

Financial Report

2003-2004



**Indiana State
University**

More. From day one.



Greetings,

I am pleased to present the Indiana State University financial report for the fiscal year ended June 30, 2004. The Financial Statements, along with accompanying notes and the Management Discussion and Analysis, are contained in the following pages of this report. These statements have been prepared in accordance with guidelines established by the Government Accounting Standards Board (GASB) and have been audited by the State Board of Accounts of Indiana. Despite the state's challenging economic climate, Indiana State University again completed the year ahead of its financial targets, increasing net assets and contributing to the continued good health of the institution.

As you review the following pages, you will note that for the first time, the Financial Statements for the Indiana State University Foundation (ISU Foundation) are also included in this Financial Report. The provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, now require the incorporation of component unit financial statements into the Financial Report of the University. Component units, such as the ISU Foundation, are organizations that raise and hold funds for the direct benefit of the University. These statements are included with the intent that the reviewer of this financial report might have a better understanding of the University's overall financial health. I wish to thank Vice President Gregg Floyd and his colleagues Jeff Jacso and Diann McKee for their work in the budgeting and financial areas, and for ensuring our institution's sound fiscal stewardship.

I hope that you will take the time to review the Management Discussion and Analysis as well as the Notes included with the Financial Statements. I believe that they provide helpful information to better understand the financial health of our University. Our University has many exciting initiatives underway to bolster preeminent academic programs, provide experiential learning opportunities for our students, and maintain a civically engaged academic community. As we chart our course to prominence during these economically challenging times, we are mindful of our responsibilities to our students, employees, citizens, and state lawmakers to prudently manage the resources of our University. I believe this financial report reflects our success in meeting these responsibilities, while enhancing the quality of our academic programs. We are grateful to all who support us in this honorable charge.

Sincerely,

Dr. Lloyd W. Benjamin III
President





STATE OF INDIANA
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Indiana State University, a component unit of the State of Indiana, as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. The financial statements of this component unit were audited by another auditor whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana State University, as of June 30, 2004 and 2003, 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 14, 2004, on our consideration of Indiana State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

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

STATE BOARD OF ACCOUNTS

October 14, 2004

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 2003-2004 fiscal year ended June 30, 2004. This overview is required by 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 restated 2002-2003 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 47 departmental units in six colleges, a school, and various divisions. Located in Terre Haute, Indiana with 11,360 students, the University contributes to the state, the nation, and the world through related research and public service programs.

Financial Highlights

The University's financial position continues to be strong with an increase in net assets of \$2.3 million for the fiscal year ending June 30, 2004. This continues a positive financial trend and adds to the increase of \$5.9 million in the fiscal year ending June 30, 2003.

Operating revenues for the fiscal year were \$93.6 million, as compared with \$87.1 million for fiscal year 2003, an increase of 7.5 percent. The positive operating results included net student fee revenue increases of \$3.8 million due to a \$500 a semester tuition increase for new students. This is the first year of the



four-year phase-in of this tuition increase. Growth of \$1.4 million in the grants and contracts area (which includes student financial aid) also contributed to the positive operating results.

Other operating revenues increased by \$1.1 million as Indiana State University Foundation reimbursements grew due to the establishment of Indiana State University NetWorks. Indiana State University received a \$20 million grant from the Lilly Endowment Inc. administered through the Indiana State University Foundation. The four-year grant gave Indiana State University the resources to create NetWorks, an outreach of the Indiana State University College of Business, to provide new direction in financial services for Indiana, the nation, and the world. The offsetting effect of this increase in other operating revenues is a corresponding increase in operating expense, which primarily affected salary and benefits.

Operating expenses were \$177.7 million for fiscal year 2004. This represents a \$5.3 million or 3.1 percent

increase over the previous year's expenditures of \$172.4 million. This change principally results from increases in compensation and benefits of \$6.2 million or 5.8 percent.

Nonoperating revenues declined by \$2.3 million from \$86.6 million in fiscal year 2002-2003 to \$84.3 million in fiscal year 2003-2004. The majority of the decrease was the result of a \$3.9 million reduction of investment income due to the market pressures on bond prices.

Other nonoperating revenues increased by \$1.3 million and returned to normal levels in 2003-2004 due to the Power Plant write-off in fiscal year 2003. In addition, Indiana State University Foundation reimbursements increased by \$.5 million for University activities in fiscal year 2004.

The State of Indiana restored only a minor portion of the annual capital appropriations for repairs and renovations in the 2003-2004 fiscal year, resulting in an increase of \$.5 million from the 2002-2003 fiscal year in which



the University received no state appropriations due to state fiscal problems.

Indiana State University did receive over \$1.5 million in capital grants and gifts, including a \$.5 million gift of a building from the Indiana State University Foundation for the establishment of a business development center, a \$.5 million payment from Sodexo for the remodeling of the Indiana State University Commons food court, and the final grant funding for the Landsbaum Center for Health Education.

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 current operations, such as cash and cash equivalents, accounts receivable,

and inventories. Current liabilities are those items which are estimated to become due and payable over the next fiscal year. Noncurrent assets include capital assets, certain receivables, and long-term investments. Noncurrent liabilities include long-term bonds and notes payable.

The Statement of Revenues, Expenses, and Changes in Net Assets summarizes financial performance for the year, which produces 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.

Included in this year's financial statement presentation are the Indiana State University Foundation's statements. GASB Statement No. 39 required Indiana State University to include the financial statements of component units. As of June 30, 2004, the Indiana State University Foundation is the only component unit to be included. The Foundation is a nonprofit organization that reports under the Financial Accounting Standards Board (FASB); as such, certain revenue recognition criteria and presentation

features are different from established GASB standards. No modifications have been made to the Indiana State University Foundation's financial information in the University's financial reporting presentation for these differences.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities is the net assets, which is one indicator 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, 2004 and 2003 is as follows:

Statement of Net Assets (in millions)

	2004	2003
Current assets	\$50.6	\$55.9
Noncurrent assets:		
Deposits with bond trustee	3.6	3.9
Notes receivable	5.9	5.8
Other long-term investments	45.1	43.7
Capital assets, net	217.0	218.0
Other	0.8	0.8
Total assets	<u>\$323.0</u>	<u>\$328.1</u>
Current liabilities	24.7	25.6
Noncurrent liabilities	63.0	69.5
Total liabilities	<u>\$87.7</u>	<u>\$95.1</u>
Net assets	<u><u>\$235.3</u></u>	<u><u>\$233.0</u></u>

Current assets consist primarily of cash, operating investments, and accounts receivable, which totaled \$50.6 million at June 30, 2004, as compared to \$55.9 million at June 30, 2003. The reduction of current assets of \$5.3 million is due to an \$1.4 million increase in long-term investments, increases in capital assets, and payments of \$7.3 million for debt service requirements. Short-term investments for current operations totaled \$.6 million at June 30, 2004, and \$4.2 million at June 30, 2003. Accounts receivable net of allowance for bad debt was \$10.7 million at June 30, 2004, and \$11.9 million at June 30, 2003. Accounts receivable for the two fiscal years include one month's state appropriation (representing \$6.5 million), which the State of Indiana began withholding in fiscal year 2001-2002 due to state budget problems.

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portion of long-term debt. Total current liabilities decreased from \$25.6 million at June 30, 2003 to \$24.8 million at June 30, 2004.

Capital and Debt Activities

An important element in the continuing quality of academic programs, research activities, and student residential life is to sustain 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.

Construction on the \$7.6 million Landsbaum Center for Health Education was completed during the fall of 2003. The new center is a model cooperative partnership between Union Hospital's Midwest Center for Rural Health, the Indiana State University College of Nursing, and the Indiana University School of Medicine, with the partners sharing in the costs of the project and the future operations. The 34,000-square-foot building incorporates the latest technology and includes a 150-seat lecture hall,



classrooms, examination rooms, study areas, and offices.

A gift of a \$.5 million building from the Indiana State University Foundation was received by the University in January 2004. This gift will allow Indiana State University, through the College of Business, to establish a business development center to serve as a business incubator that will spur economic growth opportunities for southwestern Indiana.

A subsequent event deemed to be significant was the Indiana State University's Board of Trustees issuance of \$30.2 million of Student Service Fee, Series K bonds, with a closing date of July 20, 2004 for this bond issue. Included in this bond issue was a \$4.5 million renovation of Stalker Hall, \$2.2 million in planning funds for facilities for the College of Education and the College of Business, and the \$23.8 million

refinancing of Student Service Fee Series H bonds.

