

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

AUDIT REPORT
OF
INDIANA STATE UNIVERSITY
TERRE HAUTE, INDIANA
July 1, 2008 to June 30, 2009



FILED
03/12/2010

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UNIVERSITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President	Dr. Daniel J. Bradley	07-01-08 to 06-30-11
Vice President for Business Affairs. Finance, and University Treasurer	Gregg S. Floyd Vacant Diann E. McKee (Acting) Diann E. McKee	08-02-02 to 07-01-08 07-02-08 to 07-08-08 07-09-08 to 11-17-08 11-18-08 to 06-30-10
Associate Vice President for Finance and Assistant Treasurer	Domenic Nepote	06-18-04 to 06-30-10
Associate Vice President and University Controller	Jeffrey J. Jacso	06-18-04 to 06-30-10
President of the Board of Trustees	Michael J. Alley Ron D. Carpenter	07-01-05 to 06-30-09 07-01-09 to 06-30-10



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AN EQUAL OPPORTUNITY EMPLOYER

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

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

We have audited the financial statements of Indiana State University (University), as of and for the year ended June 30, 2009, and have issued our report thereon dated October 21, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the University's Board of Trustees, management, 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.

October 21, 2009

STATE BOARD OF ACCOUNTS
State Board of Accounts



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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 INDIANA STATE UNIVERSITY, TERRE HAUTE, INDIANA

Compliance

We have audited the compliance of Indiana State 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, 2009. 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, 2009.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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)

A control deficiency in a university's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

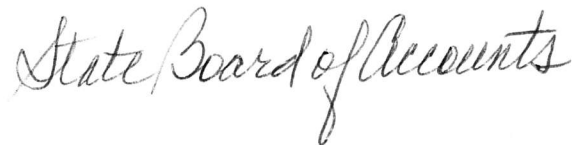
Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Indiana State University, a component unit of the State of Indiana, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 21, 2009. Our audit was performed for the purpose of forming an opinion on the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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, Board of Trustees, 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.

March 1, 2010

STATE BOARD OF ACCOUNTS



INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2009

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</u>			
Direct Grant			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 360,960
Federal Work-Study Program	84.033		448,671
Federal Pell Grant Program	84.063		8,700,501
Academic Competitiveness Grants	84.375		473,138
National Science and Mathematics Access to Retain Talent Grants	84.376		<u>59,893</u>
Total for Student Financial Assistance Cluster			<u>10,043,163</u>
Direct Grant			
TRIO Cluster			
Student Support Services	84.042		329,460
Talent Search Program	84.044		(1,379)
Upward Bound	84.047		285,225
McNair Post-Baccalaureate Achievement	84.217		<u>240,269</u>
Total for TRIO Cluster			<u>853,575</u>
Total for Federal Grantor Agency			<u>10,896,738</u>
Research and Development Cluster			
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Ohio State University Foundation			
Grants for Agricultural Research, Special Research Grants	10.200	various	<u>24,637</u>
Total for Federal Grantor Agency			<u>24,637</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
Pass-Through University of Missouri - St. Louis			
Basic Scientific Research	12.431	W911NF-04-0383	<u>23,496</u>
Total for Federal Grantor Agency			<u>23,496</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Direct Grants			
Cultural Resource Management	15.224	L08AC13787	4,713
Fish and Wildlife Management Assistance	15.608	301817J087	19,376
U.S. Geological Survey - Research and Data Collection	15.808	05CRAG0038	35,505
Pass-Through Indiana University			
State Wildlife Grants	15.634	E2-08-WDS13	106,802
Pass-Through Purdue University			
Unknown	15.xxx	AV06-IN02	<u>4,988</u>
Total for Federal Grantor Agency			<u>171,384</u>
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u>			
Pass-Through Boston Science Museum			
Technology Transfer	43.002	NNG04GH14A	60,587
Pass-Through Purdue University			
Unknown	43.xxx	NNG05GG54H	<u>10,965</u>
Total for Federal Grantor Agency			<u>71,552</u>
<u>NATIONAL SCIENCE FOUNDATION</u>			
Direct Grants			
Geosciences	47.050	OCE-0550401	11,533
		EAR-0651431	3,143
		OCE-0825436	<u>24,526</u>
Total for Program			<u>39,202</u>
Biological Sciences	47.074	Various	32,665
Social, Behavioral, and Economic Sciences	47.075	Various	35,345
Education and Human Resources	47.076	DUE-0703112	130,997
Polar Programs	47.078	ANT-0636474	<u>28,806</u>
Total for Federal Grantor Agency			<u>267,015</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Grant			
Great Lakes Program	66.469	GL-00E29601-0	<u>27,063</u>
Total for Federal Grantor Agency			<u>27,063</u>

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

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2009
(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 ENERGY</u>			
Direct Grant			
Office of Science Financial Assistance Program	81.049	DE-FG02-06ER46304	3,513
Total for Federal Grantor Agency			<u>3,513</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-Through University of Kansas Center for Research, Inc.			
Research in Special Education	84.324	H324D030003	7,558
Total for Federal Grantor Agency			<u>7,558</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Grants			
Human Genome Research	93.172	1R03 HG003987-01	22,738
Research and Training in Complementary and Alternative Medicine	93.213	5U01AT002550-04	184,076
Cancer Biology Research	93.396	1R15CA133829-01A1	13,015
Biomedical Research and Research Training	93.859	1R21 GM072780-01A1	11,025
Total for Federal Grantor Agency			<u>230,854</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana University			
Unknown	97.xxx	HSFEHQ-07-D-0800	18,299
Total for Federal Grantor Agency			<u>18,299</u>
Total for Research and Development Cluster			<u>845,371</u>
<i>Other Federal Awards</i>			
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education			
Child and Adult Care Food Program	10.558		106,392
Summer Food Service Program for Children	10.559		2,983
Total for Federal Grantor Agency			<u>109,375</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Pass-Through Indiana Department of Workforce Development			
Trade Adjustment Assistance	17.245	C1-9-TAA-62626-20430 C1-8-TAA-61608-20182	1,178 8,831
Total for Federal Grantor Agency			<u>10,009</u>
<u>U.S. DEPARTMENT OF STATE</u>			
Pass-Through Academy for Educational Development			
Unknown	19.xxx	S-ECAAE-06-CA-121(MA)	4,731
Total for Federal Grantor Agency			<u>4,731</u>
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u>			
Pass-Through Purdue University			
Unknown	43.xxx	NNG05GG54H	3,357
Total for Federal Grantor Agency			<u>3,357</u>
<u>NATIONAL SCIENCE FOUNDATION</u>			
Direct Grant			
Education and Human Resources	47.076	DUE-0532027	117,197
Pass-Through Purdue University			
Education and Human Resources		HRD-0703443	34,037
Total for Federal Grantor Agency			<u>151,234</u>
<u>SMALL BUSINESS ADMINISTRATION</u>			
Pass-Through Indiana Small Business Administration			
Small Business Development Centers	59.037	8-603001-z-0015-23 9-603001-z-0015-24-01	43,365 46,493
Total for Federal Grantor Agency			<u>89,858</u>

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

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2009
(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</u>			
Direct Grants			
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	H326C030041-07 H326C080017	66,113 <u>139,315</u>
Total for Program			<u>205,428</u>
Teacher Quality Enhancement Grants	84.336	P336B030010-05 P336C070007	1,210,460 <u>152,105</u>
Total for Program			<u>1,362,565</u>
Pass-Through Indiana Department of Education Special Education - Grants to States	84.027		1,563,004
Pass-Through Indiana Department of Workforce Development Tech-Prep Education	84.243	C1-8-PLTW-7-264	44,887
Pass-Through Indiana Department of Education Special Education - State Personnel Development	84.323	H323AO30003-04	72,674
Pass-Through Indiana Department of Education Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		214,609
Pass-Through Indiana Commission for Higher Education Improving Teacher Quality State Grants	84.367	06-03 08-02	63,484 <u>9,230</u>
Total for Program			<u>72,714</u>
Total for Federal Grantor Agency			<u>3,535,881</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Grant			
Advanced Education Nursing Traineeships	93.358	A10HP00183-09-00	32,018
Pass-Through Purdue University Injury Prevention and Control Research and State and Community Based Programs	93.136	8000023430	32,346
Pass-Through Mental Health America of Vigo County Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		57,583
Pass-Through Ball State University Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		328
Pass-Through Indiana University Foster Care Title IV-E	93.658	01-04-CW-0203	47,707 <u>47,707</u>
Total for Federal Grantor Agency			<u>169,982</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u>			
Pass-Through State of Indiana AmeriCorps AmeriCorps	94.006	F20-7-AF-0005 F20-8-AF-0005	16,289 138,772
ARRA - AmeriCorps	94.006	F20-8-AF-0005	497 <u>497</u>
Total for Federal Grantor Agency			<u>155,558</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security Law Enforcement Terrorism Prevention Program	97.074	C44P-9-191A	4,930 <u>4,930</u>
Total for Federal Grantor Agency			<u>4,930</u>
<u>U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT</u>			
Pass-Through American Council on Education/Higher Education for Development Cooperative Development Program	98.002	HNE-A-00-97-00059-00	10,655 <u>10,655</u>
Total for Federal Grantor Agency			<u>10,655</u>
Total federal awards expended			<u>\$ 15,987,679</u>

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

INDIANA STATE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

Circular A-133 requires an annual audit of an entity expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of universities shall be conducted annually.

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

The purpose of the Schedule is to present a summary of those activities of the University for the year ended June 30, 2009, which have been financed by the U. S. Government (federal awards). For purposes of the Schedule, federal awards include all federal assistance and procurement relationships entered into directly between the University and the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. The Schedule presents only a selective portion of the activities of the University, therefore, it is not intended to and does not present the financial position, change in financial position, or cash flows of the University.

Note 2. Federal Family Educational Loans

The number of guaranteed student loans and total amount for each program were as follows for Indiana State University students for the year ended June 30, 2009:

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Number of Students</u>	<u>Amount</u>
Federal Stafford Loans	84.032	8,545	\$ 37,898,681
Federal Parent Loans for Undergraduate Students	84.032	<u>678</u>	<u>5,595,135</u>
Totals		<u>9,223</u>	<u>\$ 43,493,816</u>

The above is presented as additional information and is not included in the Schedule of Expenditures of Federal Awards.

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

Note 3. Federal Perkins Student Loan Program

The University participates in the Federal Perkins Loan Program. Amounts loaned to students are recorded as notes receivable. Gross student notes receivable outstanding at June 30, 2009, was:

Program	Federal CFDA Number	Amount
Federal Perkins Loan Program	84.038	\$ 8,375,180

The above is presented as additional information and is not included in the Schedule of Expenditures of Federal Awards.

Note 4. Subrecipients

Of the federal expenditures presented in the schedule, the University provided federal awards to subrecipients as follows for the year ended June 30, 2009:

Program Title	Federal CFDA Number	Amount
Great Lakes Program	66.469	\$ 17,000
Special Education - Grants to States	84.027	54,000
Tech-Prep Education	84.243	42,750
Teacher Quality Enhancement Grants	84.336	136,599
Research and Training in Complementary and Alternative Medicine	93.213	54,054

INDIANA STATE 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
Significant deficiencies 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
Significant deficiencies identified that are not considered to be material weaknesses?	no

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? no

Identification of Major Programs:

Number	Name of Federal Program or Cluster
SFA Cluster	Student Financial Aid Cluster
R & D Cluster	Research and Development Cluster
84.027	Special Education - Grants to States

Dollar threshold used to distinguish between Type A and Type B programs: \$479,630

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

INDIANA STATE UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

INDIANA STATE UNIVERSITY
EXIT CONFERENCE

The contents of this report were discussed on March 1, 2010. Those attending were:

University Representatives:

Dr. Daniel J. Bradley, President of the University
Robert W. Baesler, member of the Board of Trustees
Dr. C. Jack Maynard, Provost and Vice President for Academic Affairs
Diann E. Mckee, Vice President for Business Affairs, Finance, and University Treasurer
Melony Sacopulos, General Counsel and Secretary of the University
Domenic Nepote, Associate Vice President for Finance and Assistant Treasurer
Jeffrey J. Jacso, Associate Vice President and University Controller
Sarah Ber, Director Grants and Contracts
Kim Donat, Director, Office of Student Financial Aid
Charlene Shivers, Assistant Director, Office of Student Financial Aid
Brenda Hall, Senior Associate Director, Office of Student Financial Aid

State Board of Accounts Representatives:

Jeffrey Arthur, College and University Audit Supervisor
Jane Kuhn, Field Examiner
Laura Ping, Field Examiner



2008-2009

Indiana State University Financial Report



Building Our Future



**Indiana State
University**

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Message from the President

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

This annual financial report for the fiscal year ending June 30, 2009 reflects Indiana State University's commitment to excellence in higher education and faithful stewardship of public funds. Our mission—both in concept and in execution—is to help transform student lives through excellent teaching, hands-on learning, and genuine community engagement. We balance our enthusiasm for that important and satisfying work with a conscious recognition that a public institution must finance that mission with care and good judgment.

