INDIANA STATE UNIVERSITY

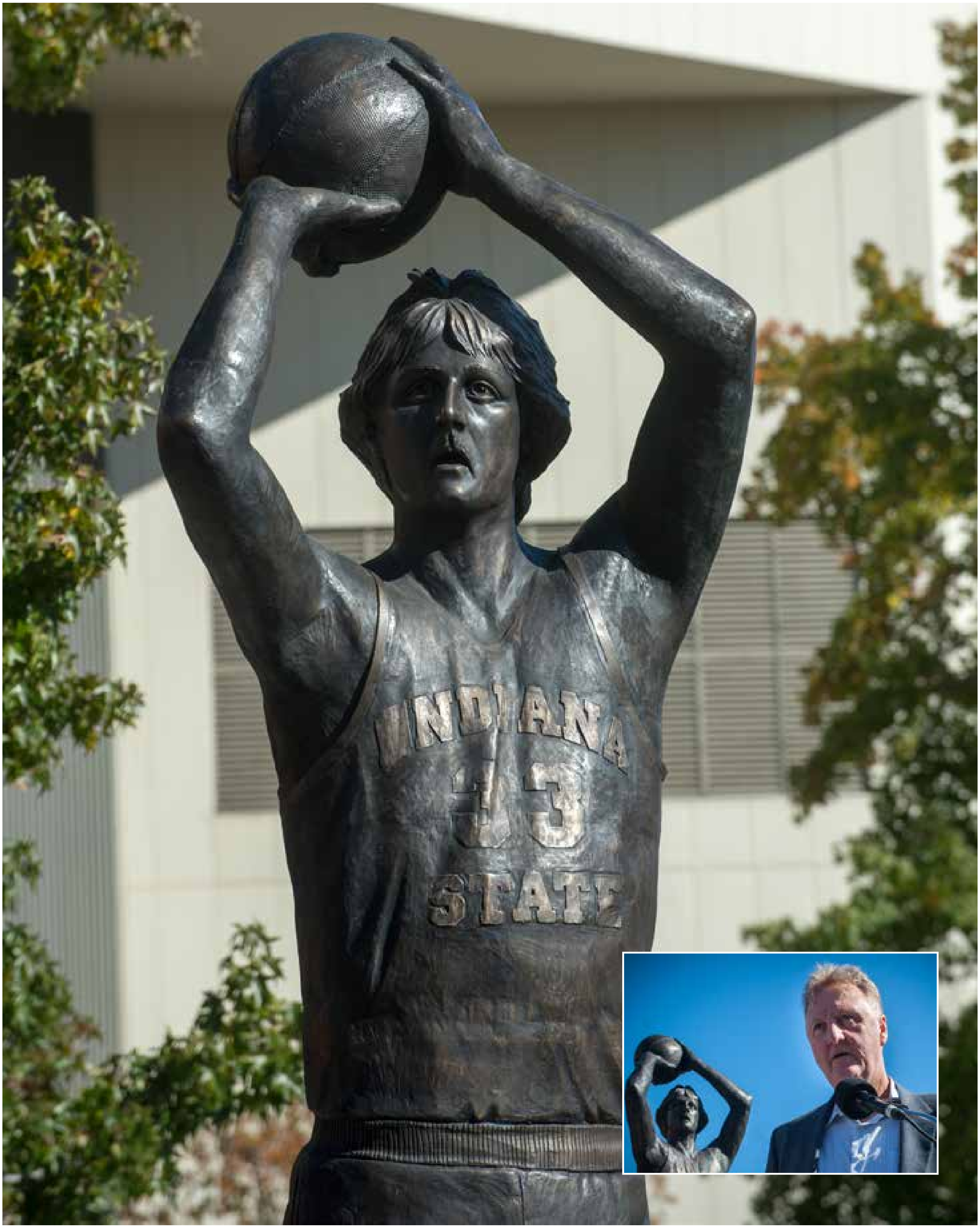
Financial Report

2012-2013

Indiana State University

Table of Contents

Cover Photo:
"Fountain Silhouette" taken by Communications and Marketing photographer, Tony Campbell, won a CASE V Silver award under the Excellence in Photography category.



The Larry Bird statue was unveiled on November 9, 2013, on the Indiana State campus during the two-day event "Honoring a Legend" that raised more than $400,000 for the Larry Bird Scholarship endowment.

Message from the President

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

This has been a great year for Indiana State University. The University is making good progress on achieving the goals of its "Pathway to Success" strategic plan including increasing enrollment to its highest level since 1972. Indiana State also achieved a number one national ranking this year from Washington Monthly magazine for the more than 1.2 million hours of community service performed by our students, faculty, and staff.

This annual report reflects the careful decision-making the University takes in allocating its resources. The need to maintain affordability without sacrificing the quality of our students' educational experiences is critical.

This financial report for the fiscal year ending June 30, 2013, demonstrates Indiana State University's commitment to meeting those challenging objectives. In addition to the unprecedented growth in enrollments, our campus continues to develop with high-quality renovations to existing facilities, and increased use of technology in the student experience.

During the past year, Indiana State completed the renovation of Erickson Hall to provide housing for first-year students. A new residence hall, Reeve Hall, is currently under construction and will house 352 students by the summer of 2014. Renovations on the former student computing complex were also completed to create a new home for the Career Center.

Investments also have been made to advance the goals of "The Pathway to Success" strategic plan including programs to improve student success and increase opportunities for experiential learning and community service. The University also established centers of excellence through its Unbounded Possibilities program. Efforts continue to diversify revenue sources, and the recruitment and retention of outstanding faculty and staff remains a priority.

In these pages you will find the Financial Statements with accompanying 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 State Board of Accounts.

You will note that 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 additional data is included to provide a broader and more comprehensive analysis of the University's financial position.

We are deeply grateful to the State of Indiana for the support it provides to Indiana State University, and we are ever mindful of our responsibilities to students, faculty, staff, citizens, and the Indiana General Assembly to manage with prudence that financial support.

Sincerely,

Daniel J. Bradley
President

Independent Auditor's Report

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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 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, 2013 and 2012, 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 the Indiana State University Foundation, a component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Indiana State University Foundation, is based solely on the report of the other auditor. 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 opinion.

Opinions

In our opinion, based on our audits and the reports of the other auditor, 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 Indiana State University as of June 30, 2013 and 2012, and the respective changes in its financial position and its cash flows, thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management 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 any 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, 2013, 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, and 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.

Bruce Hartman
State Examiner

October 24, 2013

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 2012-2013 fiscal year ended June 30, 2013. 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 2011-2012 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 43 departmental units in seven colleges and various divisions. Located in Terre Haute, Indiana, with 12,114 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 $12.6 million for the fiscal year ending June 30, 2013. This continues a trend of solid financial performance and adds to the increase of $28.4 million in the fiscal year ending June 30, 2012.

Operating revenues for the fiscal year were $113.3 million, as compared to $109.4 million for fiscal year 2012, an increase of 3.6 percent over the previous year. Net tuition and fees and net auxiliary income were up $2.9 million and $0.8 million which reflect enrollment growth and the second largest incoming freshmen class in the school's history. Grants and contracts revenue decreased by $0.3 million and other operating revenues increased by $0.6 million.

Other operating revenues of $6.2 million include $1.05 million from the Lilly Endowment, Inc., administered through the Indiana State University Foundation. The funds are currently held by the Indiana State University Foundation on behalf of the University. The Lilly Endowment awarded a six-year, $3 million grant to Indiana State University for continued operation of the Networks Financial Institute (NFI) in October 2012. The grant brings to $32 million the total amount the Endowment has invested in NFI since the institute's launch in 2003. For this grant, the Indiana State University Foundation and the University will provide matching funding of $3 million. The goal of NFI is to be a national source for authoritative and impartial analysis of policies affecting risk management and insurance, achieve national recognition for research in financial services, and to be a national leader in developing top graduates in the financial industry.

Operating expenses were $212.9 million for fiscal year 2013. This represents a $12.6 million increase from the previous year's expenditures. Compensation and employee benefit expense increased by $8.4 million. Supplies and expenses grew by $2.4 million. Utilities expenses increased by $0.7 million.

Net non-operating revenues and expenses decreased by $4 million from 2012. State appropriations remained flat at $76.5 million, while interest income decreased by $6.1 million due to pressure on bond prices from higher interest rates. Non-operating grants and contracts revenues grew by $2.6 million due to additional federal and state financial aid as a result of enrollment growth.

The State of Indiana did not provide funds for repair and rehabilitation for 2012 and 2013.

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 notes 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, 2013 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 market 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, 2013 and 2012 is as follows:

Statement of Net Position (in millions)

	2013	2012
Current assets	$ 59.7	$ 42.6
Non-current assets:		
Deposits with bond trustee	0.1	0.4
Notes receivable	4.1	4.5
Other long-term investments	110.4	106.7
Net OPEB asset	14.2	11.1
Capital assets, net	365.3	350.8
Other	0.6	0.5
Total assets	$554.4	$516.6
Current liabilities	29.7	26.0
Non-current liabilities	132.4	110.6
Total liabilities	$162.1	$136.6
Deferred inflow of resources	1.9	2.2
Net position	$390.4	$377.8

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 $59.7 million and $494.8 million, respectively, at June 30, 2013, compared to $42.6 million and $474 million at June 30, 2012. Total assets increased by seven percent or $37.8 million. The University did not have deferred outflows of resources as of June 30, 2013. Key changes in assets were as follows:

- Cash and cash equivalents (which include liquid investments maturing within 90 days), short-term investments, and long-term investments increased by $9.6 million, $7 million, and $3.8 million respectively. These increases resulted in an overall increase in cash and investments of $20.4 million. Bond proceeds held in cash and short-term investments for the construction of Reeve Hall makes up $15.9 million of that increase while the remaining is due to the reinvestment of interest earned and the realized gain from investments.
- Accounts receivable increased by $1.6 million and other accounts receivable decreased by $3.1 million. The decrease in other accounts receivable is a result of payments toward a gift receivable from the ISU Foundation used for the renovation of Federal Hall.
- The net OPEB asset increased by $3.8 million to reflect changes in the actuarial valuation caused by an increase in the plan participants' share of cost to 33.3 percent over the next five years.

