

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, 2009 to June 30, 2010



FILED
02/23/2011

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SCHEDULE OF 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	Diann E. McKee	07-09-08 to 06-30-11
Associate Vice President for Finance and Assistant Treasurer	Domenic Nepote	06-18-04 to 06-30-11
Associate Vice President and University Controller	Jeffrey J. Jacso	06-18-04 to 06-30-11
President of the Board of Trustees	Ron D. Carpenter	07-01-09 to 06-30-11



STATE OF INDIANA
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, 2010, and have issued our report thereon dated October 20, 2010. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be 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, others within the entity, 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 20, 2010

STATE BOARD OF ACCOUNTS
State Board of Accounts



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Indiana State University as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. 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 Board of Trustees, management, others within the entity, 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.

February 16, 2011

STATE BOARD OF ACCOUNTS
State Board of Accounts

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
U.S. DEPARTMENT OF EDUCATION			
Direct Grant			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 332,806
Federal Work-Study Program	84.033		483,868
Federal Perkins Loan Program	84.038		7,948,732
Federal Pell Grant Program	84.063		13,035,623
Federal Direct Loan Program	84.268		47,625,303
Academic Competitiveness Grants	84.375		560,308
National Science and Mathematics Access to Retain Talent Grants	84.376		<u>210,649</u>
Total for Student Financial Assistance Cluster			<u>70,197,289</u>
Direct Grant			
TRIO Cluster			
Student Support Services	84.042		332,924
Upward Bound	84.047		395,991
McNair Post-Baccalaureate Achievement	84.217		<u>246,859</u>
Total for TRIO Cluster			<u>975,774</u>
Total for Federal Grantor Agency			<u>71,173,063</u>
Research and Development Cluster			
U.S. DEPARTMENT OF AGRICULTURE			
Direct Grant			
Animal Damage Control	10.028	10-7439-0773-CA	876
Pass-Through The Ohio State University Research Foundation Grants for Agricultural Research, Special Research Grants	10.200	2008-38897-19317	<u>2,551</u>
Total for Federal Grantor Agency			<u>3,427</u>
U.S. DEPARTMENT OF THE INTERIOR			
Direct Grants			
Cultural Resource Management	15.224	L08AC13787	12,810
Fish and Wildlife Management Assistance	15.608	301817J087	3,216
Pass-Through Indiana University State Wildlife Grants	15.634	E2-08-WDS13	<u>121,705</u>
Total for Federal Grantor Agency			<u>137,731</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Pass-Through Boston Science Museum Technology Transfer	43.002	NNG04GH14A	64,472
Pass-Through Indiana University Unknown	43.xxx	NNG05GG54H	2,771
Pass-Through Purdue University Unknown	43.xxx	NNG05GG54H	<u>1,530</u>
Total for Federal Grantor Agency			<u>68,773</u>
NATIONAL SCIENCE FOUNDATION			
Direct Grants			
Geosciences	47.050	Various	90,075
Biological Sciences	47.074	Various	9,075
Social, Behavioral, and Economic Sciences	47.075	BCS-0521734	15,673
Education and Human Resources	47.076	DUE-0703112	140,069
Polar Programs	47.078	ANT-0636474	1,391
ARRA - Trans - NSF Recovery Act Research Support	47.082	BCS-0926375	<u>41,810</u>
Total for Federal Grantor Agency			<u>298,093</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, 2010
(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	78,349
Total for Federal Grantor Agency			78,349
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Grants			
Research and Training in Complementary and Alternative Medicine	93.213	5U01AT002550-04	77,984
Cancer Biology Research	93.396	1R15CA133829-01A1	82,257
ARRA - Trans-NIH Recovery Act Research Support	93.701	Various	134,239
Biomedical Research and Research Training	93.859	1R21 GM072780-01A1	13,070
Pass-Through University of Southern California, San Francisco			
Research and Training in Complementary and Alternative Medicine	93.213	1P01 AT005013-01	22,976
Pass-Through The Ohio State University Research Foundation			
ARRA - Trans-NIH Recovery Act Research Support	93.701	R21DK084330	11,225
Total for Federal Grantor Agency			341,751
Total for Research and Development Cluster			928,124
<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		175,638
Total for Federal Grantor Agency			175,638
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-Through Indiana Criminal Justice Institute			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2009-JF-FX-0022	33,062
Total for Federal Grantor Agency			33,062
<u>U.S. DEPARTMENT OF LABOR</u>			
Pass-Through Indiana Department of Workforce Development			
Trade Adjustment Assistance	17.245	Various	24,722
Total for Federal Grantor Agency			24,722
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute			
State and Community Highway Safety	20.600	Various	3,692
Total for Federal Grantor Agency			3,692
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u>			
Pass-Through Purdue University			
Unknown	43.xxx	NNG05GG54H	20,000
Total for Federal Grantor Agency			20,000
<u>NATIONAL ENDOWMENT FOR THE ARTS</u>			
Direct Grant			
Promotion of the Arts - Grants to Organizations and Individuals	45.024	09-3100-7109	10,000
Pass-Through Indiana State Library			
Grants to States	45.310	LS-00-10-0015-10	1,510
Total for Federal Grantor Agency			11,510

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, 2010
(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>NATIONAL SCIENCE FOUNDATION</u>			
Direct Grant			
Education and Human Resources	47.076	DUE-0532027	80,100
ARRA - Trans-NSF Recovery Act Research Support	47.082	DUE-0934648	46,483
Pass-Through Purdue University			
Education and Human Resources	47.076	HRD-0703443	34,015
Pass-through Harrisburg University			
Education and Human Resources	47.076	0717407	<u>1,957</u>
Total for Federal Grantor Agency			<u>162,555</u>
<u>SMALL BUSINESS ADMINISTRATION</u>			
Direct Grant			
Special Initiative	59.000	Various	82,510
Pass-Through Indiana Small Business Administration			
Small Business Development Centers	59.037	Various	<u>102,253</u>
Total for Federal Grantor Agency			<u>184,763</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-Through Indiana Department of Education			
Special Education Cluster			
Special Education - Grants to States	84.027	Various	<u>1,010,109</u>
Total for Special Education Cluster			<u>1,010,109</u>
State Fiscal Stabilization Fund Cluster			
ARRA - State Stabilization Fund - Education State Grants, Recovery Act	84.394	S394A090015	<u>1,504,756</u>
Total for State Stabilization Fund Cluster			<u>1,504,756</u>
Direct Grants			
Fund for the Improvement of Education	84.215	U215K090166	59,279
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	Various	215,947
Teacher Quality Enhancement Grants	84.336	Various	304,221
Pass-Through National Council for Economic Education			
Fund for the Improvement of Education	84.215	TT-1026	590
Unknown	84.xxx	TT-0901820	6,720
Pass-Through Rockville Community School			
Education Technology State Grants	84.318	S318X080014	3,500
Pass-Through Indiana Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Various	222,514
Pass-Through Indiana University			
Special Education - State Personnel Development	84.323	H323A030003-04	18,022
Pass-Through Indiana Commission for Higher Education			
Improving Teacher Quality State Grants	84.367	08-02	<u>216,369</u>
Total for Federal Grantor Agency			<u>1,047,162</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, 2010
(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 HEALTH AND HUMAN SERVICES</u>			
Direct Grant			
Advanced Education Nursing Traineeships	93.358	A10HP00183-10-00	60,078
Pass-Through Purdue University			
Injury Prevention and Control Research and State and Community Based Programs	93.136	Various	3,068
Pass-Through Mental Health America of Vigo County			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		29,258
Pass-Through Indiana University			
Foster Care Title IV-E	93.658	A93-0-49-10-CW-0203	49,632
Total for Federal Grantor Agency			<u>142,036</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u>			
Pass-Through State of Indiana AmeriCorps			
AmeriCorps	94.006	Various	164,203
ARRA - AmeriCorps	94.006	F20-8-AF-0005	34,026
Total for Federal Grantor Agency			<u>198,229</u>
Total federal awards expended			<u>\$ 76,619,421</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

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, 2010, 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 Direct Student Loans

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

The number of guaranteed loans and the total amount processed for each Direct Loan Program for the year ended June 30, 2010, were as follows:

Program Title	Number of Students	Loan Amount
Direct Loan Program (Subsidized and Unsubsidized)	9,328	\$ 40,846,227
Direct PLUS Loans (Parent (PLUS) and Graduate PLUS Loans)	906	6,776,079
Totals	10,234	\$ 47,622,306

In prior years, the amount of loans received by students was not included as federal expenditures in the Schedule of Expenditures of Federal Awards, as allowed by OMB Circular A-133.

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

Note 3. Federal Perkins Student Loan Program

The University participates in the Federal Perkins Loan Program. A revolving loan fund is maintained for the administration of the Program, the balances and transactions relating to the program are included in the University's financial statements. The Schedule of Federal Expenditures includes the entire amount of the revolving loan fund including the outstanding loans to students. The following schedule represents loans outstanding as of June 30, 2010:

Program Title	Federal CFDA Number	Amount
Federal Perkins Loan Program	84.038	<u>\$ 7,948,732</u>

In prior years, the amount of loans outstanding was not included as federal expenditures in the Schedule of Expenditures of Federal Awards, as allowed by OMB Circular A-133.

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, 2010:

Program Title	Federal CFDA Number	Amount
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	\$ 26,097
Teacher Quality Enhancement Grants	84.336	13,117
Research and Training in Complementary and Alternative Medicine	93.213	12,945

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
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	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:

CFDA Number	Name of Federal Program or Cluster
SFA Cluster	Student Financial Assistance Cluster
TRIO Cluster	TRIO Cluster
R & D Cluster	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$631,362

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 February 16, 2011. Those attending were:

University Representatives:

Dr. Daniel J. Bradley, President of the University
Diann E. McKee, Vice President for Business Affairs, Finance, and University Treasurer
Melony Sacopulos, General Counsel and Secretary of the University
Jeffrey J. Jacso, Associate Vice President and University Controller
Sarah Ber, Director, Office of Contracts and Grants
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
Dr. Rita Worrall, Director of Student Support Services
Dr. Matthew Pearcey, Director of the McNair Post-Baccalaureate Achievement Program
Kenneth Coleman, former Director of the Upward Bound Program
Kim Nation, Interim Director of the Upward Bound Program
Sally Hunter, Director, Internal Audit

State Board of Accounts Representatives:

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

Indiana State University

2009-2010

Financial Report



Indiana State
University

More. From day one.

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Message from the President

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

Indiana State University looks back on a remarkable year. In a time of campus improvement and expansion, dramatically increased enrollment, substantive growth in fundraising, and ongoing success in our initiatives to create the best learning environment for the success of our students, my colleagues and I take pride in the direction and achievements of our university over the past year.

This annual financial report for the fiscal year ending June 30, 2010, is part of that good news and reflects the careful and successful stewardship of our funding as a state-supported university. The people of Indiana entrust us to prepare our students for the future, and we take that obligation seriously.

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

As you review the report you will 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 assist the reader in developing a complete understanding of the University's financial health.

While our state and nation continue to confront difficult economic times, Indiana State University aims to provide the best possible education for our students while acknowledging this is a time for frugality and great care in the expenditure of public funds. A new strategic plan, The Pathway to Success, was launched in fall 2009 and outlines the university's goals focusing in six key areas – increasing enrollment and student success, advancing experiential learning, enhancing community engagement, strengthening and leveraging programs of distinction and promise, diversifying revenue, and recruiting and retaining great faculty and staff. An updated Campus Master Plan for facility development including student housing and athletic venues also was adopted by our Board of Trustees. These documents reflect the contribution and investment by all University stakeholders who share high aspirations for Indiana State's future. A record-sized freshman class for the Fall 2010 semester and the second largest fundraising year in our institution's history in 2009-2010 certainly signal that we are on the right track.

