

Indiana State University



Financial Report 2006-2007

MESSAGE FROM THE PRESIDENT

Greetings,

I am pleased to present the Indiana State University Financial Report for the fiscal year ended June 30, 2007. In the following pages, you will find the Financial Statements with Accompanying Notes, the Independent Auditor's Report, and the Management Discussion and Analysis. 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. To assist the reviewer in developing a complete understanding of the University's financial health, and to comply with GASB reporting standards, financial statements for the Indiana State University Foundation are also included.

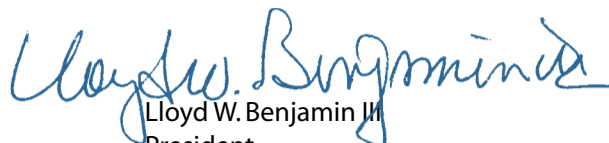
As you review the material contained in this report, I believe you will agree that the financial health of our University is strong. Despite the financial challenges of constrained state appropriations, the financial performance for 2006-2007 was again impressive, with a 6.9 percent growth in net assets totaling \$269.8 million. I am particularly pleased with the vigilant work of the entire campus community to evaluate performance and efficiency, in order to direct resources to the highest University priorities. On-going performance benchmarking and "best practices" reviews in the administrative areas, and the comprehensive academic program reviews to identify and prioritize programs of strategic importance to the University were completed. Because of these efforts, service quality for our students was not interrupted or diminished. These reviews have also brought focus to our strategic planning, and of course our strategic re-investment strategies.

I am pleased to report that growth and improvements to University facilities continued at a rapid pace. The renovation of University Hall as our new facility for the College of Education is on schedule for a fall 2009 opening. The complete refurbishment of this historically significant building will provide state-of-the-art facilities for the college, which has operated in a converted residence hall. In addition, construction is well underway on the new Student Recreation Center which will include a large aquatics facility. This facility is supported from a student fee program, and is identified as one of the most desired enhancements to our campus. Construction should be completed on this facility by early in the spring semester of 2009.

As we confront the coming years, I am optimistic and believe that we have redefined ISU's future role in the higher education system of Indiana to match the needs articulated by the Commission for Higher Education and the legislature. In addition, the strength and quality of our programs of prominence continues to improve. The number and qualifications of students attending this year are improved, and the prospect for additional growth in higher achieving students looks bright. In turn, the strong financial position that has characterized the recent history of ISU should further improve as these critical change strategies are implemented. I believe that the financial achievements contained in this report, combined with our continuing efforts to invest in strategic programs, personnel, and facilities reflect our commitment to prudently manage the resources of our University on behalf of the students, employees, citizens, and state lawmakers. We are grateful to all that support us in this honorable charge.

Let me close by commending Gregg Floyd, vice president for business affairs and finance, and his staff for their good stewardship of University funds and the accuracy, detail, and care that goes into preparing the University's financial statements. I would also like to commend him and his staff for managing our construction projects and the associated funding. As detailed in this report, you can see we have made unparalleled progress and will soon be dedicating some remarkable new buildings on campus.




Lloyd W. Benjamin III
President



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Indiana State University, a component unit of the State of Indiana, as of and for the years ended June 30, 2007 and 2006. 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, 2007 and 2006, 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 November 21, 2007, 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.

November 21, 2007

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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 2006-2007 fiscal year ended June 30, 2007. 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 2005-2006 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 45 departmental units in five colleges, a school, and various divisions. Located in Terre Haute, Indiana, with 10,568 students, Indiana State University is a significant economic engine for the Wabash Valley and the State of Indiana. An independent study conducted by the Jacob France Institute at the University of Baltimore indicates that Indiana State University contributed nearly \$400 million to the local and state economy in 2004-2005. That is nearly a five-fold return on the state's investment in the University.



Financial Highlights

The University's financial position continues to be strong, with an increase in net assets of \$17.5 million for the fiscal year ending June 30, 2007. This continues a trend of solid financial performance and adds to the increase of \$16.0 million in the fiscal year ending June 30, 2006.

Operating revenues for the fiscal year were \$101.5 million, as compared with \$98.5 million for fiscal year 2006, an increase of three (3) percent. The positive operating results included net student fee revenue increases of \$3.1 million. Growth in federal grants of \$1.2 million and \$.3 million in auxiliary enterprises fees were offset by reductions in state and non-governmental grants of \$1.1 million and a decrease of \$.4 million in other operating revenues.

Other operating revenues of \$5.6 million included a \$1.5 million portion of the \$20 million grant received from the Lilly Endowment Inc., administered through the Indiana State University



Foundation for the establishment of the Indiana State University's Networks Financial Institute (NFI). Headquartered in Indianapolis with satellite offices in Terre Haute on the ISU Campus and in Washington, D.C., Networks is leading a variety of programs in the financial services sector. This is the fourth year of the grant. The offsetting effect of other operating revenue is an increase in operating expenses, which primarily affected salary and benefits.

Operating expenses were \$173.3 million for fiscal year 2007, representing a \$1.5 million increase from the previous year's expenditures of \$171.8 million. This change results from a reduction of salary and benefits of \$2.7 million due to no wage increases in 2007 and leaving positions unfilled during the year. Utilities expense remained constant with 2006 levels due to long-term advance natural gas purchases, other energy saving initiatives, and favorable weather conditions. Scholarships and fellowships grew by \$.6 million as the result of the Laptop Scholarship Program. Depreciation expense grew by \$.3 million with the opening of new facilities. Supplies and expenses increased by \$3.4 million over 2006 due to increased travel and training costs, general maintenance of the campus, non-capital equipment purchases, and cost of goods sold for the new computer store.

Net non-operating and other revenues remained constant with 2006 at \$89.3 million. Invest-

ment income was up by \$3.5 million due to increases in short-term interest rates during the year and a favorable bond market at the close of the year. Interest on capital asset related debt increased by \$.6 million, resulting from the recording of bond interest payable at year-end. Bond issuance costs of \$.6 million on Series M issued on June 29, 2007, are recorded in other non-operating expenses. Other non-operating revenues decreased by \$.6 million in 2007 due to increased disposal of assets on renovated facilities.

As a result of a \$2.2 million decrease in the state operating appropriation and a \$.4 million increase in the state appropriation for fee replacement on debt service, state appropriations declined by a total of \$1.8 million for 2007. The state operating appropriation has declined by \$5.1 million over the last two fiscal years. The University has responded to this loss of revenues by redirecting resources and prioritizing programs and activities without furloughing staff.

The State of Indiana restored one-half of the appropriated annual capital contribution for major repairs and renovations totaling \$2.1 million for fiscal year 2006 and continued this level of funding for 2007. This is up from the \$.5 million payment received in fiscal year 2005.

Indiana State University received approximately \$1.3 million in capital grants and gifts, including \$.3 million from the Terre Haute Department of Redevelopment for the College of Business. Additional gifts of software for construction project delivery, project management, engineering and construction, and real estate, for a total value of \$.8 million are being utilized by the University.

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 on-going 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, 2007, the Indiana State University Foundation is the only component unit to be included. The Foundation is a nonprofit organization that is subject to reporting guidelines governed by the Financial Accounting Standards Board (FASB); accordingly, certain revenue recognition criteria and presentation features are different from established GASB standards. No modifications have been made to the Indiana State University Foundation's financial information in the University's financial reporting presentation for these differences.



Minas Center for Investment and Financial Education

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 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, 2007 and 2006 appears on the next page:

Statement of Net Assets (in millions)

	2007	2006
Current assets	\$111.9	\$59.6
Non-current assets:		
State receivable	2.2	4.3
Deposits with bond trustee	1.3	2.3
Notes receivable	5.8	6.1
Other long-term investments	53.7	43.4
Capital assets, net	230.6	230.5
Other	0.7	0.7
Total assets	<u>\$406.2</u>	<u>\$346.9</u>
Current liabilities	26.3	24.1
Non-current liabilities	<u>110.1</u>	<u>70.5</u>
Total liabilities	<u>\$136.4</u>	<u>\$94.6</u>
Net assets	<u>\$269.8</u>	<u>\$252.3</u>

Current assets consist primarily of cash, operating investments, and accounts receivable. Current assets totaled \$111.9 million at June 30, 2007, as compared to \$59.6 million at June 30, 2006.

