were reduced by $0.7 million from the prior year. On December 9, 2013, the Governor of the State of Indiana announced all public institutions of higher education would be subject to a 2 percent reserve in fiscal year 2014 to assist the State with meeting a projected budget shortfall. ISU's share of this reserve was $1.346 million that was deducted during the second half of the year.
- Investment income rebounded during the year showing an increase of $5.5 million from 2013 as interest rates remained low for the year having a positive effect on bond prices.
- Non-operating grants and contracts revenue grew $4.4 million. This reflects an increase in state financial aid of $2.9 million and federal aid (Pell) of $1.5 million.

- Capital appropriations include $1.4 million of repair and rehabilitation funding for the Science Building roof repair and $1 million for the Normal Hall renovation funded by the State of Indiana.
- Capital grants and gifts include a $0.8 million gift to be used for the Gibson Track and Field Complex and a $1.1 million donation of property by The Sherwin-Williams Company.

Enrollment and Housing Occupancy for Year Ending 6/30/14

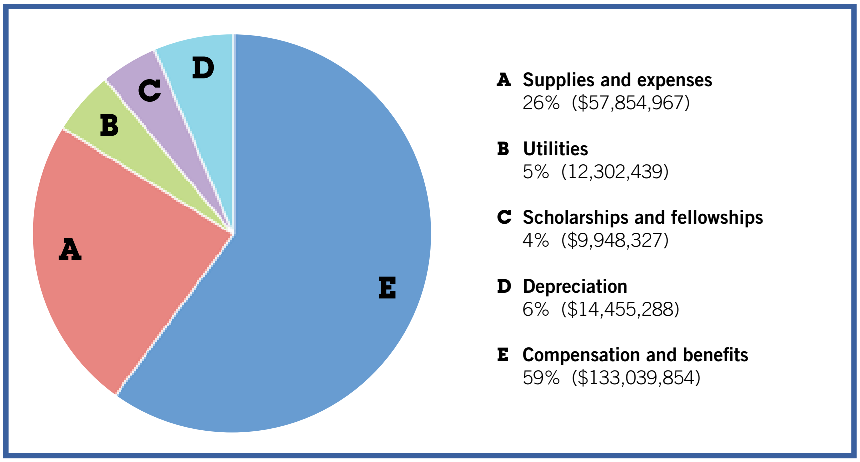


A comparative summary of the University's expenses for the years ended June 30, 2014 and 2013 is as follows:

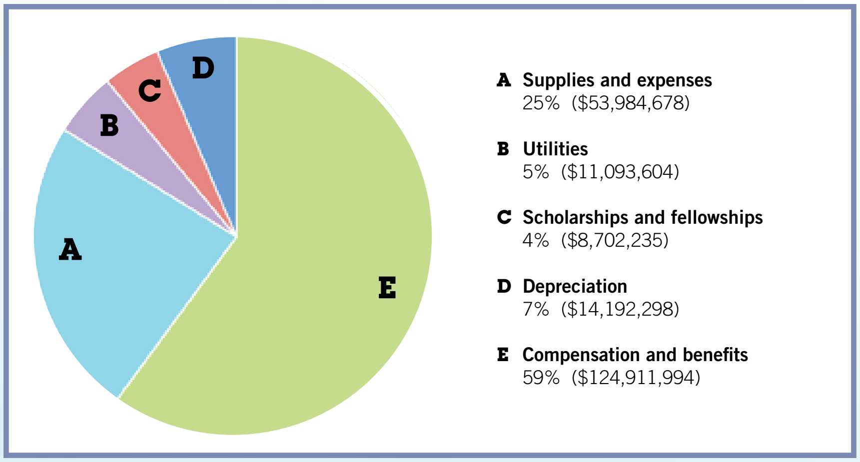
Operating Expenses (in millions)

	2014	2013
Operating:		
Compensation and benefits	$ 133.0	$ 124.9
Supplies and expenses	57.9	54.0
Utilities	12.3	11.1
Scholarships and fellowships	9.9	8.7
Depreciation	14.5	14.2
	227.6	212.9
Non-operating:		
Interest on capital asset related debt	4.8	5.0
Other non-operating expenses	0.3	0.5
Total expenses	$ 232.7	$ 218.4

The following is a graphic illustration of total operating expenses by object for the year ending June 30, 2014:



The following is a graphic illustration of total operating expenses by object for the year ending June 30, 2013:



Total operating expenses increased by $14.7 million from $212.9 million in fiscal year 2013 to $227.6 million in fiscal year 2014.

- Compensation and benefits increased by $8.1 million. This included additional academic salaries and corresponding benefits for full-time and part-time faculty brought about by increased enrollment and new academic programs. Also reflected in this amount is a two percent wage increase midyear, increased student employment, incentive retirement payouts and administrative salaries.
- Supplies and expenses grew $3.9 million. The disposal of improvements done to Erickson Hall to convert it from a residence hall to an administrative/academic building in a prior year represents $2.5 million of the increase. It was converted back to a residence hall for fall 2013 occupancy. The remaining increase can be attributed to a rise in dining payments partially offset by reductions in educational and office supplies.
- Utilities expenses increased by $1.2 million due to an additional $0.6 million of natural gas usage resulting from extreme winter weather conditions. Electricity and sewage increased $0.6 million as a result of rate increases.
- Scholarships and fellowships expense grew by $1.2 million for 2014 reflecting the continued growth in enrollment.

Indiana State University continues to make market-competitive compensation and benefits a top priority. These expenses represent 58 percent of total University expense/budget.

In addition to their natural (object) classification (expenditure type), the reader is also benefited by a review of operating expenses by the nature of the University division incurring the expense. A summary of the University's expenses by functional classification for the years ended June 30, 2014 and 2013 is as follows:

Expenses by Function (in millions)

	2014	**2013**
Operating:		
Instruction	$ 71.5	$ 69.4
Research	9.8	8.7
Public service	2.9	1.7
Institutional and academic support	41.7	39.6
Student services	13.3	11.1
Operation of plant	27.1	26.1
Scholarships	11.2	9.9
Auxiliary enterprises	35.6	32.2
Depreciation	14.5	14.2
	$ 227.6	$ 212.9

Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by identifying the major sources and uses of cash. The statement assists the reader in evaluating the entity's ability to generate future net cash flows to meet obligations as they come due. Below is a comparative summary of the Statement of Cash Flows for the years ended June 30, 2014 and 2013 and highlights of the major changes:

Statement of Cash Flows (in millions)

	2014	2013
Cash received from operations	$ 121.3	$ 113.2
Cash expended for operations	(212.9)	(203.3)
Net cash used by operating activities	(91.6)	(90.1)
Net cash provided by non-capital financing activities	118.9	114.5
Net cash used by capital and related financing activities	(25.3)	(5.2)
Net cash used by investing activities	(2.5)	(9.6)
Net (decrease) increase in cash and cash equivalents	$ (0.5)	$ 9.6
Cash and cash equivalents, beginning of year	$ 28.3	$ 18.7
Cash and cash equivalents, end of year	$ 27.8	$ 28.3

Operating activities

- Cash used by operating activities increased by $1.5 million.
- Cash provided by tuition and fees and auxiliary enterprises comprise 86 percent of inflows from operating activities, and grew by $3.4 million and $1.8 million, respectively, due to the growth in enrollment.
- Payments to employees and for employee benefits make up 62 percent of outflows of cash for operating activities. These payments increased by $6.8 million in 2014 due to an increase in full-time and part-time faculty to support enrollment increases, a 2 percent across-the-board compensation increase, student wages and administrative salary increases, and an increase in payments for the corresponding benefits.
- Payments to suppliers grew by $1.6 million due to increased dining payments.

Non-capital financing activities

- Cash provided by non-capital financing activities increased by $4.4 million.
- Cash received from non-operating grants and contracts increased by $4.3 million. This increase is due to an additional $2.8 million in funds received for non-operating state grants, which included an increase in 21st Century Scholars funding, and an increase of $1.6 million in funds received for non-operating federal grants.
- State appropriations make up 64 percent of cash provided by non-capital financing activities. The University recognized a $0.7 million decrease in state appropriations in 2014 due to a 2 percent budget reduction to increase reserves needed for State revenue shortfalls.

Capital financing activities

- Cash used by capital financing activities increased by $20.1 million. The majority of this difference is due to the larger bond issues in 2013 of $30.5 million compared to $22.1 million in 2014. In addition, a large portion of the 2013 bond issue was spent on capital assets in 2014 further increasing cash paid for capital financing activities.
- Cash paid for capital assets increased from $26.4 million to $34.3 million in 2014.
- Cash receipts for capital gifts and grants decreased by $3.3 million in 2014. In 2013, the University received $3.1 million from the ISU Foundation to renovate the Scott College of Business with only $0.1 million remaining due at the beginning of 2014.

