# 2011-2012

## Indiana State University

# Financial Report

Indiana State University

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# Message from the President

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

In a time when governmental leaders must balance public needs and the best allocation of tax-generated resources, Indiana State University remains committed to responsible stewardship of support from Indiana taxpayers. As more students from Indiana and elsewhere seek the benefits of an undergraduate education and degree, we remain conscious both of limited resources and the demands to provide a high-quality 21st century education to our students.

This financial report for the fiscal year ending June 30, 2012, reflects Indiana State University's commitment to meeting those challenging objectives. Our campus continues to develop in many ways with unprecedented growth in enrollments, high-quality renovations to our facilities and greater use of technology to enrich our students' educational experiences.

During the past year, Indiana State has completed two significant building renovations. Federal Hall, which formerly housed federal offices, provides an impressive new home for the Scott College of Business. Across campus, another renovation has created the John W. Moore Welcome Center which provides a central location for guests and prospective students to learn about the great things taking place at Indiana State.

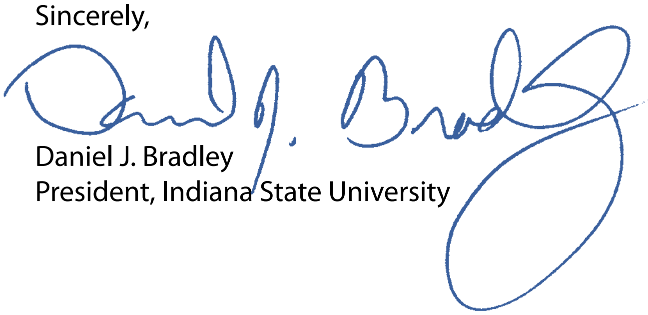
Investments also have been made to advance the goals of "The Pathway to Success" strategic plan including developing programs to improve student success, increase opportunities for experiential learning and community service, build centers of excellence through our Unbounded Possibilities program, diversify revenue sources and attract and retain great faculty and staff.

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

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

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

Sincerely,



Daniel J. Bradley
President, Indiana State University

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Indiana State University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

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

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana State University, as of June 30, 2012 and 2011, and the respective 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 18, 2012, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Message from the President, Home Counties of Indiana State University Students, and Board of Trustees and University Administration are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Message from the President, Home Counties of Indiana State University Students, and Board of Trustees and University Administration have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

STATE BOARD OF ACCOUNTS

State Board of Accounts

October 18, 2012

# 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 2011-2012 fiscal year ended June 30, 2012. 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 2010-2011 fiscal year. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes that follow this section.

Indiana State University is a research intensive, residential institution offering instruction at the associate, bachelor's, master's, and doctoral levels. The University offers a diverse range of degree programs through a framework of 43 departmental units in seven colleges and various divisions. Located in Terre Haute, Indiana, with 11,528 students, Indiana State University is a significant economic engine for the Wabash Valley and the State of Indiana.

Indiana State University's impact on the state economy exceeded $500 million per year according to a study conducted by Thomas P. Miller and Associates. The study found a $309.3 million direct University-related impact during fiscal year 2011 in the Wabash Valley and a $518.6 million total impact statewide. University-related expenditures support a total of 5,020 jobs statewide with 4,200 of those jobs in the Terre Haute region.


*Minas Center for Investment and Financial Education*

# Financial Highlights

The University's financial position continues to be strong, with an increase in net assets of $28.4 million for the fiscal year ending June 30, 2012. This continues a trend of solid financial performance and adds to the increase of $29.6 million in the fiscal year ending June 30, 2011.

Operating revenues for the fiscal year were $109.4 million, as compared to $100.1 million for fiscal year 2011, an increase of 9 percent over the previous year. Tuition and fees and auxiliary income were up $6.1 million and $4.8 million to reflect enrollment growth and the second largest incoming freshmen class in the school's history. Grants and contracts revenue decreased by $0.3 million and other operating revenues decreased by $1.3 million.

Other operating revenues of $5.6 million include $1.7 million from the Lilly Endowment, Inc., administered through the Indiana State University Foundation for the establishment of the Networks Financial Institute (NFI). The funds are currently held by Indiana State University on behalf of the Foundation and are recorded as current and non-current liabilities as funds held in custody for others (see Note 13). The Lilly Foundation has contributed a total of $29 million to the ISU Foundation to be invested in NFI. These funds are used to support three areas in the financial services sector: public policy and research in insurance and other financial services, financial literacy, and professional development for top financial services students in the Scott College of Business.

