

**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, 2010 to June 30, 2011



**FILED**  
03/13/2012



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### SCHEDULE OF UNIVERSITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President	Dr. Daniel J. Bradley	07-01-10 to 06-30-12
Vice President for Business Affairs, Finance, and University Treasurer	Diann E. McKee	07-01-10 to 06-30-12
Associate Vice President for Finance and Assistant Treasurer	Domenic Nepote	07-01-10 to 06-30-12
Associate Vice President and University Controller	Jeffrey J. Jacso	07-01-10 to 06-30-12
President of the Board of Trustees	Ron D. Carpenter Michael J. Alley	07-01-09 to 08-04-11 08-05-11 to 06-30-12



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ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (321) 232-2513  
Fax: (321) 232-4711  
Web Site: www.in.gov/sboa

**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, 2011, and have issued our report thereon dated October 21, 2011. 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of the University's Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

October 21, 2011

STATE BOARD OF ACCOUNTS  
*State Board of Accounts*



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INDEPENDENT AUDITOR'S 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, 2011. 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. 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, 2011.

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.

INDEPENDENT AUDITOR'S 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 financial statements of Indiana State University as of and for the year ended June 30, 2011, and have issued our report thereon dated October 21, 2011. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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, 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 23, 2012

STATE BOARD OF ACCOUNTS

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INDIANA STATE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2011

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
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Direct Grant			
<b>Student Financial Assistance Cluster</b>			
Federal Supplemental Education Opportunity Grants	84.007		\$ 317,358
Federal Work-Study Program	84.033		433,757
Federal Perkins Loan Program	84.038		7,810,926
Federal Pell Grant Program	84.063		16,750,024
Federal Direct Student Loans	84.268		57,882,416
Academic Competitiveness Grants	84.375		935,873
National Science and Mathematics Access to Retain Talent Grants	84.376		<u>200,510</u>
Total for Student Financial Assistance Cluster			<u>84,330,864</u>
Direct Grant			
<b>TRIO Cluster</b>			
Student Support Services	84.042		327,970
Upward Bound	84.047		359,804
McNair Post-Baccalaureate Achievement	84.217		<u>211,379</u>
Total for TRIO Cluster			<u>899,153</u>
Total for Federal Grantor Agency			<u>85,230,017</u>
<b>Research and Development Cluster</b>			
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Direct Grant			
Wildlife Services	10.028	10-7439-0773-CA	47,296
Forestry Research	10.652	11-JV-11330134-023	18,718
Pass-Through University of Toledo Grants for Agricultural Research, Special Research Grants	10.200	2010-38897-21205	<u>38,379</u>
Total for Federal Grantor Agency			<u>104,393</u>
<b><u>U.S. DEPARTMENT OF COMMERCE</u></b>			
Pass-Through University of Illinois at Urbana-Champaign Sea Grant Support	11.417	NA06OAR4170079	<u>4,597</u>
Total for Federal Grantor Agency			<u>4,597</u>
<b><u>U.S. DEPARTMENT OF THE INTERIOR</u></b>			
Direct Grants			
Cultural Resource Management	15.224	L08AC13787	9,877
Fish and Wildlife Management Assistance	15.608	Various	22,037
Pass-Through Indiana University State Wildlife Grants	15.634	E2-08-WDS13	100,383
Pass-Through Purdue University Assistance to State Water Resources Research Institutes	15.805	06HQGR0084	<u>11,136</u>
Total for Federal Grantor Agency			<u>143,433</u>
<b><u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u></b>			
Pass-Through Purdue University Unknown	43.xxx	NNG05GG54H	<u>12,500</u>
Total for Federal Grantor Agency			<u>12,500</u>
<b><u>NATIONAL SCIENCE FOUNDATION</u></b>			
Direct Grants			
Mathematical and Physical Sciences	47.049	CHE-1012629	11,061
Geosciences	47.050	Various	50,092
Social, Behavioral, and Economic Sciences	47.075	Various	9,167
Education and Human Resources	47.076	Various	248,311
Polar Programs	47.078	ANT-0636474	37,435
ARRA - Trans - NSF Recovery Act Research Support	47.082	BCS-0926375	<u>67,221</u>
Total for Federal Grantor Agency			<u>423,286</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, 2011  
(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
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u></b>			
Direct Grant			
Great Lakes Program	66.469	GL-00E00626-0	111,734
Total for Federal Grantor Agency			<u>111,734</u>
<b><u>U.S. DEPARTMENT OF ENERGY</u></b>			
Direct Grant			
Office of Science Financial Assistance Program	81.049	DE-FG02-06ER46304	22,351
Total for Federal Grantor Agency			<u>22,351</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
Direct Grants			
Research and Training in Complementary and Alternative Medicine	93.213	5U01AT002550-04	11,903
Cancer Biology Research	93.396	1R15CA133829-01A1	72,267
ARRA - Trans-NIH Recovery Act Research Support	93.701	Various	389,134
Pass-Through University of Southern California, San Francisco			
Research and Training in Complementary and Alternative Medicine	93.213	1P01 AT005013-01	31,377
Pass-Through The Ohio State University Research Foundation			
ARRA - Trans-NIH Recovery Act Research Support	93.701	R21DK084330	18,024
Total for Federal Grantor Agency			<u>522,706</u>
<b>Total for Research and Development Cluster</b>			<u>1,345,000</u>
<b><i>Other Federal Awards</i></b>			
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Pass-Through Indiana Department of Education			
Child and Adult Care Food Program	10.558		142,932
Total for Federal Grantor Agency			<u>142,932</u>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Pass-Through Indiana Criminal Justice Institute			
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	Various	61,385
Total for Federal Grantor Agency			<u>61,385</u>
<b><u>U.S. DEPARTMENT OF LABOR</u></b>			
Pass-Through Indiana Department of Workforce Development			
Trade Adjustment Assistance	17.245	Various	11,854
Total for Federal Grantor Agency			<u>11,854</u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
Alcohol Impaired Driving Countermeasure Incentive Grants I	20.601	OP-10-02-02-07	723
Total for Federal Grantor Agency			<u>723</u>
<b><u>NATIONAL ENDOWMENT FOR THE HUMANITIES</u></b>			
Pass-Through Indiana Humanities Council			
Promotion of the Humanities - Federal/State Partnership	45.129	10-1044	2,000
Total for Federal Grantor Agency			<u>2,000</u>
<b><u>NATIONAL ENDOWMENT FOR THE ARTS</u></b>			
Pass-Through Indiana State Library			
Grants to States	45.310	LS-00-10-0015-10	18,198
Total for Federal Grantor Agency			<u>18,198</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, 2011  
(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			
ARRA - Trans-NSF Recovery Act Research Support	47.082	Various	184,241
Pass-Through Purdue University			
Education and Human Resources	47.076	HRD-0703443	27,255
Pass-through Harrisburg University			
Education and Human Resources	47.076	0717407	<u>1,718</u>
Total for Program			<u>28,974</u>
Total for Federal Grantor Agency			<u>213,215</u>
<u>SMALL BUSINESS ADMINISTRATION</u>			
Direct Grant			
Special Initiative	59.000	Various	181,774
Pass-Through Indiana Small Business Administration			
Small Business Development Centers	59.037	Various	<u>180,620</u>
Total for Federal Grantor Agency			<u>362,394</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>1,140,717</u>
Total for Special Education Cluster			<u>1,140,717</u>
State Fiscal Stabilization Fund Cluster			
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	S394A090015	<u>3,527,150</u>
Total for State Fiscal Stabilization Fund Cluster			<u>3,527,150</u>
Direct Grants			
Fund for the Improvement of Postsecondary Education	84.116	P116P100019	10,000
Fund for the Improvement of Education	84.215	Various	73,092
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	Various	211,145
Child Care Access Means Parents in School (B)	84.335	P335A100289	57,070
Teacher Quality Partnership Grants	84.336	P336C070007	2,769
Pass-Through Ball State University			
Career and Technical Education - Basic Grants to States	84.048	A58-1-11CI-153	13,530
Pass-Through Indiana Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Various	203,510
Pass-Through Indiana Commission for Higher Education			
Improving Teacher Quality State Grants	84.367	Various	141,963
Pass-Through National Council for Economic Education			
Unknown	84.xxx	Various	<u>2,706</u>
Total for Federal Grantor Agency			<u>5,383,651</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Grant			
Advanced Nursing Education Traineeships	93.358	A10HP00183	91,440
Pass-Through Purdue University			
Injury Prevention and Control Research and State and Community Based Programs	93.136	Various	1,621
Pass-Through Mental Health America of Vigo County			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		55,445
Pass-Through Indiana University			
Foster Care Title IV-E	93.658	616339	<u>67,734</u>
Total for Federal Grantor Agency			<u>216,240</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, 2011  
 (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>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u>			
Pass-Through State of Indiana AmeriCorps			
AmeriCorps	94.006	Various	164,449
ARRA - AmeriCorps	94.006	F20-8-AF-0005	<u>(614)</u>
Total for Federal Grantor Agency			<u>163,834</u>
Total federal awards expended			<u>\$ 93,151,444</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, 2011, 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 numbers of guaranteed loans and the total amount processed for each Direct Loan Program for the year ended June 30, 2011, were as follows:

Program Title	Number of Students	Loan Amount
Direct Loan Program (Subsidized and Unsubsidized)	11,202	\$ 48,171,706
Direct PLUS Loans (Parent (PLUS) and Graduate PLUS Loans)	1,177	9,710,710
Totals	<u>12,379</u>	<u>\$ 57,882,416</u>

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, 2011:

Program Title	Federal CFDA Number	Amount
Federal Perkins Loan Program	84.038	<u>\$ 7,810,926</u>

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, 2011:

Program Title	Federal CFDA Number	Amount
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540	\$ 53,759
Special Initiative	59.000	65,212
Special Education - Grants to States	84.027	530,066
ARRA - Trans-NIH Recovery Act Research Support	93.701	114,433

INDIANA STATE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
Various	Student Financial Aid Cluster
Various	Research and Development Cluster
Various	ARRA - State Fiscal Stabilization Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$822,941

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 23, 2012. Those attending were:

University Representatives:

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

State Board of Accounts Representatives:

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

2010-2011

Indiana State University

# 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

This annual financial report for the fiscal year ending June 30, 2011, is a reflection of Indiana State University's commitment to responsible stewardship. The support provided by the citizens of the State of Indiana permits this university to provide its students with a world-class educational experience and a bright future. We take pride in the scholarship and achievements of our students and faculty. We rely on the devotion and hard work of administrators and staff members who support the faculty-student educational experience every day.

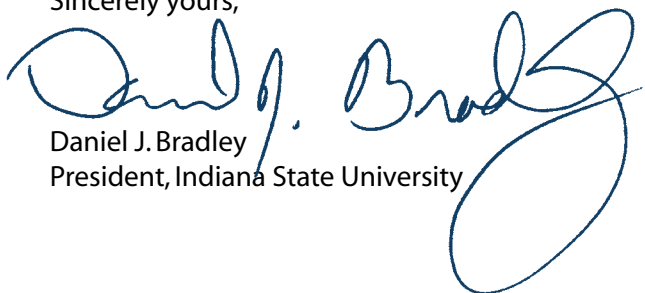
In these pages you will find the Financial Statements with accompanying Financial Statement Notes, the Independent Auditors Report, and the Management Discussion and Analysis. These statements were prepared in accordance with guidelines established by the Governmental Accounting Standards Board (GASB) and were audited by the State Board of Accounts.

You will note that the financial statements for the Indiana State University Foundation are included as a component unit of the University in accordance with GASB Statement No. 39. This additional data is included to provide a broader and more comprehensive analysis of the University's financial position.

