

2007-2008

# Financial Report

# MESSAGE FROM THE PRESIDENT

Greetings,

This annual financial report reflects Indiana State University's commitment both to excellence in higher education and to good stewardship of public funds. Our mission is to transform the lives of our students with an emphasis on excellent teaching, experiential learning, and community engagement. We are mindful, however, that a public institution is obligated to finance that mission with care and good judgment.

In these pages you will find the Financial Statements with accompanying Financial Statement Notes, the Independent Auditors Report, and the Management Discussion and Analysis for the fiscal year that ended June 30, 2008. These statements were prepared in accordance with guidelines established by the Governmental Accounting Standards Board (GASB) and were audited by the State Board of Accounts of Indiana.

As you review the report, you will note the financial statements for the Indiana State University Foundation are included as a component unit of the University in accordance with GASB Statement No. 39. This information is included to assist the reader in developing a complete understanding of the University's financial health.

My arrival at Indiana State University followed shortly after the conclusion of the fiscal year covered by this report. I quickly discovered that the University celebrated many successful projects and initiatives in the most recent academic year. As the University's eleventh president, I am proud to build on that legacy of success and to recognize the excellence of our faculty, the dedication of our administrators and staff, and the support of our alumni and friends. All of that energy and excellence is focused on our students—our primary concern, and the reason all of us bring our best to this University.

We do so with gratitude for Indiana's longstanding commitment to higher education and fidelity to sound stewardship in continuing that service to students. We trust that the results of our work reflected in this report are as much a source of pride to our state as they are to us.



Sincerely,

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

Daniel J. Bradley  
President



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AN EQUAL OPPORTUNITY EMPLOYER

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

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

## 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, 2008 and 2007. 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2008, on our consideration of Indiana State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

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

October 17, 2008

STATE BOARD OF ACCOUNTS

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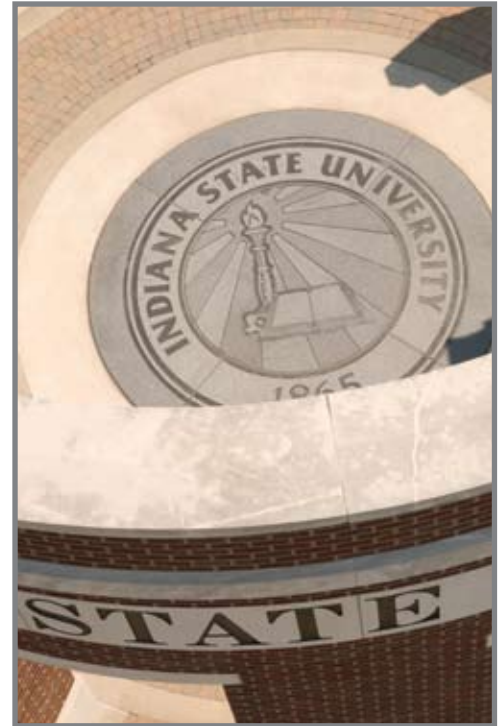
# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Introduction

The following discussion and analysis provides an overview of the financial position and activities of Indiana State University (the University) for the 2007-2008 fiscal year ended June 30, 2008. 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 2006-2007 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 40 departmental units in five colleges, a school, and various divisions. Located in Terre Haute, Indiana, with 10,543 students, Indiana State University is a significant economic engine for the Wabash Valley and the State of Indiana. Indiana State University is a partner of the Terre Haute Innovation Alliance, which provides commercialization services for companies developing or expanding their products, while engaging students in hands-on projects and creating jobs for the local economy.



## Financial Highlights

The University's financial position continues to be strong, with an increase in net assets of \$20.0 million for the fiscal year ending June 30, 2008. This continues a trend of solid financial performance and adds to the increase of \$17.5 million in the fiscal year ending June 30, 2007.

Operating revenues for the fiscal year were \$86.7 million, as compared with \$82.4 million for fiscal year 2007, an increase of five percent. The positive operating results included net student fee increases of \$2.1 million, growth of \$1.4 million in other operating revenue, and an increase in net auxiliary fees of \$1.3 million.

Other operating revenues of \$7.0 million include \$1.6 million of the \$20 million grant received from the Lilly Endowment Inc., administered through the Indiana State University Foundation for the establishment of the 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, including a mobile classroom for elementary students dubbed "The Money Bus." Through its Networks Scholars Program, NFI provides financial support for the best and brightest students who want to pursue careers in financial services. The annual Regulatory Reform Summit brings together policy makers and industry leaders to discuss issues facing the financial services sector. This

is the fifth year of the grant. The offsetting effect of this revenue is an increase in operating expenses, which primarily affected salary and benefits.

In September 2007, the Lilly Endowment Inc. announced it was providing an additional \$3.0 million grant for Networks that will ensure continued success and progress in financial literacy outreach, student programs, and research.

Operating expenses were \$181.5 million for fiscal year 2008, representing a \$9.1 million increase from the previous year's expenditures of \$172.4 million. This change results from an increase in salary and benefits of \$2.5 million due to a three percent increase in compensation. Utilities expense grew by only \$0.1 million, as long-term advance natural gas purchases and other energy-saving initiatives offset rate increases. Depreciation expenses increased by \$0.5 million, as new facilities were depreciated for a full year. Supplies and expenses grew by \$5.9 million over 2007 due to increased travel and training costs resulting from increased fuel costs, increased Sodexo board charges, an increase in general campus maintenance, purchases of computer software and equipment, and expenses incurred from the delivery of an increased number of Office of Correction courses.

Net non-operating and other revenues increased by \$7.3 million over 2007. State appropriations increased by \$3.5 million. Of this increase, \$2.0 million was associated with student fee replacement on student fee bond issue, Series M. The proceeds from the bond issue were invested in short-term investments during the construction phase of the projects. As a result of the increase in short-term investments, investment income grew by \$1.5 million as interest rates on short-term investments remained solid.

Non-operating grants and contracts revenue grew by \$1.1 million as a result of increased federal and state student financial aid. Other non-operating revenues (net of expenses) increased by \$2.4 million for fiscal year 2008. This included the recognition of a gift of 190 acres of farm land, increased royalty income of \$0.2 million, and the reduction of \$1.8 million on the loss of disposal of assets from

building renovations in 2007. Interest on capital asset related debt increased by \$1.2 million due to the Series M bonds and other non-operating expenses of \$0.5 million in 2007 related to bond issuance costs, which was not applicable in 2008.

Capital appropriations increased by \$0.3 million in 2008 due to an increase in the state annual capital contribution for major repairs and renovations. Capital grants and gifts decreased by \$1.1 million for fiscal year 2008.



## Using the Financial Statements

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

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

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

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

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

The Governmental Accounting Standards Board (GASB) requires the inclusion of financial statements for all significant University component units. As of June 30, 2008, the Indiana State University Foundation is the only component unit to be included. The Foundation is a nonprofit organization that is subject to reporting guidelines governed by the Financial Accounting Standards Board (FASB); accordingly, certain revenue recognition criteria and presentation features are different from established GASB standards. No modifications have been made to the Indiana State University Foundation's financial information in the University's financial reporting presentation for these differences.

## Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities is net assets, which is one measure of the financial condition of the University. Changes in net assets are an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured at historical values in accordance with generally accepted accounting principles. One notable exception is investments, which are recorded at fair market value as of the date of the financial statements. A summarized comparison of the University's assets, liabilities, and net assets at June 30, 2008 and 2007 is as follows:

<b>Statement of Net Assets</b> (in millions)		
	<b>2008</b>	<b>2007</b>
Current assets	\$ 98.3	\$ 111.9
Non-current assets:		
State receivable	0.0	2.2
Deposits with bond trustee	1.3	1.3
Notes receivable	5.8	5.8
Other long-term investments	49.0	53.7
Capital assets, net	263.3	230.6
Other	0.7	0.7
Total assets	<u>\$ 418.4</u>	<u>\$ 406.2</u>
Current liabilities	28.0	26.3
Non-current liabilities	100.6	110.1
Total liabilities	<u>\$ 128.6</u>	<u>\$ 136.4</u>
Net assets	<u><u>\$ 289.8</u></u>	<u><u>\$ 269.8</u></u>

Current assets consist primarily of cash, operating investments, and accounts receivable. Current assets totaled \$98.3 million at June 30, 2008, as compared to \$111.9 million at June 30, 2007.

The decrease of current assets by \$13.6 million is due to a \$24.6 million decrease in cash and cash equivalents and an \$11.3 million increase in short-term investments. Cash equivalents include investments that will mature within the next 90 days, along with the Common Fund. This decrease is largely due to the spending of approximately \$28 million of Series M bond proceeds for the renovation of University Hall and the construction of the new Student Recreation Center.

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portion of long-term debt. Total current liabilities increased by \$1.7 million in 2008. Significant changes in current liabilities include a \$2.1 million increase in accounts payable, a \$1.8 million decrease in accrued compensation, a \$0.5 million increase in other liabilities, and a \$0.5 million increase in bond and interest payable.

Non-current assets increased by \$25.9 million in 2008 from \$294.3 million in 2007. Long-term investments decreased by \$4.7 million. 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 the remaining amount for fiscal year 2009 to be used for major repairs and renovations. Capital assets increased by \$32.7 million due to an increase in construction work-in-progress as a result of the ongoing construction of the Student Recreation Center and the renovation of University Hall.