Operating expenses were $200.3 million for fiscal year 2012. This represents a $7.1 million increase from the previous year's expenditures. Compensation and employee benefit expense increased by $0.4 million, reflecting a 3 percent midyear salary increase as well as an increase in medical benefit expense. This was offset by an increase in the Other Postemployment Benefit (OPEB) of $4 million for 2012 resulting in a reduction of compensation expense. Supplies and Expenses grew by $5.6 million. This reflects increases in expenses for the Correction Department training program, room and board payments, and team travel. Utilities expenses increased by $0.5 million due to rate increases.

Net non-operating revenues and expenses increased by $1.3 million from 2011. State appropriations decreased by $4.6 million as the State continued reducing support to the University due to the challenging economic environment. This reduction of support was offset by a $4.1 million growth of interest income as the new University investment policy was fully implemented during the year, and the investment fund manager provided excellent returns. Additionally, other non-operating revenues increased by $1.4 million as a result of smaller asset write-offs on renovation projects.

The State of Indiana did not provide funds for repair and rehabilitation due to shortfalls in state revenues. Indiana State University did receive $1.2 million of federal stimulus funds (ARRA) through the State of Indiana that were used to replace repair and rehabilitation funding. Capital grants and gifts totaling $2.3 million were recognized for the year. This included a $1.5 million grant from the National Science Foundation (NSF) for renovation of science labs and a $0.2 million gift for the renovation of dietetics labs.

# 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, 2012 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 the net assets, which is one measure of the financial condition of the University. Changes in net assets are an indicator of whether the overall financial condition has improved or declined 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, 2012 and 2011 is as follows:

**Statement of Net Assets** (in millions)

| | 2012 | 2011 |
|---|---|---|
| Current assets | $ 42.6 | $ 73.9 |
| Non-current assets: | | |
| Deposits with bond trustee | 0.4 | 0.5 |
| Notes receivable | 4.5 | 4.6 |
| Other long-term investments | 106.7 | 79.9 |
| Net OPEB asset | 11.1 | 7.1 |
| Capital assets, net | 350.8 | 327.0 |
| Other | 0.5 | 0.5 |
| Total assets | $ 516.6 | $ 493.5 |
| Current liabilities | 26.0 | 29.3 |
| Non-current liabilities | 112.8 | 114.8 |
| Total liabilities | $ 138.8 | $ 144.1 |
| Net assets | $ 377.8 | $ 349.4 |

## Assets

Current assets consist primarily of cash, operating investments, and accounts receivable. Non-current assets consist primarily of capital assets net of depreciation, long-term investments, notes receivable net of allowance, and the net other post-employment benefit (OPEB) asset. Current and non-current assets totaled $42.6 million and $474 million, respectively, at June 30, 2012, compared to $73.9 million and $419.6 million at June 30, 2011. Total assets increased by 5 percent or $23.1 million. Key changes in assets were as follows:

- Cash and cash equivalents (which include liquid investments maturing within 90 days) and short-term investments decreased by $31 million, while long-term investments increased by $26.8 million, which resulted in an overall decrease in cash and investments of $4.2 million. A majority of the liquid investments classified as cash and cash equivalents and short-term investments held as of June 30, 2011 were converted to long-term investments in fiscal year 2012. In addition, $4 million of cash and cash equivalent CD's held at June 30, 2011 matured, and the proceeds were used for the renovation of Federal Hall for the Scott College of Business.
- Accounts receivable increased by $1.3 million and other accounts receivable decreased by $2 million. The decrease in other accounts receivable is a result of payments toward a gift receivable by the ISU Foundation used for the renovation of Federal Hall.
- The net OPEB asset increased by $4 million to reflect changes in the actuarial valuation caused by an increase in the plan participants' share of cost to 33.3 percent over the next five years.
- Capital assets grew by $23.8 million. This growth reflects the completion of the Pickerl Hall renovation, the science lab renovations, the renovation of the Federal Hall for use by the Scott College of Business, the renovation of the new John W. Moore Student Welcome Center, and the purchase of a parking garage.

## Liabilities

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portions of the deferred inflow of resources and long-term debt. Non-current liabilities consist primarily of the non-current portions of the deferred inflow of resources and long-term debt and advances from the federal government. Current liabilities decreased by $3.3 million, while non-current liabilities decreased by $2 million, for an overall decrease in total liabilities of 4 percent or $5.3 million. This decrease is due to the following:

- Accrued payroll and deductions decreased from $4.2 million in 2011 to $2.9 million in 2012.
- A total deferred inflow of resources of $2.2 million was added related to the Service Concession Arrangement between the University and Sodexo (see Note 7 for details). This arrangement provided for the renovation of the Sycamore Banquet Center.
- Funds held in custody for others decreased by $1.8 million. This reflects the portion of funds held for the ISU Foundation for use by the Networks program that were expensed in fiscal year 2012.