The increase of current assets of \$52.3 million is due to increases of cash equivalents of \$42.8 million and short-term investments of \$7.9 million. Cash equivalents include investments that will mature in the next 90 days and the Common Fund. This increase is largely due to the \$47.7 million Series M bond, issued on June 29, 2007. The proceeds of this bond issue were deposited into the Common Fund, and investments matching contractor pay-out schedules will be made in 2008.

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portion of long-term debt. Total current liabilities increased by \$2.2 million due to increases in bond and interest payable of \$2.5 million and a \$.3 million decline in accrued payroll and deductions.

Non-current assets increased by \$7 million in 2007 from \$287.3 million in 2006. Long-term investments grew by \$10.3 million. Deposits with the bond trustee decreased by \$1 million as reserves on retired bond issues transferred back to the University. The state receivable decreased by \$2.2 million and was classified as a current receivable, as the State of Indiana will allow the University to draw down this amount for fiscal year 2008 to be used for major repairs and renovations. The state receivable represents the withheld payment of one month's state appropriation that the State of Indiana began withholding in fiscal year 2001-2002 due to state budget problems.

Non-current liabilities grew by \$39.6 million due to the increase in bonds payable of \$40.5 million on the Series M bond issue.

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. 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.

The \$8.4 million renovation of Burford Hall was completed and the residence hall was re-opened to students for the fall semester 2006. Originally built in 1959, the residential hall was updated to include private bathrooms, wireless Internet, air conditioning, two music practice rooms, a performance area, and activities rooms. A first-year residence hall with 240 beds Burford provides theme housing for aviation, business, and performing arts students. Theme housing provides a direct link between the residential and academic lives of students, bringing together students with similar academic majors into one living environment and providing those students with an opportunity for out-of-the-classroom interaction with faculty and each other.

Work began in June on the renovation of University Hall; the \$29.8 million project is the largest state-funded project in the University's history. Bonds were issued for \$26.9 million in June 2007 for the project, which will be the new home for the University's College of Education. The remaining \$2.9 million will be paid with University funds. Renovation of the 1936 facility, which is listed on the Indiana Division of Historic Preservation and Archaeology's historic sites and structures list, is expected to be completed for classes beginning in fall 2009. In addition to providing high-tech classrooms and office space, University Hall will include a 600-seat auditorium. The building also features historic murals painted by Terre Haute native Gilbert Wilson, which will be preserved as part of the renovations.

In December 2005, Indiana State University entered into a ground lease agreement with the City of Terre Haute for the purpose of undertaking the development of a multi-modal transportation facility to accommodate parking at ISU and other Terre Haute downtown businesses, to house the city bus transfer station, and to work together to help revitalize and develop the downtown area of the city. The \$13.3 million facility will provide 628 parking spaces and serve as Terre Haute's bus depot. The University will have access to one-half of the parking spaces and use of the facility for after-hours events. The federal government has committed \$8.9 million to the project, and the city will provide approximately \$4.4 million. The groundbreaking took place in late October 2006, with the parking facility opening projected for February 2008.

Groundbreaking for the \$21.8 million Student Recreation Center took place in July 2007. The 109,420-square-foot



facility will house a three-court gymnasium; a recreation aquatics facility, with separate pools for lap swimming and instructional/leisure activities; a fitness center, outfitted with cardio and strength-training equipment; a climbing wall; an elevated jogging/running track; multi-purpose activity studios suitable for aerobics, martial arts, and fitness classes; a multi-activity court designed for indoor soccer, roller hockey, and other activities; offices for the Recreational Sports Program; a healthy snack bar; an outdoor equipment center; and locker facilities and equipment rooms. Construction on the two-story facility is anticipated to take 18 months, with a targeted completion date in early 2009. The cost of the Student Recreation Center is funded by \$21.1 million of a Student Service Fee Series M bond issue, with the remaining \$.75 million to be funded by the University.

Realm Business Solutions Inc. has donated its ARGUS software to the Indiana State University College of Business for use by finance students. The software donation is valued at more than \$225,000. This software allows users to analyze and forecast cash flows from commercial real estate ventures, including office, retail, industrial, apartment, hotel, and other commercial properties.

With a gift from Randall and Nancy Minas and a matching gift from the Lilly Endowment, Indiana State University has established the Minas Center for Investment and Financial Education. This gift will support the operations of Indiana State University's investment and financial education programs, as well as the development of an electronic trading laboratory.

General Motors has rolled out support for Indiana State University Automotive Technology and Motorsports Management Programs by donating 28 high-tech engines and a 2006 Buick Lucerne to the University. Other General Motors contributions include 18 Saab 2.8 liter, V6, turbo-charged engines and ten Ecotec engines.

The Saab engines will be used as part of Indiana State University's Automotive Technology Management Program and as part of its Introduction to Automotive Engines course—a required part of the University's new motorsports management minor.

On June 29, 2007, Indiana State University issued \$47.7 million of Student Fee Bonds, Series M. These bonds are providing funds to renovate University Hall to become the new home of the College of Education and to construct the Student Recreation Center. The bonds have maturities extending to October 1, 2032, with an



Multi-Modal Transportation Facility

All in Cost (AIC) interest rate of 4.682 percent. The University Hall project portion of the bond issue is fee replaced by the State of Indiana, while the Student Recreation Center is funded through a dedicated fee approved by the students.

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), and Fitch's credit rating was (AAA) on the insured Series M bond issue. The underlying credit rating of Indiana State University by Moody's was (A2), and Fitch'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, 2007 and 2006 are summarized in the following table:

Net Assets (in millions)	2007	2006
Invested in capital assets, net of related debt	\$120.0	\$161.4
Restricted		
Non-expendable	2.9	2.9
Expendable	60.5	10.0
Unrestricted		
(designated for operational activities, see Note 3)	<u>86.4</u>	<u>78.0</u>
Total Net Assets	<u>\$269.8</u>	<u>\$252.3</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 on-going 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

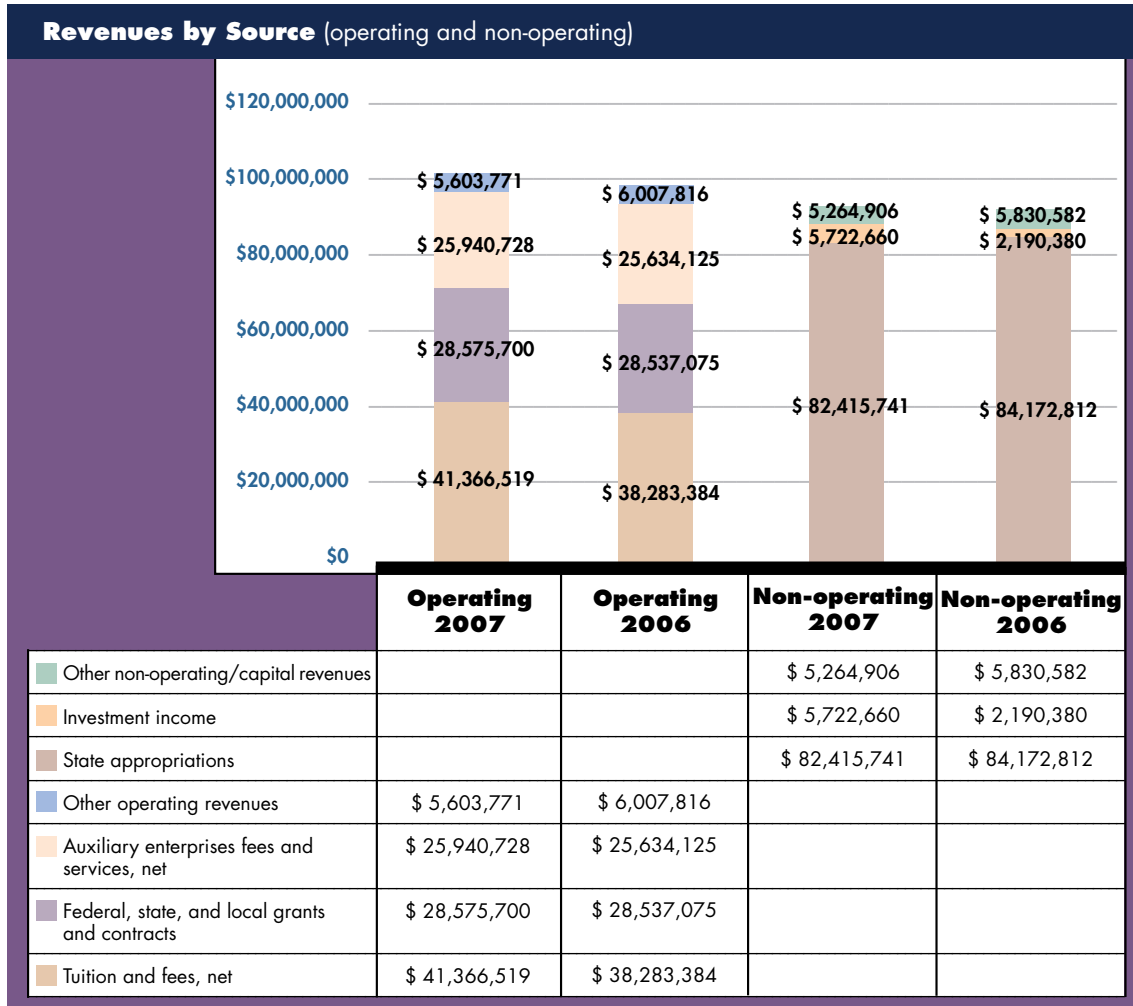
The Statement of Revenues, Expenses, and Changes in Net Assets present the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2007 and 2006 is as follows:

Revenues, Expenses, and Changes in Net Assets (in millions)		
	2007	2006
Operating Revenues:		
Tuition and fees (net of scholarship allowances \$22.9 million for 2007 and \$21.0 million for 2006)	\$41.4	\$38.3
Grants and Contracts	28.6	28.6
Auxiliary enterprises fees and services (net of scholarship allowances of \$5.1 million for 2007 and \$4.6 million for 2006)	25.9	25.6
Other	<u>5.6</u>	<u>6.0</u>
Total operating revenue	<u>\$101.5</u>	<u>\$98.5</u>
Operating expenses	<u>(173.3)</u>	<u>(171.8)</u>
Operating loss	(\$71.8)	(\$73.3)
Non-operating revenues (expenses):		
State appropriations	82.4	84.2
Investment income (net of investment expenses of \$123,259 for 2007 and \$113,651 for 2006)	5.7	2.2
Capital appropriations	2.1	2.1
Capital grants and gifts	1.3	1.1
Other non-operating revenues	1.3	2.6
Interest on capital asset related debt	<u>(3.5)</u>	<u>(2.9)</u>
Net non-operating and other revenues	<u>\$89.3</u>	<u>\$89.3</u>
Increase in net assets	\$17.5	\$16.0
Net assets, beginning of year	<u>252.3</u>	<u>236.3</u>
Net assets, end of year	<u><u>\$269.8</u></u>	<u><u>\$252.3</u></u>

One of the University's greatest strengths is its diverse stream of revenues that supplement student fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. The University will continue to aggressively seek funding from all possible sources consistent with its mission, to supplement student tuition, 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 on-going 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 grew by \$3 million for fiscal year 2007. This is largely due to an increase of \$3.1 million in tuition and fees. The tuition increase is the result of the fourth class of incoming students at the higher fee structures established to increase tuition rates, along with a six (6) percent increase in tuition rates, as well as the new student recreation fee approved by the students to support construction and operational cost of the new Student Recreation Center. Overall University enrollment decreased by one (1) percent to 10,568; however, new freshman enrollment was up 61 students. This is the first time freshmen enrollment has increased since 2000. Graduate enrollment grew 22 students to set an enrollment record of 2,031 graduate students. For fall 2005, Indiana State University implemented more stringent admissions standards in class rank, grade point average, and core 40 completion. This initially contributed to lower enrollment numbers. The University has also created guaranteed scholarships and an on-going marketing plan, leading to increased incoming freshman enrollment. Indiana State University is committed to strengthening the quality of students who enter the institution.

Additionally, other operating revenues declined by \$.4 million during fiscal year 2007 as the result of decreases in the reimbursements received from the ISU Foundation for the Networks Financial Institute.

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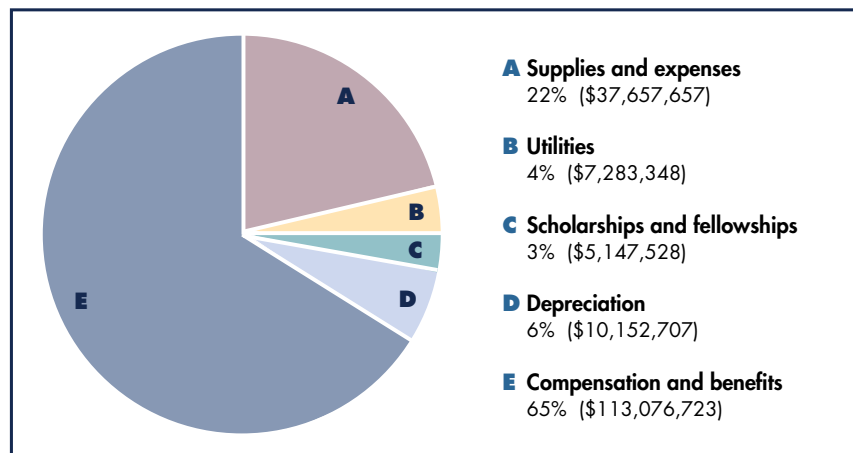
Total non-operating and capital revenues increased by \$1.2 million for fiscal year 2007. This is due to increases in investment income of \$3.5 million, a decline of state appropriations of \$1.8 million, and a decrease of other non-operating revenues of \$.6 million.

Like most universities, Indiana State University continues to make market-competitive compensation and benefits a top priority as resources become available. These expenses represent 65 percent of total University expense/budget.

A comparative summary of the University's expenses for the years ended June 30, 2007 and 2006 is as follows:

Operating Expenses (in millions)		
	2007	2006
Operating:		
Compensation and benefits	\$113.1	\$115.8
Supplies and expenses	37.7	34.3
Utilities	7.3	7.3
Scholarships and fellowships	5.1	4.5
Depreciation	10.1	9.9
	<u>173.3</u>	<u>171.8</u>
Non-operating:		
Interest on capital related debt	3.5	2.9
Other non-operating expenses	.6	0.0
Total expenses	<u>\$177.4</u>	<u>\$174.7</u>

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



Total operating expenditures increased from \$171.8 million in fiscal year 2006 to \$173.3 million in fiscal year 2007. Compensation and benefits decreased by \$2.7 million as a result of no wage increases during the year as well as having a number of unfilled positions. Supplies and expenses showed a \$3.4 million increase for 2007. These increases are attributed to increased travel and training, general repair and maintenance of the campus, and cost of goods sold for the new computer store.

Utilities expense remained stable for 2007, as the University saved \$.8 million in natural gas cost by having entered into long-term advance purchase contracts.

Scholarships and fellowship expenses increased by \$.6 million as a result of implementing the Laptop Scholarship Program. This scholarship program provides a business-grade laptop computer to all incoming freshmen with a 3.0 or higher grade point average who earned an Indiana Core 40 diploma or equivalent. In the first year of this program, over 700 laptop computers were awarded to incoming freshmen.



In addition to their natural (object) classification (expenditure type), the reader is also benefited by a review of operating expenses by the nature of the University division incurring the expense. A summary of the University's expenses by functional classification for the years ended June 30, 2007 and 2006 is as follows:

Expenses by Function (in millions)		
	2007	2006
Operating:		
Instruction	60.2	60.8
Research	10.6	11.5
Public service	1.4	1.4
Institutional and academic support	29.3	27.6
Student services	8.7	8.9
Auxiliary enterprises	23.7	23.4
Operations and maintenance of plant	23.1	23.0
Depreciation	10.1	9.9
Scholarships and fellowships	6.2	5.3
Total expense	<u>\$173.3</u>	<u>\$171.8</u>

Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by identifying the major sources and uses of cash. The statement assists the reader in evaluating the entity's ability to generate future net cash flows to meet obligations as they come due. A comparative summary of the Statement of Cash Flows for the years ended June 30, 2007 and 2006 is as follows on the next page:

Statement of Cash Flows (in millions)

	2007	2006
Cash received from operations	\$ 101.2	\$ 104.0
Cash expended for operations	<u>(164.9)</u>	<u>(169.8)</u>
Net cash used in operating activities	(63.7)	(65.8)
Net cash provided by non-capital financing activities	85.7	87.1
Net cash provided (used) by investing activities	(12.7)	(4.3)
Net cash used in capital and related financing activities	<u>33.5</u>	<u>(14.7)</u>
Net increase in cash and cash equivalents	42.8	2.3
Cash and cash equivalents, beginning of year	<u>37.9</u>	<u>35.6</u>
Cash and cash equivalents, end of year	<u>\$ 80.7</u>	<u>\$ 37.9</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. Funds invested in the Common Fund are considered cash equivalents.