The University continues to work aggressively to manage its financial resources effectively, including the issuance of debt to finance capital projects. The University's latest credit rating by Moody's Investors Service was (Aaa) while Standard & Poor's credit rating was (AAA) on the insured Series K bond issue. The underlying credit rating of Indiana State University by Moody's was (A2) and Standard & Poor's was (A).

Net Assets

Net assets represent the residual value of the University's assets after liabilities are deducted. The University's net assets at June 30, 2004 and 2003 are summarized in the chart that follows:

Net Assets (in millions)	2004	2003
Invested in capital assets, net of related debt	\$149.3	\$142.9
Restricted		
Nonexpendable	0.8	0.8
Expendable	15.2	17.8
Unrestricted	70.0	71.5
Total Net Assets	\$235.3	\$233.0



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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2004 and 2003 is as follows:



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

	2004	Restated 2003
Operating revenues:		
Tuition and fees (net of scholarship allowances \$18.9 million for 2004 and \$16.2 million for 2003)	\$35.1	\$31.3
Grants and contracts	29.1	27.6
Auxiliary enterprises fees and services (net of scholarship allowances of \$4.7 million for 2004 and \$4.4 million for 2003)	25.0	24.8
Other	4.5	3.4
Total operating revenues	<u>\$93.7</u>	<u>\$87.1</u>
Operating expenses	(177.7)	(172.4)
Operating loss	<u>(\$84.0)</u>	<u>(\$85.3)</u>
Nonoperating revenues (expenses):		
State appropriations	84.9	85.0
Investment income (net of investment expenses of \$113,076 for 2004 and \$115,770 for 2003)	0.5	4.4
Capital appropriations	0.5	0.0
Capital grants and gifts	1.5	4.6
Other nonoperating revenues	2.5	1.1
Interest on Capital Asset Related Debt	(3.6)	(3.9)
Net nonoperating revenues	<u>\$86.3</u>	<u>\$91.2</u>
Increase in net assets	\$2.3	\$5.9
Net assets, beginning of year	<u>233.0</u>	<u>227.1</u>
Net assets, end of year	<u>\$235.3</u>	<u>\$233.0</u>

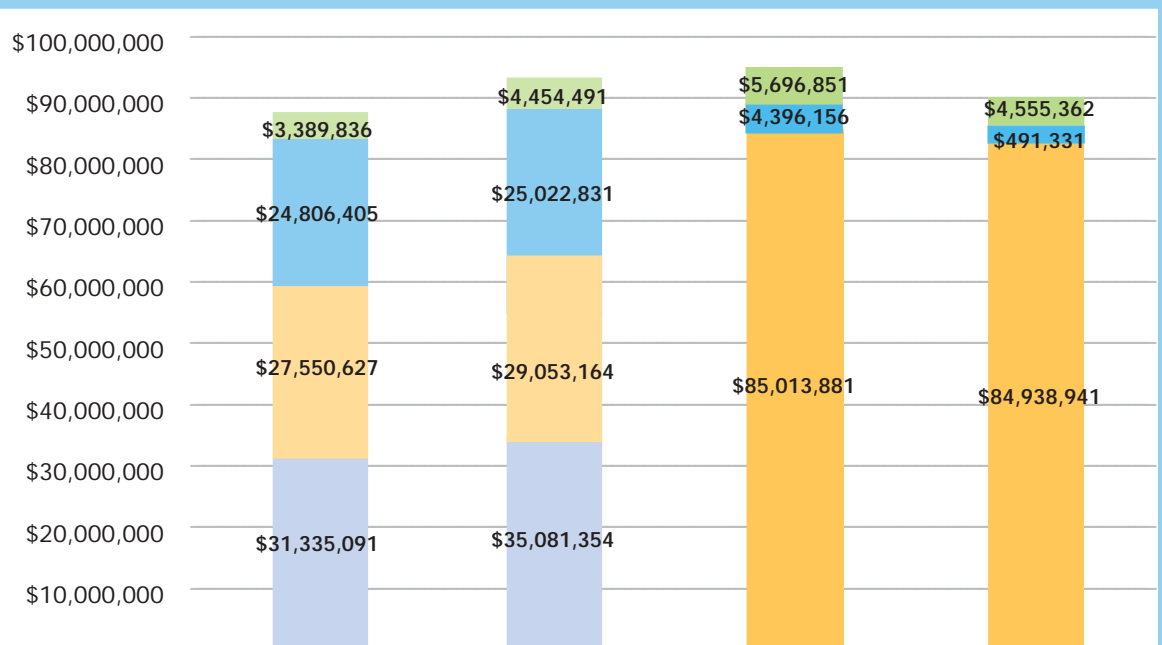
One of the University's greatest strengths is its diverse stream of revenues that supplement student fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. The University will continue to aggressively seek funding to

supplement student tuition from all possible sources consistent with its mission and will manage the financial resources realized from these efforts to fund operating priorities.

Below is a comparative graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the University's ongoing

activities. As the chart below 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 nonoperating revenues.

Revenues by Source (operating and nonoperating)



	Operating 2003	Operating 2004	Nonoperating 2003	Nonoperating 2004
Other nonoperating capital revenues			\$5,696,851	\$4,555,362
Investment income			\$4,396,156	\$491,331
State appropriations			\$85,013,881	\$84,938,941
Other operating revenues	\$3,389,836	\$4,454,491		
Auxiliary enterprises fees and services, net	\$24,806,405	\$25,022,831		
Federal, state, and local grants and contracts	\$27,550,627	\$29,053,164		
Tuition and fees, net	\$31,335,091	\$35,081,354		

Operating revenue grew by \$6.5 million for fiscal year 2004. This was due in part to a \$3.8 million increase in tuition and fees resulting from increased tuition rates. Additionally, grant and contract revenues grew by \$1.5 million during fiscal year 2004 as the result of increases in state and federal student aid and continuing recognition of a portion of the \$4.3 million Lilly Cape grant.

Total nonoperating revenues declined by \$5.0 million for fiscal year 2004 due to a \$3.9 million decrease in investment income and capital grants and gifts of \$6.0 million for the Landsbaum Center for Health Education received in fiscal year 2003.

Indiana State University is aggressively pursuing ways to diversify revenue sources while containing costs. The University continues to face significant financial pressure, particularly in the area of reaching market level compensation and benefits, representing 63 percent of total expenses, as well as areas including technology, repairs and renovations of campus facilities, and increasing energy costs.

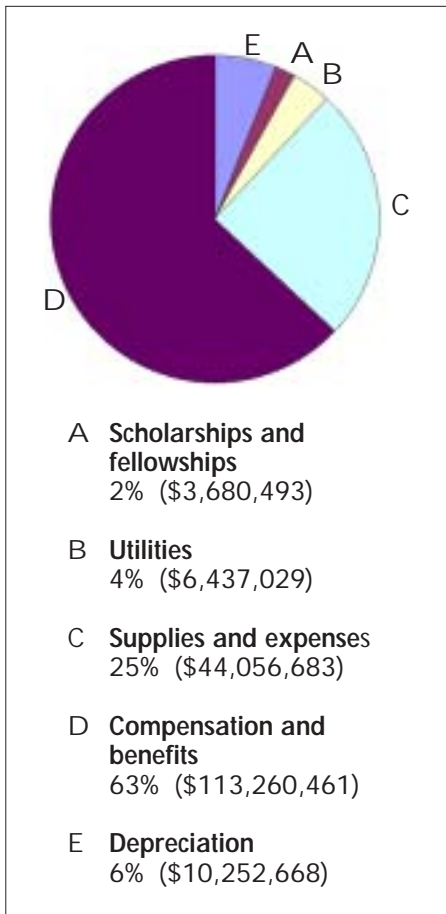
A comparative summary of the University's expenses for the years ended June 30, 2004 and 2003 is as follows:



Operating Expenses (in millions)

	2004	Restated 2003
Operating:		
Compensation and benefits	\$113.2	\$107.1
Supplies and expenses	44.1	43.4
Utilities	6.4	6.2
Scholarships and fellowships	3.7	3.7
Depreciation	10.3	12.0
	<u>177.7</u>	<u>172.4</u>
Nonoperating:		
Interest on capital related debt	3.6	3.9
	<u>3.6</u>	<u>3.9</u>
Total expenses	<u><u>\$181.3</u></u>	<u><u>\$176.3</u></u>

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



Operating expenditures increased from \$172.4 million in fiscal year 2003 to \$177.7 million in fiscal year 2004. Compensation and benefits increased by \$6.2 million, bringing the total compensation and benefits expense to \$113.3 million in fiscal year 2004.