Non-current liabilities decreased by \$9.5 million due to regular debt service payments made on bonds and notes outstanding.

## Capital and Debt Activities

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

In December 2005, Indiana State University entered into a ground lease agreement with the City of Terre Haute for the purposes 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 provides 628 parking spaces and serves as Terre Haute's bus depot. Indiana State has access to one-half of the parking spaces and use of the facility for after-hours events. The federal government committed \$8.9 million to the project, and the city provided approximately \$4.4 million. Opened May 27, 2008, the facility is viewed as an economic development tool for the community and a catalyst for additional projects that will bring students and citizens downtown and stimulate new development.

Work began in June 2007 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 400-seat auditorium. The building also features historic murals painted by Terre Haute native Gilbert Wilson, which will be preserved as part of the renovations.



*Student Recreation Center*

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; 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 targeted for completion in spring 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 \$0.75 million to be funded by the University.

With a gift from Randall and Nancy Minas and a matching gift from the Lilly Endowment, Indiana State University established the Minas Center for Investment and Financial Education, which opened in November 2007. Housed on the first floor of the College of Business, the trading room features multiple stock tickers, three video data walls, and 24 student work stations with dual monitors. The financial trading room provides access to a variety of professional financial databases, and gives the ISU Student Investment Club an opportunity to invest part of the gift to gain real-world experience.

The 2007 Indiana General Assembly approved the expenditure of and related bonding authority under IC21-34 of \$14.8 million for the renovation of the life science/chemistry teaching laboratories housed in the Science Building and the construction of a satellite chiller plant. The project will provide for major upgrades in the life science/chemistry laboratories to reflect current technology, as well as more stringent safety and access standards as required by ADA and OSHA guidelines. Construction of a satellite chiller in close proximity to the Science Building will provide for additional capacity within the cooling system of the campus and build back-up redundancy not currently available. Bonds issuance and construction should begin in fiscal year 2009, subject to state approval of the financing plan.

The University continues to work aggressively to manage its financial resources effectively, including the issuance of debt to finance capital projects. Indiana State University's initial credit rating of the insured Series M bond issue by Moody's Investors Service was (Aaa), and Fitch's credit rating was (AAA). On June 19, 2008, due to changes in market conditions, Moody's downgraded ratings on all MBIA insured bonds from (Aaa) to (A2), which affected the Series M bonds. The underlying credit rating of Indiana State University remained the same at (A2). Series K and L bond issues insured by Ambac Assurance Corporation were downgraded by Moody's from (Aaa) to (Aa3), and Series K was

downgraded by Standard & Poor's from (AAA) to (AA). The Moody's underlying rating for Series K and L remains (A2), and Standard & Poor's underlying rating for Series K remains (A).

## Net Assets

Net assets represent the residual value of the University's assets after liabilities are deducted. The University's net assets at June 30, 2008 and 2007 are summarized in the table that follows:

<b>Net Assets</b> (in millions)	<b>2008</b>	<b>2007</b>
Invested in capital assets, net of related debt	\$162.0	\$120.0
Restricted		
Non-expendable	2.9	2.9
Expendable	32.1	60.5
Unrestricted (designated for operational activities, see Note 3)	<u>92.8</u>	<u>86.4</u>
Total net assets	<u><u>\$289.8</u></u>	<u><u>\$269.8</u></u>

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

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

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

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



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

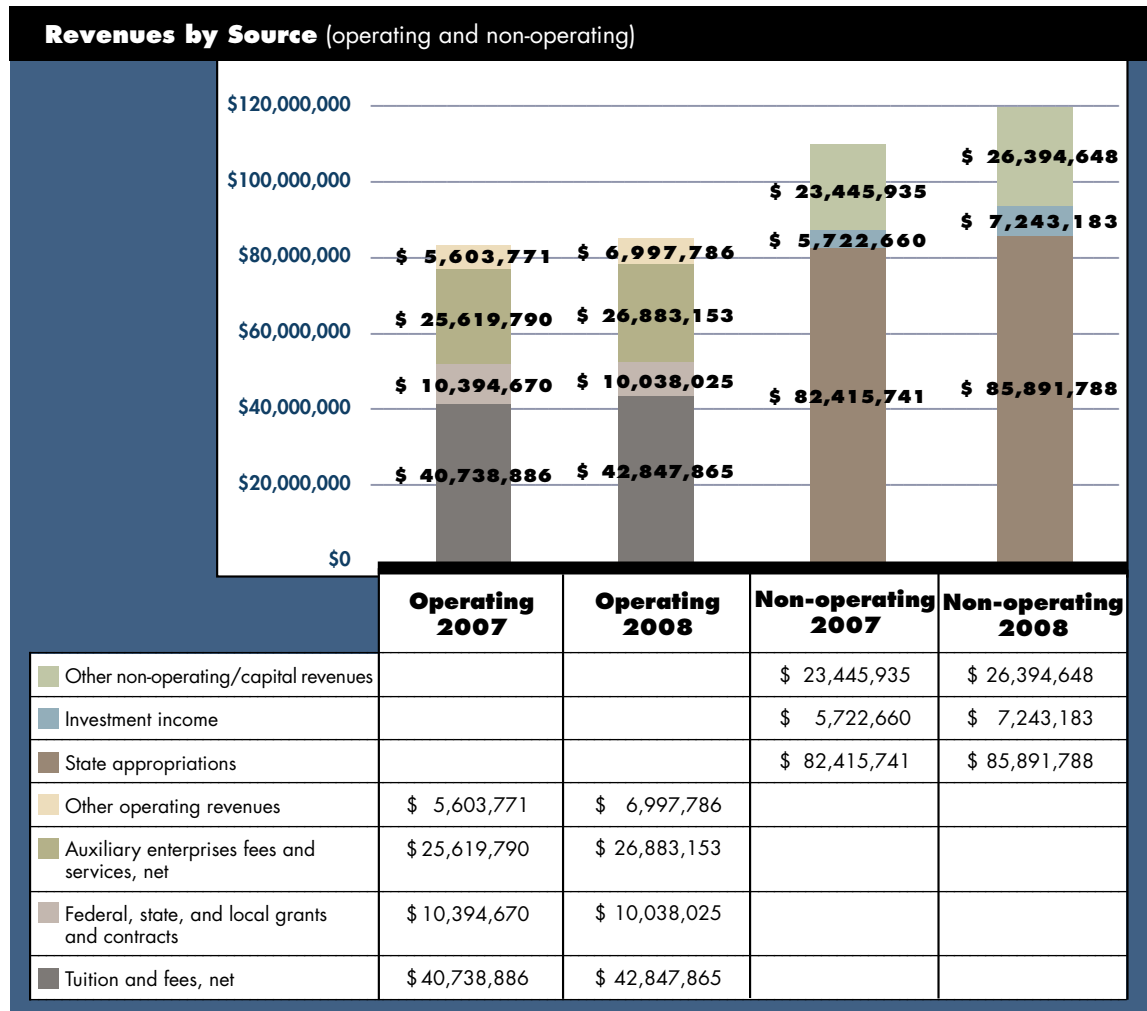
The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2008 and 2007 is as follows:

<b>Revenues, Expenses, and Changes in Net Assets</b> (in millions)		
	2008	2007
Operating Revenues:		
Tuition and fees (net of scholarship and other allowances \$25.2 million for 2008 and \$23.6 million for 2007)	\$ 42.8	\$ 40.8
Grants and Contracts	10.0	10.4
Auxiliary enterprises fees and services (net of scholarship and other allowances of \$5.8 million for 2008 and \$5.5 million for 2007)	26.9	25.6
Other	7.0	5.6
Total operating revenue	<u>\$ 86.7</u>	<u>\$ 82.4</u>
Operating expenses	<u>(181.5)</u>	<u>(172.4)</u>
Operating loss	(\$ 94.8)	(\$ 90.0)
Non-operating revenues (expenses):		
State appropriations	85.9	82.4
Investment income (net of investment expenses of \$.2 for 2008 and \$.1 for 2007)	7.2	5.7
Non-operating revenues and contract revenue	19.2	18.1
Capital appropriations	2.3	2.1
Capital grants and gifts	0.2	1.3
Other non-operating revenues	4.7	1.4
Interest on capital asset related debt	<u>(4.7)</u>	<u>(3.5)</u>
Net non-operating and other revenues	<u>\$ 114.8</u>	<u>\$ 107.5</u>
Increase in net assets	\$ 20.0	\$ 17.5
Net assets, beginning of year	269.8	252.3
Net assets, end of year	<u><u>\$ 289.8</u></u>	<u><u>\$ 269.8</u></u>

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

# 2007-2008 FINANCIAL REPORT

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



Operating revenues grew by \$4.4 million for fiscal year 2008. This is largely due to an increase of \$2.1 million in tuition and fees. The tuition increase is the result of a five percent increase in tuition rates and the addition of a transportation fee. The transportation fee was also implemented to support the multi-modal transportation facility. This fee was approved by students via referendum votes. Overall, University enrollment remained relatively the same with 10,543 students in 2008 compared to 10,568 students in 2007; however, new freshman enrollment was up nine percent. This is the second consecutive year the University has recognized an increase in freshman enrollment. Graduate enrollment grew by 19 students, to set an enrollment record of 2,050 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 ongoing marketing plan, leading to increased incoming freshman enrollment. Indiana State University is committed to strengthening the quality of students who enter the institution.