The University decreased the net cash used in operating activities by \$2.1 million to \$63.7 million for the 2007 fiscal year. Payments made to employees and on the behalf of employees decreased \$1.9 million from 2006. Tuition and fees cash receipts decreased by \$2.3 million as a result of increased cash flow from federal and state financial aid and increased accounts receivable.

Cash flows from capital financing activities increased by \$48.2 million from 2006. This increase is largely due to the issuance of the Series M bond and receipt of \$48.5 million in bond proceeds, which will be used for the funding of capital projects. Capital appropriations from the state increased by \$2.4 million, as the State of Indiana allowed the University to draw down a portion of the withheld fiscal year 2002 operating appropriation to be used for fiscal year 2007 major repair and renovations. Cash paid for capital assets decreased by \$6.6 million due to the completion of capital projects in 2006. The proceeds from a note payable in 2006 of \$10 million comprises the difference between 2007 and 2006 cash flows from capital financing activities.

Overall, cash and cash equivalents grew by \$42.8 million for fiscal year 2007, while long-term investments grew by \$10.3 million, and short-term investments increased by \$7.9 million.

Economic Factors Affecting 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.

Like many universities, a continuing challenge for the University is maintaining stable undergraduate enrollment. At the same time, however, as the climate for higher education changes, Indiana State University has made a concerted effort to increase enrollment standards by reducing conditionally admitted students and increasing admission criteria. This has resulted in increased grade point averages and SAT scores, which is intended to improve the retention rate of the student body. Graduate enrollment is up 314 students from four years ago, achieving record enrollment of

2,031 in fall 2006. This trend has continued with graduate enrollment reaching 2,050 for fall 2007. The University's commitment to diversity remains a priority. Indiana State's minority population increased to 15.7 percent in fall 2006, the highest in Indiana.

The University is dedicated to a goal of increasing undergraduate enrollment, along with the increased enrollment standards. To assist in achieving this goal, Indiana State University is continuing to pursue marketing efforts along with the creation of targeted scholarships to attract high-achieving students. These guaranteed scholarships are designed so students know that if they meet certain levels of performance in high school and apply for admission by set deadlines, they will receive a scholarship. One example of these guaranteed scholarships is the business-grade laptop computer awarded to all incoming freshmen with a 3.0 or higher grade point average, who earned an Indiana Core 40 diploma or equivalent. Over 700 laptop computers were awarded for the fall 2006 and fall 2007 semesters. These new initiatives are beginning to pay dividends as the fall 2006 entering freshman class was up by 61 students, and the fall 2007 freshmen class was up an additional 149 students. Beginning with the fall 2007 semester, incoming freshmen at Indiana State University became the first students at a public institution in Indiana to be required to have notebook computers.



The University has undergone a program review to eliminate under-utilized programs, to identify programs to expand, and to take advantage of new opportunities. One of these new opportunities was launched in spring 2006, as Indiana State announced a new minor in motorsports management with student enrollment beginning in the program starting in fall 2006. Indiana State University will invest \$1.75 million over three years in selected academic programs as part of its Distinctive Programs Initiative. These funds will include \$1 million from the Lilly Endowment, along with \$750,000 in one-time University funds to be used to strengthen programs with national or regional reputations and to build programs that have the potential to achieve that status. For fall 2007, the Lilly Endowment, Inc. announced a \$3 million grant to the Networks Financial Institute to continue work in three critical areas: national leadership in financial services policy, development of innovative student leadership, and addressing the national crisis in financial literacy.

As indicated earlier, the University receives 48 percent of support for educational programs 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. However, to supplement this revenue, the University is challenged to develop and identify additional sources of funding. Fortunately, the University's very attractive fee structure relative to other state schools allows for continued fee growth, as permitted by governing entities, while remaining an exceptional value within the state higher education climate. The University will continue to seek ways to diversify revenue streams to constrain the pressure to increase student fees.

The financial condition of the University remains strong. The aggressive pursuit of new sources of revenue while containing expenditures is contributing to the financial success of the University. Indiana State University's management is confident that the University's financial condition will meet all foreseeable economic requirements.

2006-2007 FINANCIAL REPORT

Indiana State University Comparative Statement of Net Assets

For the Years Ended June 30, 2007 and June 30, 2006

ASSETS	2007	2006
Current assets		
Cash and cash equivalents	\$ 80,673,330	\$ 37,917,038
Short-term investments	19,124,742	11,202,062
Accrued interest	955,277	821,952
Accounts receivable (net of allowance of \$5,098,767 for 2007 and \$4,603,396 for 2006)	3,974,521	3,035,091
Other accounts receivable	607,453	454,734
Grants receivable	1,655,172	1,776,172
State receivable, current portion	2,152,370	2,399,680
Notes receivable, current portion	2,036,591	1,389,552
Prepaid expenses	531,840	409,208
Other Assets	16,930	62,406
Inventories	168,062	152,556
Total current assets	<u>\$ 111,896,288</u>	<u>\$ 59,620,451</u>
Non-current assets		
State receivable	\$ 2,152,369	\$ 4,304,739
Endowment investments—held in trust	742,139	729,928
Deposits with bond trustee	1,335,121	2,321,805
Notes receivable, non-current portion (net of allowance of \$775,347 for 2007 and \$745,460 for 2006)	5,794,463	6,043,001
Other long-term investments	53,729,656	43,391,486
Capital assets, (net of accumulated depreciation of \$213,605,156 for 2007 and \$208,035,613 for 2006)	230,561,298	230,539,013
Total non-current assets	<u>\$ 294,315,046</u>	<u>\$ 287,329,972</u>
Total assets	<u>\$ 406,211,334</u>	<u>\$ 346,950,423</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 2,220,570	\$ 1,995,419
Accrued payroll and deductions	5,129,650	5,402,205
Deferred revenue	1,598,263	1,834,046
Funds held in custody for others	668,307	723,068
Other liabilities	4,412,304	4,276,523
Bonds payable (Note 6)	7,953,603	6,133,722
Notes payable	1,060,000	1,010,000
Lease payable	234,913	156,744
Debt interest payable (Note 15)	610,691	—
Long-term liabilities, current portion (Note 5)	2,428,098	2,593,378
Total current liabilities	<u>\$ 26,316,399</u>	<u>\$ 24,125,105</u>
Non-current liabilities		
Bonds payable (Note 6)	\$ 93,117,256	\$ 52,578,893
Notes payable	7,930,000	8,990,000
Compensated absences	1,138,615	1,003,849
Lease payable	260,782	258,718
Advances from federal government	7,680,513	7,708,746
Total non-current liabilities	<u>\$ 110,127,166</u>	<u>\$ 70,540,206</u>
Total liabilities	<u>\$ 136,443,565</u>	<u>\$ 94,665,311</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 120,004,744	\$ 161,410,936
Restricted for:		
Non-expendable:		
Scholarships and fellowships	742,139	729,928
Loans	2,190,699	2,180,319
Expendable:		
Research and other grants	1,486,680	1,309,013
Capital projects	58,954,503	8,381,615
Debt service	19,128	252,400
Unrestricted	86,369,876	78,020,901
Total net assets	<u>\$ 269,767,769</u>	<u>\$ 252,285,112</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, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash	\$ 369,968	\$ 157,889	\$ —	\$ 527,857
Investments—at market	6,464,048	7,872,302	55,329,398	69,665,748
Assets held in trusts, interest in trusts, and split interest agreements	—	324,003	2,712,772	3,036,775
Grants receivable	—	—	—	—
Pledges, bequests, and accounts receivable	31,900	68,553	67,543	167,996
Investment income receivable	44,531	239,587	—	284,118
Land and property held for future use or sale	650,547	—	100,000	750,547
Equipment and furniture (net of accumulated depreciation of \$106,590)	80,635	11,969	—	92,604
Other assets	21,851	338,225	250,000	610,076
Due to/from other funds	(6,576,506)	7,479,092	(902,586)	—
Total assets	<u>\$ 1,086,974</u>	<u>\$ 16,491,620</u>	<u>\$ 57,557,127</u>	<u>\$ 75,135,721</u>
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 154,435	\$ 201,582	\$ —	\$ 356,017
Scholarships payable	—	1,137	—	1,137
Present value of liability under split interest agreements	85,191	115,974	593,333	794,498
Due to Indiana State University	1,033	250	740,856	742,139
Refundable advances	—	—	689,604	689,604
Total liabilities	<u>240,659</u>	<u>318,943</u>	<u>2,023,793</u>	<u>2,583,395</u>
Net assets	<u>846,315</u>	<u>16,172,677</u>	<u>55,533,334</u>	<u>72,552,326</u>
Total liabilities and net assets	<u>\$ 1,086,974</u>	<u>\$ 16,491,620</u>	<u>\$ 57,557,127</u>	<u>\$ 75,135,721</u>