Indiana State's strategic plan—The Pathway to Success—remains the roadmap for our efforts as university leaders with special focus on student recruitment and retention. The results of that focus have been very gratifying; for the second straight year the university experienced record new student enrollment.

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

Sincerely yours,



Daniel J. Bradley  
President, Indiana State University





**STATE OF INDIANA**  
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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITOR'S REPORT

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

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, 2011 and 2010. 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. Those statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana State University, as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2011, 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.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Message from the President, Home Counties of Indiana State University Students, and Board of Trustees and University Administration are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Message from the President, Home Counties of Indiana State University Students, and Board of Trustees and University Administration have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

*State Board of Accounts*

October 21, 2011

# 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 2010-2011 fiscal year ended June 30, 2011. 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 2009-2010 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 11,494 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 \$29.7 million for the fiscal year ending June 30, 2011. This continues a trend of solid financial performance and adds to the increase of \$18.2 million in the fiscal year ending June 30, 2010.

Operating revenues for the fiscal year were \$100.1 million, as compared with \$86.7 million for fiscal year 2010, an increase of 15.5 percent over the previous year. Tuition and fees and auxiliary income were up \$7.7 million and \$4.3 million to reflect the enrollment growth of 960 students and the largest incoming freshmen class in the school's history. Grants and contracts revenue grew by \$0.2 million and other operating revenues increased by \$1.2 million.

Other operating revenues of \$6.9 million include \$2.7 million from the Lilly Endowment, Inc., administered through the Indiana State University Foundation for the establishment of the Networks Financial Institute (NFI). The funds are currently held by Indiana State University on behalf of the Foundation and are recorded as current and non-current liabilities as funds held in custody for others (see Note 12). The Lilly Foundation has contributed a total of \$29 million to the ISU Foundation to be invested in NFI. 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 \$193.2 million for fiscal year 2011. This represents a \$1.2 million decrease from the previous year's expenditures of \$194.4 million. Compensation and employee benefit expense decreased by \$11.6 million. The early retirement incentive plan put into place during fiscal year 2010 was expensed at \$9.1 million in 2010 and only \$0.1 million in 2011, as fewer employees had opted to retire under the plan before the end of the fiscal year. Salary savings were also realized by not filling all vacant positions resulting from the involuntary displaced workers plan and the early retirement transitional plan. There was an overall increase in the Other Post Employment Benefit (OPEB) of \$3.3 million for 2011, resulting in a lower compensation expense. Supplies and expenses grew by \$5.9 million from the 2010 level due to increases in grant activity, travel and software maintenance expense, and dining cost associated with enrollment growth. Utilities expense grew by \$1.7 million due to increases in natural gas and electricity usage and rates. Scholarship expense increased by \$2.4 million reflecting growth in

enrollment and tuition increases. Depreciation expense increased by \$0.5 million as Sandison Hall and other construction projects were put into service.

Net non-operating and other revenues decreased by \$1.7 million from 2010. State appropriations decreased by \$0.5 million as the State of Indiana continued to experience a challenging economic environment. Non-operating grants and contracts grew by \$5.7 million due to growth in student enrollment, as well as the fact that a large percentage of the student population receives financial assistance. Pell grants increased \$4 million from 2010 and state aid increased by \$1.4 million. Investment income decreased by \$1.8 million resulting from lower interest rates on both short-term and long-term investments. Interest on capital asset-related debt grew by \$0.5 million, as payments on Series N and Housing and Dining, Series 2009, were fully charged in 2011. Other non-operating revenues increased by \$0.5 million reflecting increased royalty income. Other non-operating expense reflects the bond issuance cost related to Student Service Fee Bonds, Series O, and Housing and Dining Revenue Bonds, Series 2010.

The State of Indiana did not provide 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 that were to be used to replace repair and rehabilitation funding. During fiscal year 2011, the University spent \$3.5 million on capital projects from these funds. Capital grants and gifts totaling \$6.1 million were recognized from the Indiana State University Foundation, which are to be used for the renovation of the Federal building for the new home of the Scott College of Business. Included on the financial statements is a special item showing a one-time charge associated with a change in accounting estimate. To align the University more closely with federal capitalization guidelines, the cost of moveable equipment subject to depreciation was increased from \$2,500 to \$5,000 beginning July 1, 2010. Building and structural improvements capitalization rates also increased from \$50,000 to \$100,000. This change resulted in a \$1.4 million write-off in fiscal year 2011. See Note 2 for additional details.



## 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, 2011, 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 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, 2011 and 2010, is as follows:

<b>Statement of Net Assets (in millions)</b>		
	<b>2011</b>	<b>2010</b>
Current assets	\$ 73.9	\$ 70.0
Non-current assets:		
Deposits with bond trustee	0.5	0.6
Notes receivable	4.6	4.9
Other long-term investments	79.9	66.6
Net OPEB asset	7.1	3.8
Capital assets, net	327.0	315.7
Other	0.5	0.6
Total assets	<u>\$ 493.5</u>	<u>\$ 462.2</u>
Current liabilities	29.3	35.2
Non-current liabilities	<u>114.8</u>	<u>107.2</u>
Total liabilities	<u>\$ 144.1</u>	<u>\$ 142.4</u>
Net assets	<u>\$ 349.4</u>	<u>\$ 319.8</u>

Current assets consist primarily of cash, operating investments, and accounts receivable. Current assets totaled \$73.9 million at June 30, 2011, as compared to \$70 million at June 30, 2010.

The increase in current assets by \$3.9 million is due to an increase of \$6.2 million in other accounts receivable, which reflects the Indiana State University Foundation gift receivable for use on the Scott College of Business renovation. The state receivable of \$1.5 million from 2010 was collected during the year, and an additional \$3.5 million of federal stimulus funds were spent on repair and rehabilitation projects. Cash and cash equivalents (which included investments that will mature in the next 90 days) increased by \$5.5 million and were offset by a decrease in short-term investment of \$6.8 million.

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portion of long-term debt. Total current liabilities decreased by \$5.9 million in 2011. Significant changes in current liabilities include a \$4.1 million reduction in compensated absences and termination benefits due to the final payout for employees who participated in the Transitional Retirement Incentive Plan that ended June 30, 2011. Accounts payable and other current liabilities decreased by \$1.1 million and \$0.8 million, respectively. Funds held in custody for others increased by \$0.5 million to reflect additional funds held for the Indiana State University Foundation for use by Indiana State University Networks that will be expended in fiscal year 2012.

Non-current assets increased by \$27.4 million. The net Other Post Employment Benefit (OPEB) increased by \$3.3 million to reflect changes in the retiree medical insurance plan and the reduction in the population eligible for this benefit. Capital assets grew by \$11.3 million, which reflects the Picklerl Hall renovation, satellite chiller, and science lab renovations. Other long-term investments grew by \$13.3 million as the new investment policy and managers were fully implemented during the year.

Non-current liabilities increased by \$7.6 million, reflecting the additional bond issuances of Housing and Dining Revenue Bonds, Series 2010, and Student Fee Bonds, Series O (see Note 7). In addition, a \$0.4 million other long-term liability was recorded as a result of litigation (see Note 11). Funds held in custody for others on the behalf of the Indiana State University Foundation shows a decrease of \$3.1 million to reclassify that portion of the liability as current.



Picklerl Hall

## Capital and Debt Activities

An important element in the continuing quality of academic programs, research activities, and student residential life is the sustained commitment to the development and renewal of the University's capital assets. The University continues to implement its Campus Master Plan with new construction, renovation, and modernization of existing facilities. Please refer to Note 4 in the Financial Statement Notes for activities in capital assets, including additions and deletions of capital assets in the current fiscal year.

A bond issue for \$9.56 million, known as Student Fee Bonds, Series N, was issued in February 2010 for the construction of a satellite chiller plant and the first phase of laboratory/teaching lab renovations. The construction of a satellite chiller provides for additional capacity within the cooling system of campus and builds back-up redundancy not currently available. The satellite chiller cost was approximately \$7.6 million and was completed in May 2011. Additionally, three life science/chemistry teaching labs were renovated in 2011, with three more labs to be completed in 2012 at an estimated cost of \$2 million. This project will provide for major upgrades to the laboratories to reflect Americans with Disabilities Act and Occupational Safety and Health Administration guidelines.

Indiana State University's Scott College of Business will have a new home, as the former Terre Haute Post Office and Federal Building will be renovated to accommodate the College. The \$14.6 million renovation of the 1930's Art Deco building includes reconfiguration of interior spaces for academic programs, upgrading heating and air conditioning, installing information technology systems, and meeting

the requirements of the Americans with Disabilities and the Occupational Safety and Health Administration. Originally constructed to house the U.S. Post Office, Federal Courts, and other federal offices, the General Service Administration (GSA) transferred ownership of the property to the University in 2010. The total cost of the project is estimated at \$14.6 million, of which \$8.5 million is funded with the Series O Bond proceeds and the remainder from private gifts.

A new building opened in spring 2011 that houses the ISU Foundation and a new Barnes & Noble University Bookstore. The Foundation's move consolidated all organizational functions into one area, including the ISU Alumni Association, Terre Haute REX Baseball, Leadership Wabash Valley, the Varsity Club, Sycamore Foundation Holdings, Sycamore Ambassadors, and a call center for the annual giving program in a two story, 32,000-square foot building. The Foundation has a total space of 12,500 square



feet of the building, which features donor recognition displays and ISU memorabilia. The remainder of the building houses the Barnes & Noble University Bookstore, which allowed for expanded product lines, more retail space, extended hours, and a Starbucks. The new Barnes & Noble University Bookstore represents the first major retail investment in downtown Terre Haute in more than 30 years.

The National Science Foundation awarded a \$1.5 million grant to Indiana State University to renovate seven research laboratories in the Science building. The awarded funds are provided by the American Recovery and Reinvestment Act. Of the seven research labs, two are in Chemistry, three in Geology, and two in Biology. The ongoing research in the labs ranges from understanding animal behavior in white-throated sparrow populations and examining single-celled organisms in newly discovered ecosystems to isolating novel compounds that show interesting biological activity from poison frogs.

The Board of Trustees gave approval for the renovation of the Family and Consumer Sciences building to serve as a Welcome Center for the University. The \$3 million project will provide a Welcome Center at the core of campus to serve prospective students and their families and provide for every aspect of their stay. Visitors will be hosted by trained professionals, who will ensure that their visits to campus include tours of key buildings and opportunities to meet with scholarship, academic, and residence life personnel.

In February 2011, Indiana State University extended the contract with Sodexo to provide food service operations on campus. As part of the contract extension, Sodexo will invest \$2.9 million in a new banquet center with the capability to seat 460, as well as kitchen upgrades needed for this expansion. The facility is expected to be operational by early 2012. This new banquet facility will serve both the needs of the University and the community.

Moser Engineering, a Portland Indiana based company that makes rear-end components for racing applications, donated a 2002 undercover dragster for use by Team Sycamore Racing. Launched in 2007 as a student organization, Team Sycamore Racing provides hands-on learning opportunities about both the sport and business sides of auto racing. ISU is the only public university in Indiana with a motorsport management minor program, in which 50 students are currently enrolled.

The renovation of Pickerl Hall, which began in June 2010, was completed in August 2011 for fall 2011 occupancy. This project consisted 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, saw 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 was estimated at \$9.5 million, with \$0.5 million funded from system reserves and \$9 million from Housing and Dining Revenue Bonds, Series 2010. Once a women's residence hall, it is now a contemporary co-ed facility housing 230 students enrolled in the University's Honors Program.