Additionally, auxiliary enterprises fees and services and other operating revenues increased by \$1.3 million and \$1.4 million respectively during fiscal year 2008. Auxiliary enterprises fees and services increased due to a six percent increase in fees for room and board and an increase in the number of students residing in campus housing. Other operating revenues grew as the result of increases in the reimbursements received from the ISU Foundation for the Networks Financial Institute.

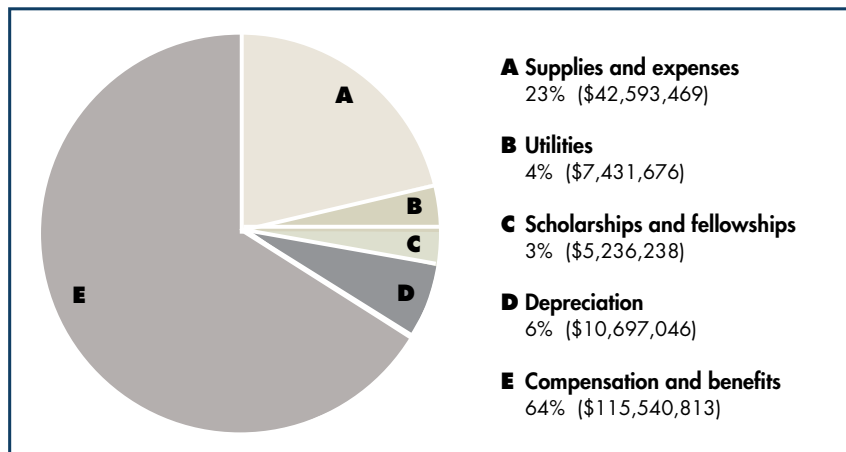
Total non-operating and capital revenues grew by \$7.3 million for fiscal year 2008. This is due to increases in state appropriations of \$3.5 million, investment income of \$1.5 million, non-operating grants and contracts of \$1.1 million, and other non-operating revenues of \$1.8 million. These increases were offset by a decrease of \$1.1 million in capital grants and gifts.

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

A comparative summary of the University's expenses for the years ended June 30, 2008 and 2007 is as follows:

<b>Operating Expenses</b> (in millions)		
	2008	2007
Operating:		
Compensation and benefits	\$ 115.6	\$ 113.1
Supplies and expenses	42.6	36.7
Utilities	7.4	7.3
Scholarships and fellowships	5.2	5.1
Depreciation	10.7	10.2
	<u>\$ 181.5</u>	<u>\$ 172.4</u>
Non-operating:		
Interest on capital related debt	\$ 4.7	\$ 3.5
Other non-operating expenses	0.0	0.6
Total expenses	<u>\$ 186.2</u>	<u>\$ 176.5</u>

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



# 2007-2008 FINANCIAL REPORT



*University Hall renovation*

Total operating expenditures increased from \$172.4 million in fiscal year 2007 to \$181.5 million in fiscal year 2008. Compensation and benefits increased by \$2.5 million as a result of a three percent increase in salaries. Supplies and expenses also showed a \$5.9 million increase for 2008. These increases are due to increased fuel costs, Sodexho board charges, an increase in general campus maintenance, purchases of computer software and equipment, and expenses incurred from the delivery of an increased number of Department of Correction courses.

Utilities expenses grew by only \$0.1 million for 2008. The University saved over \$1.1 million for 2008 in natural gas costs by having entered into long-term advance purchase contracts.

Scholarships and fellowship expenses remained at the same levels as 2007 in spite of the enrollment decline. This is in keeping with the institutional priority of providing additional need and merit based scholarships.

In addition to their natural (object) classification (expenditure type), the reader is also benefited by a review of operating expenses by the nature of the University division incurring the expense. A summary of the University's expenses by functional classification for the years ended June 30, 2008 and 2007 is as follows:

## **Expenses by Function** (in millions)

	<b>2008</b>	<b>2007</b>
Operating:		
Instruction	\$ 60.7	\$ 60.2
Research	10.7	10.6
Public service	1.6	1.4
Institutional and academic support	35.3	28.8
Student services	10.3	8.6
Operations of plant	22.2	23.1
Scholarships	6.4	6.2
Auxiliary enterprises	23.6	23.4
Depreciation	10.7	10.1
	<u>\$ 181.5</u>	<u>\$ 172.4</u>

## Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by identifying the major sources and uses of cash. The statement assists the reader 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, 2008 and 2007 is as follows:

<b>Statement of Cash Flows</b> (in millions)	<b>2008</b>	<b>2007</b>
Cash received from operations	\$ 90.2	\$ 83.1
Cash expended for operations	<u>(172.4)</u>	<u>(164.9)</u>
Net cash used in operating activities	(82.2)	(81.8)
Net cash provided by non-capital financing activities	109.1	103.9
Net cash provided (used) by investing activities	1.2	(12.7)
Net cash provided (used) by capital and related financing activities	<u>(52.8)</u>	<u>33.4</u>
Net increase (decrease) in cash and cash equivalents	(24.7)	42.8
Cash and cash equivalents, beginning of year	<u>80.7</u>	<u>37.9</u>
Cash and cash equivalents, end of year	<u>\$ 56.0</u>	<u>\$ 80.7</u>

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. For purposes of liquidity classification, investment maturities are evaluated as of the financial statement date. Funds invested in the Common Fund are considered cash equivalents.

The University increased the net cash used in operating activities by \$0.4 million to \$82.2 million for the 2008 fiscal year. Payments made to employees and on the behalf of employees increased by \$3.0 million from 2007. Tuition and fees cash receipts increased by \$5.3 million, the result of a five percent increase in tuition and fees and the addition of a transportation fee. Cash receipts for auxiliary enterprises increased by \$2.9 million due to a six percent increase in room and board fees.

Cash flows from capital financing activities decreased by \$86.3 million from 2007. This decrease is largely due to the prior year receipt of the Series M bond proceeds of \$48.5 million, which is being used for the funding of capital projects. Capital appropriations from the state remained level at \$4.5 million. Cash paid for capital assets increased by \$33.9 million due to the expense of the ongoing construction of the Student Recreation Center and the renovation of University Hall. The increase of \$3.2 million in principal and interest paid on capital debt and leases comprises the difference between 2008 and 2007 cash flows from capital financing activities. This increase was due to the issuance of the Series M bond at the end of fiscal year 2007.

Overall, cash and cash equivalents decreased by \$24.7 million for fiscal year 2008, while long-term investments decreased by \$4.7 million, and short-term investments grew by \$11.3 million.

## Economic Factors Affecting the Future

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

Indiana State University has had a long tradition of serving primarily first-generation college students from diverse geographical, socio-economic, and ethnic backgrounds. For much of its history, Indiana State was considered an open admissions residential university. Embracing this mission helped transform the lives of generations of students. The University's ongoing commitment to diversity remains a priority, with 17.1 percent of its fall 2008 student population being an American minority.

With the advent of a community college system, the University's mission has moved from an open admissions university to that of a more selective institution. The University has also revamped its scholarship program to attract high-achieving students while also providing a business-grade laptop computer award to all incoming students who earned a 3.0 or higher high school grade point average and completed Core 40 requirements or their equivalent. Partly as a result of these initiatives and increased marketing efforts, the University has experienced an increase in first time freshman enrollment for the past three fall semesters (1,703 in fall 2006 to 1,940 fall 2008). Graduate enrollment also continued to increase from 2,050 students in the fall of 2007 to 2,071 in the fall of 2008.

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

The University has completed a program prioritization process to review all its academic offerings. This prioritization program was designed to develop, inform, and assist the University

in understanding programs and the resources needed to support them in order to make planned and systematic changes that enhance quality and effectiveness. In addition to containing costs, increasing productivity, and redirecting resources to priority academic programs, Indiana State University's program prioritization process is designed to improve the quality of programs, increase accountability, increase revenue through enrollment growth, improve and strengthen institutional reputation, and bring greater focus and clarity to the University's academic offerings. Through program elimination, revisions, and mergers, the number of programs offered has been reduced from 214 to approximately 150 to 160. The final number will be determined when all curriculum revisions are completed. The University is committed to annually reviewing



*Condit House, President's residence*

the health and vitality of its programs and to assessing the strategic allocation of its resources to support existing programs and develop new programs to meet the educational needs of the state.

Each year, the University provides the local community and the State of Indiana with a skilled pool of more than 1,800 graduates ready to enter the workforce. Most Indiana State University graduates remain in Indiana, working in nearly every sector of the economy, illustrating the University's role in meeting the demand for an educated and skilled workforce.