*Newly installed campus artwork, "ISU Sphere"*

- Total bonds payable decreased from $111.6 million in 2011 to $108.2 million in 2012. This $3.4 million change reflects the addition of the $4 million Parking System Revenue bond, Series 2012, for the purchase of the parking garage and the payment of $7.4 million in bond principal during the fiscal year.

## 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 March 2012, Indiana State University purchased a 626-space parking garage at 7th and Cherry Streets for $4.85 million. The University had entered into a long-term ground lease with the city of Terre Haute for the construction of a combination bus transfer/garage facility. Construction finished in 2008, with partial funding from the Federal Transportation Authority, who then granted the City authority to transfer the facility's garage portion to Indiana State University. This addition will satisfy the parking needs for students near the Scott College of Business. The purchase was financed by $4 million from Parking System Revenue Bonds, Series 2012, with the remaining $0.85 million from parking system reserves.

Indiana State University's Scott College of Business has a new home for the fall 2012 semester. The former Terre Haute Post Office and Federal Building was renovated to accommodate the College. Federal Hall, a 1930's art deco building, received a $14.6 million renovation. Many of the traditional art deco elements of the era were preserved and restored, from the judge's library and the elaborate finishes on the elevator doors to the former federal courtroom. The building is listed on the National Register of Historic Places. The project was funded with $8.5 million of Series O Bond proceeds and the remainder from private gifts.

The new John W. Moore Welcome Center, named in honor of the University's ninth president, was dedicated in August 2012. Located in the former Family and Consumer Sciences Building, the Moore Welcome Center serves as the "front door" of the University. The $3 million renovation of the 22,000-square foot building is designed as a living room that features 11 interactive transparent screens students and visitors can use to learn about the University's history, academic programs, and services. The Moore Welcome Center houses the Office of Admissions, New Student Transitions Program, Testing Office, Scholarship Office, the Veterans' Services Office, and a Financial Aid Office.

A $1.5 million National Science Foundation grant allowed the University to update seven research labs in the Science Building. The ongoing research in the labs ranges from understanding animal behavior in white-throated sparrow populations and examining single-celled organisms in newly discovered ecosystems to isolating novel compounds that show interesting biological activity from poison frogs. These labs also will be put into use during the Summer Undergraduate Research Experience, where undergraduates have the opportunity to work alongside professors to conduct experiments.

In February 2011, Indiana State University extended the contract with Sodexo to provide food service operations on the campus. As part of the contract extension, Sodexo invested $2.9 million in a new banquet center, with the capability to seat 460, as well as a kitchen upgrade. The Sycamore

Banquet Center became operational in April 2012. This new banquet facility will serve both the needs of the University as well as the community.

Indiana State University was a sub-recipient for approximately $6 million through the State of Indiana from federal stimulus funds (ARRA). These funds were required to be spent for repair and replacement projects and be obligated by September 30, 2011. The University has completed ten projects utilizing these funds. This includes the Rankin/Parsons Hall Plaza in which the existing roofing systems were replaced with a roof deck with structural reinforcement and insulation. Existing brick pavers were replaced with a sustainable green roof and appropriate drainage, lighting, and native planting. Other projects completed include the Chestnut Street Pedestrian Walkway, Holmstedt Hall Plaza, Student Success Center, roof repairs, HVAC upgrades, fire alarm upgrades, and masonry repairs.

The renovation of Erickson Hall began in May 2012. Originally constructed in 1960 as a residence hall facility, the renovation will provide a total of 260 beds, all contained in double occupancy rooms with lounge/study space on each floor. Office space for Residential Life and Dining Services will be included on the first floor. The overall cost of the Erickson Hall renovation project is estimated at $10 million, of which approximately $1 million will be funded from Housing and Dining System reserves and approximately $9 million from Series 2012 Bonds. The University will issue Indiana State University Housing and Dining System Revenue Bonds, Series 2012, in the fall 2012 for both Erickson Hall and the new North Housing project described below. The Erickson Hall renovation project is expected to be completed for fall 2013 occupancy.