We are deeply grateful to the State of Indiana for its support of ISU, and we pledge to our students, faculty, staff, Indiana government, and all Hoosiers that we will prudently manage the resources that sustain this university.



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.

Daniel J. Bradley
President, Indiana State University



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Indiana State University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2010 and 2009. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over reporting. Accordingly, we express no such opinion. 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, 2010 and 2009, 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 20, 2010, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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.

State Board of Accounts
STATE BOARD OF ACCOUNTS

October 20, 2010

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 2009-2010 fiscal year ended June 30, 2010. 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 2008-2009 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 10,534 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 \$18.2 million for the fiscal year ending June 30, 2010. This continues a trend of solid financial performance and adds to the increase of \$11.8 million in the fiscal year ending June 30, 2009.

Operating revenues for the fiscal year were \$86.7 million, as compared with \$88.7 million for fiscal year 2009, a decrease of 2 percent. Tuition and fees and auxiliary income were up \$0.5 million from fiscal year 2009; however, this was offset by a reduction of grant revenues of \$1.7 million and a \$0.8 million decline in other operating revenues.

Other operating revenues of \$5.7 million include \$1.2 million from the Lilly Endowment, Inc., administered through the Indiana State University Foundation for the establishment of the Networks Financial Institute (NFI). In January 2010, the Indiana State University Foundation received an additional \$6 million from the Lilly Endowment, making the total amount invested in NFI since 2003 \$29 million. These funds are used to support three areas in the financial services sector: public policy and research in insurance and other financial services sectors, financial literacy, and professional development for top financial services students in the Scott College of Business.

Operating expenses were \$194.4 million for fiscal year 2010. This represents a \$1.2 million increase from the previous year's expenditures of \$193.1 million. Compensation and employee expenses grew by \$4.2 million, as an early retirement incentive plan expensed at \$9.1 million and expenditures from a displaced workers plan of \$0.7 million were implemented during the year. The



McKee Nursing Center

costs of these programs were offset by salary savings of not filling open positions and a decrease in the Other Post Employment Benefit (OPEB) of \$2.6 million. Supplies and expenses were reduced by \$4.6 million during the year as a result of reduced grant activity as well as reduction of travel expenses, equipment repairs, office and various supplies, lease and rental of equipment, and various campus upgrades. Depreciation expense increased by \$1.2 million as the Student Recreation Center and the Bayh College of Education facilities were put into service. Utilities costs grew by \$0.3 million as electricity, water and sewage costs increased, while natural gas costs declined slightly. Scholarship expense grew by \$0.2 million, reflecting a growth in enrollment and tuition increases.

Net non-operating and other revenues increased by \$9.5 million from 2009. State appropriations decreased by \$5.5 million. In December 2009, the Indiana Commission for Higher Education announced \$150 million of budget cuts for higher education. Indiana State University's share of this cut totaled \$10.4 million during the next two years, representing a 6.64 percent reduction in state funds. Non-operating grants and contracts grew by \$4.1 million. State funding for student financial aid declined by \$0.2 million from 2009, while federal funding for student aid increased by \$4.3 million. Investment income grew by \$0.4 million as the result of investment of bond proceeds and some recovery of long-term interest rates. Interest on capital asset-related debt grew by \$1.5 million, as payments on Series M were fully charged in 2010. Other non-operating revenues declined by \$0.7 million as the result of no longer receiving the Medicare subsidy due to a change in the medical insurance coverage for retirees. Other non-operating expense is the bond issuance cost related to Student Service Fee Bonds, Series N, and Housing and Dining Revenue Bonds, Series 2009.

The State of Indiana did not release funds for repair and rehabilitation due to shortfalls in state revenues. Indiana State University, however, is a sub-recipient for approximately \$6 million of federal stimulus funds (ARRA) through the State of Indiana. As of June 30, 2010, the University had spent \$1.5 million on capital projects from these funds. Capital grants and gifts totaling \$12.8 million were received by Indiana State University. These gifts included the \$8.4 million transfer of the Federal Building from General Services Administration, the \$2.2 million renovation of the baseball stadium, a \$1.4 million transfer of a 16-acre tract of land along the Wabash River, a \$0.2 million gift for the Student Recreation Center, and a gift of \$0.2 million for portable bleachers.



Sandison Hall

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, 2010, 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, 2010 and 2009 is as follows:

Statement of Net Assets (in millions)		
	2010	2009
Current assets	\$ 70.0	\$ 77.9
Non-current assets:		
Deposits with bond trustee	0.6	0.8
Notes receivable	4.9	5.4
Other long-term investments	66.6	48.8
Net OPEB asset	3.8	1.1
Capital assets, net	315.7	288.1
Other	0.6	0.7
Total assets	<u>\$ 462.2</u>	<u>\$ 422.8</u>
Current liabilities	35.2	28.4
Non-current liabilities	107.2	92.8
Total liabilities	<u>\$ 142.4</u>	<u>\$ 121.2</u>
Net assets	<u>\$ 319.8</u>	<u>\$ 301.6</u>

Current assets consist primarily of cash, operating investments, and accounts receivable. Current assets totaled \$70 million at June 30, 2010, as compared to \$77.9 million at June 30, 2009.

The decrease in current assets by \$7.9 million is due to a reduction of \$10.6 million in cash and cash equivalents. Cash equivalents include investments that will mature in the next 90 days. The reduction in cash and cash equivalents is offset by increases in short-term investments of \$1 million and long-term investments of \$17.8 million. In addition, the state receivable increased by \$1.5 million to reflect funds due to the University as a sub-recipient of federal stimulus funds administered through the State of Indiana.

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portion of long-term debt. Total current liabilities increased by \$6.8 million in 2010. Significant changes in current liabilities include a \$0.9 million increase in accounts payable, a \$0.8 million increase in accrued payroll, and a \$4.4 million increase in compensated absences and termination benefits due to the early retirement incentive program. Funds held in custody for others increased by \$1.6 million as a result of funds held on behalf of the ISU Foundation by the University for use by ISU Networks. The note payable in both the current and non-current liability was paid off as part of the proceeds from the Housing and Dining Revenue Bonds, Series 2009.

Non-current assets increased by \$47.3 million. Capital assets grew by \$27.6 million, which reflects the Sandison Hall renovation, the gifts of the Federal Building, baseball renovation, and River Front property transfer. The net Other Post Employment Benefit (OPEB) increased by \$2.7 million to reflect changes in the retiree medical insurance plan. Long-term investments increased \$17.8 million as bond proceeds were invested.

Non-current liabilities increased by \$14.4 million. Bonds payable grew by \$15.6 million as additional bonds were issued. This included the payoff of the outstanding note. Indiana State University entered into a capital lease agreement to lease copiers and printers for the campus, resulting in a lease payable amount classified as a non-current liability.



The aviation department's comprehensive, full motion flight simulator.

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.

The 2007 Indiana General Assembly approved the expenditure of, and related bonding authority under IC 21-34, for \$14.8 million for the renovation of the life science/chemistry teaching labs housed in the Science Building and the construction of a satellite chiller plant. The project will provide for major upgrades in the life science/chemistry laboratories to reflect current technology, as well as more stringent safety and access standards as required by ADA and OSHA guidelines. The 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 labora-

tory renovations are \$2.7 million and \$2.1 million. A bond issue for the construction of the satellite chiller plant and the first phase of the laboratory renovation known as Student Fee Bonds, Series N, in the approximate amount of \$9.56 million, were issued in February 2010. The construction cycle for the satellite chiller plant is estimated at one year. The first phase of the laboratory renovations has been completed.

Indiana State University began renovation of Sandison Hall in June 2009, with a scheduled completion date before the beginning of the fall 2010 semester. Constructed in 1962 and last renovated in 1988, Sandison Hall is attached to the Hulman Memorial Student Union. Construction cost is approximately \$10.3 million and is funded by \$2.5 million in residence hall reserve funds with remaining dollars funded by a Housing and Dining bond issue. The Sandison project reconfigures 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, are located in the basement along with a conference room. The building also has wireless internet access throughout and a fire suppression system. Through a gift provided by Nancy and Dale McKee, Sandison Hall features the McKee Nursing Center, equipped with the latest technology for students majoring in nursing and other healthcare careers to get valuable hands-on learning opportunities. Sandison Hall houses future healthcare professionals on five of its eight residential floors and serves as the new home for the Leadership Learning Community. The Housing and Dining System Revenue Bonds, Series 2009, issued in November 2009, includes \$7.7 million for the Sandison project, as well as \$5.8 million to refinance the Burford/Jones Hall note payable.

Construction has begun on a new building in downtown Terre Haute to house the Indiana State University Foundation and the ISU-Barnes & Noble College Bookstore. The ISU Foundation is developing the project in conjunction with Vermilion Development, a firm that specializes in transformative, university-based real estate projects. The 30,000-square foot, two-story facility expected to be completed in early 2011 will allow retail space to be expanded, add more product lines, extend hours, and



will also house a Starbucks. The Foundation's move will help consolidate all organizational functions into one area, including operations and development functions, as well as provide prominent space for the ISU Alumni Association. The space will also house the Varsity Club, Sycamore Foundation Holdings, Leadership Wabash Valley, Sycamore Ambassadors, Terre Haute REX Baseball office, and a call center for the annual giving program. This project supports Indiana State University's strategic plan of contributing to downtown revitalization.

The Indiana State University baseball facility received an extensive \$2.5 million renovation that includes permanent bleachers, new dugouts, infield turf, media box, locker room facilities, concession stand, and restrooms. The facility upgrades were funded through the Indiana State University Foundation and made possible for the Foundation to bring summer baseball to the Wabash Valley. The Terre Haute REX Baseball team, which is owned by Sycamore Foundation Holdings, a non-profit subsidiary of the Indiana State University Foundation, in partnership with Rex Coffee, a brand of Clabber Girl Corporation, is a member of the Prospect League. The Prospect League, a collegiate wooden bat summer league, is one of the fastest growing and widely recognized summer collegiate baseball leagues. The team began play in June 2010 and ran through August.

In spring 2010, the University received transfer of ownership of the former Terre Haute Post Office Federal Building, located south of the campus, for use as a new facility for the Scott College of Business. This gift valued at \$8.35 million included extensive renovations funded through federal earmarks prior to ownership transfer as administered through the General Services Administration (GSA). Additional renovations to the Federal Building, with an estimated project cost of \$20 million, will allow the Scott College to move from a 15-story former residence hall to an updated facility for use by students, faculty, staff, and the community. Renovations will also create a more efficient structure with updated heating, cooling, ventilation, and electrical systems and bring the building into full compliance with accessibility and occupational health and safety standards. The 2009 Indiana General Assembly authorized the project, and in September 2010 the Indiana State Budget Committee approved \$9 million of bonding authority. The remaining funding for the estimated \$20 million renovation will come from private donations to the ISU Foundation, including a gift from retired businessman Donald W. Scott, for whom the college was named in October 2009. Plans call for bids to be awarded in early 2011 with the construction to be completed by August 2012.

Renovation of Pickerl Hall began in June 2010. This project consists of the renovation and reconfiguration of Pickerl Hall from the traditional dormitory floor plan to create double rooms with private bathrooms and individual heat and air conditioning controls. Pickerl Hall, originally constructed in 1963, will see extensive upgrades to include installation of air conditioning, fire suppression systems, upgrade of heating, window replacement, and electrical structural repairs. The overall cost of the renovation is estimated at \$10 million, with approximately \$1 million funded from system reserves and approximately \$9 million from the Housing and Dining Revenue Bonds, Series 2010.