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 projects and be obligated by September 30, 2011. The University has completed or has in progress ten projects that are utilizing these funds. This includes the Rankin/Parsons Hall Plaza, in which the existing roofing systems were replaced with a roof deck with structural reinforcement and insulation. Existing brick pavers were replaced with a sustainable green roof and appropriate drainage, lighting, and native planting. Other projects currently under construction or completed include the Chestnut Street pedestrian walkway, Holmstedt Hall Plaza, Student Success Center, roof repairs, HVAC upgrades, fire alarm upgrades, and masonry repairs.

The University continues to work assertively to manage its financial resources efficiently, including the issuance of debt to finance capital projects. Indiana State University Housing and Dining System Revenue Bonds, Series 2010, and Indiana State University Student Fee Bonds, Series O, issued during the fiscal year, both had underlying credit ratings of (A1) from Moody's and (AA-) from Fitch.

## 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, 2011 and 2010, are summarized in the table that follows:

<b>Net Assets</b> (in millions)		
	<b>2011</b>	<b>2010</b>
Invested in capital assets, net of related debt	\$222.9	\$218.8
Restricted		
Non-expendable	2.8	2.8
Expendable	13.0	11.3
Unrestricted	<u>110.7</u>	<u>86.9</u>
Total net assets	<u>\$349.4</u>	<u>\$319.8</u>

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

Restricted net assets are subject to externally imposed restrictions governing their use. Restricted non-expendable net assets are funds held for scholarships and fellowships. Restricted expendable net assets include funds for research and funds limited to construction and renovation. The restricted portion of long-term debt and debt service is made up of reserves mandated by the bond agreements, which state that reserves must be maintained until the issue is retired.

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

## Statement of Revenues, Expenses, and Changes in Net Assets

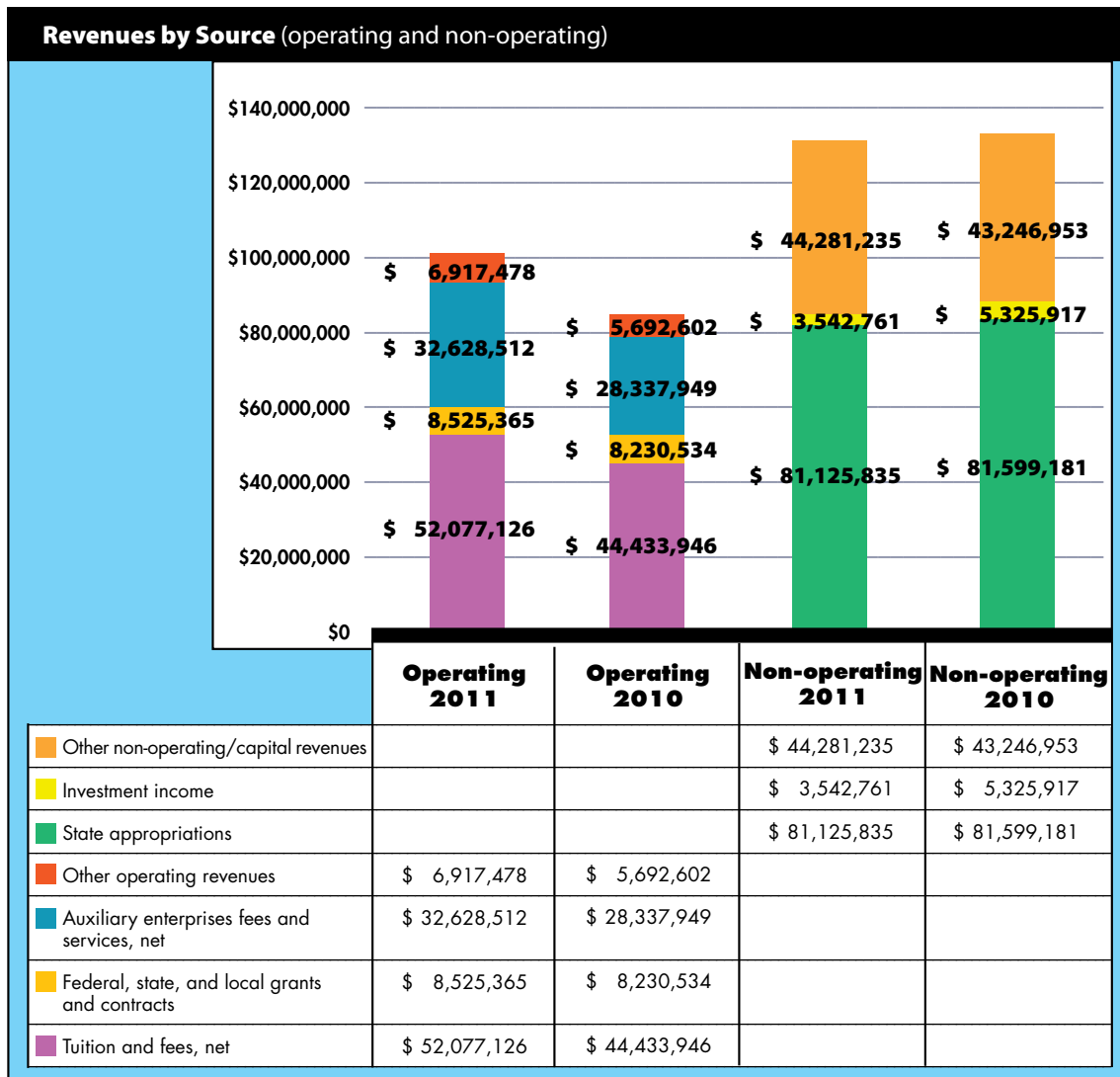
The Statement of Revenues, Expenses, and Changes in Net Assets present the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010, is as follows:

<b>Revenues, Expenses, and Changes in Net Assets (in millions)</b>		
	<b>2011</b>	<b>2010</b>
Operating revenues		
Tuition and fees (net of scholarship and other allowances of \$34.0 million for 2011 and \$29.9 million for 2010)	\$ 52.1	\$ 44.4
Grants and contracts	8.5	8.3
Auxiliary enterprises fees and services (net of scholarship and other allowances of \$8.7 million for 2011 and \$8.0 million for 2010)	32.6	28.3
Other	6.9	5.7
Total operating revenue	<u>\$ 100.1</u>	<u>\$ 86.7</u>
Operating expenses	<u>(193.2)</u>	<u>(194.4)</u>
Operating loss	<u>(\$ 93.1)</u>	<u>(\$107.7)</u>
Non-operating revenues (expenses)		
State appropriations	81.1	81.6
Investment income (net of investment expenses of \$0.2 million for 2011 and \$0.1 million for 2010)	3.5	5.3
Non-operating grants and contract revenue	31.4	25.7
Capital appropriations	3.5	1.5
Capital grants and gifts	6.1	12.8
Other non-operating revenues and expenses	3.0	2.9
Interest on capital asset related debt	<u>(4.5)</u>	<u>(4.0)</u>
Net non-operating and other revenues	<u>\$ 124.1</u>	<u>\$ 125.8</u>
Increase in net assets	\$ 31.0	\$ 18.2
Change in accounting estimate	\$ (1.4)	\$ —
Net assets, beginning of year	<u>\$ 319.8</u>	<u>\$ 301.6</u>
Net assets, end of year	<u>\$ 349.4</u>	<u>\$ 319.8</u>

One of the University's greatest strengths is its diverse stream of revenues that supplement student fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. To supplement student tuition, the University 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 increased by \$13.4 million for the fiscal year 2011. Tuition and fee income grew by \$7.7 million, not including the growth of the tuition discount of \$4.3 million. University enrollment increased 960 students to 11,494 from fall 2009. The number of new freshman stood at 2,707, an increase of 672 students from last year and the largest incoming class in Indiana State's 145-year history. Graduate student enrollment of 2,121 is also the largest in the school's history. The University continued to attract high-achieving students, as 224 new honor students, a 72 percent increase from 2009, enrolled at the University. More aggressive recruiting in the development of secondary markets such as the Chicago metropolitan area resulted in 271 new students enrolling from Illinois, a 126 percent increase. International student enrollment grew by more than 13 percent from last year and stands at 539, an increase of 64 students from fall 2009.

Auxiliary enterprises fees and services revenue increased by \$4.3 million, and the discount increased by \$0.6 million. This is due to the record enrollment of the incoming freshman class, which created overcapacity in the ISU on-campus housing. The University contracted with one of the downtown hotels for 40 rooms to meet the excess demand for the fall of 2010.

Grants and contracts revenue increased by \$0.2 million for the fiscal year 2011. The University has seen growth in National Science Foundation grants that have offset some decreases in U.S. Department

of Education grants. These new grants from NSF include a \$1 million grant to study low aggression in male lizards and a \$330,000 grant to continue research on a molecule in the poison dart frog, as well as funds to purchase an instrument to support the undergraduate chemistry curriculum. Increases in private funded grants and contracts include a grant that helped establish a Veteran Resource Center for both Ivy Tech Community College and Indiana State University and increased research activity by the Bat Center.

Beginning in 2011, all ISU Networks expenditures were processed through the University, resulting in an increase of \$1.2 million in other operating revenues. This increase was partially offset by the reduction of revenues as the result of a third party vendor providing student health services.

Net non-operating and capital revenues decreased by \$1.7 million for fiscal year 2011. This reduction is due to decreases in state appropriations of \$0.5 million, gifts of \$0.4 million, investment income of \$1.8 million, increased interest on capital related debt of \$0.5 million, and decreased capital grants and gifts of \$6.7 million. Non-operating grants grew by \$5.7 million and other non-operating revenues increased by \$0.5 million. Capital appropriations expanded to \$3.5 million from \$1.5 million in 2010.

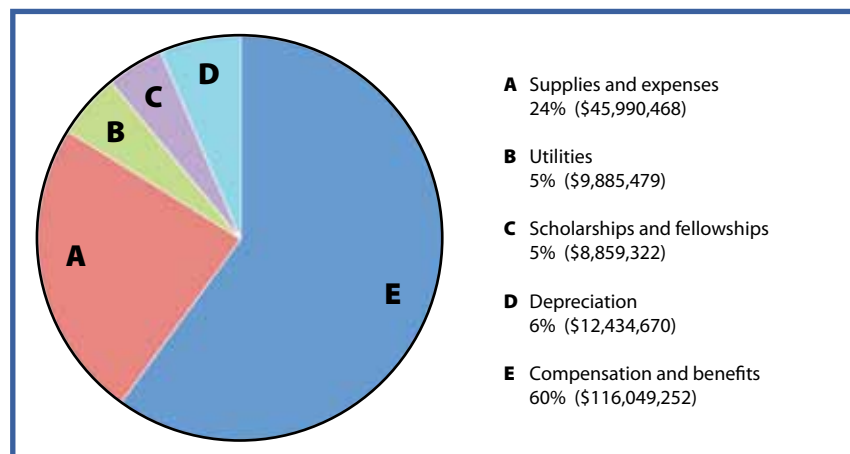
Due to a change in the capitalization amount used in moveable equipment and building improvements, there is a special item of a change in accounting estimate listed on the Statement of Revenues, Expenses, and Changes in Net Assets. A \$1.4 million one-time charge is recorded for fiscal year 2011 to reduce asset value.

Like most universities, Indiana State University continues to make market-competitive compensation and benefits a top priority. These expenses represent 60 percent of total University expense/budget.