The University continues to work assertively to manage its financial resources efficiently, including the issuance of debt to finance capital projects. Indiana State University Housing and Dining System Revenue Bonds, Series 2010, and Indiana State University Student Fee Bonds, Series O, issued during fiscal year 2011 both had underlying credit ratings of (A1) from Moody's and (AA-) from Fitch.

## Net Assets

Net assets represent the residual value of the University's assets after liabilities are deducted. The University's net assets at June 30, 2012 and 2011 are summarized in the table that follows:

**Net Assets** (in millions)

| | **2012** | **2011** |
|---|---|---|
| Invested in capital assets, net of related debt | $ 241.5 | $ 222.9 |
| Restricted | | |
| Non-expendable | 2.7 | 2.8 |
| Expendable | 4.1 | 13.0 |
| Unrestricted | 129.5 | 110.7 |
| Total net assets | $ 377.8 | $ 349.4 |

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

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

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets present the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2012 and 2011 is as follows:

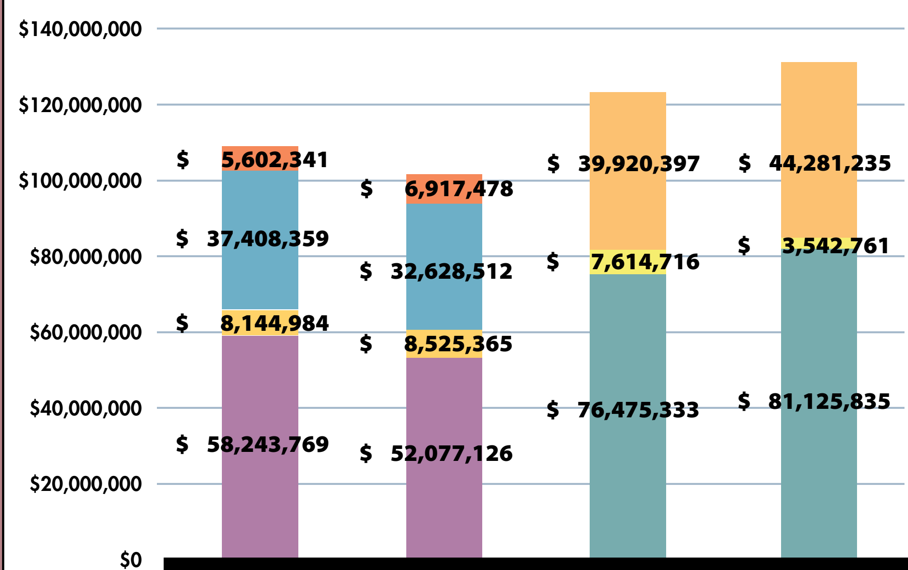
**Revenues, Expenses, and Changes in Net Assets** (in millions)

| | 2012 | 2011 |
|---|---|---|
| Operating revenues | | |
| Tuition and fees (net of scholarship and other allowances of$32.8 million for 2012 and$34.0 million for 2011) | $ 58.2 | $ 52.1 |
| Grants and contracts | 8.2 | 8.5 |
| Auxiliary enterprises fees and services (net of scholarship and other allowances of$8.7 million for 2012 and$8.7 million for 2011) | 37.4 | 32.6 |
| Other | 5.6 | 6.9 |
| Total operating revenue | $ 109.4 | $ 100.1 |
| Operating expenses | (200.3) | (193.2) |
| Operating loss | ($ 90.9) | ($ 93.1) |
| Non-operating revenues (expenses) | | |
| State appropriations | 76.5 | 81.1 |
| Investment income (net of investment expenses of $0.4 million for 2012 and$0.2 million for 2011) | 7.6 | 3.5 |
| Non-operating grants and contract revenue | 31.8 | 31.4 |
| Capital appropriations | 1.2 | 3.5 |
| Capital grants and gifts | 2.3 | 6.1 |
| Other non-operating revenues and expenses | 4.6 | 3.0 |
| Interest on capital asset related debt | (4.7) | (4.5) |
| Net non-operating and other revenues | $ 119.3 | $ 124.1 |
| Change in accounting estimate | — | (1.4) |
| Increase in net assets | $ 28.4 | $ 31.0 |
| Net assets, beginning of year | $ 349.4 | $ 319.8 |
| Net assets, end of year | $ 377.8 | $ 349.4 |