2006-2007 FINANCIAL REPORT

Indiana State University

Statement of Revenues, Expenses, and Changes in Net Asset

For the Years Ended June 30, 2007 and June 30, 2006

	2007	2006
OPERATING REVENUES		
Tuition and fees (net of scholarship allowances of \$22,995,046 for 2007 and \$21,013,071 for 2006)	\$ 41,366,519	\$ 38,283,384
Federal grants and contracts	13,656,170	12,540,698
State and local grants and contracts	11,003,110	11,185,452
Non-governmental grants and contracts	3,916,420	4,810,925
Auxiliary enterprises fees and services (net of scholarship allowances of \$5,146,962 for 2007 and \$4,631,094 for 2006)	25,940,728	25,634,125
Other operating revenues	5,603,771	6,007,816
Total operating revenues	<u>\$ 101,486,718</u>	<u>\$ 98,462,400</u>
EXPENSES		
Compensation and employee benefits	\$ 113,076,723	\$ 115,758,093
Supplies and expenses	37,657,657	34,311,686
Utilities	7,283,348	7,313,481
Scholarships and fellowships	5,147,528	4,482,249
Depreciation	10,152,707	9,894,704
Total operating expenses	<u>\$ 173,317,963</u>	<u>\$ 171,760,213</u>
Operating loss	<u>\$ (71,831,245)</u>	<u>\$ (73,297,813)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	\$ 82,415,741	\$ 84,172,812
Gifts	691,846	685,229
Investment income (net of investment expenses of \$123,259 for 2007 and \$113,651 for 2006)	5,722,660	2,190,380
Interest on Capital Asset Related Debt	(3,524,953)	(2,915,634)
Other non-operating revenues	1,255,903	1,947,457
Other non-operating expenses	(564,452)	—
Net non-operating revenues	<u>\$ 85,996,745</u>	<u>\$ 86,080,244</u>
Income before other revenues, expenses, gains, or losses	<u>\$ 14,165,500</u>	<u>\$ 12,782,431</u>
Capital appropriations	\$ 2,061,338	\$ 2,061,338
Capital grants and gifts	1,255,819	1,136,558
Total other revenues	<u>\$ 3,317,157</u>	<u>\$ 3,197,896</u>
Increase in Net Assets	<u>\$ 17,482,657</u>	<u>\$ 15,980,327</u>
NET ASSETS		
Net assets—beginning of year	\$ 252,285,112	\$ 236,304,785
Net assets—end of year	<u>\$ 269,767,769</u>	<u>\$ 252,285,112</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, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	\$ 573,830	\$ 1,033,470	\$ 1,029,661	\$ 2,636,961
Lilly Endowment grants	—	193,436	655,840	849,276
Investment income				
Interest and dividends				
Trust and temporary investments	265,628	1,552,398	—	1,818,026
Net appreciation (depreciation) in fair value of investments	57,234	18,203	7,502,222	7,577,659
Non-gift income	42,044	196,209	17,482	255,735
Change in value of split interest agreements	(2,573)	12,285	69,252	78,964
Service fee income—				
Indiana State University	417,497	—	—	417,497
In kind support	—	241,400	—	241,400
	<u>1,353,660</u>	<u>3,247,401</u>	<u>9,274,457</u>	<u>13,875,518</u>
Net assets released from restriction				
Satisfaction of donor restriction	<u>7,966,344</u>	<u>(7,966,344)</u>	<u>—</u>	<u>—</u>
Total revenues	<u>9,320,004</u>	<u>(4,718,943)</u>	<u>9,274,457</u>	<u>13,875,518</u>
Expenses				
Scholarships and awards	2,214,143	—	—	2,214,143
Restricted and designated expenditures	5,846,256	—	—	5,846,256
Grants for academic and other				
University projects	557,166	—	—	557,166
Foundation operational expenditures	1,036,537	—	—	1,036,537
Development and advancement—				
fund raising	<u>1,917,822</u>	<u>—</u>	<u>—</u>	<u>1,917,822</u>
Total expenses	<u>11,571,924</u>	<u>—</u>	<u>—</u>	<u>11,571,924</u>
	(2,251,920)	(4,718,943)	9,274,457	2,303,594
Transfers				
Investment income allocated	465,104	1,601,631	(2,066,735)	—
Endowment administration fee	795,000	(795,000)	—	—
To establish endowments	—	(103,481)	103,481	—
Gift assessment	<u>242,635</u>	<u>3,135</u>	<u>(245,770)</u>	<u>—</u>
	<u>1,502,739</u>	<u>706,285</u>	<u>(2,209,024)</u>	<u>—</u>
Increase (decrease) in net assets	<u>\$ (749,181)</u>	<u>\$ (4,012,658)</u>	<u>\$ 7,065,433</u>	<u>\$ 2,303,594</u>

2006-2007 FINANCIAL REPORT

Indiana State University Statement of Cash Flows

For the Years Ended June 30, 2007 and June 30, 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 37,271,199	\$ 39,542,273
Grants and contracts	28,104,789	26,491,381
Auxiliary enterprises	23,818,677	26,314,992
Payments to suppliers	(50,007,892)	(52,930,675)
Net pay to employees	(57,628,794)	(58,203,597)
Payments on behalf of employees	(55,428,564)	(56,785,737)
Loans issued to students	(1,800,884)	(1,840,873)
Student loans collected	1,840,538	1,984,963
Other receipts	10,212,170	9,613,988
Net cash used in operating activities	<u>\$ (63,618,761)</u>	<u>\$ (65,813,285)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 82,415,741	\$ 84,172,812
Stafford loan receipts	22,827,177	22,055,422
Stafford loan disbursements	(22,827,177)	(22,055,422)
Gifts and other non-operating income	3,231,782	2,996,136
Net cash provided by non-capital financing activities	<u>\$ 85,647,523</u>	<u>\$ 87,168,948</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	\$ 4,461,018	\$ 2,061,338
Capital gifts and grants received	284,011	1,979,253
Repair and replacement funds—drawdown from bond trustee	1,207,445	913,956
Proceeds from bond issue	48,491,966	—
Proceeds from note payable	—	10,000,000
Costs of issuance	(566,452)	—
Cash paid for capital assets	(10,269,886)	(16,834,690)
Principal and interest paid on capital debt and leases	(10,143,931)	(12,830,514)
Net cash used in capital financing activities	<u>\$ 33,464,171</u>	<u>\$ (14,710,657)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 16,000,000	\$ 13,000,000
Interest and dividends on investments, net expenses	4,990,089	3,738,107
Purchase of investments	(33,726,730)	(21,039,139)
Net cash provided by investing activities	<u>\$ (12,736,641)</u>	<u>\$ (4,301,032)</u>
Net increase/decrease in cash for year	<u>\$ 42,756,292</u>	<u>\$ 2,343,974</u>
Cash—beginning of year	\$ 37,917,038	\$ 35,573,064
Cash—end of year	<u>\$ 80,673,330</u>	<u>\$ 37,917,038</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	\$ (71,831,245)	\$ (73,297,814)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	10,152,707	9,894,704
Changes in assets and liabilities		
Accounts receivable*	(986,767)	(652,424)
Grants receivable	121,000	(130,201)
Notes receivable	(647,039)	(3,841)
Inventories	(15,506)	33,316
Prepaid expenses	(122,632)	85,672
Accounts payable	225,150	(470,288)
Lease payable, current	78,169	156,744
Accrued payroll and deductions	(272,555)	(281,330)
Deferred revenue	(235,783)	(367,872)
Funds held in custody for others	(54,761)	131,707
Other liabilities	135,781	(221,606)
Compensated absences	(127,886)	11,672
Other liabilities—current	(37,394)	(701,724)
Net cash used by operating activities	<u>\$ (63,618,761)</u>	<u>\$ (65,813,285)</u>
Non-cash transactions		
Equipment	279,080	417,191
Capital lease	(279,080)	(417,191)