Supplies and expenses increased from \$43.4 million in 2003 to \$44.1 million in 2004, a 1.6 percent increase, while utilities increased by \$.2 million, a 3.2 percent increase.

Depreciation expense declined by \$1.7 million in 2004, due to equipment write-offs and assets becoming fully depreciated.

In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the years ended June 30, 2004 and 2003 is as follows:

Expenses by Function (in millions)

	2004	Restated 2003
Operating:		
Instruction	63.9	60.4
Research	11.1	10.7
Public service	1.3	.9
Institutional and academic support	31.0	28.2
Student services	9.0	7.6
Auxiliary enterprises	23.9	24.3
Operations and maintenance of plant	22.9	24.0
Depreciation	10.2	12.0
Scholarships and fellowships	4.4	4.3
Total expense	\$177.7	\$172.4



Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by measuring the major sources and uses of cash. The statement assists the reader in assessing 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, 2004 and 2003 is shown in the chart to the right.

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. Funds invested in the Common Fund are considered cash equivalents.

The University decreased the net cash used in operating activities by \$.7 million to \$74.6 million for the 2004 fiscal year. The outflow of cash for operations increased by \$14.0 million as a result of increases in employee compensation expenses of \$8.7 million, refunds to students of Stafford Loan proceeds not applied to tuition charges of \$.5 million, and payments made to suppliers of \$4.8 million (primarily for the Landsbaum Center for Health Education building and non-capital improvements). Cash outflows were offset by increased cash inflows of \$14.7 million, primarily from an \$8.6 million increase in tuition and fees, which included room and board charges. Grants and contracts cash flow increased by \$2.8 million due to increased federal and state financial aid. Student loans collected increased by \$1.0 million, and other receipts increased by \$1.7 million, primarily due to the ISU NetWorks start-up. Overall, cash and cash equivalents decreased by \$.1 million for fiscal year 2003-2004, while long-term investments grew by \$1.4 million.

Statement of Cash Flows (in millions)

	2004	Restated 2003
Cash received from operations	\$120.3	\$105.6
Cash expended for operations	(194.9)	(180.9)
Net cash used in operating activities	(74.6)	(75.3)
Net cash provided by noncapital financing activities	87.9	86.9
Net cash provided by investing activities	3.1	2.1
Net cash used in capital and related financing activities	(16.5)	(16.3)
Net increase in cash and cash equivalents	(0.1)	(2.6)
Cash and cash equivalents, beginning of year	35.3	37.9
Cash and cash equivalents, end of year	\$35.2	\$35.3

Economic Factors Affecting the Future

The University is providing an environment that both challenges and educates its students. This unique mix is contributing to the University's growth with more students selecting Indiana State University as the college of choice. Enrollment declined for the first time in five years by 2.3 percent; however, graduate enrollment grew by 28 students. The University has also made a concerted effort to increase enrollment standards by reducing conditionally admitted students, thus increasing the potential retention rate of the student body.

The financial condition of the University is excellent. The aggressive pursuit of new sources of revenue while containing expenditures is contributing to the financial success of the University.

As indicated earlier, 48 percent of support for educational programs comes to the University from the State of Indiana. The state appropriation is the largest single source of revenue and a crucial element of the University's total revenue stream. The state continues to experience revenue shortfalls due to a slow economy.

With a reduction in state support for education coupled with limited funding for maintenance and improvements to the buildings, the University is challenged to develop and identify sources of funding. However, the University's very attractive fee structure relative to other state schools allows for continued fee growth, if permitted by governing entities, while remaining an exceptional value within the state's higher education climate. The University will continue to seek ways to diversify revenue streams to constrain the pressure to increase student fees.

While it is not possible to reliably predict the state's ability to provide support, Indiana State University's management is confident that the University's financial condition is strong and will meet all foreseeable economic requirements.

Indiana State University
Comparative Statement of Net Assets
6/30/2004 and 6/30/2003

ASSETS	2004	2003
Current assets		
Cash and cash equivalents	\$ 35,232,710	\$ 35,289,693
Short-term investments	560,688	4,201,733
Accrued interest	568,468	872,187
Accounts receivable (net of allowance of \$3,784,549 for 2004 and \$3,721,164 for 2003)	10,695,208	11,915,726
Grants receivable	1,474,157	1,579,124
Notes receivable, current portion	1,436,607	1,509,078
Prepaid expenses	420,700	373,259
Inventories	187,294	188,037
Total current assets	<u>\$ 50,575,832</u>	<u>\$ 55,928,837</u>
Noncurrent assets		
Endowment investments—held in trust	\$ 768,508	\$ 818,433
Deposits with bond trustee	3,626,681	3,887,900
Notes receivable, noncurrent portion (net of allowance of \$741,764 for 2004 and \$743,204 for 2003)	5,918,339	5,836,017
Other long-term investments	45,100,469	43,718,995
Capital assets, (net of accumulated depreciation of \$193,497,106 for 2004 and \$187,537,748 for 2003)	217,043,506	217,959,997
Total noncurrent assets	<u>\$ 272,457,503</u>	<u>\$ 272,221,342</u>
Total assets	<u>\$ 323,033,335</u>	<u>\$ 328,150,179</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 2,660,887	\$ 2,691,412
Accrued payroll and deductions	5,539,330	4,833,225
Deferred revenue	2,226,184	4,054,973
Funds held in custody for others	602,760	659,275
Other liabilities	3,840,246	3,581,363
Bonds payable	5,280,000	5,040,000
Notes payable	1,000,000	2,331,709
Long-term liabilities, current portion (Note 5)	3,601,425	2,456,756
Total current liabilities	<u>\$ 24,750,832</u>	<u>\$ 25,648,713</u>
Noncurrent liabilities		
Bonds payable	\$ 57,125,000	\$ 62,405,000
Notes payable	4,315,000	5,315,000
Compensated absences	957,926	777,287
Other liabilities (Note 16)	580,169	1,000,000
Total noncurrent liabilities	<u>\$ 62,978,095</u>	<u>\$ 69,497,287</u>
Total liabilities	<u>\$ 87,728,927</u>	<u>\$ 95,146,000</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 149,323,506	\$ 142,868,288
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	768,508	818,433
Expendable:		
Research and other grants	487,151	1,257,104
Capital projects	4,998,383	6,259,965
Loans	9,479,108	9,373,372
Debt service	223,738	932,141
Unrestricted	70,024,014	71,494,876
Total net assets	<u>\$ 235,304,408</u>	<u>\$ 233,004,179</u>

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

Indiana State University Foundation, Inc.
Statement of Financial Position

JUNE 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash	\$ 455,707	\$ 2,041,663	\$ —	\$ 2,497,370
Investments—at market	6,274,560	16,974,808	41,422,461	64,671,829
Assets held in trusts, interest in trusts, and split interest agreements	—	328,496	2,532,769	2,861,265
Grants, pledges, bequests, and accounts receivable	374,407	8,550	882,119	1,265,076
Investment income receivable	13,417	243,731	—	257,148
Land and property held for future use or sale	397,982	—	100,000	497,982
Equipment and furniture (net of accumulated depreciation of \$47,996 in 2004 and \$34,210 in 2003)	57,254	—	—	57,254
Other assets	9,738	329,380	250,000	589,118
Due to/from other funds	<u>(4,064,193)</u>	<u>5,170,534</u>	<u>(1,106,341)</u>	<u>—</u>
Total assets	<u>\$ 3,518,872</u>	<u>\$ 25,097,162</u>	<u>\$ 44,081,008</u>	<u>\$ 72,697,042</u>
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 173,081	\$ 162,985	\$ —	\$ 336,066
Scholarships payable	—	1,250	—	1,250
Present value of liability under split interest agreements	95,041	135,505	646,954	877,500
Due to Indiana State University	1,033	250	767,226	768,509
Refundable advances	—	—	683,888	683,888
Total liabilities	<u>269,155</u>	<u>299,990</u>	<u>2,098,068</u>	<u>2,667,213</u>
Net assets	<u>3,249,717</u>	<u>24,797,172</u>	<u>41,982,940</u>	<u>70,029,829</u>
Total liabilities and net assets	<u>\$ 3,518,872</u>	<u>\$ 25,097,162</u>	<u>\$ 44,081,008</u>	<u>\$ 72,697,042</u>