Investing activities

- Cash used by investing activities decreased by $7.1 million due to an increase in net investment purchases of $8.4 million which was offset by a $1.3 million decrease in cash received for investing income.

For the year ended June 30, 2014 more cash was used by operating and capital financing activities, more cash was provided by non-capital financing activities, and less cash was used in investing activities. The University experienced an overall $0.5 million increase in cash.

Economic Factors that Will Affect the Future

The University is providing an environment that both challenges and educates its students. With an emphasis on experiential learning and community engagement activities, Indiana State University graduates are prepared for future leadership roles in their communities.

Indiana State University fall 2014 enrollment headcount grew to 13,183, an increase of 735, and is the largest enrollment in the last 42 years. This marks the sixth straight year of enrollment increase for the University. Total enrollment grew 5.9 percent for fall 2014, as the incoming freshman class of 2,739 is the largest in school history. Graduate students increased to 2,302, also the largest in University history. Enrollment of international students has increased by 18.5 percent to nearly 1,100. ISU has set a new enrollment target of 14,000 students by 2017. The new enrollment goal would mark the largest student body in the University's history, exceeding a record head count of 13,533 in 1970. Plans call for Indiana State to achieve its goal by adding more than 1,000 undergraduate and 800 graduate students during the next five years. More than half of that growth would come from boosting the number of students completing degrees online.

Indiana State has set a goal of increasing first-year retention to 70 percent by 2017. At the same time, the University will seek to increase its four-year graduation rate from more than 22 percent to 30 percent and boost its six-year graduation rate from 42 percent to 50 percent. A new four-year graduation guarantee, the formation of a University College to better serve new students, and expanded summer programs to serve at-risk students are now in place to help achieve these goals and ensure that more students complete a bachelor's degree.

The State of Indiana utilizes various performance funding metrics to determine a portion of state support for higher education. The majority of these metrics focus on degree completion. It is therefore critical to continue implementation of student success and degree completion initiatives to increase the level of state operating appropriation. The University is forming an integrated team from Academic Affairs, Enrollment Management and Communications and Marketing to dramatically increase enrollment in degree completion and distance-delivered programs.

Indiana State University's management is confident that the University's financial condition is strong and will meet all foreseeable economic requirements.

Indiana State University

Statement of Net Position

For the Years Ended June 30, 2014 and June 30, 2014

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 27,787,484	$ 28,341,848
Short-term investments	18,498,507	14,616,910
Accrued interest	1,162,914	1,034,874
Accounts receivable (net of allowance of $5,687,223 for 2014 and $5,338,984 for 2013)	7,653,846	6,281,685
Other accounts receivable	2,190,341	2,096,634
Grants receivable	1,386,103	1,736,477
State receivable	1,756,447	—
Notes receivable, current portion	3,707,615	3,578,020
Prepaid expenses	1,660,947	1,547,078
Inventories	162,215	100,841
Other assets	—	355,040
Total current assets	$ 65,966,419	$ 59,689,407
Non-current Assets		
Endowment investments—held in trust	$ 717,294	$ 632,121
Deposits with bond trustee	98,543	82,392
Notes receivable, non-current portion (net of allowance of $753,016 for 2014 and $708,751 for 2013)	4,470,966	4,085,535
Other long-term investments	115,882,028	110,435,061
Net OPEB Asset (Note 18)	16,326,550	14,237,880
Capital assets (net of accumulated depreciation of $262,492,157 for 2014 and $252,279,091 for 2013)	384,059,548	365,278,444
Total non-current assets	$ 521,554,929	$ 494,751,433
TOTAL ASSETS	$ 587,521,348	$ 554,440,840
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on early retirement of debt	$ 1,936,556	$ 2,200,954
Total deferred outflows of resources	$ 1,936,556	$ 2,200,954
LIABILITIES		
Current Liabilities		
Accounts payable	$ 5,830,199	$ 6,240,224
Accrued payroll and deductions	2,839,115	2,704,338
Unearned revenue	1,100,502	1,250,950
Funds held in custody for others	1,039,243	1,101,835
Other current liabilities	5,974,790	5,343,388
Bonds payable (Note 5)	9,923,210	8,078,810
Compensated abscences and termination benefits (Note 9)	3,749,603	3,394,235
Lease payable	423,187	382,268
Debt interest payable	1,431,501	1,425,659
Total current liabilities	$ 32,311,350	$ 29,921,707
Non-current Liabilities		
Bonds payable (Note 5)	$ 137,413,644	$ 125,587,469
Compensated absences and termination benefits (Note 9)	548,949	642,309
Lease payable	1,212,867	404,085
Advances from Federal Government	7,588,757	7,715,549
Total non-current liabilities	$ 146,764,217	$ 134,349,412
TOTAL LIABILITIES	$ 179,075,567	$ 164,271,119
DEFERRED INFLOWS OF RESOURCES		
Deferred service concession arrangement (Note 6)	$ 1,698,149	$ 1,940,742
Total deferred inflows of resources	$ 1,698,149	$ 1,940,742
NET POSITION		
Net investment in capital assets	254,989,200	248,220,211
Restricted for:		
Non-expendable:		
Scholarships and fellowships	717,294	632,121
Expendable:		
Research and other grants	364,140	471,934
Loans	2,178,780	2,173,650
Capital projects	3,009,986	2,866,881
Unrestricted	147,424,788	136,065,136
TOTAL NET POSITION	$ 408,684,188	$ 390,429,933

The accompanying notes to financial statements are an integral part of this statement.

Indiana State University Foundation, Inc. and Affiliate

Consolidated Statement of Financial Position

Years Ended June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and equivalents	$ 3,492,650	$ 810,428
Short-term investments	11,672,343	7,378,175
Pledges and bequests, receivable, net	4,920,602	4,600,299
Due from Indiana State University	237,500	372,787
Investment in joint ventures	1,222,382	1,222,382
Property held for future use	240,436	467,595
Property and equipment, net	1,292,801	1,432,163
Amortizable intangible assets, net		38,802
Assets held in trusts, interest in trusts and split-interest agreements	4,089,232	3,710,559
Investments restricted for long-term purposes	50,977,219	46,046,720
Pledges and bequests receivable restricted for long-term purposes, net		964,151
Other assets restricted for long-term purposes	1,755	1,755
Other assets	1,066,101	1,487,500
TOTAL ASSETS	$ 79,213,021	$ 68,533,316
LIABILITIES		
Accounts payable	$ 88,584	$ 92,658
Due to Indiana State University	2,274,131	3,230,895
Lines of credit borrowings	3,750,000	9,436,989
Notes payable	6,207,253	
Split-interest agreement obligations	1,189,266	2,296,095
Refundable advances	639,939	553,844
Deferred revenue	1,500	1,500
Total Liabilities	14,150,673	15,611,981
NET ASSETS		
Unrestricted	(1,937,034)	(7,228,586)
Temporarily restricted	26,688,822	21,250,013
Permanently restricted	40,310,560	38,899,908
Total Net Assets	65,062,348	52,921,335
TOTAL LIABILITIES AND NET ASSETS	$ 79,213,021	$ 68,533,316

Indiana State University

Statement of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2014 and June 30, 2013

	2014	2013
OPERATING REVENUES		
Tuition and fees	$ 104,427,718	$ 95,669,841
Scholarship allowances for tuition and fees	(37,700,840)	(34,087,839)
Other allowances	(883,379)	(482,458)
Net tuition and fees	65,843,499	61,099,544
Federal grants and contracts	6,210,681	5,005,317
State and local grants and contracts	68,111	71,573
Non-governmental grants and contracts	2,138,708	2,757,908
Auxiliary enterprises fees and services	50,757,300	47,586,250
Scholarship allowances for room and board	(9,669,630)	(8,792,244)
Other allowances	(439,653)	(576,064)
Net auxiliary enterprises fees and services	40,648,017	38,217,942
Other operating revenues	5,833,638	6,161,110
Total operating revenues	$ 120,742,654	$ 113,313,394
EXPENSES		
Compensation and employee benefits	$ 133,039,854	$ 124,911,994
Supplies and expenses	57,854,967	53,984,678
Utilities	12,302,439	11,093,604
Scholarships and fellowships	9,948,327	8,702,235
Depreciation	14,455,288	14,192,298
Total operating expenses	$ 227,600,875	$ 212,884,809
Operating loss	$ (106,858,221)	$ (99,571,415)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$ 75,787,849	$ 76,468,178
Gifts	357,520	258,578
Investment income (net of investment expenses of $457,809 for 2014 and $457,714 for 2013)	6,954,299	1,475,173
Interest on capital asset related debt	(4,794,361)	(4,975,590)
Non-operating grants and contract revenue	38,831,157	34,396,857
Other non-operating revenues	4,047,497	4,708,687
Other non-operating expenses	(348,882)	(519,610)
Net non-operating revenue	$ 120,835,079	$ 111,812,273
Income before other revenues, expenses, gains, or losses	$ 13,976,858	$ 12,240,858
Capital appropriations	$ 2,481,604	$ —
Capital grants and gifts	$ 1,795,793	$ 406,915
Total other revenues	$ 4,277,397	$ 406,915
Increase in net position	$ 18,254,255	$ 12,647,773
NET POSITION		
Net position—beginning of year	$ 390,429,933	$ 377,782,160
Net position—end of year	$ 408,684,188	$ 390,429,933

The accompanying notes to financial statements are an integral part of this statement.