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

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

**Revenues by Source** (operating and non-operating)




| | Operating 2012 | Operating 2011 | Non-operating 2012 | Non-operating 2011 |
|---|---|---|---|---|
| Other non-operating/capital revenues | | | $ 39,920,397 | $ 44,281,235 |
| Investment income | | | $ 7,614,716 | $ 3,542,761 |
| State appropriations | | | $ 76,475,333 | $ 81,125,835 |
| Other operating revenues | $ 5,602,341 | $ 6,917,478 | | |
| Auxiliary enterprises fees and services, net | $ 37,408,359 | $ 32,628,512 | | |
| Federal, state, and local grants and contracts | $ 8,144,984 | $ 8,525,365 | | |
| Tuition and fees, net | $ 58,243,769 | $ 52,077,126 | | |

Operating revenues increased by $9.3 million for the fiscal year 2012. The following attributed to the increase:

- Tuition and fee income grew by $6.1 million. Indiana State University's fall 2011 incoming freshmen class of 2,521 is the second largest in the school's history. Overall head count grew by 34, despite a drop in the corrections education program from 469 students in fall 2010 to 105 students in fall 2011. The state correction education program is being transferred away from four-year universities. The increase also reflects a 3.5 percent increase in tuition rates.
- Auxiliary enterprises fees and services revenue increased by $4.8 million. This reflects both a 3 percent increase in housing and dining rates as well as growth in student enrollment. Additional revenues

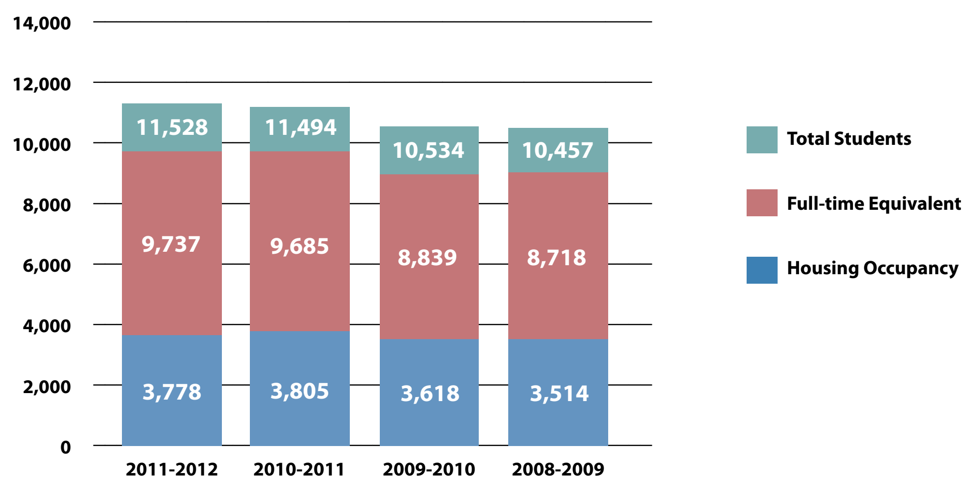
associated with athletic event admissions and the physical therapy and sports rehabilitation outpatient clinic fees also contributed to this growth.

- Grants and contracts revenue decreased by $0.3 million for the fiscal year 2012.
- Other operating revenues decreased by $1.3 million due to a reduction of ISU Networks activity for fiscal year 2012.
- Non-operating revenues increased $1.3 million for 2012. Growth of $4.1 million in investment income resulting from higher interest rates and fully implementing the University's investment policy, along with increased other non-operating revenues and expenses of $1.6 million due to smaller asset write-offs on renovation projects, were offset by the state appropriation reduction of $4.6 million. The State of Indiana reduced the University operating appropriation by $4 million and fee replacement income used for debt service by $0.6 million.
- Other capital revenues decreased by $6.1 million. For 2012, capital appropriations included the final drawdown of ARRA monies from the State of Indiana of $1.2 million. Capital grants and gifts included the NSF grant for science lab renovations and a gift for a dietetics lab renovation.

*The John W. Moore Welcome Center*

Indiana State University continues to make market-competitive compensation and benefits a top priority. These expenses represent 58 percent of total University expense/budget.

