

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

AUDIT REPORT

OF

VINCENNES UNIVERSITY

VINCENNES, INDIANA

July 1, 2005 to June 30, 2006



FILED

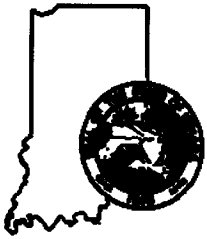
05/18/2007

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UNIVERSITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President	Richard E. Helton	08-01-04 to 06-30-07
Vice President for Financial Services and Governmental Relations	Phillip S. Rath	07-01-05 to 06-30-07
Chairman of the Board of Trustees	Roderick H. Morgan	07-01-05 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF VINCENNES UNIVERSITY, KNOX COUNTY, INDIANA

We have audited the financial statements of Vincennes University (University), as of and for the year ended June 30, 2006, and have issued our report thereon dated December 11, 2006. We conducted our audit 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.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the University's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. 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.

STATE BOARD OF ACCOUNTS
State Board of Accounts

December 11, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF VINCENNES UNIVERSITY, KNOX COUNTY, INDIANA

Compliance

We have audited the compliance of Vincennes University (University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1, 2006-2, and 2006-3.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

We have audited the financial statements of Vincennes University as of and for the year ended June 30, 2006, and have issued our report thereon dated December 11, 2006. Our audit was performed for the purpose of forming an opinion of the financial statements taken as a whole. 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 financial statements. Such information had been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the University's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. 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.

STATE BOARD OF ACCOUNTS
State Board of Accounts

May 1, 2007

VINCENNES UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2006

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 Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 227,091
Federal Work-Study Program	84.033		228,939
Federal Pell Grant Program	84.063		<u>6,092,806</u>
Total for cluster			<u>6,548,836</u>
Other Federal Programs			
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through Indiana Department of Family and Social Services Administration			
State Administrative Matching Grants for Food Stamp Program	10.561		<u>2,258</u>
Total for federal grantor agency			<u>2,258</u>
U.S. DEPARTMENT OF LABOR			
Pass-Through Indiana Department of Workforce Development			
Employment Service Cluster			
Employment Service/Wagner-Peyser Funded Activities	17.207		3,059
Unemployment Insurance	17.225		<u>1,812</u>
Total for cluster			<u>4,871</u>
WIA Cluster			
WIA Adult Program	17.258		1,325,297
WIA Youth Activities	17.259		874,483
WIA Dislocated Workers	17.260		<u>942,246</u>
Total for cluster			<u>3,142,026</u>
Direct Grant			
Mine Health and Safety Grants	17.600		<u>171,881</u>
Pass-Through Indiana Department of Family and Social Services Administration			
Senior Community Service Employment Program	17.235		<u>65,885</u>
Pass-Through Indiana Department of Workforce Development			
Work Incentive Grants	17.266		<u>75,952</u>
Total for federal grantor agency			<u>3,460,615</u>
U.S. DEPARTMENT OF TREASURY			
Pass-Through Indiana Department of Family and Social Services Administration			
Tax Counseling for the Elderly	21.006		<u>1,204</u>
Total for federal grantor agency			<u>1,204</u>
U.S. DEPARTMENT OF EDUCATION			
Direct Grant			
Trio Cluster			
Trio - Student Support Services	84.042		323,883
Trio - Talent Search	84.044		384,118
Trio - Project Aspiree	84.044A		200,443
Trio - Upward Bound	84.047		<u>850,314</u>
Total for cluster			<u>1,758,758</u>
Pass-Through Indiana Department of Education			
Adult Education - State Grant Program	84.002		<u>463,996</u>

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

VINCENNES UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2006
(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>U.S. DEPARTMENT OF EDUCATION (continued)</u>			
Pass-Through Indiana Commission of Higher Education Vocational Education - Basic Grants to States	84.048		691,869
Pass-Through Indiana Department of Workforce Development Vocational Education - Basic Grants to States	84.048		<u>75,344</u>
Total for program			<u>767,213</u>
Tech-Prep Education	84.243		<u>10,867</u>
Pass-Through Indiana Department of Family and Social Services Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334		<u>6,418</u>
Total for federal grantor agency			<u>3,007,252</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Department of Family and Social Services Administration Aging Cluster			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		523,835
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		513,056
Nutrition Services Incentive Program	93.053		<u>54,268</u>
Total for cluster			<u>1,091,159</u>
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042		11,371
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043		33,391
National Family Caregiver Support	93.052		104,586
Temporary Assistance for Needy Families	93.558		5,966
Social Services Block Grant	93.667		370,299
Health Care Financing Research, Demonstrations and Evaluations	93.779		<u>112,793</u>
Total for federal grantor agency			<u>1,729,565</u>
<u>U.S. DEPARTMENT OF NATIONAL AND COMMUNITY SERVICE</u>			
Pass-Through Indiana Commission of Higher Education Retired and Senior Volunteer Program	94.002		<u>64,045</u>
Total for federal grantor agency			<u>64,045</u>
Total federal awards expended			<u>\$ 14,813,775</u>

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

VINCENNES UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Vincennes 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Federal Family Education Loans

The number of guaranteed student loans and total amount for each program for Vincennes University students for the year ended June 30, 2006, were as follows:

<u>Program Title</u>	<u>Number of Students</u>	<u>Amount</u>
Federal Stafford Student Loans	5,377	\$ 14,619,559
Parent Loan for Undergraduate Students (PLUS)	668	4,544,574

VINCENNES UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Aid Cluster
Various	Trio Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$444,413

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

None noted

VINCENNES UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, FISCAL OPERATIONS REPORT AND APPLICATION TO PARTICIPATE (FISAP)

Federal Agency: U.S. Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Number: Various

34CFR674.19(d)(2), 34CFR675.19(b)(3), and 34CFR676.19(b)(3) state, "Each year an institution shall submit a Fiscal Operations Report plus other information the Secretary requires. The institution shall insure that the information reported is accurate and shall submit it on the form and at the time specified by the Secretary."

The institution is required to establish and maintain program and fiscal records that are reconciled at least monthly in accordance with 34CFR674.19(d)(1), 34CFR675.19(b)(2)(iv), and 34CFR676.19(b)(2).

Vincennes University submitted the Fiscal Operations Report (FISAP) on the specified date of September 29, 2006, with known errors that were to be corrected by December 15, 2006, the correction deadline. The FISAP was submitted on December 15, 2006, but still contained known errors. When the FISAP was requested for audit, in January 2007, it was disclosed that they were still working to reconcile the financial aid records to the fiscal records. Reconciliations were completed and the FISAP was corrected and submitted on February 27, 2007.

The financial aid records are not being reconciled on a monthly basis to the fiscal records.

Vincennes University is responsible for accurately reporting their financial activity on a timely basis. Failure to accurately and timely submit the report makes it difficult to ensure compliance with the requirements of the program.

We recommended that reconciliations of the financial aid records to the fiscal records be prepared on a monthly basis in order to ensure accurate and timely submission of the report.

FINDING 2006-2, SATISFACTORY ACADEMIC PROGRESS

Federal Agency: U.S. Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Numbers: Various

34CFR668.16 states in part: "To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution . . . (e) For purposes of determining student eligibility for assistance under a Title IV, HEA program, establishes, publishes, and applies reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program."

34CFR668.32 states in part: "A student is eligible to receive title IV, HEA program assistance if the student . . . (f) Maintains satisfactory progress in his or her course of study according to the institution's published standards of satisfactory progress that satisfy the provisions of Sec. 668.16(e), and , if applicable, the provisions of Sec. 668.34."

VINCENNES UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The University published new standards for Satisfactory Academic Progress in the 2005-06 catalog. These changes were not made on the software system that evaluates academic progress of students. Therefore, students were evaluated using the old standards of Satisfactory Academic Progress. University officials did not make any attempt to evaluate the students put on probation or suspension to determine if the status accurately reflected the new standards. If a student appealed their financial aid status the appeal was automatically granted.

Of the eighty-one students tested, during the Fall 2005 and Spring 2006 semesters, ten students were not properly evaluated based on the new standards of satisfactory progress. This resulted in an error rate of 12% of the sampled students. Of the ten students, five who met the new standards as published were put on probation and four who met the new standards as published were put on suspension. One student who did not meet the new standard was not put on probation. Five of these students did not return in the subsequent semester.

Students who had actually met the published standards of satisfactory academic progress were erroneously put on probation and or suspension status. The students were given the burden to prove they had met the published standards and required to file an appeal. The number of students erroneously put on probation or suspension who did not file an appeal is not known.

We recommended that Vincennes University implement procedures to comply with their published policy.

FINDING 2006-3, REPORTING

Federal Agency: U.S. Department of Education
Federal Program: TRIO Cluster – Upward Bound and Upward Bound Math and Science
CFDA Number: 84.047

34CFR74.51(a) states in part: "Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award."

34CFR74.53(b) states in part: "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Secretary."

Upward Bound

Vincennes University Upward Bound (VU UB) submitted its annual performance report (APR) for June 1, 2005 to May 31, 2006. VU UB maintains the database of participants, as required by the UB program. However, the sorted data base information necessary to substantiate the APR reported results was not maintained for audit.

There were extensive problems in verifying the VU UB APR calculations. Total number of participants served was reported inaccurately. The data base contained 128 participants, whose dates of participation were within the current reporting period, while VU UB staff reported on the APR that 85 participants were served. The preparer of the report did not follow the specific APR instructions to use the total number of participants served when completing the various assertion segments. This participant difference made numerous other calculations nonverifiable. In addition, the preparer did not keep a file of the specific detail used to answer the supporting data assertions.

VINCENNES UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Subsequent to the finding being brought to the attention of the University, lists have been developed by the program director but these lists are again using an inaccurate number of total participants served.

Prior to attempting to verify the assertion information, the data base accuracy was sampled by comparing eight student files to the information reported in the data base. Five of the eight students sampled had a combined total of seven differences between their file information and the data base.

As a requirement of participating in the UB program, the University implemented a policy requiring income verification by either a signed statement or a current federal tax return to be furnished by the participant. This is beyond the information required by the federal regulations. This documentation was not obtained for two of the eight participants sampled.

As a result of the above conditions, VU UB is unable to effectively provide reasonable assurance regarding the reliability of the APR. Failure to file accurate reports prevents the federal agencies from monitoring the program in an effective manner as stated in 34 CFR 645.32.

We recommended that Vincennes University Upward Bound 1) maintain the data base which accurately reflects the participant file information; 2) maintain and code data base fields as directed by the grantor; 3) follow the APR preparation instructions; and 4) prepare and maintain supporting detail for each report assertion. This documentation is to be maintained for a period of three years from the date of the submission of the final expenditure report or from submission of the annual report as required. It is recommended the University follow their internal income verification policy or delete the additional income verification requirement from their policy. We further recommended that VU implement policies and procedures to ensure that reported data is accurate and complete.

Upward Bound Math and Science

Vincennes University Upward Bound Math Science (VU UBMS) submitted its annual performance report (APR) for September 1, 2005 to August 31, 2006. VU UBMS maintains the database of participants, as required by the UBMS program. However, the supporting detail to substantiate the APR reported results was not maintained for audit.

VU UBMS total number of participants served on the APR was confirmed. While the program director did not maintain the supporting detail for the program assertions, the auditor was able to query the database and reach substantially the same conclusions presented.

Seven participant files were sampled and verified to the database. No differences were found between the information in the participant files and the data base information.

As a requirement of participating in the UBMS program, the University implemented a policy requiring income verification by either a signed statement or a current federal tax return to be furnished by the participant. This is beyond the information required by the federal regulations. This documentation was not obtained for two of the seven participants sampled.

We recommended that Vincennes University Upward Bound Math Science maintain, in addition to other required documentation, all supporting detail for each report assertion for a period of three years from the date of submission of the final expenditure report or from submission of the annual report as required. It is recommended the University follow their internal income verification policy or delete the additional income verification requirement from their policy.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NO. 2005-1, Reporting

Federal Agency: Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Number: Various
Federal Award Number:

Fiscal Operations Report and Application to Participate (FISAP)

The University has submitted the corrected figures to FISAP for the 2004-05 award year. The amounts in question were very small and were due to timing differences in the reconciliation process. Procedures have been established within the financial aid office and the finance office to reconcile financial aid records to fiscal records. This reconciliation process will facilitate a timely submission of an accurate FISAP.

Pell Payment Data

Pell reports have been submitted to the Department of Education through the Common Origination and Disbursement (COD) System. Procedures have been designed to ensure and implemented to ensure that Vincennes University continues to submit Pell payment data accurately and in a timely fashion.