- Capital assets grew by $14.5 million. This growth reflects the completion of the Erickson Hall renovation, the Hulman Center roof replacement, renovation of the basketball locker rooms, the Career Center remodel and relocation, the renovation of classroom and lab space in the College of Technology, and the partial completion of Reeve Hall.

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 $3.9 million and non-current liabilities increased by $21.6 million, for an overall increase in total liabilities of 19 percent or $25.5 million. This increase is due to the following:

- Accounts payable increased by $2.6 million due to the expenses payable at June 30, 2013 related to the construction of Reeve Hall.
- Total bonds payable increased from $108.2 million in 2012 to $131.5 million in 2013. This $23.3 million change reflects the addition of the $30.5 million Housing and Dining Revenue bond, Series 2012, for the construction of Reeve Hall and the payment of $7.3 million in bond principal during the fiscal year.

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 deletions of capital assets in the current fiscal year.

Erickson Hall—The renovation of Erickson Hall, which began in May 2012, was completed

Reeve Hall

Flight Academy

Renovations of Erickson Hall entrance (above) and hall rooms (right).

for Fall 2013 occupancy. Originally opened in 1962 as a women's residence hall and then home to administrative offices, it's now a contemporary co-ed facility housing 260 first-year students. Each floor contains 25 double rooms, with five to six rooms having a community restroom/shower. Erickson Hall also houses the Office of Residential Life and Dining Services. The overall cost of the Erickson Hall renovation was approximately $10 million of which $9 million was funded from Indiana State Housing and Dining System Revenue Bonds, Series 2012, and $1 million from Housing and Dining System reserves.

Reeve Hall—The new residence hall located on the north side of campus is the first residence hall to be constructed in 40 years. The residence hall will feature eight small group housing units to accommodate a total of 352 students. While physically connected, each unit will have 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 estimated at $25.8 million with approximately $4.8 million funded from Housing and Dining reserves and approximately $21 million from proceeds of the Series 2012 Bonds. Reeve Hall is expected to be completed for Fall 2014 occupancy.

Life Sciences/Chemistry renovation (above) and Normal Hall (right)

Flight Academy—The ISU Flight Academy opens Fall 2013 and features a newly renovated facility at the Terre Haute International Airport and a fleet of aircraft that the University purchased as part of the new flight school. The aircraft feature navigational equipment and other technology that students will encounter as working pilots in the aviation industry. As part of the dozen planes purchased for the Flight Academy are several Diamond DA40s that were purchased from the Air Force Academy, which were commonly used to train pilots.

Life Science/Chemistry Renovation—The University will issue Indiana State University Student Fee Bonds, Series P, in Fall 2013 for the major renovation of the remaining non-renovated laboratories to create instructional spaces that will meet contemporary safety and access standards mandated by federal law. This will enable the use of current instructional technologies and will facilitate the use of new pedagogical techniques in the labs. The total cost of the project is not expected to exceed $4.5 million and will be funded entirely with the Series P Bonds proceeds.

Normal Hall—The 2013-15 state budget passed by the Indiana General Assembly includes $16 million in funding for the Normal Hall renovation. This building would serve as the Center for Student Success and house the University College and Center for Student Success in a single central location. Originally dedicated in 1910, the neo-classical building served as Indiana State's library until 1973. Since then, Normal Hall has served a variety of purposes, most recently housing University Archives and the Permanent Art Collection. 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, interview suite and offices. A "stack" addition constructed in 1955 will be removed and replaced with a transparent glass addition to meet accessibility requirements and provide space for an elevator, restrooms, and stairwells. The renovation is scheduled to be completed in summer 2015.

Mills Hall—The Indiana State University Board of Trustees gave approval to seek state approval to spend up to $22 million for the first phase of the multi-year project to renovate

The proposed Track and Field Facility

Sycamore Towers, the 12-story residential hall complex constructed in the 1960's. Mills Hall is one of four buildings comprising the Sycamore towers residence hall complex. The project is expected to begin the summer of 2014.

Track and Field Facility—The Indiana State University Board of Trustees has approved the relocation of the Sycamore track and field facility to University property in the Wabash Riverfront area. The project, included in the 2009 master plan, carries an estimated cost of no more than $4.3 million and would be funded by interest income, commissions, and private donor support.

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 2012, issued during fiscal year 2013 had an underlying credit rating of (A1) from Moody's and (AA-) from Fitch.

Net Position

Net position represents the residual value of the University's assets after liabilities are deducted. The University's net position at June 30, 2013 and 2012 are summarized in the table that follows:

Net Position (in millions)

	2013	**2012**
Net investment in capital assets	$ 248.2	$ 241.5
Restricted		
Non-expendable	2.8	2.7
Expendable	3.3	4.1
Unrestricted	136.1	129.5
Total net assets	$ 390.4	$ 377.8

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 and funds limited to construction and renovation. The restricted portion of long-term debt and debt service is made up of reserves mandated by the bond agreements, which state that reserves must be maintained until the issue is retired.

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, 2013 and 2012 is as follows:

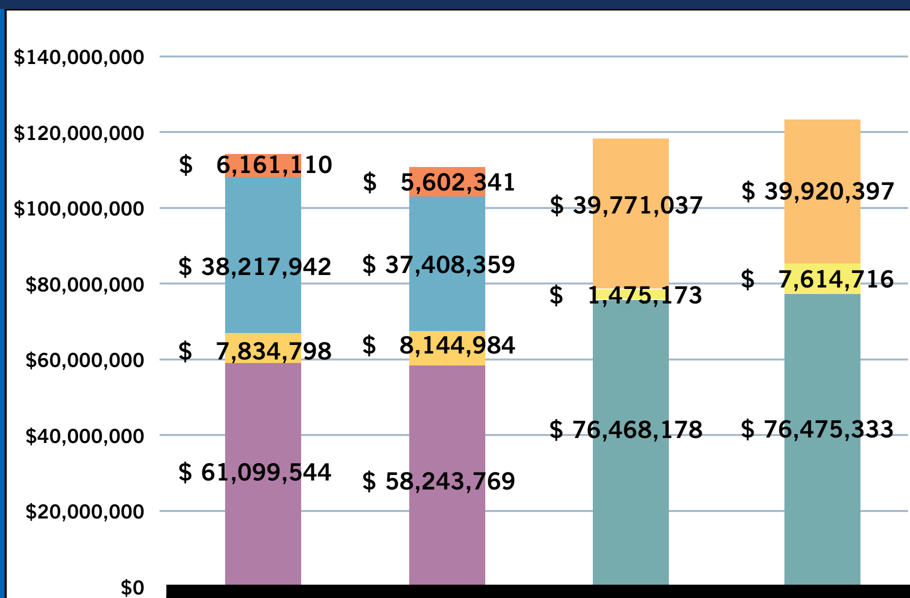
Revenues, Expenses, and Changes in Net Position (in millions)

	2013	2012
Operating revenues		
Tuition and fees (net of scholarship and other allowances of $34.6 million for 2013 and $32.8 million for 2012)	$ 61.1	$ 58.2
Grants and contracts	7.8	8.2
Auxiliary enterprises fees and services (net of scholarship and other allowances of $9.4 million for 2013 and $8.7 million for 2012)	38.2	37.4
Other	6.2	5.6
Total operating revenue	$113.3	$109.4
Operating expenses	(212.9)	(200.3)
Operating loss	($ 99.6)	($ 90.9)
Non-operating revenues (expenses)		
State appropriations	$ 76.5	$ 76.5
Investment income (net of investment expenses of $0.5 million for 2013 and $0.4 million for 2012)	1.5	7.6
Non-operating grants and contracts revenue	34.4	31.8
Capital appropriations	—	1.2
Capital grants and gifts	0.4	2.3
Other non-operating revenues and expenses	4.4	4.6
Interest on capital asset related debt	(5.0)	(4.7)
Net non-operating and other revenues	$112.2	$119.3
Increase in net position	$ 12.6	$ 28.4
Net position, beginning of year	$377.8	$349.4
Net position, end of year	$390.4	$377.8

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.

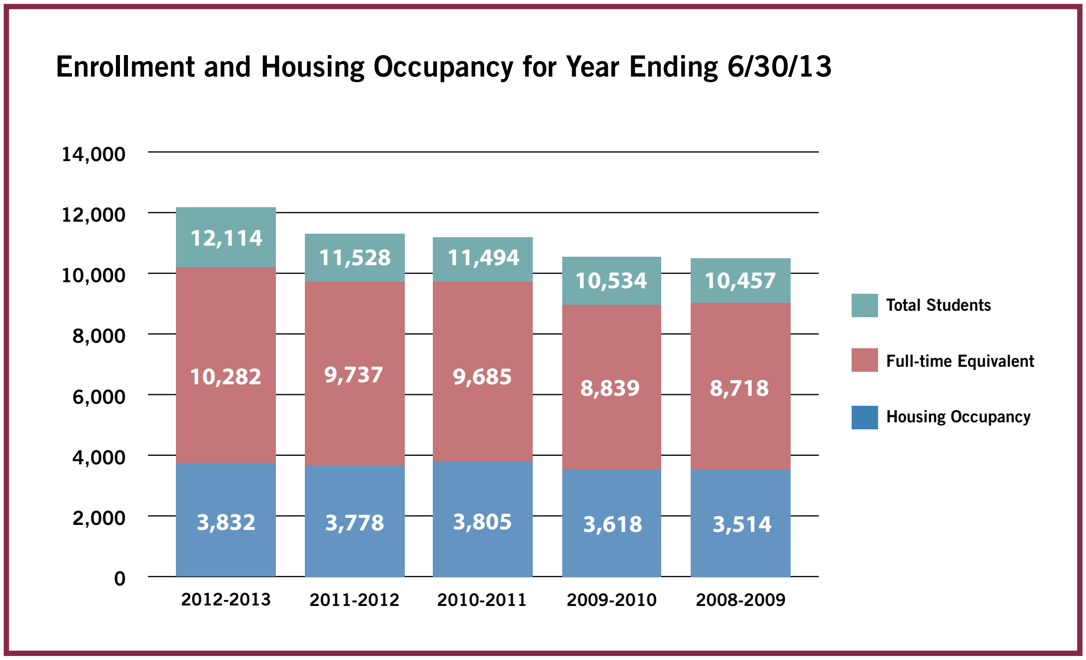
Revenues by Source (operating and non-operating)