Indiana State University
Statement of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2004 and June 30, 2003

	2004	Restated 2003
OPERATING REVENUES		
Tuition and fees (net of scholarship allowances of \$18,894,027 for 2004 and \$16,188,236 for 2003)	\$ 35,081,354	\$ 31,335,091
Federal grants and contracts	12,410,742	12,030,334
State and local grants and contracts	10,766,688	10,221,557
Nongovernmental grants and contracts	5,875,734	5,298,736
Auxiliary enterprises fees and services (net of scholarship allowances of \$4,701,025 for 2004 and \$4,397,324 for 2003)	25,022,831	24,806,405
Other operating revenues	4,454,491	3,389,836
Total operating revenues	<u>\$ 93,611,840</u>	<u>\$ 87,081,959</u>
EXPENSES		
Compensation and employee benefits	\$ 113,260,461	\$ 107,080,924
Supplies and expenses	44,056,683	43,366,063
Utilities	6,437,629	6,247,134
Scholarships and fellowships	3,680,493	3,697,784
Depreciation	10,252,668	11,981,149
Total operating expenses	<u>\$ 177,687,934</u>	<u>\$ 172,373,054</u>
Operating loss	<u>\$ (84,076,094)</u>	<u>\$ (85,291,095)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 84,938,941	\$ 85,013,881
Gifts	625,302	491,686
Investment income (net of investment expenses of \$113,076 for 2004 and \$115,770 for 2003)	491,331	4,396,156
Interest on Capital Asset Related Debt	(3,609,311)	(3,919,462)
Other nonoperating revenues	1,888,551	590,534
Net nonoperating revenues	<u>\$ 84,334,814</u>	<u>\$ 86,572,795</u>
Income before other revenues, expenses, gains, or losses	<u>\$ 258,720</u>	<u>\$ 1,281,700</u>
Capital appropriations	\$ 515,334	\$ —
Capital grants and gifts	1,526,175	4,614,631
Total other revenues	<u>\$ 2,041,509</u>	<u>\$ 4,614,631</u>
Increase in Net Assets	<u>\$ 2,300,229</u>	<u>\$ 5,896,331</u>
NET ASSETS		
Net assets—beginning of year	\$ 233,004,179	\$ 227,107,848
Net assets—end of year	<u>\$ 235,304,408</u>	<u>\$ 233,004,179</u>

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

Indiana State University Foundation, Inc.
Statement of Activities

Year ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	\$ 976,776	\$ 993,002	\$ 2,550,906	\$ 4,520,684
Lilly Endowment grants	29,858	1,571,245	19,674	1,620,777
Investment income				
Interest and dividends				
Trust and temporary investments	127,293	1,364,241	—	1,491,534
Net appreciation (depreciation)				
in fair value of investments	(64,571)	(501,014)	5,171,121	4,605,536
Non-gift income	28,921	194,850	92,337	316,108
Change in value of split interest agreements	(9,700)	6,402	(12,656)	(15,954)
Service fee income—				
Indiana State University	410,644	—	—	410,644
In kind support	—	120,350	—	120,350
	<u>1,499,221</u>	<u>3,749,076</u>	<u>7,821,382</u>	<u>13,069,679</u>
Net assets released from restriction				
Satisfaction of donor restriction	5,093,043	(5,093,043)	—	—
Total revenues	<u>6,592,264</u>	<u>(1,343,967)</u>	<u>7,821,382</u>	<u>13,069,679</u>
Expenses				
Scholarships and awards	1,972,382	—	—	1,972,382
Restricted and designated expenditures	3,407,947	—	—	3,407,947
Grants for academic and other University projects	1,191,465	—	—	1,191,465
Foundation operational expenditures	1,013,190	—	—	1,013,190
Development and advancement— fund raising	1,366,463	—	—	1,366,463
Total expenses	<u>8,951,447</u>	<u>—</u>	<u>—</u>	<u>8,951,447</u>
	(2,359,183)	(1,343,967)	7,821,382	4,118,232
Transfers				
Investment income allocated	491,451	1,056,250	(1,547,701)	—
Endowment administration fee	605,116	(605,116)	—	—
To establish endowments	(150)	(283,415)	283,565	—
Gift assessments	503,590	(194,919)	(308,671)	—
	<u>1,600,007</u>	<u>(27,200)</u>	<u>(1,572,807)</u>	<u>—</u>
Increase (decrease) in net assets	<u>\$ (759,176)</u>	<u>\$ (1,371,167)</u>	<u>\$ 6,248,575</u>	<u>\$ 4,118,232</u>

Indiana State University
Statement of Cash Flows
For the Years Ended June 30, 2004 and June 30, 2003

	2004	Restated 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 45,429,454	\$ 36,761,474
Grants and contracts	26,601,240	23,848,032
Auxiliary enterprises	5,113,447	4,605,343
Payments to suppliers	(57,331,638)	(52,510,539)
Net pay to employees	(57,423,743)	(54,780,375)
Payments on behalf of employees	(59,225,127)	(53,178,890)
Payments made to students	(20,971,799)	(20,440,038)
Student loans collected and received	34,079,746	33,048,123
Other receipts	9,091,927	7,360,296
Net cash used in operating activities	<u>\$ (74,636,493)</u>	<u>\$ (75,286,574)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 84,945,724	\$ 84,928,231
Gifts and other nonoperating income	2,957,928	1,951,462
Net cash provided by noncapital financing activities	<u>\$ 87,903,652</u>	<u>\$ 86,879,693</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	\$ 515,334	\$ —
Capital gifts and grants received	2,248,577	3,784,799
Repair and replacement funds—drawdown from bond trustee	501,364	194,646
Cash paid for capital assets	(8,533,320)	(9,595,090)
Principal and interest paid on capital debt and leases	(11,207,693)	(10,717,172)
Net cash used in capital financing activities	<u>\$ (16,475,738)</u>	<u>\$ (16,332,817)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 2,002,506	\$ —
Interest and dividends on investments, net expenses	2,958,191	3,405,187
Purchase of investments	(1,809,101)	(1,230,490)
Net cash provided by investing activities	<u>\$ 3,151,596</u>	<u>\$ 2,174,697</u>
Net decrease in cash for year	<u>\$ (56,983)</u>	<u>\$ (2,565,001)</u>
Cash—beginning of year	\$ 35,289,693	\$ 37,854,694
Cash—end of year	<u>\$ 35,232,710</u>	<u>\$ 35,289,693</u>

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

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating loss	\$ (84,076,094)	\$ (85,291,095)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	10,252,668	11,981,149
Changes in assets and liabilities		
Accounts receivable *	(875,893)	(856,075)
Grants receivable	104,967	(138,202)
Notes receivable	72,471	(361,383)
Inventories	743	7,951
Prepaid expenses	(47,441)	13,643
Accounts payable	(30,525)	106,697
Accrued payroll and deductions	706,105	16,280
Deferred revenue	(1,828,789)	(1,715,361)
Funds held in custody for others	(56,515)	(266,280)
Other liabilities	258,883	207,054
Compensated absences	302,758	9,048
Contingent/Other liabilities	580,169	1,000,000
Net cash used by operating activities	<u>\$ (74,636,493)</u>	<u>\$ (75,286,574)</u>

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

Indiana State University Foundation, Inc.
Statement of Cash Flows

	Year Ended June 30, 2004
Cash flows from operating activities:	
Change in net assets	\$ 4,118,232
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	15,716
(Gain) loss on disposal of assets	—
Net (appreciation) depreciation in fair value of investments	(4,605,536)
Reinvestment of certificate of deposit earnings	(1,220)
Gift of trusts held by third parties and charitable remainder trusts	(614,704)
Change in value of accounts due to Office of the Controller	(49,924)
Changes in assets and liabilities:	
Grants, pledges, bequests, and accounts receivable	1,855,292
Investment income receivable	(41,972)
Other assets	(9,738)
Accounts payable	185,605
Scholarships payable	(2,475)
Change in value of split interest agreements	55,866
Net cash from operating activities	<u>905,142</u>
Cash flows from investing activities:	
Purchase of collection items	(5,750)
Proceeds from sale of investments	47,994,726
Purchase of investments	(49,304,966)
Purchase of equipment and furniture	(10,340)
Purchase of real estate	(190,847)
Net cash from investing activities	<u>(1,517,177)</u>
Cash flows from financing activities:	
Checks written in excess of deposits	—
Net cash from financing activities	—
Net increase (decrease) in cash	(612,035)
Cash at beginning of the period	<u>3,109,405</u>
Cash at end of period	<u>\$ 2,497,370</u>

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2004

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

For financial reporting purposes, the University includes all funds and account groups, and all entities over which the University exercises or has the ability to exercise oversight authority.