FINDING NO. 2005-2, Eligibility

Federal Agency: Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Number: Various

All financial aid staff members have reviewed the process of manually calculating awards. The financial aid staff continues to review and test cases periodically for continuous review and improvement process in order to assure compliance with this procedure. The University has implemented the Banner software system that will allow addition monitoring of the program to ensure all eligible recipients receive the benefits to which they are entitled.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NO. 2005-3, Counseling Borrowers

Federal Agency: Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Number: Various

Exit interviews have been completed. Responsibility for this task has been assigned to the appropriate staff in the financial aid office. Reports to gather the necessary data are requested timely to track students who have either met the graduation requirements or have dropped to at least half-time status to ensure that Vincennes University continues to be in total compliance with this regulation.

FINDING NO. 2005-4, Earmarking

Federal Agency: Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Number: Various

The University has taken steps to avoid failure to meet the community service requirement for participation in the federal work study program. Financial aid is aware of the requirement and will strive every year to place more students in community service positions. The University continues to establish more employment opportunities in community service areas.



VINCENNES UNIVERSITY

Corrective Action Plan For FY 2006 Audit

Finding 2006-1, FISAP

Federal Agency: U.S. Department of Education
Federal Program: Student Financial Aid Cluster
CFDA Number: Various
Auditee Contact Persons: Stanley J. Werne, Director of Financial Aid
Phone Number: (812) 888-5999
Expected Completion Date: Corrective action already taken

- 1) 34CFR674.19(d)(2), 34CFR675.19 (b)(3), and 34CFR676.19(b)(3) state, " Each year an institution shall submit a Fiscal Operations Report plus other information the Secretary requires. The institution shall insure that the information reported is accurate and shall submit it on the form and at the time specified by the Secretary."

The institution is required to establish and maintain program and fiscal records that are reconciled at least monthly as contained in 34CFR674.19(d)(1), 34CFR675.19(b)(2)(iv), and 34 CFR676.19 (b)(2).

Vincennes University submitted the Fiscal Operations Reports (FISAP) on the specified date of September 29, 2006 with known errors that were to be corrected by December 15, 2006, the correction deadline. The FISAP was submitted on December 15, 2006 but still contained known errors. When the FISAP was requested for audit, in January 2007, it was disclosed that they were still working to reconcile the financial aid records to the fiscal records. Reconciliations were completed and the FISAP was corrected and submitted on February 27, 2007.

The financial aid records are not being reconciled on a monthly basis to the fiscal records.

Vincennes University is responsible for accurately reporting their financial activity on a timely basis. Failure to accurately and timely submit the report, make it difficult to ensure compliance with the requirements of the program.

We recommend that reconciliations of the financial aid records be prepared on a monthly basis in order to ensure accurate and timely submission of the report.

Response/Action Plan:

During the 2005-2006 fiscal year, the Financial Aid office was trying to balance the work load of implementing a new software system while performing the ongoing job responsibilities for current year processing. With the additional tasks, the reconciliation process for the FISAP was delayed. Efforts were made to reconcile by the December 15, 2006 deadline; however, student processing for the current year was given priority. The Financial Aid Office completed the reconciliation and the FISAP was submitted accurately in February 2007.

Vincennes University understands the necessity for accurate reporting and has established procedures within the Financial Aid office and the finance office to reconcile financial aid records to fiscal records on a monthly basis. The reconciliation of current fiscal year records through the end of February 2007 has already been completed. This monthly reconciliation process will facilitate a timely submission of an accurate FISAP.

Finding 2006-2, Satisfactory Academic Progress

Federal Agency: U.S. Department of Education

Federal Program: Student Financial Aid Cluster

CFDA Number: Various

Auditee Contact Persons: Stanley J. Werne, Director of Financial Aid

Phone Number: (812) 888-5999

Expected Completion Date: Corrective action already taken

- 1) 34CFR668.16 states, " To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution... (e) For the purposes of determining student eligibility for assistance under a Title IV, HEA program, establishes, publishes, and applies reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program."

34CFR668.32 states, "A student is eligible to receive Title IV, HEA program assistance if the student... (f) Maintains satisfactory progress in his or her course of study according to the institution's published standards of satisfactory progress that satisfy the provisions of Sec. 668.16(e), and, if applicable, the provisions of Sec. 668.34."

The University published new standards for Satisfactory Academic Progress in the 2005-06 catalog. These changes were not made on the software system that evaluates academic progress of students. Therefore, students were evaluated using the old standards of Satisfactory Academic Progress. University officials did not make any attempt to evaluate the students put on probation or suspension to determine if the status accurately reflected the new standards. If a student appealed their financial aid status, the appeal was automatically granted.

Of the 81 students tested, during the Fall 2005 and Spring 2006 semesters, ten students were not properly evaluated based on the new standards of satisfactory progress. This resulted in an error rate of 12% of the sampled students. Of the ten students, five students were put on probation and 4 students were put on suspension that met the new standards as published. One student did not meet the new standards and was not put on probation. Five of these students did not return in the subsequent semester.

Students were inaccurately put on probation and or suspension status that had met the published standards of satisfactory academic progress. The students were given the burden to prove they had met the published standards and required to file an appeal. It is not know how many students were inaccurately put on probation or suspension that did not file an appeal.

We recommend that Vincennes University implement procedures to comply with their published policy.

Response/Action Plan:

Vincennes University has already implemented procedures to comply with its published policy on satisfactory academic progress. With the implementation of the Banner student information system, procedures are in place for correctly identifying students who fail to meet the graduated standards for cumulative grade point average, the standard for a satisfactory completion rate, and the standard for maximum timeframe.

Finding 2006-3, Reporting

Federal Agency: U.S. Department of Education

Federal Program: TRIO Cluster – Upward Bound and Upward Bound Math and Science

CFDA Number: 84.047

Auditee Contact Persons: Brad Musgrave, Director of Upward Bound Services

Phone Number: (812) 888-5241

Expected Completion Date: Corrective action already taken

- 1) Vincennes University Upward Bound (VU UB) submitted its annual performance report (APR) for June 1, 2005 to May 31, 2006. VU UB maintains the database of participants, as required by the UB program. However, the sorted data base information necessary to substantiate the APR reported results was not maintained for audit.

There were extensive problems in verifying the VU UB APR calculations. Total number of participants served was reported inaccurately. The data base contained 128 participants, whose dates of participation were within the current reporting period, while VU UB staff reported on the APR that 85 participants were served. The preparer of the report did not follow the specific APR instructions to use the total number of participants served when completing the various assertion segments. This participant difference made numerous other calculations non verifiable. In addition, the preparer did not keep a file of the specific detail used to answer the supporting data assertions.

Subsequent to the finding being brought to the attention of the university, lists have been developed by the program director but these lists are again using an inaccurate number of total participants served.

Response:

The Vincennes University Upward Bound Program keeps an active list of participants. This list is updated each month to indicate current participation. Program participants on the list are eligible to receive a stipends and the list is also used to show participants who are active throughout the year. Program participants on the roster can be found on the annual performance report if they stayed in the program over sixty (60) days in the academic year or ten (10) days in the summer component, as noted from 34 CFR 645.6 under Participant.

There were 13 individuals of the 173 total participants whose participation status was miscoded and 10 individuals enrolled in the summer bridge program were miscoded with the incorrect participation level on Section II A of the APR. These errors created problems when reconciling to Section I of the APR.

Action Plan:

The Upward Bound Program followed up with Rachel Couch , Program Officer for Trio Programs in Washington D.C. on 3/12/2007 for clarification on the coding of these records. The Upward Bound Program Staff understands how these records are to be coded in future submissions.

- 2) Prior to attempting to verify the assertion information, the data base accuracy was sampled by comparing eight student files to the information reported in the data base. Five of the eight students sampled had a combined total of seven differences between their file information and the data base.

Response:

The participant files in question all have a parent/guardian(s) signature that verifies the participant's income status or another governmental source (e.g., Free or Reduced Meals, Department of Agriculture). All participant files contain the necessary information to complete the

annual performance report for the US Department of Education. The Vincennes University Upward Bound Program can also verify in a participants file there was "no summer" participation. The University only agrees with two of seven differences as evident in the Student's chart. One of the differences was on the participation status and the other difference was related to the participation level.

Action Plan:

As a result of the Audit conducted by the Finance Department, the following recommendations are being made in regards to tracking of data and these recommendations have been reviewed with the Upward Bound staff:

- a) A chart audit of 25% of total participants (new, continuing and prior year) needs to be completed by an individual not entering the data into the system. This audit is recommended after the end of the program year; and prior to completing and submitting the Annual Performance Report.
 - b) It is also recommended that exception reporting be developed in order to review the data submission file prior to the Annual Performance Report submission. The University's Finance Department can assist the Upward Bound Program in developing tools and guidelines.
 - c) The United States Department of Education has a Data Collection Tool available on their website to assist with the data submission load. It is recommended that the Upward Bound program utilize this tool. This tool does not contain the logic to identify mismatches; however, it does identify incorrect coding such as: "090" being entered in a field rather than a "099."
- 3) As a requirement of participating in the UB program, the university implemented a policy requiring income verification by either a signed statement or a current federal tax return be furnished by the participant. This is beyond the information required by the federal regulations. This documentation was not obtained for two of the eight participants sampled.

Response:

Under 34 CFR 645.4 What are the grantee requirements with respect to low income and first-generation participants?

- (b) For purposes of documenting a participant's low-income status the following applies:
- (i) A signed statement from the student's parent or legal guardian regarding family income;
 - (ii) Verification of family income from another governmental source;
 - (iii) A signed financial aid application;
 - (iv) A signed United States or Puerto Rican income tax return.

The Vincennes University Upward Bound Program is following the legislation under 34 CFR 645.4. Each participant file contains one of the four documents listed above. In the audit review by Vincennes University, it was demonstrated that signed statements from the parent/guardian are in fact on file. Documentation can be found in each participants file indicating low-income status, or documentation from another governmental source (e.g. free and reduced food programs).

Action Plan:

The University does not have a written policy; however, we do attempt to obtain the tax return as the preferred verification. The University follows 34 CFR 645.4 to determine eligibility status. The Upward Bound Program removed the sentence from the Family Financial Statement requesting the tax return as part of entry into the program.

- 4) As a result of the above conditions, VU UB is unable to effectively provide reasonable assurance regarding the reliability of the APR. Failure to file accurate reports prevents the federal agencies from monitoring the program in an effective manner as stated in 34 CFR 645.32.

Response:

After receiving the audit findings from the Indiana State Board of Accounts, the project director and supervisor held a conference call with Miss Rachael Couch, Program Officer for the United States Department of Education. During our phone conference, Ms. Couch wanted to inform audit officials the U.S. Department of Education, Office of TRIO Programs, supports Vincennes University's position on the way the files were maintained. Vincennes University Upward Bound Program received a formal response from U.S.D.E. on April 10, 2007.

Action Plan:

The Upward Program and the University understand the importance of submitting accurate information and as result the Finance department conducted an audit reviewing thirty percent of the participant's charts along with APR. The University concluded that the miscoded records did not materially affect the APR nor did it affect the student and the service that the student received.

- 5) We recommend that Vincennes University Upward Bound 1) maintain the data base which accurately reflects the participant file information; 2) maintain and code data base fields as directed by the grantor; 3) follow the APR preparation instructions; and 4) prepare and maintain supporting detail for each report assertion. This documentation is to be maintained for a period of three years from the date of the submission of the final expenditure report or from submission of the annual report as required. It is recommended the university follow their internal income verification policy or delete the additional income verification requirement from their policy. We further recommend that VU implement policies and procedures to ensure that reported data is accurate and complete.

Response:

- 1) Upward Bound project does in fact maintain participant files accurately as described in 34 CFR 645.32. Each file maintains the required documentation necessary to complete the annual performance report for the U.S. Department of Education Department Office of TRIO Programs.
- 2) Vincennes University Upward Bound Program participant files did maintain a database; however, there were 13 participants who were miscoded.
- 3) Vincennes University Upward Bound Program does attempt to follow the Annual Performance Report instructions provided by the US Department of Education.
- 4) Documentation is maintained on program participants for a seven (7) year period per the Vincennes University Upward Bound grant. This documentation can be provided on request as was done when Vincennes University conducted their internal audit.

Vincennes University does attempt to obtain the tax return as verification; however, Vincennes University does not have an internal income verification policy. Vincennes University Upward Bound Program follows the regulations under 34 CFR 645.4 to determine eligibility status.

Action Plan:

The above Action Plan responses for exceptions one through four can be referenced.

The University's Fiscal Year 2006 Audit and the written correspondence from Rachel Couch, Program Officer for Trio Programs in Washington D.C. serve as proof that the Upward Bound Program and the University are committed to serving and administering a quality program to our students in compliance with federal guidelines and requirements. The University's audit which contained the written correspondence from Rachel Couch was sent to State Board of Accounts on April 16, 2007 as follow up to this audit finding.