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

Indiana State University Foundation, Inc.
Statement of Cash Flow

**Year Ended
June 30, 2007**

Cash flows from operating activities:

Change in net assets	\$ 2,303,594
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	29,561
(Gain) loss on disposal of assets	505
Net (appreciation) depreciation in fair value of investments	(7,577,659)
Reinvestment of certificate of deposit earnings	(7,698)
Gift of trusts held by third parties and charitable remainder trusts	—
Change in value of accounts due to the Office of the Controller	12,211
Changes in assets and liabilities:	
Grants, pledges, bequests, and accounts receivable	2,054,085
Investment income receivable	(71,195)
Other assets	(1,259)
Accounts payable	39,477
Scholarships payable	(10,335)
Change in value of split interest agreements	<u>(248,994)</u>
Net cash from operating activities	<u>(3,477,707)</u>

Cash flows from investing activities:

Purchase of collection items	(4,525)
Proceeds from sale of investments	60,355,961
Purchase of investments	(56,608,215)
Purchase of equipment and furniture	(42,889)
Purchase of real estate	<u>(16,924)</u>
Net cash from investing activities	<u>3,683,408</u>

Net (decrease) in cash	205,701
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Cash at beginning of the period	<u>322,156</u>
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Cash at end of period	<u><u>\$ 527,857</u></u>
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NOTES TO FINANCIAL STATEMENTS

As of June 30, 2007

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 (short-term) 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. Funds invested in the Common Fund (intermediate) have an average maturity of one to three years and are classified as long-term investments.

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 operation, of which inventories are carried on the last-in, first-out (LIFO) basis. The value of the computer store inventory was \$64,662 at June 30, 2007.

F. Capital Assets

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

Minimum Capitalization Value and Useful Life by Asset Types

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

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

G. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell Grants, and other federal, state, or non-governmental programs, are recorded as 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.



Student Recreation Center

H. Net Asset

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, 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.

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 Non-expendable 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 is made on a case-by-case basis.

L. 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 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, 2007, the Foundation distributed \$6,966,204 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 217 North 6th Street, Gillum Hall, room 320, Terre Haute, IN 47809.

Note 2—Cash and Investments

The University maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed in the Statement of Net Assets under cash and cash equivalents, short-term investments, other 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, 2007, are classified in the accompanying financial statements as follows:

Statement of Net Assets

Cash and cash equivalents	\$ 80,673,330
Short-term investments	19,124,742
Endowment investments held in trust	742,139
Deposits with bond trustee	1,335,121
Other long-term investments	53,729,656
Total cash and investments	<u>\$ 155,604,988</u>

Cash and investments as of June 30, 2007, consist of the following:

Cash on hand	\$ 88,912
Deposits with financial institutions	4,888,847
Investments	150,627,229
	<u>\$ 155,604,988</u>

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Authorization for investment activity is stated in Indiana Code Title 20, Article 12, Chapter 1, Section 2. Additionally, a resolution was adopted by the Trustees of Indiana State University to authorize the treasurer to manage the investment activity of the University. A revised investment policy was approved by the Board of Trustees on February 16, 2001. Authorized investments include obligations of the United States Treasury, governmental agencies, commercial paper, bank obligations of federally insured banks, repurchase agreements, and investment grade corporate bonds. The University has also been the recipient of stocks and bonds through endowments and scholarship funds. The intent of the policy is not for the University to have funds directly invested in corporate equity positions or to directly invest in instruments which could prudently be considered to have volatile price variances. Gifts of stock to the University may be accepted and outside investment managers may have limited equity positions as part of their longer term investment strategy.

Disclosures Relating to Interest Rate Risk

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

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

University Investments and Maturities

As of June 30, 2007, the University had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
Cash on hand (petty cash)	\$ 88,912	\$ 88,912	\$ —	\$ —	\$ —
Demand deposits	4,888,847	4,888,847	—	—	—
Common fund (short-term)	66,138,246	66,138,246	—	—	—
Common fund (intermediate)	10,025,269	—	10,025,269	—	—
Money markets	2,642,446	2,642,446	—	—	—
Certificates of deposit	19,250,000	19,250,000	—	—	—
Government agencies	36,245,852	6,382,399	15,408,083	12,385,395	2,069,975
Government obligations	1,680,980	—	510,820	1,170,160	—
Corporate bonds	10,455,757	1,742,343	6,676,497	2,036,917	—
Mortgage backed securities	3,360,742	—	—	1,691,091	1,669,651
Corporate stock	85,798	—	—	—	85,798
Endowment investment held in trust	742,139	—	—	—	742,139
	<u>\$ 155,604,988</u>	<u>\$ 101,133,193</u>	<u>\$ 32,620,669</u>	<u>\$ 17,283,563</u>	<u>\$ 4,567,563</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 rates fluctuation (to a greater degree than already indicated in the information provided on previous chart):

Highly Sensitive Investments	Fair Market Value at Year End
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of the securities and makes the fair values of these securities highly sensitive to changes in interest rates.	\$ 3,360,742
Callable bonds. These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affect the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates.	\$ 13,730,509

Disclosure Relating to Credit Risk

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

Moody's Rating Scale					
Investment Type	Fair Value	AAA	Aa	A	Not Rated
Cash on hand (petty cash)	\$ 88,912	\$ —	\$ —	\$ —	\$ 88,912
Demand deposits	4,888,847	—	—	—	4,888,847
Common fund (short-term)	66,138,246	—	—	—	66,138,246
Common fund (intermediate)	10,025,269	—	—	—	10,025,269
Money markets	2,642,446	—	—	—	2,642,446
Certificates of deposit	19,250,000	—	—	—	19,250,000
Government agencies	36,245,852	36,245,852	—	—	—
Government obligations	1,680,980	1,680,980	—	—	—
Corporate bonds	10,455,757	1,178,454	6,943,652	2,333,651	—
Mortgage backed securities	3,360,742	3,360,742	—	—	—
Corporate stock	85,798	—	—	—	85,798
Endowment investments held in trust	742,139	—	—	—	742,139
	<u>\$155,604,988</u>	<u>\$ 42,466,028</u>	<u>\$ 6,943,652</u>	<u>\$ 2,333,651</u>	<u>\$103,861,657</u>

Concentration of Credit Risk

The investment policy of the University contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent (5%) or more of **total University** investments are shown on the next page:

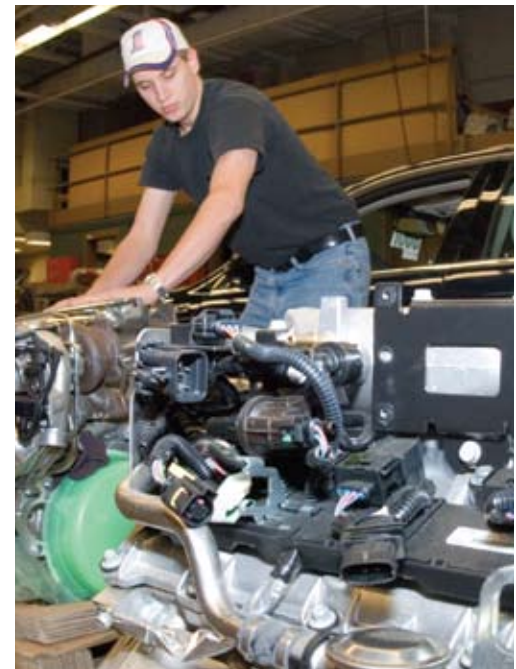
2006-2007 FINANCIAL REPORT

Issuer	Investment Type	Reported Amount
Irwin Union Bank	Certificate of deposit	\$ 15,250,000
Terre Haute Savings Bank	Certificate of deposit	\$ 4,000,000
Federal Home Loan Bank	Federal agency securities	\$ 10,956,639
Federal National Mortgage Association	Federal agency securities	\$ 12,094,882
Federal Home Loan Mortgage	Federal agency securities	\$ 9,344,949
Federal Farm Credit Bank	Federal agency securities	\$ 3,849,383