Indiana State University Foundation, Inc. and Affiliate

Consolidated Statement of Activities

Years Ended June 30, 2014 and 2013

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	$ 870,136	$ 5,689,945	$ 693,439	$ 7,253,520
Investment income				
Interest and dividends	1,001,442	425,676	46,446	1,473,564
Net realized and unrealized gains on investments	4,607,693	3,314,929	95,582	8,018,204
Total Investment Income	5,609,135	3,740,605	142,028	9,491,768
Non-gift income	307,787	1,012,225	100,000	1,420,012
Change in value of split-interest agreements	467,874	154,795	606,582	1,229,251
Service fee income—Indiana State University	1,945,550	—	—	1,945,550
Endowment administration, gift assessments, and retained spending fee	834,024	(785,877)	(48,147)	—
Prospect league	60,186	—	—	60,186
	10,094,692	9,811,693	1,493,902	21,400,287
Reclassification of donor intent		83,250	(83,250)	
Net assets released from restrictions	4,456,134	(4,456,134)	—	—
Total Revenue and Support	14,550,826	5,438,809	1,410,652	21,400,287
EXPENSES				
Scholarships and awards	1,370,687	—	—	1,370,687
Restricted and designated expenditures	3,539,964	—	—	3,539,964
Total Program Services	4,910,651	—	—	4,910,651
Foundation operations	1,381,071	—	—	1,381,071
Sycamore operations	323,117	—	—	323,117
Development and President	2,364,732	—	—	2,364,732
Alumni affairs	279,703	—	—	279,703
Total Expenses	9,259,274	—	—	9,259,274
INCREASE IN NET ASSETS	5,291,552	5,438,809	1,410,652	12,141,013
NET ASSETS				
Beginning of Year	(7,228,586)	21,250,013	38,899,908	52,921,335
End of Year	$ (1,937,034)	$ 26,688,822	$ 40,310,560	$ 65,062,348

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	$ 1,094,456	$ 4,976,229	$ 2,177,369	$ 8,248,054
Investment income				
Interest and dividends	946,972	400,131	52,955	1,400,058
Net realized and unrealized gains on investments	3,179,541	1,168,895	138,674	4,487,110
Total Investment Income	4,126,513	1,569,026	191,629	5,887,168
Non-gift income	318,962	303,859	(55,965)	566,856
Change in value of split-interest agreements	(141,689)	84,410	(92,086)	(149,365)
Service fee income—Indiana State University	1,121,287	—	—	1,121,287
Endowment administration, gift assessments, and retained spending fee	711,397	(624,126)	(87,271)	—
Prospect league	257,454	—	—	257,454
	7,488,380	6,309,398	2,133,676	15,931,454
Reclassification of donor intent				
Net assets released from restrictions	4,170,226	(4,170,226)	—	—
Total Revenue and Support	11,658,606	2,139,172	2,133,676	15,931,454
EXPENSES				
Scholarships and awards	1,246,009	—	—	1,246,009
Restricted and designated expenditures	3,866,302	—	—	3,866,302
Total Program Services	5,112,311	—	—	5,112,311
Foundation operations	2,385,762	—	—	2,385,762
Sycamore operations	765,451	—	—	765,451
Development and President	2,375,039	—	—	2,375,039
Alumni affairs	249,840	—	—	249,840
Total Expenses	10,888,403	—	—	10,888,403
INCREASE IN NET ASSETS	770,203	2,139,172	2,133,676	5,043,051
NET ASSETS				
Beginning of Year—Restated	(7,998,789)	19,110,841	36,766,232	47,878,284
End of Year	$ (7,228,586)	$ 21,250,013	$ 38,899,908	$ 52,921,335

Indiana State University
Statement of Cash Flows
For the Years Ended June 30, 2014 and June 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 64,399,702	$ 60,959,324
Grants and contracts	9,405,246	6,588,884
Auxiliary enterprises	39,900,291	38,140,354
Payments to suppliers	(71,335,762)	(69,691,280)
Payments to employees	(68,442,895)	(65,030,245)
Payments for benefits	(63,987,842)	(60,592,517)
Payments to students	(7,554,662)	(6,998,082)
Loans issued to students	(1,535,683)	(947,281)
Student loans collected	1,233,616	1,244,952
Other receipts	6,352,257	6,247,238
Net cash used by operating activities	$ (91,565,732)	$ (90,078,653)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	$ 75,787,849	$ 76,468,179
Return of funds held on behalf of the ISU Foundation	—	(903,401)
Direct loan program receipts	22,443,795	21,132,085
Direct loan program disbursements	(22,443,795)	(21,132,085)
Non-operating grants and contracts	38,866,348	34,559,145
Gifts and other non-operating income	4,285,969	4,339,542
Net cash provided by non-capital financing activities	$ 118,940,166	$ 114,463,465
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	$ 725,157	$ —
Capital gifts and grants received	179,800	3,473,878
Proceeds from trustee drawdowns	—	123,347
Proceeds from bond issue	22,056,185	30,526,797
Costs of issuance	(351,025)	(524,383)
Cash paid for capital assets	(34,287,040)	(26,436,712)
Principal and interest paid on capital debt and leases	(13,708,086)	(12,288,549)
Net cash used by capital financing activities	$ (25,385,009)	$ (5,125,622)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	$ 13,446,384	$ 4,253,246
Income from investing activities	3,546,337	4,867,497
Purchase of investments	(19,536,510)	(18,752,750)
Net cash used by investing activities	$ (2,543,789)	$ (9,632,007)
Net (decrease) increase in cash for year	$ (554,364)	$ 9,627,183
Cash and cash equivalents—beginning of year	$ 28,341,848	$ 18,714,665
Cash and cash equivalents—end of year	$ 27,787,484	$ 28,341,848

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

	2014	2013
Operating Loss	$ (106,858,221)	$ (99,571,415)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	14,455,288	14,192,298
Other non-cash adjustments	1,382,342	(3,464,863)
Changes in assets and liabilities		
Accounts receivable	(1,372,160)	(1,640,067)
Grants receivable	350,374	(190,516)
Notes receivable	(129,595)	(232,381)
Inventories	(61,374)	(69,688)
Prepaid expenses	(113,869)	(759,930)
Accounts payable	(167,943)	79,828
Lease payable, current	40,919	38,410
Accrued payroll and deductions	134,777	(177,055)
Unearned revenue	(150,448)	79,028
Funds held in custody for others	(62,592)	504,708
Other liabilities	631,402	857,965
Compensated absences	355,368	275,025
Net cash used by operating activities	$ (91,565,732)	$ (90,078,653)
Non-cash transactions		
Equipment	$ 1,640,868	$ 44,957
Capital lease	$ (1,640,868)	$ (44,957)

The accompanying notes to financial statements are an integral part of this statement.