The University has one component unit, as defined by Section 2200, of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*: Indiana State University Foundation. This component unit is further described in Section L.

B. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. The financial statements of the University have been prepared on the accrual basis, including depreciation expense relating to capitalized fixed

assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-University transactions have been eliminated to avoid double counting of these transactions. Examples of these would include sales between University departments or internal loans between funds.

C. Cash Equivalents

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. Funds invested in the Common Fund are considered cash equivalents.

D. Investments

Investments in securities are reported on the financial statements at fair value as of the date of the financial statements. Investments with maturity of less than one

year are reported as current assets, with the remaining investments reported as non-current assets.

E. Inventories

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

F. Capital Assets

Capital assets are stated at cost or, if donated, at fair market value on the date of acquisition. Moveable equipment costing \$2,500 with a useful life of more than one year and building improvements that exceed \$50,000 and extend the life of the building are capitalized. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is reported using the straight-line method of depreciation over the estimated useful life of the asset. Capital assets and related accumulated depreciation are removed from the records at the time of disposal. See the table below.

Minimum Capitalization Value and Useful Life by Asset Types

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

Art objects are recorded either at cost or fair market value at the time of acquisition, but are not depreciated because these assets tend to appreciate in value over time.



G. Scholarship Discounts and Allowances

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

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 assets-nonexpendable*: Nonexpendable 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.

I. 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.

J. 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 Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, including state appropriations and investment income.

K. 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 will be made on a case-by-case basis.

L. Component Units

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 77 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 thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

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

During the year ended June 30, 2004, the Foundation distributed \$5,142,621 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 217 North Sixth Street, Gillum Hall, room 320, Terre Haute, IN 47809.

Note 2—Cash and Investments

The University maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed in the Statement of Net Assets under *Cash and cash equivalents, Short-term investments, Other long-term investments, or Endowment investments-Held in Trust*, depending on the nature of the investment.

Authorization for investment activity is stated in Indiana Code Title 20, Article 12, Chapter 1, Section 2. Additionally, a resolution was adopted by the Trustees of Indiana State University to authorize the treasurer to manage the investment activity of the University. A revised investment policy was approved by the Board of Trustees on February 16, 2001. Authorized investments include obligations of the United States Treasury,

governmental agencies, commercial paper, bank obligations of federally insured banks, repurchase agreements, and investment grade corporate bonds. The University has also been the recipient of stocks and bonds through endowments and scholarship funds.

The University's investments are categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured and registered by use of a safekeeping receipt in the University's name. Category 2 includes uninsured and registered investments for which the securities are held by the University. Deposits are insured up to \$100,000 by FDIC, and in excess of \$100,000 by the Indiana Public Deposits Fund. Cash and investments at fair value at June 30, 2004 consist of the following:

Cash and Investments	Fair Market Value	Book Value
Category 1—Investments		
U.S. government securities	\$24,929,346	\$24,765,398
Money market funds	3,061,230	3,061,230
Category 2—Investments		
Bonds	11,761,652	11,603,712
Deposits		
Bank deposits	2,417,708	2,417,707
Certificates of deposit	8,970,157	8,970,157
Working funds	106,575	106,575
Investments not categorized		
Short-term investments	<u>30,415,707</u>	<u>30,415,707</u>
Total cash and investments	<u>\$ 81,662,375</u>	<u>\$ 81,340,486</u>

Note 3—Unrestricted Net Assets

The University has placed some internal restrictions on unrestricted net assets, which meets the operational needs of the University. These restrictions include:

Unrestricted Net Assets

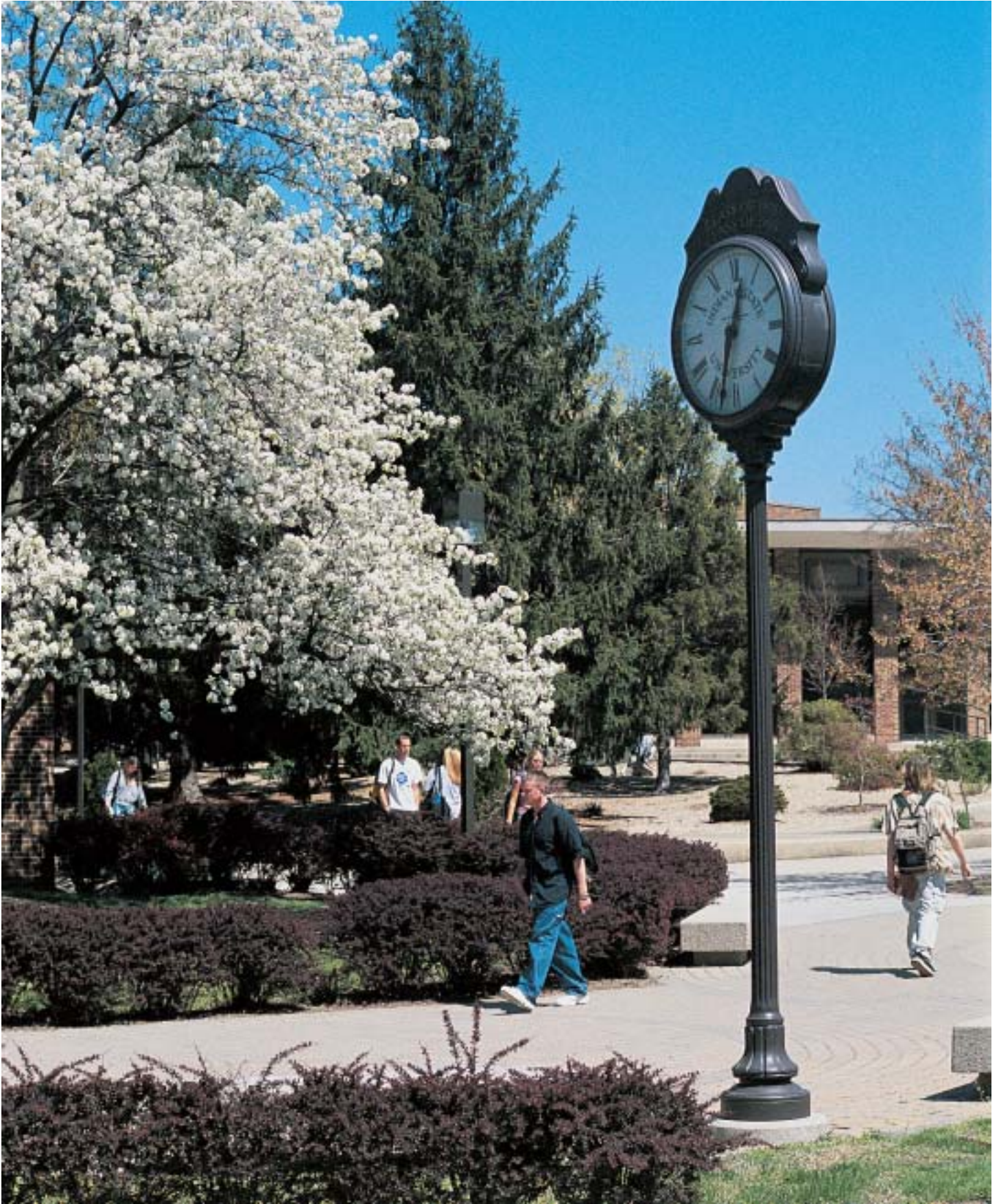
Allocated for capital projects	\$ 17,406,950
Allocated for academic/administrative activities	9,843,897
Allocated for auxiliary enterprises	9,123,184
Allocated for debt service reserve	8,683,246
Allocated for University initiatives	7,226,715
Allocated for reserves for encumbrances	5,604,361
Allocated for technology improvements	4,255,571
Allocated for working funds	3,067,945
Allocated for enrollment stabilization	2,147,224
Allocated for benefit claims	2,115,769
Allocated for graduate and undergraduate aid	<u>549,152</u>
 Total allocated unrestricted net assets	 <u><u>\$ 70,024,014</u></u>