	Operating 2013	Operating 2012	Non-operating 2013	Non-operating 2012
Other non-operating/capital revenues			$ 39,771,037	$ 39,920,397
Investment income			$ 1,475,173	$ 7,614,716
State appropriations			$ 76,468,178	$ 76,475,333
Other operating revenues	$ 6,161,110	$ 5,602,341		
Auxiliary enterprises fees and services, net	$ 38,217,942	$ 37,408,359		
Federal, state, and local grants and contracts	$ 7,834,798	$ 8,144,984		
Tuition and fees, net	$ 61,099,544	$ 58,243,769		

Operating revenues increased by $3.9 million for the fiscal year 2013. The following attributed to the increase:

- Net tuition and fee income grew by $2.9 million. This reflects the third year of growth among new students and more returning students continuing their education, allowing enrollment to be at its highest level in 20 years with a Fall 2012 semester head count of 12,114. This is an increase of nearly 600 students in comparison to 2011. These numbers also include an incoming freshmen class of 2,668, the largest entering class in the school's history.
- Net auxiliary enterprises fees and services revenue increased by $0.8 million.
- Grants and contracts revenue decreased by $0.3 million for the fiscal year 2013.
- Other operating revenues increased by $0.6 million. This is due to fees collected for the new Community School of the Arts and increased Early Childhood Education fees.
- Non-operating revenues decreased by $3.2 million for 2013. State appropriations were $76.5 million and remained at the same level as 2012. Interest income declined by $6.1 million due to increases in interest rates reducing the market value of bonds.
- Non-operating grants and contracts revenue grew by $2.6 million which reflects increases in federal and state financial aid. Other non-operating revenues increased $0.5 million due to reduced asset write-offs on renovation projects and unclaimed bearer bonds revenue.
- Capital appropriations, grants, and gifts decreased by $3.1 million as the final drawdown of ARRA funds from the State of Indiana concluded in 2012. The remaining funds for the NSF grant for science lab renovations also concluded in 2013.

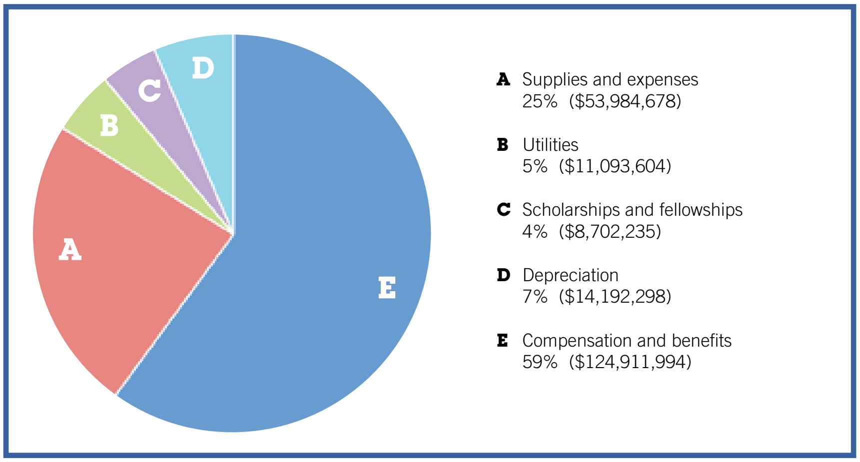


A comparative summary of the University's expenses for the years ended June 30, 2013 and 2012 is as follows:

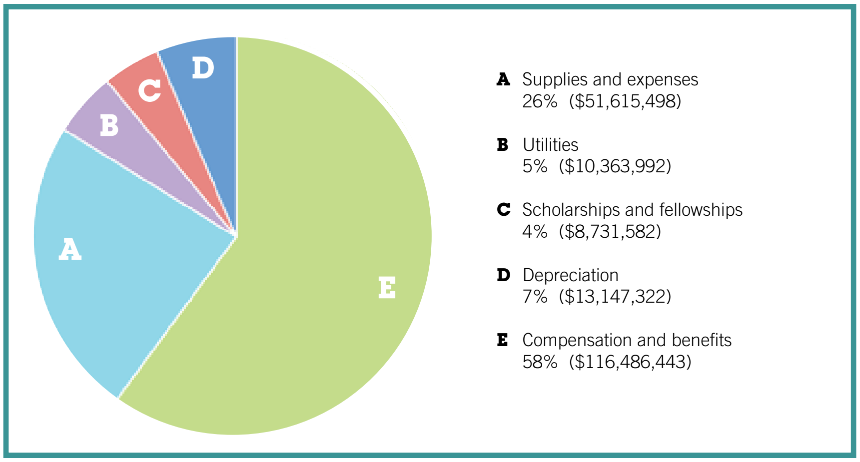
Operating Expenses (in millions)

	2013	2012
Operating:		
Compensation and benefits	$ 124.9	$ 116.5
Supplies and expenses	54.0	51.6
Utilities	11.1	10.4
Scholarships and fellowships	8.7	8.7
Depreciation	14.2	13.1
	$ 212.9	$ 200.3
Non-operating:		
Interest on capital asset related debt	$ 5.0	$ 4.7
Other non-operating expenses	0.5	0.03
Total expenses	$ 218.4	$ 205.0

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



The following is a graphic illustration of total operating expenses by object for year ending June 30, 2012:



Total operating and non-operating expenses increased by $13.3 million from $205.1 million in fiscal year 2012 to $218.4 million in fiscal year 2013.

- Compensation and benefits increased $8.4 million. This included additional academic salaries for full-time and part-time faculty brought about by increased enrollment and new academic programs. This also reflects a two percent wage increase midyear, increased student employment, and related employee benefits increases. The reduction in compensation due to the increase of the Other Postemployment Benefit (OPEB) for retiree medical and life insurance reduced from $4 million in 2012 to $3.1 million in 2013, as the University eliminated funding to the VEBA because the obligation had become fully funded.
- Supplies and expenses grew by $2.4 million for the year. This reflects increased payments for professional services, travel, office supplies, dining payments, non-capital equipment and computer software maintenance.
- Utilities expenses increased by $0.7 million, which is attributed to increased rates for electricity and sewage.
- Scholarships and fellowships expense remained at $8.7 million for 2013.
- Depreciation expense grew by $1 million. Additional buildings and renovations were added to depreciable assets during the year.
- Other non-operating expense increased by $0.5 million due to bond issuance costs related to the ISU Housing and Dining Bonds, Series 2012 issue.

Indiana State University continues to make market-competitive compensation and benefits a top priority. These expenses represent 59 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, 2013 and 2012 is as follows:

Expenses by Function (in millions)

	2013	2012
Operating:		
Instruction	$ 69.4	$ 65.9
Research	8.7	8.4
Public service	1.7	1.9
Institutional and academic support	39.6	33.2
Student services	11.1	10.2
Operations of plant	26.1	27.9
Scholarships	9.9	9.8
Auxiliary enterprises	32.2	29.9
Depreciation	14.2	13.1
	$ 212.9	$ 200.3

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, 2013 and 2012 and highlights of the major changes:

Statement of Cash Flows (in millions)

	2013	2012
Cash received from operations	$ 113.2	$ 109.6
Cash expended for operations	(203.3)	(195.2)
Net cash used by operating activities	(90.1)	(85.6)
Net cash provided by non-capital financing activities	114.5	112.3
Net cash used by capital and related financing activities	(5.2)	(38.4)
Net cash used by investing activities	(9.6)	(10.6)
Net increase (decrease) in cash and cash equivalents	$ 9.6	$ (22.3)
Cash and cash equivalents, beginning of year	$ 18.7	$ 41.0
Cash and cash equivalents, end of year	$ 28.3	$ 18.7

Operating activities

- Cash used by operating activities increased by $4.5 million.
- Cash provided by tuition and fees and auxiliary enterprises comprise 88 percent of inflows from operating activities, and grew by $3.8 million and $1.4 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 $3.5 million in 2013.
- Payments to suppliers grew by $4.5 million due to increased expenses in professional services, travel, office supplies, dining payments, non-capital equipment purchases, and computer software maintenance.

Non-capital financing activities

- Cash provided by non-capital financing activities increased by $2.2 million.
- Cash received from non-operating grants and contracts increased by $2.4 million largely due to an increase of $1.8 million in funds received for non-operating state grants, including a $0.8 million increase in 21st Century Scholars funding.
- State appropriations make up 67 percent of cash provided by non-capital financing activities.

Capital financing activities

- Cash used by capital financing activities decreased by $33.3 million. The majority of this difference is due to the larger bond issue in 2013 of $30.5 million compared to $4 million in 2012. These bond proceeds were not fully expended on capital assets by June 30, 2013.
- Capital appropriations received decreased by $1.2 million. This is due to the University receiving ARRA funds from the State of Indiana for repair and renovation in 2012.
- Cash paid for capital assets decreased to $26.4 million compared to $35.1 million in 2012.

Investing activities

- Cash used by investing activities decreased by $1 million due to an increase in net investment purchases of $1.8 million which was offset by a $0.8 million decrease in investment income.