Indiana State University is a sub-recipient for approximately \$6 million through the State of Indiana from federal stimulus funds (ARRA). These funds must be spent on repair and replacement



The ribbon-cutting ceremony during the McKee Nursing Center dedication.

projects and be used by September 30, 2011. The University currently has six projects underway that are utilizing these funds. This includes the Rankin/Parsons Hall Plaza, in which the existing roofing systems would be replaced with a roof deck with structural reinforcing and insulation. Existing brick pavers would be replaced with a sustainable green roof and appropriate drainage, lighting, and native planting. Other projects currently under construction include the Chestnut Street Pedestrian Walkway, Holmstedt Hall Plaza, Student Success Center, and roof and HVAC upgrades.

The ISU Foundation purchased a 16-acre tract of land, that extends from First Street west to the river including the former Pillsbury/ICON Transportation property, and transferred ownership to the University. The approximately \$1.4 million gift will be used in developing Indiana State University's master plan. The plan calls on the University to become a key player in efforts to more fully develop the area near the Wabash River.

The University continues to work aggressively to manage its financial resources effectively, including the issuance of debt to finance capital projects. Indiana State University Housing and Dining System Revenue Bonds, Series 2009 and Indiana State University Student Fee Bonds, Series N issued during the fiscal year both had underlying credit ratings of (A2) from Moody's and (A+) from Fitch. In May 2010, Fitch recalibrated the underlying long-term credit rating up from (A+) to (AA-) on the Housing and Dining, Series 2009 and Student Fee Bonds, Series M and N bond issues. On May 7, 2010, Moody's rating with respect to Indiana State University was recalibrated up to (A1) from (A2) rating on all outstanding bond issues. The subsequent bond issue of August 4, 2010, Indiana State University Housing and Dining System Revenue Bonds, Series 2010 maintained the Moody's rating of (A1) and Fitch rating of (AA-).

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, 2010 and 2009 are summarized in the table that follows:

Net Assets (in millions)		
	2010	2009
Invested in capital assets, net of related debt	\$218.8	\$196.0
Restricted		
Non-expendable	2.8	2.9
Expendable	11.3	8.4
Unrestricted		
(designated for operational activities, see Note 3)	<u>86.9</u>	<u>94.3</u>
Total net assets	<u>\$319.8</u>	<u>\$301.6</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 nonexpendable 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

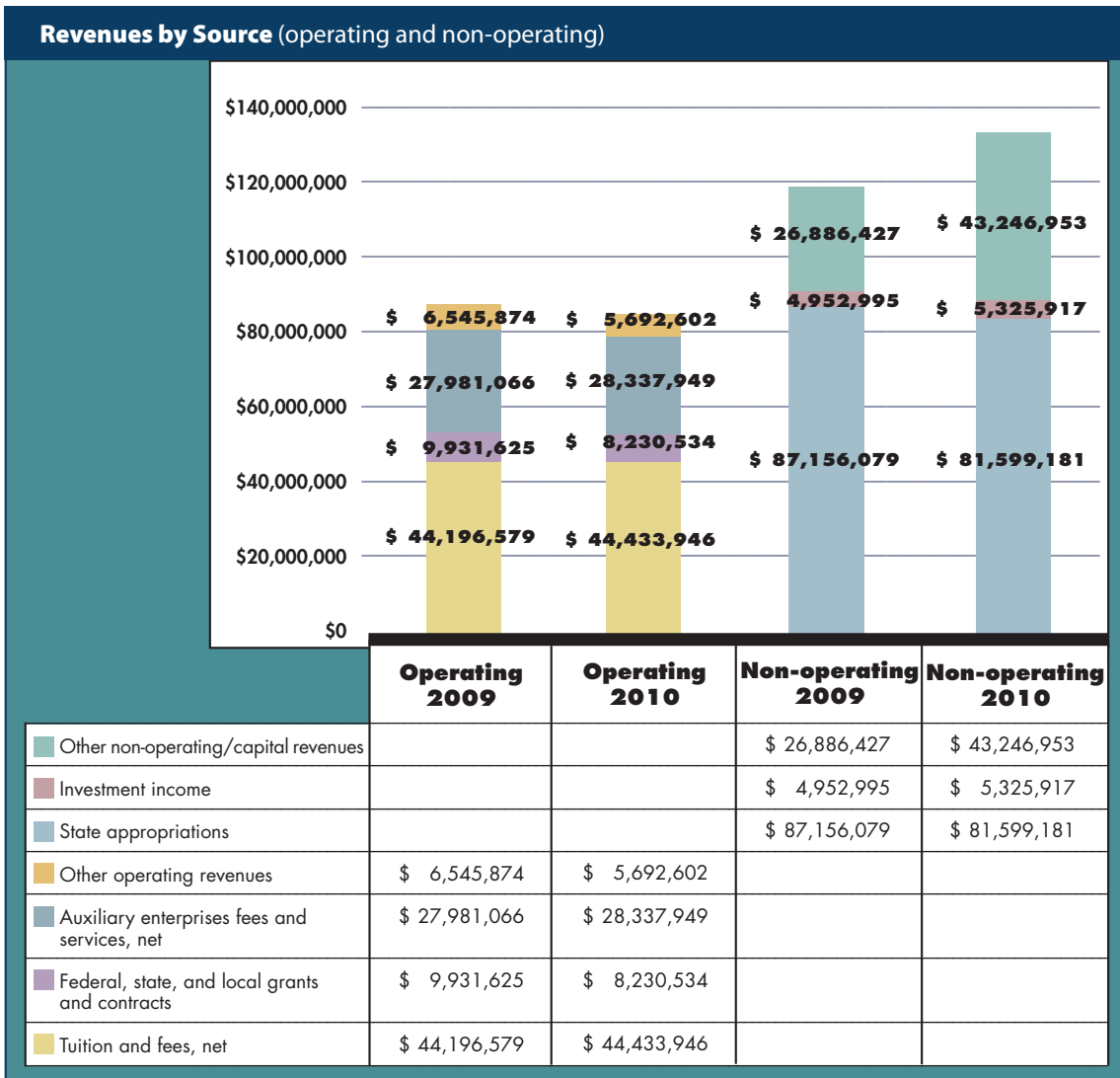
The Statement of Revenues, Expenses, and Changes in Net Assets present the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2010 and 2009 is as follows:

Revenues, Expenses, and Changes in Net Assets (in millions)		
	2010	2009
Operating Revenues:		
Tuition and fees (net of scholarship and other allowances of \$29.9 million for 2010 and \$27.1 million for 2009)	\$ 44.4	\$ 44.2
Grants and contracts	8.3	10.0
Auxiliary enterprises fees and services (net of scholarship and other allowances of \$8.0 million for 2010 and \$6.5 million for 2009)	28.3	28.0
Other	<u>5.7</u>	<u>6.5</u>
Total operating revenue	<u>\$ 86.7</u>	<u>\$ 88.7</u>
Operating expenses	<u>(194.4)</u>	<u>(193.2)</u>
Operating loss	(\$107.7)	(\$104.5)
Non-operating revenues (expenses):		
State appropriations	81.6	87.1
Investment income (net of investment expenses of \$0.1 million for 2010 and \$0.1 million for 2009)	5.3	4.9
Non-operating revenues and contract revenue	25.7	21.6
Capital appropriations	1.5	
Capital grants and gifts	12.8	1.6
Other non-operating revenues and expenses	2.9	3.6
Interest on capital asset related debt	<u>(4.0)</u>	<u>(2.5)</u>
Net non-operating and other revenues	<u>\$ 125.8</u>	<u>\$ 116.3</u>
Increase in net assets	\$ 18.2	\$ 11.8
Net assets, beginning of year	<u>301.6</u>	<u>289.8</u>
Net assets, end of year	<u><u>\$ 319.8</u></u>	<u><u>\$ 301.6</u></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 will continue to aggressively seek funding from all possible sources consistent with its mission and will direct the financial resources realized from these efforts to fund University operating priorities.

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



Operating revenues decreased by \$2 million for the fiscal year 2010. Tuition and fees income grew by \$0.2 million, not including the growth of the tuition discount of \$2.8 million. University enrollment increased by 77 students to 10,534 from fall 2008. The number of first-time freshman stood at 2,035, an increase of 95 students from last year and a 24 percent increase since 2005. The quality of the incoming students remained strong as more than 96 percent of new freshmen have completed a core 40 high school curriculum. The largest growth in enrollment is among transfer students, whose numbers climbed by 174, a nearly 30 percent increase in one year. A large percentage of transfer students came from Ivy Tech's Terre Haute campus. The University's partnership with Ivy Tech, along with the state's investment in the community college system, is creating opportunities for students to continue their education and pursue a bachelor's degree. Indiana State University

has invested in several initiatives to provide for these opportunities, including the placement of a full-time ISU transfer coordinator on the Ivy Tech campus, an expansion of the ISU Laptop Award to transfer students, and new textbook scholarships and community service scholarships for community college transfers. Enrollment also grew in graduate students, out-of-state, and international students.

Auxiliary enterprises fees and services revenue increased by \$0.3 million, and the discount increased by \$1.5 million, reflecting an increase in fees and an increase in the number of students residing in campus housing.

Grants and contracts revenue decreased by \$1.7 million for fiscal year 2010. This is a result of some federal grants ending during the year and other state federal flow-through projects that were funded for only half of the fiscal year. New initiatives to find additional revenue streams has resulted in the Indiana Department of Education awarding Indiana State University's Blumberg Center for Interdisciplinary Studies in Special Education two grants totaling more than \$4.9 million over four years to establish two resource centers to aid special education in the state.

Net non-operating and capital revenues increased by \$9.5 million for fiscal year 2010. This growth is due to increases in non-operating grants and contracts revenue of \$4.1 million, capital grants and gifts of \$11.2 million, and capital appropriations of \$1.5 million. This is offset by the reduction of state appropriations of \$5.5 million and increased interest on capital asset related debt of \$1.5 million.

Like most universities, Indiana State University continues to make market-competitive compensation and benefits a top priority. These expenses represent 66 percent of total University expense/budget.

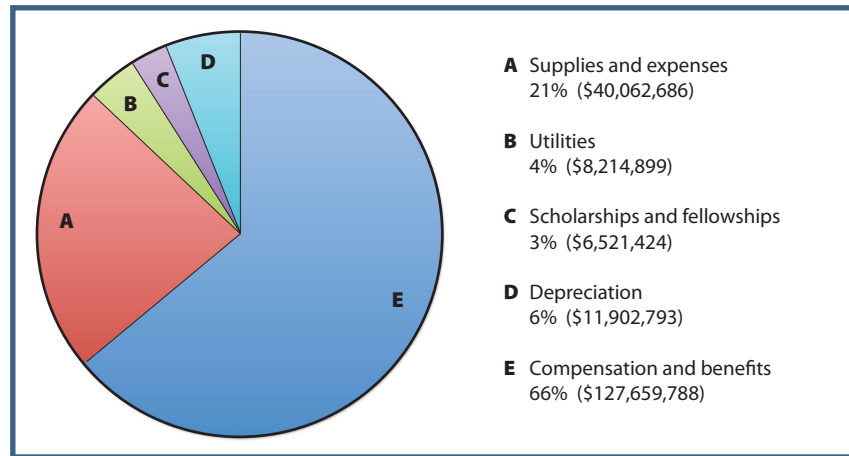
A comparative summary of the University's expenses for the years ended June 30, 2010 and 2009 is as follows:



Operating Expenses (in millions)

	2010	2009
Operating:		
Compensation and benefits	\$ 127.7	\$ 123.5
Supplies and expenses	40.1	44.7
Utilities	8.2	7.9
Scholarships and fellowships	6.5	6.3
Depreciation	11.9	10.7
	<u>\$ 194.4</u>	<u>\$ 193.1</u>
Non-operating:		
Interest on capital asset related debt	\$ 4.0	\$ 2.5
Other non-operating expenses	0.4	0.2
	<u>0.4</u>	<u>0.2</u>
Total expenses	<u>\$ 198.8</u>	<u>\$ 195.8</u>

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



Total operating expenditures increased from \$193.1 million in fiscal year 2009 to \$194.4 million in fiscal year 2010. Compensation and benefits increased by \$4.2 million. The increase results from the University plan to address the state-mandated budget cut by eliminating 108 positions through severance packages and a separate early retirement plan. These savings will be realized in future years as the cost of the plans were fully recognized in fiscal year 2010. These plans are fully described in Note 8.