6) Upward Bound Math and Science

Vincennes University Upward Bound Math Science (VU UBMS) submitted its annual performance report (APR) for September 1, 2005 to August 31, 2006. VU UBMS maintains the database of participants, as required by the UBMS program. However, the

supporting detail to substantiate the APR reported results was not maintained for audit.

VU UBMS total number of participants served on the APR was confirmed. While the program director did not maintain the supporting detail for the program assertions, the auditor was able to query the database and reach substantially the same conclusions presented.

Seven participant files were sampled and verified to the database. No differences were found between the information in the participant files and the data base information.

As a requirement of participating in the UBMS program, the university implemented a policy requiring income verification by either a signed statement or a current federal tax return be furnished by the participant. This is beyond the information required by the federal regulations. This documentation was not obtained for two of the seven participants sampled.

We recommend that Vincennes University Upward Bound Math Science maintain, in addition to other required documentation, all supporting detail for each report assertion for a period of three years from the date of submission of the final expenditure report or from submission of the annual report as required. It is recommended the university follow their internal income verification policy or delete the additional income verification requirement from their policy.

Response/Action Plan:

The same Action Plans described above for Upward Bound are also applicable to the Upward Bound Math and Science Program.

VINCENNES UNIVERSITY
EXIT CONFERENCE

The contents of this report were discussed on May 1, 2007, with Linda Waldroup, Vice President of Finance/Controller.

Red Skelton
Performing Arts Center



Vincennes University

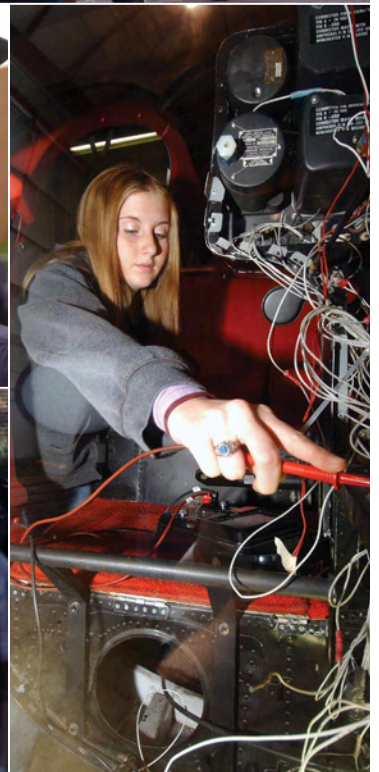
Financial Report
2005-2006



VISION — Vincennes University is a premier learning institution, widely recognized for leadership in innovation and delivery of successful educational experiences. A broad range of program offerings and a commitment to superior service ensure the University’s role as an important link in Indiana’s economic and cultural vitality. VU is a diverse community whose members all share responsibility for supporting the University mission and are respected for their contribution.

MISSION — Vincennes University, Indiana’s first college, is the State’s premier transfer institution and leader in innovative career programming. The VU community ensures educational access, delivers proven associate and baccalaureate programs, and offers cultural opportunities and community services in a diverse, student-centered, collegiate environment.





Vincennes University

Financial Report for 2005 - 2006

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Vincennes University

Financial Report for 2005 - 2006

TREASURER'S REPORT

Since 1801, Vincennes University (VU) has continued to remain Indiana's leader in transfer programs, quality community services, and innovative career programming leading to high-growth, high-demand occupations. During the 2005-2006 fiscal year, VU was proud to deliver services to over 9,000 students, including students from all 92 counties, 26 states, and 30 foreign countries. VU also continues to serve the needs of Indiana's employers by offering over 200 accredited associate and baccalaureate degree programs, and providing nearly 100% job placement in many areas for Hoosier businesses and industries.

The continued renovation and building expansion has completed for several projects, totaling \$54 million. In June 2006, VU was proud to celebrate the opening of the Red Skelton Performing Arts Center, southwestern Indiana's premiere performing arts center. This spectacular facility includes a two-balcony performing arts theater, as well as classrooms, offices, practice rooms, and rehearsal studios. Building on the lasting legacy of Red Skelton, the Performing Arts Center allows VU to expand and enhance performing arts opportunities to the greater community at-large.

In response to the increasing enrollment of the Jasper campus, VU is also pleased to be on schedule for the 2007 completion of a new classroom facility that provides quality instruction space for VU students and faculty. In addition, VU received state approval to construct an \$11 million Advanced Manufacturing Training Center for the Vincennes campus. This facility will truly respond to Indiana's new economy by offering flexible, adaptable, cutting-edge training facilities, smart classrooms, and workforce simulation opportunities to the high-growth, high-tech workforce. VU takes great pride in responding to the needs of the region and state, and will continue to renew campus facilities and infrastructure at all locations to enhance the needs of students.

Vincennes University remains an institution that values excellence in education and is committed to enriching the lives of the students and the community. VU continues to build on its great strengths, and looks forward to another successful year of delivering quality educational programs, cultural opportunities, and community services that make a meaningful and significant impact to the VU community and the state.

This report is a complete and permanent record of the financial status of the University for the period stated.

Respectfully submitted,



Phillip S. Rath

Vice President for Financial Services and Government Relations



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF VINCENNES UNIVERSITY, VINCENNES, INDIANA

We have audited the accompanying basic financial statements of Vincennes University, a component unit of the State of Indiana, as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. The financial statements of this component unit were audited by another auditor whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Vincennes University, as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2006, on our consideration of Vincennes University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

December 11, 2006

STATE BOARD OF ACCOUNTS
State Board of Accounts

Vincennes University

Management's Discussion & Analysis

INTRODUCTION

Vincennes University is proud to present its financial statements for fiscal year 2006. The following discussion and analysis provides an overview of the financial position and activities of Vincennes University (the "University") for the year ended June 30, 2006 with comparative information for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes following this section.

One of the first two-year colleges in America, Vincennes University is also Indiana's oldest college. Currently, the University is a comprehensive public institution of higher learning with approximately 9,000 students. The University offers a broad range of degrees, including its recent addition of baccalaureate programs. Vincennes University has a statewide mission and is a state-supported university. Major extension sites are located in Jasper and Indianapolis, Indiana. The University also offers over 150 courses through its Distance Education program and at ten military sites across the United States. The University is accredited by the North Central Association of Colleges and Schools.

The Indiana Commission for Higher Education approved the University's request to offer baccalaureate degrees in programs that target the state's workforce needs at its Vincennes Campus. The University offers Bachelor of Science degrees in Health Care Management, Homeland Security and Public Safety, and Technology. The University's long-standing mission as a statewide two-year college will continue, but will be enhanced by the addition of these baccalaureate degrees.

The University is committed to an open admission policy and recognizes that promoting individual growth and development must be its primary consideration. Furthermore, the University believes it must play a key role in programs of community development, cultural enrichment, and services appropriate to a post-secondary educational institution.

Using The Financial Statements

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented for aggregate operations which includes the Vincennes University Foundation, Incorporated.

Financial Highlights

The University's financial position remained strong at June 30, 2006, with assets of \$232 million and liabilities of \$78 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, are \$154 million, an increase of \$12.9 million from the prior year. Changes in net assets represent the operating activity of the University which results from revenues, expenses, gains and losses.

Final proceeds from the Variable Rate Demand Student Fee Bonds, Series G totaled \$23,895,000 with the final amount of \$4,740,000 received in September 2005. These bonds were issued in October 2004 to fund the Red Skelton Performing Arts Center and the Donald G. Bell Student Recreational Center. Fixed Rate Student Fee Bonds, Series H totaling \$4,545,000 were issued in February 2006 to fund the Jasper Academic Building. Also in February 2006, Auxiliary Facility Revenue bonds in the amount of \$13,440,000 were issued to refund outstanding Housing and Dining bonds for Godare and Vanderburgh Residence Halls.

During the fiscal year, the University continued to convert student and financial modules to the new SCT Banner computer system. This project began in June 2004 with a scheduled



completion date of March 2007. The two million dollar system will provide more efficient transaction processing in order to make strategic business decisions. The new technology will also integrate data among systems and reduce the cost of supporting the University's current mainframe system.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities--net assets--is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summarization of the University's assets, liabilities, and net assets at June 30, 2006, with comparative data for 2005, is as follows:

Statement of Net Assets		
	<i>2006</i> <i>(in thousands)</i>	<i>Restated</i> <i>2005</i> <i>(in thousands)</i>
Current Assets	\$ 90,559	\$ 50,008
Non-current Assets		
Investments	14,140	37,991
Capital Assets, net	124,440	118,579
Other	2,826	4,017
<i>Total Assets</i>	<i>231,965</i>	<i>210,595</i>
Current Liabilities	16,136	14,728
Non-current Liabilities	61,865	54,767
<i>Total Liabilities</i>	<i>78,001</i>	<i>69,495</i>
Net Assets	\$ 153,964	\$ 141,100

A review of the University's Statement of Net Assets at June 30, 2006, shows that the University continues with strong operations and growth of assets. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, management of its endowments, conservative utilization of debt, and adherence to its long-range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash, short-term investments, and accounts receivable. Accounts Receivable includes sponsored programs, student loans, and student receivable for tuition, and room and board. Total current assets increased \$40.6 million to \$90.6 million. During fiscal 2006, the University maximized investment returns by moving \$24 million from long-term investments to short-term investments. The University also received \$3.5 million from the state for capital appropriations.

Noncurrent assets decreased \$19 million from the previous year. As previously mentioned, the majority of this decrease resulted from a shift in the investment portfolio. The \$6 million increase in capital assets included the final purchases for the Red Skelton Performing Arts Center and the construction costs for the Jasper Academic Building.

Current liabilities consist primarily of accounts payable, accrued compensation, and accrued vacation liability. Total current liabilities were \$16.1 million as of June 30, 2006, as compared to \$14.7 million as of June 30, 2005. The current portion of bonds payable due within one year is \$2.6 million. The University also recorded a \$922,637 liability for health insurance claims that were incurred but unpaid at fiscal year end.

The majority of noncurrent liabilities totaling \$61.9 million represent bonds payable net of bond discount. These bonds were issued to finance construction of three student residence halls, the student union, and seven academic buildings. Student fees and dormitory revenues secured these bonds. These



liabilities increased \$7 million from the prior year as a result of the Series G Bonds issued to finance the student recreational facility and the performing arts center, and Series H Bonds issued to finance the Jasper Academic Building. More detailed information concerning the University's long-term debt is presented in the Notes to the Financial Statements.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2006, with comparative data for 2005, are summarized as follows:

Summary of Net Assets		
	2006 <i>(in thousands)</i>	<i>Restated</i> 2005 <i>(in thousands)</i>
Invested in Capital Assets, Net of Related Debt	\$ 61,242	\$ 62,636
<i>Restricted:</i>		
Non-expendable	2,465	2,465
Expendable	11,988	11,033
<i>Unrestricted:</i>		
Designated - Capital & Other	9,339	8,119
Designated - Quasi Endowment	21,673	22,518
General Operations	25,960	16,009
Auxiliary	21,297	18,320
Total Net Assets	\$ 153,964	\$ 141,100

Net assets, Invested in capital assets, net of related debt represent the institution's equity in property, plant and equipment net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - non expendable primarily include the University's permanent endowment funds. The corpus of these resources is only available for investment purposes.

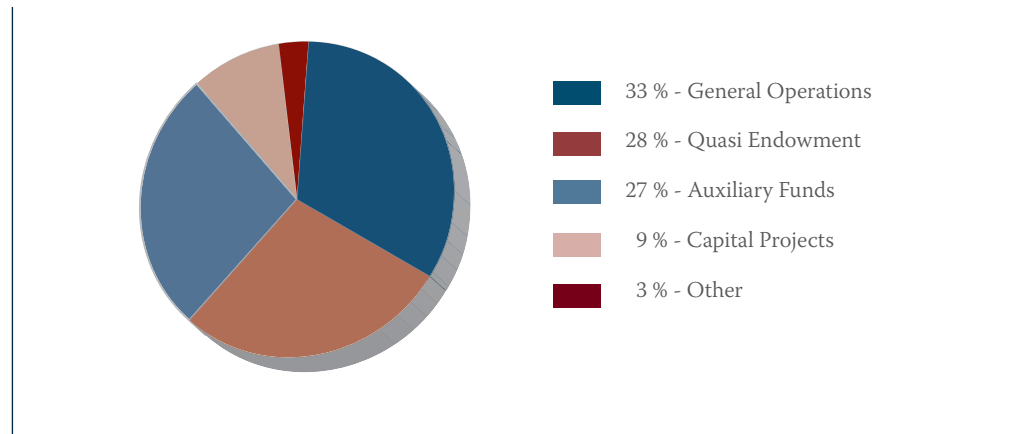
Restricted net assets - expendable are subject to externally imposed restrictions governing their use. This category of net assets includes funds restricted for capital projects, external loan funds, and scholarship funds. Expendable net assets increased \$1 million from the prior year. This increase is related to funds restricted for the Red Skelton Performing Arts Center.