For the year ended June 30, 2013 more cash was used by operating activities, more cash was provided by non-capital financing activities, and less cash was used by capital and investing activities. The University experienced an overall $9.6 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's Fall 2013 enrollment headcount grew to 12,448, an increase of 334 from 2012 and is the highest enrollment since 1972. The incoming class of 2,661 new freshmen includes the University's highest honors class of 306 students and total enrollment in the University Honors Program of 964 students. More than 700 transfer students enrolled at Indiana State marking the fourth consecutive year the University attracted that number of students. Graduate student enrollment grew by seven percent to a record 2,180 students in part due to the launch of the master's and doctoral programs in healthcare and a growing professional MBA program. International student enrollment reached 926, a more than 250-student increase from Fall 2012. More than 600 undergraduate and

300 graduate students from 68 countries are enrolled at Indiana State, the highest number since the 1970's. 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 University has contracted with the Inside Track to provide academic coaching to 1,000 freshmen. The company projects a five percent growth in freshmen-to-sophomore retention for these students.

Based on the University's commitment to ensure that more Hoosiers can afford to pursue a higher education degree, Indiana State University's tuition and fees will rise by only 1.95 percent for 2013-2014. The University continues to make significant strides in maintaining affordability for students and parents. Other affordability measures include a restructuring of summer school fees, textbook and laptop PC rental programs, and expanded student employment opportunities.

With 25 percent of new state funding tied to on-time graduation, the University is creating task forces to study handbook and policy changes to ensure overall long-term department success in retention and graduation, as well as other areas such as program quality and affordability. An independent survey will also be conducted measuring Indiana State University's development of a culture of student success.

Other goals listed for the next three years include: increasing programs with experiential learning from 68 percent to 100 percent, expanding the number of students involved in community engagement from 6,145 to 7,500, boosting the number of businesses served by the Business Engagement Center from 21 to 40, and increasing funding for the Unbounded Possibilities Initiative designed to strengthen the University's most distinctive and promising programs from $1.5 million to $5 million across the next four years.

Indiana State University Board of Trustees approved a lease to develop oil and gas resources on University property. The first stage of exploration will determine the extent of oil reserves available and if drilling and production is economically viable.

Beginning in 2013-14, the State of Indiana established the Principal Leadership Institute providing $1.2 million over the biennium for a professional development program for public school principals throughout Indiana.

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, 2013 and June 30, 2012

ASSETS	**2013**	**2012**
Current Assets		
Cash and cash equivalents	$ 28,341,848	$ 18,714,665
Short-term investments	14,616,910	7,545,331
Accrued interest	1,034,874	807,329
Accounts receivable (net of allowance of $5,338,984 for 2013 and $5,606,623 for 2012)	6,281,685	4,641,618
Other accounts receivable	2,096,634	5,222,959
Grants receivable	1,736,477	1,545,961
Notes receivable, current portion	3,578,020	3,345,639
Prepaid expenses	1,547,078	787,148
Inventories	100,841	31,153
Other assets	355,040	—
Total current assets	$ 59,689,407	$ 42,641,803
Non-current Assets		
Endowment investments - held in trust	$ 632,121	$ 510,704
Deposits with bond trustee	82,392	418,077
Notes receivable, non-current portion (net of allowance of $708,751 for 2013 and $725,436 for 2012)	4,085,535	4,363,689
Other long-term investments	110,435,061	106,683,476
Net OPEB Asset (Note 18)	14,237,880	11,138,913
Capital assets (net of accumulated depreciation of $252,279,091 for 2013 and $241,758,662 for 2012)	365,278,444	350,790,896
Total non-current assets	$ 494,751,433	$ 473,905,755
TOTAL ASSETS	$ 554,440,840	$ 516,547,558
LIABILITIES		
Current liabilities		
Accounts payable	$ 6,240,224	$ 3,660,649
Accrued payroll and deductions	2,704,338	2,881,393
Unearned revenue	1,250,950	1,171,922
Funds held in custody for others	1,101,835	1,285,527
Other current liabilities	5,343,388	4,768,923
Bonds payable (Note 5)	7,814,413	7,237,945
Compensated absences and termination benefits (Note 9)	3,394,235	3,119,210
Lease payable	382,268	343,858
Debt interest payable	1,425,659	1,251,323
Total current liabilities	$ 29,657,310	$ 25,720,750
Non-current liabilities		
Funds held in custody for others	$ —	$ 465,293
Bonds payable (Note 5)	123,650,912	100,956,484
Compensated absences and termination benefits	642,309	906,318
Lease payable	404,085	749,769
Advances from Federal Government	7,715,549	7,783,450
Total non-current liabilities	$ 132,412,855	$ 110,861,314
TOTAL LIABILITIES	$ 162,070,165	$ 136,582,064
DEFERRED INFLOWS OF RESOURCES		
Deferred service concession arrangement (Note 6)	$ 1,940,742	$ 2,183,334
Total deffered inflows of resources	$ 1,940,742	$ 2,183,334
NET POSITION		
Net investment in capital assets	$ 248,220,211	$ 241,508,076
Restricted for:		
Non-expendable:		
Scholarships and fellowships	632,121	510,704
Loans	2,173,650	2,190,855
Expendable:		
Research and other grants	471,934	286,818
Capital projects	2,866,881	3,805,526
Unrestricted	136,065,136	129,480,181
TOTAL NET POSITION	$ 390,429,933	$ 377,782,160

Indiana State University Foundation, Inc. and Affiliate

Consolidated Statement of Financial Position

June 30, 2013

ASSETS	
Cash and equivalents	$ 810,428
Short-term investments	7,378,175
Pledges and bequests receivable, net	4,600,299
Due from Indiana State University	372,787
Investment in joint ventures	1,222,382
Property held for future use	467,595
Property and equipment, net	1,432,163
Amortizable intangible assets, net	38,802
Assets held in trusts, interest in trusts and split-interest agreements	3,710,559
Investments restricted for long-term purposes	46,046,720
Pledges and bequests receivable restricted for long-term purposes, net	964,151
Other assets restricted for long-term purposes	1,755
Other assets	1,487,500
TOTAL ASSETS	$ 68,533,316
LIABILITIES	
Accounts payable	$ 92,658
Lines of credit borrowings	9,436,989
Due to Indiana State University	3,230,895
Split-interest agreement obligations	2,296,095
Refundable advances	553,844
Deferred revenue	1,500
Total Liabilities	15,611,981
NET ASSETS	
Unrestricted	(7,228,586)
Temporarily restricted	21,250,013
Permanently restricted	38,899,908
Total Net Assets	52,921,335
TOTAL LIABILITIES AND NET ASSETS	$ 68,533,316

Indiana State University

Statement of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2013 and June 30, 2012

OPERATING REVENUES	2013	2012
Tuition and fees	$ 95,669,841	$ 91,033,298
Scholarship allowances for tuition and fees	(34,087,839)	(32,304,499)
Other allowances	(482,458)	(485,030)
Net tuition and fees	61,099,544	58,243,769
Federal grants and contracts	5,005,317	5,077,712
State and local grants and contracts	71,573	201,092
Non-governmental grants and contracts	2,757,908	2,866,180
Auxiliary enterprises fees and services	47,586,250	46,134,449
Scholarship allowances for room and board	(8,792,244)	(8,344,422)
Other allowances	(576,064)	(381,668)
Net auxiliary enterprises fees and services	38,217,942	37,408,359
Other operating revenues	6,161,110	5,602,341
Total operating revenues	$ 113,313,394	$ 109,399,453
EXPENSES		
Compensation and employee benefits	$ 124,911,994	$ 116,486,443
Supplies and expenses	53,984,678	51,615,498
Utilities	11,093,604	10,363,992
Scholarships and fellowships	8,702,235	8,731,582
Depreciation	14,192,298	13,147,322
Total operating expenses	$ 212,884,809	$ 200,344,837
Operating loss	$ (99,571,415)	$ (90,945,384)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$ 76,468,178	$ 76,475,333
Gifts	258,578	497,098
Investment income (net of investment expenses of $457,714 for 2013 and $393,350 for 2012)	1,475,173	7,614,716
Interest on capital asset related debt	(4,975,590)	(4,682,284)
Non-operating grants and contracts revenue	34,396,857	31,796,829
Other non-operating revenues	4,708,687	4,165,166
Other non-operating expenses	(519,610)	(29,773)
Net non-operating revenue	$ 111,812,273	$ 115,837,085
Income before other revenues, expenses, gains, or losses	$ 12,240,858	$ 24,891,701
Capital appropriations	$ —	$ 1,161,445
Capital grants and gifts	$ 406,915	$ 2,299,859
Total other revenues	$ 406,915	$ 3,461,304
Increase in net position	$ 12,647,773	$ 28,353,005
NET POSITION		
Net position—beginning of year	$ 377,782,160	$ 349,429,155
Net position—end of year	$ 390,429,933	$ 377,782,160