Supplies and expenses showed a decrease of \$4.6 million. These decreases are due to a reduction in grant and contract activity, travel expense, equipment repair, and various campus upgrades.

Utilities expenses grew by \$0.3 million for 2010. This is the result of increased electricity, water, and sewage expense while natural gas decreased slightly.

Scholarships and fellowships expenses increased by \$0.2 million to reflect growth in enrollment.

Depreciation expense increased by \$1.2 million as new facilities were brought online, including the Bayh College of Education and the Student Recreation Center.

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, 2010 and 2009 is as follows:

Expenses by Function (in millions)		
	2010	2009
Operating:		
Instruction	\$ 65.4	\$ 63.5
Research	8.9	11.9
Public service	1.6	1.7
Institutional and academic support	38.1	36.2
Student services	11.6	11.2
Operations of plant	23.6	24.3
Scholarships	7.8	7.2
Auxiliary enterprises	25.5	26.3
Depreciation	11.9	10.8
	<u>\$ 194.4</u>	<u>\$ 193.1</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 to evaluate 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, 2010 and 2009 is as follows:

Statement of Cash Flows (in millions)		
	2010	2009
Cash received from operations	\$ 86.9	\$ 88.2
Cash expended for operations	<u>(177.6)</u>	<u>(180.7)</u>
Net cash used by operating activities	(90.7)	(92.5)
Net cash provided by noncapital financing activities	115.0	111.9
Net cash provided by (used) investing activities	(13.1)	13.9
Net cash used by capital and related financing activities	<u>(21.7)</u>	<u>(43.3)</u>
Net decrease in cash and cash equivalents	(10.5)	(10.0)
Cash and cash equivalents, beginning of year	<u>46.0</u>	<u>56.0</u>
Cash and cash equivalents, end of year	<u>\$ 35.5</u>	<u>\$ 46.0</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.

Net cash used in operating activities decreased by \$1.8 million. This decrease is caused by a decrease in the amount of payments made to suppliers of \$6.2 million. This is derived from the \$2 million reduction of grants and contracts revenue and other University cutbacks that relate to the reduction of higher education funding from the State of Indiana.

Cash flows from non-capital financing activities increased by \$3.1 million. Increases of cash from funds held for the ISU Foundation of \$5.3 million and non-operating grants (student financial aid) of \$3.9 million offset the reduction of state appropriations of \$5.6 million.

Cash used by capital financing activities decreased from 2009 by \$21.6 million, largely due to bond issuances of \$23.4 million and the sale of the gifted property of \$1 million.

Net cash from investing decreased by \$27.1 million from last fiscal year as bond proceeds of \$23.4 million were invested, and short-term investments were invested for longer durations because of favorable interest rates.

Economic Factors that Will Affect the Future

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



Terre Haute REX baseball game

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 has helped to transform the lives of generations of students. The ISU campus continues to become more diverse with African-Americans comprising nearly 15 percent of the student body in fall 2010, reflecting the University's ongoing commitment to making diversity a priority.

Indiana State University's 2010 fall enrollment figures show that the number of new freshmen increased by 33 percent. The incoming class of students is the largest in the 145-year history of ISU. The number of new freshmen stands at 2,707, an increase of 672 students from last year. The total student headcount of 11,494 is a 9 percent increase from the 2009 fall enrollment of 10,534. Graduate student enrollment stands at 2,121 and is a new record. The University's revised admission standards and revamped scholarship program to attract high-achieving students has resulted in 224 new honor students, a 72 percent increase from 2009, and awards of 1,252 laptop computers to new students with a minimum grade point average of 3.0 or higher, a 59 percent increase in ISU Laptop Award recipients. International student enrollment at Indiana State University has grown by more than 13 percent from last year and stands at 539, an increase of 64 students. Students from more than 60 countries allow for the continued globalization of the ISU campus, providing for opportunities for ISU faculty, staff, and students to increase their multicultural competencies.

The Princeton Review has named Indiana State University as among the Best in the Midwest for the sixth year in a row. The Princeton Review finds that Indiana State University offers a good education at a reasonable cost, and students can expect a specialized experience due to small class sizes and the amount of individual attention. Providing a quality education at a reasonable cost allows the University to pursue a robust marketing effort that has resulted in an increase of 271 new students from Illinois, a 126 percent increase. This is due to aggressive recruiting in the development of secondary markets, such as the Chicago metropolitan area.

Indiana State University is expanding existing student success programs and adding new ones to increase retention and graduation rates. MAP-Works, a nationwide tool that assesses student preparedness, has grown to include 1,800 ISU students, up from 850 last year. MAP-Works students have a 4 percent higher retention rate than students who do not participate. Another program called “Launch” was piloted in 2010, in which scholarships were provided to 25 students who met academic achievement goals, and has been expanded to serve 100 students in 2011. A new Sycamore Mentors program has 40 ISU faculty and staff members volunteering to mentor two 21st Century Scholars each during the upcoming year.

In December 2009, the Indiana State University Board of Trustees accepted a new campus master plan that calls for renovation of several academic facilities, upgrades to student housing and athletic venues, and improvements in campus traffic patterns. The plan complements a five-year strategic plan that seeks to grow enrollment by 15 percent to 12,000 students, increase experiential learning, and expand community engagement while leveraging promising academic programs, recruiting and retaining talented faculty and staff, and diversifying revenue. The campus master plan calls on the University to become a key player in efforts to more fully develop the area near the Wabash River.

Indiana State University implemented a state-mandated budget reduction of \$10.4 million for the period ending June 30, 2011. This plan eliminates more than 100 staff positions campus-wide with no permanent reduction in the number of tenure and tenure track faculty. The plan also ensures that students will be able to enroll in courses they need and graduate on time without a tuition increase. In response to previous budget issues, the University made significant reductions in budgets for supplies and expenses. This new plan focuses primarily on personnel-related expenses, which comprise approximately 82 percent of discretionary spending, creating severance packages for affected employees and a separate voluntary early retirement plan. Major components of the plan include the use of a third party vendor to provide student health services, reduction of in-house communications and marketing services, and reduction in custodial services and clerical support. With this plan in place, the University will enter the coming fiscal year with a balanced budget.

Indiana State University’s College of Nursing, Health and Human Services is further expanding its curriculum. Beginning in fiscal year 2011, the following degree programs will begin: a Master of Science degree in Physician Assistant Studies, the Doctor of Nursing Practice, and the Doctor of Physical Therapy. These new programs will support the needs of the state, especially rural Indiana, while bringing new students to the campus.

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 public education, health, and welfare of the Wabash Valley region. One of these initiatives is the Rural Health Innovation Collaborative (RHIC). The RHIC was

formed to respond to severe health care shortages, particularly as related to rural areas in Indiana. Founding members of RHIC 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

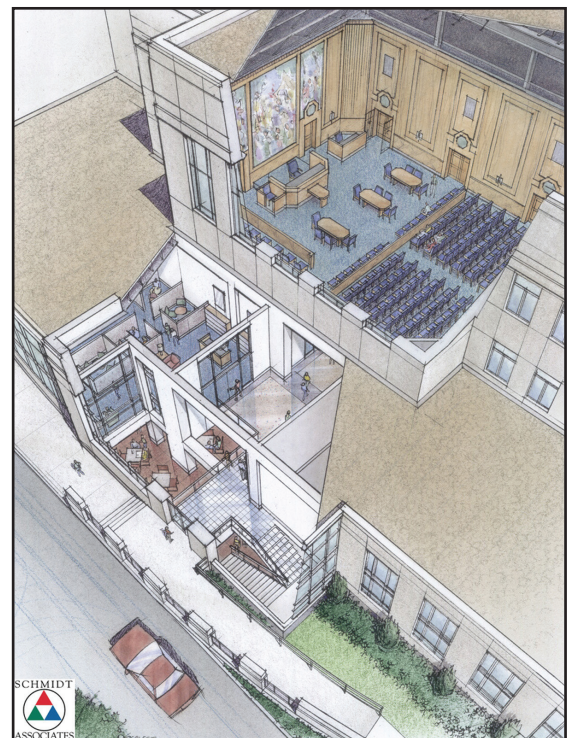


Economic Development Corporation. In addition to addressing workforce needs, the development of the Collaborative will focus on neighborhood revitalization and economic development, including physical infrastructure build-out, business expansion and attraction, and the increase of rural health care services, 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 in 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 42 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. With state funding to Indiana State University declining, the University's strategic plan calls for a 50 percent increase in revenue from grants and contracts, a similar increase in revenue to the University from the Indiana State University Foundation, and growing revenue from student fees by enrollment growth, rather than tuition increases that exceed the annual rate of inflation. Supporting these goals, the University announced that the National Science Foundation awarded a \$1.5 million grant to renovate seven research laboratories in the Science building. The ongoing research in the labs ranges from understanding animal behavior in white-throated sparrow populations and examining single-celled organisms in newly discovered deep-sea ecosystems to isolating novel compounds that show interesting biological activity from poison frogs. The Indiana Department of Education awarded Indiana State University's Blumberg Center for Interdisciplinary Studies in Special Education two grants totaling more than \$4.9 million over four years to establish two resource centers to aid special education in the state. These include \$2.59 million to establish the Effective Evaluation Processes Resource Center, and \$2.36 million has been allotted to create an Effective and Compliant Individualized Education Programs (IEP's) Resource Center.

The Indiana State University Foundation initiated a 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. The Foundation's March On! Campaign is at 70 percent of its \$85 million goal and is on track to achieve that goal by December 2011. The number of donors to the ISU Foundation reached 9,800, and fiscal year 2010 was the second largest fundraising year in University history despite difficult economic times. In addition, the University's very 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 higher education climate. The University will continue to seek ways to diversify revenue streams to maintain student affordability.

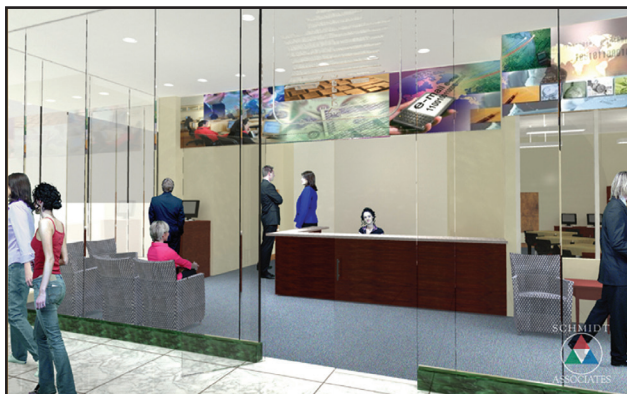
Indiana State University's management is confident that the University's financial condition is strong and will meet all foreseeable economic requirements.