Unrestricted net assets are not subject to externally imposed stipulations. However, many of the University's unrestricted net assets have been designated or reserved for specific purposes such as auxiliaries, quasi endowment, dormitory reserves, and repair and replacement reserves for capital and infrastructure. Unrestricted net assets include board designated quasi endowment funds of \$21.7 million. All income and gain derived from these quasi-endowment funds are required to be applied solely for the purpose of funding scholarships and various other designated University activities. General Operation's net assets increased \$9.95 million which is attributable to the positive operations during the fiscal year. Auxiliary net assets increased approximately \$3 million from the previous year which is attributable to the 4 percent increase in housing rates.



The following graph shows the percentage breakdown of unrestricted net assets of \$78 million by designation:

Unrestricted Net Assets



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the University, as well as the nonoperating revenues and expenses. Governmental appropriations, while budgeted for operations, are considered nonoperating revenues as defined by GASB Statement No. 35. A summary of the Statement of Revenues, Expenses and Changes in Net Assets for the years ending June 30, 2006 and 2005 is as follows:

Statement of Revenues, Expenses, and Changes in Net Assets		
	2006 <i>(in thousands)</i>	<i>Restated</i> 2005 <i>(in thousands)</i>
Operating Revenues:		
Tuition and Fees, net	\$ 24,252	\$ 23,523
Auxiliary, net	14,665	14,855
Grant and Contracts	25,871	23,448
Other	684	470
Total Operating Revenue	65,472	62,296
Operating Expenses		
	97,214	92,106
Net Operating Income (loss)	(31,742)	(29,810)
Non-Operating Revenues (Expenses):		
Governmental Appropriations	39,829	38,329
Gifts (including endowment and capital)	452	612
Investment Income	3,351	3,313
Gain (Loss) on Disposition of Capital Assets	396	240
Other Income and Expense	(2,926)	(1,919)
Total Non-Operating Revenue	41,102	40,575
Capital Appropriations	3,504	250
Increase in Net Assets	12,864	11,015
<i>Net Assets – Beginning of Year</i>	<i>141,100</i>	<i>130,085</i>
Net Assets – End of Year	\$ 153,964	\$ 141,100

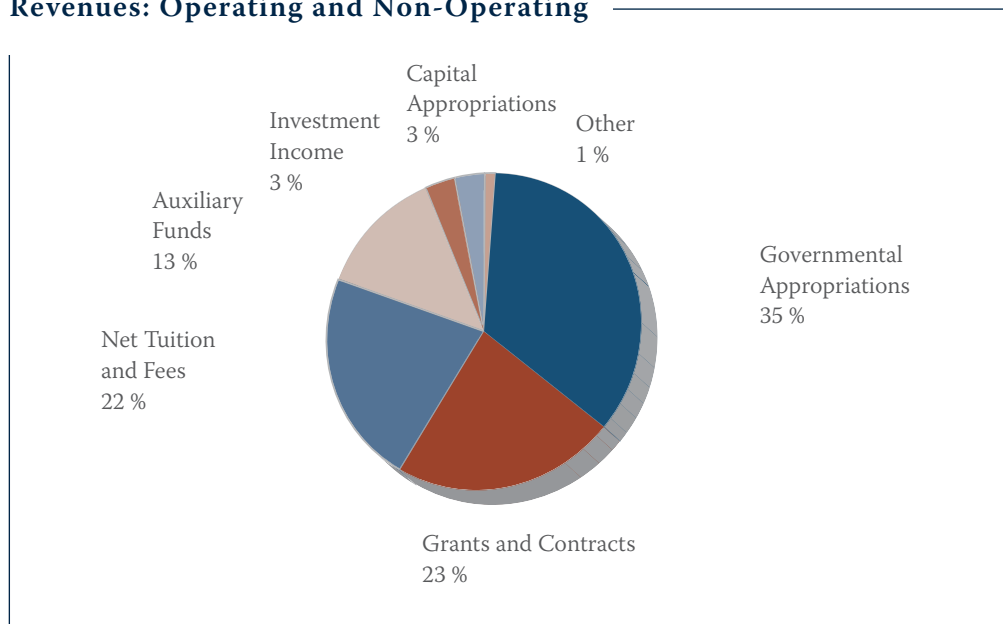


Tuition and fees, net of scholarship allowances, increased 3 percent from the prior year which was attributable to the 5.9 percent tuition increase. Program changes in distance education netted to approximately a million dollar decrease in revenues and expenses since the tuition and fees were collected by the University, then, remitted to a third party. Auxiliary revenues primarily consist of student housing, bookstores, student activities, and workshops. Net auxiliary revenues remained relatively unchanged; however, housing rates did increase 4 percent from the prior year with housing enrollment down approximately 60 students or 4 percent from the prior year. Grant and contract revenue increased \$2.4 million to \$25.9 million. This increased amount includes new grants for the Mining program, the Tops program and the Teen Institute program.

Investment income reflects the interest income earned and accrued on all investments held by the University, including quasi endowments, endowments and capital project funds. Investments are properly recorded at market value. For fiscal year ended June 30, 2006, overall investment income remained unchanged; however, there was an unrealized loss of \$766,000 in the quasi endowment fund and an \$800,000 increase in investment income. The increase in investment income was attributable to the favorable interest rates and positive operations.

The following is a graphic illustration of revenues by source (both operating and nonoperating) used to fund the University for the year ended June 30, 2006:

Revenues: Operating and Non-Operating



A comparative of the University's expenses for the years ending June 30, 2006 and 2005 is as follows:

Expense by Natural Object		
	2006 (in thousands)	Restated 2005 (in thousands)
<i>Operating:</i>		
Compensation and Benefits	\$ 56,135	\$ 52,162
Supplies and Services	30,467	30,099
Depreciation	6,270	5,720
Scholarships and Fellowships	4,342	4,125
Total Operating Expense	97,214	92,106
<i>Non-Operating:</i>		
Interest and Other	2,926	1,919
Total Expenses	\$ 100,140	\$ 94,025

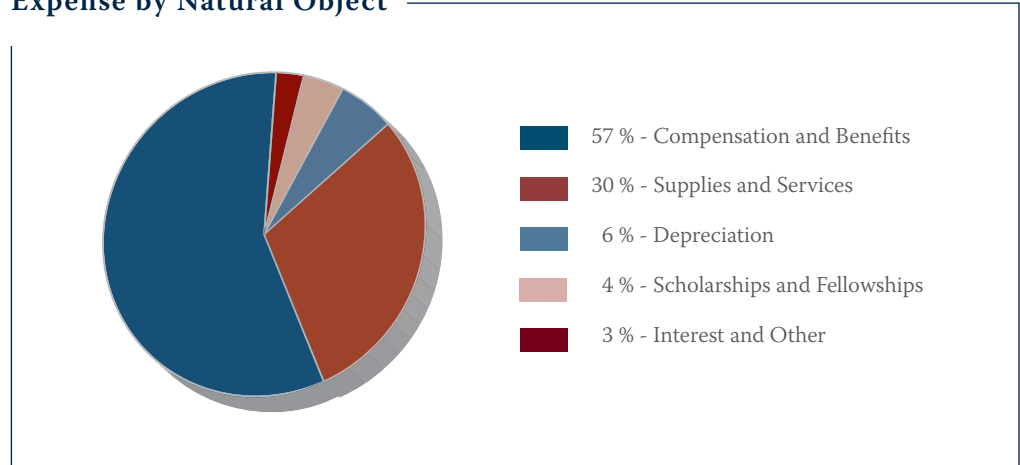


The University is committed to attracting and retaining a faculty and staff of the highest quality. Our total compensation package helps accomplish this goal. Total resources expended for compensation and benefits increased 7.6 percent to \$56.1 million. This increase was a result of an average merit increase of 3 percent and an increase of 8 percent in benefit costs.

The total of supplies and expenses remained relatively unchanged as compared to the previous year; however, as mentioned beforehand, there was a decrease in third party remittances made by distance education. Utilities increased 26 percent over the previous fiscal year which reflected the rising cost of natural gas and other commodities. Instructional and office supplies increased 8.8% over the previous fiscal year. This increase was attributable to the furnishings in the new performing arts building which opened in spring of 2006 and inflationary costs for supplies. The University continues to make cost containment an ongoing effort for all related supply and expense expenditures.

The following is a graphic illustration of total expenses by object:

Expense by Natural Object



In addition to their natural (object) classification, it is also informative to review operating expenses by function. A comparative of the University's expenses by functional classification for the year ended June 30, 2006 and 2005 is as follows:

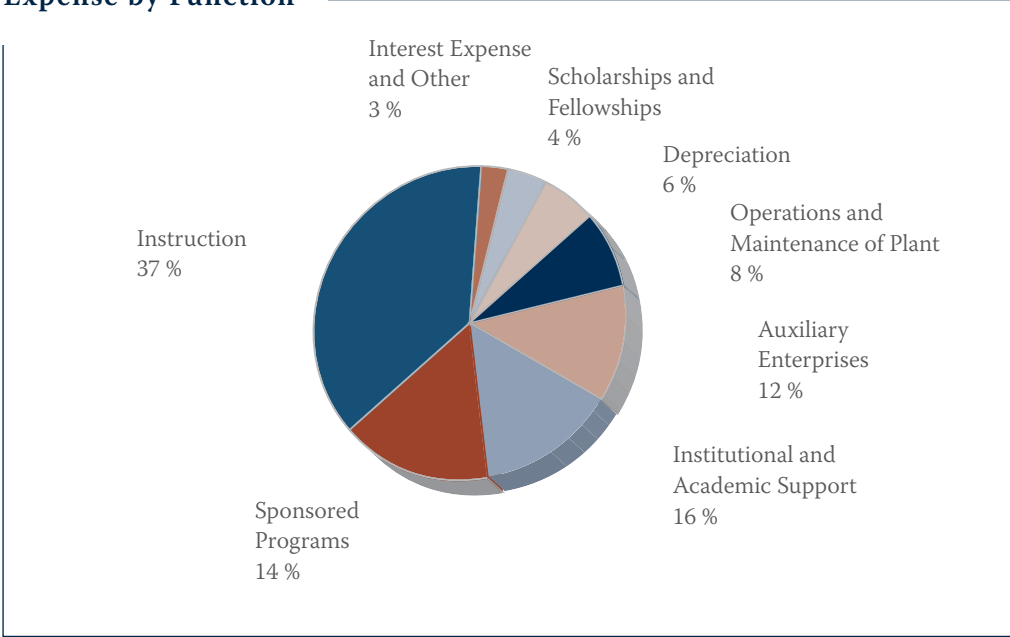
Expense by Function		<i>Restated</i>
	<i>2006</i>	<i>2005</i>
	<i>(in thousands)</i>	<i>(in thousands)</i>
<i>Operating:</i>		
Instruction	\$ 37,168	\$ 37,437
Sponsored Programs	13,888	12,535
Institutional & Academic Support	15,853	13,131
Auxiliary Enterprises	11,862	12,060
Operations & Maintenance of Plant	7,830	7,098
Depreciation	6,270	5,720
Scholarships and Fellowships	4,343	4,125
Total Operating Expense	97,214	92,106
<i>Non-Operating:</i>		
Interest and Other	2,926	1,919
Total Expenses	\$ 100,140	\$ 94,025



The functional areas increased around 7 percent and these increases were related to inflationary costs for compensation and supply expenses as described above. Salary and benefit costs increased \$1.2 million in the instructional area; however, this increase was offset with the decrease in the third party remittances made by distance education. Institutional and academic support increased 20.7 percent and the majority is related to the incurred but unpaid health insurance claims. Other factors were the additional overtime and temporary positions dedicated to the SCT Banner software implementation, the increase in utility costs, and costs associated with an additional marketing campaign.

The following is a graphic illustration of expense by function for 2006.

Expense by Function



STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the University’s financial results by reporting the major sources and uses of cash. Cash received from operations primarily consists of student tuition, sponsored programs and auxiliary revenues. Significant sources of cash provided by non-capital financing activities, as defined by GASB, include state appropriations and gifts used to fund operating activities. For higher education institutions, these cash inflows are critical to funding the operations of the University.