In the past year we have celebrated remarkable events in the life of Indiana State. In September, we opened the newly renovated University Hall—home of ISU's College of Education—and not only created an exciting and efficient work space for our students and faculty but also preserved a wonderful building that was constructed in 1936. Earlier in the summer we dedicated a state-of-the-art Student Recreation Center that we anticipate will contribute to the University's ability to attract and retain students while also providing the components for living a healthy lifestyle. Our students originated the idea for the center and agreed to be responsible for its \$21.7 million price tag—an indicator of the importance such facilities have to today's students. These new and updated facilities, together with our ongoing efforts to beautify the campus and maintain our existing infrastructure, bode well for future growth and vitality on our campus.

This report includes financial statements with accompanying financial statement notes, the independent auditor's report, and the management discussion and analysis. These statements were prepared in accordance with guidelines established by the Governmental Accounting Standards Board (GASB) and were audited by the Indiana State Board of Accounts.

Please note the financial statements for the Indiana State University Foundation are included as a component unit of the University in accordance with GASB Statement No. 39. This information is included to provide a more inclusive reflection of the University's financial health. In conjunction with this fall's Homecoming, the Foundation announced the public phase of an \$85 million fundraising campaign to support the University with 55 percent of the goal already received in pledges and gifts.

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



Sincerely,

A handwritten signature in blue ink that reads "Daniel J. Bradley". The signature is fluid and cursive, with a large loop at the end.

Dr. Daniel J. Bradley
President



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Indiana State University, a component unit of the State of Indiana, as of and for the years ended June 30, 2009 and 2008. 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 audits. 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana State University, as of June 30, 2009 and 2008, 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 October 21, 2009, on our consideration of Indiana State 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.

October 21, 2009

STATE BOARD OF ACCOUNTS
State Board of Accounts

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Indiana State University (the University) for the 2008-2009 fiscal year ended June 30, 2009. This overview complies with *Governmental Accounting Standards Board* (GASB) principles, GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38.

Also presented is selected comparative information for the 2007-2008 fiscal year. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes that follow this section.

Indiana State University is a research intensive, residential institution offering instruction at the associate, bachelor's, master's, and doctoral levels. The University offers a diverse range of degree programs through a framework of 43 departmental units in six colleges and various divisions. Located in Terre Haute, Indiana, with 10,457 students, Indiana State University is a significant economic engine for the Wabash Valley and the State of Indiana.

Financial Highlights

The University's financial position continues to be strong, with an increase in net assets of \$11.8 million for the fiscal year ending June 30, 2009. This continues a trend of solid financial performance

and adds to the increase of \$20 million in the fiscal year ending June 30, 2008.

Operating revenues for the fiscal year were \$88.7 million, as compared with \$86.7 million for fiscal year 2008, an increase of two percent. The positive operating results included net student fee increases of \$1.3 million, an increase in net auxiliary fees of \$1.1 million, and a decline in other operating revenues of \$0.5 million.

Other operating revenues of \$6.5 million include \$1.4 million of the \$23 million grant received from the Lilly Endowment Inc., administered through the Indiana State University Foundation for the establishment of the Indiana State University Networks Financial Institute (NFI). Headquartered in Indianapolis with satellite offices in Terre Haute on the ISU campus and in Washington, D.C.,



The newly renovated University Hall



Networks is leading a variety of programs, including a mobile classroom for elementary students dubbed "The Money Bus." Through its Networks Scholars Program, NFI provides financial support for the best and brightest students who want to pursue careers in financial services. The annual Regulatory Reform Summit brings together policy makers and industry leaders to discuss issues facing the financial services sector. This is the sixth year of the grant. The offsetting effect of this revenue is an increase in operating expenses, which primarily affected salary and benefits.

Operating expenses were \$193.1 million for fiscal year 2009, representing an \$11.6 million increase from the previous year's expenditures of \$181.5 million. This change results from an increase in salary and benefits of \$8 million over 2008 expenditures. A ten percent increase in medical insurance premiums, a minimum wage increase for student employment, filling of vacant positions from the prior year, and a three percent increase in compensation contributed to this increase. Utilities expense grew by \$0.4 million due to increased electricity usage and rates. Natural gas cost remained stable due to long-term advance purchases. Supplies and expense grew by \$2.1 million due to increased travel and training cost, increased Sodexo board charges, an increase in computer software maintenance, and increased athletic supplies. Depreciation expenses remained constant with last year's expenses, while expenses for scholarships and fellowships grew by \$1 million.

Net non-operating and other revenues increased by \$2.4 million over 2008. State appropriations increased by \$1.3 million. Due to state revenue shortfalls, a one percent reduction in the operations appropriation, implemented in 2009, resulted in a \$0.8 million reduction. Investment income declined by \$2.3 million as the result of \$20.6 million of construction expenditures from student fee bond issue, Series M, and a reduction of interest rates on short-term and long-term financial instruments. Non-operating grants and contracts revenue grew by \$2.4 million as a result of increased federal and state student financial aid. Other non-operating revenues decreased by \$0.2 million, while other non-operating expenses increased by \$0.2 million. Other non-operating expense was a transfer of property to the Indiana State University Foundation that had been originally gifted to the University by the Foundation. Interest on capital asset-related debt decreased by \$2.2 million, as this amount was capitalized during construction.

Capital appropriations decreased by \$2.3 million. The State of Indiana did not release funds for repair and rehabilitation due to fiscal constraints. Capital grants and gifts increased by \$1.4 million as the result of the transfer of the Indiana National Guard Armory to the University by the State of Indiana and the recognition of assets purchased for ISU Networks by the ISU Foundation.

Using the Financial Statements

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

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

receivables, and long-term investments. Non-current liabilities include long-term bonds and notes payable.

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

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

The Governmental Accounting Standards Board (GASB) requires the inclusion of financial statements for all significant University component units. As of June 30, 2009, the Indiana State University Foundation is the only component unit to be included. The Foundation is a nonprofit organization that is subject to reporting guidelines governed by the Financial Accounting Standards Board (FASB); accordingly, certain revenue recognition criteria and presentation features are different from established GASB standards. No modifications have been made to the Indiana State University Foundation's financial information in the University's financial reporting presentation for these differences.

Statement of Net 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 is net assets, which is one measure of the financial condition of the University. Changes in net assets are an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured at historical values in accordance with generally accepted accounting principles. One notable exception is investments, which are recorded at fair market value as of the date of the financial statements. A summarized comparison of the University's assets, liabilities, and net assets at June 30, 2009 and 2008 is as follows:

Statement of Net Assets (in millions)

	2009	2008
Current assets	\$ 77.9	\$ 98.3
Non-current assets:		
Deposits with bond trustee	0.8	1.3
Notes receivable	5.4	5.8
Other long-term investments	48.8	49.0
Net OPEB asset	1.1	0.0
Capital assets, net	288.1	263.3
Other	0.7	0.7
Total assets	<u>\$ 422.8</u>	<u>\$ 418.4</u>
Current liabilities	28.4	28.0
Non-current liabilities	92.8	100.6
Total liabilities	<u>\$ 121.2</u>	<u>\$ 128.6</u>
Net assets	<u><u>\$ 301.6</u></u>	<u><u>\$ 289.8</u></u>



Current assets consist primarily of cash, operating investments, and accounts receivable. Current assets totaled \$77.9 million at June 30, 2009, as compared to \$98.3 million at June 30, 2008.

The decrease of current assets by \$20.4 million is due to a \$10 million decrease in cash and cash equivalents and an \$8.5 million decrease in short-term investments. Cash equivalents include investments that will mature within the next 90 days. This decrease is largely due to the spending of approximately \$20.6 million of Series M bond proceeds for the renovation of University Hall and the construction of the new Student Recreation Center. In addition, the state receivable decreased by \$2.2 million as the State of Indiana allowed the University to draw down the final amount due to be used for major repairs and renovations.

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portion of long-term debt. Total current liabilities increased by \$0.4 million in 2009. Significant changes in current liabilities include a \$1.1 million increase in other liabilities, a \$0.5 million increase in accrued compensation, a \$0.5 million decrease in deferred revenue, and a \$0.9 million decrease in bond and interest payable.

Non-current assets increased by \$24.8 million in 2009 from \$320.2 million in 2008. Long-term investments decreased by \$0.2 million. Capital assets increased by \$24.8 million due to an increase in construction work-in-progress as a result of the ongoing construction of the Student Recreation Center and the renovation of University Hall.

Non-current liabilities decreased by \$7.8 million due to regular debt service payments made on bonds and notes outstanding.

Capital and Debt Activities

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

University Hall, the new home of the College of Education, opened for classes in fall 2009. The \$29.8 million project is the largest state-funded project in the University's history. Work began in June 2007 on the renovation of University Hall. Bonds were issued for \$26.9 million in June 2007 for the project, with the remaining \$2.9 million of the construction costs paid with University funds. Renovation of the 1936 facility, which is listed on the Indiana Division of Historic Preservation and Archaeology's Historic Sites and Structures, provides high-tech classrooms and office space. University Hall also includes a 400-seat auditorium. The building features historic murals painted by Terre Haute native Gilbert Wilson, which were preserved as part of the renovations.

The dedication and opening of the Student Recreation Center took place in July 2009. The 109,420-square-foot facility houses a three-court gymnasium; a recreation aquatics facility with separate pools for lap swimming and instructional/leisure activities; a fitness center outfitted with cardio and strength-training equipment; an elevated jogging/running track; multi-purpose activity studios suitable for aerobics, martial arts, and fitness classes; a multi-activity court designed for

indoor soccer, roller hockey, and other activities; offices for the Recreational Sports Program; a healthy snack bar; an outdoor equipment center; and locker facilities and equipment rooms. The cost of the Student Recreation Center was funded by \$21.1 million of a Student Service Fee Series M bond issue, with the remaining \$0.75 million funded by the University.

The 2007 Indiana General Assembly approved the expenditure of and related bonding authority under IC21-34 of \$14.8 million for the renovation of the life sciences/chemistry teaching laboratories housed in the Science Building and the construction of a satellite chiller plant. The project will provide for major upgrades in the life sciences/chemistry laboratories to reflect current technology, as well as more stringent safety and access standards as required by the Americans with Disabilities Act (ADA) and Occupational Safety and Health Administration (OSHA) guidelines. Construction of a

satellite chiller in close proximity to the Science Building will provide for additional capacity within the cooling system of the campus and build back-up redundancy not currently available. The current construction estimate for the satellite chiller plant is \$7.1 million and the estimate for the first phase of the laboratory renovation is \$2.3 million. Costs for subsequent phases of the laboratory renovations are \$2.7 million and \$2.1 million. An anticipated bond issue for the construction of the satellite chiller plant and the first phase of the laboratory renovation will be known as Student Fee Bonds, Series N, in the approximate amount of \$9.5 million. These bonds have an anticipated issue date of late 2009. The construction cycle for the satellite chiller plant is estimated at one year. The laboratory renovations will take place over a year-and-a-half as portions of the laboratories must be taken off-line each semester to accommodate classes.