Note 4—Capital Assets

Following are the changes in capital assets for the year ended June 30, 2004:

Capital Assets

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets not being depreciated				
Land	\$ 17,031,208	\$ —	\$ —	\$ 17,031,208
Works of art	135,160	65,043	(1,487)	198,716
Construction in progress	3,061,677	2,349,851	(2,760,387)	2,651,141
Total capital assets not being depreciated	<u>\$ 20,228,045</u>	<u>\$ 2,414,894</u>	<u>\$ (2,761,874)</u>	<u>\$ 19,881,065</u>
Capital assets being depreciated				
Infrastructure	\$ 33,036,694	\$ 296,566	\$ —	\$ 33,333,260
Land improvements	17,598,640	587,217	—	18,185,857
Buildings	262,112,885	4,074,794	(661,808)	265,525,871
Equipment	72,521,480	5,388,881	(4,295,802)	73,614,559
Total capital assets	<u>\$ 385,269,699</u>	<u>\$ 10,347,458</u>	<u>\$ (4,957,610)</u>	<u>\$ 390,659,547</u>
Less accumulated depreciation for				
Infrastructure	\$ (22,704,012)	\$ (991,961)	\$ —	\$ (23,695,973)
Land improvements	(10,866,300)	(784,823)	—	(11,651,123)
Buildings	(105,728,564)	(3,800,101)	379,147	(109,149,518)
Equipment	(48,238,872)	(4,675,784)	3,914,164	(49,000,492)
Total accumulated depreciation	<u>\$ (187,537,748)</u>	<u>\$ (10,252,669)</u>	<u>\$ 4,293,311</u>	<u>\$ (193,497,106)</u>
Total capital assets being depreciated, net	<u>\$ 197,731,951</u>	<u>\$ 94,789</u>	<u>\$ (664,299)</u>	<u>\$ 197,162,441</u>
Total capital assets, net	<u><u>\$ 217,959,996</u></u>	<u><u>\$ 2,509,683</u></u>	<u><u>\$ (3,426,173)</u></u>	<u><u>\$ 217,043,506</u></u>



Note 5—Long-Term Liabilities

Long-term liabilities of the University consist of bonds and notes payable, compensated absences, and other liabilities. The changes in long-term liabilities are as shown below:

Long-Term Liabilities

	Balance 6-30-03	Additions	Reductions	Balance 6-30-04	Due Within One Year
Bonds payable (Note 6):					
Student fee bonds	\$ 66,875,000	\$ —	\$ 4,830,000	\$ 62,045,000	\$ 5,055,000
Student service bonds	570,000	—	210,000	360,000	225,000
Total bonds payable	<u>\$ 67,445,000</u>	<u>\$ —</u>	<u>\$ 5,040,000</u>	<u>\$ 62,405,000</u>	<u>\$ 5,280,000</u>
Notes payable (Note 6):					
Old National Bancorp Bank One	\$ 2,331,709 5,315,000	\$ — —	\$ 2,331,709 —	\$ — 5,315,000	\$ — 1,000,000
Total notes payable	<u>\$ 7,646,709</u>	<u>\$ —</u>	<u>\$ 2,331,709</u>	<u>\$ 5,315,000</u>	<u>\$ 1,000,000</u>
Compensated absences (Note 8)					
Vacation accrual	\$ 2,834,195	\$ 300,825	\$ —	\$ 3,135,020	\$ 2,256,173
Sick accrual	156,226	1,933	—	158,159	79,080
Total compensated absences	<u>\$ 2,990,421</u>	<u>\$ 302,758</u>	<u>\$ —</u>	<u>\$ 3,293,179</u>	<u>\$ 2,335,253</u>
Other Liability (Note 16)	<u>\$ 1,000,000</u>	<u>\$ 825,355</u>	<u>\$ 245,186</u>	<u>\$ 1,580,169</u>	<u>\$ 1,000,000</u>
Total long-term liabilities	<u>\$ 79,082,130</u>	<u>\$ 1,128,113</u>	<u>\$ 7,616,895</u>	<u>\$ 72,593,348</u>	<u>\$ 9,615,253</u>
Bond redemption reserve (Matured unpaid bonds and coupons)					<u>266,172</u>
Total long-term liabilities current portion					<u>\$ 9,881,425</u>



Note 6—Bonds and Notes Payable

Indiana State University is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing the construction of the student union building, housing, athletic, parking, and academic facilities. The outstanding bond and note indebtedness at June 30, 2004 was \$67,720,000.

The issues are serial or term bonds and notes payable with maturities extending until 2021. For the fiscal year 2003-2004, a 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 Hines Hall remodel note payable of 1999 matured during fiscal year 2003-2004.

The University has pledged \$52,996,468 in student tuition as collateral for student fee bonds and student service bonds.

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

Outstanding Bonds and Notes Payable

	Issue Date	Interest Rate	Maturity Dates	Outstanding June 30, 2004
Student Fee Bonds				
Series H	1994	2.5%-5.0%	2011	\$ 22,865,000
Series I	1998	3.8%-5.4%	2016	23,365,000
Series J	2000	4.75%-5.5%	2020	15,815,000
Student Service Bonds				
Student Union, Series B	1976	6.2%-6.7%	2006	360,000
Notes Payable				
Jones Hall remodel	2001	4.46%	2006	5,315,000
Total				<u>\$ 67,720,000</u>

On July 20, 2004 Indiana State University Student Service Fee Bonds Series K was settled; a part of this bond issue included a refinancing of Series H. See note 7 for details on this bond issue.

\$4,500,000 for the renovation of Stalker Hall, and \$2,240,000 of planning funds for facilities for the College of Education and the College of Business.

Note 7—Subsequent Events

Indiana State University's Board of Trustees issued Student Service Fee Bonds, Series K for \$30,165,000. The sale of this issue concluded on July 7, 2004, with the closing date of July 20, 2004. The interest rate ranged from 3.0 percent to 5.0 percent with a final maturity date of 2014.

Included in this bond issue is a \$23,750,000 refinancing of Student Service Fee Bonds, Series H,

Note 8—Compensated Absences

The University records a liability for all unused vacation and sick leave balances, as well as related fringe benefits that are payable upon employee termination in accordance with University policy. The current vacation policy states that an employee cannot accrue more than 40 days vacation, for which they would be paid upon termination. Support staff that have at least ten years of service and are age 60 will receive payment of one-half

Debt Service Requirements

Year	Bonds	Notes	Total Principal	Interest	Total Payments
2005	\$ 5,280,000	\$ 1,000,000	\$ 6,280,000	\$ 3,269,773	\$ 9,549,773
2006	5,435,000	4,315,000	9,750,000	2,974,010	12,724,010
2007	5,560,000	—	5,560,000	2,516,468	8,076,468
2008	5,835,000	—	5,835,000	2,232,029	8,067,029
2009	6,155,000	—	6,155,000	1,928,759	8,083,759
2010-2014	20,940,000	—	20,940,000	5,992,343	26,932,343
2015-2019	10,515,000	—	10,515,000	1,774,283	12,289,283
2020-2021	2,685,000	—	2,685,000	149,738	2,834,738
TOTALS	<u>\$ 62,405,000</u>	<u>\$ 5,315,000</u>	<u>\$ 67,720,000</u>	<u>\$ 20,837,403</u>	<u>\$ 88,557,403</u>

of the accrued sick leave, not to exceed 45 days, upon retirement from the University.

Note 9—Retirement Plans and Other Post Employment Benefits

Authorization

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

Faculty and Executive/Administrative/Professional Staff

Faculty and executive/administrative/professional employees of the University participate in a defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. The University contributes 11 percent of each participating employee's base appointment salary up to \$10,800 and 15 percent of the base appointment salary above \$10,800 for employees hired prior to January 1, 1998. For those employees hired on or after January 1, 1998, the contribution rate is 12 percent of the base appointment salary. Effective July 1, 2004, employees hired after this date will be participating in the defined

contribution plan at the contribution rate of ten percent with no two year waiting period. The employee will become vested in the plan at the end of two years.

For fiscal year 2003-2004, the University made contributions totaling \$7,163,868 to this plan. For the fiscal year ended June 30, 2004, there were 910 employees and retirees participating in TIAA with annual salaries equal to \$52,759,022.