A comparative of the Statement of Cash Flows for the years ended June 30, 2006 and 2005 is as follows:

Statement of Cash Flows		
	2006 <i>(in thousands)</i>	Restated 2005 <i>(in thousands)</i>
Cash Received from Operations	\$ 65,429	\$ 62,089
Cash Expended for Operations	(90,142)	(86,402)
Net Cash used in Operating Activities	(24,713)	(24,313)
Net Cash Provided by Non-Capital Financing Activities	39,837	38,454
Net Cash Provided by (Used in) Investing Activities	(1,287)	(15,094)
Net Cash Used in Capital and Related Financing Activities	(3,480)	(8,930)
Net Increase (Decrease) in Cash and Cash Equivalents	10,357	(9,883)
Cash & Cash Equivalents – Beginning of Year	400	10,283
Cash & Cash Equivalents – End of Year	\$ 10,757	\$ 400

The University's Cash and Cash Equivalents increased \$10.3 million from the previous year. The increase in the cash and cash equivalents was primarily related to positive operations and investment returns.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University is well positioned to continue its strong financial condition and level of excellence in service to students, the community and the State of Indiana. The University's strong financial position, coupled with our efforts toward cost containment will enable the University to provide the resources to support this level of excellence.

The University, an organization that relies heavily on human resources, is committed to retaining and attracting an outstanding faculty and staff. The double-digit increases in health care and prescription drug costs are a concern as the costs of the University's health benefits have increased dramatically over the past several years. Increasing costs for insurance, volatile utility costs, repair and maintenance of campus facilities and replacing equipment with current technology are also significant cost pressures facing the university.

The economic condition of Vincennes University is closely tied to that of the State of Indiana. State appropriations are the largest source of funding for the University. The specific fiscal impact on higher education in the State of Indiana is always uncertain because of its dependency on the state's economy. Vincennes University's low tuition cost continues to make the institution one of the best values in the State of Indiana offering a quality education with a residential experience.

The University continues to adhere to its long-range plan for upgrading and adding new facilities for instruction to meet the needs of our students and the community. The Jasper Academic Building is scheduled for completion in spring 2007. The University also received state approval to construct an \$11 million Advanced Manufacturing Training Center on the Vincennes campus. The facility will feature state-of-the-art training facilities with smart classrooms and labs designed to be flexible and highly adaptable to business and industry training needs. Bonds will be issued to fund this construction during fiscal year 2007.

The University will be required to implement the provisions of GASB Statement No. 45, *Accounting and Financial Reporting By Employers for Postemployment Benefits Other Than Pensions*, effective with the fiscal year ending June 30, 2008. The University will be required to address the accounting and reporting for costs and obligations related to postemployment healthcare and other non-pension benefits. The University has not yet determined the full impact of GASB Statement No. 45 on its financial statements.

As management wrestles with today's uncertain economic factors, the University's prudent use of resources, cost-containment efforts, and development of other sources of revenue will strengthen the institution and will ensure that it is well positioned to take advantage of the next upturn in the business cycle.



Vincennes University

Statement of Net Assets

As of June 30, 2006 and June 30, 2005

Assets	<i>2006</i>	<i>Restated 2005</i>
Current Assets		
Cash and Cash Equivalents	\$ 10,756,945	\$ 400,130
Short-Term Investments	69,567,844	41,138,393
Funds held with Bond Trustee	255,858	204,464
Appropriation Receivable from State	1,190,030	0
Accounts Receivable (Less Allowance of \$3,025,192 in 2006 and \$ 2,932,179 in 2005)	5,994,108	5,636,701
Current Portion of Notes Receivable	192,259	253,144
Inventories	1,773,477	1,716,363
Accrued Interest Income	598,387	538,697
Prepaid Expenses	229,914	119,663
<i>Total Current Assets</i>	<i>90,558,822</i>	<i>50,007,555</i>
Non-current Assets		
Funds held with Bond Trustee for Debt Service	238,803	232,282
Investments	14,140,482	37,991,282
Appropriation Receivable from State	1,804,222	2,994,252
Notes Receivable	783,148	791,280
Capital Assets, Net of Accumulated Depreciation	124,439,818	118,578,737
<i>Total Non-current Assets</i>	<i>141,406,473</i>	<i>160,587,833</i>
Total Assets	\$ 231,965,295	\$ 210,595,388
Liabilities		
Current Liabilities		
Accounts Payable	\$ 2,869,774	\$ 1,804,171
Capital Lease Payable	35,240	31,863
Accrued Payroll and Deductions Payable	5,342,285	6,186,462
Accrued Vacation Liability	1,183,509	1,221,221
Deferred Revenue	2,427,876	2,364,467
Accrued Interest on Bonds	313,186	261,185
Bonds Payable	2,595,000	2,435,000
Deposits	203,394	231,238
Deposits Held in Custody for Others	194,698	192,386
Other Liabilities	971,170	0
<i>Total Current Liabilities</i>	<i>16,136,132</i>	<i>14,727,993</i>
Non-current Liabilities		
Capital Lease Payable	101,364	136,604
Bonds Payable (Net of Unamortized Bond Premium (Discount) of \$ 522,929 in 2006 and (\$ 300,627) in 2005)	60,647,929	53,514,373
Advances from Federal Government	1,116,332	1,116,332
<i>Total Non-current Liabilities</i>	<i>61,865,625</i>	<i>54,767,309</i>
<i>Total Liabilities</i>	<i>78,001,757</i>	<i>69,495,302</i>
Net Assets		
Invested in Capital Assets, Net of Related Debt	61,241,760	62,636,459
Restricted for Non-expendable:		
Scholarships & Instruction	2,465,281	2,465,281
Restricted for Expendable:		
Capital Projects	9,703,206	8,600,075
Loan Funds	463,638	805,243
Scholarships & Instruction	1,820,377	1,626,986
Unrestricted	78,269,276	64,966,042
<i>Total Net Assets</i>	<i>153,963,538</i>	<i>141,100,086</i>
Total Liabilities and Net Assets	\$ 231,965,295	\$ 210,595,388

The accompanying Notes to the Financial Statements are an integral part of this statement.

Vincennes University Foundation, Inc.

Component Unit - Statement of Financial Position

As of June 30, 2006 with comparative figures for 2005

Assets	<i>JUNE 30</i> 2006	<i>JUNE 30</i> 2005	Liabilities and Fund Balances	<i>JUNE 30</i> 2006	<i>JUNE 30</i> 2005
<u>Unrestricted Funds</u>					
Cash	\$ 84,915	\$ 106,245	Accounts Payable	\$ 20,775	\$ 26,557
Amount Due from Agency Funds	209,697	176,116	Vacation Payable	7,854	12,069
Other Accounts Receivable	2,758	256	Deferred Income Other	15,525	13,797
Accrued Interest	10,022	4,465	Due VU General Fund	51,390	35,599
Investments	1,781,495	1,762,186			
Pledge Receivable	7,750	36,218			
Equipment	10,073	14,459			
Accum. Deprec. - Equipment	(6,944)	(7,781)			
Prepaid Expense	5,097	5,506	Net Assets	4,443,788	4,444,117
Property	2,434,469	2,434,469			
<i>Total Unrestricted Funds</i>	\$ 4,539,332	\$ 4,532,139	<i>Total Unrestricted Funds</i>	\$ 4,539,332	\$ 4,532,139
<u>Current Restricted Fund</u>					
Accrued Interest	27,718	29,526	Accounts Payable	\$ 283	\$ 745
Investments	11,460,679	7,148,988	Due VU General Fund	0	6,389
			Due to Unrestricted	20,605	21,333
			Funds Held in Trust	8,806,573	3,946,273
			Deferred Income Other	18,275	0
			Net Assets	2,642,661	3,203,774
<i>Total Current Restricted Funds</i>	\$ 11,488,397	\$ 7,178,514	<i>Total Current Restricted Funds</i>	\$ 11,488,397	\$ 7,178,514
<u>Endowment Funds</u>					
Accrued Interest	64,031	55,985	Accounts Payable	\$ 1,450	\$ 0
Investments	16,536,739	14,903,714	Due to Unrestricted	189,092	154,783
Prepaid Expense	0	399	Annuity Payable	31,204	29,454
Beneficial Interest in Charitable Remainder Unitrust	0	16,347			
			Net Assets	16,379,024	14,792,208
<i>Total Endowment Funds</i>	\$ 16,600,770	\$ 14,976,445	<i>Total Endowment Funds</i>	\$ 16,600,770	\$ 14,976,445

Vincennes University

Statement of Revenues, Expenses & Changes in Net Assets

For the Year Ended June 30, 2006 and June 30, 2005

	2006	<i>Restated</i> 2005
Operating Revenues		
Student Tuition & Fees	\$ 29,077,821	\$ 27,975,020 *
Scholarship Allowance - Tuition & Fees	(4,825,774)	(4,452,236) *
Grants and Contracts	25,871,351	23,447,675 *
Auxiliary Enterprises	16,673,953	16,687,899 *
Scholarship Allowance - Auxiliary Enterprises	(2,009,391)	(1,832,279) *
Other Revenues	683,821	469,950 *
<i>Total Operating Revenues</i>	<i>65,471,781</i>	<i>62,296,029 *</i>
Operating Expenses		
Salaries and Wages	40,237,407	38,199,787
Benefits	15,897,632	13,962,590
Scholarships and Fellowships	4,342,583	4,125,464
Supplies and Other Services	29,700,397	29,767,135 *
Equipment	766,317	331,546
Depreciation	6,269,706	5,719,937
<i>Total Operating Expenses</i>	<i>97,214,042</i>	<i>92,106,459 *</i>
<i>Operating Income (Loss)</i>	<i>(31,742,261)</i>	<i>(29,810,430) *</i>
Non-operating Revenues (Expenses)		
Governmental Appropriations	39,829,065	38,328,955
Gifts and Bequests	451,791	611,829
Investment Income	2,928,451	2,119,873
Endowment Income	422,447	1,194,495
Gain (Loss) on Disposition of Capital Assets	395,804	239,933 *
Interest on Capital Asset-Related Debt	(2,414,211)	(1,686,164)
Other Non-operating Revenues (Expenses)	(511,834)	(233,302)
<i>Total Non-operating Revenues (Expenses)</i>	<i>41,101,513</i>	<i>40,575,619 *</i>
<i>Income Before Other Revenues, Expenses, Gains and Losses</i>	<i>9,359,252</i>	<i>10,765,189</i>
Capital Appropriations	3,504,200	249,735
<i>Increase in Net Assets</i>	<i>12,863,452</i>	<i>11,014,924</i>
Net Assets – Beginning of Year – Restated	141,100,086	130,085,162
Net Assets – End of Year	\$ 153,963,538	\$ 141,100,086

*See Note 12 in the Notes to Financial Statements

Vincennes University Foundation, Inc.

Component Unit - Statement of Activity

For the Year ending June 30, 2006 with comparative figures for 2005

Support and Revenue	<i>Unrestricted</i>	<i>Current Restricted</i>	<i>Endowment</i>	<i>Total 2006</i>	<i>Total 2005</i>
Contributions	\$ 208,719	\$ 525,971	\$ 1,309,921	2,044,611	\$ 2,626,448
Contributions - Gifts in Kind	0	0	0	0	1,968,630
Phone-a-thon	20,711	0	0	20,711	26,126
Other Income	23,563	32,224	0	55,787	49,005
Investment Income	120,486	105,800	880,199	1,106,485	1,019,762
Unrealized Loss on Investments	(7,729)	(39,559)	(3,431)	(50,719)	(84,340)
Administrative Income	173,782	0	0	173,782	169,644
Alumni Development	40,000	0	0	40,000	40,000
Alumni Income & Community Series	49,749	42,657	0	92,406	32,466
Total Support and Revenue	\$ 629,281	\$ 667,093	\$ 2,186,689	\$ 3,483,063	\$ 5,847,741
Expenses					
Foundation Office	\$ 255,233	\$ 0	\$ 0	\$ 255,233	\$ 171,098
Depreciation Expense	1,097	0	0	1,097	2,305
Annual Giving Program	69,707	0	0	69,707	130,338
Planned Giving Program	7,417	0	0	7,417	24,748
Major Gifts Program	50	0	0	50	412
Real Estate Program	367	0	0	367	684
Development Support	62,730	0	0	62,730	78,738
Community Relations	57,427	0	0	57,427	42,877
Mini-Grants	22,350	0	0	22,350	17,389
Special Projects	30,834	0	0	30,834	44,165
Red Skelton Center Fund	32,138	0	0	32,138	23,189
Brickyard Golf	27,988	0	0	27,988	6,110
Special Projects (DC Agenda)	41,132	0	0	41,132	27,641
Scholarships	2,000	150,860	316,873	469,733	448,700
Payments of Life Income Beneficiaries	0	0	1,607	1,607	4,065
Investment Expenses	6,364	16,904	50,148	73,416	59,108
Other Expenses	0	940,651	108,266	1,048,917	691,101
Administrative Fees	0	17,406	156,376	173,782	169,644
Alumni Expenses & Community Series	54,598	27,166	0	81,764	62,859
Total Expenses	\$ 671,432	\$ 1,152,987	\$ 633,270	\$ 2,457,689	\$ 2,005,171
Increase (Decrease) in Net Assets	(\$ 42,151)	(\$ 485,894)	\$ 1,553,419	\$ 1,025,374	\$ 3,842,570

Vincennes University Foundation, Inc.