Indiana State University Foundation, Inc. and Affiliate

Consolidated Statement of Activities

Year Ended June 30, 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
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, 2013 and June 30, 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 60,959,324	$ 57,136,401
Grants and contracts	6,588,884	8,105,624
Auxiliary enterprises	38,140,354	36,776,908
Payments to suppliers	(69,691,280)	(65,180,573)
Payments to employees	(65,030,245)	(64,570,483)
Payments for benefits	(60,592,517)	(57,506,188)
Payments to students	(6,998,082)	(6,882,381)
Loans issued to students	(947,281)	(1,000,750)
Student loans collected	1,244,952	1,195,037
Other receipts	6,247,238	6,386,340
Net cash used by operating activities	$ (90,078,653)	$ (85,540,065)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	$ 76,468,179	$ 76,513,684
Return of funds held on behalf of the ISU Foundation	(903,401)	—
Direct loan program receipts	21,132,085	17,892,429
Direct loan program disbursements	(21,132,085)	(17,892,429)
Non-operating grants and contracts	34,559,145	32,134,838
Gifts and other non-operating income	4,339,542	3,645,232
Net cash provided by non-capital financing activities	$ 114,463,465	$ 112,293,754
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	$ —	$ 1,163,059
Capital gifts and grants received	3,473,878	3,875,064
Proceeds from trustee drawdowns	123,347	84,252
Proceeds from sale of land	—	30,578
Proceeds from bond issue	30,526,797	4,000,000
Costs of issuance	(524,383)	25,000
Cash paid for capital assets	(26,436,712)	(35,135,040)
Principal and interest paid on capital debt and leases	(12,288,549)	(12,435,209)
Net cash used by capital financing activities	$ (5,125,622)	$ (38,392,296)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	$ 4,253,246	$ 13,174,283
Income from investing activities	4,867,497	5,673,518
Purchase of investments	(18,752,750)	(29,467,049)
Net cash used by investing activities	$ (9,632,007)	$ (10,619,248)
Net increase (decrease) in cash for year	$ 9,627,183	$ (22,257,855)
Cash and cash equivalents - beginning of year	$ 18,714,665	$ 40,972,520
Cash and cash equivalents - end of year	$ 28,341,848	$ 18,714,665

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

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

	2013	2012
Operating Loss	$ (99,571,415)	$ (90,945,384)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	14,192,298	13,147,322
Other non-cash adjustments	(3,464,863)	(5,082,914)
Changes in assets and liabilities		
Accounts receivable	(1,640,067)	(1,322,330)
Grants receivable	(190,516)	(215,658)
Notes receivable	(232,381)	(280,598)
Inventories	(69,688)	54,728
Prepaid expenses	(759,930)	249,649
Accounts payable	79,828	922,779
Lease payable, current	38,410	49,297
Accrued payroll and deductions	(177,055)	(1,291,182)
Deferred revenue	79,028	(179,166)
Funds held in custody for others	504,708	(188,407)
Other liabilities	857,965	(253,047)
Compensated absences	275,025	(205,154)
Net cash used by operating activities	$ (90,078,653)	$ (85,540,065)
Non-cash transactions		
Equipment	$ 44,957	$ 99,054
Capital lease	$ (44,957)	$ (99,054)

Indiana State University Foundation, Inc. and Affiliate

Consolidated Statement of Cash Flows

Year Ended June 30, 2013

OPERATING ACTIVITIES	
Increase in net assets	$ 5,043,051
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Depreciation of property and equipment	176,437
Amortization of intangible assets	324,179
Net realized and unrealized gains on investments	(4,487,110)
In-kind contributions of investments	(522,799)
Loss on sales of property held for future use	116,815
In-kind contributions of property and equipment	(17,100)
Change in value of split-interest agreements	149,365
Contributions restricted for permanent endowment	(2,177,369)
Change in allowance for doubtful accounts	8,699
(Increase) decrease in certain assets:	
Pledges and bequests receivable	(73,539)
Due from Indiana State University	1,683,765
Other assets	(352,991)
Decrease in certain liabilities:	
Accounts payable	(285,811)
Due to Indiana State University	(1,788,568)
Deferred revenue	(9,900)
Net Cash Used by Operating Activities	(2,212,876)
INVESTING ACTIVITIES	
Purchases of investments	(19,380,885)
Proceeds from sales and maturities of investments	17,033,212
Proceeds from sales of property held for future use	543,295
Purchases of property and equipment	(93,288)
Net Cash Used by Investing Activities	(1,897,666)
FINANCING ACTIVITIES	
Borrowings on lines of credit	3,128,307
Repayments of lines of credit	(455,859)
Proceeds for new charitable gift annuities	176,710
Payments on charitable gift annuities and annuity trust	(242,322)
Collections of contributions restricted for permanent endowment	1,447,428
Net Cash Provided by Financing Activities	4,054,264
NET DECREASE IN CASH AND EQUIVALENTS	(56,278)
CASH AND EQUIVALENTS	
Beginning of Year	866,706
End of Year	$ 810,428
SUPPLEMENTAL DISCLOSURES	
Interest paid	$ 246,493
Noncash investing activities:	
In-kind contributions of investments	522,799
In-kind contributions of property and equipment	17,100

Notes To Financial Statements
As of June 30, 2013

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*. 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*. This Statement amends 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 Governmental Accounting Standards Board (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

The student group The Forest

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 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 represent 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. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income therein, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

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, 2013 the Foundation distributed $5,966,936 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.

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, 2013 consist of the following:

Cash on hand	$ 93,538
Deposits with financial institutions	4,632,536
Investments	149,299,866
	$ 154,025,940

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, Non-US Dollar Debt, and Combined Plus Exposure. 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 market 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, 2013, 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)	$ 93,538	$ 93,538	$ —	$ —	$ —
Demand deposits	4,632,536	4,632,536	—	—	—
Money market funds	12,194,572	12,194,572	—	—	—
Commercial paper	2,996,300	2,996,300	—	—	—
Certificates of deposit	21,490,403	19,405,058	2,085,345	—	—
Asset-backed securities	6,282,605	890,142	4,651,359	741,104	—
Collateralized mortgage obligations	11,034,370	—	2,549,490	1,238,922	7,245,958
Corporate bonds	51,667,636	2,156,434	28,567,766	13,754,954	7,188,482
Corporate stock	106,229	—	—	—	106,229
Credit default swap	3,722	—	3,722	—	—
Government agencies	12,886,555	251,883	9,388,206	1,958,170	1,288,296
Mortgage-backed securities	10,415,223	—	782,212	1,850,049	7,782,962
Municipal bonds	1,226,452	201,750	362,848	351,640	310,214
Treasury notes and bonds	14,793,500	136,544	3,416,112	5,567,538	5,673,306
Foreign notes and bonds	3,570,178	—	737,628	2,703,210	129,340
Endowment investments held in trust	632,121	—	—	—	632,121
	$154,025,940	$ 42,958,757	$ 52,544,688	$ 28,165,587	$ 30,356,908

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.	$ 16,697,828
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.	$ 9,697,501

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)	$ 93,538	$ —	$ —	$ —	$ —	$ 93,538
Demand deposits	4,632,536	—	—	—	—	4,632,536
Money market funds	12,194,572	—	—	—	—	12,194,572
Commercial paper	2,996,300	—	—	998,940	—	1,997,360
Certificates of deposit	21,490,403	—	—	—	—	21,490,403
Asset-backed securities	6,282,605	3,923,665	620,974	389,592	—	1,348,374
Collateralized mortgage obligations	11,034,370	7,719,126	1,253,026	811,662	509,531	741,025
Corporate bonds	51,667,636	160,989	4,470,453	14,750,900	31,887,586	397,708
Corporate stock	106,229	—	—	—	—	106,229
Credit default swap	3,722	—	—	—	—	3,722
Government agencies	12,886,555	12,886,555	—	—	—	—
Mortgage-backed securities	10,415,223	10,415,223	—	—	—	—
Municipal bonds	1,226,452	224,274	755,009	247,169	—	—
Treasury notes and bonds	14,793,500	14,793,500	—	—	—	—
Foreign notes and bonds	3,570,178	732,641	—	—	2,071,820	765,717
Endowment investments held in trust	632,121	—	—	—	—	632,121
	$ 154,025,940	$ 50,855,973	$ 7,099,462	$ 17,198,263	$ 34,468,937	$ 44,403,305

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, 2013 investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of total University investments included First Financial Bank certificates of deposit totaling $8,285,000.

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, $14,793,500 in U.S. Government Obligations, $12,886,555 in U.S. Government Agencies and $12,194,572 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, 2013 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 $15,775,000 are also covered under the Indiana Public Deposits Fund, as they were invested in Indiana financial institutions. The University has less than one 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, 2012	Additions	Deductions	Balance June 30, 2013
Capital assets not being depreciated				
Land	$ 29,021,291	$ 2,085,488	$ —	$ 31,106,779
Works of art	1,440,630	63,200	—	1,503,830
Construction in progress	27,424,030	26,441,899	(32,854,343)	21,011,586
Total capital assets not being depreciated	$ 57,885,951	$ 28,590,587	$ (32,854,343)	$ 53,622,195
Capital assets being depreciated				
Infrastructure	$ 33,635,792	$ 539,375	$ —	$ 34,175,167
Land improvements	24,729,070	736,562	(101,603)	25,364,029
Buildings	394,807,591	28,934,470	(1,840,474)	421,901,587
Equipment	79,762,264	2,829,784	(1,871,338)	80,720,710
Capital lease assets	1,728,890	44,957	—	1,773,847
Total capital assets depreciated	$ 534,663,607	$ 33,085,148	$ (3,813,415)	$ 563,935,340
Less accumulated depreciation for				
Infrastructure	$ (30,645,641)	$ (884,576)	$ —	$ (31,530,217)
Land improvements	(14,741,877)	(897,833)	101,603	(15,538,107)
Buildings	(138,925,909)	(8,728,317)	2,092,953	(145,561,273)
Equipment	(56,746,040)	(3,693,377)	1,842,604	(58,596,813)
Lease amortization	(699,195)	(353,486)	—	(1,052,681)
Total accumulated depreciation	$ (241,758,662)	$ (14,557,589)	$ 4,037,160	$ (252,279,091)
Total capital assets being depreciated, net	$ 292,904,945	$ 18,527,559	$ 223,745	$ 311,656,249
Total capital assets, net	$ 350,790,896	$ 47,118,146	$ (32,630,598)	$ 365,278,444

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 June 30, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Bonds payable, net	$108,194,429	$ 30,526,708	$ 7,255,812	$131,465,325	$ 7,814,413
Lease payable	1,093,627	44,957	352,231	786,353	382,268
Compensated absences and termination benefits	4,025,528	283,653	272,637	4,036,544	3,394,235
Advances from Federal Government	7,783,450	—	67,901	7,715,549	—
Total long-term liabilities	$121,097,034	$ 30,855,318	$ 7,948,581	$144,003,771	$ 11,590,916
Bond redemption reserve (matured unpaid bonds and coupons)					82,392
Total long-term liabilities—current portion					$ 11,673,308