2009-2010 Financial Report



Starting to the left and going clock-wise: A cut-a-way view of the federal building that will soon house the Scott College of Business; a rendering of the south view of the building; a view of the Gongaware Center, Student Services lobby, Career Experience Center, as well as a corridor view.



Indiana State University
Comparative Statement of Net Assets
For the Years Ended June 30, 2010 and June 30, 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 35,470,086	\$ 46,061,314
Short-term investments	23,018,618	21,901,320
Accrued interest	743,545	1,071,619
Accounts receivable (net of allowance of \$6,611,235 for 2010 and \$6,202,230 for 2009)	3,082,341	2,935,280
Other accounts receivable	1,042,845	945,046
Grants receivable	1,578,686	1,386,391
State receivable, current portion	1,504,756	—
Notes receivable, current portion	2,820,327	2,644,491
Prepaid expenses	614,463	656,748
Other assets	—	47,153
Inventories	97,577	222,258
Total current assets	\$ 69,973,244	\$ 77,871,620
Non-current Assets		
Endowment investments—held in trust	\$ 636,404	\$ 689,948
Deposits with bond trustee	587,425	828,672
Notes receivable, non-current portion (net of allowance of 741,633 for 2010 and \$788,067 for 2009)	4,919,849	5,438,340
Other long-term investments	66,600,336	48,795,780
Net OPEB Asset (Note 17)	3,776,217	1,136,746
Capital assets (net of accumulated depreciation of \$233,243,410 for 2010 and \$228,458,590 for 2009)	315,668,859	288,091,897
Total non-current assets	\$ 392,189,090	\$ 344,981,383
TOTAL ASSETS	\$ 462,162,334	\$ 422,853,003
LIABILITIES		
Current liabilities		
Accounts payable	\$ 5,027,651	\$ 4,075,490
Accrued payroll and deductions	4,558,539	3,843,619
Deferred revenue	1,320,274	1,259,988
Funds held in custody for others	2,413,421	842,585
Other liabilities	5,454,133	6,126,492
Bonds payable (Note 5)	7,497,386	7,078,603
Notes payable	—	1,170,000
Compensated absences and termination benefits (Note 8)	7,416,239	2,980,359
Lease payable (Note 7)	261,372	49,257
Debt interest payable	1,215,868	998,580
Total current liabilities	\$ 35,164,883	\$ 28,424,973
Non-current liabilities		
Funds held in custody for others	\$ 3,659,305	\$ —
Bonds payable (Note 5)	93,731,341	78,090,049
Notes payable	—	5,645,000
Compensated absences and termination benefits (Note 8)	799,726	1,325,906
Lease payable (Note 7)	1,222,886	—
Advances from federal government	7,821,200	7,754,822
Total non-current liabilities	\$ 107,234,458	\$ 92,815,777
TOTAL LIABILITIES	\$ 142,399,341	\$ 121,240,750
NET ASSETS		
Invested in capital assets, net of related debt	\$ 218,778,320	\$ 196,058,988
Restricted for:		
Non-expendable:		
Scholarships and fellowships	636,404	689,948
Loans	2,203,734	2,202,724
Expendable:		
Research and other grants	650,724	1,147,005
Capital projects	10,654,452	7,213,698
Debt service	1,486	4,734
Unrestricted	86,837,873	94,295,156
TOTAL NET ASSETS	\$ 319,762,993	\$ 301,612,253

**Indiana State University Foundation, Inc.
and Sycamore Foundation Holdings, Inc.**
Consolidation Statement of Financial Position
Years Ended June 30, 2010 and June 30, 2009

ASSETS	<u>2010</u>	<u>2009</u>
Cash	\$ 1,301,078	\$ 843,245
Investments—at market	42,197,868	47,055,775
Assets held in trusts, interest in trusts and split interest agreements	2,929,538	3,399,623
Pledges, bequests and accounts receivable	3,654,547	2,489,249
Investment income receivable	37,949	84,515
Receivable from Indiana State University	5,250,000	—
Investment in 22 N. 5th, LLC	1,277,973	—
Property and real estate held	847,682	875,186
Deposits and expenses for acquisition of property	—	197,132
Fixed and intangible assets (net of accumulated depreciation and amortization of \$382,090 in 2010 and \$181,033 in 2009)	1,910,086	93,490
Other assets	<u>731,577</u>	<u>608,294</u>
Total assets	<u>\$ 60,138,298</u>	<u>\$ 55,646,509</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 596,936	\$ 406,696
Present value of liability under split interest agreements	2,002,294	799,451
Due to Indiana State University	636,403	689,648
Refundable advances	<u>508,189</u>	<u>456,360</u>
Total liabilities	3,743,822	2,352,155
Net assets		
Unrestricted	\$ (1,095,165)	\$ 1,424,957
Temporarily restricted	15,230,769	13,973,159
Permanently restricted	<u>42,258,872</u>	<u>37,895,938</u>
Total net assets	<u>56,394,476</u>	<u>53,294,054</u>
Total liabilities and net assets	<u>\$ 60,138,298</u>	<u>\$ 55,646,209</u>

Indiana State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2010 and June 30, 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Tuition and fees	\$ 74,362,928	\$ 71,333,669
Scholarship allowances for tuition and fees	(29,308,667)	(26,479,869)
Other allowances	(620,315)	(657,221)
Net tuition and fees	44,433,946	44,196,579
Federal grants and contracts	4,832,159	6,117,048
State and local grants and contracts	251,281	402,640
Non-governmental grants and contracts	3,147,094	3,411,937
Auxiliary enterprises fees and services	36,365,463	34,528,711
Scholarship allowances for room and board	(7,635,919)	(6,086,675)
Other allowances	(391,595)	(460,970)
Net auxiliary enterprises fees and services	28,337,949	27,981,066
Other operating revenues	5,692,602	6,545,874
Total operating revenues	<u>\$ 86,695,031</u>	<u>\$ 88,655,144</u>
EXPENSES		
Compensation and employee benefits	\$ 127,659,788	\$ 123,529,485
Supplies and expenses	40,062,686	44,680,996
Utilities	8,214,899	7,876,368
Scholarships and fellowships	6,521,424	6,259,634
Depreciation	11,902,793	10,790,956
Total operating expenses	<u>\$ 194,361,590</u>	<u>\$ 193,137,439</u>
Operating loss	<u>\$ (107,666,559)</u>	<u>\$ (104,482,295)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	\$ 81,599,181	\$ 87,156,079
Gifts	948,367	834,049
Investment income (net of investment expenses of \$133,118 for 2010 and \$135,589 for 2009)	5,325,917	4,952,995
Interest on capital asset related debt	(3,981,282)	(2,554,134)
Non-operating grants and contracts revenue	25,690,583	21,623,357
Other non-operating revenues	2,304,163	2,862,354
Other non-operating expenses	(373,470)	(190,000)
Net non-operating revenues	<u>\$ 111,513,459</u>	<u>\$ 114,684,700</u>
Income before other revenues, expenses, gains or losses	<u>\$ 3,846,900</u>	<u>\$ 10,202,405</u>
Capital appropriations	\$ 1,504,756	\$ —
Capital grants and gifts	12,799,084	1,566,668
Total other revenues	<u>\$ 14,303,840</u>	<u>\$ 1,566,668</u>
Increase in net assets	<u>\$ 18,150,740</u>	<u>\$ 11,769,073</u>
NET ASSETS		
Net assets—beginning of year	\$ 301,612,253	\$ 289,843,180
Net assets—end of year	<u>\$ 319,762,993</u>	<u>\$ 301,612,253</u>

**Indiana State University Foundation, Inc.
and Sycamore Foundation Holdings, Inc.
Consolidation Statement of Activities**
Years Ended June 30, 2010 and June 30, 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Contributions	\$ 692,578	\$ 1,715,331
Investment income		
Interest and dividends		
Trust and temporary investments	59,095	151,891
Net appreciation (depreciation) in fair value of investments	4,607	(137,020)
Non-gift income	239,618	301,324
Change in value of split interest agreements	(13,813)	(14,081)
University support-alumni	434,608	449,470
Service fee income—Indiana State University	510,883	430,422
Total revenues	<u>1,927,576</u>	<u>2,897,337</u>
Net assets released from restrictions	<u>7,771,606</u>	<u>7,966,484</u>
Total unrestricted support and revenues	<u>9,699,182</u>	<u>10,863,821</u>
EXPENSES		
Scholarships and awards	1,943,361	2,151,826
Restricted and designated expenditures	5,836,483	5,840,556
Grants for academic and other University projects	2,750,349	179,608
Foundation operational expenditures	1,196,762	1,035,881
Development and advancement—fundraising	2,876,244	2,682,247
Alumni affairs	459,795	436,976
Sycamore Foundation Holdings expenses	253,541	4,586
Total expenses	<u>15,316,535</u>	<u>12,331,680</u>
TRANSFERS	<u>3,097,231</u>	<u>2,033,761</u>
Increase (decrease) in unrestricted net assets	<u>(2,520,122)</u>	<u>565,902</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	3,100,274	2,576,856
Lilly Endowment grants	6,131,690	673,810
Interest and dividends	958,608	1,135,029
Net appreciation (depreciation) in fair value of investments	29,816	76,440
Non-gift income	460,118	333,144
Change in value of split interest agreement	(242,202)	(34,993)
In kind support	268,035	239,765
Net assets released from restrictions	(7,771,606)	(7,966,484)
Transfers	(1,677,123)	73,966
Increase (decrease) in temporarily restricted net assets	<u>1,257,610</u>	<u>(2,892,467)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	2,289,461	685,393
Net appreciation (depreciation) in fair value of investments	3,456,770	(10,710,430)
Non-gift income	65,250	46,654
Change in value of split interest agreement	(28,439)	(135,110)
Transfers	(1,420,108)	(2,107,727)
Increase (decrease) in permanently restricted net assets	<u>4,362,934</u>	<u>(12,221,220)</u>
Increase (decrease) in net assets	<u>\$ 3,100,422</u>	<u>\$ (14,547,785)</u>

Indiana State University
Statement of Cash Flows
For the Years Ended June 30, 2010 and June 30, 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 41,346,419	\$ 40,712,783
Grants and contracts	7,998,353	10,006,483
Auxiliary enterprises	26,479,440	26,166,608
Payments to suppliers	(52,365,834)	(58,643,754)
Net pay to employees	(64,761,943)	(62,155,872)
Payments on behalf of employees	(59,882,297)	(59,243,026)
Loans issued to students	(596,484)	(597,726)
Student loans collected	1,342,549	1,012,163
Other receipts	9,728,475	10,270,438
Net cash used by operating activities	<u>\$ (90,711,322)</u>	<u>\$ (92,471,903)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 81,599,272	\$ 87,156,079
Funds held on behalf of the ISU Foundation	5,250,000	—
Stafford loan receipts	28,815,236	23,779,574
Stafford loan disbursements	(28,815,236)	(23,779,574)
Non-operating grants and contracts	25,482,084	21,626,485
Gifts and other non-operating income	2,665,650	3,158,252
Net cash provided by non-capital financing activities	<u>\$ 114,997,006</u>	<u>\$ 111,940,816</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	\$ —	\$ 2,152,371
Capital gifts and grants received	362,371	—
Proceeds from sale of land	967,480	—
Proceeds from bond issue	23,355,885	—
Cost of Issuance	(300,675)	—
Repair and replacement funds—drawdown from bond trustee	485,339	519,073
Cash paid for capital assets	(28,252,521)	(32,358,971)
Principal and interest paid on capital debt and leases	(18,308,254)	(13,626,008)
Net cash used by capital financing activities	<u>\$ (21,690,375)</u>	<u>\$ (43,313,535)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 18,362,885	\$ 32,404,757
Interest and dividends on investments, net expenses	4,054,232	3,934,072
Purchase of investments	(35,603,654)	(22,461,079)
Net cash (Used)/Provided by investing activities	<u>\$ (13,186,537)</u>	<u>\$ 13,877,750</u>
Net decrease in cash for year	<u>\$ (10,591,228)</u>	<u>\$ (9,966,872)</u>
Cash and cash equivalents—beginning of year	\$ 46,061,314	\$ 56,028,186
Cash and cash equivalents—end of year	<u>\$ 35,470,086</u>	<u>\$ 46,061,314</u>