*Memorial Stadium with a pathway in the shape of Indiana*

Beyond providing a high-quality education to its students, Indiana State University devotes a substantial part of its efforts to working in the local community, the state, and beyond. Through its various centers and partnerships, the University is actively engaged on a number of fronts in promoting economic development and improving the public education, health, and welfare of the Wabash Valley region. One of these initiatives is the Terre Haute Innovation Alliance. Representing a partnership between Indiana State University, Rose-Hulman Institute of Technology, and the City of Terre Haute, the Alliance encourages business development while engaging students and faculty in hands-on research and activities. Created with \$500,000 in federal support and an additional \$500,000 from the U.S. Small Business Administration, the Alliance is currently providing technical and consulting expertise to four companies.

As indicated earlier, 48 percent of support for educational programs comes to the University from the State of Indiana. The state appropriation is the largest single source of revenue and a crucial element of the University's total revenue stream. Therefore, the University is challenged to develop and identify additional sources of funding. Fortunately, the University's very attractive fee structure relative to other state research institutions allows for continued fee growth, as permitted by governing entities, while remaining an exceptional value within the state higher education climate. The University continues to seek ways to diversify revenue streams to maintain student affordability.

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



# 2007-2008 FINANCIAL REPORT

## Indiana State University Comparative Statement of Net Assets

For the Years Ended June 30, 2008 and June 30, 2007

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 56,028,186	\$ 80,673,330
Short-term investments	30,392,326	19,124,742
Accrued interest	1,062,466	955,277
Accounts receivable (net of allowance of \$5,644,075 for 2008 and \$5,098,767 for 2007)	2,881,637	3,974,521
Other accounts receivable	800,505	607,453
Grants receivable	1,805,919	1,655,172
State receivable, current portion	2,152,369	2,152,370
Notes receivable, current portion	2,356,515	2,036,591
Prepaid expenses	478,129	531,840
Other assets	61,077	16,930
Inventories	246,141	168,062
Total current assets	<u>\$ 98,265,270</u>	<u>\$ 111,896,288</u>
<b>Non-current assets</b>		
State receivable, non-current portion	\$ —	\$ 2,152,369
Endowment investments—held in trust	746,810	742,139
Deposits with bond trustee	1,270,670	1,335,121
Notes receivable, non-current portion (net of allowance of \$812,138 for 2008 and \$775,347 for 2007)	5,850,989	5,794,463
Other long-term investments	49,040,183	53,729,656
Capital assets, (net of accumulated depreciation of \$221,385,775 for 2008 and \$213,605,156 for 2007)	263,287,193	230,561,298
Total non-current assets	<u>\$ 320,195,845</u>	<u>\$ 294,315,046</u>
<b>Total assets</b>	<u>\$ 418,461,115</u>	<u>\$ 406,211,334</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,286,111	\$ 2,220,570
Accrued payroll and deductions	3,281,000	5,129,650
Deferred revenue	1,764,666	1,598,263
Funds held in custody for others	716,336	668,307
Other liabilities	4,946,276	4,412,304
Bonds payable (Note 6)	7,948,603	7,953,603
Notes payable	1,115,000	1,060,000
Lease payable	209,632	234,913
Debt interest payable	1,071,631	610,691
Long-term liabilities, current portion (Note 5)	2,677,506	2,428,098
Total current liabilities	<u>\$ 28,016,761</u>	<u>\$ 26,316,399</u>
<b>Non-current liabilities</b>		
Bonds payable (Note 6)	\$ 85,168,652	\$ 93,117,256
Notes payable	6,815,000	7,930,000
Compensated absences	860,521	1,138,615
Lease payable	51,150	260,782
Advances from federal government	7,705,851	7,680,513
Total non-current liabilities	<u>\$ 100,601,174</u>	<u>\$ 110,127,166</u>
<b>Total liabilities</b>	<u>\$ 128,617,935</u>	<u>\$ 136,443,565</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 161,979,155	\$ 120,004,744
Restricted for:		
Non-expendable:		
Scholarships and fellowships	746,810	742,139
Loans	2,198,119	2,190,699
Expendable:		
Research and other grants	1,441,625	1,486,680
Capital projects	30,628,267	58,954,503
Debt service	4,748	19,128
Unrestricted	92,844,456	86,369,876
<b>Total net assets</b>	<u>\$ 289,843,180</u>	<u>\$ 269,767,769</u>

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

**Indiana State University Foundation, Inc.**  
**Statement of Financial Position**

	<b>June 30, 2008</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>ASSETS</b>				
Cash	\$ 708,539	\$ 232,623	\$ —	\$ 941,162
Investments—at market	4,487,193	8,796,730	49,989,236	63,273,159
Assets held in trusts, interest in trusts, and split interest agreements	—	1,281,135	2,516,542	3,797,677
Pledges, bequests, and accounts receivable	265,198	396,212	627,138	1,288,548
Investment income receivable	10,256	237,052	—	247,308
Land and property held for future use or sale	342,485	—	100,000	442,485
Equipment and furniture (net of accumulated depreciation of \$135,696)	74,618	5,985	—	80,603
Other assets	—	357,011	250,000	607,011
Due to/from other funds	<u>(4,610,255)</u>	<u>6,021,905</u>	<u>(1,411,650)</u>	<u>—</u>
Total assets	<u>\$ 1,278,034</u>	<u>\$ 17,328,653</u>	<u>\$ 52,071,266</u>	<u>\$ 70,677,953</u>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 334,707	\$ 349,392	\$ —	\$ 684,099
Scholarships payable	—	1,400	—	1,400
Present value of liability under split interest agreements	83,240	111,985	634,855	830,080
Due to Indiana State University	1,032	250	745,528	746,810
Refundable advances	—	—	573,725	573,725
Total liabilities	<u>418,979</u>	<u>463,027</u>	<u>1,954,108</u>	<u>2,836,114</u>
Net assets	<u>859,055</u>	<u>16,865,626</u>	<u>50,117,158</u>	<u>67,841,839</u>
Total liabilities and net assets	<u>\$ 1,278,034</u>	<u>\$ 17,328,653</u>	<u>\$ 52,071,266</u>	<u>\$ 70,677,953</u>

# 2007-2008 FINANCIAL REPORT

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

For the Years Ended June 30, 2008 and June 30, 2007

	<b>2008</b>	<b>2007</b>
<b>OPERATING REVENUES</b>		
Tuition and fees	\$ 68,086,839	\$ 64,361,565
Scholarship allowances for tuition and fees	(24,564,474)	(22,995,046)
Other allowances	<u>(674,500)</u>	<u>(627,633)</u>
Net tuition and fees	42,847,865	40,738,886
Federal grants and contracts	6,047,362	5,703,729
State and local grants and contracts	609,539	791,722
Non-governmental grants and contracts	3,381,124	3,899,219
Auxiliary enterprises fees and services	32,693,425	31,087,690
Scholarship allowances for room and board	(5,468,827)	(5,146,962)
Other allowances	<u>(341,445)</u>	<u>(320,938)</u>
Net auxiliary enterprises fees and services	26,883,153	25,619,790
Other operating revenues	6,997,786	5,603,771
Total operating revenues	<u>\$ 86,766,829</u>	<u>\$ 82,357,117</u>
<b>EXPENSES</b>		
Compensation and employee benefits	\$ 115,540,813	\$ 113,076,723
Supplies and expenses	42,593,469	36,709,086
Utilities	7,431,676	7,283,348
Scholarships and fellowships	5,236,238	5,147,528
Depreciation	<u>10,697,046</u>	<u>10,152,707</u>
Total operating expenses	<u>\$ 181,499,242</u>	<u>\$ 172,369,392</u>
Operating loss	<u>\$ (94,732,413)</u>	<u>\$ (90,012,275)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 85,891,788	\$ 82,415,741
Gifts	1,570,902	691,846
Investment income (net of investment expenses of \$154,905 for 2008 and \$123,259 for 2007)	7,243,183	5,722,660
Interest on capital asset related debt	(4,721,795)	(3,524,953)
Non-governmental grants and contracts revenues	19,232,066	18,181,030
Other non-operating revenues	3,072,171	1,255,903
Other non-operating expenses	<u>—</u>	<u>(564,452)</u>
Net non-operating revenues	<u>\$ 112,288,315</u>	<u>\$ 104,177,775</u>
Income before other revenues, expenses, gains, or losses	<u>\$ 17,555,902</u>	<u>\$ 14,165,500</u>
Capital appropriations	\$ 2,340,990	\$ 2,061,338
Capital grants and gifts	<u>178,519</u>	<u>1,255,819</u>
Total other revenues	<u>\$ 2,519,509</u>	<u>\$ 3,317,157</u>
Increase in net assets	<u>\$ 20,075,411</u>	<u>\$ 17,482,657</u>
<b>NET ASSETS</b>		
Net assets—beginning of year	\$ 269,767,769	\$ 252,285,112
Net assets—end of year	<u>\$ 289,843,180</u>	<u>\$ 269,767,769</u>