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, 2013	Bond Premium	Deferral of Loss	Total Net Outstanding June 30, 2013
Student Fee Bonds							
Series K	2004	3.0%-5.0%	2025	$ 5,470,000	$ 435,889	$ (626,675)	$ 5,279,214
Series L	2005	3.5%-5.0%	2021	16,385,000	976,623	(1,574,280)	15,787,343
Series M	2007	4.0%-5.0%	2033	38,960,000	582,680	N/A	39,542,680
Series N	2010	1.0%-6.64%	2030	8,510,000	N/A	N/A	8,510,000
Series O	2011	2.0%-5.00%	2031	8,050,000	9,917	N/A	8,059,917
Housing and Dining Revenue Bonds							
Series 2009	2009	3.0%-6.383%	2027	11,670,000	52,330	N/A	11,722,330
Series 2010	2010	1.43%-5.41%	2027	8,170,000	N/A	N/A	8,170,000
Series 2012	2012	2.7%-5.0%	2038	28,740,000	1,768,841	N/A	30,508,841
Parking Revenue Bond							
Series 2012	2012	1.72%	2017	3,885,000	N/A	N/A	3,885,000
Total Bonds				$129,840,000	$ 3,826,280	$ (2,200,955)	$ 131,465,325

The issues are serial or term bonds with maturities extending until 2038. For the fiscal year 2013 an $8,153,440 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 $97,435,295 in student tuition as collateral for student fee bonds and student service bonds, $1,787,205 of the dedicated Student Recreational Fee for Series M, and $1,154,548 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 $28.74 million of Housing and Dining System Revenue Bonds, Series 2012 on December 20, 2012. See Note 7 for details.

Debt Service Requirements

Fiscal Year	Bond Principal	Bond Interest	Total
2014	$ 7,805,000	$ 5,596,320	$ 13,401,320
2015	8,655,000	5,273,494	13,928,494
2016	8,215,000	4,925,421	13,140,421
2017-2021	37,080,000	19,963,466	57,043,466
2022-2026	33,200,000	11,872,773	45,072,773
2027-2031	21,345,000	4,509,514	25,854,514
2032-2036	10,190,000	1,401,267	11,591,267
2037-2038	3,350,000	164,125	3,514,125
	$129,840,000	$ 53,706,380	$183,546,380
Net unamortized premium and deferral of loss	1,625,325	—	1,625,325
Total	$131,465,325	$ 53,706,380	$185,171,705

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, 2013 balance of the Deferred Inflow of Resources related to the Sodexo service concession arrangement is as follows:

Deferred Inflow of Resources as of 6/30/12	$ 2,183,334
Revenue Recognition fiscal year 2013	(242,592)
Deferred Inflow of Resources as 6/30/13	$ 1,940,742

Note 7. Bond Issues

Housing and Dining System Revenue Bonds, Series 2012

On December 20, 2012 the University issued $28,740,000 of Housing and Dining System Revenue Bonds, Series 2012. This issue was tax-exempt with a True Interest Cost (TIC) of 2.996%. The bond proceeds of $30,526,708, which included $1,786,708 of net bond premium less issuance cost and underwriter's discount of $525,743, netted $30,000,000 to be used for the Erickson Hall and Reeve Hall projects.

Indiana State University has launched a new partnership with Enterprise CarShare to offer hourly car rentals on campus. The convenient transportation option will be available 24 hours a day, seven days a week for students, faculty and staff ages 18 and older.

Erickson Hall

Erickson Hall, originally constructed in 1960, is being renovated and reconfigured as a residence hall facility. The renovation will provide a total of 260 beds, all contained in double-occupancy rooms with lounge/study space on each floor. Office space for Residential Life and Dining Services will be included on the first floor. The overall cost of the renovation project is estimated at $10 million, of which approximately $1 million will be funded from Housing and Dining System reserves and $9 million from the Series 2012 bond proceeds. The Erickson Hall renovation project will be completed for fall 2013 occupancy.

Reeve Hall

The new Reeve Hall complex will bridge the academic core of campus to the northern residential areas. The 352 bed facility has been designed as two buildings which can then be further broken into four masses per building. The goal is to provide autonomy for each of the eight groups sharing like academic and social interests. This is the first new residential housing hall project on the Indiana State University campus since the 1960's. The overall cost of the Reeve Hall complex is estimated at $25.8 million, of which approximately $4..8 million will be funded from Housing and Dining System reserves and $21 million from proceeds of the Series 2012 Bonds. The Reeve Hall complex is expected to be completed for fall 2014 occupancy.

Note 8. Lease Payable

Indiana State University has entered into a capital lease agreement with GE Capital Information Technology Solutions Inc. This is an agreement to lease copiers and printers for the campus of Indiana State University as of June 30, 2013.

Fiscal Year	Lease Payments
2014	$ 419,749
2015	417,560
Total minimum lease payments	$ 837,309
Less amount representing interest	$ 50,956
Present value of net minimum lease payment	$ 786,353

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 eleven employees enrolled in the program during the 2013 fiscal year at a cost of $500,960, with $265,395 classified as current compensated absences and termination benefits liability which will be paid out in the next year.

GASB Statement No. 47 requires the University to recognize an expense and liability for involuntary terminations. This expense is recognized when a termination plan has been approved, communicated to the employees, and the amounts can be estimated.

The University informed employees in February 2010 that a displaced workers plan would be implemented. This plan provides employees with severance pay of between 8 to 20 weeks, depending on years of service and notification period, in a lump-sum payment. Additional benefits included COBRA health insurance paid at 100 percent by ISU for six months, up to four semesters of employee/spouse fee waiver benefits, up to ten semesters of dependent child fee waivers, and use of the Student Recreation Center. During fiscal year 2013, fourteen employees were displaced under this plan at a cost of $243,376.

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, 2013, 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 2013 fiscal year are as follows:

Unpaid medical claims, 7/01/12	$ 3,708,205
Claims incurred	16,916,598
Claims paid	(16,499,842)
Unpaid medical claims, 6/30/13	$ 4,124,961

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 $1,101,835 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 2013 and in prior years, Indiana State University voluntarily obligated itself to remediate pollution in the Statesman Towers. As of June 30, 2013 this project had not been completed, leaving an outstanding obligation of $680,000, which is included in the other current liability classification.

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	$ 61,709,313	$ 7,642,173	$ —	$ —	$ —	$ 69,351,486
Research	4,950,505	3,782,908	—	—	—	8,733,413
Public service	1,146,117	592,991	—	—	—	1,739,108
Academic support	9,929,661	3,183,382	—	—	—	13,113,043
Student services	8,633,835	2,384,673	—	—	—	11,018,508
Institutional support	14,277,569	12,178,032	—	—	—	26,455,601
Operation of plant	9,381,621	5,794,856	10,963,166	—	—	26,139,643
Scholarships	1,214,696	1,468	—	8,702,235	—	9,918,399
Auxiliary enterprises	13,668,677	18,424,195	130,438	—	—	32,223,310
Depreciation	—	—	—	—	14,192,298	14,192,298
	$ 124,911,994	$ 53,984,678	$ 11,093,604	$ 8,702,235	$ 14,192,298	$212,884,809

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, 2016 and were entered into as a cost avoidance strategy. There were costs in excess of the contract amount of $1,736,359 for the 2013 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 2012-13, the University made contributions totaling $6,067,224 to this plan. For the fiscal year ended June 30, 2013 there were 882 employees and retirees participating in TIAA-CREF, with annual salaries equal to $60,692,182.

Non-exempt Staff

Regular clerical and service staff participates 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 9.7 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2012-2013 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, 2013 there were 574 employees participating in PERF with annual salaries equal to $17,366,888.

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 Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling (317) 232-4162.

The University's annual pension cost and related information, as provided by the actuary, for the periods ended June 30, 2012 and 2011, 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:	6.759% (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, 2012	Fiscal Year Ended June 30, 2011
Annual required contribution	$ 1,856,983	$ 1,785,096
Interest on net pension obligation	(61)	(35,962)
Adjustment to annual required contribution	71	41,401
Annual pension cost	1,856,993	1,790,535
Contributions made	(1,388,594)	(1,277,662)
Increase (decrease) in net pension obligation	468,399	512,873
Net pension obligation, beginning of year	(876)	(513,749)
Net pension obligation, end of year	$ 467,523	$ (876)

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	Percentage of APC Contributed	Net Pension Obligation
7/1/2010	$17,552	$26,060	($8,509)	67.4%	$17,523	(48.6%)	$1,256	94.3%	($514)
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	74.84%	468

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 for this purpose, University contributions, employee payroll deductions for post-retirement benefits, and reinvested net earnings. Beginning January 1, 2012, the University ceased making contributions to the VEBA trust. A summary of the activity in the trust for the year ending June 30, 2013 is as follows:

Beginning fund balance 7/1/12 (market value)	$ 66,745,238
Transfer of employee/employer contributions	—
Reinvested net earnings	2,236,150
Less: management fees	(129,621)
Realized gain on sale of investments	1,889,178
Unrealized gain on increase in market value	527,114
Market value at June 30, 2013	$ 71,268,059

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 %
Core Equity (indexed)	12,800,041	18.0
Growth Equity	3,362,994	4.7
Value Equity	5,260,010	7.4
Small Cap Equity	1,418,471	2.0
Small Cap Growth Equity	1,876,280	2.6
Small Cap Value Equity	1,436,378	2.0
International Core Equity	7,064,073	9.9
International Emerging Markets	3,029,365	4.3
Unconstrained	1,762,963	2.4
Fixed Income	30,112,345	42.3
Non-Directional Hedge Fund	3,145,139	4.4
	71,268,059	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 $223 per month for each plan participant including dental insurance coverage. Retirees pay $76 or $99 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.