A comparative summary of the University's expenses for the years ended June 30, 2011 and 2010, is as follows:

<b>Operating Expenses (in millions)</b>		
	<b>2011</b>	<b>2010</b>
<b>Operating:</b>		
Compensation and benefits	\$ 116.0	\$ 127.7
Supplies and expenses	46.0	40.1
Utilities	9.9	8.2
Scholarships and fellowships	8.9	6.5
Depreciation	12.4	11.9
	<u>\$ 193.2</u>	<u>\$ 194.4</u>
<b>Non-operating:</b>		
Interest on capital asset related debt	\$ 4.5	\$ 4.0
Other non-operating expenses	0.3	0.4
	<u>0.3</u>	<u>0.4</u>
<b>Total expenses</b>	<u><b>\$ 198.0</b></u>	<u><b>\$ 198.8</b></u>

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





The new Indiana State University bookstore—Barnes & Noble College Booksellers

Total operating expenditures decreased by \$1.2 million from \$194.4 million in fiscal year 2010 to \$193.2 million in fiscal year 2011. Compensation and benefits decreased by \$11.7 million, reflecting the retirement incentive of \$9.1 million that was expensed in fiscal year 2010, in which only \$0.2 million was expensed in 2011. See Note 9 for additional details on plan design and scope. Additional savings for fiscal year 2011 reflects the elimination of positions from last year due to state-mandated budget cuts and a growth in the OPEB asset described in Note 18.

Supplies and expenses showed an increase of \$5.9 million. This increase reflects growth in payments to Sodexo for an increased number of students dining on campus, expansion of grant activity, additional ISU Networks expenses, and increased travel and computer software maintenance expense, and reflects the change in accounting estimate concerning the capitalization guidelines.

Utilities expenses grew by \$1.7 million for 2011. This is a result of increased rates and usage of electricity, natural gas, water, and sewage.

Scholarships and fellowships expenses grew by \$2.4 million to reflect the large growth in enrollment in the incoming freshman class. Included in this amount is a 59 percent increase in the ISU Laptop Award recipients, in which 1,252 laptops were awarded to new students with a minimum grade point average of 3.0 or higher.

Depreciation expense increased by \$0.5 million as Sandison Hall, Lincoln Quad, Arena, and central heating upgrades were brought online.

In addition to their natural (object) classification (expenditure type), the reader may also benefit 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, 2011 and 2010, is as follows:

<b>Expenses by Function (in millions)</b>		
	<b>2011</b>	<b>2010</b>
Operating:		
Instruction	\$ 62.5	\$ 65.4
Research	9.3	8.9
Public service	1.4	1.6
Institutional and academic support	34.9	38.1
Student services	10.0	11.6
Operations of plant	26.3	23.6
Scholarships	10.1	7.8
Auxiliary enterprises	26.3	25.5
Depreciation	12.4	11.9
	<u>\$ 193.2</u>	<u>\$ 194.4</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, 2011 and 2010, is as follows:

<b>Statement of Cash Flows (in millions)</b>		
	<b>2011</b>	<b>2010</b>
Cash received from operations	\$ 97.1	\$ 86.9
Cash expended for operations	<u>(183.5)</u>	<u>(177.6)</u>
Net cash used by operating activities	(86.4)	(90.7)
Net cash provided by non-capital financing activities	116.5	115.0
Net cash used by investing activities	(4.7)	(13.1)
Net cash used by capital and related financing activities	<u>(19.9)</u>	<u>(21.7)</u>
Net increase (decrease) in cash and cash equivalents	\$ 5.5	\$ (10.5)
Cash and cash equivalents, beginning of year	<u>\$ 35.5</u>	<u>\$ 46.0</u>
Cash and cash equivalents, end of year	<u>\$ 41.0</u>	<u>\$ 35.5</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 by operating activities decreased by \$4.3 million cash received from tuition and fees and auxiliary enterprises increased by \$6.2 million and \$3.7 million, respectively, due to the growth in enrollment. Payments to suppliers increased by \$6 million which reflects higher utility costs, growth in grant expenses, and increased travel and software maintenance expense.

Cash flows from non-capital financing activities increased by \$1.5 million, reflecting the growth of non-operating grants and contracts of \$5.9 million for student financial aid, offsetting reductions in state appropriations and funds held for the Indiana State University Foundation.

Cash used by capital financing activities decreased from 2010 by \$1.8 million, largely due to receiving \$5 million in federal stimulus funds (ARRA) through the State of Indiana for renovation projects.

Net cash used by investing activities declined by \$8.4 million for fiscal year 2011. Additional funds were transferred to the investment managers, as the new investment policy was fully implemented during the year.

## Economic Factors that Will Affect the Future

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

Indiana State University's 2011 fall enrollment figures for on-campus and distance education students are at 11,422, an increase of more than 400 students from last year. Total student headcount of 11,527 is above last year's 11,494 that included 469 correction education students. For fall 2011, only 105

correction education students were enrolled, as the state correction education program is being transitioned to associate degree programs and includes no newly admitted correction education students. The fall 2011 highlights include the second highest incoming freshmen class in school history of 2,521, the highest number of international students in the post 9/11 era of 550, and an increase of more than 500 in the number of returning students. More than 1,400 new students received the ISU Laptop Award, an increase of 200 from last year and nearly twice as many as two years ago. Indiana State awards laptop computers to incoming students with a 3.0 grade point average or higher.

Indiana State University has launched an effort to expand its distinctive programs initiative by focusing more on how quality programs, faculty, and staff can work in greater partnership to address societal needs. Entitled "Unbound Possibilities," the initiative builds on a 2007 program funded by the Lilly Endowment that identified University's most distinctive and promising programs and set aside funds for their promotion and further development. The center piece of the initiative is a five-year, \$5 million internal grant program. Unbounded Possibilities represents an investment by the University in its future and is consistent with the goals of ISU's five-year strategic plan.

Indiana State University has been re-accredited for a full ten-year period by the Higher Learning Commission of the North Central Association of College and Schools. This action follows an 18-month self study by the University's faculty, staff, administrators, and students, as well as a visit by a nine-member evaluation team of faculty and administrators from other universities. The report approved of the University's effort in areas of public service, student success, and diversifying revenue. The report noted that community engagement is a central theme of the University's mission statement and that numerous community service programs have been established since the Commission's last evaluation in 2000. The Commission noted that the University provided evidence of its commitment to both community engagement and experiential learning and the University's interest in being a national leader in these areas. The evaluation team's campus visit confirmed a review of ISU programs, resulting in consolidation or elimination of some low-enrollment programs with a greater emphasis on more distinctive programs.



*The sculpture, "A Chorus of Trumpets", located on the newly renovated Rankin Plaza, was conceived by New York artist, Howard Kalish.*



*Indiana State students planting a new tree on campus during Donaghy Day*

In May 2011, the Indiana State University Board of Trustees endorsed six new programs in nursing, health and human services, and technology. The action is intended to meet the growing demand for skilled health care providers and addresses shortages, particularly in rural areas, to keep pace with technology. The new programs are bachelor's degrees in engineering technology and civil engineering technology, master's degrees in technology management, occupational therapy, and social work, and a doctorate in health sciences. These programs are expected to be up and running by fall 2012. This builds on the new programs of doctorate degrees in nursing practice and physical therapy and a master's degree in physician assistant studies that began in fiscal year 2011. In fall 2011, Indiana State University will offer a new professional MBA program in suburban Indianapolis that is tailored to professionals with at least five years of business experience.

Besides providing a high-quality education to its students, Indiana State University devotes a substantial part of its efforts to working in the local com-

munity, 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 the 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. Partners in the RHIC are developing a simulation center for the inter-professional education of students and health care providers. The simulation center will enable the partners to consolidate resources, including programmable electronic mannequins. Simulations allow students to learn the art and science of patient interaction, decision-making, and clinical care skills using scenarios that occur in the real world. The mannequins can be programmed to take on a number of symptoms, conditions, and complications and respond to interventions that students perform.

The Terre Haute Innovation Alliance, representing a partnership between Indiana State University, Rose-Hulman Institute of Technology, the City of Terre Haute, and the Terre Haute Economic Development Corporation 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. Additional new business clients include Midwest Compliance Laboratories, a chemical testing business, as well as Specialty Rim Supply and Specialty Blanks, which are manufacturing new products for the after-market wheel industry.

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 Uni-

versity'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. In supporting these goals, the University has announced the receipt of nearly \$3 million in National Science Foundation grants. Indiana State University plans on revitalizing grants and contracts services to faculty and departments in order to increase external funding.

Indiana State University will seek to limit future increases in student costs to the extent of increases in the Consumer Price Index. To achieve this goal, a campus task force will be appointed to recommend ways to maintain affordability in the climate of limited state funding. The task force will look for ways to limit increases in the costs of student housing and textbooks, while reducing operating costs and making the most efficient use of available space on campus.

Goals for the coming year include continued growth in freshmen enrollment, while reducing the number of conditionally admitted students, increasing the geographic diversity of the freshman class, particularly in southern Indiana, and refining strategies to improve first-year retention.

As part of the initiative to increase and diversify University revenues, 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 has raised \$78.4 million of its \$85 million goal as of October 2011. This goal should be reached by the end of the campaign in December 2011.

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



*The sculpture, "Via Solaris", located on the north side of Stalker Hall*

**Indiana State University**  
**Comparative Statement of Net Assets**  
For the Years Ended June 30, 2011 and June 30, 2010

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 40,972,520	\$ 35,470,086
Short-term investments	16,214,781	23,018,618
Accrued interest	630,252	743,545
Accounts receivable (net of allowance of \$6,280,785 for 2011 and \$6,611,235 for 2010)	3,319,288	3,082,341
Other accounts receivable	7,195,811	1,042,845
Grants receivable	1,330,303	1,578,686
State receivable, current portion	1,614	1,504,756
Notes receivable, current portion	3,065,041	2,820,327
Prepaid expenses	1,036,797	614,463
Other assets	14,577	—
Inventories	85,881	97,577
Total current assets	\$ 73,866,865	\$ 69,973,244
Non-current assets		
Endowment investments—held in trust	\$ 556,956	\$ 636,404
Deposits with bond trustee	491,617	587,425
Notes receivable, non-current portion (net of allowance of \$724,656 for 2011 and \$741,633 for 2010)	4,594,469	4,919,849
Other long-term investments	79,882,664	66,600,336
Net OPEB Asset (Note 18)	7,103,613	3,776,217
Capital assets (net of accumulated depreciation of \$232,309,242 for 2011 and \$233,243,410 for 2010)	326,996,174	315,668,859
Total non-current assets	\$ 419,625,493	\$ 392,189,090
<b>TOTAL ASSETS</b>	<b>\$ 493,492,358</b>	<b>\$ 462,162,334</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 3,864,339	\$ 5,027,651
Accrued payroll and deductions	4,172,575	4,558,539
Deferred revenue	1,351,088	1,320,274
Funds held in custody for others	2,947,156	2,413,421
Other liabilities	4,671,970	5,454,133
Bonds payable (Note 6)	7,382,945	7,497,386
Compensated absences and termination benefits (Note 9)	3,324,364	7,416,239
Lease payable	294,561	261,372
Debt interest payable	1,302,600	1,215,868
Total current liabilities	\$ 29,311,598	\$ 35,164,883
Non-current liabilities		
Funds held in custody for others	\$ 609,893	\$ 3,659,305
Other long-term liabilities	350,000	—
Bonds payable (Note 6)	104,194,430	93,731,341
Compensated absences and termination benefits	776,391	799,726
Lease payable	1,000,441	1,222,886
Advances from federal government	7,820,450	7,821,200
Total non-current liabilities	\$ 114,751,605	\$ 107,234,458
<b>TOTAL LIABILITIES</b>	<b>\$ 144,063,203</b>	<b>\$ 142,399,341</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 222,855,308	\$ 218,778,320
Restricted for:		
Non-expendable:		
Scholarships and fellowships	556,956	636,404
Loans	2,203,734	2,203,734
Expendable:		
Research and other grants	583,492	650,724
Capital projects	12,465,814	10,654,452
Debt service	—	1,486
Unrestricted	110,763,851	86,837,873
<b>TOTAL NET ASSETS</b>	<b>\$ 349,429,155</b>	<b>\$ 319,762,993</b>