Indiana State University Foundation, Inc. and Affiliate
Consolidated Statement of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING ACTIVITIES		
Increase in net assets	$ 12,141,013	$ 5,043,051
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation of property and equipment	145,335	176,437
Amortization of intangible assets	3,125	324,179
Gain on the disposal of property and equipment and intangible assets	(35,348)	—
Net realized and unrealized gains on investments	(8,018,204)	(4,487,110)
Loss on sales of property held for future use	(11,107)	116,815
In-kind contributions of property and equipment	—	(17,100)
Change in value of split-interest agreements	(1,229,251)	149,365
Contributions restricted for permanent endowment	(693,439)	(2,177,369)
Change in allowance for doubtful accounts	(949,866)	8,699
(Increase) decrease in certain assets:		
Pledges and bequests receivable	629,563	(73,539)
Due from Indiana State University	135,287	1,683,765
Other assets	511,399	(352,991)
Decrease in certain liabilities:		
Accounts payable	(4,074)	(285,811)
Due to Indiana State University	(956,764)	(1,788,568)
Deferred revenue	—	(9,900)
Net Cash Used by Operating Activities	1,667,669	(1,690,077)
INVESTING ACTIVITIES		
Purchases of investments	(14,619,840)	(19,380,885)
Proceeds from sales and maturities of investments	13,413,377	16,510,413
Proceeds from sales of property held for future use	238,266	543,295
Purchases of property and equipment	(24,948)	(93,288)
Net Cash Used by Investing Activities	(993,145)	(2,420,465)
FINANCING ACTIVITIES		
Borrowings on lines of credit	400,000	3,128,307
Repayments of lines of credit	(2,336,989)	(455,859)
Borrowings on notes payable	2,500,000	—
Payments on notes payable	(42,747)	—
Proceeds for new charitable gift annuities	—	176,710
Payments on charitable gift annuities and annuity trust	(170,156)	(242,322)
Collections of contributions restricted for permanent endowment	1,657,590	1,447,428
Net Cash Provided by Financing Activities	2,007,698	4,054,264
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	2,682,222	(56,278)
CASH AND EQUIVALENTS		
Beginning of Year	810,428	866,706
End of Year	$ 3,492,650	$ 810,428
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 285,305	$ 246,493
Noncash investing and financing activities:		
In-kind contributions of property and equipment	$ —	$ 17,100
Note receivable issued in sale of intangible assets	$ 90,000	$ —
Refinance of line of credit with note payable	$ 3,750,000	$ —

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2014

Note 1. Summary of Significant Accounting Policies

Indiana State University (the University), a publicly supported, comprehensive, doctoral granting University, serves the State of Indiana, the nation, and the international community by generating and disseminating knowledge in the humanities, arts, social sciences, scientific, and professional disciplines through instruction and research. The University is governed by a nine-member Board of Trustees, appointed by the Governor.

The accompanying financial statements of the University are prepared in accordance with generally accepted accounting standards as prescribed by the Governmental Accounting Standards Board (GASB) in Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. Since the University is a component unit of the State of Indiana, it is included in the Comprehensive Annual Financial Report of the State.

A. Reporting Entity

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. These Statements amend GASB Statement No. 14, *The Financial Reporting Entity* to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the University as the primary government, and the Indiana State University Foundation as a discretely presented component unit. This component unit is further described in Section M.

B. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. The financial statements of the University have been prepared on the accrual basis, including depreciation expense relating to capitalized fixed assets. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-University transactions have been eliminated to avoid double counting of these transactions. Examples of these would include sales between University departments or internal loans between funds.

C. Cash Equivalents

The University considers all highly liquid investments with a maturity date of three months or less to be cash equivalents. The University invests operating cash in investments with varying maturities. For purpose of liquidity classification, investments maturities are evaluated as of the financial statement date.

D. Investments

Investments in securities are reported on the financial statements at fair value as of the date of the financial statements. Investments with maturity of less than one year are reported as current assets, with the remaining investments reported as non-current assets.

E. Inventories

Inventories are carried at the lower of cost or market value and on the first-in, first-out (FIFO) basis.

F. Capital Assets

Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition. Moveable equipment costing $5,000 with a useful life of more than one year and building improvements that exceed $100,000 and extend the life of the building are capitalized. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is reported using the straight-line method of depreciation over the estimated useful life of the asset. Capital assets and related accumulated depreciation are removed from the records at the time of disposal. Art Objects are recorded either at cost or fair market value at the time of acquisition, but are not depreciated because these assets tend to appreciate in value over time.

Minimum Capitalization Value and Useful Life by Asset Types

Asset Types	Capitalization Threshold	Useful Life
Moveable equipment	$ 5,000	5 to 10 years
Vehicles and machinery	5,000	4 to 10 years
Software and computer equipment	5,000	5 years
Buildings and related components	100,000	15 to 50 years
Land improvements and infrastructure	100,000	10 to 20 years
Library books and audio visual aids	1	20 years
Art objects	1	Not depreciated

G. Scholarship Discounts and Other 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. Scholarship discounts are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or non-governmental programs, are recorded as non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount. Other allowances include the allowance for bad debt, which will be recorded as a reduction to the appropriate revenue.

H. Net Position

Net Position: University resources are classified for financial reporting purposes into four net position categories:

Net investment in capital assets: This represents the University's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets.

Restricted net position, non-expendable: Non-expendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net position, expendable: Restricted expendable net position include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. Substantially all unrestricted net position is designated for academic programs and initiatives, capital purposes, and general operations of the University.

I. Compensated Absences

Liabilities for compensated absences are recorded for vacation leave based on actual amounts earned as of the balance sheet date. Employees may accrue vacation benefits up to a maximum of 300 hours, which is payable upon termination. The accompanying Statement of Net Position reflects an accrual for the amounts earned and ultimately payable for such benefits at the end of the fiscal year.

J. Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as (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, and (4) interest on institutional student loans.

K. Non-Operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, including state appropriations and investment income. Non-operating revenues include any grant that the University has administrative duties and is a non-exchange transaction. This would include Pell Grant, SEOG, and any State Grant that the University has to determine eligibility, even if the eligibility requirements are set forth by Federal or State agencies.

L. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for a particular expenditure, University management may select the most appropriate funding source based on individual facts and circumstances. The University does not require funds be expended in a particular order, and the decision on what fund order is used is made on a case-by-case basis.

M. Component Units

The Indiana State University Foundation is a legally separate, tax-exempt component unit of Indiana State University. Indiana State University Foundation, Inc. was incorporated on March 10, 1921. The Foundation was organized to promote educational purposes and receive contributions primarily for the benefit of Indiana State University and its students.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 33 member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. The majority of resources that the Foundation holds and invests, and the income generated by these assets, are restricted to the activities of the University by its donors. Because these resources can only be used for the activities of the University, the ISU Foundation is considered a component unit of the University, and its audited financial statements are discretely presented in the University's financial statements.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Statements of 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 information in the University's financial reporting presentation for these differences.

During the year ended June 30, 2014 the Foundation distributed $5,597,903 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 30 North 5th Street, Terre Haute, IN 47809.

N. New Accounting Pronouncement

Effective with the fiscal year ended June 30, 2014, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard provides guidance on the financial statement classification of certain items previously reported as assets and liabilities. In accordance with the standard, the University has reclassified deferred losses on the early retirement of debt as deferred outflows of resources (previously classified as liabilities) for fiscal years ended June 30, 2013 and June 30, 2014. The presentations of the Statement of Net Position and certain notes have been modified accordingly for both years presented.

O. Reclassifications

Certain reclassifications have been made to prior year statements for comparative purposes and do not constitute a restatement of prior periods.

Note 2. Cash and Investments

The University maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed in the Statement of Net Position under cash and cash equivalents, short-term investments, long-term investments, deposits with bond trustee, or endowment investments-held in trust, depending on the nature of the investment.

Cash and Investments

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	$ 93,479
Deposits with financial institutions	4,094,300
Investments	158,697,534
	$ 162,885,313

Authorization for investment activity is stated in Indiana Code Title 21, Article 21, Chapter 3, Section .3. Additionally, IC 30-4-3.5 (Indiana Prudent Investor Act) requires that the Board of Trustees of the University to act "as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust." It also requires that management decisions be made "in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the trust." The Board holds responsibility to assure the assets are prudently invested in a manner consistent with this investment policy. The Board has delegated the day-to-day responsibilities for overseeing the investment program to the University Treasurer.

The University's current investment policy was approved by the Board of Trustees on May 7, 2010 and implemented in September 2010. The objective of the Investment Policy is to adequately provide for the liquidity needs of the University while maximizing the opportunity to increase yield on investments. The investment structure is divided into three liquidity tiers to provide for income maximization while meeting the daily liquidity requirements of the University. In order to supply sufficient day-to-day operating liquidity, Tier I is invested in money market securities and liquidity reserves. Tier II is invested in limited duration securities to provide for a sufficient level of reserves in case of unanticipated liquidity needs; yet provide for a level of incremental return over Tier I. Tier III is invested for income maximization while taking on appropriate levels of risk.