Participant Counts who have Healthcare Coverage

Valuation Date	6/30/11	6/30/12	6/30/13
Active and eligible to retire	62	64	92
Active and not eligible to retire	571	545	495
Total actives	633	609	587
Inactives	1,335	1,169	1,122
Average age			
Actives	53.0	53.5	54.8
Inactives	74.8	75.1	76.1
Average service actives	16.6	19.7	18.5

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, 2013 the total contribution to the plan was $4 million, with the University contributing $3.8 million for current premiums. Plan members receiving benefits contributed $0.2 million, based on the required contribution rates as follows:

Participants' Monthly Contributions:	**Retiree Only**	**Retiree and Spouse**
Under age 65		
Salary under $28,500	$ 138	$ 310
Salary greater than $28,500 and less than $81,000	$ 169	$ 397
Salary $81,000 and over	$ 208	$ 449
Age 65 and over (AmWins-Nebco fully insured)		
Option 1	$ 76	$ 152
Option 2	$ 99	$ 198

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 rate set by the University will follow the schedule below until 2016.

	2013	2014	2015	2016
Pre-Medicare (weighted average)	28.2%	29.8%	31.4%	33.0%
Post-Medicare	25.3%	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 2011, 2012, and 2013, 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	2011	2012	2013
Annual required contribution	$ 2,548,416	$ 959,417	$ 521,759
Interest on net OPEB obligation	(226,573)	(426,217)	(668,335)
Adjustment to annual required contribution	274,338	516,070	809,229
Annual OPEB cost	$ 2,596,181	$ 1,049,270	$ 662,653
Contributions made	(5,923,577)	(5,084,570)	(3,761,620)
Decrease in net OPEB obligation	$ (3,327,396)	$ (4,035,300)	$ (3,098,967)
Net OPEB obligation, (asset) beginning of year	$ (3,776,217)	$ (7,103,613)	$(11,138,913)
Net OPEB obligation, (asset) end of year	$ (7,103,613)	$(11,138,913)	$(14,237,880)

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
6/30/13	$ 662,653	567.70 %	$ 14,237,880
6/30/12	$ 1,049,270	484.60 %	$ 11,138,913
6/30/11	$ 2,596,181	228.20 %	$ 7,103,613

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was115.7 percent funded. The actuarial accrued liability for benefits was $61.6 million, and the actuarial value of assets was $71.3 million, resulting in an overfunded actuarial accrued liability (UAAL) of $9.7 million. The covered payroll (annual payroll of active employees covered by the plan) was $41.6 million, and the ratio of the UAAL to covered payroll was 123.3 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 Valuation of Plan Assets (a)	Accrued Liability (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AL as a Percentage of Covered Payroll ((b-a)/c)
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%)
6/30/2011	$ 65,730,650	$ 75,312,342	$ 9,581,692	87.0%	$ 40,482,648	23.7%

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, 2013
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
2014	10.00%	7.00%	5.00%
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


INDIANA STATE

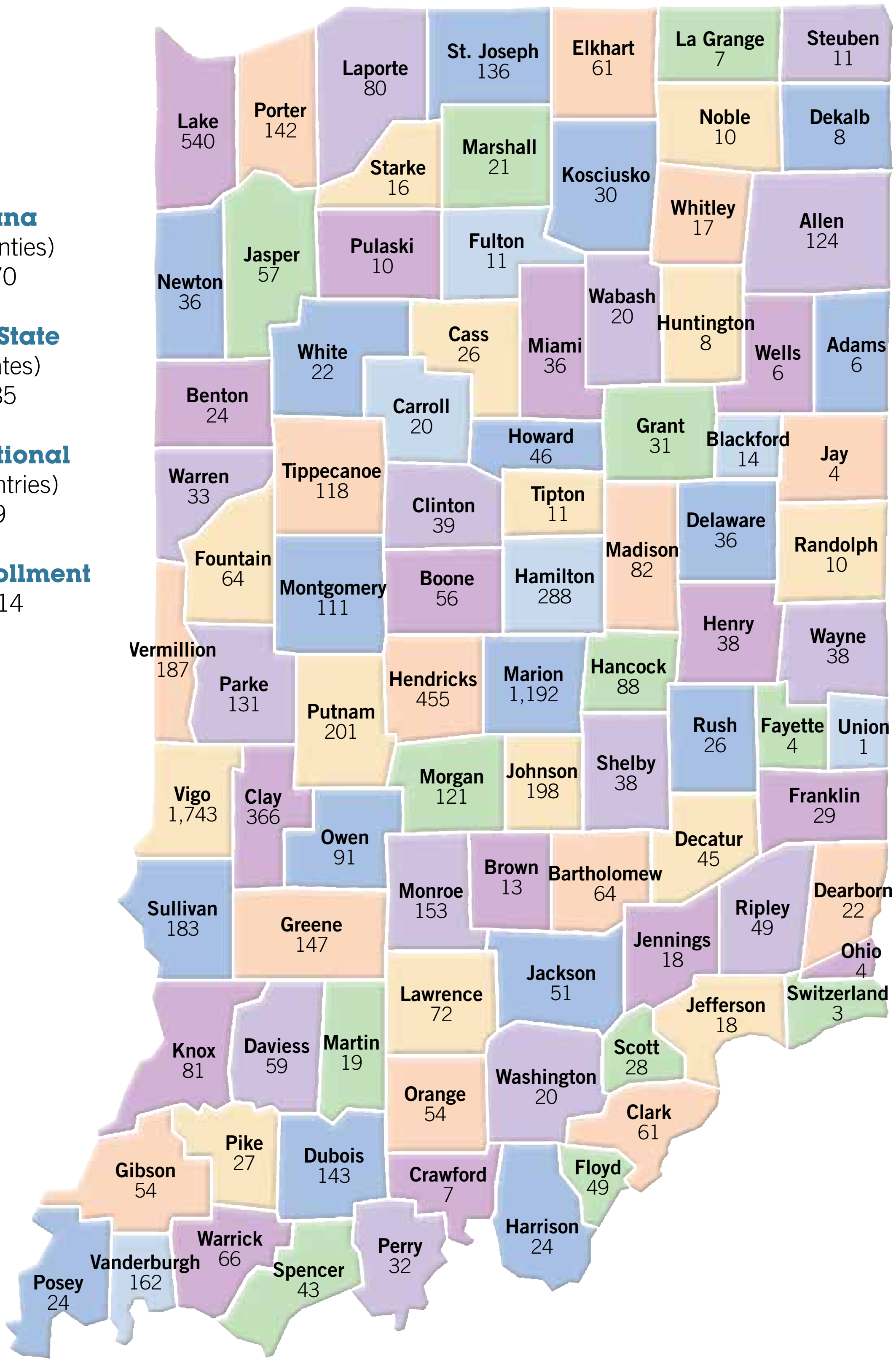
Home Counties of Indiana State Students
(Fall 2012) Unaudited

Indiana
(92 counties)
9,170

Out-of-State
(48 states)
2,285

International
(68 countries)
659

Total Enrollment
12,114



Board of Trustees
as of June 30, 2013

Additional copies of the 2013 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, 2013

Daniel J. Bradley
President of the University

C. Jack Maynard
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

For Additional Information:

Admissions
Office of Admissions
John W. Moore Welcome Center
318 North Sixth Street
Indiana State University
Terre Haute, Indiana 47809
812-237-2121
admissions@indstate.edu

Alumni
Alumni Association
30 North Fifth Street
Terre Haute, Indiana 47809
1-800-258-6478
alumni@indstatefoundation.org

Foundation
ISU Foundation
30 North Fifth Street
Terre Haute, Indiana 47809
812-514-8400

Indiana State University

B43365

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

AUDIT REPORT

INDIANA STATE UNIVERSITY

TERRE HAUTE, INDIANA

July 1, 2012 to June 30, 2013

FILED

03/28/2014

TABLE OF CONTENTS

SCHEDULE OF UNIVERSITY OFFICIALS

Office	Official	Term
President	Dr. Daniel J. Bradley	07-01-08 to 06-30-14
Vice-President for Business Affairs Finance and University Treasurer	Diann E. McKee	07-09-08 to 06-30-14
Associate Vice-President for Finance and Assistant Treasurer	Domenic Nepote	06-18-04 to 06-30-14
Associate Vice-President and University Controller	Jeffrey J. Jacso	06-18-04 to 06-30-14
President of the Board of Trustees	Randall Minas	07-01-12 to 06-30-14

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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), as of and for the year ended June 30, 2013, 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, 2013. 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 the Indiana State University Foundation were not audited in accordance *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 opinion 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.

Bruce Hartman
State Examiner

October 24, 2013

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT 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 Each 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 each of its major federal programs for the year ended June 30, 2013. The University's major federal programs are 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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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.

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2013.

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

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 a 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise University’s basic financial statements. We issued our report thereon dated October 24, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion 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.