The University also makes contributions to the State Teachers Retirement Fund (STRF), which is a defined benefit plan for a grandfathered group of employees. The University's required contribution to the plan for the fiscal years ending June 30, 2004, 2003, and 2002 were \$29,198, \$72,174, and \$81,303, respectively. The University contributed 97 percent of the required contributions for each of the fiscal years, respectively. For the fiscal year ended June 30, 2004, there were six employees participating in STRF with annual salaries equal to \$428,125. STRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the State Teachers Retirement Fund, 150 West Market Street, suite 300, Indianapolis, IN 46204, or by calling (317) 232-3860.

Support Staff

Regular clerical and service staff participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the State of Indiana. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The employee contributes three percent (3%) of his or her gross earnings during the first year of employment to the annuity savings plan. After one year of continuous employment, the employee's contribution is paid by the University. The University contributed 5.6 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2003-2004 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 employment. For the fiscal year ended June 30, 2004, there were 884 employees participating in PERF with annual salaries equal to \$18,565,056.

Actuarial information related to the University's portion of the plan is disclosed as follows for the fiscal year ending June 30, 2004:

Public Employees Retirement Fund (PERF)

Three-Year Trend Information (in thousands)

	Valuation of Assets	Accrued Liability (AL)	Excess of Assets over AL (Unfunded)	Funded Ratio	Annual Covered Payroll	Excess (Unfunded) AL as a Percentage of Covered Payroll ((a-b)/c)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
	(a)	(b)	(a-b)	(a/b)	(c)	((a-b)/c)			
7/1/2002	\$20,341	\$18,694	\$1,647	108.8%	\$15,004	11.0%	\$728	100%	\$ (487)
7/1/2003	18,101	18,645	(544)	97.1%	16,968	(3.2%)	861	100%	(484)
7/1/2004	18,718	16,748	1,970	111.7%	17,016	11.5%	921	100%	(473)



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 provides post-retirement healthcare benefits to regular full-time faculty and staff who may become eligible for those benefits if they retire from the University after accruing the required years of service. Currently, 1,231 retirees and dependents meet those eligibility requirements. Expenditures for post-retirement benefits are recognized as retiree claims are incurred. During the year, expenditures of \$4,196,296 were recognized for post retirement healthcare.

The University also provides life insurance benefits to all retired employees if they reach normal retirement age while working for the University. During the year, expenditures of \$51,900 were recognized for post-retirement life insurance.

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 \$215,000 per member.

Unpaid medical claims, 7/01/03	\$ 3,179,596
Claims occurred	13,748,040
Claims paid	<u>(13,542,109)</u>
Unpaid medical claims, 6/30/04	<u>\$ 3,385,527</u>

Note 11—VEBA Trust

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

The trust is funded from reserves set aside in previous years for this purpose, University contributions, employee payroll deductions for post-retirement benefits, and reinvested net earnings. A summary

of the activity in the trust for the year ending June 30, 2004, is as follows:

Beginning fund balance	\$ 26,901,837
Transfer of employee/ employer contributions	2,040,000
Reinvested net earnings	734,110
Less: management fees	(75,115)
Realized gain on sale of investments	<u>369,849</u>
Fund balance at June 30, 2004	<u>\$ 29,970,681</u>

The market value of the trust was \$30.8 million on June 30, 2004. 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.

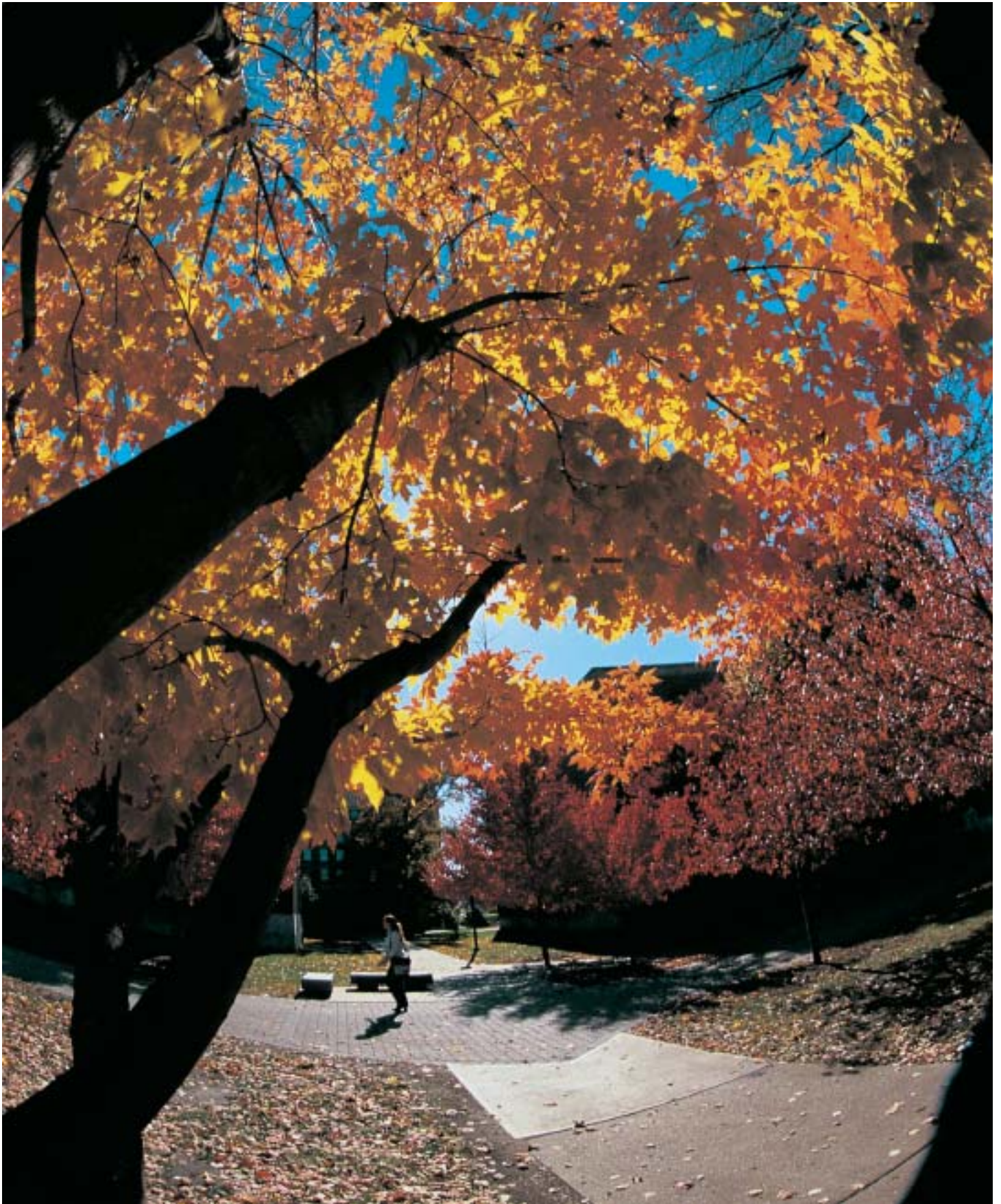
The actuarial evaluation, completed in January 2004, projects the accrued liability for future retiree health care for current and active employees to be approximately \$144.4 million. The University plans to have another actuarial evaluation done in the near future to determine the effect of GASB No. 43 and GASB No. 45, which will become effective for the financial statement presentation at June 30, 2007.

Note 12—Litigation

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

Note 13—Funds Held in Custody for Others

Funds held in custody for others consist of \$602,760 for other agencies (student and faculty organizations).



Note 14—Natural Classifications with Functional Classifications

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

Operating Expenses

Functional Classification	Compensation and Benefits	Supplies and Materials	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 57,373,359	\$ 6,516,989	\$ —	\$ —	\$ —	\$ 63,890,348
Research	5,824,268	5,267,862	—	—	—	11,092,130
Public Service	1,018,032	319,558	—	—	—	1,337,590
Academic Support	10,128,497	3,673,905	—	—	—	13,802,402
Student Services	7,457,654	1,491,458	—	—	—	8,949,112
Institutional Support	11,179,935	6,019,930	—	—	—	17,199,865
Operation of Plant	8,894,976	7,620,858	6,390,982	—	—	22,906,816
Scholarships	644,632	44,483	—	3,680,493	—	4,369,608
Auxiliary Enterprises	10,739,108	13,101,640	46,647	—	—	23,887,395
Depreciation	—	—	—	—	10,252,668	10,252,668
	\$113,260,461	\$44,056,683	\$ 6,437,629	\$ 3,680,493	\$10,252,668	\$ 177,687,934

Note 15—Restatement 2003

The statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2003 has been restated to reflect the following corrections due to the review of classifications of operating and nonoperating revenues and expenses:

- Operating expenses of \$3,919,462 were overstated in the Supplies and Expenses category due to interest on capital asset-related debt being recorded as an operating expense rather than a nonoperating expense.