Authorized investments include US Treasury, US Government Agency or Instrumentality, Mortgage-Backed Securities, Asset-Backed Securities, Taxable Municipal Bonds, Non-Benefit Responsive GIC's, Money Market Instruments and Funds, Corporate Investment Grade Bonds, Corporate High Yield Bonds, and Non-US Dollar Debt. Credit Quality and Market Value percentages are established for each investment manager portfolio.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that increases in market interest rates will adversely decrease the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University and its investment managers manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the University's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table showing the distribution of Indiana State University's investments by maturity:

As of June 30, 2014, the University had the following investments and maturities:

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Cash on hand (petty cash)	$ 93,479	$ 93,479	$ —	$ —	$ —
Demand deposits	4,094,300	4,094,300	—	—	—
Money market funds	14,541,110	14,541,110	—	—	—
Commercial paper	3,993,400	3,993,400	—	—	—
Certificates of deposit	19,851,244	19,091,670	759,574	—	—
Asset-backed securities	4,619,384	114,853	3,890,010	614,521	—
Collateralized mortgage obligations	9,351,126	—	2,459,480	535,484	6,356,162
Corporate bonds	49,740,039	2,918,137	24,771,346	13,893,541	8,157,015
Corporate stock	123,141	—	—	—	123,141
Government agencies	11,011,375	1,214,444	5,339,720	2,408,191	2,049,020
Mortgage-backed securities	9,344,218	18,518	312,559	1,971,733	7,041,408
Municipal bonds	1,078,039	105,114	154,709	366,272	451,944
Treasury notes and bonds	27,457,938	—	14,230,016	11,331,354	1,896,568
Foreign notes and bonds	6,869,226	100,964	1,826,349	3,574,525	1,367,388
Endowment investments held in trust	717,294	—	—	—	717,294
	$162,885,313	$ 46,285,989	$ 53,743,763	$ 34,695,621	$ 28,159,940

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The University's investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided).

Highly Sensitive Investments	Fair Market Value at Year End
Mortgage-backed securities and asset-backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of the securities and makes the fair values of these securities highly sensitive to changes in interest rates.	$ 13,963,602
Callable bonds. These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affects the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates.	$ 10,233,869

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Credit risk is addressed in the University Investment Policy, approved May 7, 2010. Credit risk guidelines are established for each investment manager. The policy stipulates the percentage of each manager's fixed income portfolio that must be rated Aa or better at the time of purchase. These percentages range from 65 percent to 100 percent. Presented below is the actual Moody's rating at year end for each investment type.

Moody's Rating Scale

Investment Type	Fair Value	AAA	Aa	A	B or Lower	Not Rated
Cash on hand (petty cash)	$ 93,479	$ —	$ —	$ —	$ —	$ 93,479
Demand deposits	4,094,300	—	—	—	—	4,094,300
Money market funds	14,541,110	—	—	—	—	14,541,110
Commercial paper	3,993,400	—	—	—	—	3,993,400
Certificates of deposit	19,851,244	—	—	—	—	19,851,244
Asset-backed securities	4,619,384	2,702,272	62,038	—	—	1,855,074
Collateralized mortgage obligations	9,351,126	3,252,492	512,530	887,682	—	4,698,422
Corporate bonds	49,740,039	668,793	3,552,445	11,067,326	31,972,122	2,479,353
Corporate stock	123,141	—	—	—	—	123,141
Government agencies	11,011,375	9,849,227	—	—	—	1,162,148
Mortgage-backed securities	9,344,218	142,368	—	—	—	9,201,850
Municipal bonds	1,078,039	330,478	380,533	261,914	—	105,114
Treasury notes and bonds	27,457,938	27,457,938	—	—	—	—
Foreign notes and bonds	6,869,226	1,187,648	143,104	1,421,590	2,349,997	1,766,887
Endowment investments held in trust	717,294	—	—	—	—	717,294
	$ 162,885,313	$ 45,591,216	$ 4,650,650	$ 13,638,512	$ 34,322,119	$ 64,682,816

Concentration of Credit Risk

The investment policy of the University contains no limitations on the amount that can be invested in any one issuer. At June 30, 2014 investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent five percent or more of total University investments included First Financial Bank certificates of deposit totaling $7,900,000.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the University will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Indiana State University's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than preference will be given to Indiana institutions because of additional insurance coverage provided by the State. Of the University's investments, $27,457,938 in U.S. Government Obligations, $11,011,375 in U.S. Government Agencies and $14,541,110 of the Money Market funds invested in U.S. Government-backed funds are held by a trust department not in the University's name.

As of June 30, 2014 Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to $250,000 by FDIC and in excess of $250,000 by the Indiana Public Deposits Fund. Certificates of Deposits of $17,125,000 are also covered under the Indiana Public Deposits Fund, as they were invested in Indiana financial institutions. The University has less than four percent of investments that are made up of foreign currency; therefore, the University's exposure to foreign currency risk is insignificant.

Note 3. Capital Assets

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Capital assets not being depreciated				
Land	$ 31,106,779	$ 1,362,618	$ (60,247)	$ 32,409,150
Works of art	1,503,830	234,910	(2,637)	1,736,103
Construction in progress	21,011,586	33,151,817	(20,715,396)	33,448,007
Total assets not being depreciation	$ 53,622,195	$ 34,749,345	$ (20,778,280)	$ 67,593,260
Capital assets being depreciated				
Infrastructure	$ 34,175,167	$ 893,678	$ —	$ 35,068,845
Land improvements	25,364,029	424,567	—	25,788,596
Buildings	421,901,587	17,004,692	(3,563,334)	435,342,945
Equipment	80,720,710	2,371,356	(1,970,061)	81,122,005
Capital lease assets	1,773,847	1,640,868	(1,778,661)	1,636,054
Total capital assets depreciated	$ 563,935,340	$ 22,335,161	$ (7,312,056)	$ 578,958,445
Less accumulated depreciation for				
Infrastructure	$ (31,530,217)	$ (827,345)	$ —	$ (32,357,562)
Land improvements	(15,538,107)	(933,138)	—	(16,471,245)
Buildings	(145,561,273)	(8,709,142)	1,148,352	(153,122,063)
Equipment	(58,596,813)	(3,622,028)	1,677,554	(60,541,287)
Lease amortization	(1,052,681)	(363,636)	1,416,317	—
Total accumulated depreciation	$(252,279,091)	$(14,455,289)	$ 4,242,223	$(262,492,157)
Total capital assets being depreciated, net	$ 311,656,249	$ 7,879,872	$ (3,069,833)	$ 316,466,288
Total capital assets, net	$ 365,278,444	$ 42,629,217	$ (23,848,113)	$ 384,059,548

A breakdown of significant projects included in construction in progress as of June 30, 2014 is shown below:

Project	Construction In Progress 6/30/2014
Reeve Hall	$ 24,261,154
Science Lab Renovations	1,897,459
Gibson Track and Field Complex	467,909
Normal Hall Renovation	1,763,174
College of Nursing, Health and Human Services Renovation	560,217
Mills Hall Renovation	1,796,290
Storage for Archives and Permanent Art Collection	464,262
Other Miscellaneous Projects	2,237,542
	$ 33,448,007

Note 4. Long-Term Liabilities

Long-term liabilities of the University consist of bonds and notes payable, capital leases payable, compensated absences, and other liabilities.

The changes in long-term liabilities are as shown below:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Bonds payable, net	$133,666,279	$ 22,056,186	$ 8,385,611	$147,336,854	$ 9,923,210
Lease payable	786,353	1,640,868	791,167	1,636,054	423,187
Compensated absences and termination benefits	4,036,544	633,881	371,873	4,298,552	3,749,603
Advances from Federal Government	7,715,549	—	126,792	7,588,757	—
Total long-term liabilities	$146,204,725	$ 24,330,935	$ 9,675,443	$160,860,217	$ 14,096,000
Bond redemption reserve (matured unpaid bonds and coupons)					91,077
Total long-term liabilities—current portion					$ 14,187,077

Note 5. Bonds Payable

Indiana State University is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing the construction of student housing, athletic facilities, parking, and academic facilities. The outstanding bond principal indebtedness consists of the following issues.