**Indiana State University Foundation, Inc.  
and Sycamore Foundation Holdings, Inc.**  
**Consolidation Statement of Financial Position**  
Years Ended June 30, 2011 and June 30, 2010

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
Cash	\$ 580,163	\$ 1,301,078
Investments—at market	46,452,623	42,197,868
Assets held in trusts, interest in trusts and split interest agreements	3,135,744	2,929,538
Pledges, bequests and accounts receivable	4,730,570	5,473,387
Investment income receivable	28,174	37,949
Receivable from Indiana State University	2,772,336	5,250,000
Investment in Sycamore Plaza Leverage Lender, LLC	1,277,973	1,277,973
Deposits and expenses for acquisition of property	1,420,538	847,682
Fixed and intangible assets (net of accumulated depreciation and amortization of \$954,776 in 2011 and \$382,090 in 2010)	2,117,395	1,910,086
Other assets	<u>762,670</u>	<u>731,577</u>
Total assets	<u>\$ 63,278,186</u>	<u>\$ 61,957,138</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 379,448	\$ 596,936
Present value of liability under split interest agreements	1,987,964	2,002,294
Due to Indiana State University	6,625,213	636,403
Refundable advances	<u>588,115</u>	<u>508,189</u>
Total liabilities	9,580,740	3,743,822
Net assets		
Unrestricted	(1,682,723)	(1,095,165)
Temporarily restricted	8,349,140	17,049,609
Permanently restricted	<u>47,031,029</u>	<u>42,258,872</u>
Total net assets	<u>53,697,446</u>	<u>58,213,316</u>
Total liabilities and net assets	<u>\$ 63,278,186</u>	<u>\$ 61,957,138</u>

**Indiana State University**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
For the Years Ended June 30, 2011 and June 30, 2010

	<b>2011</b>	<b>2010</b>
<b>OPERATING REVENUES</b>		
Tuition and fees	\$ 86,096,586	\$ 74,362,928
Scholarship allowances for tuition and fees	(33,559,222)	(29,308,667)
Other allowances	(460,238)	(620,315)
Net tuition and fees	52,077,126	44,433,946
Federal grants and contracts	5,077,481	4,832,159
State and local grants and contracts	203,978	251,281
Non-governmental grants and contracts	3,243,906	3,147,094
Auxiliary enterprises fees and services	41,343,680	36,365,463
Scholarship allowances for room and board	(8,241,612)	(7,635,919)
Other allowances	(473,556)	(391,595)
Net auxiliary enterprises fees and services	32,628,512	28,337,949
Other operating revenues	6,917,478	5,692,602
Total operating revenues	\$ 100,148,481	\$ 86,695,031
<b>EXPENSES</b>		
Compensation and employee benefits	\$ 116,049,252	\$ 127,659,788
Supplies and expenses	45,990,468	40,062,686
Utilities	9,885,479	8,214,899
Scholarships and fellowships	8,859,322	6,521,424
Depreciation	12,434,670	11,902,793
Total operating expenses	\$ 193,219,191	\$ 194,361,590
Operating loss	\$ (93,070,710)	\$ (107,666,559)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 81,125,835	\$ 81,599,181
Gifts	505,968	948,367
Investment income (net of investment expenses of \$225,322 for 2011 and \$133,118 for 2010)	3,542,761	5,325,917
Interest on capital asset related debt	(4,510,470)	(3,981,282)
Non-operating grants and contracts revenue	31,374,371	25,690,583
Other non-operating revenues	2,785,241	2,304,163
Other non-operating expenses	(331,571)	(373,470)
Net non-operating revenues	\$ 114,492,135	\$ 111,513,459
Income before other revenues, expenses, gains or losses	\$ 21,421,425	\$ 3,846,900
Capital appropriations	\$ 3,500,302	\$ 1,504,756
Capital grants and gifts	6,115,353	12,799,084
Total other revenues	\$ 9,615,655	\$ 14,303,840
Increase in net assets	\$ 31,037,080	\$ 18,150,740
Change in accounting estimate	\$ (1,370,918)	—
<b>NET ASSETS</b>		
Net assets—beginning of year	\$ 319,762,993	\$ 301,612,253
Net assets—end of year	\$ 349,429,155	\$ 319,762,993

**Indiana State University Foundation, Inc.  
and Sycamore Foundation Holdings, Inc.**  
**Consolidation Statement of Activities**  
Years Ended June 30, 2011 and June 30, 2010

	<u>2011</u>	<u>2010</u>
<b>REVENUES</b>		
Contributions	\$ 738,689	\$ 692,578
Investment income		
Interest and dividends		
Trust and temporary investments	9,973	59,095
Net appreciation (depreciation) in fair value of investments	361,835	4,607
Loss on disposal of land	(26,515)	—
Non-gift income	576,430	239,618
Change in value of split interest agreements	(39,822)	(13,813)
University support-alumni	447,552	434,608
Service fee income—Indiana State University	561,608	510,883
Total revenues	<u>2,629,750</u>	<u>1,927,576</u>
Net assets released from restrictions	13,469,921	7,771,606
Total unrestricted support and revenues	<u>16,099,671</u>	<u>9,699,182</u>
<b>EXPENSES</b>		
Scholarships and awards	2,061,868	1,943,361
Restricted and designated expenditures	11,423,498	5,836,483
Grants for academic and other University projects	296,061	2,750,349
Foundation operational expenditures	1,643,475	1,244,266
Development and advancement—fundraising	2,911,635	2,828,752
Alumni affairs	515,349	459,783
Sycamore Foundation Holdings expenses	904,854	253,541
Total expenses	<u>19,756,740</u>	<u>15,316,535</u>
<b>TRANSFERS</b>	3,069,511	3,097,231
Increase (decrease) in unrestricted net assets	<u>(587,558)</u>	<u>(2,520,122)</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	2,987,778	4,919,114
Lilly Endowment grants	—	6,131,690
Interest and dividends	967,867	958,608
Net appreciation (depreciation) in fair value of investments	14,908	29,816
Non-gift income	650,288	460,118
Change in value of split interest agreement	2,547	(242,202)
In kind support	208,503	268,035
Net assets released from restrictions	(13,469,921)	(7,771,606)
Transfers	(62,439)	(1,677,123)
Increase (decrease) in temporarily restricted net assets	<u>(8,700,469)</u>	<u>3,076,450</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	669,346	2,289,461
Net appreciation (depreciation) in fair value of investments	7,062,697	3,456,770
Non-gift income	85,806	65,250
Change in value of split interest agreement	(38,620)	(28,439)
Transfers	(3,007,072)	(1,420,108)
Increase (decrease) in permanently restricted net assets	<u>4,772,157</u>	<u>4,362,934</u>
Increase (decrease) in net assets	<u>\$ (4,515,870)</u>	<u>\$ 4,919,262</u>

**Indiana State University**  
**Statement of Cash Flows**  
For the Years Ended June 30, 2011 and June 30, 2010

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 47,525,305	\$ 41,346,419
Grants and contracts	8,557,174	7,998,353
Auxiliary enterprises	30,247,664	26,479,440
Payments to suppliers	(58,378,918)	(52,365,834)
Net pay to employees	(63,941,416)	(64,761,943)
Payments on behalf of employees	(60,280,694)	(59,882,297)
Loans issued to students	(950,024)	(596,484)
Student loans collected	1,301,932	1,342,549
Other receipts	9,455,648	9,728,475
Net cash used by operating activities	\$ (86,463,329)	\$ (90,711,322)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 81,087,484	\$ 81,599,272
Funds held on behalf of the ISU Foundation	—	5,250,000
Direct Loan receipts	33,375,730	28,815,236
Direct Loan disbursements	(33,375,730)	(28,815,236)
Non-operating grants and contracts	31,402,700	25,482,084
Gifts and other non-operating income	4,035,120	2,665,650
Net cash provided by non-capital financing activities	\$ 116,525,304	\$ 114,997,006
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital appropriations received	\$ 5,003,444	\$ —
Capital gifts and grants received	—	362,371
Proceeds from sale of land	—	967,480
Proceeds from bond issue	17,846,453	23,355,885
Cost of issuance	(331,571)	(300,675)
Repair and replacement funds—drawdown from bond trustee	97,296	485,339
Cash paid for capital assets	(30,058,947)	(28,252,521)
Principal and interest paid on capital debt and leases	(12,441,798)	(18,308,254)
Net cash used by capital financing activities	\$ (19,885,123)	\$ (21,690,375)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	\$ 23,802,441	\$ 18,362,885
Income from investing activities	5,723,141	4,054,232
Purchase of investments	(34,200,000)	(35,603,654)
Net cash used by investing activities	\$ (4,674,418)	\$ (13,186,537)
Net increase (decrease) in cash for year	\$ 5,502,434	\$ (10,591,228)
Cash and cash equivalents—beginning of year	\$ 35,470,086	\$ 46,061,314
Cash and cash equivalents—end of year	\$ 40,972,520	\$ 35,470,086

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	\$ (93,070,710)	\$ (107,666,561)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	12,434,670	11,902,793
Changes in assets and liabilities		
Accounts receivable	96,076	562,759
Grants receivable	248,383	(192,296)
Notes receivable	(244,714)	(175,836)
Inventories	11,696	124,681
Prepaid expenses	(422,334)	42,285
Accounts payable	(283,205)	(40,130)
Lease payable, current	33,189	212,115
Accrued payroll and deductions	(385,964)	714,920
Deferred revenue	30,814	60,286
Funds held in custody for others	(37,192)	(19,859)
Other liabilities	(782,163)	(672,359)
Compensated absences	(4,091,875)	4,435,880
Net cash used by operating activities	\$ (86,463,329)	\$ (90,711,322)
Non-cash transactions		
Equipment	\$ 82,783	\$ 1,547,053
Capital lease	\$ (82,783)	\$ (1,547,053)

**Indiana State University Foundation, Inc.  
and Sycamore Foundation Holdings, Inc.**  
**Consolidation Statement of Cash Flows**  
Years Ended June 30, 2011 and June 30, 2010

	<b>2011</b>	<b>2010</b> (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (4,515,870)	\$ 4,919,262
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	595,676	204,415
Loss on disposal of assets	26,515	10,600
Net (appreciation) depreciation in fair value of investments	(7,439,440)	(3,482,607)
Liability of charitable gift annuities received	132,865	1,277,233
Gifts and non-gifts of property and real estate	—	(6,000)
Change in value of accounts due to Indiana State University	5,988,810	(53,545)
Changes in assets and liabilities:		
Grants, pledges, bequests and accounts receivable	742,817	(2,984,138)
Investment income receivable	9,775	46,566
Change in Networks funding receivable from University	2,477,664	(5,250,000)
Other assets	(25,993)	(122,283)
Accounts payable	(217,488)	190,240
Scholarships payable	—	—
Change in value of split interest agreements	(273,475)	91,843
Net cash from operating activities	(2,498,144)	(5,158,414)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in Sycamore Plaza Leverage Lender, LLC	—	(1,277,973)
Purchase of collection items	(5,100)	(1,000)
Proceeds from sale of investments	40,270,677	51,605,682
Purchase of investments	(37,085,254)	(42,909,487)
Purchase of fixed and intangible assets	(803,933)	(1,825,893)
Proceeds from sale of real estate	5,000	298,495
Purchase of real estate and deposits on purchase	(604,161)	(273,577)
Net cash from investing activities	1,777,229	5,616,247
Net increase (decrease) in cash	(720,915)	457,833
<b>CASH AT BEGINNING OF THE PERIOD</b>	1,301,078	843,245
<b>CASH AT END OF PERIOD</b>	\$ 580,163	\$ 1,301,078

# Notes to Financial Statements

As of June 30, 2011

## 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 \$15,449 at June 30, 2011.

## F. Capital Assets

The capitalization guidelines were changed during the fiscal year and are reflected on the chart below. See Note 2 for the details of the change.