Component Unit - Statement of Changes in Net Assets

For the Year ending June 30, 2006 with comparative figures for 2005

	<i>Unrestricted</i>	<i>Current Restricted</i>	<i>Endowment</i>	<i>Total 2006</i>	<i>Total 2005</i>
Net Assets Beginning of Year	\$ 4,444,117	\$ 3,203,774	\$ 14,792,208	\$ 22,440,099	\$ 18,600,829
Excess of Support and Revenue Over Expenses	(\$ 42,151)	(\$ 485,894)	\$ 1,553,419	\$ 1,025,374	\$ 3,842,570
Net Assets Adjustments:					
Additions	\$ 44,222	\$ 6,296	\$ 121,568	\$ 172,086	78,691
Deductions	(2,400)	(81,515)	(88,171)	(172,086)	(81,991)
Total Change for Year	(\$ 329)	(\$ 561,113)	\$ 1,586,816	\$ 1,025,374	\$ 3,839,270
Net Assets, End of Year	\$ 4,443,788	\$ 2,642,661	\$ 16,379,024	\$ 23,465,473	\$ 22,440,099

Vincennes University

Statement of Cash Flows

For the Year Ended June 30, 2006 and June 30, 2005

	2006	<i>Restated</i> 2005
Cash Flows from (for) Operating Activities		
Tuition and Fees	\$ 24,571,608	\$ 22,443,458
Grants and Contracts	25,301,264	24,555,898
CCI Instructional Cost Reimbursement	0	(71,721)
Payments to Suppliers	(29,543,027)	(30,727,151)
Payments to Employees	(40,736,390)	(38,173,611)
Payments for Benefits	(15,309,369)	(13,093,767)
Payments for Scholarships and Fellowships	(4,342,583)	(4,125,464)
Loans Issued to Students	(209,749)	(209,885)
Collection of Loans to Students	278,766	271,936
Auxiliary Enterprises	14,517,278	14,538,343
Other Receipts	759,788	279,686
<i>Net Cash Used in Operating Activities</i>	<i>(24,712,414)</i>	<i>(24,312,278)</i>
Cash Flows from (for) Non-capital Financing Activities		
Governmental Appropriations	39,829,065	38,218,756
Gifts and Grants for Other than Capital Purposes	8,090	235,314
<i>Net Cash Provided by Non-capital Financing Activities</i>	<i>39,837,155</i>	<i>38,454,070</i>
Cash Flows from (for) Capital and Related Financing Activities		
Proceeds from Capital Debt	23,293,274	19,155,000
Capital Appropriations	3,504,200	249,735
Proceeds from Sale of Capital Assets	395,804	239,933
Purchases of Capital Assets and Construction	(11,948,795)	(24,298,335)
Bond Reserve Cash Returned (Deposited)	(57,914)	16,607
Principal Paid on Capital Lease	(31,863)	(17,157)
Principal Paid on Capital Debt	(16,255,000)	(2,645,000)
Interest Paid on Capital Debt & Capital Lease	(2,380,188)	(1,631,091)
<i>Net Cash Used by Capital and Related Financing Activities</i>	<i>(3,480,482)</i>	<i>(8,930,308)</i>
Cash Flows from (for) Investing Activities		
Proceeds from Sales and Maturities of Investments	42,178,404	26,181,031
Investment Income	4,107,921	3,201,099
Purchase of Investments	(47,573,769)	(44,476,352)
<i>Net Cash Used in Investing Activities</i>	<i>(1,287,444)</i>	<i>(15,094,222)</i>
<i>Net Increase (Decrease) in Cash</i>	<i>10,356,815</i>	<i>(9,882,738)</i>
Cash and Cash Equivalents – Beginning of Year	400,130	10,282,868
Cash and Cash Equivalents – End of Year	\$ 10,756,945	\$ 400,130

Vincennes University

Statement of Cash Flows

For the Year Ended June 30, 2006 and June 30, 2005

	2006	<i>Restated</i> 2005
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Net Operating Revenues and Expenses	\$ (31,742,261)	\$ (29,810,430)
<i>Adjustments to Reconcile Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities:</i>		
Depreciation Expenses	6,269,706	5,719,937
<i>Changes in Assets and Liabilities:</i>		
Receivables, net	(357,408)	(539,632)
Inventories	(57,114)	(180,012)
Other Assets	(110,251)	70,222
Student Loans	69,017	62,051
Accounts Payable and Accrued Liabilities	1,125,332	311,097
Deferred Revenue	35,565	(94,092)
Gifts in Kind	7,545	10,700
<i>Cash Flows Reported in Other Categories:</i>		
Governmental Appropriations	0	110,199
Capital Lease Payments	47,455	27,682
Net Cash Provided by (Used in) Operating Activities	\$ (24,712,414)	\$ (24,312,278)

Vincennes University

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Vincennes University is an institution of higher education and is considered to be a component unit of the State of Indiana. The University is governed by a Board of Trustees as established by Indiana Code 23-13-18. The Board of Trustees of the University consists of ten trustees appointed by the Governor of the State. One of the trustees must be a resident of Knox County, one must be an alumnus of Vincennes University, and one must be a full-time student of the university during the term. There are also four ex-officio members of the board: the president of the University, the superintendent of the Vincennes Community School Corporation, the superintendent of the South Knox School Corporation, and the superintendent of the North Knox School Corporation. The University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various state agencies.

During the year ended June 30, 2004, 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 College 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 primary government, as well as its component unit, the Vincennes University Foundation, Inc.

The Vincennes University Foundation, Inc. is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, 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 Vincennes University and the University's financial statements include discrete presentation of the Foundation by displaying the Foundation's audited financial statements in their original formats. The total amount the Foundation contributed to the University for scholarships, grants, capital projects and equipment for the year ending June 30, 2006 was \$1,333,223 and for the year ending June 30, 2005 was \$1,238,922. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below.

The Vincennes University Foundation, Inc. is a private not-for-profit organization that reports its financial results according to Financial Accounting Standards Board (FASB) Statements. Most significant to the Foundation's operations and reporting model are FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences, however significant note disclosures to the Foundation's financial statements have been incorporated into the University's notes to the financial statements.

Financial statements for the Foundation can be obtained by calling the Vincennes University Foundation, Inc. at 812-888-4510.



Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. As a component unit of the State of Indiana, the University is also required to adopt GASB Statement No. 34 and Statement No. 35. The financial statement presentation required by GASB Statement No. 34 and Statement No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. It replaces the fund-group perspective previously required.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant intra-agency transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents

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

Investments

The University accounts for its investments at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. The majority of each group resides in the State of Indiana. Accounts receivable also include amounts due from the Federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

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

Non-current Cash and Investments

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



Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$500 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Infrastructure costs are minimal and included in the cost of Building and Improvements. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally 40 to 50 years for buildings, 20 to 25 years for infrastructure and land improvements, and 3 to 10 years for equipment.

Deferred Revenues

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

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the Statement of Net Assets and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Non-current Liabilities

Non-current liabilities consist of principal amounts of a lease obligation and revenue bonds payable with a contractual maturity of greater than one year.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt — This represents the University's total investment in capital assets net of outstanding debt obligations related to those capital assets.

Restricted net assets -non-expendable — Non-expendable restricted net assets 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 assets -expendable — Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the University and may be designated for specific purposes by action of management or the Board of Trustees. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff. Unrestricted net assets include the Quasi-endowment funds, which are used to provide financial support to the students. Substantially all unrestricted net assets are designated for academic programs and initiatives, and capital programs.

Income Taxes

The University, as a political subdivision of the State of Indiana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.



Classification of Revenues

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

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 Federal appropriations, and (4) interest on institutional student loans. Since the University's mission is to play a key role in programs of community development, cultural enrichment and services appropriate to a post-secondary educational institution, most grants and contracts are considered operating.

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 Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances 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 either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Component Unit

The Vincennes University Foundation, Inc. maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets — Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/ or passage of time.

Unrestricted Net Assets — Net assets not subject to donor-imposed restrictions.

Revenues are recorded when earned. Contributions, including promises to give, are recognized as revenue in the period received at their fair values. Promises to give, or pledges, must be unconditional and legally enforceable to be recognized.

Expenses are recognized when incurred. Investments in marketable securities are stated at fair market value.

NOTE 2 — CASH AND INVESTMENTS

Cash and investments as of June 30, 2006, are stated at market value. Indiana statutes authorize the University to invest in obligations of the U.S. Treasury and U.S. Agencies, certificates of deposits, repurchase agreements, savings and money market accounts, and negotiable order of withdrawal accounts. Cash deposits are insured by agencies of the federal government up to \$100,000. Amounts over \$100,000 are covered by the Indiana Public Depository Fund, which covers all public funds held in approved depositories. The total amount held in checking and money market accounts at various banks at June 30, 2006 equaled \$11,961,528.



Quasi-endowment funds are managed by the trust departments of three major regional banks. These funds are invested in accordance with the policies set by the Finance Committee of the Board of Trustees. Other endowment funds held in trust consist of U. S. Treasury and U.S. Government Agency obligations, tax exempt municipal bonds, savings accounts, and certificates of deposit.

As of June 30, 2006, the University had the following investments:

<i>Investment Type</i>	<i>Market Value</i>	<i>Less than 1 Year</i>	<i>Maturity 1-5 Years</i>	<i>Maturity 6-10 Years</i>
Certificate of Deposits	\$ 61,890,434	\$ 59,866,762	\$ 2,023,671	\$ 0
U.S. Treasury Notes	3,573,433	601,968	1,892,986	1,078,479
U.S. Government Agencies	17,905,449	9,099,114	5,184,536	3,621,800
Mutual Funds	339,010	0	339,010	0
Total	\$ 83,708,326	\$ 69,567,844	\$ 9,440,203	\$ 4,700,279

Credit Risk — As a means of managing credit risk, University investment policy limits investments to A1 (Standard & Poors) or P1 (Moody's). If a rating change occurs which disqualifies a security that is already present in the University portfolio it must be sold within 30 days of the discovery, unless it matures within six months of the rating change. At June 30, 2006, the University is in compliance with its credit risk policy for all investments.

Concentration of Credit Risk — The University places no limit on the amount that can be invested in any one issuer. More than 5 percent of the University's investments are in Certificate of Deposits, U.S. Treasury Bonds and U.S. Government Agencies. These investments are 73.94%, 4.27% and 21.39% respectively, of the University's total investments.

Interest Rate Risk — The risk that changes in interest rates will adversely affect the fair value of an investment. The University's investment policy does not address exposure to fair value losses arising from changes in interest rates, but the investment objective is to obtain the highest revenue while maintaining safety and insuring adequate liquidity for institutional needs. To that end, management maintains a larger percentage (85% at year end) of investments in cash, cash equivalents, and short term investments to be in a position to take advantage of the best rates in a timely fashion as well as sustaining adequate cash flow for operating needs.

Custodial Credit Risk — For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. University investment policy does not limit the value of investments that may be held by an outside party. Of the University's investments, \$3,573,433 of the U.S. Treasury Notes, \$10,005,228 of the U.S. Government Agencies, and \$339,010 of the Mutual Funds are held by the counter party, a trust department, or an agent not in the University's name.

Foreign Currency Risk — The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University does not hold any foreign currency-denominated investments.

NOTE 3 — BANNER PROJECT

The University began implementing a new administrative computer system and web portal during the year ending June 30, 2005. Known as the VU Banner Project, the implementation will run for approximately thirty-six months with a scheduled completion date of March 2007. The new system will provide more efficient transaction processing in order to make strategic business decisions. The new technology will also integrate data among systems and reduce the cost of supporting the University's current mainframe system.

The fees for implementation, support and training are paid in quarterly installments. The total cost of the project is \$1,899,072. The balance due as of June 30, 2006 is \$201,224.

NOTE 4 - CHANGE IN PAYROLL ACCRUAL

Prior to June 30, 2006, the University recorded a liability for wages and benefits earned but not paid at year end. This liability did not include benefits paid for health insurance, life insurance, disability insurance and workers compensation insurance. These amounts were expensed in the fiscal year in which they were paid.