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

**Indiana State University Foundation, Inc.**  
**Statement of Activities**

	<b>Year Ended June 30, 2008</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues</b>				
Contributions	\$ 937,816	\$ 2,849,779	\$ 1,511,487	\$ 5,299,082
Lilly Endowment grants	—	3,160,785	—	3,160,785
Investment income				
Interest and dividends				
Trust and temporary investments	204,806	1,633,108	—	1,837,914
Net appreciation (depreciation)				
in fair value of investments	(16,209)	2,649	(4,158,310)	(4,171,870)
Non-gift income	26,401	203,171	11,114	240,686
Change in value of split interest agreements	(11,606)	(46,129)	(62,995)	(120,730)
Service fee income—Indiana State University	434,546	—	—	434,546
In kind support	—	299,218	—	299,218
	<u>1,575,754</u>	<u>8,102,581</u>	<u>(2,698,704)</u>	<u>6,979,631</u>
Net assets released from restriction				
Satisfaction of donor restriction	8,083,624	(8,083,624)	—	—
Total revenues	<u>9,659,378</u>	<u>18,957</u>	<u>(2,698,704)</u>	<u>6,979,631</u>
<b>Expenses</b>				
Scholarships and awards	2,106,156	—	—	2,106,156
Restricted and designated expenditures	6,009,918	—	—	6,009,918
Grants for academic and other				
University projects	358,381	—	—	358,381
Foundation operational expenditures	1,088,178	—	—	1,088,178
Development and advancement—				
fund raising	2,127,485	—	—	2,127,485
Total expenses	<u>11,690,118</u>	<u>—</u>	<u>—</u>	<u>11,690,118</u>
	<u>(2,030,740)</u>	<u>18,957</u>	<u>(2,698,704)</u>	<u>(4,710,487)</u>
<b>Transfers</b>				
Investment income allocated	1,146,227	1,482,630	(2,628,857)	—
Endowment administration fee	815,333	(815,333)	—	—
To establish endowments	—	(49,316)	49,316	—
Reclassification of endowments to temporary	—	121,023	(121,023)	—
Gift assessment/Campaign surcharge	81,920	(65,012)	(16,908)	—
	<u>2,043,480</u>	<u>673,992</u>	<u>(2,717,472)</u>	<u>—</u>
Increase (decrease)				
in net assets	<u>\$ 12,740</u>	<u>\$ 692,949</u>	<u>\$ (5,416,176)</u>	<u>\$ (4,710,487)</u>

# 2007-2008 FINANCIAL REPORT

## Indiana State University Statement of Cash Flows

For the Years Ended June 30, 2008 and June 30, 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 42,597,878	\$ 37,271,199
Grants and contracts	9,151,094	9,880,900
Auxiliary enterprises	26,756,680	23,818,677
Payments to suppliers	(54,853,050)	(50,007,892)
Net pay to employees	(59,880,167)	(57,628,794)
Payments on behalf of employees	(56,192,393)	(55,428,564)
Loans issued to students	(1,425,876)	(1,800,884)
Student loans collected	1,437,576	1,840,538
Other receipts	10,213,698	10,212,170
Net cash used in operating activities	<u>\$ (82,194,560)</u>	<u>\$ (81,842,650)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 85,891,788	\$ 82,415,741
Stafford loan receipts	23,768,750	22,827,177
Stafford loan disbursements	(23,768,749)	(22,827,177)
Non-operating grants and contacts	19,648,157	18,223,889
Gifts and other non-operating income	3,586,631	3,231,782
Net cash provided by non-capital financing activities	<u>\$ 109,126,577</u>	<u>\$ 103,871,412</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital appropriations received	\$ 4,493,360	\$ 4,461,018
Capital gifts and grants received	43,864	284,011
Repair and replacement funds—drawdown from bond trustee	199,485	1,207,445
Proceeds from bond issue	—	48,491,966
Costs of issuance	—	(566,452)
Cash paid for capital assets	(44,178,815)	(10,269,886)
Principal and interest paid on capital debt and leases	(13,370,458)	(10,143,931)
Net cash provided (used) by capital financing activities	<u>\$ (52,812,564)</u>	<u>\$ 33,464,171</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	\$ 81,633,636	\$ 16,000,000
Interest and dividends on investments, net expenses	6,058,329	4,990,089
Purchase of investments	(86,456,562)	(33,726,730)
Net cash provided (used) by investing activities	<u>\$ 1,235,403</u>	<u>\$ (12,736,641)</u>
Net increase (decrease) in cash for year	<u>\$ (24,645,144)</u>	<u>\$ 42,756,292</u>
Cash and cash equivalents—beginning of year	<u>\$ 80,673,330</u>	<u>\$ 37,917,038</u>
Cash and cash equivalents—end of year	<u>\$ 56,028,186</u>	<u>\$ 80,673,330</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	\$ (94,732,413)	\$ (90,012,275)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	10,697,046	10,152,707
Changes in assets and liabilities		
Accounts receivable*	1,146,424	(1,029,627)
Grants receivable	(150,747)	121,000
Notes receivable	(319,924)	(647,039)
Inventories	(78,079)	(15,506)
Prepaid expenses	53,711	(122,632)
Accounts payable	2,065,541	225,150
Lease payable, current	(25,281)	78,169
Accrued payroll and deductions	(1,848,650)	(272,555)
Deferred revenue	166,403	(235,783)
Funds held in custody for others	48,029	(54,761)
Other liabilities	533,972	135,781
Compensated absences	235,095	(127,886)
Other liabilities—current	14,313	(37,394)
Net cash used by operating activities	<u>\$ (82,194,560)</u>	<u>\$ (81,842,651)</u>
Non-cash transactions		
Equipment	—	279,080
Capital lease	—	(279,080)

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

**Indiana State University Foundation, Inc.**  
**Statement of Cash Flows**

	<b>Year Ended June 30, 2008</b>
<b>Cash flows from operating activities:</b>	
Change in net assets	\$ (4,710,487)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	30,469
Loss on disposal of assets	1,192
Net (appreciation) depreciation in fair value of investments	4,171,870
Reinvestment of certificate of deposit earnings	—
Gift of trusts held by third parties and charitable remainder trusts	(1,002,800)
Change in value of accounts due to the Office of the Controller	4,671
Changes in assets and liabilities:	
Grants, pledges, bequests, and accounts receivable	(1,120,553)
Investment income receivable	36,810
Other assets	22,571
Accounts payable	328,082
Scholarships payable	263
Change in value of split interest agreements	161,601
Net cash from operating activities	<u>(2,076,311)</u>
<b>Cash flows from investing activities:</b>	
Purchase of collection items	(19,506)
Proceeds from sale of investments	60,973,706
Purchase of investments	(58,752,986)
Purchase of equipment and furniture	(19,660)
Purchase from sale of real estate	310,813
Purchase of real estate	(2,751)
Net cash from investing activities	<u>2,489,616</u>
Net increase in cash	413,305
<b>Cash at beginning of the period</b>	<u>527,857</u>
<b>Cash at end of period</b>	<u>\$ 941,162</u>

# NOTES TO FINANCIAL STATEMENTS

As of June 30, 2008

## 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

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

### 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 \$93,095 at June 30, 2008.

### F. Capital Assets

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

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

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

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

### G. Scholarship Discounts and Other Allowances

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

### H. Net Assets

University resources are classified for financial reporting purposes into four net asset categories: *Invested in capital assets, net of related debt*: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

*Restricted net asset, non-expendable:* Non-expendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Restricted net assets, expendable:* Restricted expendable net assets include resources that the University is legally

or contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.



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

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

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

During the year ended June 30, 2008, the Foundation distributed \$7,209,440 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, 2008, are classified in the accompanying financial statements as follows:

<b>Statement of Net Assets</b>	
Cash and cash equivalents	\$ 56,028,186
Short-term investments	30,392,326
Endowment investments held in trust	746,810
Deposits with bond trustee	1,270,670
Other long-term investments	49,040,183
Total cash and investments	<u>\$ 137,478,175</u>
<b>Cash and investments as of June 30, 2008, consist of the following:</b>	
Cash on hand	\$ 98,746
Deposits with financial institutions	3,888,725
Investments	133,490,704
	<u>\$ 137,478,175</u>

# 2007-2008 FINANCIAL REPORT

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

## Disclosures Relating to Interest Rate Risk

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

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

### University Investments and Maturities

As of June 30, 2008, 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)	\$ 98,746	\$ 98,746	\$ —	\$ —	\$ —
Demand deposits	3,888,725	3,888,725	—	—	—
Common fund (short-term)	23,322,952	23,322,952	—	—	—
Money markets	17,543,433	17,543,433	—	—	—
Certificates of deposit	38,243,646	34,145,000	4,098,646	—	—
Government agencies	36,038,161	6,310,973	14,953,065	11,308,473	3,465,650
Government obligations	1,271,585	519,415	752,170	—	—
Corporate bonds	12,952,543	1,861,938	5,679,470	4,218,415	1,192,720
Mortgage backed securities	3,295,795	—	—	2,575,987	719,808
Corporate stock	75,779	—	—	—	75,779
Endowment investment held in trust	746,810	—	—	—	746,810
	<u>\$ 137,478,175</u>	<u>\$ 87,691,182</u>	<u>\$ 25,483,351</u>	<u>\$ 18,102,875</u>	<u>\$ 6,200,767</u>

## Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

## Highly Sensitive Investments

## Fair Market Value at Year End

<p><b>Mortgage backed securities.</b> 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.</p>	\$ 3,295,795
<p><b>Callable bonds.</b> 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.</p>	\$ 14,147,563