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

### Minimum Capitalization Value and Useful Life by Asset Types

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

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

## L. Restricted and Unrestricted Resources

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

## M. Component Units

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

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

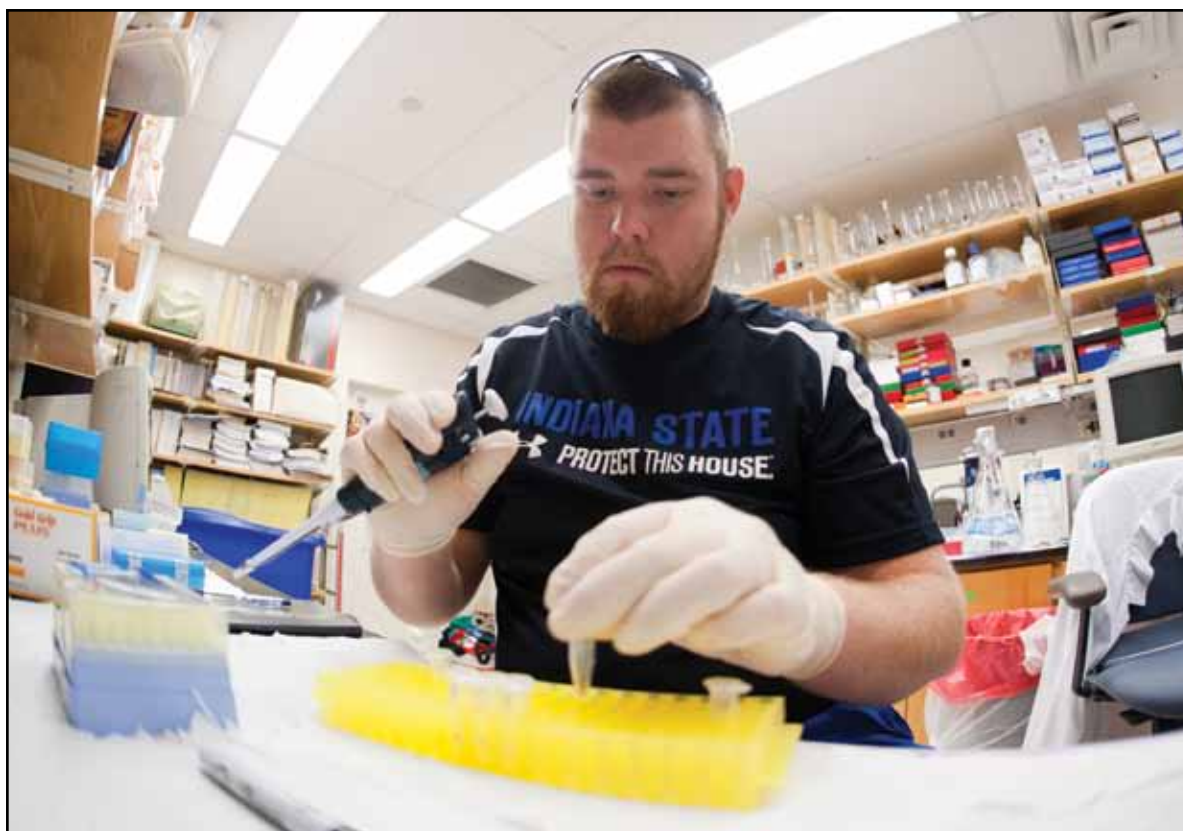
The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting presentation for these differences.

During the year ended June 30, 2011, the Foundation distributed \$6,306,743 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 30 North 5th Street, Terre Haute, IN 47809.

## Note 2. Changes in Accounting Estimate

A change in accounting estimate regarding the treatment of capital assets was made as of July 1, 2010. To align more closely with the federal government capitalization guidelines and those of other Indiana educational institutions, the cost for moveable equipment subject to capitalization and depreciation was increased from \$2,500 to \$5,000. Building improvements that exceed \$100,000 and extend the life of the building are recorded as capital assets and subject to depreciation, an increase from the previous \$50,000 threshold. This change resulted in a \$1,370,918 special item recorded on the Statement of Revenues, Expenses, and Changes in Net Assets. This also reduced the number of moveable equipment items by 2,307.





## Note 3. 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, 2011, consist of the following:

Cash on hand	\$ 89,901
Deposits with financial institutions	7,677,817
Investments	130,350,820
	<u>\$ 138,118,538</u>

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

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 divided into three liquidity tiers to provide for income maximization while meeting the daily liquidity requirements of the University. In order to supply sufficient day-to-day operating liquidity, Tier I is invested in money market securities and liquidity reserves. Tier II is invested in limited duration securities to provide for a sufficient level of reserves in case of unanticipated liquidity needs, yet provide for a level of incremental return over Tier I. Tier III is invested for income maximization while taking on appropriate levels of risk.

Authorized investments include US Treasury, US Government Agency or Instrumentality, Mortgage-Backed Securities, Asset-Backed Securities, Taxable Municipal Bonds, Non-Benefit Responsive GIC's, Money Market Instruments and Funds, Corporate Investment Grade Bonds, Corporate High Yield Bonds, Non-US Dollar Debt, and Combined Plus Exposure. Credit Quality and Market Value percentages are established for each investment manager portfolio. This policy was implemented in September 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 manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

#### As of June 30, 2011, 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)	\$ 89,901	\$ 89,901	\$ —	\$ —	\$ —
Demand deposits	7,677,817	7,677,817	—	—	—
Money markets	23,466,418	23,466,418	—	—	—
Certificates of deposit	17,412,749	16,908,248	300,607	203,894	—
Government agencies	17,839,650	3,064,249	10,602,496	2,840,071	1,332,834
Collateralized mortgage obligations	8,670,201	307,702	369,896	1,829,624	6,162,979
Government obligations	18,994,100	5,079,633	3,754,279	7,607,232	2,552,956
Corporate bonds	27,049,627	543,900	12,710,764	8,461,823	5,333,140
Mortgage-backed securities	10,128,029	—	448,683	2,935,310	6,744,036
Asset-backed securities	4,579,937	—	4,175,939	403,998	—
Credit default swap	1,040	—	1,040	—	—
Corporate stock	80,957	—	—	—	80,957
Municipal bonds	1,571,156	541,048	486,193	155,222	388,693
Endowment investment held in trust	556,956	—	—	—	556,956
	<u>\$ 138,118,538</u>	<u>\$ 57,678,916</u>	<u>\$ 32,849,897</u>	<u>\$ 24,437,174</u>	<u>\$ 23,152,551</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 and asset-backed securities.** These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of the securities and makes the fair values of these securities highly sensitive to changes in interest rates.

\$14,707,966

**Callable bonds.** These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affects the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates.

\$10,263,197

### 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 or lower	Not Rated
Cash on hand (petty cash)	\$ 89,901	\$ —	\$ —	\$ —	\$ —	\$ 89,901
Demand deposits	7,677,817	—	—	—	—	7,677,817
Money markets	23,466,418	—	—	—	—	23,466,418
Certificates of deposit	17,412,748	—	—	—	—	17,412,748
Government agencies	17,839,651	17,839,651	—	—	—	—
Collateralized mortgage obligations	8,670,201	5,509,764	890,620	720,732	1,451,154	97,931
Government obligations	18,994,100	18,994,100	—	—	—	—
Corporate bonds	27,049,627	562,268	4,796,374	9,128,595	12,413,110	149,280
Mortgage-backed securities	10,128,029	10,128,029	—	—	—	—
Asset-based securities	4,579,937	4,579,937	—	—	—	—
Credit default swap	1,040	—	—	—	—	1,040
Corporate stock	80,957	—	—	—	—	80,957
Municipal bonds	1,571,156	372,991	1,111,966	86,199	—	—
Endowment investments held in trust	556,956	—	—	—	—	556,956
	<u>\$138,118,538</u>	<u>\$ 57,986,740</u>	<u>\$ 6,798,960</u>	<u>\$ 9,935,526</u>	<u>\$ 13,864,264</u>	<u>\$ 49,533,048</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. At June 30, 2011, investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of total University investments included the Federal Home Loan Bank totaling \$11,048,324.

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the

risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the University will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Indiana State University's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than that preference will be given to Indiana institutions because of additional insurance coverage provided by the state. Of the University's investments, \$18,994,100 in U.S. Government Obligations, \$17,839,651 in U.S. Government Agencies, and \$23,466,418 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, 2011, 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 \$13,190,000 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 4. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Capital assets not being depreciated				
Land	\$ 26,681,048	\$ 1,304,585	\$ (1,956)	\$ 27,983,677
Works of art	1,323,116	73,489	—	1,396,605
Construction in progress	26,459,669	23,706,277	(21,718,983)	28,446,963
Total capital assets not being depreciated	\$ 54,463,833	\$ 25,084,351	\$ (21,720,939)	\$ 57,827,245
Capital assets being depreciated				
Infrastructure	\$ 33,485,045	\$ —	\$ (100,155)	\$ 33,384,890
Land improvements	21,253,449	1,485,837	(1,740,626)	20,998,660
Buildings	350,425,035	19,194,549	(3,298,586)	366,320,998
Equipment	87,737,852	3,246,717	(11,840,782)	79,143,787
Capital lease assets	1,547,053	82,783	—	1,629,836
Total capital assets depreciated	\$ 494,448,434	\$ 24,009,886	\$ (16,980,149)	\$ 501,478,171
Less accumulated depreciation for				
Infrastructure	\$ (29,021,256)	\$ (856,006)	\$ 92,854	\$ (29,784,408)
Land improvements	(15,081,794)	(540,015)	1,297,392	(14,324,417)
Buildings	(128,601,891)	(6,498,893)	2,789,484	(132,311,300)
Equipment	(60,464,693)	(4,432,773)	9,388,706	(55,508,760)
Lease amortization	(73,596)	(306,761)	—	(380,357)
Total accumulated depreciation	\$ (233,243,230)	\$ (12,634,448)	\$ 13,568,436	\$ (232,309,242)
Total capital assets being depreciated, net	\$ 261,205,204	\$ 11,375,438	\$ (3,411,713)	\$ 269,168,929
Total capital assets, net	\$ 315,669,037	\$ 36,459,789	\$ (25,132,652)	\$ 326,996,174

## Note 5. 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:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Current Portion</b>
Bonds payable, net	\$ 101,228,727	\$ 17,846,453	\$ 7,497,805	\$ 111,577,375	\$ 7,382,945
Lease payable	1,484,258	82,783	272,039	1,295,002	294,561
Compensated absences and termination benefits	8,215,965	259,422	4,374,632	4,100,755	3,324,364
Advances from federal government	7,821,200	—	750	7,820,450	—
<b>Total long-term liabilities</b>	<b><u>\$ 118,750,150</u></b>	<b><u>\$ 18,188,658</u></b>	<b><u>\$ 12,145,226</u></b>	<b><u>\$ 124,793,582</u></b>	<b><u>\$ 11,001,870</u></b>
Bond redemption reserve (matured unpaid bonds and coupons)					290,387
<b>Total long-term liabilities—current portion</b>					<b><u>\$ 11,292,257</u></b>

## Note 6. 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.

	<b>Issue Date</b>	<b>Interest Rate</b>	<b>Final Maturity Dates</b>	<b>Principal Outstanding June 30, 2011</b>	<b>Bond Premium</b>	<b>Deferral of Loss</b>	<b>Total Net Outstanding June 30, 2011</b>
<b>Student Fee Bonds</b>							
Series K	2004	3.0%-5.0%	2025	\$ 7,200,000	\$ 511,695	\$ (735,661)	\$ 6,976,034
Series L	2005	3.5%-5.0%	2021	22,615,000	1,237,056	(1,994,087)	21,857,969
Series M	2007	4.25%-5.0%	2033	42,040,000	642,442	N/A	42,682,442
Series N	2010	1.0%-6.64%	2029	9,235,000	N/A	N/A	9,235,000
Series O	2011	2.0%-5.0%	2030	8,695,000	11,034	N/A	8,706,035
<b>Housing and Dining Revenue Bonds</b>							
Series 2009	2009	3.0%-6.383%	2027	12,920,000	59,895	N/A	12,979,895
Series 2010	2010	1.43%-5.41%	2027	9,140,000	N/A	N/A	9,140,000
<b>Total Bonds</b>				<b><u>\$ 111,845,000</u></b>	<b><u>\$ 2,462,122</u></b>	<b><u>\$ (2,729,748)</u></b>	<b><u>\$ 111,577,375</u></b>

The issues are serial or term bonds with maturities extending until 2033. For the fiscal year 2011, an \$8,889,341 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 \$84,252,926 in student tuition as collateral

for student fee bonds and student service bonds and \$1,621,145 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, 2011
Apartment Revenue Bonds: Series E	11/1/2012	\$ 300,000

The University issued \$9.14 million of Housing and Dining revenue bonds on August 19, 2010, and \$8.695 million of Student Fee bonds, Series O, on April 7, 2011. See Note 7 for details.