Indiana State University began renovation of Sandison Hall in June 2009, with a scheduled completion date before the fall 2010 student move-in. Constructed in 1962 and last renovated in 1988, Sandison Hall is attached to the Hulman Memorial Student Union. Construction cost is estimated to be approximately \$11 million and will be funded by \$2.5 million in residence hall reserve funds with remaining dollars funded by a housing and dining bond issue. The Sandison project will reconfigure existing space to create double-occupancy rooms that have individual air-conditioning and heat controls as well as private baths. Two activity rooms, equipped with SMART Boards and video conferencing capabilities, will be located in the basement along with a conference room. The building will also have wireless Internet access throughout and a fire suppression system. The Housing and Dining System Revenue Bonds, Series 2009, to be issued in November 2009, will include \$7.7 million for the Sandison project as well as \$5.8 million to refinance the Burford/Jones Hall note payable.

The University anticipates receiving transfer of ownership of the Federal Building, located south of the campus, in the fall of 2009, for use as a new facility for the College of Business. This gift from the federal government also includes \$6 million in federal earmarks for renovations that have been completed prior to ownership transfer as administered through the General Services Administration (GSA). A project cost estimate of \$20 million is needed to complete the renovation of the Federal Building. The 2009 Indiana General Assembly authorized \$20 million in bonding authority for the project, of which \$10 million is eligible for state fee replacement. The remaining \$10 million will be funded through private gifts.

On January 15, 2009, the Ninth Street Indiana National Guard Armory was transferred to the University. The armory, dedicated in 1935 and located just north of Hulman Center on the east side



Sandison Hall renovations



of campus, was closed in conjunction with a National Guard restructuring. Due to its strategic location within the traditional campus boundaries, the armory is an important addition to the campus. The use of the facility will be determined for the best needs of the students as part of the strategic planning process that reviews land use and facilities assessment.

The University continues to work aggressively to manage its financial resources effectively, including the issuance of debt to finance capital projects. Due to market conditions related to financial guaranty insurance policies, the following rating changes have occurred. On November 7, 2008, Moody's Investor Service's insured rating on all MBIA insured bonds were downgraded. Series M bonds insured ratings from Moody's were downgraded from (A2) to (Baa1). Moody's underlying credit rating for the Series M bonds remains (A2). On June 26, 2008, Fitch's insured ratings on all MBIA insured bonds were discontinued. The Fitch underlying credit rating for the Series M bond remains (A+). On April 13, 2009, Moody's ratings on all Ambac insured bonds were downgraded from (Baa1) to (Ba3). This affected the insured ratings for Series K and Series L bond issues. Moody's underlying credit rating on Series K and Series L bond issues remain at (A2). Additionally, Standard & Poor's rating action on June 24, 2009 downgraded all Ambac insured bonds from (A) to (BBB). Standard & Poor's underlying credit rating on Series K bond remains (A).

Net Assets

Net assets represent the residual value of the University's assets after liabilities are deducted. The University's net assets at June 30, 2009 and 2008 are summarized in the table that follows:

Net Assets (in millions)		
	2009	2008
Invested in capital assets, net of related debt	\$196.0	\$162.0
Restricted		
Non-expendable	2.9	2.9
Expendable	8.4	32.1
Unrestricted (designated for operational activities)	<u>94.3</u>	<u>92.8</u>
Total net assets	<u>\$301.6</u>	<u>\$289.8</u>

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

Restricted net assets are subject to externally imposed restrictions governing their use. Restricted non-expendable net assets are funds held for scholarships and fellowships. Restricted expendable

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

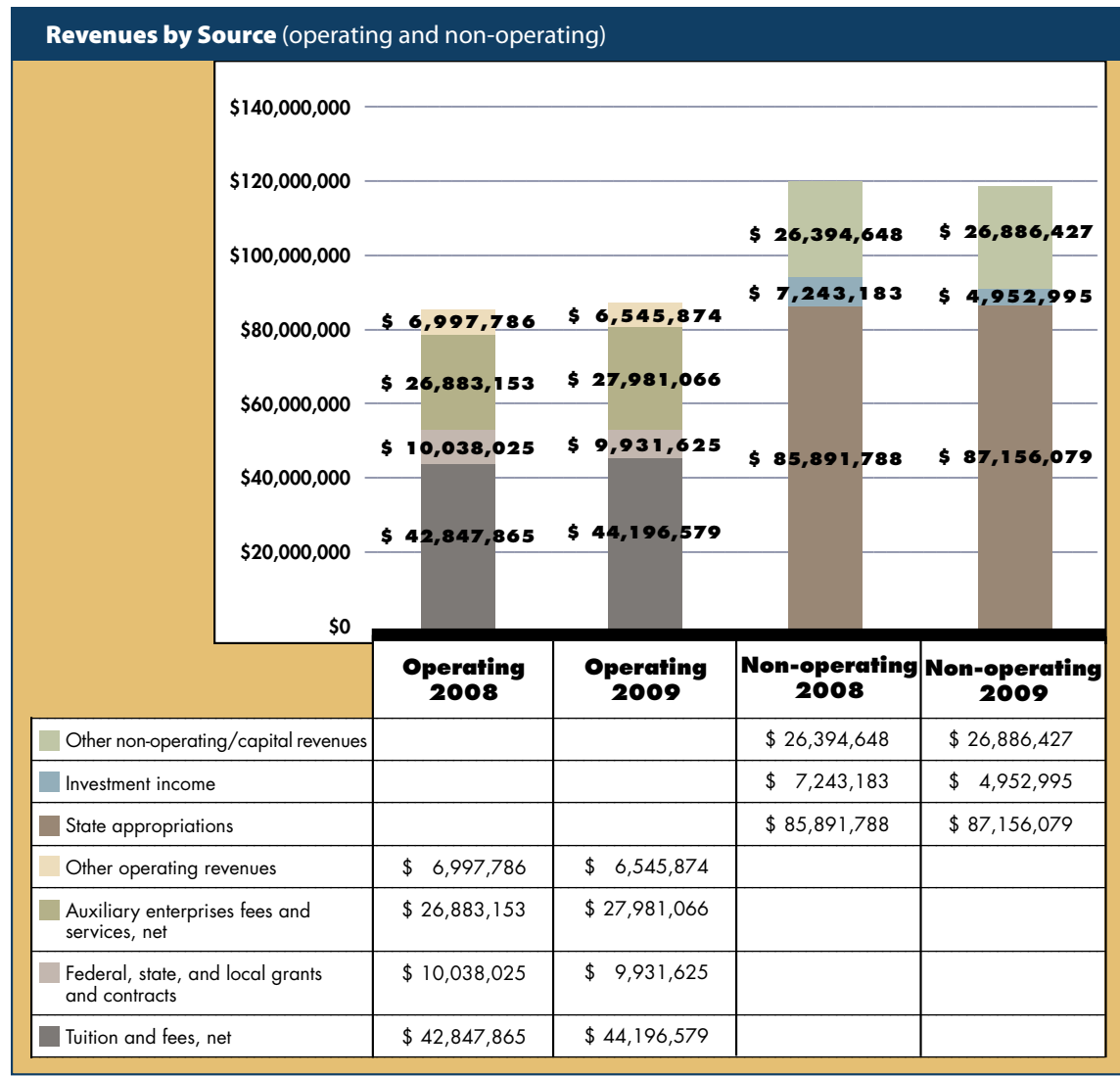
The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2009 and 2008 is as follows:

Revenues, Expenses, and Changes in Net Assets (in millions)		
	2009	2008
Operating Revenues:		
Tuition and fees (net of scholarship and other allowances of \$27.1 million for 2009 and \$25.2 million for 2008)	\$ 44.2	\$ 42.8
Grants and contracts	10.0	10.0
Auxiliary enterprises fees and services (net of scholarship and other allowances of \$6.5 million for 2009 and \$5.8 million for 2008)	28.0	26.9
Other	6.5	7.0
Total operating revenue	<u>\$ 88.7</u>	<u>\$ 86.7</u>
Operating expenses	<u>(193.2)</u>	<u>(181.5)</u>
Operating loss	(\$ 104.5)	(\$ 94.8)
Non-operating revenues (expenses):		
State appropriations	87.1	85.9
Investment income (net of investment expenses of \$0.1 for 2009 and \$0.2 for 2008)	4.9	7.2
Non-operating revenues and contract revenue	21.6	19.2
Capital appropriations		2.3
Capital grants and gifts	1.6	0.2
Other non-operating revenues and expenses	3.6	4.7
Interest on capital asset related debt	<u>(2.5)</u>	<u>(4.7)</u>
Net non-operating and other revenues	<u>\$ 116.3</u>	<u>\$ 114.8</u>
Increase in net assets	\$ 11.8	\$ 20.0
Net assets, beginning of year	289.8	269.8
Net assets, end of year	<u>\$ 301.6</u>	<u>\$ 289.8</u>



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

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



Indiana State University 2008-2009 Financial Report

Operating revenues grew by \$1.9 million for fiscal year 2009. This is largely due to an increase of \$1.3 million in tuition and fees. The tuition increase is the result of a 5.1 percent increase in tuition rates. Overall, University enrollment remained relatively constant with 10,457 students in fall 2008 compared to 10,543 students in fall 2009; however, new freshman enrollment was up 1.5 percent. This is the third consecutive year the University has recognized an increase in freshman enrollment. Graduate enrollment grew by 21 students, to set an enrollment record of 2,071 graduate students. Beginning in fall 2005, Indiana State University implemented more stringent admissions standards in

class rank, grade point average, and Core 40 completion. This initially contributed to lower enrollment numbers, which have now begun to rebound. The University has also created a robust scholarship program and an ongoing marketing plan, leading to increased enrollment for first time freshmen and transfer students. Indiana State University is committed to strengthening the quality of students who enter the institution.

Auxiliary enterprises fees and services increased by \$1.1 million during fiscal year 2009, while other operating revenue decreased by \$0.5 million. Auxiliary enterprises fees and services increased due to a four percent increase in fees for room and board and an increase in the number of students residing in campus housing.

Net non-operating and capital revenues increased by \$1.4 million for fiscal year 2009. This growth is due to increases in non-operating grants

and contract revenue of \$2.4 million and capital grants and gifts of \$1.4 million and a reduction of \$2.1 million in interest expense related to capital asset debt. Decreases in investment income of \$2.3 million and capital appropriations of \$2.3 million offset this growth

Like most universities, Indiana State University continues to make market-competitive compensation and benefits a top priority. These expenses represent 64 percent of total University expense/budget.

A comparative summary of the University's expenses for the years ended June 30, 2009 and 2008 is as follows:



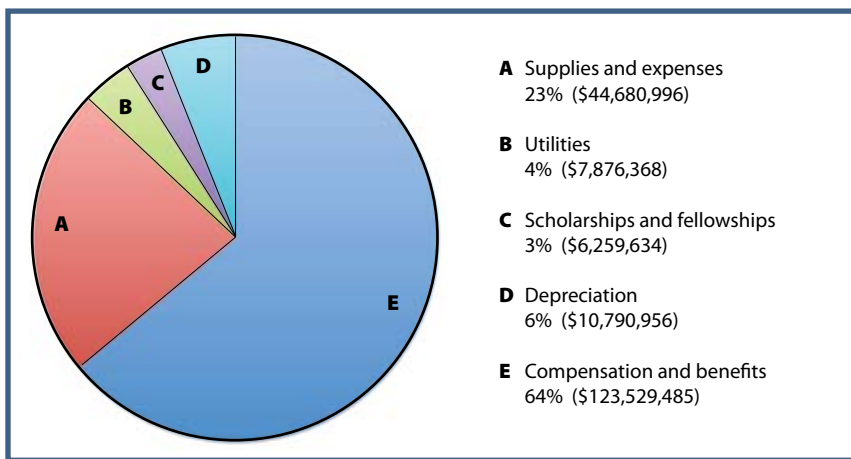
University Hall
Atrium

Operating Expenses (in millions)

	2009	2008
Operating:		
Compensation and benefits	\$ 123.5	\$ 115.6
Supplies and expenses	44.7	42.6
Utilities	7.9	7.4
Scholarships and fellowships	6.3	5.2
Depreciation	10.7	10.7
	<u>\$ 193.1</u>	<u>\$ 181.5</u>
Non-operating:		
Interest on capital asset related debt	\$ 2.5	\$ 4.7
Other non-operating expenses	0.2	0.0
	<u>0.2</u>	<u>0.0</u>
Total expenses	<u>\$ 195.8</u>	<u>\$ 186.2</u>



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



Total operating expenditures increased from \$181.5 million in fiscal year 2008 to \$193.1 million in fiscal year 2009. Compensation and benefits increased by \$8 million largely due to a three percent increase in salaries and a ten percent increase in medical insurance premiums. Increases in the minimum wage rate for student employees and the filling of vacant positions from the prior year also contributed to the increase in compensation and benefits. Supplies and expense also showed a \$2.1 million increase for 2009. These increases are due to increases in travel and training costs, Sodexo board charges, computer software maintenance expenses, and athletic supplies purchases.