Custodial Credit Risk

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

As of June 30, 2007, Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to \$100,000 by the Federal Deposit Insurance Corporation and in excess of \$100,000 by the Indiana Public Deposits Fund. The Certificates of Deposits of \$19,250,000 are also covered under the Indiana Public Deposits Fund as they were invested in Indiana financial institutions. As of June 30, 2007, Indiana State University's investments in the following investment types that were held by the external investment managers included:



Investment Type	Amount
Common fund	\$ 76,163,515
Money market funds	\$ 2,642,446
Government agencies	\$ 36,245,852
Government obligation	\$ 1,680,980
Corporate bonds	\$ 10,455,757
Mortgage backed securities	\$ 3,360,742

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

Note 3—Unrestricted Net Assets

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

Allocated for capital projects	\$ 25,882,441
Allocated for academic/administrative activities	15,788,548
Allocated for auxiliary enterprises	12,281,518
Allocated for debt service reserve	8,539,892
Allocated for University initiatives	6,229,019
Allocated for reserves for encumbrances	3,468,123
Allocated for benefit claims	6,825,493
Allocated for technology improvements	3,433,858
Allocated for enrollment stabilization	3,004,573
Allocated for graduate and undergraduate aid	578,782
Allocated for working funds	337,629
Total allocated unrestricted net assets	<u><u>\$86,369,876</u></u>

Note 4—Capital Assets

Following are the changes in capital assets for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets not being depreciated				
Land	\$ 18,204,187	\$ 1,963,754	\$ —	\$ 20,167,941
Works of art	742,033	95,212	—	837,245
Construction in progress	11,664,960	3,379,288	(8,551,663)	6,492,585
Total capital assets not being depreciated	<u>\$ 30,611,180</u>	<u>\$ 5,438,254</u>	<u>\$ (8,551,663)</u>	<u>\$ 27,497,771</u>
Capital assets being depreciated				
Infrastructure	\$ 33,629,798	\$ —	\$ —	\$ 33,629,798
Land improvements	19,016,615	—	—	19,016,615
Buildings	275,805,811	9,105,475	(2,678,244)	282,233,042
Equipment	79,073,584	5,482,178	(3,483,252)	81,072,510
Capital lease assets	437,638	279,080	—	716,718
Total capital assets depreciation	<u>\$ 407,963,446</u>	<u>\$ 14,866,733</u>	<u>\$ (6,161,496)</u>	<u>\$ 416,668,683</u>
Less accumulated depreciation for				
Infrastructure	\$ (25,576,741)	\$ (827,004)	\$ —	\$ (26,403,745)
Land improvements	(12,952,916)	(678,820)	—	(13,631,736)
Buildings	(116,884,856)	(4,121,576)	1,558,576	(119,447,856)
Equipment	(52,604,053)	(4,369,383)	3,024,587	(53,948,849)
Lease amortization	(17,047)	(155,923)	—	(172,970)
Total accumulated depreciation	<u>\$(208,035,613)</u>	<u>\$ (10,152,706)</u>	<u>\$ 4,583,163</u>	<u>\$(213,605,156)</u>
Total capital assets being depreciated, net	\$ 199,927,833	\$ 4,714,027	\$ (1,578,333)	\$ 203,063,527
Total capital assets, net	\$ 230,539,013	\$ 10,152,281	\$ (10,129,996)	\$ 230,561,298

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:

	Balance 6-30-06	Additions	Reductions	Balance 6-30-07	Due Within One Year
Bonds payable (Note 6):					
Student fee bonds					
Series K	\$ 23,860,000	\$ —	\$ 3,665,000	\$ 20,195,000	\$ 3,795,000
Series L	36,315,000	—	2,565,000	33,750,000	2,650,000
Series M	—	47,730,000	—	47,730,000	1,575,000
Series K bond premium	701,212	—	37,903	663,309	37,903
Series L bond premium	1,888,138	—	130,216	1,757,922	130,216
Series M bond premium	—	761,966	—	761,966	29,881
Bond defeasements:					
Series K deferral or loss	(1,008,128)	—	(54,493)	(953,635)	(54,493)
Series L deferral or loss	(3,043,607)	—	(209,904)	(2,833,703)	(209,904)
Total bonds payable	\$ 58,712,615	\$ 48,491,966	\$ 6,133,722	\$ 101,070,859	\$ 7,953,603
Lease payable					
Merrimak (laptops)	\$ 415,462	\$ 279,080	\$ 198,847	\$ 495,695	\$ 234,913
Notes payable (Note 6):					
First Financial Bank	10,000,000	—	1,010,000	8,990,000	1,060,000
Total lease/notes payable	\$ 10,415,462	\$ 279,080	\$ 1,208,847	\$ 9,485,695	\$ 1,294,913
Compensated absences (Note 9)					
Vacation accrual	\$ 3,380,036	\$ —	\$ 56,897	\$ 3,323,139	\$ 2,281,216
Sick accrual	129,608	63,777	—	193,385	96,692
Total compensated absences	\$ 3,509,644	\$ 63,777	\$ 56,897	\$ 3,516,524	\$ 2,377,908
Advances from federal government	\$ 7,708,746	\$ —	\$ 28,233	\$ 7,680,513	\$ —
Total long-term liabilities	\$ 80,346,467	\$ 48,834,823	\$ 7,427,699	\$ 121,753,591	\$ 11,626,424
Bond redemption reserve (matured unpaid bonds and coupons)					\$ 50,189
Total long-term liabilities current portion					\$ 11,676,613

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, athletics, parking, and academic facilities. The outstanding bond and note indebtedness at June 30, 2007, was \$110,665,000.

The issues are serial or term bonds and notes payable with maturities extending until 2033. For the fiscal year 2006-2007, 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.

	Issue Date	Interest Rate	Maturity Dates	Principal Outstanding June 30, 2007	Bond Premium	Deferral of Loss	Total Outstanding June 30, 2007
Student Fee Bonds							
Series K	2004	3.0%-5.0%	2025	\$ 20,195,000	\$ 663,309	(\$953,635)	\$ 19,904,674
Series L	2005	3.5%-5.0%	2021	\$ 33,750,000	\$1,757,922	(\$2,833,703)	32,674,219
Series M	2007	4.25%-5.0%	2033	\$ 47,730,000	\$761,966	N/A	48,491,966
Notes Payable							
Jones Hall/Burford Hall Remodel	2006	4.63%	2011	\$ 8,990,000	N/A	N/A	\$ 8,990,000
Total				<u>\$ 110,665,000</u>			<u>\$ 110,060,859</u>

The University has pledged \$64,620,325 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.

On June 1, 2006, Indiana State University entered into a bank loan with First Financial Bank for \$10,000,000. This loan was used for the financing of the Burford Hall renovation project and the final payment on the Jones Hall renovation. On June 29, 2007, Indiana State University issued \$47,730,000 of Student Fee Bonds, Series M. See Note 7 for details.

Year	Debt Service Requirements		Total		Total
	Bonds	Notes	Principal	Interest	Payments
2008	\$ 8,020,000	\$ 1,060,000	\$ 9,080,000	\$ 4,201,705	\$ 13,281,705
2009	8,015,000	1,115,000	9,130,000	4,405,067	13,535,067
2010	7,145,000	1,170,000	8,315,000	4,075,754	12,390,754
2011	6,640,000	5,645,000	12,285,000	3,762,917	16,047,917
2012	5,665,000	—	5,665,000	3,267,259	8,932,259
2013-2017	25,580,000	—	25,580,000	12,528,650	38,108,650
2018-2022	18,005,000	—	18,005,000	7,503,314	25,508,314
2023-2027	15,260,000	—	15,260,000	3,535,313	18,795,313
2028-2032	5,970,000	—	5,970,000	1,053,106	7,023,106
2033	1,375,000	—	1,375,000	31,797	1,406,797
TOTALS	<u>\$ 101,675,000</u>	<u>\$ 8,990,000</u>	<u>\$ 110,665,000</u>	<u>\$ 44,364,882</u>	<u>\$ 155,029,882</u>

Note 7—Student Fee Bonds, Series M

On June 29, 2007, the University issued \$47,730,000 in Student Service Fee Bonds, Series M, with an All in Cost (AIC) interest rate of 4.682 percent. This bond issue will be used to provide funding for the renovation of University Hall and construction of the Student Recreation Center. The bond proceeds of \$47,730,000 plus bond premium of \$761,966, less bond issuance costs of \$584,665,

netted \$47,907,301 to be used for the projects described. The University Hall project portion of the bond issue is fee-replaced by the State of Indiana, while the Student Recreation Center is funded through a dedicated fee approved by the students.