<b>Debt Service Requirements</b>			
Fiscal Year	Principal Bonds	Interest Bonds	Total
2011-2012	\$ 7,445,000	\$ 5,109,807	\$ 12,554,807
2012-2013	7,185,000	4,822,229	12,007,229
2013-2014	7,465,000	4,523,730	11,988,730
2014-2015	7,770,000	4,209,505	11,979,505
2015-2016	7,305,000	3,886,381	11,191,381
2017-2021	29,250,000	15,438,792	44,688,792
2022-2026	27,880,000	8,399,886	36,279,886
2027-2031	14,860,000	2,203,476	17,063,476
2032-2033	2,685,000	125,684	2,810,684
	<u>\$ 111,845,000</u>	<u>\$ 48,719,490</u>	<u>\$ 160,564,490</u>
Net unamortized premium and deferral of loss	<u>(267,625)</u>	<u>—</u>	<u>(267,625)</u>
Total	<u>\$ 111,577,375</u>	<u>\$ 48,719,490</u>	<u>\$ 160,296,865</u>

## Note 7. Bond Issues

### Housing and Dining Revenue Bonds, Series 2010

On August 19, 2010, the University issued \$9,140,000 of Housing and Dining Revenue Bonds, Series 2010, with a true interest cost (TIC) of 3.142 percent. These bonds were issued as taxable bonds, utilizing Build America Bonds (BABS). Bond proceeds of \$9,140,000, less bond issuance costs of \$140,000, netted \$9,000,000 for the project described below.

#### Pickerl Hall

Series 2010 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. The renovation will also include technology infrastructure to support LAN and wireless capabilities, fire suppression systems with sprinklers, window replacement, and electrical structural repairs. 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 was completed for fall 2011.

### **Student Fee Bonds, Series O**

On April 7, 2011, the University issued \$8,695,000 of Student Fee bonds, Series O. These bonds were issued as tax-exempt bonds with a true interest cost (TIC) of 4.398 percent. Bond proceeds of \$8,695,000, plus a bond premium of \$11,453, less bond issuance costs of \$206,453, netted \$8,500,000 to be used for the project described below.

### **Scott College of Business Building Renovation**

The proceeds of Series O bonds will be used to finance a portion of the cost of the Scott College of Business Building Renovation project. The project involves the renovation of the former Terre Haute Post Office and Federal Building to the Donald W. Scott College of Business. This facility is an example of Art Deco style, originally constructed to house the U.S. Post Office, Federal Courts, and other federal offices. The General Services Administration (GSA) transferred ownership of the property to the University in 2010. The project includes reconfiguring interior spaces to enable academic programs to function effectively, upgrading infrastructure systems of the building to improve temperature control, enhancing air quality, installing access to information technology systems, and meeting ADA and OSHA standards. The total cost of the project is estimated at \$14.6 million, of which \$8.5 million will be funded with Series O bond proceeds and the remainder from private gifts.

## **Note 8. Lease Payable**

Indiana State University has entered into a capital lease agreement with GE Capital Information Technology Solutions Inc. This is an agreement to lease copiers and printers for the campus of Indiana State University as of June 30, 2011.



<b>Fiscal Year</b>	<b>Lease Payments</b>
2012	\$ 366,330
2013	366,330
2014	366,330
2015	<u>365,906</u>
Total minimum lease payments	\$ 1,464,896
Less amount representing interest	<u>\$ 169,894</u>
Present value of net minimum lease payment	\$ 1,295,002

## Note 9. Termination Benefits Liability

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

The ISU Board of Trustees approved a 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 or 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 elected to retire by June 30, 2010, December 31, 2010 or June 30, 2011, respectively. Individuals who are age 60 or over with 20 years of service may also receive certain post-retirement benefits, if eligible.

One hundred and fifty one employees elected to participate in the Transitional Retirement Incentive Plan. While 59 employees retired during fiscal year 2011, 92 employees had retired by June 30, 2010. The total cost of the 59 employees' retirement incentive pay was \$3,752,173, of which \$3,746,361 had been expensed in fiscal year 2010.

The Retirement Severance Plan is available to eligible faculty and staff who elected 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 two employees who have elected to retire under this plan.

The total cost of these retirements are estimated at \$119,082, with a three percent salary increase assumption and are recorded as a non-current liability, as the retirement dates are beyond June 30, 2012.

The Governmental Accounting Standards Board (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 to 20 weeks, depending on years of service and notification period, in a lump-sum payment. Additional benefits included COBRA health insurance paid at 100 percent by ISU for six months, up to four semesters of employee/spouse fee waiver benefits, up to ten semesters of dependent child fee waivers, and use of the Student Recreation Center. The total cost of this plan was \$668,639. During fiscal year 2011, an additional nine employees were displaced under this plan for a cost of \$124,234.



*Team Sycamore Dragster donated by Moser Engineering*

## Note 10. Risk Management

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

The University retains the risk for medical benefits up to a stop-loss provision of \$225,000 per member. Accrued liabilities for unpaid medical claims as of June 30, 2011, 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 2011 fiscal year are as follows:

Unpaid medical claims, 7/01/10	\$ 4,327,639
Claims incurred	14,792,902
Claims paid	(15,296,433)
Unpaid medical claims, 6/30/11	<u>\$ 3,824,108</u>

## Note 11. Litigation

The University has been named as a defendant in a number of lawsuits. For most of these lawsuits, the final outcome cannot be determined and management is of the opinion that any ultimate outcome will

not have a material effect upon the University's financial position. A workmen's compensation lawsuit that involved an injury of an employee of the University, in which the full worker's compensation board agreed with the assertion that the injury was sustained during a routine activity of daily living and was not employment related, was overturned by the Indiana Court of Appeals. The University has applied for a *writ of certiorari* to the Indiana Supreme Court and awaits a response. The plaintiff's medical costs alone exceed \$500,000, with a total estimated damage of \$1,000,000. Indiana State University's stop-loss amount is \$350,000; any amount over that would be paid by Employers Reinsurance. The University has established a \$350,000 contingent liability as a non-current other liability, as this is not expected to be settled during the next fiscal year.

## Note 12. Funds Held in Custody for Others

Included in the balance Funds Held in Custody for Others are funds held on behalf of the ISU Foundation for Networks as part of Lilly Foundation gift. These funds are currently invested on behalf of the Foundation, with \$2,161,622 classified as a current liability and the remaining \$609,893 classified as a non-current liability.

## Note 13. Pollution Remediation Obligation

To comply with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the University must report a liability for an obligating event. An obligating event occurs when the University commences or legally obligates itself to commence pollution remediation. During fiscal year 2011, Indiana State University worked on pollution remediation in the following locations: the ISU Welcome Center, the Scott College of Business, the Icon building demolition, and further asbestos abatement work in Hulman Center. As of June 30, 2011, these projects had not been completed, leaving an outstanding obligation of \$68,723. The obligation has been classified as a current other liability.

## Note 14. Natural Classifications with Functional Classifications

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

Functional Classification	Compensation and Benefits	Supplies and Materials	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 57,329,921	\$ 5,141,685	\$ —	\$ —	\$ —	\$ 62,471,606
Research	5,620,937	3,697,203	—	—	—	9,318,140
Public service	889,295	530,279	—	—	—	1,419,574
Academic support	9,483,833	5,509,745	—	—	—	14,993,578
Student services	8,253,906	1,755,306	—	—	—	10,009,212
Institutional support	13,619,550	6,355,639	—	—	—	19,975,189
Operation of plant	8,503,686	7,972,583	9,795,059	—	—	26,271,328
Scholarships	1,136,533	57,001	—	8,859,322	—	10,052,856
Auxiliary enterprises	11,211,591	14,971,027	90,420	—	—	26,273,038
Depreciation	—	—	—	—	12,434,670	12,434,670
	<u>\$ 116,049,252</u>	<u>\$ 45,990,468</u>	<u>\$ 9,885,479</u>	<u>\$ 8,859,322</u>	<u>\$ 12,434,670</u>	<u>\$ 193,219,191</u>

## Note 15. 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 \$1,205,735 for the 2011 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 and additional natural gas finds in the western United States and in Canada. There is also a risk that the University is exposed to the failure of the counterparty to fulfill the contract.

## Note 16. Retirement Plans

### Authorization.

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

### Faculty and Exempt Staff

Faculty and executive/administrative/professional employees of the University participate in a defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equity Fund (CREF). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. Beginning July 1, 2010, all TIAA-CREF contributions were converted to a flat 10 percent of base salary for all eligible faculty and exempt staff. For those faculty and exempt staff hired prior to July 1, 2004, the difference between the current amount and the new rate was added to the employee's base salary. For fiscal year 2011, the University made contributions totaling \$5,210,564 to this plan. As of June 30, 2011, there were 806 employees and retirees participating in TIAA/CREF, with annual salaries equal to \$52,057,863.

### Non-exempt Staff

Regular clerical and service staff participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the Board of Trustees of PERF. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The University contributes three percent of the gross earnings to the annuity savings plan. The University also contributed seven percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the fiscal 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, 2011, there were 604 employees participating in PERF with annual salaries equal to \$18,014,760.

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, 2010 and 2009, is presented below. The actuarial methods and significant assumptions used are as follows:

<b>Actuarial cost method:</b>	Entry age normal cost
<b>Asset valuation method:</b>	Smooth market value basis
<b>Investment rate of return:</b>	7.25%
<b>Projected salary increases:</b>	4%
<b>Cost of living increases:</b>	1.5%
<b>Amortization method:</b>	Level dollar closed
<b>Amortization period:</b>	30 years from July 1, 1997

### Net Pension Obligation

	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
Annual required contribution	\$ 1,250,360	\$ 1,137,404
Interest on net pension obligation	(42,431)	(40,783)
Adjustment to annual required contribution	48,354	46,476
Annual pension cost	<u>\$ 1,256,283</u>	<u>\$ 1,143,097</u>
Contributions made	<u>(1,184,771)</u>	<u>(1,165,828)</u>
Increase (decrease) in net pension obligation	\$ 71,512	\$ (22,731)
Net pension obligation, beginning of year	<u>(585,260)</u>	<u>(562,529)</u>
<b>Net pension obligation, end of year</b>	<b><u>\$ (513,748)</u></b>	<b><u>\$ (585,260)</u></b>

### 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)				
7/1/2008	\$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)
7/1/2010	\$17,551	\$26,060	(\$8,509)	67.4%	\$17,523	-48.6%	\$1,256	94.3%	(\$514)

## Note 17. VEBA Trust

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

The trust is funded from reserves set aside in previous years for this purpose, University contributions, employee payroll deductions for post-retirement benefits, and reinvested net earnings. A summary of the activity in the trust for the year ending June 30, 2011, is as follows:

Beginning fund balance 7/1/10 (market value)	\$ 54,024,224
Transfer of employee/employer contributions	2,040,000
Reinvested net earnings	1,444,674
Less: management fees	(75,248)
Realized gain on sale of investments	2,091,008
Unrealized gain on decrease in market value	6,205,992
Market value at June 30, 2011	<u>\$ 65,730,650</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.