Utilities expenses grew by only \$0.4 million for 2009. The University saved over \$0.5 million for 2009 in natural gas costs by having entered into long-term advance purchase contracts.

Scholarships and fellowships expenses remained at the same levels as 2008 in spite of the enrollment decline. This is in keeping with the institutional priority of providing additional need and merit based scholarships.

In addition to their natural (object) classification (expenditure type), the reader is also benefited by a review of operating expenses by the nature of the University division incurring the expense. A summary of the University's expenses by functional classification for the years ended June 30, 2009 and 2008 is provided on page 14:



Expenses by Function (in millions)

	2009	2008
Operating:		
Instruction	\$ 63.5	\$ 60.7
Research	11.9	10.7
Public service	1.7	1.6
Institutional and academic support	36.2	35.3
Student services	11.2	10.3
Operations of plant	24.3	22.2
Scholarships	7.2	6.4
Auxiliary enterprises	26.3	23.6
Depreciation	10.8	10.7
	<u>\$ 193.1</u>	<u>\$ 181.5</u>

Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by identifying the major sources and uses of cash. The statement assists the reader in evaluating the entity's ability to generate future net cash flows to meet obligations as they come due. A comparative summary of the Statement of Cash Flows for the years ended June 30, 2009 and 2008 is as follows:

Statement of Cash Flows (in millions)

	2009	2008
Cash received from operations	\$ 88.2	\$ 90.2
Cash expended for operations	<u>(180.7)</u>	<u>(172.4)</u>
Net cash used in operating activities	(92.5)	(82.2)
Net cash provided by non-capital financing activities	111.9	109.1
Net cash provided by investing activities	13.9	1.2
Net cash used by capital and related financing activities	<u>(43.3)</u>	<u>(52.8)</u>
Net decrease in cash and cash equivalents	(10.0)	(24.7)
Cash and cash equivalents, beginning of year	<u>56.0</u>	<u>80.7</u>
Cash and cash equivalents, end of year	<u>\$ 46.0</u>	<u>\$ 56.0</u>



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. For purposes of liquidity classification, investment maturities are evaluated as of the financial statement date.

The University increased the net cash used in operating activities by \$10 million to \$92.5 million for the 2009 fiscal year. Payments made to employees and on the behalf of employees increased by \$5.3 million from 2008. Tuition and fees cash receipts decreased by \$1.9 million, the result of a \$1.5 million decrease in receipts from the State of Indiana for the Correctional Training Institute and an eight percent increase in scholarship allowances for tuition and fees. Cash receipts for auxiliary enterprises decreased by \$0.6 million, which is also contributed to the increase in scholarship allowances.

Cash flows from capital financing activities decreased by \$9.5 million from 2008. This decrease is largely due to an \$11.8 million decrease in spending for capital assets. Spending of the bond proceeds from Series M related to the construction of the Student Recreation Center and the renovation of University Hall decreased in 2009 as the projects were near completion. This was offset by a \$2.3 million decrease in capital appropriations received from the state.

Overall, cash and cash equivalents decreased by \$10 million for fiscal year 2009, while long-term and short-term investments decreased by \$0.2 and \$8.5 million respectively.



Economic Factors Affecting the Future

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

Indiana State University has had a long tradition of serving primarily first-generation college students from diverse geographical, socio-economic, and ethnic backgrounds. Embracing this mission helped transform the lives of generations of students. The University's ongoing commitment to diversity remains a priority, with 18.9 percent of its fall 2009 student population being an American minority.

With the advent of a community college system, the University revised its admission standards to that of a more selective institution. The University has also revamped its scholarship program to attract high-achieving students while also providing a business-grade laptop computer award to all incoming students who earned a 3.0 or higher high school grade point average and completed Core 40 requirements or their equivalent. Partly as a result of these initiatives and increased marketing efforts, the University has experienced an increase in first time freshman enrollment for the past four fall semesters (1,703 in fall 2006 to 2,035 in fall 2009). Graduate enrollment also continued to increase from 2,031 students in the fall of 2006 to 2,074 in the fall of 2009.

Beginning with the fall 2007 semester, incoming freshmen at Indiana State University were the first students at a public institution in Indiana to be required to have notebook computers. This program brought opportunities for collaboration and academic inquiry, while preparing students to become more competitive in the work environment they will experience upon graduation.

Each year, the University provides the local community and the state with a skilled pool of more than 2,000 graduates ready to enter the workforce. Most Indiana State University graduates remain in Indiana, working in nearly every sector of the economy, illustrating the University's role in meeting the demand for an educated and skilled workforce.

The Princeton Review has named Indiana State University as one of the best colleges in a 12-state region for the fifth straight year. In its report, the Princeton Review found Indiana State offers a quality education at a reasonable cost, with about 60 percent of undergraduates receiving need-based financial aid. Providing a quality education at a reasonable cost allows the University to pursue a



One of the exercise rooms inside the Student Recreation Center



robust scholarship program and marketing plan to recruit first time freshmen and transfer students throughout the Midwest.

Currently, the University is in the final phase of completion of a strategic planning process and land use plan. The major emphasis of the strategic plan includes: increased enrollment and student success; advancement of experiential learning; enhancement of community engagement; strengthening and leveraging programs of strength and promise; diversity revenue; recruitment and retention of great faculty and staff; and development of partnerships to advance the University and community. The land use plan is expected to guide facility development for the next 15 to 20 years.

Beyond providing a high-quality education to its students, Indiana State University devotes a substantial part of its efforts to working in the local community, the state, and beyond. Through its various centers and partnerships, the University is actively engaged on a number of fronts in promoting economic development and improving the public education, health, and welfare of the Wabash Valley region. One of these initiatives is the Rural Health Innovation Collaborative. The Rural Health Innovation Collaborative was formed to respond to severe healthcare shortages, particularly in relation to rural areas in Indiana. Founding members of the Collaborative include Indiana State University, Indiana University School of Medicine, Union Hospital, Ivy Tech Community College Wabash Valley, the City of Terre Haute, and Terre Haute Economic Development Corporation. In addition to addressing workforce needs, the Collaborative's development focuses on neighborhood revitalization and economic development, including physical infrastructure build-out, business expansion and attraction, and the increase of rural healthcare services, training, and research. The Terre Haute Innovation Alliance, representing a partnership between Indiana State University, Rose-Hulman Institute of Technology, and the City of Terre Haute, encourages business development while engaging students and faculty in hands-on research and activities. Created and sustained with \$1 million of federal support, the Alliance provides commercialization services to companies that are developing or expanding their products. Currently, five companies are being served, creating jobs for the local economy and providing opportunities for both students and faculty.

A total of 45 percent of support for operating expenses comes to the University from the State of Indiana. The state appropriation is the largest single source of revenue and a crucial element of the University's total revenue stream. The University will see a reduction in state operating appropriation of approximately \$5.4 million over the next two fiscal years as a result of fiscal constraints in state revenue growth. To offset this reduction in operating appropriation, the University has implemented a budget reallocation process to reduce budgeted expenditures. The University is, therefore, challenged to develop and identify additional sources of funding. One way of meeting this challenge is the Indiana State University Foundation's comprehensive campaign, titled March On—The Campaign for Indiana State University. Fundraising dollars from this campaign are earmarked for the following areas: facility support, faculty, program support, student support, and the Fund for the Future. In addition, the University's attractive fee structure relative to other state research institutions allows for continued fee growth, as permitted by governing entities, while remaining an exceptional value within the state's higher education climate. The University continues to seek ways to diversify revenue streams to maintain student affordability.

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

Indiana State University Comparative Statement of Net Assets For the Years Ended June 30, 2009 and June 30, 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 46,061,314	\$ 56,028,186
Short-term investments	21,901,320	30,392,326
Accrued interest	1,071,619	1,062,466
Accounts receivable (net of allowance of \$6,202,230 for 2009 and \$5,644,075 for 2008)	2,935,280	2,881,637
Other accounts receivable	945,046	800,505
Grants receivable	1,386,391	1,805,919
State receivable, current portion	—	2,152,369
Notes receivable, current portion	2,644,491	2,356,515
Prepaid expenses	656,748	478,129
Other assets	47,153	61,077
Inventories	222,258	246,141
Total current assets	\$ 77,871,620	\$ 98,265,270
Non-current Assets		
Endowment investments—held in trust	\$ 689,948	\$ 746,810
Deposits with bond trustee	828,672	1,270,670
Notes receivable, non-current portion (net of allowance of \$788,067 for 2009 and \$812,138 for 2008)	5,438,340	5,850,989
Long-term investments	48,795,780	49,040,183
Net OPEB Asset	1,136,746	—
Capital assets (net of accumulated depreciation of \$228,458,590 for 2009 and \$221,385,775 for 2008)	288,091,897	263,287,193
Total non-current assets	\$ 344,981,383	\$ 320,195,845
TOTAL ASSETS	\$ 422,853,003	\$ 418,461,115
LIABILITIES		
Current liabilities		
Accounts payable	\$ 4,075,490	\$ 4,286,111
Accrued payroll and deductions	3,843,619	3,281,000
Deferred revenue	1,259,988	1,764,666
Funds held in custody for others	842,585	716,336
Other liabilities	6,060,163	4,946,276
Bonds payable	7,078,603	7,948,603
Notes payable	1,170,000	1,115,000
Lease payable	49,257	209,632
Debt interest payable	998,580	1,071,631
Long-term liabilities, current portion	3,046,688	2,677,506
Total current liabilities	\$ 28,424,973	\$ 28,016,761
Non-current liabilities		
Bonds payable	\$ 78,090,049	\$ 85,168,652
Notes payable	5,645,000	6,815,000
Compensated absences and termination benefits	1,325,906	860,521
Lease payable	—	51,150
Advances from federal government	7,754,822	7,705,851
Total non-current liabilities	\$ 92,815,777	\$ 100,601,174
TOTAL LIABILITIES	\$ 121,240,750	\$ 128,617,935
NET ASSETS		
Invested in capital assets, net of related debt	\$ 196,058,988	\$ 161,979,155
Restricted for:		
Non-expendable:		
Scholarships and fellowships	689,948	746,810
Loans	2,202,724	2,198,119
Expendable:		
Research and other grants	1,147,005	1,441,625
Capital projects	7,213,698	30,628,267
Debt service	4,734	4,748
Unrestricted	94,295,156	92,844,456
TOTAL NET ASSETS	\$ 301,612,253	\$ 289,843,180

Indiana State University Foundation, Inc.
Statement of Financial Position
Year Ended June 30, 2009

	Indiana State University Foundation			Sycamore Foundation Holdings, Inc.	Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted			
ASSETS						
Cash	\$ 577,845	\$ 245,136	\$ —	\$ 20,264	\$ —	\$ 843,245
Investments—at market	3,673,808	5,309,506	38,072,461	—	—	47,055,775
Assets held in trusts, interest in trusts and split interest agreements	—	1,244,793	2,154,830	—	—	3,399,623
Pledges, bequests and accounts receivable	492,835	1,301,029	695,385	—	—	2,489,249
Investment income receivable	11,477	73,038	—	—	—	84,515
Investment in Sycamore Foundation Holdings, Inc.	548,952	—	100,000	—	(648,952)	—
Land and property held for future use or sale	343,630	—	100,000	431,556	—	875,186
Deposits and expenses for acquisition of property	—	—	—	197,132	—	197,132
Equipment and furniture (net of accumulated depreciation of \$181,033)	93,490	—	—	—	—	93,490
Other assets	—	358,294	250,000	—	—	608,294
Due to/from other funds	<u>(3,974,040)</u>	<u>5,699,490</u>	<u>(1,725,450)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$ 1,767,997</u>	<u>\$ 14,231,286</u>	<u>\$ 39,647,226</u>	<u>\$ 648,952</u>	<u>\$ (648,952)</u>	<u>\$ 55,646,509</u>
LIABILITIES AND NET ASSETS						
Accounts payable	\$ 255,104	\$ 151,592	\$ —	\$ —	\$ —	\$ 406,696
Scholarships payable	—	—	—	—	—	—
Present value of liability under split interest agreements	86,904	106,285	606,262	—	—	799,451
Due to Indiana State University	1,032	250	688,666	—	—	689,948
Refundable advances	—	—	456,360	—	—	456,360
Total liabilities	<u>343,040</u>	<u>258,127</u>	<u>1,751,288</u>	<u>—</u>	<u>—</u>	<u>2,352,455</u>
Net assets						
Unrestricted	1,424,957	—	—	548,952	(548,952)	\$ 1,424,957
Temporarily restricted	—	13,973,159	—	—	—	13,973,159
Permanently restricted	—	—	37,895,938	100,000	(100,000)	37,895,938
Total net assets	<u>1,424,957</u>	<u>13,973,159</u>	<u>37,895,938</u>	<u>648,952</u>	<u>(648,952)</u>	<u>53,294,054</u>
Total liabilities and net assets	<u>\$ 1,767,997</u>	<u>\$14,231,286</u>	<u>\$ 39,647,226</u>	<u>\$ 648,952</u>	<u>\$ (648,952)</u>	<u>\$ 55,646,509</u>