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	\$ (107,666,561)	\$ (104,482,295)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	11,902,793	10,790,956
Changes in assets and liabilities		
Accounts receivable	562,759	(53,643)
Grants receivable	(192,296)	419,528
Notes receivable	(175,836)	(287,976)
Inventories	124,681	23,883
Prepaid expenses	42,285	(178,619)
Accounts payable	(40,130)	(210,621)
Lease payable, current	212,115	(160,375)
Accrued payroll and deductions	714,920	562,619
Deferred revenue	60,286	(504,678)
Funds held in custody for others	(19,859)	126,249
Other liabilities	(672,359)	1,115,714
Compensated absences	4,435,880	367,355
Net cash used by operating activities	<u>\$ (90,711,322)</u>	<u>\$ (92,471,903)</u>
Non-cash transactions		
Equipment	1,547,053	—
Capital lease	(1,547,053)	—

**Indiana State University Foundation, Inc.
and Sycamore Foundation Holdings, Inc.**
Consolidation Statement of Cash Flows
Years Ended June 30, 2010 and June 30, 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,100,422	\$ (14,547,785)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	204,415	43,975
Forgiveness of Gongaware interest receivable	—	102,652
Loss on disposal of assets	10,600	—
Net (appreciation) depreciation in fair value of investments	(3,482,607)	10,771,010
Liability of charitable gift annuities received	1,277,233	—
Gifts and non-gifts of property and real estate	(6,000)	(427,000)
Change in value of accounts due to Indiana State University	(53,545)	(56,862)
Changes in assets and liabilities:		
Grants, pledges, bequests and accounts receivable	(1,165,298)	(1,200,701)
Investment income receivable	46,566	60,141
Transfers of Networks funding to University	(5,250,000)	—
Other assets	(122,283)	600
Accounts payable	190,240	(277,403)
Scholarships payable	—	(1,400)
Change in value of split interest agreements	91,843	250,060
Net cash from operating activities	(5,158,414)	(5,282,713)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in 22 North 5th, LLC	(1,277,973)	—
Purchase of collection items	(1,000)	(1,883)
Proceeds from sale of investments	51,605,682	40,628,704
Purchase of investments	(42,909,487)	(35,182,330)
Purchase of fixed and intangible assets	(1,825,893)	(56,862)
Proceeds from sale of real estate	298,495	—
Purchase of real estate and deposits on purchase	(273,577)	(202,833)
Net cash from investing activities	5,616,247	5,184,796
Net increase (decrease) in cash	457,833	(97,917)
CASH AT BEGINNING OF THE PERIOD	843,245	941,162
CASH AT END OF PERIOD	\$ 1,301,078	\$ 843,245

Notes to Financial Statements

As of June 30, 2010

Note 1. Summary of Significant Accounting Policies

Indiana State University (the University), a publicly supported, comprehensive, doctoral granting University, serves the State of Indiana, the nation, and the international community by generating and disseminating knowledge in the humanities, arts, social sciences, scientific, and professional

disciplines through instruction and research. The University is governed by a nine-member Board of Trustees, appointed by the Governor.

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

A. Reporting Entity

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

amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

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

B. Basis of Accounting

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



C. Cash Equivalents

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

D. Investments

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

E. Inventories

Inventories are carried at the lower of cost or market value and on the first-in, first-out (FIFO) basis. 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 \$16,569 at June 30, 2010.

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.

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

**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.*

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 that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or non-governmental programs, are recorded as non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount.



Other allowances include the allowance for bad debt, which will be recorded as a reduction to the appropriate revenue.

H. Net 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, which is payable upon termination. 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 Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, including state appropriations and investment income. Non-operating revenues include any grant for which the University has administrative duties and that is a non-exchange transaction. This would include Pell Grant, SEOG, and any State Grant for which Statement that the University has to determine eligibility, even if the eligibility requirements are set forth by Federal or State agencies.

L. Restricted and Unrestricted Resources

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

M. Component Units

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

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

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial 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, 2010, the Foundation distributed \$9,998,766 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 217 N. 6th Street, Gillum Hall, Room #320, Terre Haute, IN 47809.



Reclassifications: Certain reclassifications of current liabilities have been made to the prior year statements for comparative purposes and do not constitute a restatement of prior year periods. other long-term liabilities, current portion were renamed as compensated absences and termination benefits. In addition, the portion of the liabilities for bond redemption reserves, which were previously included in other long-term liabilities, current portion, was reclassified as other liabilities.

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, 2010, consist of the following:

Cash on hand	\$ 88,753
Deposits with financial institutions	3,967,586
Investments	122,256,530
	<u>\$ 126,312,869</u>

Authorization for investment activity is stated in Indiana Code Title 20, Article 12, Chapter 1, Section 2. Additionally, IC 30-4-3.5 (Indiana Prudent Investor Act) requires the Board of Trustees of the University to act "as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust." It also requires that management decisions be made "in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the trust." The Board holds responsibility to assure the assets are prudently invested in a manner consistent with this investment policy. The Board has delegated the day-to-day responsibilities for overseeing the investment program to the University Treasurer.

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

Authorized investments include US Treasury, US Government Agency or Instrumentality, Mortgage-Backed Securities, Asset Backed Securities, Taxable Municipal Bonds, Non-Benefit Responsive GIC's, Money Market Instruments and Funds, Corporate Investment Grade Bonds, Corporate High Yield Bonds, Non-US Dollar Debt, and Combined Plus Exposure. Credit Quality and Market Value percentages are established for each investment manager portfolio. This policy will be implemented by fall 2010.

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 that the University and its investment managers manage 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, 2010, the University had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Cash on hand (petty cash)	\$ 88,753	\$ 88,753	\$ —	\$ —	\$ —
Demand deposits	3,967,586	3,967,586	—	—	—
Money markets	21,913,369	21,913,369	—	—	—
Certificates of deposit	30,685,109	28,237,803	2,447,306	—	—
Government agencies	39,232,197	3,448,628	18,094,793	13,871,266	3,817,510
Government obligations	3,663,807	—	1,034,667	2,629,140	—
Corporate bonds	20,126,958	1,217,777	10,201,013	8,211,998	496,170
Mortgage backed securities	3,879,891	—	644,169	1,375,474	1,860,248
Corporate stock	57,865	—	—	—	57,865
Municipal bonds	2,060,930	202,212	1,556,774	301,944	—
Endowment investment held in trust	636,404	—	—	—	636,404
	<u>\$ 126,312,869</u>	<u>\$ 59,076,128</u>	<u>\$ 33,978,722</u>	<u>\$ 26,389,822</u>	<u>\$ 6,868,197</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.

\$ 3,879,891

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.

\$ 19,376,462

Disclosure Relating to Credit Risk

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

Investment Type	Fair Value	AAA	Aa	A	B	Not Rated
Cash on hand (petty cash)	\$ 88,753	\$ —	\$ —	\$ —	\$ —	\$ 88,753
Demand deposits	3,967,586	—	—	—	—	3,967,586
Money markets	21,913,369	—	—	—	—	21,913,369
Certificates of deposit	30,685,109	—	—	—	—	30,685,109
Government agencies	39,232,197	39,232,197	—	—	—	—
Government obligations	3,663,807	3,663,807	—	—	—	—
Corporate bonds	20,126,958	—	6,484,910	13,339,525	302,523	—
Mortgage backed securities	3,879,891	3,879,891	—	—	—	—
Corporate stock	57,865	—	—	—	—	57,865
Municipal bonds	2,060,930	—	2,060,930	—	—	—
Endowment investments held in trust	636,404	—	—	—	—	636,404
	<u>\$126,312,869</u>	<u>\$ 46,775,895</u>	<u>\$ 8,545,840</u>	<u>\$ 13,339,525</u>	<u>\$ 302,523</u>	<u>\$ 57,349,086</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
Federal Home Loan Bank	Federal agency securities	\$ 13,287,177
Federal National Mortgage Association	Federal agency securities	\$ 9,774,246
First Financial Bank Certificates of Deposit	Certificate of deposit	\$ 9,640,000
Fifth Third Bank Certificates of Deposit	Certificate of deposit	\$ 9,950,000
Terre Haute Savings Bank Certificates of Deposit	Certificate of deposit	\$ 8,390,000

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the University will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Indiana State University's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or invest-

ments, other than preference will be given to Indiana institutions because of additional insurance coverage provided by the state. Of the University's investments, \$3,663,807 in U.S. Government Obligations, \$39,232,197 in U.S. Government Agencies, and \$21,913,369 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, 2010, Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to \$250,000 by FDIC and in excess of \$250,000 by the Indiana Public Deposits Fund. The Certificates of Deposits of \$27,040,000 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, 2010:



Fireworks after the Terre Haute REX opening day baseball game

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
Capital assets not being depreciated				
Land	\$ 25,678,353	\$ 1,757,902	\$ (755,207)	\$ 26,681,048
Works of art	1,106,350	216,966	(200)	1,323,116
Construction in progress	62,592,134	23,030,929	(59,163,394)	26,459,669
Total capital assets not being depreciated	\$ 89,376,837	\$ 25,005,797	\$ (59,918,801)	\$ 54,463,833
Capital assets being depreciated				
Infrastructure	\$ 33,485,045	\$ —	\$ —	\$ 33,485,045
Land improvements	19,989,864	1,956,404	(692,819)	21,253,449
Buildings	286,638,335	68,663,219	(4,876,519)	350,425,035
Equipment	86,781,326	3,579,197	(2,622,671)	87,737,852
Capital lease assets	279,080	1,547,053	(279,080)	1,547,053
Total capital assets depreciated	\$ 427,173,650	\$ 75,745,873	\$ (8,471,089)	\$ 494,448,434
Less accumulated depreciation for				
Infrastructure	\$ (28,161,441)	\$ (859,815)	\$ —	\$ (29,021,256)
Land improvements	(14,764,160)	(594,674)	277,040	(15,081,794)
Buildings	(126,656,517)	(5,911,331)	3,965,957	(128,601,891)
Equipment	(58,643,906)	(4,463,197)	2,642,410	(60,464,693)
Lease amortization	(232,566)	(73,596)	232,566	(73,596)
Total accumulated depreciation	\$ (228,458,590)	\$ (11,902,613)	\$ 7,117,973	\$ (233,243,230)
Total capital assets being depreciated, net	\$ 198,715,060	\$ 63,843,260	\$ (1,353,116)	\$ 261,205,204
Total capital assets, net	\$ 288,091,897	\$ 88,849,057	\$ (61,271,917)	\$ 315,669,037