## 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)	\$ 98,746	\$ —	\$ —	\$ —	\$ 98,746
Demand deposits	3,888,725	—	—	—	3,888,725
Common fund (short-term)	23,322,952	—	—	—	23,322,952
Money markets	17,543,433	—	—	—	17,543,433
Certificates of deposit	38,243,646	—	—	—	38,243,646
Government agencies	36,038,161	36,038,161	—	—	—
Government obligations	1,271,585	1,271,585	—	—	—
Corporate bonds	12,952,543	2,164,980	6,719,612	4,067,951	—
Mortgage backed securities	3,295,795	3,295,795	—	—	—
Corporate stock	75,779	—	—	—	75,779
Endowment investments held in trust	746,810	—	—	—	746,810
	<u>\$137,478,175</u>	<u>\$ 42,770,521</u>	<u>\$ 6,719,612</u>	<u>\$ 4,067,951</u>	<u>\$ 83,920,091</u>

## Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount
Fifth Third Bank	Certificate of deposit	\$ 10,000,000
Terre Haute First Financial Bank	Certificate of deposit	\$ 10,000,000
Irwin Union Bank	Certificate of deposit	\$ 18,145,000
Fannie Mae	Federal agency securities	\$ 5,469,231
Federal Home Loan Bank	Federal agency securities	\$ 11,414,439
Federal Home Loan Mortgage	Federal agency securities	\$ 4,876,252
Federal National Mortgage Association	Federal agency securities	\$ 5,583,135
Freddie Mac	Federal agency securities	\$ 6,105,505



*Multi-Modal Transportation Facility*

## **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, 2008, Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to \$100,000 by FDIC and in excess of \$100,000 by the Indiana Public Deposits Fund. The certificates of deposits of \$38,243,646 are also covered under the Indiana Public Deposits Fund, as they were invested in Indiana financial institutions. As of June 30, 2008, Indiana State University's investments included the following investment types that were held by the external investment managers:

<b>Investment Type</b>	<b>Amount</b>
Common Fund	\$ 23,322,952
Money market funds	\$ 17,543,433
Government agencies	\$ 36,038,161
Government obligation	\$ 1,271,585
Corporate bonds	\$ 12,952,543
Mortgage backed securities	\$ 3,295,795

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 to meet the operational needs of the University. These restrictions include:

Allocated for working funds	\$ 386,132
Allocated for graduate and undergraduate aid	587,760
Allocated for enrollment stabilization	2,883,386
Allocated for technology improvements	3,389,705
Allocated for reserve for encumbrances	7,320,038
Allocated for benefits claims	7,653,961
Allocated for debt service reserve	8,380,232
Allocated for University initiatives	8,991,335
Allocated for academic/administrative activities	16,513,488
Allocated for auxiliary enterprises	15,372,796
Allocated for capital projects	<u>21,365,723</u>
 Total allocated unrestricted net assets	 <u>\$ 92,844,556</u>

### Note 4—Capital Assets

Following are the changes in capital assets for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets not being depreciated				
Land	\$ 20,167,941	\$ 3,685,781	\$ —	\$ 23,853,722
Works of art	837,245	106,200	—	943,445
Construction in progress	<u>6,492,585</u>	<u>37,585,822</u>	<u>(6,567,234)</u>	<u>37,511,173</u>
Total capital assets not being depreciated	\$ 27,497,771	\$ 41,377,803	\$ (6,567,234)	\$ 62,308,340
Capital assets being depreciated				
Infrastructure	\$ 33,629,798	\$ —	\$ —	\$ 33,629,798
Land improvements	19,016,615	104,937	—	19,121,552
Buildings	282,233,042	3,332,412	(135,488)	285,429,966
Equipment	81,072,510	5,233,620	(2,839,536)	83,466,594
Capital lease assets	<u>716,718</u>	<u>—</u>	<u>—</u>	<u>716,718</u>
Total capital assets depreciation	\$ 416,668,683	\$ 8,670,969	\$ (2,975,024)	\$ 422,364,628
Less accumulated depreciation for				
Infrastructure	\$ (26,403,745)	\$ (827,004)	\$ —	\$ (27,230,749)
Land improvements	(13,631,736)	(558,787)	—	(14,190,523)
Buildings	(119,447,856)	(4,459,857)	127,849	(123,779,864)
Equipment	(53,948,849)	(4,648,963)	2,788,578	(55,809,234)
Lease amortization	<u>(172,970)</u>	<u>(202,435)</u>	<u>—</u>	<u>(375,405)</u>
Total accumulated depreciation	\$(213,605,156)	\$ (10,697,046)	\$ 2,916,427	\$ (221,385,775)
Total capital assets being depreciated, net	\$ 203,063,527	\$ (2,026,077)	\$ (58,597)	\$ 200,978,853
Total capital assets, net	\$ 230,561,298	\$ 39,351,726	\$ (6,625,831)	\$ 263,287,193

## 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 6-30-07	Additions	Reductions	Balance 6-30-08	Due Within One Year
Bonds payable:					
Student fee bonds					
Series K	\$ 20,195,000	\$ —	\$ 3,795,000	\$ 16,400,000	\$ 3,955,000
Series L	33,750,000	—	2,650,000	31,100,000	2,735,000
Series M	47,730,000	—	1,575,000	46,155,000	1,325,000
Series K bond premium	663,309	—	37,903	625,406	37,903
Series L bond premium	1,757,922	—	130,216	1,627,706	130,216
Series M bond premium	761,966	—	29,881	732,085	29,881
Bond defeasements:					
Series K deferral or loss	(953,635)	—	(54,492)	(899,143)	(54,493)
Series L deferral or loss	(2,833,703)	—	(209,904)	(2,623,799)	(209,904)
Total bonds payable	<u>\$ 101,070,859</u>	<u>\$ —</u>	<u>\$ 7,953,604</u>	<u>\$ 93,117,255</u>	<u>\$ 7,948,603</u>
Lease payable					
Merrimak (laptops)	\$ 495,695	\$ —	\$ 234,913	\$ 260,782	\$ 209,632
Total lease payable	<u>\$ 495,695</u>	<u>\$ —</u>	<u>\$ 234,913</u>	<u>\$ 260,782</u>	<u>\$ 209,632</u>
Notes payable:					
First Financial Bank	\$ 8,990,000	\$ —	\$ 1,060,000	\$ 7,930,000	\$ 1,115,000
Total notes payable	<u>\$ 8,990,000</u>	<u>\$ —</u>	<u>\$ 1,060,000</u>	<u>\$ 7,930,000</u>	<u>\$ 1,115,000</u>
Compensated absences (Note 9)					
Vacation accrual	\$ 3,323,139	\$ —	\$ 62,134	\$ 3,261,005	\$ 2,506,744
Sick accrual	193,385	19,135	—	212,520	106,260
Total compensated absences	<u>\$ 3,516,524</u>	<u>\$ 19,135</u>	<u>\$ 62,134</u>	<u>\$ 3,473,525</u>	<u>\$ 2,613,004</u>
Advances from federal government	<u>\$ 7,680,513</u>	<u>\$ 25,338</u>	<u>\$ —</u>	<u>\$ 7,705,851</u>	<u>\$ —</u>
Total long-term liabilities	<u>\$ 121,753,591</u>	<u>\$ 44,473</u>	<u>\$ 9,310,651</u>	<u>\$ 112,487,413</u>	<u>\$ 11,886,239</u>
Bond redemption reserve (matured unpaid bonds and coupons)					<u>\$ 64,502</u>
Total long-term liabilities current portion					<u>\$ 11,950,741</u>

## Note 6—Bonds and Notes Payable

Indiana State University is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing the construction of the student union building, as well as housing, athletics, parking, and academic facilities. The outstanding bond and note principal indebtedness at June 30, 2008 was \$101,585,000.

The issues are serial or term bonds and notes payable with maturities extending until 2033. For the fiscal year 2007-2008, a \$9,110,369 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, 2008	Bond Premium	Deferral of Loss	Total Outstanding June 30, 2008
<b>Student Fee Bonds</b>							
Series K	2004	3.0%-5.0%	2025	\$ 16,400,000	\$ 625,406	(\$899,142)	\$ 16,126,264
Series L	2005	3.5%-5.0%	2021	\$ 31,100,000	\$ 1,627,706	(\$2,623,799)	\$ 30,103,907
Series M	2007	4.25%-5.0%	2033	\$ 46,155,000	\$ 732,085	N/A	\$ 46,887,085
<b>Notes Payable</b>							
Jones Hall/Burford Hall Remodel	2006	4.63%	2011	\$ 7,930,000	N/A	N/A	\$ 7,930,000
Total				<u>\$101,585,000</u>			<u>\$ 101,047,256</u>

The University has pledged \$66,247,997 in student tuition as collateral for student fee bonds and student service bonds, and \$1,499,015 of the dedicated Student Recreational Fee for Series M.