Indiana State University Statement of Revenues, Expenses, and Changes in Net Assets For the Years Ended June 30, 2009 and June 30, 2008

	2009	2008
OPERATING REVENUES		
Tuition and fees	\$ 71,333,669	\$ 68,086,839
Scholarship allowances for tuition and fees	(26,479,869)	\$ (24,564,474)
Other allowances	(657,221)	\$ (674,500)
Net tuition and fees	44,196,579	\$ 42,847,865
Federal grants and contracts	6,117,048	6,047,362
State and local grants and contracts	402,640	609,539
Non-governmental grants and contracts	3,411,937	3,381,124
Auxiliary enterprises fees and services	34,528,711	32,693,425
Scholarship allowances for room and board	(6,086,675)	(5,468,827)
Other allowances	(460,970)	(341,445)
Net auxiliary enterprises fees and services	27,981,066	26,883,153
Other operating revenues	6,545,874	6,997,786
Total operating revenues	\$ 88,655,144	\$ 86,766,829
EXPENSES		
Compensation and employee benefits	\$ 123,529,485	\$ 115,540,813
Supplies and expenses	44,680,996	42,593,469
Utilities	7,876,368	7,431,676
Scholarships and fellowships	6,259,634	5,236,238
Depreciation	10,790,956	10,697,046
Total operating expenses	\$ 193,137,439	\$ 181,499,242
Operating loss	\$ (104,482,295)	\$ (94,732,413)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	\$ 87,156,079	\$ 85,891,788
Gifts	834,049	1,570,902
Investment income (net of investment expenses of \$135,589 for 2009 and \$154,905 for 2008)	4,952,995	7,243,183
Interest on capital asset related debt	(2,554,134)	(4,721,795)
Non-operating grants and contracts revenue	21,623,357	19,232,066
Other non-operating revenues	2,862,354	3,072,171
Other non-operating expenses	(190,000)	—
Net non-operating revenues	\$ 114,684,700	\$ 112,288,315
Income before other revenues, expenses, gains or losses	\$ 10,202,405	\$ 17,555,902
Capital appropriations	\$ —	\$ 2,340,990
Capital grants and gifts	1,566,668	178,519
Total other revenues	\$ 1,566,668	\$ 2,519,509
Increase in net assets	\$ 11,769,073	\$ 20,075,411
NET ASSETS		
Net assets—beginning of year	\$ 289,843,180	\$ 269,767,769
Net assets—end of year	\$ 301,612,253	\$ 289,843,180

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

Indiana State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2009

	Indiana State University Foundation			Sycamore Foundation Holdings, Inc.	Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted			
REVENUES						
Contributions	\$ 1,588,331	\$ 2,576,856	\$ 685,393	\$ 127,000	\$ —	\$ 4,977,580
Lilly Endowment grants	—	673,810	—	—	—	673,810
Investment income						
Interest and dividends						
Trust and temporary investments	151,891	1,135,029	—	—	—	1,286,920
Net appreciation (depreciation) in fair value of investments	(137,020)	76,440	(10,710,430)	—	—	(10,771,010)
Non-gift income	—	333,144	46,654	301,324	—	681,122
Change in value of split interest agreements	(14,081)	(34,993)	(135,110)	—	—	(184,184)
University support-alumni	449,470	—	—	—	—	449,470
Service fee income—						
Indiana State University	430,422	—	—	—	—	430,422
In kind support	—	239,765	—	—	—	239,765
Change in interest in net assets of Sycamore Foundation Holdings, Inc.	423,738	—	—	—	(423,738)	—
	<u>2,892,751</u>	<u>5,000,051</u>	<u>(10,113,493)</u>	<u>428,324</u>	<u>(423,738)</u>	<u>(2,216,105)</u>
Net assets released from restriction						
Satisfaction of donor restriction	7,966,484	(7,966,484)	—	—	—	—
Total revenues	<u>10,859,235</u>	<u>(2,966,433)</u>	<u>(10,113,493)</u>	<u>428,324</u>	<u>(423,738)</u>	<u>(2,216,105)</u>
EXPENSES						
Scholarships and awards	2,151,826	—	—	—	—	2,151,826
Restricted and designated expenditures	5,840,556	—	—	—	—	5,840,556
Grants for academic and other						
University projects	179,608	—	—	—	—	179,608
Foundation operational expenditures	1,035,881	—	—	4,586	—	1,040,467
Development and advancement— fund raising	2,682,247	—	—	—	—	2,682,247
Alumni affairs	436,976	—	—	—	—	436,976
Total expenses	<u>12,327,094</u>	<u>—</u>	<u>—</u>	<u>4,586</u>	<u>—</u>	<u>12,331,680</u>
	<u>(1,467,859)</u>	<u>(2,966,433)</u>	<u>(10,113,493)</u>	<u>423,738</u>	<u>(423,738)</u>	<u>(14,547,785)</u>
TRANSFERS						
Campaign funding allocation	1,082,000	—	(1,082,000)	—	—	—
Investment income allocated	238,999	1,435,307	(1,674,306)	—	—	—
Endowment administration fee	631,620	(631,620)	—	—	—	—
To establish endowments	—	(657,154)	657,154	—	—	—
Reclassification of endowment to temporary	—	—	—	—	—	—
Gift assessments/Campaign surcharge	81,142	(72,567)	(8,575)	—	—	—
	<u>2,033,761</u>	<u>73,966</u>	<u>(2,107,727)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Increase (decrease) in net assets	<u>\$ 565,902</u>	<u>\$ (2,892,467)</u>	<u>\$ (12,221,220)</u>	<u>\$ 423,738</u>	<u>\$ (423,738)</u>	<u>\$ (14,547,785)</u>

Indiana State University Statement of Cash Flows For the Years Ended June 30, 2009 and June 30, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 40,712,783	\$ 42,597,878
Grants and contracts	10,006,483	9,151,094
Auxiliary enterprises	26,166,608	26,756,680
Payments to suppliers	(58,643,754)	(54,853,050)
Net pay to employees	(62,155,872)	(59,880,167)
Payments on behalf of employees	(59,243,026)	(56,192,393)
Loans issued to students	(597,726)	(1,425,876)
Student loans collected	1,012,163	1,437,576
Other receipts	10,270,438	10,213,698
Net cash used in operating activities	\$ (92,471,903)	\$ (82,194,560)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 87,156,079	\$ 85,891,788
Stafford loan receipts	23,779,574	23,768,750
Stafford loan disbursements	(23,779,574)	(23,768,749)
Non-operating grants and contracts	21,626,485	19,648,157
Gifts and other non-operating income	3,158,252	3,586,631
Net cash provided by non-capital financing activities	\$ 111,940,816	\$ 109,126,577
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	\$ 2,152,371	\$ 4,493,360
Capital gifts and grants received	—	43,864
Repair and replacement funds—drawdown from bond trustee	519,073	199,485
Cash paid for capital assets	(32,358,971)	(44,178,815)
Principal and interest paid on capital debt and leases	(13,626,008)	(13,370,458)
Net cash used by capital financing activities	\$ (43,313,535)	\$ (52,812,564)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 32,404,757	\$ 81,633,636
Interest and dividends on investments, net expenses	3,934,072	6,058,329
Purchase of investments	(22,461,079)	(86,456,562)
Net cash provided in investing activities	\$ 13,877,750	\$ 1,235,403
Net decrease in cash for year	\$ (9,966,872)	\$ (24,645,144)
Cash and cash equivalents—beginning of year	\$ 56,028,186	\$ 80,673,330
Cash and cash equivalents—end of year	\$ 46,061,314	\$ 56,028,186

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

Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (104,482,295)	\$ (94,732,413)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	10,790,956	10,697,046
Changes in assets and liabilities		
Accounts receivable *	(53,643)	1,146,424
Grants receivable	419,528	(150,747)
Notes receivable	(287,976)	(319,924)
Inventories	23,883	(78,079)
Prepaid expenses	(178,619)	53,711
Accounts payable	(210,621)	2,065,541
Lease payable, current	(160,375)	(25,281)
Accrued payroll and deductions	562,619	(1,848,650)
Deferred revenue	(504,678)	166,403
Funds held in custody for others	126,249	48,029
Other liabilities	1,113,887	533,972
Compensated absences	367,355	235,095
Other liabilities—current	1,827	14,313
Net cash used by operating activities	\$ (92,471,903)	\$ (82,194,560)

* Accounts receivable reconciliation excludes all non-operating receivables from the calculation.

Indiana State University Foundation, Inc.
Statement of Cash Flows
Year Ended June 30, 2009

	Indiana State University Foundation	Sycamore Foundation Holdings, Inc.	Eliminations	Consolidated Total
Cash flows from operating activities:				
Change in net assets	\$ (14,547,785)	\$ 423,738	\$ (423,738)	\$ (14,547,785)
Adjustments to reconcile change in net assets to net cash by operating activities:				
Depreciation and amortization	43,975	—	—	43,975
Write-off of Gongaware interest receivable	102,652	—	—	102,652
Loss on disposal of assets	—	—	—	—
Net (appreciation) depreciation in fair value of investments	10,771,010	—	—	10,771,010
Change in interest in net assets of Sycamore Foundation Holdings, Inc.	(423,738)	—	423,738	—
Gift of trusts held by third parties and charitable remainder trusts	—	—	—	—
Gifts and non-gifts of real estate	—	(427,000)	—	(427,000)
Change in value of accounts due to controller's office	(56,862)	—	—	(56,862)
Changes in assets and liabilities:				
Grants, pledges, bequests and accounts receivable	(1,200,701)	—	—	(1,200,701)
Investment income receivable	60,141	—	—	60,141
Other assets	600	—	—	600
Accounts payable	(277,403)	—	—	(277,403)
Scholarships payable	(1,400)	—	—	(1,400)
Change in value of split interest agreements	250,060	—	—	250,060
Net cash from operating activities	<u>(5,279,451)</u>	<u>(3,262)</u>	<u>—</u>	<u>(5,282,713)</u>
Cash flows from investing activities:				
Investment in Sycamore Foundation, Holdings, Inc.	(225,214)	—	225,214	—
Purchase of collection items	(1,883)	—	—	(1,883)
Proceeds from sale of investments	40,628,704	—	—	40,628,704
Purchase of investments	(35,182,330)	—	—	(35,182,330)
Purchase of equipment and furniture	(56,862)	—	—	(56,862)
Purchase from sale of real estate	—	—	—	—
Purchase of real estate and deposits/expenses	(1,145)	(201,688)	—	(202,833)
Net cash from investing activities	<u>5,161,270</u>	<u>(201,688)</u>	<u>225,214</u>	<u>5,184,796</u>
Cash flows from financing activities:				
Investment from Indiana State University Foundation	—	225,214	(225,214)	—
Net increase in cash	(118,181)	20,264	—	(97,917)
Cash at beginning of the period	<u>941,162</u>	<u>—</u>	<u>—</u>	<u>941,162</u>
Cash at end of period	<u>\$ 822,981</u>	<u>\$ 20,264</u>	<u>\$ —</u>	<u>\$ 843,245</u>

Notes to Financial Statements

As of June 30, 2009

Note 1—Summary of Significant Accounting Policies

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

The accompanying financial statements of the University are prepared in accordance with generally accepted accounting standards as prescribed by the Governmental Accounting Standards Board (GASB) in Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Since the University is a component unit of the State of Indiana, it is included in the Comprehensive Annual Financial Report of the State.