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

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 Expenditure 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

March 6, 2014

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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, 2013

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		$ 296,299
Federal Work - Study Program	84.033		436,758
Federal Perkins Loan (FPL) - Federal Capital Contributions	84.038		7,702,871
Federal Pell Grant Program	84.063		18,256,774
Federal Direct Student Loans	84.268		63,839,164
Total for Student Financial Assistance Cluster			90,531,866
Direct Grant			
TRIO Cluster			
TRIO - Student Support Services	84.042		300,029
TRIO - Upward Bound	84.047		17,687
TRIO - McNair Post-Baccalaureate Achievement	84.217		41,519
Total for TRIO Cluster			359,235
Total for Federal Grantor Agency			90,891,101
Research and Development Cluster			
U.S. Department of Agriculture			
Direct Grant			
Wildlife Services	10.028	12-7439-0773-CA	27,784
Forestry Research	10.652	11-JV-11330134-023	82,206
Pass-Through University of Toledo			
Grants for Agricultural Research, Special Research Grants	10.200	2010-38897-21205	9,540
Total for Federal Grantor Agency			119,531
U.S. Department of the Interior			
Direct Grants			
Endangered Species Conservation - Recovery Implementation Funds	15.657	F13AC00080	15,940
Pass-Through Indiana University			
State Wildlife Grants	15.634	E2-08-WDS13	35,358
Total for Federal Grantor Agency			51,298
U.S. Department of Transporation			
Pass-Through North Carolina Department of Transportation			
High Planning and Construction Cluster			
Highway Planning and Construction	20.205	MA-2013-01 RP2013-35	66,309
Total for Federal Grantor Agency			66,309

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, 2013
(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
National Science Foundation			
Direct Grants			
Mathematical and Physical Sciences	47.049	CHE-1012629	59,643
Geosciences	47.050	Various	94,705
Biological Sciences	47.074	Various	93,635
Social, Behavioral, and Economic Sciences	47.075	Various	72,044
Education and Human Resources	47.076	Various	77,870
ARRA - Trans-NSF Recovery Act Research Support	47.082	S394A090015	296,262
Pass-Through Consortium for Ocean Leadership			
Geosciences	47.050	CA OCE-0652315	430
Pass-Through Tuskegee University			
Education and Human Resources	47.076	DUE-1102997	39,099
Total for Federal Grantor Agency			733,688
U.S. Environmental Protection Agency			
Direct Grant			
Great Lakes Program	66.469	GL-00E00626-0	(3,541)
Pass-Through Indiana Department of Environmental Management			
Great Lakes Program	66.469	A305-2-70	42,532
Total for Federal Grantor Agency			38,991
U.S.Department of Energy			
Direct Grant			
Office of Science Financial Assistance Program	81.049	DE-FG02-06ER46304	105,793
Total for Federal Grantor Agency			105,793
U.S. Department of Health and Human Services			
Direct Grants			
ARRA - Trans-NIH Recovery Act Research Support	93.701	1R01GM084229-01A2	12,932
Pass-Through University of Southern California, San Francisco			
Research and Training in Complementary and Alternative Medicine	93.213	1P01 AT005013-01	25,263
Total for Federal Grantor Agency			38,195
Total for Research and Development Cluster			1,153,804
Other Federal Awards			
U.S. Department of Agiculture			
Pass-Through Indiana Department of Education			
Child and Adult Care Food Program	10.558	None Provided	130,396
Total for Federal Grantor Agency			130,396

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, 2013
(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 Agiculture (continued)			
Federal Communications Commission			
Direct Grants			
National Deaf - Blind Equipment Distribution Program (NDBEDP)	32.xxx	None Provided	48,936
Total for Federal Grantor Agency			48,936
National Aeronautics and Space Administration			
Pass-Through Purdue University			
Unknown	43.xxx	NNX10AK66H	18,000
Total for Federal Grantor Agency			18,000
National Endownent for the Humanities			
Pass-Through Indiana Humanities Council			
Promotion of the Humanities - Federal/State Partnership	45.129	12-1054	1,575
Total for Federal Grantor Agency			1,575
National Science Foundation			
Direct Grant			
Computer and Information Science and Engineering	47.070	CCF-1311142	100
Education and Human Resources	47.076	Various	27,777
ARRA - Trans-NSF Recovery Act Research Support	47.082	DUE-0934648	94,076
Pass-Through Purdue University			
Education and Human Resources	47.076	HRD-0703443	4,092
Pass-through Harrisburg University			
Education and Human Resources	47.076	0717407	823
Total for Federal Grantor Agency			126,868
Small Business Administration			
Direct Grant			
Special Initiative	59.000	SBAHQ-8-I-0059	172,331
Pass-Through Indiana Small Business Administration			
Small Business Development Centers	59.037	Various	150,133
Total for Federal Grantor Agency			322,465
U.S. Department of Education			
Pass-Through Indiana Department of Education			
Special Education Cluster			
Special Education - Grants to States	84.027	Various	2,353,706
Pass-Through Indiana University			
Special Education Cluster			
Special Education - Grants to States	84.027	Various	63,864
Total for Special Education Cluster			2,417,570

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, 2013
(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)			
Direct Grants			
Fund for the Improvement of Education	84.215	U215K100129	10,591
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	H326C080017	201,919
Child Care Access Means Parents in School (B)	84.335	P335A100289	82,469
Pass-Through Indiana Collegiate Action Network			
Safe and Drug-Free Schools and Communities - National Programs	84.184	Various	3,416
Pass-Through National Council on Economic Education			
Fund for the Improvement of Education	84.215	TT-1026	957
Pass-Through Indiana Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	A107-12-2105	24,973
Pass-Through Indiana Commission for Higher Education			
Improving Teacher Quality State Grants	84.367	Various	118,049
Pass-Through Mental Health America of Indiana			
Unknown	84.xxx	None Provided	2,015
Total for Federal Grantor Agency			2,861,960
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	37,484
Pass-Through Purdue University			
Injury Prevention and Control Research and State and Community Based Programs	93.136	4201-47580	1,151
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	1,927
Block Grants for Prevention and Treatment of Substance Abuse	93.959	A55-3-84-13-IM-0286	61,595
Total for Federal Grantor Agency			102,157
Corporation for National and Community Services			
Pass-Through State of Indiana - Office of Faith Based & Community Initiatives			
AmeriCorps	94.006	Various	184,507
Total for Federal Grantor Agency			184,507
Total federal awards expended			$ 95,841,767

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 (the 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, 2013, 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 non-federal 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 of Expenditures of Federal Awards 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, 2013 were as follows:

Program Title	Number of Students	Loan Amount
Direct Loan Program (Subsidized and Unsubsidized)	7,388	$53,782,930
Direct PLUS Loans (Parent and Graduate PLUS Loans)	1,138	10,056,234
Totals	8,526	$63,839,164

INDIANA STATE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

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 of Expenditures of Federal Awards 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, 2013:

Program Title	Federal CFDA Number	Amount
Federal Perkins Loan Program	84.038	$ 7,702,871

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, 2013:

Program Title	Federal CFDA Number	Amount
Special Initiative	59.000	$ 100,274
National Deaf-Blind Equipment Distribution Program (NDBEDP)	32.xxx	39,237
Special Education – Grants to States	84.027	763,150
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	14,638
Block Grants for Prevention and Treatment of Substance Abuse	93.959	55,995
Total		$ 973,297

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 programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	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 Programs:

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Aid Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$960,078
Auditee qualified as low-risk auditee?	yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

Indiana State University

Office of Student Financial Aid

220 North 7th Street
Terre Haute, Indiana 47809
812-237-2215
Fax 812-237-4330
isu-finaid@mail.indstate.edu

Federal Agency: Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Number: Various
Federal Award Number and Year (or Other Identifying Number): N/A
Pass-Through Entity: N/A

March 6, 2013

Corrective Action Plan

FINDING 2012-1 - COUNSELING BORROWERS

Auditee Contact Person: Crystal Baker
Title of Contact Person: Director of Financial Aid
Phone Number: (812) 237-7717
Expected Completion Date: May 3, 2013

34 CFR 685.304 (b) states the following:
Exit counseling. (1) A school must ensure that exit counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school.

ISU did not satisfactorily distribute exit counseling materials to students who graduated, dropped below half-time enrollment, unofficially withdrew, or otherwise did not re-enroll at ISU. For Fall 2011 going forward, ISU has developed the following steps for distributing exit counseling materials to Direct Loan borrowers:

- Implement an automated Banner process that spools every 30 days to place a requirement hold onto student accounts for Direct Loan Exit Counseling. This will auto-generate emails and a paper letter to borrowers.
- Implement the NSLDS Enrollment and Repayment notification process at the end of each semester in order to satisfy the requirement.
- Ensure separation of duties by dividing process oversight between the Systems Manager and the Associate Director.

Indiana State University

Office of Student Financial Aid

220 North 7th Street
Terre Haute, Indiana 47809
812-237-2215
Fax 812-237-4330
isu-finaid@mail.indstate.edu

Federal Agency: Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Number: Various
Federal Award Number and Year (or Other Identifying Number): N/A
Pass-Through Entity: N/A

October 31, 2013

FINDING 2012-1 - COUNSELING BORROWERS

Auditee Contact Person: Crystal Baker
Title of Contact Person: Director of Financial Aid
Phone Number: (812) 237-7717
Expected Completion Date: May 3, 2013

The steps outlined in the Corrective Action Plan submitted on March 6, 2013 have been followed, specifically, in the manner described below:

- Implemented an automated Banner process through General Population Selection that posts a requirement message onto student accounts for Direct Loan Exit Counseling. 2,390 emails have been sent since implementation last summer.
- Began importing the file daily from the National Student Loan Data System, which satisfies the requirement as borrowers complete Exit Counseling online.
- Ensured separation of duties by dividing process oversight between Curtis Cormier, Financial Aid Systems Manager, hired August 19th, and Charlene Shivers, Associate Director of Operations.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Crystal Baker
Director, Student Financial Aid

INDIANA STATE UNIVERSITY
EXIT CONFERENCE

The contents of this report were discussed on March 6, 2014. Those attending were:

University Representatives:

Dr. Daniel J. Bradley, President of the University
Norman L. Lowery, Trustee
Diann E. McKee, Vice-President for Business Affairs, Finance, and University Treasurer
Domenic Nepote, Associate Vice-President for Finance and Assistant Treasurer
Jeffrey J. Jacso, Associate Vice-President and University Controller
Sally Hunter, Internal Audit Director
John E. Beacon, Vice-President of Enrollment Management, Marketing & Communications
Richard Toomey, Associate Vice-President of Enrollment Management
Sarah S. Ber, Director, Office of Contracts and Grants
Crystal Baker, Director, Office of Student Financial Aid
Charlene Shivers, Associate Director, Office of Student Financial Aid

State Board of Accounts Representatives:

Jeffrey Arthur, College and University Audit Supervisor
Laura Ping, Field Examiner
Katie Elliott, Field Examiner