<b>VEBA Investment Policy Guideline Diversification</b>			
<b>Asset Class</b>	<b>Target</b>	<b>Minimum</b>	<b>Maximum</b>
Equity	60.0 %	55.0 %	65.0 %
Fixed Income	40.0 %	35.0 %	45.0 %

<b>Actual VEBA Investment Diversification</b>		
	<u>Actual \$</u>	<u>Actual %</u>
Core Equity (indexed)	8,514,827	12.9
Growth Equity	2,780,481	4.2
Value Equity	4,680,139	7.2
Small Cap Equity	1,113,110	1.7
Small Cap Growth Equity	1,526,302	2.3
Small Cap Value Equity	1,326,404	2.0
International Core Equity	6,942,033	10.6
International Emerging Mkts	3,130,737	4.7
Unconstrained	3,332,314	5.1
Fixed Income	29,352,962	44.7
Non-Directional Hedge Fund	3,031,341	4.6
	<u>65,730,650</u>	<u>100.0%</u>

## Note 18. Other Post Employment Benefits

### Plan Description

Beginning January 1, 2010, Indiana State University selected NEBCO, a division of AmWins Group Benefits to administer the post-65 retiree medical plan. This plan replaced the self-insured program for retirees with an insurance policy for which the University's cost is based on premiums instead of claims. All retirees, after reaching the age of 65, are required to participate in the fully insured plan in order to retain the retirement medical benefit. The University's cost is \$231 per month for each plan participant including dental insurance coverage. Retirees pay \$58 or \$83 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 administered 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 University Board of Trustees has the authority to establish and amend provisions to the University plan.

Participant Counts who have Health Care Coverage			
Valuation Date	6/30/09	6/30/10	6/30/11
Active and eligible to retire	111	57	62
Active and not eligible to retire	884	634	571
Total actives	995	691	633
Inactives	1,237	1,276	1,335
Average age			
Actives	52.3	53.0	53.0
Inactives	75.6	74.6	74.8
Average service actives	15.3	16.0	16.6

### Funding Policy

The contribution requirements of plan members for the Indiana State University Retirement Health-care 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, 2011, the total contribution to the plan was \$6.2 million, with the University contributing \$3.9 million for current premiums and \$2 million contributed to the VEBA. Plan members receiving benefits contributed \$0.3 million, based on the required contribution rates as follows:

Participants' Monthly Contributions:		
	Retiree Only	Retiree and Spouse
Under age 65		
Salary under \$27,000	\$117	\$262
Salary greater than \$27,000 and less than \$77,000	\$143	\$336
Salary \$77,000 and over	\$176	\$380
Age 65 and over (AmWins-Nebco fully Insured)		
Option 1	\$ 58	\$116
Option 2	\$ 83	\$166

### Annual OPEB Cost and Net OPEB Obligation

The University's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities

(or funding excess) over a period not to exceed 30 years. The following table shows the components of the University's annual OPEB cost for fiscal years 2010 and 2011, the amount actually contributed to the plan, and changes in the University's net OPEB obligation to the plan:

<b>GASB 45 ARC and Annual Expense</b>	<b>2010</b>	<b>2011</b>
Annual required contribution	\$ 4,558,822	\$ 2,548,416
Interest on net OPEB obligation	(68,205)	(226,573)
Adjustment to annual required contribution	82,583	274,338
Annual OPEB cost	<u>\$ 4,573,200</u>	<u>\$ 2,596,181</u>
Contributions made	(7,212,671)	(5,923,577)
Decrease in net OPEB obligation	\$ (2,639,471)	\$ (3,327,396)
Net OPEB obligation (asset), beginning of year	\$ (1,136,746)	\$ (3,776,217)
Net OPEB obligation (asset), end of year	\$ (3,776,217)	\$ (7,103,613)

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

<b>Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Asset</b>
6/30/11	\$2,596,181	228.20 %	\$7,103,613
6/30/10	\$4,573,200	157.79 %	\$3,776,217
6/30/09	\$5,779,000	119.10 %	\$1,136,746

### Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 87 percent funded. The actuarial accrued liability for benefits was \$75.3 million, and the actuarial value of assets was \$65.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$40.5 million, and the ratio of the UAAL to covered payroll was 23.7 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

	<b>Actuarial Valuation of Plan Assets (a)</b>	<b>Accrued Liability (b)</b>	<b>Underfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>Unfunded AL as a Percentage of Covered Payroll ((b-a)/c)</b>
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%
6/30/2011	\$ 63,730,650	\$ 75,312,342	\$ 9,581,692	87%	\$ 40,482,648	23.7%

## Actuarial Methods and Assumptions

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

### Actuarial Assumptions

Valuation and measurement date	June 30, 2011
Participant data	June 30, 2011
Discount rate	6%
Mortality	RP 2000 Mortality Table Healthy Lives
Remaining amortization period	26 years remaining as of June 30, 2011

### Health Care Trend Rates

FYE	Medical/Rx		Dental
	Pre-65	Post-65	
2012	10.00%	7.00%	6.00%
2013	9.00%	6.75%	6.00%
2014	8.00%	6.50%	6.00%
2015	7.50%	6.25%	6.00%
2016	7.00%	6.00%	6.00%
2017	6.50%	5.75%	6.00%
2018	6.00%	5.50%	6.00%
2019	5.50%	5.25%	6.00%
2020+	5.00%	5.00%	6.00%

### Methods

Actuarial cost method	Projected Unit Credit with Linear Proration to Decrement Age
Assets method	Market value
Amortization method	30 year level dollar
Accounting method	Unit credit
Actuarial gains/losses	Reflected immediately in cost method.

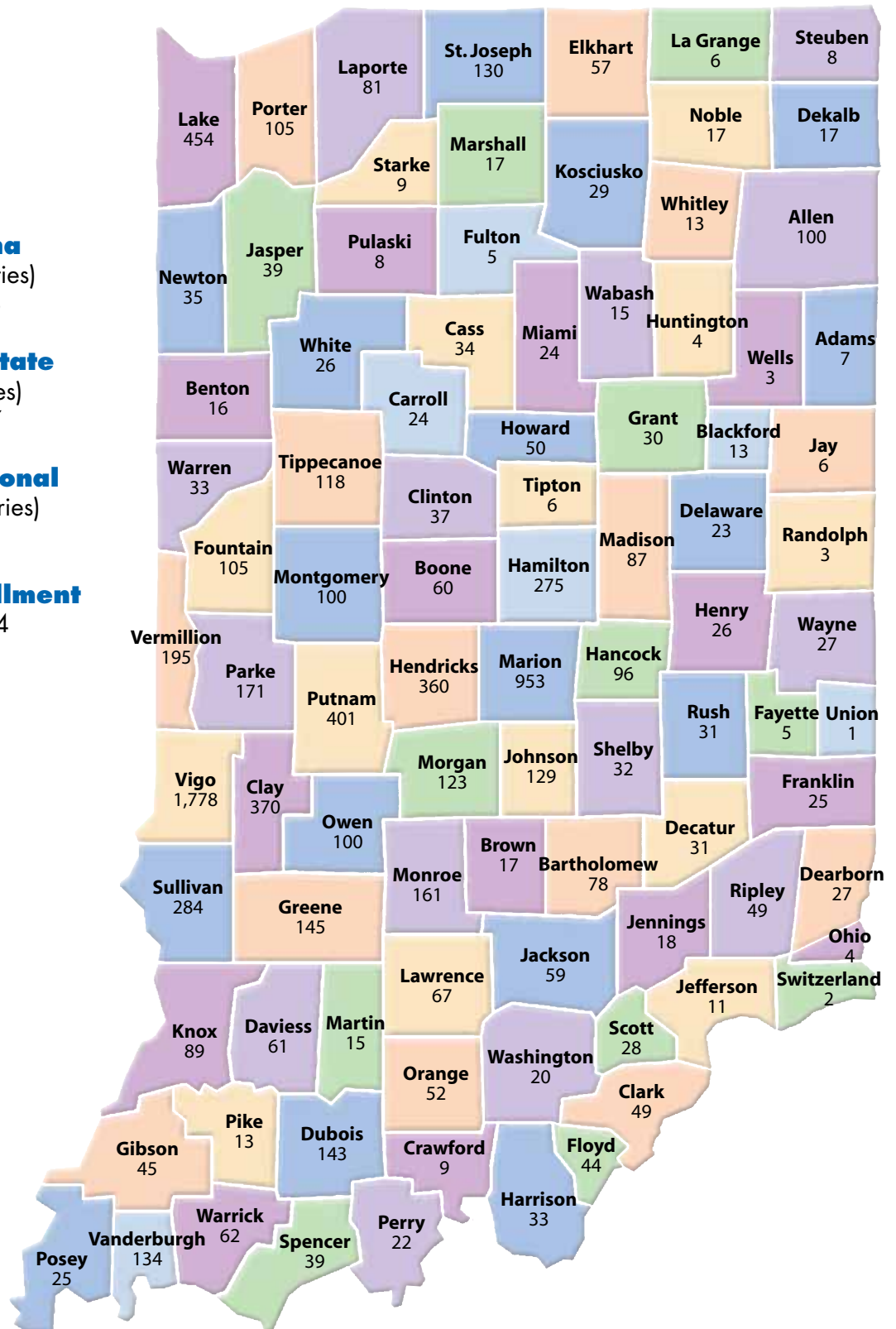
# Home Counties of Indiana State Students (Fall 2010) Unaudited

**Indiana**  
(92 counties)  
8,888

**Out-of-State**  
(49 states)  
2,067

**International**  
(62 countries)  
539

**Total Enrollment**  
11,494



## Board of Trustees

as of June 30, 2011

Ron D. Carpenter  
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  
Terre Haute, Indiana  
Term expires 2013

Tanya R. Bell  
Carmel, Indiana  
Term expires 2012

Matthew Huckleby  
Greentown, Indiana  
Term expires 2011

Edward A. Pease  
Terre Haute, Indiana  
Term expires 2012

George E. Pillow  
Indianapolis, Indiana  
Term expires 2011

### **Additional copies of the 2011 Financial Report may be obtained from:**

Office of the Controller, Parsons Hall, Room P115,  
Indiana State University, Terre Haute, Indiana 47809  
812-237-3513 • [www.indstate.edu/controller/](http://www.indstate.edu/controller/)

## University Officials

as of June 30, 2011

Daniel J. Bradley  
President of the University

C. Jack Maynard  
Provost and Vice President for  
Academic Affairs

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

Carmen Tillery  
Vice President for Student Affairs  
and Dean of Students

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

### **For Additional Information:**

#### **Admissions**

Office of Admissions  
218 North Sixth Street  
Indiana State University  
Terre Haute, Indiana 47809  
812-237-2121

#### **Alumni**

Office of Alumni Affairs  
30 North Fifth Street  
Terre Haute, Indiana 47809  
1-800-258-6478

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ISU Foundation  
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More. *From day one.*