A. Reporting Entity

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14,

The Financial Reporting Entity, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

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

B. Basis of Accounting

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

C. Cash Equivalents

The University considers all highly liquid investments with a maturity date of three months or less to be cash equivalents. Indiana State University invests operating cash in investments with



varying maturities. For purpose of liquidity classification, investments maturities are evaluated as of the financial statement date.

D. Investments

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

E. Inventories

Inventories are carried at the lower of cost or market value and on the first-in, first-out (FIFO) basis. The exception is the computer store inventories which are carried on the last-in, first-out (LIFO) basis. The value of the computer store inventory was \$98,375 at June 30, 2009.

F. Capital Assets

Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition. Moveable equipment costing \$2,500 with a useful life of more than one year and building improvements that exceed \$50,000 and extend the life of the building are capitalized. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is reported using the straight-line method of depreciation over the estimated useful life of the asset. Capital assets and related accumulated depreciation are removed from the records at the time of disposal. Art objects are recorded either at cost or fair market value at the time of acquisition, but are not depreciated because these assets tend to appreciate in value over time.

Minimum Capitalization Value and Useful Life by Asset Types

Asset Types	Capitalization Threshold	Useful Life
Moveable equipment	\$ 2,500	5 to 10 years
Vehicles and machinery	\$ 2,500	4 to 10 years
Software and computer equipment	\$ 2,500	5 years
Buildings and related components	\$ 50,000	15 to 100 years
Land improvements and infrastructure	\$ 50,000	10 to 20 years
Library books and audio visual aids	\$ 1	20 years
Art objects	\$ 1	Not depreciated

G. Scholarship Discounts and Other Allowances

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

H. Net Assets

University resources are classified for financial reporting purposes into four net asset categories:

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 asset, 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 that the University is legally or contractually obligated to spend 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 and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These

resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff. Substantially all unrestricted net assets are designated for academic programs and initiatives, capital purposes, and general operations of the University.

I. Compensated Absences

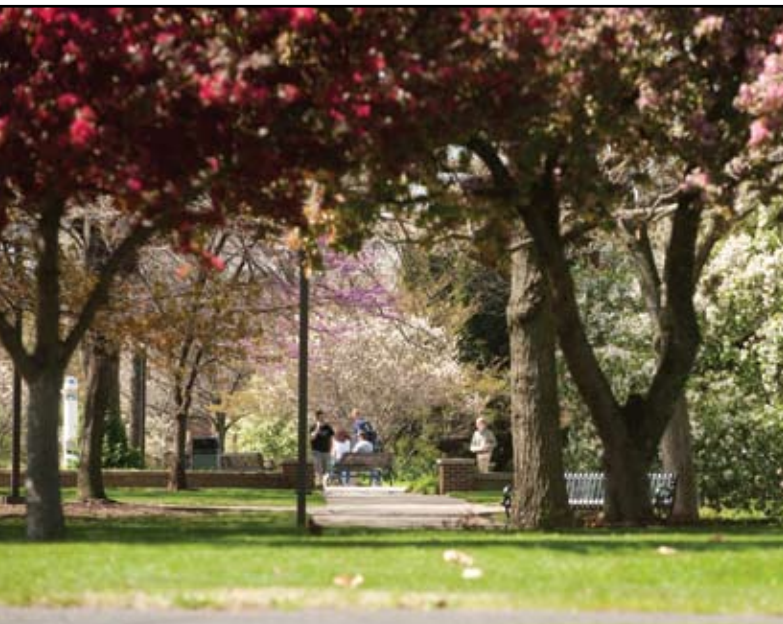
Liabilities for compensated absences are recorded for vacation leave based on actual amounts earned as of the balance sheet date. Employees may accrue vacation benefits up to a maximum of 300 hours, with remaining hours payable upon termination. Liabilities for sick leave are recorded for support staff who are eligible for, and have earned termination payments for, accumulated sick days upon termination or retirement. The accompanying statement of net assets reflects an accrual for the amounts earned and ultimately payable for such benefits at the end of the fiscal year.

J. Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) most federal, state, and local grants and contracts; and (4) interest on institutional student loans.

K. Non-Operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, including state appropriations and investment income. Non-operating revenues include any grant over which the



University has administrative duties and is a non-exchange transaction. This includes Pell Grant, SEOG, and any state grant for which the University has to determine eligibility, even if the eligibility requirements are set forth by federal or state agencies.

L. Restricted and Unrestricted Resources

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

M. Component Units

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

The Foundation acts primarily as a fund-raising organization to supplement the resources available to the University in support of its programs. The 33 member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income therein, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Foundation is a private non-profit organization that reports under Financial Accounting Standards Board (FASB) standards, including 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 presentation for these differences.

During the year ended June 30, 2009, the Foundation distributed \$7,630,746 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 217 North 6th Street, Gillum Hall, room 320, Terre Haute, IN 47809.



Note 2—Cash and Investments

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

Cash and Investments

Cash and Investments as of June 30, 2009, consist of the following:

Cash on hand	\$ 88,185
Deposits with financial institutions	3,941,475
Investments	114,247,374
	<u>\$ 118,277,034</u>

Authorization for investment activity is stated in Indiana Code Title 20, Article 12, Chapter 1, Section 2. Additionally, a resolution was adopted by the Trustees of Indiana State University to authorize the treasurer to manage the investment activity of the University. A revised investment policy was approved by the Board of Trustees on February 16, 2001. Authorized investments include obligations of the United States Treasury, governmental agencies, commercial paper, bank obligations of federally insured banks, repurchase agreements, and investment grade corporate bonds. The University has also been the recipient of stocks and bonds through endowments and scholarship funds.

The intent of the policy is not for the University to have funds directly invested in corporate equity positions or to directly invest in instruments that could prudently be considered to have volatile price variances. Gifts of stock to the University may be accepted, and outside investment managers may have limited equity positions as part of their longer term investment strategy.



Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the University's investments (including

investments held by bond trustee) to market interest rate fluctuations is provided by the following table showing the distribution of Indiana State University's investments by maturity:

As of June 30, 2009, the University had the following investments and maturities:

Investment Type	Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Cash on hand (petty cash)	\$ 88,185	\$ 88,185	\$ —	\$ —	\$ —
Demand deposits	3,941,475	3,941,475	—	—	—
Common fund	2,362,885	689,955	1,672,930	—	—
Money markets	35,998,110	35,998,110	—	—	—
Certificates of deposit	27,408,439	25,159,654	2,248,785	—	—
Government agencies	27,612,288	1,060,425	13,406,058	10,364,477	2,781,328
Government obligations	503,555	503,555	—	—	—
Corporate bonds	15,102,840	1,349,947	6,713,429	5,881,334	1,158,130
Mortgage backed securities	4,197,068	—	464,209	2,157,596	1,575,263
Corporate stock	48,649	—	—	—	48,649
Municipal bonds	323,592	—	323,592	—	—
Endowment investment held in trust	689,948	—	—	—	689,948
	<u>\$ 118,277,034</u>	<u>\$ 68,791,306</u>	<u>\$ 24,829,003</u>	<u>\$ 18,403,407</u>	<u>\$ 6,253,318</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Highly Sensitive Investments	Fair Market Value at Year End
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of the securities and makes the fair values of these securities highly sensitive to changes in interest rates.	\$ 4,197,068
Callable bonds. These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affect the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates.	\$ 9,507,331

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual Moody's rating as of year end for each investment type. The University's general investment policy does not address credit risk.

Investment Type	Fair Value	AAA	Aa	A	B	Not Rated
Cash on hand (petty cash)	\$ 88,185	\$ —	\$ —	\$ —	\$ —	\$ 88,185
Demand deposits	3,941,475	—	—	—	—	3,941,475
Common fund	2,362,885	—	—	—	—	2,362,885
Money markets	35,998,110	—	—	—	—	35,998,110
Certificates of deposit	27,408,439	—	—	—	—	27,408,439
Government agencies	27,612,288	27,612,288	—	—	—	—
Government obligations	503,555	503,555	—	—	—	—
Corporate bonds	15,102,840	273,060	5,285,032	9,199,691	345,057	—
Mortgage backed securities	4,197,068	4,197,068	—	—	—	—
Corporate stock	48,649	—	—	—	—	48,649
Municipal bonds	323,592	—	323,592	—	—	—
Endowment investments held in trust	689,948	—	—	—	—	689,948
	<u>\$118,277,034</u>	<u>\$ 32,585,971</u>	<u>\$ 5,608,624</u>	<u>\$ 9,199,691</u>	<u>\$ 345,057</u>	<u>\$ 70,537,691</u>

Concentration of Credit Risk

The investment policy of the University contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of **total University** investments are shown below:

Issuer	Investment Type	Reported Amount
Fannie Mae	Federal agency securities	\$ 4,337,815
Federal Home Loan Bank	Federal agency securities	\$ 6,844,478
Federal Home Loan Mortgage	Federal agency securities	\$ 5,512,263
Federal National Mortgage Association	Federal agency securities	\$ 3,820,395
Freddie Mac	Federal agency securities	\$ 5,601,518
Fifth Third Bank	Certificate of deposit	\$ 16,000,000
Irwin Union Bank	Certificate of deposit	\$ 4,000,000
Terre Haute Savings Bank	Certificate of deposit	\$ 5,004,285

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the University will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Indiana State University's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than preference will be given to Indiana institutions because of additional insurance coverage provided by the state. Of the University's investments, \$503,555 in U.S. Government Obligations; \$27,612,288 in U.S. Government Agencies; and \$3,540,249 of the Money Market funds invested in U.S. Government-backed funds are held by a trust department not in the University's name.



As of June 30, 2009, Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to \$100,000 by FDIC and in excess of \$100,000 by the Indiana Public Deposits Fund. The certificates of deposits of \$26,004,285 are also covered under the Indiana Public Deposits Fund, as they were invested in Indiana financial institutions.

The University has no investments that are made up of foreign currency; therefore, the University is not exposed to foreign currency risk.

Note 3—Capital Assets

Following are the changes in capital assets for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
Capital assets not being depreciated				
Land	\$ 23,853,722	\$ 2,014,631	\$ (190,000)	\$ 25,678,353
Works of art	943,445	162,905	—	1,106,350
Construction in progress	37,511,173	29,718,485	(4,637,524)	62,592,134
Total capital assets not being depreciated	\$ 62,308,340	\$ 31,896,021	\$ (4,827,524)	\$ 89,376,837
Capital assets being depreciated				
Infrastructure	\$ 33,629,798	\$ —	\$ (144,753)	\$ 33,485,045
Land improvements	19,121,552	868,312	—	19,989,864
Buildings	285,429,966	3,158,440	(1,950,071)	286,638,335
Equipment	83,466,594	5,107,326	(1,792,594)	86,781,326
Capital lease assets	716,718	—	(437,638)	279,080
Total capital assets depreciated	\$ 422,364,628	\$ 9,134,078	\$ (4,325,056)	\$ 427,173,650
Less accumulated depreciation for				
Infrastructure	\$ (27,230,749)	\$ (1,005,311)	\$ 74,619	\$ (28,161,441)
Land improvements	(14,190,523)	(573,637)	—	(14,764,160)
Buildings	(123,779,864)	(4,509,197)	1,632,544	(126,656,517)
Equipment	(55,809,234)	(4,513,026)	1,678,354	(58,643,906)
Lease amortization	(375,405)	(185,390)	328,229	(232,566)
Total accumulated depreciation	\$ (221,385,775)	\$ (10,786,561)	\$ 3,713,746	\$ (228,458,590)
Total capital assets being depreciated, net	\$ 200,978,853	\$ (1,652,483)	\$ (611,310)	\$ 198,715,060
Total capital assets, net	\$ 263,287,193	\$ 30,243,538	\$ (5,438,834)	\$ 288,091,897