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, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Bonds payable, net	\$ 85,168,652	\$ 23,355,885	\$ 7,295,810	\$101,228,727	\$ 7,497,386
Lease payable	49,257	1,547,052	112,051	1,484,258	261,372
Notes payable	6,815,000	—	6,815,000	—	—
Compensated absences and termination benefits	4,306,266	4,923,345	1,013,646	8,215,965	7,416,239
Advances from federal government	7,754,822	66,378	—	7,821,200	—
Total long-term liabilities	\$104,093,997	\$ 29,892,660	\$ 15,236,507	\$118,750,150	\$ 15,174,997
Bond redemption reserve (matured unpaid bonds and coupons)					299,673
Total long-term liabilities—current portion					\$ 15,474,670

Note 5. Bonds Payable

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

Issue Date	Interest Rate	Final Maturity Dates	Principal Outstanding June 30, 2010	Bond Premium	Deferral of Loss	Total Net Outstanding June 30, 2010	
Student Fee Bonds							
Series K	2004	3.0%-5.0%	2025	\$ 9,495,000	\$ 549,599	\$ (790,155)	\$ 9,254,444
Series L	2005	3.5%-5.0%	2021	25,535,000	1,367,273	(2,203,991)	24,698,282
Series M	2007	4.25%-5.0%	2033	43,465,000	672,323	N/A	44,137,323
Series N	2010	1.0%-6.64%	2029	9,560,000	N/A	N/A	9,560,000
Housing and Dining Revenue Bonds							
Series 2009	2009	3.0%-6.383%	2027	13,515,000	63,678	N/A	13,578,678
Total Bonds and Notes				\$101,570,000	\$ 2,652,873	\$ (2,994,146)	\$ 101,228,727

The issues are serial or term bonds with maturities extending until 2033. For the fiscal year 2010, an \$8,231,452 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 \$73,850,583 in student tuition as collateral for student fee bonds and student service bonds and \$1,463,140 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.

Description of Bonds	Final Maturity/ Call Date	Amount Outstanding June 30, 2010
Student Fee Bonds, Series J	10/1/2010	\$ 11,715,000
Apartment Revenue Bonds:		
Series D	11/1/2010	\$ 185,000
Series E	11/1/2012	\$ 480,000

The University issued \$13.73 million of Housing and Dining revenue bonds on November 19, 2009, and \$9.56 million of Student Fee bonds, Series N on February 24, 2010. See Note 6 for details.

Debt Service Requirements			
Fiscal Year	Principal Bonds	Interest Bonds	Total
2010-2011	\$ 7,560,000	\$ 4,718,833	\$ 12,278,833
2011-2012	6,640,000	4,398,042	11,038,042
2012-2013	6,375,000	4,118,289	10,493,289
2013-2014	6,640,000	3,835,167	10,475,167
2014-2015	6,935,000	3,539,422	10,474,422
2016-2020	25,675,000	13,875,757	39,550,757
2021-2025	23,305,000	7,890,903	31,195,903
2026-2030	14,505,000	2,519,637	17,024,637
2031-2033	3,935,000	278,772	4,213,772
	<u>\$ 101,570,000</u>	<u>\$ 45,174,822</u>	<u>\$ 146,744,822</u>
Net unamortized premium and deferral of loss	<u>(341,273)</u>	<u>—</u>	<u>(341,273)</u>
Total	<u>\$ 101,228,727</u>	<u>\$ 45,174,822</u>	<u>\$ 146,403,549</u>

Note 6. Bond Issues

Housing and Dining Revenue Bonds, Series 2009

On November 19, 2010, the University issued \$13,730,000 of Housing and Dining System Revenue bonds series 2009 with a true interest cost (TIC) of 3.842 percent. This bond issue provided the funding for the retirement of a note and the Sandison Hall renovation. Bond proceeds of \$13,730,000, plus a bond premium of \$65,885, less bond issuance costs of \$173,686, netted \$13,622,199 to be used for the projects described. The note repayment portion of \$5,825,000 was issued as tax-exempt, while

the Sandison renovation portion of \$7,905,000 was issued as taxable bonds in the form of Build America Bonds in which the government subsidizes the interest costs.

Sandison Hall

The series 2009 project consists of the renovation and reconfiguration of Sandison Hall from the traditional dormitory floor plan to create double rooms with private bathrooms and individual heat and air conditioning controls. The renovation also includes fire suppression systems with sprinklers and alarms in each room; replacement of the roof, heating systems, and windows; and electrical structural repairs. The overall cost of the renovation is estimated at \$11 million with \$3.2 million being funded through system reserves and \$7.9 million from the series 2009 bonds.

Refinancing

A portion of the proceeds of the series 2009 bonds were used to retire the \$5,815,000 of remaining principal on the note. Proceeds from the note were utilized to finance the renovation of Jones and Burford residence halls as well as the installation of a new roof for the Pickerl residence hall.

Student Fee Bonds, Series N

On February 24, 2010, the University issued \$9,560,000 of Student Fee bonds, Series N. These bonds were issued as taxable bonds utilizing Build America Bonds with a true interest cost of 3.797 percent. Bond proceeds of \$9,560,000 less bond issuance costs of \$142,775 netted \$9,417,225 for the projects described.

Satellite Chiller

Series N bond proceeds of \$7.9 million will be applied to the construction of a satellite chiller to provide additional capacity for the cooling system as well as building back-up redundancy.

Laboratory Renovation

Series N bond proceeds of \$1.5 million will be applied to the renovation of the life science/chemistry teaching laboratories to reflect current technology and to comply with more stringent safety and access standards. This is phase one of the renovation, with up to a \$5.4 million project balance to be funded by future student fee bonds.

Note 7. Lease Payable

Indiana State University has entered into a capital lease agreement with GE Capital Information Technology Solutions Inc. to lease copiers and printers for the campus.

Fiscal Year	Lease Payments
2011	\$ 345,913
2012	\$ 345,913
2013	\$ 345,913
2014	\$ 345,913
2015	\$ 345,913
Total minimum lease payments	\$1,729,565
Less amount representing interest	\$ 245,307
Present value of net minimum lease payment	\$1,484,258

Note 8. Termination Benefits Liability

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

The ISU Board of Trustees approved a Transitional Retirement Incentive Plan and a Retirement Severance Plan for eligible faculty and staff on February 18, 2010.

The Transitional Retirement Incentive Plan was designed to encourage early retirement decisions by April 2, 2010, by employees who are age 55 and older with at least 9 years of service by the retirement date. This voluntary plan provided incentives of 125, 115, or 100 percent of base salary for individuals who elect to retire by June 30, 2010, December 31, 2010, and June 30, 2011, respectively. Individuals who are age 60 and over with 20 years of service will also receive certain post-retirement benefits, if eligible.

One hundred fifty-one employees elected to participate in the Transitional Retirement Incentive Plan. The total cost of this program is \$9,073,396. Of this amount, 59 employees will retire past the June 30, 2010, date with a value of \$3,744,189. The lump-sum severance amount included a three percent salary increase assumption and a one percent discount rate. This amount is recorded as a current liability; the last date available to retire under this plan is June 30, 2011.

The Retirement Severance Plan is available to eligible faculty and staff who elect not to participate in the Transitional Retirement Incentive Plan by June 30, 2011. Under the Retirement Severance Plan, employees must be age 62 or older and have 20 years of service to retire from the University. The severance payments available under the plan are 60 percent for those employees with 15 years or more of service on December 31, 2010, and 40 percent for employees with less than 15 years of service on December 31, 2010. New employees hired on or after March 1, 2010, would be eligible for a 25 percent severance pay at retirement. There are currently no employees who have elected to retire under this plan.

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

The University informed employees in February 2010 that a displaced workers plan would be implemented. This plan affected 52 employees whose employment was terminated between February 2010 and June 2010. These separated employees received severance pay of between 8 and 20 weeks, depending on years of service and notification period, in a lump-sum payment. Additional benefits included COBRA health insurance paid at 100 percent by ISU for six months, up to four semesters of employee/spouse fee waiver benefits, up to ten semesters of dependent child fee waivers, and use of the Student Recreation Center. The total cost of the plan is \$676,851. Of this amount, \$445,662 has been expended during fiscal year 2009-2010. The remaining expense estimated to be paid out during 2010 and classified as a current liability is \$134,954. The remaining expense is classified as a





non-current liability. A one percent discount rate was used to calculate the liability as well as a three percent growth in student tuition for fee waivers.

Note 9. 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, 2010, 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 2010 fiscal year are as follows:

Unpaid medical claims, 7/01/09	\$ 5,051,537
Claims incurred	16,586,657
Claims paid	<u>(17,310,555)</u>
Unpaid medical claims, 6/30/10	<u>\$ 4,327,639</u>

Note 10. 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 11. Funds Held in Custody for Others

Included in Funds Held in Custody for Others are funds held on behalf of the ISU Foundation for Networks as part of the Lilly Foundation gift. These funds are currently invested on behalf of the Foundation, with \$1,590,695 classified as a current liability and the remaining \$3,659,305 classified as a non-current liability.

Note 12. Pollution Remediation Obligation

To comply with GASB Statement No. 49, *Accounting and Reporting for Pollution Remediation Obligations*, the University must report a liability for an obligating event. An obligating event occurs when the University commences or legally obligates itself to commence pollution remediation. During the fiscal year 2009-2010, Indiana State University is continuing to remodel Hulman Center's air handling system, including asbestos removal. As of June 30, 2010, this project had not been completed, leaving an outstanding obligation of \$15,761, which is classified as a current other liability.

Additionally, the University began renovation of Pickerl Hall, a student residence facility. Asbestos removal began in June 2010 and is expected to be completed by fall 2010. The total cost of the removal is estimated to be \$115,000. The obligation has been included as a current other liability. Pickerl Hall is slated to be open by fall 2011.

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	\$ 60,306,109	\$ 5,136,920	\$ —	\$ —	\$ —	\$ 65,443,029
Research	6,184,601	2,679,385	—	—	—	8,863,986
Public service	952,178	650,434	—	—	—	1,602,612
Academic support	12,179,630	5,312,734	—	—	—	17,492,364
Student services	9,851,496	1,759,424	—	—	—	11,610,920
Institutional support	14,723,799	5,843,681	—	—	—	20,567,480
Operation of plant	9,898,066	5,513,456	8,139,994	—	—	23,551,516
Scholarships	1,149,114	111,610	—	6,521,424	—	7,782,148
Auxiliary enterprises	12,414,795	13,055,042	74,905	—	—	25,544,742
Depreciation	—	—	—	—	11,902,793	11,902,793
	<u>\$ 127,659,788</u>	<u>\$ 40,062,686</u>	<u>\$ 8,214,899</u>	<u>\$ 6,521,424</u>	<u>\$ 11,902,793</u>	<u>\$ 194,361,590</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. There were costs in excess of the contract amount of \$108,965 for the 2010 fiscal year. This was due to the market price of natural gas being lower than the price at which the University had contracted to buy. This results from lower demand due to economic conditions. There is also a risk that the University is 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 will be participating in the defined contribution plan at the contribution rate of ten percent with no two year waiting period. The employee will become vested in the plan at the end of two years. Beginning July 1, 2010, all TIAA-CREF contributions will be converted to a flat 10 percent of base salary for all eligible faculty and exempt staff. For those faculty and exempt staff hired prior to July 1, 2004, the difference between the current amount and the new rate will be added to the employee's base salary. For fiscal year 2009-10, the University made contributions totaling \$6,361,338 to this plan. For the fiscal year ended June 30, 2010, there were 853 employees and retirees participating in TIAA/CREF, with annual salaries equal to \$52,038,391.