The University has elected to expense these benefits in the year that the corresponding wages were earned rather than in the year that they are paid, beginning with the year ending June 30, 2006. This change resulted in an increase in benefit expense of \$339,333 for the year ending June 30, 2006. The recording of the payroll liability, in accordance with generally accepted accounting policies, remains the same.

NOTE 5 — ACCOUNTS RECEIVABLE

Accounts receivable are primarily comprised of the following:

Student Receivables - Tuition	\$ 5,119,829
Auxiliaries	1,944,195
Sponsored Programs	1,437,573
Other	517,703
	<hr/>
	9,019,300
Allowance for Doubtful Accounts	(3,025,192)
	<hr/>
Total	\$ 5,994,108

Appropriation receivable from the State consists of the following:

Current Portion of Receivable	\$ 1,190,030
Non-Current Portion of Receivable	1,804,222
	<hr/>
Total	\$ 2,994,252

NOTE 6 — INVENTORIES

Inventories are stated at the lower of cost or market value. Inventories are primarily comprised of the following:

Bookstores	\$ 1,178,605
Commercial Repair - Aviation	188,948
Aviation Tech Center	163,781

NOTE 7 — RISK MANAGEMENT

The University is exposed to various risks of loss: torts, theft, damage or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; 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 building and contents, the risk retention is \$25,000 per incident. General liability, commercial crime, aviation, worker's compensation, commercial automobile, and medical malpractice are all handled through fully insured commercial policies.

For health benefits, the University has an insured self-funded arrangement. The University retains the risk for medical benefits up to a stop loss provision of \$275,000 per member. There is a liability for incurred but unpaid claims. This liability is estimated to be \$922,637 for the fiscal year 2005-2006 and \$820,321 for the fiscal year 2004-2005.

Changes in the total reported self-insured health benefit liability during the year ending June 30, 2006 were as follows:

Balance, beginning of year (reclassified)	\$ 820,321
Claims incurred	6,482,998
Claim payments	(6,380,682)
	<hr/>
Balance, end of year	\$ 922,637

NOTE 8 — LOANS

The following is a list of the major fund balances representing the *restricted net assets - expendable, loan funds*:

Perkins Loan Fund	\$ 134,960
Nursing Student Loan	248,606
Other	80,072
	<hr/>
Total	\$ 463,638



NOTE 9 — COMPENSATED ABSENCES

Employees have vested rights in accrued vacation time that is to be expended. Vested rights are those which have been earned by the employee for services already performed. Effective December 31, 2005, the maximum vacation accrual at any time shall be twice the annual allowance. The maximum number of days an employee may be paid upon termination of employment remains limited to the number of days which can be earned in 12 months. Recording of these liabilities is in accordance with generally accepted accounting principles.

NOTE 10 — UNRESTRICTED NET ASSETS

As discussed in Note 1 to the financial statements, the University adopted new standards for external reporting purposes, which require net assets to be classified for accounting and reporting purposes into one of four net asset categories according to externally imposed restrictions. Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees. A breakdown of these designations is shown in the Net Assets section of the Management's Discussion and Analysis. Designated unrestricted net assets were \$52.3 million at June 30, 2006 and \$48.9 million at June 30, 2005.

NOTE 11 — SCHOLARSHIPS AND INSTRUCTION

The endowment funds are classified under net assets as Restricted for Scholarship & Instruction. They include both expendable and non-expendable funds. Itemized below are the total endowment funds having a fund balance greater than \$10,000. All other endowments have been pooled.

Machine Trades Scholarship	\$ 11,600
Shircliff Memorial Scholarship	34,668
Printing Industry	88,257
Zella Young Memorial Scholarship	149,721
Harry Watts Memorial Scholarship	15,332
Jean McCarthy Memorial Scholarship	15,297
Robert Forbes Memorial Scholarship	12,103
Estelle Emison Scholarship	26,751
Shircliff Endowment Fund	172,057
Risley Endowment Fund	69,542
Shircliff Life Income	101,706
Lyons Life Income	24,124
Opal C Ramsey Fund	2,789,253
Wanda Morehead Trust	126,031
Mabel Kuebler Trust	249,957
All Others	66,003
Total	\$ 3,952,402

NOTE 12 — RECLASSIFICATION OF REVENUE AND EXPENSES

Effective July 1, 2005, the University elected to reclassify certain operating revenues and expenses. Revenue reported in grants and contracts from distance and military education has been reclassified as tuition and fees. Pass-thru lab fees reported in auxiliary enterprises has also been reclassified as tuition and fees. Construction Tech Special Projects also reported in auxiliary enterprises has been reclassified as other revenues. Operating revenues for the year ended June 30, 2005 has been reclassified to conform to the current year presentation.

Expenses reported in Sponsored Programs from distance and military education operations has been reclassified as Instruction. Construction Technology project expenses reported in Auxiliary Enterprises have also been reclassified as Instruction. The Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows have been reclassified for June 30, 2005 to reflect this change.



NOTE 13 — CAPITAL ASSETS

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Capital Assets not being depreciated:</i>					
Land	\$ 10,783,782	\$ 643,749	\$ 0	\$ 0	\$ 11,427,531
Construction in Progress	22,149,768	8,947,453	0	(25,869,278)	5,227,943
Total Capital Assets not being depreciated	32,933,550	9,591,202	0	(25,869,278)	16,655,474
<i>Capital Assets being depreciated:</i>					
Building & Improvements	119,982,341	0	0	25,199,289	145,181,630
Equipment	36,812,682	2,677,616	2,036,983	669,989	38,123,304
Total Capital Assets being depreciated	156,795,023	2,677,616	2,036,983	25,869,278	183,304,934
<i>Less Accumulated Depreciation for:</i>					
Building & Improvements	43,899,859	3,304,753	0	0	47,204,612
Equipment	27,249,977	2,964,953	1,898,952	0	28,315,978
Total Accumulated Depreciation	71,149,836	6,269,706	1,898,952	0	75,520,590
Total Capital Assets, being depreciated, net	85,645,187	(3,592,090)	138,031	25,869,278	107,784,344
Capital Assets, net	\$ 118,578,737	\$ 5,999,112	\$ 138,031	\$ 0	\$ 124,439,818

NOTE 14 — PENSION PLANS

A. Public Employees' Retirement Fund

Plan Description

Vincennes University contributes to the Public Employees' Retirement Fund (PERF), a defined benefit pension plan. The Public Employees' Retirement Fund (PERF) is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees hired prior to June 30, 2003 are eligible to participate in the defined benefit plan. Professional staff hired after this date are eligible for participation in a retirement income plan with Teachers Insurance and Annuity Association (TIAA) as described below. All other full-time employees hired after this date continue to be eligible to participate in the defined benefit plan provided by PERF. State statutes (IC 5-10.2 and 5-10.3) give the University authority to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer has elected to make the contributions on behalf of the member.

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) 233-4162.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. On June 30, 2006, 428 employees were covered by PERF and total wages were \$11,378,097. The University's annual pension cost for the current year and related information, as provided by the actuary, is presented in this note.

	PERF
Annual Required Contribution.....	\$ 453,494
Interest on Net Pension Obligation.....	(58,665)
Adjustment to Annual Required Contribution.....	66,853
Annual Pension Cost.....	\$ 461,682
Contributions Made.....	\$ 1,034,782
Increase (Decrease) in Net Pension Obligation.....	**
Net Pension Obligation, Beginning of Year.....	**
Net Pension Obligation, End of Year.....	**

Contribution Rates:	PERF
University	5.5%
Contributed for Plan Members.....	3%
Actuarial Valuation Date	6/30/05
Actuarial Cost Method	Entry Age
Amortization Method.....	Level Percentage of Projected Payroll, Closed
Remaining Amortization Period	40 Years
Asset Valuation Method.....	4 year Smoothed Market

Actuarial Assumptions:	PERF
Investment Rate of Return.....	7.25%
Projected Future Salary Increase Total.....	5%
Attributed to Inflation.....	4%
Attributed to Merit/Seniority.....	1%
Cost-of-Living Adjustments.....	2%

Three Year Trend Information			
<i>Year Ending</i>	<i>Annual Pension Cost</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Pension Obligation</i>
6/30/2003	\$ 1,288,178	100%	0
6/30/2004	\$ 945,274	100%	0
6/30/2005	\$ 1,034,782	100%	0

Required Supplementary Information
Schedules of Funding Progress Public Employees Retirement Fund

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets* (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Excess of Assets Over (Unfunded) AAL (a-b)</i>	<i>Funded Ratio (a/b)</i>	<i>Actual Covered Payroll (c)</i>	<i>Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)</i>
7/1/2003	\$ 21,301,018	\$ 19,058,661	\$ 2,242,357	100.0%	\$ 15,248,069	0 %
7/1/2004	**	**	**	**	**	**
7/1/2005	**	**	**	**	**	**

* Determined to be equal to the same percent of accrued liability as entire state of Indiana.

** Information is under review.

B. Teachers' Retirement Fund

Plan Description

The University contributes to the Teachers' Retirement Fund (TRF), a defined benefit pension plan. The Teachers' Retirement Fund (TRF) is a cost-sharing, multiple employer public retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in the Teachers' Retirement Fund (TRF). Full-time faculty hired after July 1, 2003 are eligible for participation in a retirement income plan with Teachers' Insurance and Annuity Association (TIAA) as described below. State statute (IC 20-12) gives the University authority to contribute and govern most requirements of the system. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the members' annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The University has elected to make the contributions on behalf of the member.

TRF 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 Teachers' Retirement Fund, 150 W. Market Street, Indianapolis, IN 46204, or by calling (317) 232-3860.

Funding Policy and Annual Pension Costs

The University is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 8.50% of covered wages. On June 30, 2006, 198 employees were covered by TRF and total wages were \$14,914,105. The University's contribution to the plan for the fiscal years ending June 30, 2006, 2005 and 2004 were \$1,688,437, \$1,778,581 and \$1,795,477, respectively. All required contributions were made by the University for each of the fiscal years.



C. TIAA/CREF

Faculty and professional staff hired prior to June 30, 2003 and having five or more years of continued employment are eligible to participate in a retirement income plan with Teachers Insurance and Annuity Association (TIAA). This is a defined contribution plan under IRC 403(b). Full-time faculty and professional staff hired after July 1, 2003 become eligible for the plan at the date of employment. There is no contribution to PERF or TRF for those employees covered under this policy. The University contributes 12% of covered wages for the new plan. An agreement between the University and TIAA is approved by the University Board of Trustees. On June 30, 2006, 462 employees were covered by TIAA/CREF and total wages were \$ 24,525,654. During 2005/06, Vincennes University contributed \$1,613,371 to TIAA/CREF on the employees behalf.

TIAA/CREF issues an annual 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 Teachers' Insurance and Annuity Association/College Retirement Equities Fund, 730 3rd Avenue, New York, NY 10017-3206.

NOTE 15 — FUNCTIONAL STATEMENT

Operating expenses by functional classification are summarized as follows:

	<i>Compensation and Benefits</i>	<i>Scholarships and Fellowships</i>	<i>Supplies and Other Services</i>	<i>Equipment</i>	<i>Depreciation</i>	<i>Total</i>
Instruction	\$ 30,035,145	\$ -	\$ 6,873,420	\$ 259,150	\$ -	\$ 37,167,715
Sponsored Programs	7,282,982	-	6,310,917	294,036	-	13,887,935
Libraries	1,119,537	-	306,407	77,956	-	1,503,900
Community Services	377,731	-	66,846	831	-	445,408
Student Services	3,012,333	-	1,398,138	7,383	-	4,417,854
Operation & Maintenance of Plant	3,581,973	-	4,235,312	13,174	-	7,830,459
Institutional Support	6,899,509	-	2,506,227	81,218	-	9,486,954
Depreciation	-	-	-	-	6,269,706	6,269,706
Auxiliary Enterprises	3,825,829	-	8,003,130	32,569	-	11,861,528
Student Aid Expense	-	4,342,583	-	-	-	4,342,583
Total Operating Expenses	\$ 56,135,039	\$ 4,342,583	\$ 29,700,397	\$ 766,317	\$ 6,269,706	\$ 97,214,042

NOTE 16 — CAPITAL LEASE OBLIGATION

Capital Lease Payable consists of a lease-purchase agreement between Vincennes University and Xerox Corporation for a Docutech Printer. The present value of the minimum lease payments of \$185,624 was recorded as equipment.