Note 4—Long-Term Liabilities

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

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

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds payable, net	\$ 93,117,255	\$ —	\$ 7,948,603	\$ 85,168,652	\$ 7,078,603
Lease payable	260,782	—	211,525	49,257	49,257
Notes payable	7,930,000	—	1,115,000	6,815,000	1,170,000
Compensated absences and termination benefits	3,473,524	870,440	37,699	4,306,265	2,980,359
Advances from federal government	7,705,851	48,971	—	7,754,822	—
Total long-term liabilities	<u>\$112,487,412</u>	<u>\$ 919,411</u>	<u>\$ 9,312,827</u>	<u>\$104,093,996</u>	\$ 11,278,219
Bond redemption reserve (matured unpaid bonds and coupons)					66,329
Total long-term liabilities—current portion					<u>\$ 11,344,548</u>

Note 5—Bonds and Notes Payable

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

	Issue Date	Interest Rate	Maturity Dates	Principal Outstanding June 30, 2009	Bond Premium	Deferral of Loss	Total Outstanding June 30, 2009
Student Fee Bonds							
Series K	2004	3.0%-5.0%	2025	\$ 12,445,000	\$ 587,503	\$ (844,650)	\$ 12,187,853
Series L	2005	3.5%-5.0%	2021	28,365,000	1,497,490	(2,413,895)	27,448,595
Series M	2007	4.25%-5.0%	2033	44,830,000	702,204	N/A	45,532,204
Total Bonds				<u>\$ 85,640,000</u>	<u>\$ 2,787,197</u>	<u>\$ (3,258,545)</u>	<u>\$ 85,168,652</u>
Notes Payable							
Jones Hall/Burford Hall Remodel	2006	4.63%	2011	6,815,000	N/A	N/A	6,815,000
Total Bonds and Notes				<u>\$ 92,455,000</u>	<u>\$ 2,787,197</u>	<u>\$ (3,258,545)</u>	<u>\$ 91,983,652</u>

The issues are serial or term bonds and notes payable with maturities extending until 2033. For the fiscal year 2008-2009, a \$9,134,603 separate fee replacement appropriation was received from

the State of Indiana. The appropriation represented the amount required to make principal and interest payments for financing certain academic and student facilities. The University has pledged \$69,927,995 in student tuition as collateral for student fee bonds and student service bonds, and \$1,453,647 of the dedicated Student Recreational Fee for Series M.

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

Debt Service Requirements

Fiscal Year	Bonds	Notes	Total Principal	Interest	Total Payments
2009-2010	\$ 7,145,000	\$ 1,170,000	\$ 8,315,000	\$ 4,075,754	\$ 12,390,754
2010-2011	6,640,000	5,645,000	12,285,000	3,762,917	16,047,917
2011-2012	5,665,000	-	5,665,000	3,267,259	8,932,259
2012-2013	5,375,000	-	5,375,000	3,013,521	8,388,521
2013-2014	5,615,000	-	5,615,000	2,759,334	8,374,334
2015-2019	21,800,000	-	21,800,000	10,314,853	32,114,853
2020-2024	16,880,000	-	16,880,000	5,798,519	22,678,519
2025-2029	11,390,000	-	11,390,000	2,275,313	13,665,313
2030-2033	5,130,000	-	5,130,000	490,641	5,620,641
	<u>\$ 85,640,000</u>	<u>\$ 6,815,000</u>	<u>\$ 92,455,000</u>	<u>\$ 35,758,111</u>	<u>\$ 128,213,111</u>
Net unamortized premium and deferral of loss	(471,348)	-	(471,348)	-	(471,348)
Total	<u>\$ 85,168,652</u>	<u>\$ 6,815,000</u>	<u>\$ 91,983,652</u>	<u>\$ 35,758,111</u>	<u>\$ 127,741,763</u>

Note 6—Lease Payable

Indiana State University has entered into a capital lease agreement with Merrimak Capital Company LLC to lease computers for faculty use.

Fiscal Year	Lease Payments
2010	\$ 49,977
Less amount representing interest	720
Present value of net minimum lease payments	<u>\$ 49,257</u>

Note 7—Termination Benefits Liability

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



and the amount of the benefit can be estimated. Requirements for benefits under the University retirement policy are as follows: regular full-time faculty and administrative staff appointed before January 1, 2005, 20 years of consecutive service with Indiana State University, and age 60 or over.

These benefits include a lump-sum severance pay calculated as a percent of the final-year salary based on length of service. The amount is calculated at 70 percent for 20 years of service to a maximum of 80 percent for 30 or more years of service. ISU currently has nine employees scheduled for the early retirement program, which also covers health and life insurance during retirement. The liability for the lump-sum severance pay totals \$646,473 at June 30, 2009. Of that amount, \$383,492 is expected to be paid out during the following fiscal year, with the remaining \$262,981 being classified as a non-current liability. For this calculation, an estimated 2.5 percent salary increase assumption is included with a .85 percent discount rate. This liability will change annually based on the number of eligible employees who have notified the University of retirement plans.

Note 8—Risk Management

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

The University retains the risk for medical benefits up to a stop-loss provision of \$225,000 per member. Accrued liabilities for unpaid medical claims, as of June 30, 2009, are included in current other liabilities. The liability is based on 25 percent of actual claims paid during the year, which represents a three-month average turnover period for claims processing. Changes in the balance of claims liabilities during the 2009 fiscal year were as follows:

Unpaid medical claims, 7/01/08	\$ 4,078,567
Claims incurred	21,179,120
Claims paid	<u>(20,206,150)</u>
Unpaid medical claims, 6/30/09	<u>\$ 5,051,537</u>

Note 9—Litigation

The University has been named as a defendant in a number of lawsuits. The final outcome of any of these lawsuits cannot be determined at this time. However, the management is of the opinion that any ultimate liability to which the University may be exposed will not have a material effect upon the University's financial position.

Note 10—Funds Held in Custody for Others

Funds held in custody for others consist of \$842,585 held for other agencies (student and faculty organizations).

Note 11—Other Liability

Included in other liability, pursuant to final audit report, ED-OIA/A05I0009 entitled *Indiana State University's Compliance with Selected Provisions of Law and Regulations for the Upward Bound and Upward Bound Math-Science Program*, a \$337,007 contingent liability was established in fiscal year 2008 for possible repayment to the U.S. Department of Education. This is a response by the Department of Education of the failure to serve the minimum number of participants as required by the program. For fiscal year 2010, the University has received a final determination from the Department of Education that the amount to be returned from the Upward Bound grant is \$145,763. This amount is included in current other liabilities on the Statement of Net Assets.

Note 12—Pollution Remediation Obligation

In response to GASB Statement No. 49, *Accounting and Reporting for Pollution Remediation Obligations*, the University must report a liability for an obligating event. An obligating event occurs when the University commences or legally obligates itself to commence pollution remediation. During fiscal year 2008-2009, Indiana State University began remodeling of Hulman Center's air handling system, which included asbestos removal. As of June 30, 2009, this project had not been completed, leaving an outstanding obligation of \$199,740. This obligation is a result of the actual remaining contractual amount required to finish the project. No additional potential costs for changes to this project are expected. This obligation has been included as a current other liability, as the project is expected to be completed in fall 2009.

Note 13—Natural Classifications with Functional Classifications

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

Functional Classification	Compensation and Benefits	Supplies and Materials	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 57,833,403	\$ 5,635,192	\$ —	\$ —	\$ —	\$ 63,468,595
Research	7,049,483	4,840,803	—	—	—	11,890,286
Public service	952,696	716,827	—	—	—	1,669,523
Academic support	11,664,617	5,421,109	—	—	—	17,085,726
Student services	9,462,058	1,735,738	—	—	—	11,197,796
Institutional support	13,459,003	5,720,363	—	—	—	19,179,366
Operation of plant	10,041,013	6,437,261	7,795,661	—	—	24,273,935
Scholarships	921,048	70,564	—	6,259,634	—	7,251,246
Auxiliary enterprises	12,146,164	14,103,139	80,707	—	—	26,330,010
Depreciation	—	—	—	—	10,790,956	10,790,956
	<u>\$ 123,529,485</u>	<u>\$ 44,680,996</u>	<u>\$ 7,876,368</u>	<u>\$ 6,259,634</u>	<u>\$ 10,790,956</u>	<u>\$ 193,137,439</u>

Note 14—Hedge Contracts

Indiana State University has entered into long-term natural gas hedge contracts with Energy USA-TPC for the purchase of 90-95 percent of the University's estimated natural gas needed for the production of steam at the University's power plant. The natural gas hedges run through June 30, 2014, and were entered into as a cost avoidance strategy. The estimated cost savings to the University for the 2009 fiscal year was \$461,140. It is possible that the market price for natural gas before or at the specified time to purchase may be lower than the price at which the University had contracted to buy. This will reduce the value of the contract. The University is also exposed to the failure of the counterparty to fulfill the contract.

Note 15—Retirement Plans

Authorization. Authorization to establish retirement plans is stated in Indiana Code Title 20, Article 12, Chapter 1, and Section 2.

Faculty and Executive/Administrative/Professional Staff

Faculty and executive/administrative/professional employees of the University participate in a defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equity Fund (CREF). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. The University contributes 11 percent of each participating employee's base appointment salary up to \$10,800 and 15 percent of the base appointment salary above \$10,800 for employees hired prior to January 1, 1998. For those employees hired on or after January 1, 1998, the contribution rate is 12 percent of the base appointment salary.

Effective July 1, 2004, employees hired after this date participate in the defined contribution plan at the contribution rate of ten percent with no two year waiting period. The employee becomes vested in the plan at the end of two years. For fiscal year 2008-2009, the University made contributions totaling \$6,381,262 to this plan. For the fiscal year ended June 30, 2009, there were 870 employees and retirees participating in TIAA/CREF, with annual salaries equal to \$51,766,722.

For the fiscal year ended June 30, 2009, there were no remaining employees participating in the State Teachers Retirement Fund (STRF). The University's required contribution to this plan for a grandfathered group of employees in the fiscal years 2008 and 2007 were \$3,274 and \$5,582. The University had contributed 97 percent of the required contributions for both of these fiscal years. STRF 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 State Teachers Retirement Fund, 150 West Market Street, suite 300, Indianapolis, IN 46204, or by calling (317) 232-3860.

Support Staff

Regular clerical and service staff participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members



and beneficiaries. Benefit provisions are established and/or amended by the Board of Trustees of PERF. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The University contributes three percent of the employee's gross earnings to the annuity savings plan. The University also contributed 6.3 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2008-2009 year. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after ten years of service. For the fiscal year ended June 30, 2009, there were 729 employees participating in PERF with annual salaries equal to \$18,666,485.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling (317) 232-4162.