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

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
2008-2009	\$ 8,015,000	\$ 1,115,000	\$ 9,130,000	\$ 4,405,067	\$ 13,535,067
2009-2010	7,145,000	1,170,000	8,315,000	4,075,754	12,390,754
2010-2011	6,640,000	5,645,000	12,285,000	3,762,917	16,047,917
2011-2012	5,665,000	—	5,665,000	3,267,259	8,932,259
2012-2013	5,375,000	—	5,375,000	3,013,521	8,388,521
2014-2018	23,720,000	—	23,720,000	11,382,105	35,102,105
2019-2023	17,460,000	—	17,460,000	6,636,325	24,096,325
2024-2028	13,370,000	—	13,370,000	2,859,469	16,229,469
2029-2033	6,265,000	—	6,265,000	760,759	7,025,759
TOTALS	<u>\$ 93,655,000</u>	<u>\$ 7,930,000</u>	<u>\$ 101,585,000</u>	<u>\$ 40,163,176</u>	<u>\$ 141,748,176</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. Bond proceeds of \$47,730,000, plus a 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. 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. 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 the faculty of Indiana State University. The lease includes three amendments to the agreement as of June 30, 2008.

Fiscal Year	Lease Payments
2009	\$ 230,402
2010	51,853
	<hr/>
Total minimum lease payments	\$ 282,255
Less amount representing interest	\$ 21,473
	<hr/>
Present value of net minimum lease payments	\$ 260,782

## Note 9—Retirement Plans

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

### Faculty and Executive/Administrative/Professional Staff

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

Effective July 1, 2004, employees hired after this date will be participating in the defined contribution plan at the contribution rate of ten percent with no two year waiting period. The employee will become vested in the plan at the end of two years.



*Minas Center for Investment and Financial Education*

For fiscal year 2007-2008, the University made contributions totaling \$6,145,530 to this plan. For the fiscal year ended June 30, 2008, there were 841 employees and retirees participating in TIAA, with annual salaries equal to \$49,348,108.

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, 2008, 2007, and 2006 were \$3,274; \$5,582; and \$18,676, respectively. The University contributed 97 percent of the required contributions for each of the fiscal years, respectively. For the fiscal year ended June 30, 2008, there was one employee participating in STRF with an annual salary equal to \$45,163. STRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the State Teachers Retirement Fund, 150 West Market Street, suite 300, Indianapolis, IN 46204, or by calling (317) 232-3860.

### **Support Staff**

Regular clerical and service staff participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the Board of Trustees of PERF. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The 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 6.3 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2007-2008 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, 2008, there were 729 employees participating in PERF with annual salaries equal to \$18,014,464.

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.

# 2007-2008 FINANCIAL REPORT

The University's annual pension cost and related information, as provided by the actuary, for the periods ended June 30, 2007 and 2006, is presented below. The actuarial methods and significant assumptions used are as follows:

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

## Net Pension Obligation

	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2006
Annual required contribution	\$ 1,118,577	\$ 975,613
Interest on net pension obligation	(49,284)	(59,953)
Adjustment to annual required contribution	56,163	68,321
Annual pension cost	1,125,456	983,981
Contributions made	(992,723)	(836,825)
Increase in net pension obligation	132,733	147,156
Net pension obligation, beginning of year	(679,785)	(826,941)
<b>Net pension obligation, end of year</b>	<b>\$ (547,052)</b>	<b>\$ (679,785)</b>

## 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	Percentage of APC Contributed	Net Pension Obligation
	(a)	(b)	(a-b)	(a/b)	(c)	((a-b)/c)			
7/1/2005	\$19,715	\$20,115	(\$400)	98.0%	\$18,251	-2.2%	\$763	94%	(\$827)
7/1/2006	\$24,227	\$24,682	(\$455)	98.2%	\$18,469	-2.5%	\$983	85%	(\$680)
7/1/2007	\$26,402	\$25,965	\$437	101.7%	\$18,172	2.4%	\$1,125	88%	(\$547)

## 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, 7/01/07	\$ 3,757,545
Claims incurred	16,635,291
Claims paid	<u>(16,314,269)</u>
Unpaid medical claims, 6/30/08	<u>\$ 4,078,567</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, 2008, is as follows:

Beginning fund balance 7/1/07 (market value)	\$48,626,746
Transfer of employee/employer contributions	2,040,000
Reinvested net earnings	1,556,744
Less: management fees	(77,151)
Realized gain on sale of investments	2,118,108
Unrealized gain on increase in market value	(5,265,390)
Market value at June 30, 2008	<u>\$48,999,057</u>

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

## VEBA Investment Policy Guideline Diversification

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

## Actual VEBA Investment Diversification

	Cost		Actual	
	\$	%	\$	%
Core equity (indexed)	6,639,751	13.8	7,272,551	14.9
Growth equity	5,383,195	11.2	6,331,703	12.9
Value equity	5,042,779	10.5	5,063,341	10.3
Small cap equity	996,501	2.1	828,280	1.7
Small cap growth equity	1,066,217	2.2	833,061	1.7
Small cap value equity	1,473,950	3.1	1,387,659	2.8
International core equity	7,066,047	14.7	6,475,100	13.2
Fixed income	20,388,397	42.4	20,807,362	42.5
	<u>48,056,837</u>	<u>100.0</u>	<u>48,999,057</u>	<u>100.0</u>

## 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 \$716,336 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 seen on the next page:

Functional Classification	Compensation and Benefits	Supplies and Materials	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 54,353,138	\$ 6,260,928	\$ —	\$ —	\$ —	\$ 60,614,066
Research	7,096,571	3,643,599	—	—	—	10,740,170
Public service	924,403	679,452	—	—	—	1,603,855
Academic support	10,741,509	4,283,346	—	—	—	15,024,855
Student services	8,562,301	1,718,327	—	—	—	10,280,628
Institutional support	12,795,611	7,493,878	—	—	—	20,289,489
Operation of plant	9,100,626	5,763,421	7,357,203	—	—	22,221,250
Scholarships	1,015,914	179,938	—	5,236,238	—	6,432,090
Auxiliary enterprises	10,950,740	12,570,580	74,473	—	—	23,595,793
Depreciation	—	—	—	—	10,697,046	10,697,046
	<u>\$115,540,813</u>	<u>\$42,593,469</u>	<u>\$ 7,431,676</u>	<u>\$ 5,236,238</u>	<u>\$10,697,046</u>	<u>\$181,499,242</u>

## Note 15—Reclassifications

Reclassifications have been made to the Statement of Revenue, Expenses, and Changes in Net Assets for the year ending June 30, 2007, for comparative purposes. These reclassifications do not necessitate a restatement of prior periods, since they do not affect the increase in net assets originally reported. These reclassifications are the result of the following:

- Bad debt expense previously recorded as supplies and expenses was reclassified as scholarship allowances and other discounts. This resulted in a decrease in revenues for tuition and fees and auxiliary enterprise fees and services.
- A change has been made in the interpretation of GASB 34 in regards to the classification of certain non-exchange transactions. Revenues from Federal Pell Grants, SEOG, work study, and other state and non-governmental grants previously classified as operating revenues are now classified as non-operating revenues.

	Prior to Reclassification	Reclassification Amount	After Reclassification
Operating Revenues:			
Tuition and fees	\$ 64,361,565	\$ —	\$ 64,361,565
Less: Scholarship allowances	\$ 22,995,046	\$ —	\$ 22,995,046
Other allowances	\$ —	\$ 627,633	\$ 627,633
Net tuition and fees	\$ 41,366,519	\$ (627,633)	\$ 40,738,886
Federal grants and contracts	\$ 13,656,170	\$ (7,952,441)	\$ 5,703,729
State and local grants and contracts	\$ 11,003,110	\$ (10,211,388)	\$ 791,722
Non-governmental grants and contracts	\$ 3,916,420	\$ (17,201)	\$ 3,899,219
Auxiliary enterprises fees and services	\$ 31,087,690	\$ —	\$ 31,087,690
Less: Scholarship allowances and other discounts	\$ 5,146,962	\$ —	\$ 5,146,962
Other allowances	\$ —	\$ 320,938	\$ 320,938
Net auxiliary enterprises fees and services	\$ 25,940,728	\$ (320,938)	\$ 25,619,790
Expenses:			
Supplies and expenses	\$ 37,657,657	\$ (948,571)	\$ 36,709,086
Non-operating revenues (expenses):			
Non-operating grants and contracts	\$ —	\$ 18,181,030	\$ 18,181,030

Reclassifications have been made to the Statement of Cash Flows for the year ending June 30, 2007, for comparative purposes. These changes are due to the reclassifications of federal, state, and local and non-governmental grants from operating revenues to non-operating revenues and do not affect the net increase in cash originally reported.

	Prior to Reclassification	Reclassification Amount	After Reclassification
Cash flows from operating activities:			
Grants and contacts	\$ 28,104,789	\$(18,223,889)	\$ 9,880,900
Cash flows from non-capital financing activities:			
Non-operating grants and contracts	\$ —	\$ 18,223,889	\$ 18,223,889

The reclassification did not change the net cash from financing activities or investing activities for the fiscal year 2007-2008.

## 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 June 30, 2014, and were entered into as a cost avoidance strategy. The estimated cost savings to the University for the fiscal year was \$1,110,980. The estimated cost avoidance from September 3, 2008 to June 30, 2014 is \$3.4 million.



## Note 17—Other Liability

Included in other liability, pursuant to final audit report, ED-OIA/A05I0009 entitled *Indiana State University's Compliance with Selected Provisions of Law and Regulations for the Upward Bound and Upward Bound Math-Science Program*, a \$337,007 contingent liability was established in fiscal year 2008 for possible repayment to the U.S. Department of Education. This is a response by the Department of Education of

the failure to serve the minimum number of participants as required by the program. The University is currently in the appeal process regarding the amount of the finding and has taken action to ensure future compliance with all TRIO Programs.