	Issue Date	Interest Rate	Final Maturity Dates	Principal Outstanding June 30, 2014	Bond Premium	Total Net Outstanding June 30, 2014
Student Fee Bonds						
Series K	2004	3.0%-5.0%	2025	$ 4,825,000	$ 397,985	$ 5,222,985
Series L	2005	3.0%-5.0%	2021	13,045,000	846,407	13,891,407
Series M	2007	4.0%-5.0%	2033	37,330,000	552,799	37,882,799
Series N	2010	1.0%-6.64%	2030	8,135,000	N/A	8,135,000
Series O	2011	2.0%-5.00%	2031	7,720,000	9,358	7,729,358
Series P	2014	2.18%	2021	4,270,000	N/A	4,270,000
Housing and Dining Revenue Bonds						
Series 2009	2009	3.0%-6.383%	2027	11,020,000	48,547	11,068,330
Series 2010	2010	1.43%-5.41%	2027	7,675,000	N/A	7,675,000
Series 2012	2013	2.7%-5.0%	2038	28,525,000	1,697,373	30,222,373
Series 2014	2014	2.0%-5.0%	2034	16,405,000	1,074,385	17,479,385
Parking Revenue Bond						
Series 2012	2012	1.72%	2017	3,760,000	N/A	3,760,000
Total Bonds				$142,710,000	$ 4,626,854	$147,336,854

The issues are serial or term bonds with maturities extending until 2038. For the fiscal year 2014 an $8,496,084 separate fee replacement appropriation was received from the State of Indiana. The appropriation represented the amount required to make principal and interest payments for financing certain academic and student facilities. The University has pledged $106,622,129 in student tuition as collateral for student fee bonds and student service bonds, $1,903,181 of the dedicated Student Recreational Fee for Series M, and $1,207,064 of parking revenue for the Parking Revenue Bonds.

In prior years, Indiana State University defeased certain serial bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and liability for the defeased bonds are not included in the financial statements of Indiana State University.

The University issued $4,570,000 of Student Fee Bonds, Series P on October 24, 2013, and $16,405,000 of Housing and Dining Revenue Bonds, Series 2014 on June 11, 2014. See Note 7 for details.

Debt Service Requirements

Fiscal Year	Bond Principal	Bond Interest	Total
2015	$ 9,595,000	$ 5,861,213	$ 15,456,213
2016	9,055,000	5,613,887	14,668,887
2017	10,525,000	5,294,059	15,819,059
2018	7,295,000	4,948,963	12,243,963
2019	7,615,000	4,632,407	12,247,407
2020-2024	40,140,000	17,663,517	57,803,517
2025-2029	32,535,000	8,543,840	41,078,840
2030-2034	19,460,000	2,885,759	22,345,759
2035-2038	6,490,000	534,990	7,024,990
	$142,710,000	$ 55,978,635	$198,688,635
Net unamortized premium	4,626,854	—	4,626,854
Total	$147,336,854	$ 55,978,635	$203,315,489

Note 6. Service Concession Arrangements

In July 2010, Indiana State University entered into a contract with Sodexo Services of Indiana Limited Partnership to provide food services for ISU's students, faculty, staff and invited guests for a term of 11 years. Included in the agreement was a commitment by Sodexo to provide equipment and facility enhancements of up to $2,900,000 to construct the Sycamore Banquet Center inside the Hulman Memorial Student Union, with contributions by the University of approximately $800,000. Construction was completed and the Banquet Center was put into use in April 2012.

Food services for the Banquet Center will be provided by Sodexo, and it will remain an asset of the University. Due to the nature of this agreement, whereas Sodexo is the operator and ISU is the transferor, it has been classified as a Service Concession Arrangement. The Sycamore Banquet Center has been classified as a capital asset with an offsetting Deferred Inflow of Resources. Over the life of the contract, ISU will amortize the Deferred Inflow of Resources, while recognizing Auxiliary Revenue each year. If the agreement expires, terminates, or is amended in a way that has an adverse impact on Sodexo, ISU will be liable for the unamortized portion of Sodexo's investment.

The June 30, 2014 balance of the Deferred Inflow of Resources related to the Sodexo service concession arrangement is as follows:

Deferred Inflow of Resources as of 6/30/13	$1,940,742
Revenue Recognition fiscal year 2014	(242,593)
Deferred Inflow of Resources as 6/30/14	$1,698,149

Note 7. Bond Issues

Student Fee Bonds, Series P

On October 24, 2013 the university issued $4,570,000 of Student Fee Bonds, Series P. This issue was a tax-exempt, bank qualified direct placement. PNC Bank was selected during an RFP process with an interest rate of 2.18% and a final maturity date of October 1, 2020. Bond proceeds less issuance cost of $70,000 netted $4,500,000 to be used for Science Lab renovations.

Science Lab Renovations

The project includes the renovation of the Life Science and Chemistry Instructional Laboratories located in the Science Building. This renovation will create instructional spaces that will meet contemporary safety and access standards mandated by federal law and will enable the use of current instructional technologies.

Housing and Dining System Bonds, Series 2014

On June 11, 2014, the university issued $16,405,000 of Housing and Dining Revenue Bonds, Series 2014. This issue was tax-exempt with a True Interest Cost (TIC) of 3.306%. The bond proceeds of $17,486,185, which included $1,081,185 of net bond premium less issuance cost and underwriters discount of $286,185, netted $17,200,000 to be used for the Mills Hall renovation project.

Mills Hall

This renovation is the first phase of a comprehensive renovation of Sycamore Towers. The Mills Hall renovation project will be comprised of renovating 100,000 square feet of residence hall space in the 12-story tower and will include installation of new lighting, doors, HVAC, and fire suppression systems. The renovated facility will provide a total of 366 beds. This project is part of a systematic upgrade of the Sycamore Towers complex, with the remaining three residence halls, Rhoads, Cromwell, and Blumberg, expecting to undergo similar renovations over the next four years.

The overall cost of the Mills Hall renovation project is estimated at $20.7 million, of which $3.5 million will be funded from Housing and Dining System reserves and $17.2 million with proceeds of the Series 2014 bonds. The project is expected to be completed for fall 2014 occupancy.

Note 8. Lease Payable

Indiana State University has entered into a capital lease agreement with Ricoh USA, Inc. This is an agreement to lease copiers and printers for the campus of Indiana State University as of June 30, 2014.

Fiscal Year	Lease Payments
2015	$ 354,990
2016	350,667
2017	350,667
2018	350,667
2019	350,667
Total minimum lease payments	$ 1,757,658
Less amount representing interest	(121,604)
Present value of net minimum lease payment	$ 1,636,054

As of January 8, 2014, Indiana State University entered into a lease agreement with 500 Wabash Housing, LLC to lease space in a to-be-constructed building that will be used for student housing. As of June 30, 2014, the building at 500 Wabash Avenue was under construction with an estimated completion date of July 15, 2015. At this time it is estimated that the lease will be considered a capital lease, and as such the present value of the minimum lease payments will be recorded as a liability at the rent commencement date. The lease term is 30 years with an option to purchase.

Note 9. Termination Benefits Liability

The Governmental Accounting Standards Board (GASB), Statement No. 47, *Accounting for Termination Benefits*, requires the University to recognize an expense and liability for voluntary termination benefits, such as early-retirement incentives. This expense is recognized when an offer is accepted and the amount of the benefit can be estimated.

The ISU Board of Trustees approved a Retirement Severance Plan for eligible faculty and staff on February 18, 2010. Under the Retirement Severance Plan, employees must be age 62 or older and have 20 years of service to retire from Indiana State University. The severance payments available under the plan are 60 percent for those employees with 15 years or more of service at December 31, 2010, and 40 percent for employees with less than 15 years of service at December 31, 2010. New employees hired on or after March 1, 2010 would be eligible for a 25 percent severance pay at retirement.

A total of 19 employees enrolled in the program during the 2014 fiscal year at a cost of $888,628, with $457,231 classified as current compensated absences and termination benefits liability which will be paid out in the next year and $59,858 classified as a non-current liability.

Note 10. Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; and health and other medical benefits provided to employees and their dependents. The University handles these risks of loss through combinations of risk retention and commercial insurance. For buildings and contents, the University has risk retention of $100,000 per occurrence. The maximum liability to the University for job-related illnesses or injuries is $350,000 per occurrence.

The University retains the risk for medical benefits up to a stop-loss provision of $225,000 per member. Accrued liabilities for unpaid medical claims, as of June 30, 2014, are included in current other liabilities. The liability is based on 25 percent of actual claims paid during the year, which represents a three-month average turnover period for claims processing. Changes in the balance of claims liabilities during the 2014 fiscal year are as follows:

Unpaid medical claims, 7/01/13	$ 4,124,961
Claims incurred	18,439,564
Claims paid	(18,051,620)
Unpaid medical claims, 6/30/14	$ 4,512,905

Note 11. Litigation

The University has been named as a defendant in a number of lawsuits. For most of these lawsuits, the final outcome cannot be determined and management is of the opinion that any ultimate outcome will not have a material effect upon the University's financial position.

Note 12. Funds Held in Custody for Others

Funds held in custody for others consist of $1,039,243 held for other agencies (student and faculty organizations) and unapplied student payments.

Note 13. Pollution Remediation Obligation

To comply with GASB Statement No. 49, *Accounting and Reporting for Pollution Remediation Obligations*, the University must report a liability for an obligating event. An obligating event occurs when the University commences or legally obligates itself to commence pollution remediation. During fiscal year 2014 and in prior years, Indiana State University voluntarily obligated itself to remediate pollution in the Statesman Towers and Mills Hall. As of June 30, 2014 these projects had not been completed, leaving an outstanding obligation of $825,050, which is classified as a current other liability.