	2003	Correction	Restated 2003
Supplies and Expenses	\$ 47,285,525	\$ (3,919,462)	\$ 43,366,063
Interest on Capital Asset Related Debt	-0-	3,919,462	3,919,462

The restatement did not change the reported Net Increase in Net Assets for fiscal year 2002-2003.



The Statement of Cash Flows for the year ended June 30, 2003 has been restated to reflect the following corrections due to the review of classifications of operating and nonoperating revenues and expenses:

- Cash flows from operating activities were overstated by \$1,635,009 in the Other Receipts category, and Gifts and Nonoperating Income was understated by \$1,635,009.
- Payments Made to Suppliers was overstated by \$5,554,471, while Cash Paid for Capital Assets was understated by \$5,554,471.

Note 16—Other Liability

During an internal review of procedures concerning the award and distribution of Title IV financial aid, some transactions were found that did not comply with University guidelines.

Pursuant to Finding 2002-1, Overpayments of Student Financial Aid, a \$1,000,000 contingent liability was established in fiscal year 2003 for possible repayment of these financial aid awards to the U. S. Department of Education and State of Indiana agencies.

During the fiscal year 2004, the State of Indiana's obligation was settled for \$245,186.

In September 2004, Indiana State University received the U.S. Department of Education's final determination concerning the overpayment of student financial aid. The liability for this finding totaled \$1,580,169. The University has recognized the additional expense of \$825,355 in fiscal year 2004, while recognizing a \$1,000,000 current liability and a \$580,169 other long-term liability. This long-term liability represents the amount that the University will appeal; this process is not expected to be settled in the next fiscal year.

	2003	Correction	Restated 2003
Other Receipts	\$8,995,305	\$(1,635,009)	\$7,360,296
Gifts and Other Nonoperating Income	316,453	1,635,009	1,951,462
Payments to Suppliers	(58,065,010)	5,554,471	(52,510,539)
Cash Paid for Capital Assets	(4,040,619)	(5,554,471)	(9,595,090)

The restatement did not change the reported Net Decrease in Cash for fiscal year 2002-2003.

Home Counties of Indiana State Students (Fall 2003)

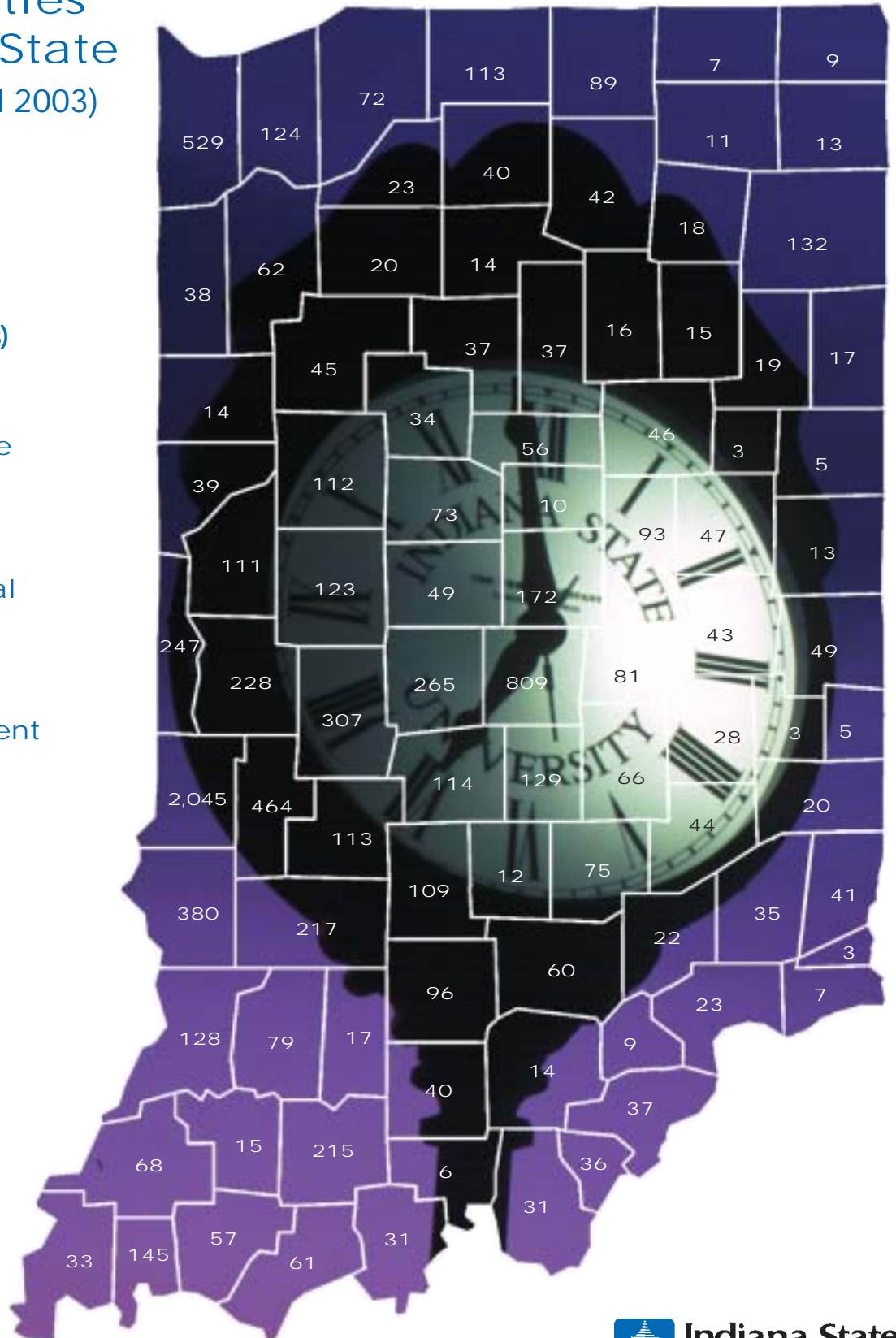
UNAUDITED

Indiana
(all 92 counties)
9,714

Out-of-State
(47 states)
1,210

International
(65 countries)
436

Total Enrollment
11,360



Board of Trustees

as of June 30, 2004

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Carmel, Indiana
Term 2004-2008

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Vice President
Terre Haute, Indiana
Term 2000-2008

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Secretary
Indianapolis, Indiana
Term 1998-2007

George S. Fleetwood
Assistant Secretary
Indianapolis, Indiana
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Term 2001-2005

Ron D. Carpenter
Indianapolis, Indiana
Term 2003-2007

Jessica E. Robertson
Fort Wayne, Indiana
Term 2003-2005

Donald E. Smith
Terre Haute, Indiana
Term 1987-2007

Charlotte T. Zietlow
Bloomington, Indiana
Term 1999-2005



University Officials

as of June 30, 2004

Lloyd W. Benjamin III
President of the University

C. Jack Maynard
Interim Provost and Vice President for
Academic Affairs

Gregg S. Floyd
Vice President for
Business Affairs, Finance, and University
Treasurer

Thomas Ramey
Vice President for
Student Affairs

Gary A. Bouse
Vice President for University Advancement
and Executive Vice President of the ISU
Foundation

Robert E. Schafer
Vice President for Administrative Affairs
and Secretary of the University

For Additional Information:

Admissions

Office of Admissions
217 North 7th Street
Indiana State University
Terre Haute, Indiana 47809
812-237-2121

Alumni

Office of Alumni Affairs
Gillum Hall, room 102
Indiana State University
Terre Haute, Indiana 47809
812-237-3707

Foundation

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

Additional copies of the 2004 Financial Report may be obtained from:

Office of the Controller, Parsons Hall, room P115, Indiana State University, Terre Haute, Indiana 47809
812-237-3513



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