## Note 18—Other Post-Employment Benefits

### Plan Description

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

Participant Counts		
Valuation Date	6/30/07	6/30/08
Active and eligible to retire	N/A	100
Active and not eligible to retire	N/A	972
Total actives	1,420	1,072
Inactives	1,339	1,260
Average age		
Actives	51.0	51.3
Inactives	76.7	74.7
Average service actives	13.7	14.1

**Funding Policy**

The contribution requirements of plan members for the ISU Retirement Healthcare Plan are established by the University’s Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to fund VEBA. For the fiscal year ended June 30, 2008, the University contributed \$5.4 million to the plan, including \$3.4 million for current premiums (approximately 76.5 percent of total premiums), and an additional \$2.0 million contributed to VEBA. Plan members receiving benefits contributed \$0.8 million, or approximately 23.5 percent of the total premiums, based on the required contribution rates as follows:

Participants’ Monthly Contributions:	Retiree Only	Retiree and Spouse
Under age 65		
Salary under \$24,500	\$ 91	\$ 208
\$24,500 less than \$70,500	\$ 113	\$ 267
Salary \$70,500 and over	\$ 139	\$ 302
Age 65 and over		
All participants	\$ 43	\$ 86

**Annual OPEB Cost and Net OPEB Obligation**

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

GASB 45 ARC and Annual Expense		2008
Annual required contribution	\$	6,600,000
Interest on net OPEB obligation		0
Adjustment to annual required contribution		0
Annual OPEB cost	\$	6,600,000
Contributions made	\$	(6,634,212)
Increase (decrease) in net OPEB obligation	\$	(34,212)
Net OPEB obligation, beginning of year		0
Net OPEB obligation, (asset) end of year	\$	(34,212)

# 2007-2008 FINANCIAL REPORT

The University's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB asset for the fiscal year ending June 30, 2008, were as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/08	\$ 6,600,000	100.4 %	\$ 34,212

## Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 50 percent funded. The actuarial accrued liability for benefits was \$102 million, and the actuarial value of assets was \$51 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$51 million. The covered payroll (annual payroll of active employees covered by the plan) was \$59.5 million, and the ratio of the UAAL to covered payroll was 86 percent.

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

### Schedule of Funding Progress

Two-Year Trend Information

	Actuarial Valuation of Plan Assets (a)	Accrued Liability (b)	Excess (underfunded) Assets Over (under) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Excess (unfunded) AL as a Percentage of Covered Payroll ((a-b)/c)
6/30/2007	\$46,000,000	\$105,000,000	\$59,000,000	44%	n/a	n/a
6/30/2008	\$51,000,000	\$102,000,000	\$51,000,000	50%	59,500,000	86%

## Actuarial Methods and Assumptions

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



Stalker Hall

**Actuarial Assumptions**

Valuation and Measurement date.....	July 1, 2008
Participant data.....	April 30, 2008
Discount rate .....	6.00%
Mortality .....	1994 Group Annuity Mortality Table for Males and Females
Disablement before retirement .....	Employees are not assumed to become disabled
Male/female age difference .....	Males are assumed to be three (3) years older than female spouse
Plan participation.....	85% of retired employees are assumed to participate
Retiree contribution .....	Increased at two (2) percent per year
Dependent coverage.....	For current retirees, actual spouse participation was used. For future participants, 65 % of employees are assumed to cover a dependent spouse.
Medicare Part D .....	Not reflected

**Annual Trend Assumptions**

The initial per capita costs are expected to increase.

**Medical Trend Rates**

Year	Rate
2008-2009	10.00 %
2009-2010	9.00 %
2010-2011	8.00 %
2011-2012	7.00 %
2012-2013	6.00 %
2013 +	5.00 %

**Dental Trend**

5.00 %

**Methods**

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

**Note 19—Subsequent Event**

On September 30, 2008, the Common Fund was informed that Wachovia, as Trustee of the short-term fund, was to commence the formal termination of the fund, resign as Trustee, and stop accepting new deposits. There are three elements to Wachovia’s plan: 1) the imposition of a liquidity restriction currently equal to 90 percent of participant balances and the decision to no longer accept new deposits; 2) the establishment of two tranches to implement this restriction and plan for the orderly liquidation of the portfolio holdings; and 3) the notification of their intent to resign as trustee of the short-term fund and terminate the fund.

The short-term fund has existed as a liquidity vehicle offered solely by Common Fund to colleges, universities, and private secondary schools since 1974. As of the close of business on Friday, September 26, 2008, the short-term fund managed assets of approximately \$9.3 billion on behalf of about 1,000 clients. The fund is structured as a bank common trust with Wachovia Bank, N.A. as trustee, and is designed to yield at least the average yield on the three-month treasury bill. The fund’s investment guidelines, which are set by the trustee in consultation with the Board of Trustees of Common Fund, restrict the fund’s advisers to investments in U.S. Treasury and government agency securities, high-quality corporate securities, mortgage-and asset-backed securities, and commercial and bank paper. The short-term fund has never been permitted to hold any derivatives and never invested in structured investment vehicles or collateralized debt obligation.

The trustee has limited liquidity to cash generated from maturing securities and deposits. As of October 9, 2008, approximately 39.5 percent of the funds have transferred to the immediate tranche and are available for drawdown. By December 31, 2008, a total of 62.8 percent of the funds will become liquid.

The University, as of September 30, 2008, had \$21.4 million invested in the common short-term fund. These funds are recorded on the financial statements as cash and cash equivalents due to intraday liquidity feature of the funds. As the result of a restriction now placed on these funds as to when they can be accessed, these funds are now dependent on maturities of the investments in the portfolio. This restriction will classify these investments in cash and cash equivalents, short-term investments, or long-term investments based on maturity dates of the investments in this fund. To date, no securities in the short-term fund have defaulted and all continue to pay timely principal and interest.

# HOME COUNTIES OF INDIANA STATE STUDENTS

(Fall 2007) Unaudited

Adams 27	Hendricks 321	Pike 21
Allen 116	Henry 40	Porter 103
Bartholomew 65	Howard 59	Posey 26
Benton 20	Huntington 11	Pulaski 7
Blackford 8	Jackson 63	Putnam 244
Boone 52	Jasper 48	Randolph 6
Brown 27	Jay 6	Ripley 41
Carroll 28	Jefferson 21	Rush 23
Cass 31	Jennings 22	Scott 13
Clark 40	Johnson 97	Shelby 43
Clay 423	Knox 116	Spencer 37
Clinton 28	Kosciusko 23	St. Joseph 99
Crawford 7	LaGrange 6	Starke 20
Daviess 54	Lake 420	Steuben 9
Dearborn 33	Laporte 73	Sullivan 344
Decatur 47	Lawrence 87	Switzerland 4
DeKalb 18	Madison 107	Tippecanoe 121
Delaware 39	Marion 792	Tipton 9
Dubois 186	Marshall 31	Union 5
Elkhart 50	Martin 10	Vanderburgh 134
Fayette 8	Miami 29	Vermillion 235
Floyd 49	Monroe 129	Vigo 1,943
Fountain 94	Montgomery 115	Wabash 15
Franklin 19	Morgan 102	Warren 27
Fulton 9	Newton 18	Warrick 47
Gibson 40	Noble 12	Washington 10
Grant 20	Ohio 6	Wayne 30
Greene 152	Orange 33	Wells 12
Hamilton 192	Owen 84	White 31
Hancock 72	Parke 192	Whitley 9
Harrison 41	Perry 20	

**Indiana** (all 92 counties)—8,756

**Out-of-State** (48 states)—1,757

**International** (61 countries)—431

**Total Enrollment**—10,944



## Board of Trustees

as of June 30, 2008

Michael J. Alley  
President  
Carmel, Indiana  
Term expires 2009

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

Richard J. Shagley  
Secretary  
Terre Haute, Indiana  
Term expires 2008

Norman Lowery  
Assistant Secretary  
Terre Haute, Indiana  
Term expires 2011

Barbara P. House  
Carmel, Indiana  
Term expires 2008

Amy Huntsinger  
Frankton, Indiana  
Term expires 2009

R. Brooks LaPlante  
Terre Haute, Indiana  
Term expires 2009

George Pillow  
Indianapolis, Indiana  
Term expires 2011

John Thyen  
Jasper, Indiana  
Term expires 2009

## University Officials

as of June 30, 2008

Lloyd W. Benjamin III  
President of the University

C. Jack Maynard  
Provost and Vice President for  
Academic Affairs

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

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

Thomas Ramey  
Vice President for  
Student Affairs

Daniel J. Bradley  
Incoming President of the University  
Effective July 31, 2008

### Additional copies of the 2008 Financial Report may be obtained from:

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

### For Additional Information:

#### Admissions

Office of Admissions  
Erickson Hall, room 114  
Indiana State University  
Terre Haute, Indiana 47809  
812-237-2121

#### Alumni

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

#### Foundation

ISU Foundation  
Gillum Hall, room 320  
Indiana State University  
Terre Haute, Indiana 47809  
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— More. *From day one.*