Note 14. Natural Classifications with Functional Classifications

The University's Operating Expenses by Functional Classification were as follows:

Functional Classification	Compensation and Benefits	Supplies and Expenses	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 65,482,238	$ 6,009,649	$ —	$ —	$ —	$ 71,491,887
Research	5,902,798	3,862,084	—	—	—	9,764,882
Public service	1,531,480	1,340,210	—	—	—	2,871,690
Academic support	10,373,152	5,435,235	—	—	—	15,808,387
Student services	9,222,985	4,115,367	—	—	—	13,338,352
Institutional support	16,001,133	9,897,084	—	—	—	25,898,217
Operation of plant	8,999,256	5,974,719	12,131,530	—	—	27,105,505
Scholarships	1,289,252	2,856	—	9,948,327	—	11,240,435
Auxiliary enterprises	14,237,560	21,217,763	170,909	—	—	35,626,232
Depreciation	—	—	—	—	14,455,288	14,455,288
	$ 133,039,854	$ 57,854,967	$ 12,302,439	$ 9,948,327	$ 14,455,288	$227,600,875

Note 15. Hedge Contracts

Indiana State University has entered into long-term natural gas hedge contracts with EDF, Energy Services for the purchase of 95-100 percent of the University's estimated natural gas needed for the production of steam at the University's power plant. The natural gas hedges run through June 30, 2017 and were entered into as a cost avoidance strategy. There were costs in excess of the contract amount of $1,738,345 for the 2014 fiscal year. This was due to the market price of natural gas being lower than the price at which the University had contracted to buy. This is due to a lack of demand and because increased natural gas production has maintained record storage levels keeping prices below $5.00 per unit the past four years.

Note 16. Retirement Plans

Authorization

Authorization to establish retirement plans is stated in Indiana Code Title 21, Article 21, Chapter 3, and Section 3.

Faculty and Exempt Staff

Faculty and executive/administrative/professional employees of the University participate in a defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equity Fund (CREF). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. Beginning July 1, 2010, all TIAA-CREF contributions were converted to a flat 10 percent of base salary for all eligible faculty and exempt staff. For those faculty and exempt staff hired prior to July 1, 2004, the difference between the current amount and the new rate was added to the employee's base salary. For fiscal year 2013-14, the University made contributions totaling $6,460,062 to this plan. For the fiscal year ended June 30, 2014 there were 929 employees and retirees participating in TIAA-CREF, with annual salaries equal to $64,652,963.

Non-exempt Staff

Regular clerical and service staff participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the Board of Trustees of PERF. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The University contributes three percent of the gross earnings to the annuity savings plan. The University also contributed 11.2 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2013-2014 year. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after ten years of service. For the fiscal year ended June 30, 2014 there were 570 employees participating in PERF with annual salaries equal to $17,637,755.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants.

That report may be obtained by writing the Indiana Public Retirement Systems, One North Capital, Suite 001, Indianapolis, IN 46204, or by calling (888) 526-1687.

The University's annual pension cost and related information, as provided by the actuary, for the periods ended June 30, 2013 and 2012, is presented below. The actuarial methods and significant assumptions used are as follows:

Actuarial cost method:	Entry age normal (level percent of payroll)
Asset valuation method:	4-year smoothed market value with 20% corridor
Investment rate of return:	6.75% (net of administration and investment expenses)
Projected salary increases:	3.25%-4.5% (includes 3% wage inflation)
Cost of living increases:	1% per year in retirement
Amortization method:	Level dollar
Amortization period:	30 years closed

Net Pension Obligation

	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2012
Annual required contribution	$ 1,671,880	$ 1,856,983
Interest on net pension obligation	31,558	(61)
Adjustment to annual required contribution	(36,734)	71
Annual pension cost	1,666,704	1,856,993
Contributions made	(1,683,859)	(1,388,594)
Increase (decrease) in net pension obligation	(17,155)	468,399
Net pension obligation, beginning of year	467,523	(876)
Net pension obligation, end of year	**$ 450,368**	**$ 467,523**

Three-Year Trend Information (in thousands)

	Valuation of Assets (a)	Accrued Liability (AL) (b)	Excess of Assets over (Unfunded) AL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Excess (Unfunded) AL as a Percentage of Covered Payroll ((a-b)/c)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
7/1/2011	$14,355	$25,424	($11,069)	56.5%	$16,293	(67.9%)	$1,791	71.4%	($ 1)
7/1/2012	$13,431	$28,366	($14,935)	47.3%	$18,147	(82.3%)	$1,857	74.8%	$468
7/1/2013	$12,099	$23,435	($11,336)	51.6%	$18,034	(62.9%)	$1,667	101.0%	$450

Note 17. VEBA Trust

The University established a Voluntary Employees' Benefit Association (VEBA) trust, with an independent trustee, for the purpose of providing retiree medical benefits for retired employees of Indiana State University and their dependents that become eligible upon accruing the required years of service. Approval from the IRS for the tax-exempt status of the trust was received on March 2, 1999.

The trust is funded from reserves set aside in previous years paid by the University, contributions, employee payroll deductions for post-retirement benefits, and reinvested net earnings. Beginning January 1, 2014, the University activated the VEBA Trust reimbursing 50 percent retirement insurance premiums paid. A summary of the activity in the trust for the year ending June 30, 2014 is as follows:

Beginning fund balance 7/1/13 (market value)	$ 71,268,059
Reimbursement of University retirement expenses	(947,000)
Reinvested net earnings	2,787,544
Less: management fees	(233,010)
Realized gain on sale of investments	431,398
Unrealized gain on increase in market value	9,985,158
Market value at June 30, 2014	$ 83,292,149

These funds cannot under any circumstances revert to the University; therefore, the financial statements of the University do not include the value of these assets. The following charts show the actual diversification of the VEBA investments.

VEBA Investment Policy Guideline Diversification

Asset Class	Target	Minimum	Maximum
Equity	60.0 %	55.0 %	65.0 %
Fixed Income	40.0 %	35.0 %	45.0 %

Actual VEBA Investment Diversification

	Actual $	Actual %
Domestic-Equity-Passive	24,499,534	29.4
Domestic-Equity-Active	8,151,958	9.8
International	12,054,578	14.5
Global Unconstrained	2,037,980	2.4
Core Fixed Income	29,083,247	34.9
Tactical Fixed Income	4,074,223	4.9
Hedge Fund-Diversifiers	3,390,629	4.1
	83,292,149	100.0%

Note 18. Other Post Employment Benefits

Plan Description

Beginning January 1, 2010, Indiana State University selected NEBCO, a division of AmWins Group Benefits, to administer the post-65 retiree medical plan. This plan replaced the self-insured program for retirees with an insurance policy for which the University's cost is based on premiums instead of claims. All retirees, after reaching the age of 65, are required to participate in the fully insured plan in order to retain the retirement medical benefit. The University's cost is $306 per month for each plan participant including dental insurance coverage. Retirees pay $86 or $109 per month directly to NEBCO, depending on the prescription drug plan option taken. The medical plan portion of the policy is guaranteed for two years, while the prescription policy is subject to yearly rate adjustments. This group of post-65 retirees retains dental coverage through Delta Dental of Indiana and life insurance through the Hartford Insurance.

Retirees under the age of 65 will continue participation in the Indiana State University Healthcare Plan for active employees until age 65 is attained. This plan is a single-employer defined benefit healthcare plan administrated by Cigna for medical coverage, Delta Dental of Indiana for dental coverage, Express-Scripts for prescription coverage, and ING life insurance. The plan provides medical, dental and life insurance for eligible retirees and their spouses. Active employees are eligible for the plan provided they retire after attaining age 62 with at least 20 years of service. Surviving spouses may continue in the plan until remarriage or death. Employees hired after January 1, 2005 or employees or their spouses who had not enrolled in the ISU health plan before January 1, 2005 are not eligible for the plan. The Indiana State University Board of Trustees has the authority to establish and amend provisions to the University plan.