Future minimum payments required under the capital lease and the net present value of the future payments are as follows:

<i>Year ending June 30</i>	<i>Principal</i>	<i>Interest</i>	<i>Minimum Payments</i>
2007	\$ 35,240	\$ 12,215	\$ 47,455
2008	38,975	8,480	47,455
2009	43,106	4,349	47,455
2010	19,283	490	19,773
Total Minimum Lease Payments	\$ 136,604	\$ 25,534	\$ 162,138

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLE

The University began recognizing the federal portion of the Perkins Loan Program as a long-term liability instead of restricted net assets. This change is to comply with NACUBO guidance. The University made adjustments due to this change in accounting principle which consisted of additions and deductions to the following balances:

	<i>Additions (Deductions) at July 1, 2004</i>
Other Non-Current Liabilities	\$ 1,116,332
Restricted Net Assets Expendable - Loan Funds	(1,116,332)
Net Adjustments	\$ 0

NOTE 18 — POST-RETIREMENT BENEFITS

The Financial Accounting Standards Board has passed SFAS 106, which in essence states “companies who currently account for other post-retirement employee benefits (OPEB) costs on a pay-as-you-go basis will now use the accrual method and recognize any and all related obligations. OPEB is defined as any form of benefits other than pensions - such as health care, life insurance, disability benefits, tuition assistance, employee discounts, legal plans, day care and housing subsidies. These benefits are provided by a mutual understanding by the employer and its employees whereby an employer undertakes to provide its current and former employees with benefits after they retire in exchange for the employees’ service over a specified period of time, upon attaining a specified age while in service or both.”

While SFAS 106 went into effect in 93-94, the University recognizes the estimated and potential negative impact such liabilities will have. Until actuarial studies have been completed, only estimates can be provided. The University will be required to implement the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective with the fiscal year ending June 30, 2008. The University will be required to address the accounting and reporting for costs and obligations related to postemployment health care and other non-pension benefits. The University has not yet determined the full impact of GASB Statement No. 45 on its financial statements. It is our opinion that the amounts will be extremely significant and have a material effect on financial presentation.

As of June 30, 2006, there were 240 retirees eligible for health benefits. Of the total cost of \$7,174,335, \$1,630,842 represented the current year benefit for health insurance provided to retirees. In addition to health, the University also provides life insurance for its employees. As with the health benefit, no liability is recorded for active employees based on service credits for future benefits payable at retirement. As of June 30, 2006, there were 258 retirees eligible for life insurance benefits. Of the total cost of \$169,069, \$28,003 represented the current year benefit for life insurance provided to retirees.

To be eligible for post-retirement benefits of health insurance coverage and life insurance, an employee hired prior to July 1, 1997, must have 15 years of continuous full-time service and have at least reached the age of 55, or have 10 years of service and have at least reached the age of 65. Employees hired after July 1, 1997, must have 20 years of continuous full-time service and be eligible to receive retirement benefits under the state retirement plan with no reduction in pension benefits. Under either Indiana State Teachers’ Retirement (ISTRF) or Public Employees’ Retirement Fund (PERF), members become eligible for normal retirement with full benefits at age 65 with 10 or more years of creditable service, at age 60 with 15 or more years of creditable service, or at 55 with members age plus years of creditable service equal to 85 or more (Rule of 85). A member who does not qualify for the Rule of 85 will be eligible for early retirement with reduced benefits at age 50 with 15 or more years of creditable service.

Post Retirement Benefit Trust

The University has established a Grantor Trust to provide certain post retirement benefits for those employees of Vincennes University and their eligible dependents covered by the plan. The Vincennes University Foundation has been named as the Trustee. All contributions made to the trust, together with the income shall be held, invested and administered by the Trustee. Payments will be made out of the trust at the direction of Vincennes University to the University or its Plan Administrator. The total amount transferred to the trust during FY06 for the years ending June 30, 2006 and June 30, 2005 was \$3,175,000 and \$1,134,173, respectively.

Changes to the Grantor Trust for the year ended June 30, 2006 were as follows:

Balance, beginning of year	\$ 3,946,273
Contributions to Trust	4,309,173
Interest, Dividends & Realized Gains	192,817
Unrealized Gains	59,790
Trustee Fees	(15,002)
Balance, end of year	\$ 8,493,051



NOTE 19 — LONG TERM DEBT

Long-term debt activity for the year ended June 30, 2006, is summarized as follows:

	<i>Interest Rate</i>	<i>Amount Issued</i>	<i>Amount Retired 2005-2006</i>	<i>Amount Outstanding June 30, 2006</i>	<i>Amount Due Within One Year</i>
Housing & Dining of 1983 Series A	3.000%	\$ 5,000,000	\$ 130,000	\$ 2,930,000	\$ 130,000
Student Fee Revenue Bonds of 1997 Series E	4.854%	25,535,000	1,730,000	9,880,000	1,815,000
Housing & Dining Revenue Refunding Bonds of 1996	5.036%	17,610,000	13,680,000	-	-
Auxiliary Facilities Systems Revenue Bonds of 2006	4.126%	13,440,000	205,000	13,235,000	650,000
Variable Rate Demand Student Fee Bonds Series F	<i>Cannot exceed 10%</i>	9,045,000	410,000	8,335,000	-
Variable Rate Demand Student Fee Bonds Series G	<i>Cannot exceed 10%</i>	23,895,000	100,000	23,795,000	-
Student Fee Bonds Series H	4.373%	4,545,000	-	4,545,000	-
Total Bonds Payable			\$ 16,255,000	62,720,000	\$ 2,595,000
Unamortized Bond Premium (Discount)				522,929	
Due Within One Year				(2,595,000)	
Total Long Term Debt				\$ 60,647,929	

Debt obligations are generally callable by the University, bear interest at fixed and variable rates ranging from 3% to 10%, and mature at various dates through 2027. The Series F and Series G bonds are variable rate demand bonds. The University is paying monthly interest on \$8,335,000 and \$23,795,000 at the current interest rate of 3.97% at June 30, 2006. These variable rate demand student fee bonds mature on October 1, 2022 and October 1, 2024, respectively. Maturities and interest on bonds payable for the next five years, and in the next five year periods are as follows:

	<i>Principal</i>	<i>Interest</i>
2007	\$ 2,595,000	\$ 2,603,584
2008	2,595,000	2,484,904
2009	3,245,000	2,356,724
2010	2,625,000	2,221,987
2011	2,745,000	2,099,999
2012-2016	6,935,000	9,323,895
2017-2021	6,945,000	7,781,129
2022-2026	34,690,000	2,521,041
2027	345,000	8,625
	\$ 62,720,000	\$ 31,401,888

Bonds Secured by Dormitory Revenues

The following bonds are secured by Dormitory Revenues of \$10,604,199.

The Housing and Dining Revenue Bonds of 1983 Series A, issued June 1983 by the Board of Trustees to fund construction for residential building of Vigo Hall.

The Auxiliary Facilities Systems Revenue Bonds of 2006, issued in February 2006 by the Board of Trustees to refund the University's outstanding 1989, 1991 and 1996 series bonds for the construction of Vanderburgh and Godare Residence Halls.

Bonds Secured by Student Fees

The following bonds are secured by student fees of \$29,077,821.

The Student Fee Revenue Bonds of 1997, issued in December 1997 by the Board of Trustees to refund the University's outstanding Student Fee Bonds, Series A, Series B, Series C and Series D.

The Variable Rate Demand Student Fee Bonds, Series F, initial advance was issued March 2002 in the amount of \$1,500,000 with two more advances in August 2002 and April 2003 totaling \$5,175,000 and one in September 2003 in the amount of \$2,370,000 by the Board of Trustees for the construction of Phase II of the Technology Building. The Series F Bonds will bear interest at a daily rate, weekly rate, long term rate, or fixed rate. When the Bonds are in the daily or weekly rate mode, the interest rate will

be determined by the Remarketing Agent at the lowest rate of interest which, in its judgment, will cause the Bonds to have a market value equal to the principal amount plus accrued interest. In no event will the interest rate exceed 10%. As of June 30, 2006, the rate is set on a weekly rate of 3.97%.

The Vincennes University Variable Rate Demand Student Fee Bonds, Series G, were issued on October 14, 2004. The proceeds were used to fund construction of a performing arts center and a student sport facility. The initial advance of \$11,455,000 was issued October 2004 with two more advances in March and June 2005 totaling \$7,700,000. The final distribution of \$4,740,000 was received in September 2005. The total proceeds from the issue including bond issuance costs was \$23,895,000. Of this amount, \$16,000,000 was used to fund construction of the Red Skelton Performing Arts Center and \$7,000,000 was used to fund construction of the P. E. Recreational Sports Facility. The Series G Bonds will bear interest at a daily rate, weekly rate, long term rate, or fixed rate. When the Bonds are in the daily or weekly rate mode, the interest rate will be determined by the Remarketing Agent at the lowest rate of interest which, in its judgment, will cause the Bonds to have a market value equal to the principal amount plus accrued interest. As of June 30, 2006, the rate is set on a weekly rate of 3.97%.

The Vincennes University Student Fee Bonds, Series H, were issued on February 7, 2006 in the aggregate original principal amount of \$4,545,000. They will bear interest at fixed rates as stated in the maturity schedule. The net interest cost is 4.373%. The proceeds are being used to fund construction of an academic building on the Jasper Campus. This building will house additional classroom space to meet the increasing enrollment of students at the Vincennes campus in Jasper. The facility will provide additional quality instruction space for several departments including: Business and Technology, Humanities and Social Sciences, Math and Science and Continuing Education. It will also provide new computer laboratory rooms.

Advanced Refunding of Housing and Dining Revenue Bonds

During the fiscal year ending June 30, 2006, the University refinanced the outstanding Housing and Dining Revenue Refunding Bonds of 1996. The \$13,440,000 refunding revenue bonds have an average interest rate of 4.126 percent and were issued to advance refund \$13,105,000 of outstanding Housing and Dining Revenue Refunding Bonds of 1996. The net proceeds of \$13,618,484 (after payment of \$223,594 in issuance costs and receipt of \$402,078 in unamortized premiums) were deposited into an irrevocable trust with an escrow agent to purchase U.S. Government securities. These securities and investment income earnings were used to redeem all outstanding bonds as of April 1, 2006. As a result, the Housing and Dining Revenue Refunding Bonds of 1996 were defeased and the liability has been removed from the Statement of Net Assets. The advanced refunding resulted in an accounting loss of \$519,769. The University, in effect, decreased its aggregate debt service payments by \$660,259 over the next sixteen years. The refunding resulted in an economic gain of \$489,398.

Funds held with Bond Trustee

Current Funds Expected to be Depleted Within a Year	
Student Fee Bonds Series F	\$ 7,282
Student Fee Bonds Series G	587
Student Fee Bonds Series H	241,272
Other B & I Accounts	6,717
Total Current	255,858
H & D Bonds of 1983 A & B Vigo Hall	238,803
Total Funds held with Bond Trustee	\$ 494,661

NOTE 20 - SUBSEQUENT EVENTS

The University received state approval to construct an \$11 million Advanced Manufacturing Training Center. The facility will feature state-of-the-art training facilities with smart classrooms and labs designed to be flexible and highly adaptable to business and industry training needs. Bonds will be issued to fund this construction during fiscal year 2007.



Vincennes University Financial Report for 2005 - 2006

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The Pledge of Allegiance

From the Red Skelton Hour, January 14, 1969

I had this one teacher, he was the principal of the Harrison School, in Vincennes, Indiana. To me, he was the greatest teacher, a real sage of my time. He had such wisdom. We were all reciting the Pledge of Allegiance one day, and he walked over. This little old teacher - Mr. Lasswell was his name. He said: "I've been listening to you boys and girls recite the Pledge of Allegiance all semester and it seems as though it is becoming monotonous to you. If I may, may I recite it and try to explain to you the meaning of each word?"

I - me, an individual, a committee of one.

Pledge - dedicate all my worldly goods to give without self-pity.

Allegiance - my love and my devotion.

To the Flag - our standard, Old Glory, a symbol of freedom. Wherever she waves, there is respect because your loyalty has given her a dignity that shouts freedom is everybody's job.

Of the United - that means that we have all come together.

States - individual communities that have united into 48 great states. 48 individual communities with pride and dignity and purpose, all divided with imaginary boundaries, yet united to a common cause, and that's love of country.

Of America.

And to the Republic - a republic - a state in which sovereign power is invested in representatives chosen by the people to govern. and government is the people and it's from the people to the leaders, not from the leaders to the people.

For Which it Stands!

One Nation - meaning, so blessed by God.

Indivisible - incapable of being divided.

With Liberty - which is freedom and the right of power to live one's life without threats or fear or any sort of retaliation.

And Justice - the principle and quality of dealing fairly with others.

For All. - which means, boys and girls, it's as much your country as it is mine.

Since I was a small boy, two states have been added to our country, and two words have been added to the Pledge of Allegiance - "under God." Wouldn't it be a pity if someone said, "That is a prayer," and that would be eliminated from our schools too?

*Compliments of
Vincennes University and*



**RED
SKELTON**
Maxson & Performing Arts Center