The University's annual pension cost and related information, as provided by the actuary, for the periods ended June 30, 2008 and 2007, is presented below. The actuarial methods and significant assumptions used are as follows:

Actuarial cost method:	Entry age normal cost
Asset valuation method:	75% of expected actuarial value plus 25% of market value
Investment rate of return:	7.25%
Projected salary increases:	4%
Cost of living increases:	1.5%
Amortization method:	Level dollar closed
Amortization period:	30 years

Net Pension Obligation

	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2007
Annual required contribution	\$ 1,076,233	\$ 1,118,577
Interest on net pension obligation	(39,661)	(49,284)
Adjustment to annual required contribution	45,197	56,163
Annual pension cost	1,081,769	1,125,456
Contributions made	(1,097,246)	(992,723)
Increase in net pension obligation	(15,477)	132,733
Net pension obligation, beginning of year	(547,052)	(679,785)
Net pension obligation, end of year	<u>\$ (562,529)</u>	<u>\$ (547,052)</u>

Three-Year Trend Information (in thousands)

	Valuation of Assets	Accrued Liability (AL)	Excess of Assets over (unfunded) AL	Funded Ratio	Annual Covered Payroll	Excess (Unfunded) AL as a Percentage of Covered Payroll ((a-b)/c)	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
	(a)	(b)	(a-b)	(a/b)	(c)				
7/1/2006	\$24,227	\$24,682	(\$455)	98.2%	\$18,469	-2.5%	\$ 983	85%	(\$680)
7/1/2007	\$26,402	\$25,965	\$437	101.7%	\$18,172	2.4%	\$1,125	88%	(\$547)
7/1/2008	\$25,858	\$26,322	(\$464)	98.2%	\$17,499	-2.7%	\$1,082	101%	(\$563)

Note 16—VEBA Trust

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

The trust is funded from reserves set aside in previous years for this purpose, University contributions, employee payroll deductions for post-retirement benefits, and reinvested net earnings. A summary of the activity in the trust for the year ending June 30, 2009, is as follows:

Beginning fund balance 7/1/08 (market value)	\$ 48,999,057
Transfer of employee/employer contributions	2,040,000
Reinvested net earnings	1,825,831
Less: management fees	(62,887)
Realized gain on sale of investments	945,763
Unrealized loss on decrease in market value	(8,029,329)
	<hr/>
Market value at June 30, 2009	<u>\$ 45,718,435</u>

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

VEBA Investment Policy Guideline Diversification

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

Actual VEBA Investment Diversification

	Cost		Actual	
	\$	%	\$	%
Core Equity (indexed)	7,601,382	14.5	5,979,637	13.1
Growth Equity	4,950,826	9.4	4,240,639	9.3
Value Equity	5,162,437	9.8	4,622,310	10.1
Small Cap Equity	1,252,408	2.4	897,821	1.9
Small Cap Growth Equity	1,306,471	2.5	883,428	2.0
Small Cap Value Equity	1,118,324	2.1	823,997	1.8
International Core Equity	7,753,575	14.8	5,240,933	11.4
Unconstrained	3,118,965	5.9	2,595,038	5.7
Fixed Income	<u>20,314,114</u>	<u>38.6</u>	<u>20,434,632</u>	<u>44.7</u>
	52,578,502	100.0	45,718,435	100.0

Note 17—Other Post-Employment Benefits

Plan Description

Indiana State University Retirement Healthcare Plan is a single-employer defined benefit health-care plan administrated by Principal for medical coverage, Delta Dental of Indiana for dental coverage, Anthem for prescription coverage, and Hartford Insurance for life insurance. The plan provides medical, dental, and life insurance for eligible retirees and their spouses. Active employees are eligible for the plan provided they retire after attaining age 60 with at least 20 years of service. Surviving spouses may continue in the plan until remarriage or death. Employees hired after January 1, 2005, or employees who had not enrolled in the ISU health plan before January 1, 2005, are not eligible for the plan. The Indiana State Board of Trustees has the authority to establish and amend provisions to the University plan.

Valuation Date	Participant Counts	
	6/30/08	6/30/09
Active and eligible to retire	100	111
Active and not eligible to retire	972	884
Total actives	1,072	995
Inactives	1,260	1,237
Average age		
Actives	51.3	52.3
Inactives	74.7	75.6
Average service actives	14.1	15.3

Funding Policy

The contribution requirements of plan members for the ISU Retirement Healthcare Plan are established by the University's Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to fund VEBA. For the fiscal year ended June 30, 2009, the total contribution to the plan was \$6.9 million, with the University contributing \$3.7 million for current premiums (approximately 80 percent of total premiums), \$2 million contributed to VEBA, and an additional \$1.2 million from Medicare prescription drug subsidy rebates on prescription drugs and savings generated within the employee and retiree plans for this year. Plan members receiving benefits contributed \$0.9 million, or approximately 20 percent of the total premiums, based on the required contribution rates as follows:

Participants' Monthly Contributions:	Retiree Only	Retiree and Spouse
	Under age 65	
Salary under \$24,500	\$ 101	\$ 229
\$24,500 less than \$70,500	\$ 125	\$ 294
Salary \$70,500 and over	\$ 153	\$ 333
Age 65 and over		
All participants	\$ 48	\$ 96

Annual OPEB Cost and Net OPEB Obligation

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

GASB 45 ARC and Annual Expense	2009
Annual required contribution	\$ 5,779,000
Interest on net OPEB obligation	(2,000)
Adjustment to annual required contribution	<u>2,000</u>
Annual OPEB cost	\$ 5,779,000
Contributions made	(6,881,534)
Decrease in net OPEB obligation	\$ (1,102,534)
Net OPEB obligation, (asset) beginning of year	(34,212)
Net OPEB obligation, (asset) end of year	\$ (1,136,746)

The University's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for the fiscal year ending June 30, 2009, were as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/09	\$ 5,779,000	119.2 %	\$ 1,136,746



Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 45 percent funded. The actuarial accrued liability for benefits was \$102.6 million, and the actuarial value of assets was \$45.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$56.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$46.4 million, and the ratio of the UAAL to covered payroll was 122.6 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations,

and new estimates are made about the future. The Schedule of Funding Progress, presented below, shows multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Three-Year Trend Information

	Actuarial Valuation of Plan Assets (a)	Accrued Liability (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2007	\$46,000,000	\$105,000,000	\$59,000,000	44%	n/a	n/a
6/30/2008	\$51,000,000	\$102,000,000	\$51,000,000	50%	47,218,000	108.0%
6/30/2009	\$45,718,000	\$102,607,000	\$56,889,000	45%	46,412,000	122.6%

Actuarial Methods and Assumptions

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

Actuarial Assumptions

Valuation and Measurement date	June 30, 2009
Participant data	March 31, 2009
Discount rate	6%
Mortality	RP 2000 Mortality Table Healthy Lives
Remaining Amortization Period	28 years remaining as of June 30, 2009
Assumed Trend	Medical/Rx benefits: 10% grading down by 1% for three years and then 0.5% per year starting in 2012 until the ultimate trend rate of 5% is reached in 2017.

Methods

Actuarial cost method	Unit credit
Assets method	Market value
Amortization method	30 year level dollar
Accounting method	Unit credit
Actuarial gains/losses	Reflected immediately in cost method.

Note 18—Subsequent Event

Post-65 Retiree Medical Plan

On September 1, 2009, Indiana State University retirees were informed that the University had chosen NEBCO, a division of AmWins Group Benefits, to administer a Post-65 Retiree Medical Plan beginning January 1, 2010. This replaces the self-insured program for retirees with an insurance policy



for which the University's cost will be based on premiums instead of claims. NEBCO will process all claims and payments for both covered medical and prescription drug expenses. Retiree monthly premiums will be sent directly to NEBCO. ISU will continue to subsidize the cost of the plan. If the change to the Post-65 Retiree Medical Plan had taken place during fiscal year 2009, an actuarial valuation of the change projected a \$27 million reduction of the unfunded actuarial accrued liability (UAAL) and a \$2.6 million reduction of the annual required contribution (ARC).

Housing and Dining System Revenue Bonds

Indiana State University will issue a \$13,680,000 Housing and Dining System Revenue Bonds, Series 2009, in November 2009. These bonds are to be used to finance the renovation and reconfiguration of Sandison Hall and refinancing of the Burford/Jones note. The Sandison Hall project will cost approximately \$11,000,000 with bond proceeds of \$7,700,000 and the remaining to be funded with internal reserves. The remaining bond proceeds of \$5,815,000 are to be used to refinance the Burford/Jones Hall note.

Student Fee Bonds, Series N

Indiana State University will issue \$9,555,000 of Student Fee Bonds, Series N, in late 2009. These bonds will be used to finance the construction of a satellite chiller plant and the first phase of renovations of the life sciences/chemistry laboratories. These bonds are eligible for fee replacement from the State of Indiana.

Home Counties of Indiana State Students

(Fall 2008)

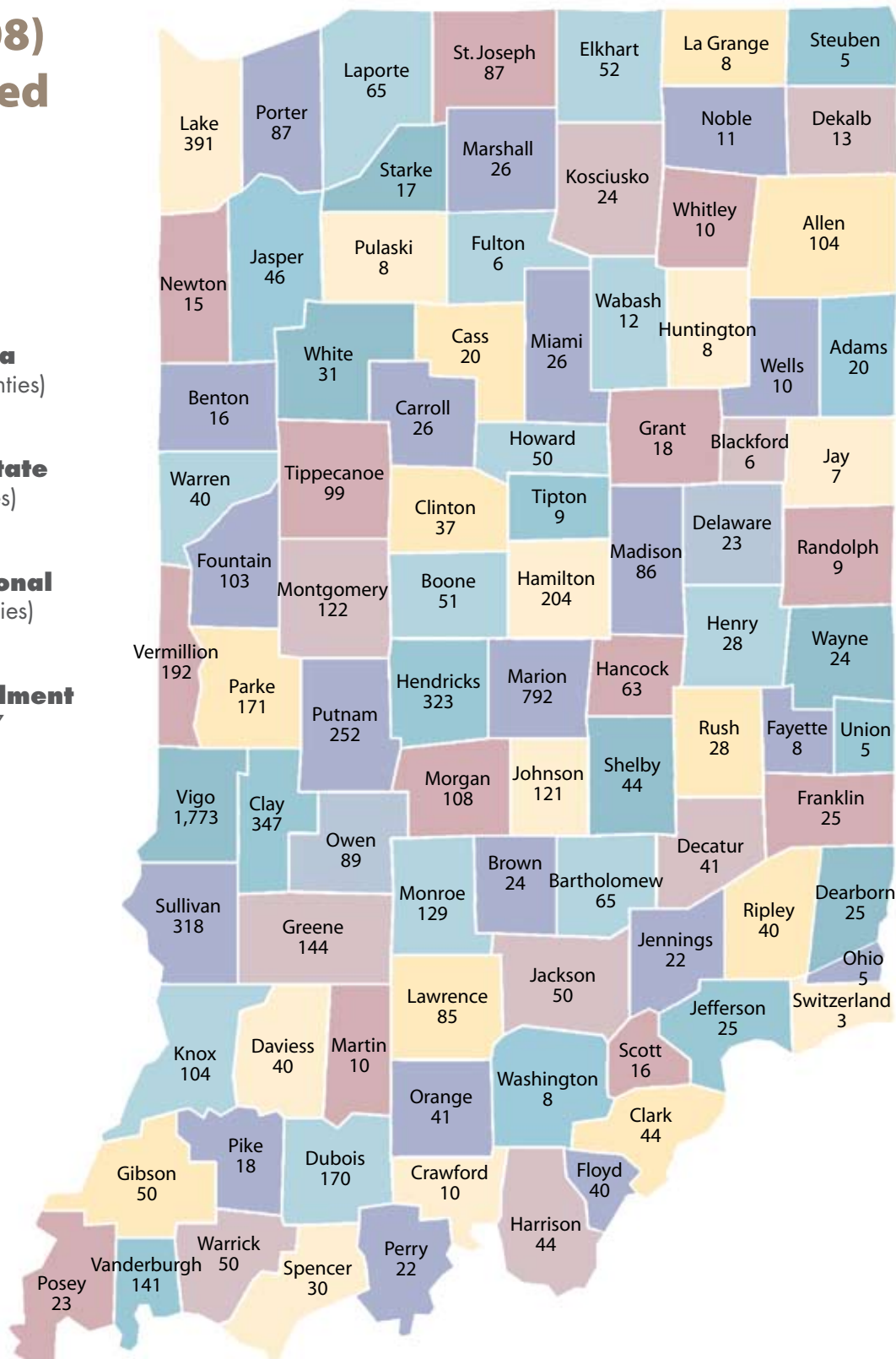
Unaudited

Indiana
(all 92 counties)
8,238

Out-of-State
(49 states)
1,775

International
(55 countries)
444

Total Enrollment
10,457



Board of Trustees

as of June 30, 2009

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President
Carmel, Indiana
Term expires 2013

Ron D. Carpenter
Vice President
Indianapolis, Indiana
Term expires 2011

R. Brooks LaPlante
Secretary
Terre Haute, Indiana
Term expires 2009

Norman Lowery
Assistant Secretary
Terre Haute, Indiana
Term expires 2011

Tanya R. Bell
Carmel, Indiana
Term expires 2012

Amy Huntsinger
Frankton, Indiana
Term expires 2009

Randall Minas
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Term expires 2012

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Terre Haute, IN
Term expires 2013

George Pillow
Indianapolis, Indiana
Term expires 2011

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as of June 30, 2009

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President of the University

C. Jack Maynard
Provost and Vice President for
Academic Affairs

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

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

Thomas Ramey
Vice President for
Student Affairs

Additional copies of the 2009 Financial Report

may be obtained from:

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

812-237-3513

www.indstate.edu/controller

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812-237-2121

Alumni

Alumni Association Office
Gillum Hall, room 102
Indiana State University
Terre Haute, Indiana 47809
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