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



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employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the Board of Trustees of PERF. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The University contributes three percent of the gross earnings to the annuity savings plan. The University also contributed 6.5 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2009-2010 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, 2010, there were 679 employees participating in PERF, with annual salaries equal to \$18,679,636.

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, 2009 and 2008, is presented below. The actuarial methods and significant assumptions used are as follows:

Actuarial cost method:	Entry age normal cost
Asset valuation method:	Smooth market value basis
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 from July 1, 1997

Net Pension Obligation

	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
Annual required contribution	\$ 1,137,404	\$ 1,076,233
Interest on net pension obligation	(40,783)	(39,661)
Adjustment to annual required contribution	<u>46,476</u>	<u>45,197</u>
Annual pension cost	1,143,097	1,081,769
Contributions made	<u>(1,165,828)</u>	<u>(1,097,246)</u>
Decrease in net pension obligation	(22,731)	(15,477)
Net pension obligation, beginning of year	<u>(562,529)</u>	<u>(547,052)</u>
Net pension obligation, end of year	<u>\$ (585,260)</u>	<u>\$ (562,529)</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)				
7/1/2007	\$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)
7/1/2009	\$22,492	\$25,900	(\$3,408)	86.8%	\$18,877	-18.19%	\$1,143	102%	(\$585)

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, 2010, is as follows:

Beginning fund balance 7/1/09 (market value)	\$ 45,718,435
Transfer of employee/employer contributions	2,040,000
Reinvested net earnings	1,427,978
Less: management fees	(73,653)
Realized gain on sale of investments	233,983
Unrealized loss on decrease in market value	4,677,481
	<hr/>
Market value at June 30, 2010	<u>\$ 54,024,224</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

	<u>Actual \$</u>	<u>Actual %</u>
Core Equity (indexed)	7,119,218	13.2
Growth Equity	3,514,680	6.5
Value Equity	3,576,367	6.6
Small Cap Equity	1,166,902	2.2
Small Cap Growth Equity	1,091,787	2.0
Small Cap Value Equity	1,057,844	1.9
International Core Equity	5,393,515	10.0
International Emerging Mkts	2,484,673	4.6
Unconstrained	3,043,974	5.7
Fixed Income	25,575,264	47.3
	<hr/> <u>54,024,224</u>	<hr/> <u>100.0%</u>

Note 17. Other Post Employment Benefits

Plan Description

Beginning January 1, 2010, Indiana State University selected NEBCO, a division of AmWins Group Benefits, to administer the post-65 retiree medical plan. This plan replaces the self-insured program for retirees with an insurance policy for which the University's cost is based on premiums instead of claims. All retirees, after reaching the age of 65, are required to participate in the fully insured plan in order to retain the retirement medical benefit. The University's cost is \$183 per month for each plan participant. Retirees pay \$53 or \$75 per month directly to NEBCO, depending on the prescription drug plan option taken. The medical plan portion of the policy is guaranteed for two years, while the prescription policy is subject to yearly rate adjustments. This group of post-65 retirees retains dental coverage through Delta Dental of Indiana and life insurance through the Hartford Insurance.

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

Valuation Date	Participant Counts	
	6/30/09	6/30/10
Active and eligible to retire	111	57
Active and not eligible to retire	884	634
Total actives	995	691
Inactives	1,237	1,276
Average age		
Actives	52.3	53.0
Inactives	75.6	74.6
Average service actives	15.3	16.0

Funding Policy

The contribution requirements of plan members for the Indiana State University Retirement Healthcare Plan are established by the University's Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to fund the VEBA. For the fiscal year ended June 30, 2010, the total contribution to the plan was \$7.2 million, with the University contributing \$5 million for current premiums, \$2 million contributed to the VEBA, and an additional \$0.2 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 \$0.4 million, based on the required contribution rates as follows:

Participants' Monthly Contributions:		
	Retiree Only	Retiree and Spouse
Under age 65		
Salary under \$25,500	\$108	\$243
Salary greater than \$25,500 and less than \$73,000	\$133	\$312
Salary \$73,000 and over	\$163	\$353
Age 65 and over (AmWins-Nebco fully Insured)		
Option 1	\$ 53	\$106
Option 2	\$ 75	\$150

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 costs 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 2010, 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	2010
Annual required contribution	\$ 4,558,822
Interest on net OPEB obligation	(68,205)
Adjustment to annual required contribution	82,583
Annual OPEB cost	\$ 4,573,200
Contributions made	(7,212,671)
Decrease in net OPEB obligation	\$ (2,639,471)
Net OPEB obligation, (asset) beginning of year	(1,136,746)
Net OPEB obligation, (asset) end of year	\$ (3,776,217)

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, 2010, were as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/10	\$4,573,200	157.79 %	\$3,776,217

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 70 percent funded. The actuarial accrued liability for benefits was \$77.4 million, and the actuarial value of assets was \$54 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$23.4 million. The covered payroll (annual payroll of active employees covered by the plan) was \$41.9 million, and the ratio of the UAAL to covered payroll was 55.7 percent.

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

Three-Year Trend Information

	Actuarial Valuation of Plan Assets (a)	Accrued Liability (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2008	\$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%
6/30/2010	\$54,024,224	\$ 77,397,637	\$23,373,413	70%	\$41,945,064	55.7%

Actuarial Methods and Assumptions

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

Actuarial Assumptions

Valuation and measurement date	June 30, 2010
Participant data	April 30, 2010
Discount rate	6%
Mortality	RP 2000 Mortality Table Healthy Lives
Remaining amortization period	27 years remaining as of June 30, 2010
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 2018.

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 Events

Housing and Dining System Revenue Bonds, Series 2010

Indiana State University issued \$9,140,000 of Housing and Dining Systems Revenue Bonds, Series 2010, in August 2010. These bonds will be used to finance the renovation and reconfiguration of Pickerl Hall. The overall cost of the renovation is estimated at \$10 million, of which approximately \$1 million will be funded from system reserves and approximately \$9 million from the Series 2010 bonds. The project is expected to be completed for fall 2011 occupancy.

Scott College of Business

In September 2010, the State Budget Committee authorized Indiana State University to move forward on a project that will turn the Terre Haute Federal Building into the new home of the Scott College of Business. Private funds are expected to cover approximately half of the \$20 million project, with the sale of University bonds to finance the rest. Plans call for bids to be awarded in early 2011, with construction expected to be complete as early as August 2012.



Home Counties of Indiana State Students

(Fall 2009)

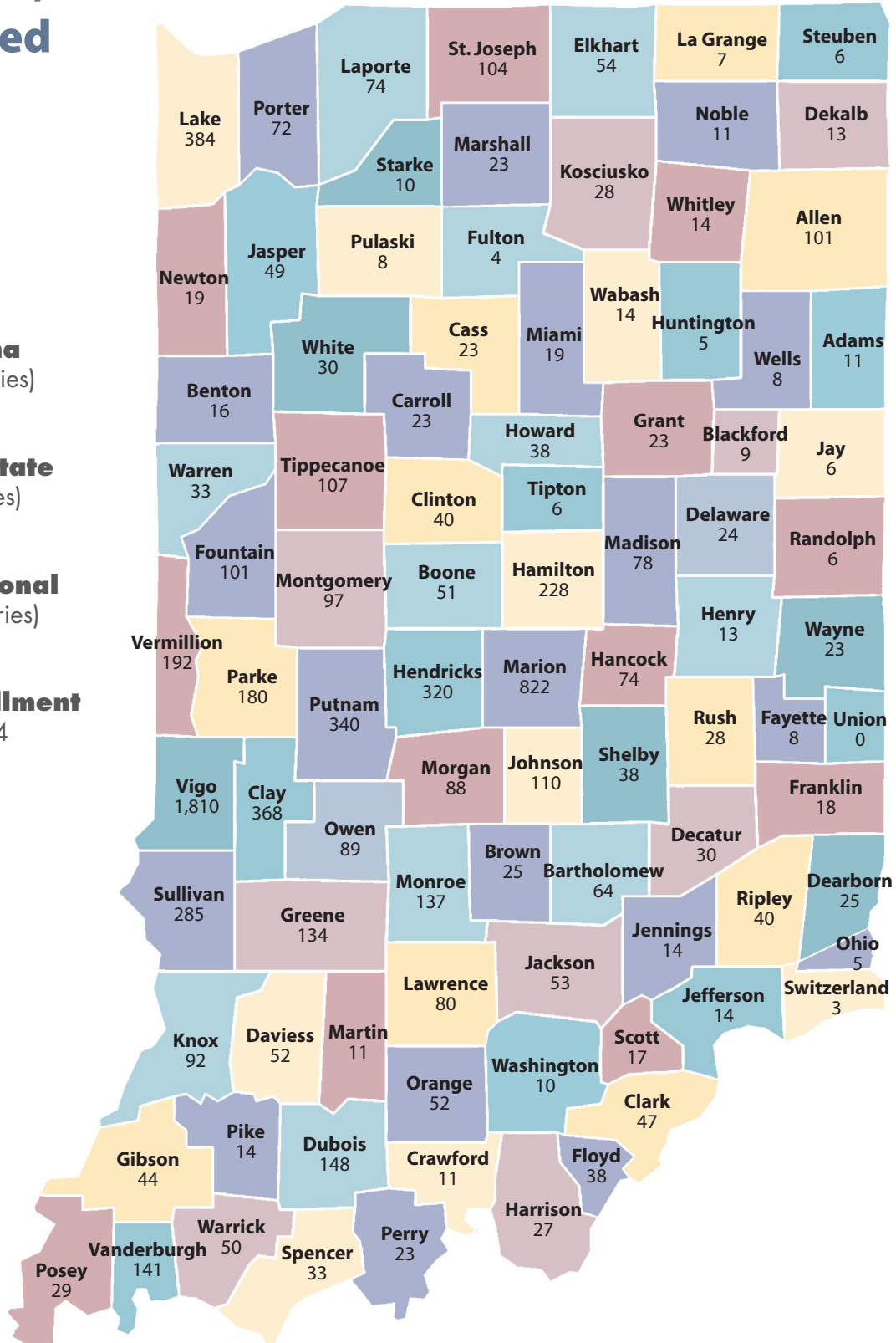
Unaudited

Indiana
(91 counties)
8,246

Out-of-State
(48 states)
1,801

International
(56 countries)
487

Total Enrollment
10,534



Board of Trustees

as of June 30, 2010

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President
Indianapolis, Indiana
Term expires 2011

Michael J. Alley
Vice President
Carmel, Indiana
Term expires 2013

Norman Lowery
Secretary
Terre Haute, Indiana
Term expires 2011

Randall Minas
Assistant Secretary
Terre Haute, Indiana
Term expires 2012

Robert Baesler
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Carmel, Indiana
Term expires 2012

Matthew Huckleby
Greentown, Indiana
Term expires 2011

Edward A. Pease
Terre Haute, IN
Term expires 2012

George Pillow
Indianapolis, Indiana
Term expires 2011

University Officials

as of June 30, 2010

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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

Melony Sacopolos
General Counsel and
Secretary of the University

For Additional Information:

Admissions

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Erickson Hall, Room 114
Indiana State University
Terre Haute, Indiana 47809
812-237-2121

Alumni

Alumni Association Office
Gillum Hall, Room 102
Indiana State University
Terre Haute, Indiana 47809
812-237-3707

Foundation

ISU Foundation
Gillum Hall, Room 320
Indiana State University
Terre Haute, Indiana 47809
812-237-3732

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— More. *From day one.*