Funding Policy

The contribution requirements of plan members for the Indiana State University Retirement Healthcare Plan are established by the University's Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to fund the VEBA. For the fiscal year ended June 30, 2014 the total contribution to the plan was $3.5 million, with the University contributing $3.3 million for current premiums. The University activated the VEBA Trust as of January 1, 2014, and was reimbursed for one-half of the premiums paid for 7 months ending June 30, 2014. The total amount reimbursed was $0.9 million. Plan members receiving benefits contributed $0.2 million, based on the required contribution rates as follows:

Participants' Monthly Contributions

	Wellness Incentive and Tobacco Free	Wellness Incentives and Tobacco Surcharge	No Wellness and Tobacco Surcharge
Under Age 65			
Employee Rates—Monthly			
Employees	$ 161	$ 211	$ 241
Employees/Spouses	$ 419	$ 469	$ 499
Employees Below 200% of Federal Poverty Level			
Employees	$ 125	$ 175	$ 205
Employees/Spouses	$ 317	$ 367	$ 397
Age 65 and over			
(AmWins-Nebco fully insured)			
Option 1	$ 86	$ 172	
Option 2	$ 109	$ 218	

Retiree Contribution

The Indiana State University Board approved on December 16, 2011 a five-year plan that will increase the retiree share of medical coverage to 33 percent. Retiree contributions as a percentage of premium rates set by the University for 2014 and the remaining two years of the plan are shown in the schedule below.

	2014	2015	2016
Pre-Medicare (weighted average)	29.8%	31.4%	33.0%
Post-Medicare	27.9%	30.5%	33.0%

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the University's annual OPEB cost for fiscal years 2012, 2013, and 2014, the amount actually contributed to the plan, and changes in the University's net OPEB obligation to the plan.

GASB 45 ARC and Annual Expense	2012	2013	2014
Annual required contribution	$ 959,417	$ 521,759	$ 101,198
Interest on net OPEB obligation	(426,217)	(668,335)	(854,273)
Adjustment to annual required contribution	516,070	809,229	1,034,366
Annual OPEB cost	$ 1,049,270	$ 662,653	$ 281,291
Contributions made	(5,084,570)	(3,761,620)	(2,369,961)
Decrease in net OPEB obligation	$ (4,035,300)	$ (3,098,967)	$ (2,088,670)
Net OPEB obligation, (asset) beginning of year	$ (7,103,613)	$(11,138,913)	$(14,237,880)
Net OPEB obligation, (asset) end of year	$(11,138,913)	$(14,237,880)	$(16,326,550)

The University's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for the fiscal years ending as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/14	$ 281,291	842.5 %	$ 16,326,550
6/30/13	$ 662,653	567.7 %	$ 14,237,880
6/30/12	$ 1,049,270	484.6 %	$ 11,138,913

Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the plan was 138.8 percent funded. The actuarial accrued liability for benefits was $60 million, and the actuarial value of assets was $83.3 million, resulting in an overfunded actuarial accrued liability (UAAL) of $23.3 million. The covered payroll (annual payroll of active employees covered by the plan) was $42.8 million, and the ratio of the UAAL to covered payroll was 154.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented below, shows multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Three-Year Trend Information

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2014	$83,292,149	$ 60,027,043	$ (23,265,106)	138.8%	$42,803,837	(54.4%)
6/30/2013	$71,268,067	$ 61,591,709	$ (9,676,358)	115.7%	$41,557,123	(23.3%)
6/30/2012	$66,745,241	$ 65,260,507	$ (1,484,734)	102.3%	$41,697,127	(3.6%)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Assumptions

Valuation and measurement date	June 30, 2014
Participant data	June 30, 2013
Discount rate	6%
Mortality	RP-2000 Mortality Table Healthy Lives fully generational using scale AA

Healthcare Trend Rates

	Medical/Rx		
FYE	Pre-65	Post-65	Dental
2015	9.00%	6.75%	5.00%
2016	8.00%	6.50%	5.00%
2017	7.50%	6.25%	5.00%
2018	7.00%	6.00%	5.00%
2019	6.50%	5.75%	5.00%
2020	6.00%	5.50%	5.00%
2021	5.50%	5.25%	5.00%
2022	5.00%	5.00%	5.00%

Methods

Actuarial cost method	Projected Unit Credit with linear proration to decrement age
Assets method	Market value
Amortization method	30 year level dollar
Accounting method	Unit credit
Actuarial gains/losses	Reflected immediately in cost method

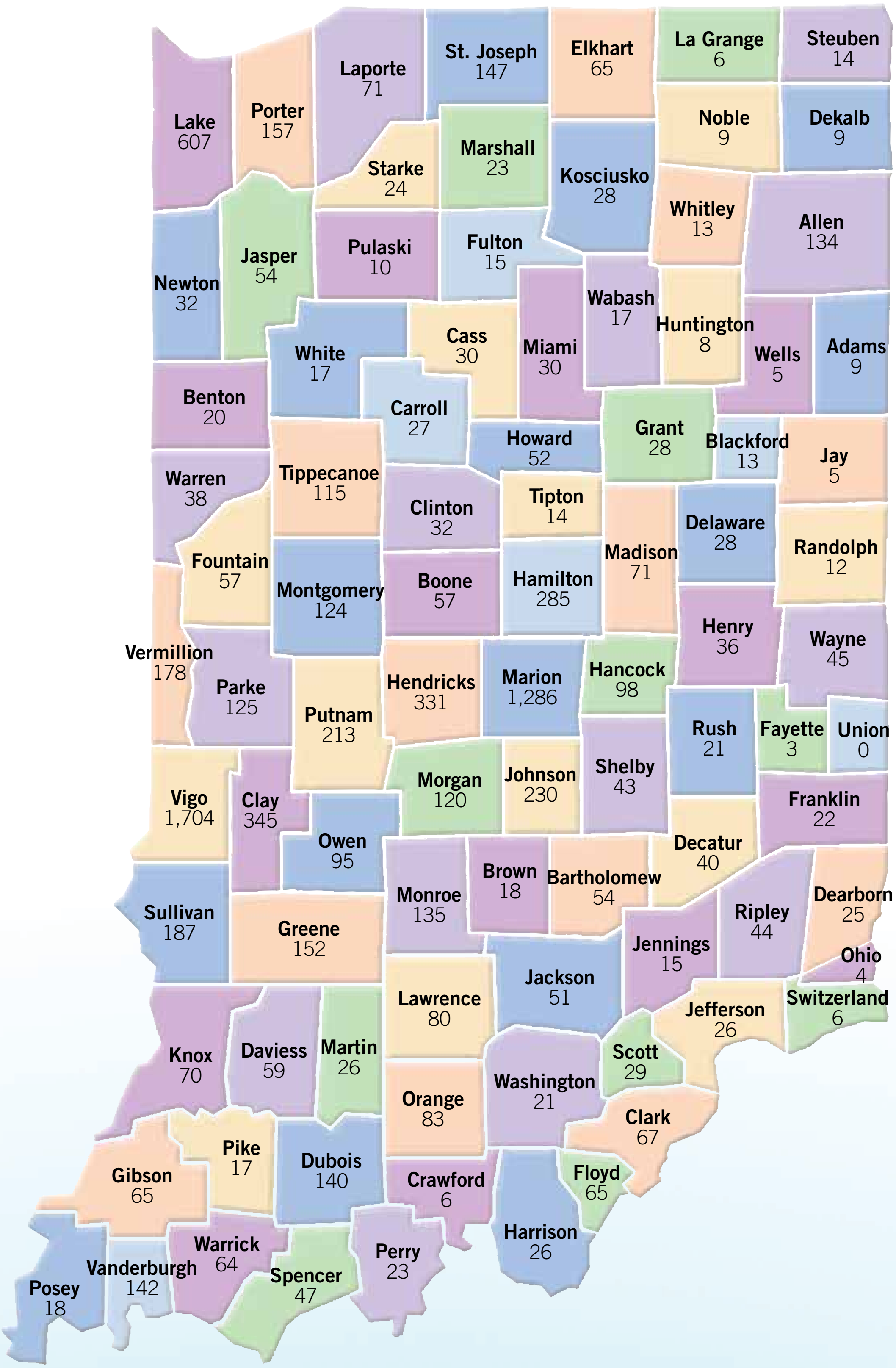
Home Counties of Indiana State Students
(Fall 2013) Unaudited

Indiana
(91 counties)
9,212

Out-of-State
(49 states)
2,310

International
(74 countries)
926

Total Enrollment
12,448



Additional copies of the 2014 Financial Report may be obtained from:

Office of the Controller
Parsons Hall, room P115
Indiana State University
Terre Haute, Indiana 47809

812-237-3513

www.indstate.edu/controller/

University Officials
as of June 30, 2014

Daniel Bradley
President of the University

Richard Williams
Provost and Vice President for Academic Affairs

Diann McKee
Vice President for Business Affairs, Finance, and University Treasurer

Carmen Tillery
Vice President for Student Affairs and Dean of Students

John E. Beacon
Vice President for Enrollment Management, Marketing, and Communications

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