The projects consist of:

University Hall Renovation. The project involves major upgrades in the building systems and existing interior spaces to house the College of Education. The total cost of the University Hall renovation is projected to be \$29.8 million, with approximately \$2.92 million to be funded by the University and the balance to be funded by Series M proceeds.

Recreation Center. The project involves the construction of an approximately 109,420 gross square foot facility to house student recreation activities. The total cost of the Student Recreation Center is projected to be \$21.8 million, with approximately \$750,000 to be funded by the University and the balance to be funded by Series M proceeds.

Note 8—Lease Payable

Indiana State University has entered into a capital lease agreement with Merrimak Capital Company LLC to lease computers for its faculty. The lease includes three amendments to the agreement as of June 30, 2007.

Fiscal Year	Lease Payments
2008	\$ 256,699
2009	232,278
2010	49,977
	<hr/>
Total minimum lease payments	\$ 538,954
	<hr/>
Less amount representing interest	43,259
	<hr/>
Present value of net minimum lease payments	\$ 495,695

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 (10%) with no two year waiting period. The employee will become vested in the plan at the end of two years.

For fiscal year 2006-2007, the University made contributions totaling \$6,120,605 to this plan. For the fiscal year ended June 30, 2007, there were 850 employees and retirees participating in TIAA with annual salaries equal to \$48,152,654.

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, 2007, 2006, and 2005 were \$5,582, \$18,676, and \$24,926, respectively. The University contributed 97 percent of the required contributions for each of the fiscal years, respectively. For the fiscal year ended June 30, 2007, there was one employee participating in STRF with an annual salary equal to \$79,744. 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 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 5.5 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2006-2007 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, 2007, there were 745 employees participating in PERF with annual salaries equal to \$18,732,739.

Actuarial information related to the University's portion of the plan is disclosed on the next page for the fiscal year ending June 30, 2007:

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Public Employee Retirement Fund

Three-Year Trend Information (in thousands)

	Valuation of Assets	Accrued Liability (AL)	Excess (Underfunded) Assets over (Under) AL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	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)	(APC)		
7/1/2005	\$18,169	\$17,092	\$1,077	106.3 %	\$17,459	6.2%	\$641	100%	(\$870)
7/1/2006	\$19,715	\$20,115	(\$400)	98.0 %	\$18,251	(2.2%)	\$763	94%	(\$827)
7/1/2007	\$24,227	\$24,682	(\$455)	98.2%	\$18,469	(2.5%)	\$983	93%	(\$680)

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, 1,241 retirees and dependents meet those eligibility requirements. Expenditures for post-retirement benefits are recognized as retiree claims are incurred. During the year, expenditures of \$4,662,250 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 \$56,440 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 \$225,000 per member.

Medical Claims

Unpaid medical claims, 7/01/06	\$ 3,752,029
Claims incurred	15,035,694
Claims paid	<u>(15,030,178)</u>
Unpaid medical claims, 6/30/07	<u>\$ 3,757,545</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, 2007, is as follows:

Beginning fund balance 7/1/06 (market value)	\$40,694,773
Transfer of employee/employer contributions	2,040,000
Reinvested net earnings	1,175,741
Less: management fees	(79,210)
Realized gain on sale of investments	1,823,162
Unrealized gain on increase in market value	2,972,280
Market value at June 30, 2007	<u>\$48,626,746</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.

Effective January 1, 2005, post-retirement health coverage/life insurance will not be extended to new employees hired on or after this date, or to current employees/dependents who enroll in the ISU health plan during an open or late enrollment period effective after January 1, 2005. This will help control the future liability of the plan by restricting the number of employees/dependents eligible for post-retirement benefits. This change does not affect any current employees/dependents that are already covered on the ISU plan.



An actuarial valuation was completed in March 2007 projecting the accrued liability for future retiree healthcare for current retiree and active employees. Considering the restriction of only current employees/dependents on the plan, the amount of the liability was valued at \$138.0 million at a four percent (4%) discount rate, which will be reduced by VEBA assets. The annual required (ARC) contribution would be \$9.0 million per year.

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 \$668,307 held 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:

Functional Classification	Compensation and Benefits	Supplies and Materials	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 54,749,502	\$ 5,462,278	\$ —	\$ —	\$ —	\$ 60,211,780
Research	7,229,199	3,346,466	—	—	—	10,575,665
Public service	874,789	519,102	—	—	—	1,393,891
Academic support	9,835,910	3,212,542	—	—	—	13,048,452
Student services	7,626,431	1,087,828	—	—	—	8,714,259
Institutional support	11,631,607	4,659,786	—	—	—	16,291,393
Operation of plant	9,230,612	6,642,095	7,225,477	—	—	23,098,184
Scholarships	893,582	115,595	—	5,147,528	—	6,156,705
Auxiliary enterprises	11,005,091	12,611,965	57,871	—	—	23,674,927
Depreciation	—	—	—	—	10,152,707	10,152,707
	<u>\$113,076,723</u>	<u>\$37,657,657</u>	<u>\$ 7,283,348</u>	<u>\$ 5,147,528</u>	<u>\$10,152,707</u>	<u>\$173,317,963</u>



Note 15—Interest Payable

The accrual of interest payable on debt service for 2007 was established to follow Generally Accepted Accounting Principals. This results in an additional \$610,691 of non-operating expenses and a corresponding current liability. The net result of this transaction will be a reduction in net assets by \$610,691.

Note 16—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 November 30, 2012, and were entered into as a cost avoidance strategy. The estimated cost savings to the University for the 2006-2007 fiscal year was \$772,415. As of October 8, 2007, the estimated cost avoidance from October 2007 to November 2012 is \$4.0 million.

HOME COUNTIES OF INDIANA STATE STUDENTS (Fall 2006) Unaudited

Adams 24	Hendricks 276	Pike 23
Allen 101	Henry 39	Porter 101
Bartholomew 56	Howard 50	Posey 31
Benton 15	Huntington 13	Pulaski 9
Blackford 5	Jackson 62	Putnam 261
Boone 51	Jasper 50	Randolph 8
Brown 19	Jay 4	Ripley 44
Carroll 26	Jefferson 21	Rush 24
Cass 31	Jennings 19	Scott 8
Clark 47	Johnson 104	Shelby 43
Clay 403	Knox 130	Spencer 53
Clinton 31	Kosciusko 24	St. Joseph 88
Crawford 3	La Grange 11	Starke 18
Daviess 65	Lake 423	Steuben 5
Dearborn 26	Laporte 54	Sullivan 360
Decatur 57	Lawrence 69	Switzerland 3
Dekalb 17	Madison 79	Tippecanoe 102
Delaware 34	Marion 712	Tipton 13
Dubois 182	Marshall 32	Union 6
Elkhart 55	Martin 14	Vanderburgh 140
Fayette 7	Miami 19	Vermillion 223
Floyd 41	Monroe 132	Vigo 1,977
Fountain 89	Montgomery 95	Wabash 10
Franklin 15	Morgan 107	Warren 29
Fulton 9	Newton 28	Warrick 50
Gibson 46	Noble 12	Washington 10
Grant 28	Ohio 7	Wayne 30
Greene 166	Orange 33	Wells 14
Hamilton 166	Owen 93	White 28
Hancock 73	Parke 185	Whitley 12
Harrison 28	Perry 22	

Indiana (all 92 counties)—8,558

Out-of-State (48 states)—1,562

International (61 countries)—448

Total Enrollment—10,568

Board of Trustees

as of June 30, 2007

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as of June 30, 2007

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Vice President for
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University Treasurer

Thomas Ramey
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Additional copies of the 2007 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

For Additional Information:

Admissions

Office of Admissions
Erickson Hall, room 114
Indiana State University
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More. *From day one.*