**Enrollment and Housing Occupancy for Year Ending 6/30/12**

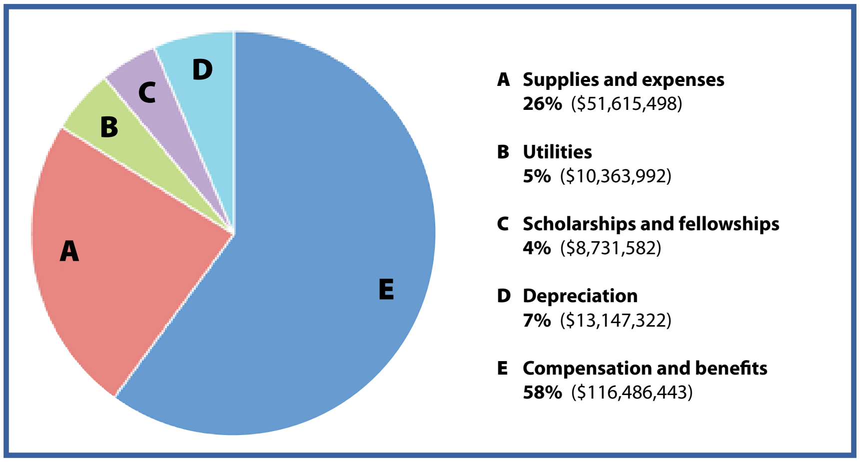


A comparative summary of the University's expenses for the years ended June 30, 2012 and 2011 is as follows:

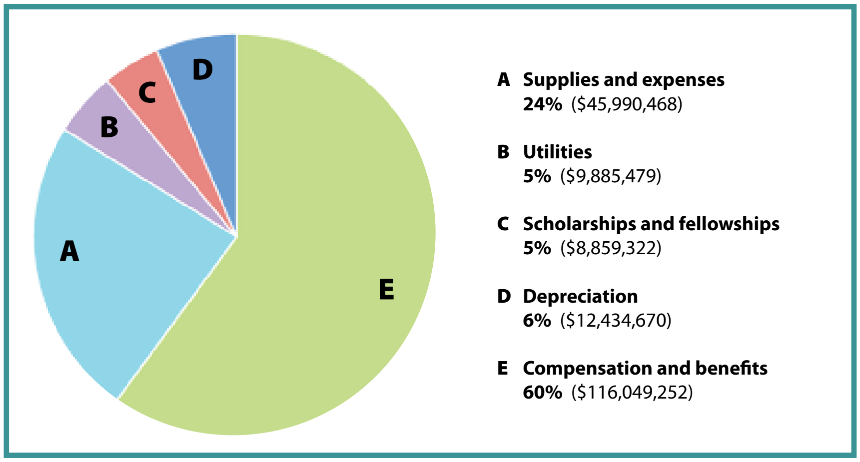
**Operating Expenses** (in millions)

| | 2012 | 2011 |
|---|---|---|
| Operating: | | |
| Compensation and benefits | $ 116.5 | $ 116.0 |
| Supplies and expenses | 51.6 | 46.0 |
| Utilities | 10.4 | 9.9 |
| Scholarships and fellowships | 8.7 | 8.9 |
| Depreciation | 13.1 | 12.4 |
| | $ 200.3 | $ 193.2 |
| Non-operating: | | |
| Interest on capital asset related debt | $ 4.7 | $ 4.5 |
| Other non-operating expenses | 0.03 | 0.3 |
| Total expenses | $ 205.0 | $ 198.0 |

The following is a graphic illustration of total expenses by object for year ending June 30, 2012:




The following is a graphic illustration of total expenses by object for year ending June 30, 2011:



Total operating expenses increased by $7.1 million from $193.2 million in fiscal year 2011 to $200.3 million in fiscal year 2012.

- Compensation and benefits increased $0.5 million. This included a 3 percent wage increase midyear, a medical insurance increase, and an increased contribution to Public Employee Retirement Fund (PERF). There was an offset of $4 million due to an increase of the Other Postemployment Benefit (OPEB) for retiree medical and life insurance.
- Supplies and expenses grew by $5.6 million for the year. This reflects increased payments to Sodexo for dining and payments made to a local hotel for housing an overflow of students. Additional supplies expense is also the result of increasing the capitalization threshold last fiscal year and increased cost of team travel for Athletics.
- Utilities expenses increased by $0.5 million for 2012. The rates for electricity increased as usage decreased. Rates also increased for water and sewage.
- Scholarships and fellowships expense decreased by $0.2 million
- Depreciation expense grew by $0.7 million. Additional buildings and renovations were added to depreciable assets during the year.


*Pickerl Hall*

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, 2012 and 2011 is as follows:

**Expenses by Function** (in millions)

| | 2012 | 2011 |
|---|---|---|
| Operating: | | |
| Instruction | $ 65.9 | $ 62.5 |
| Research | 8.4 | 9.3 |
| Public service | 1.9 | 1.4 |
| Institutional and academic support | 33.2 | 34.9 |
| Student services | 10.2 | 10.0 |
| Operations of plant | 27.9 | 26.3 |
| Scholarships | 9.8 | 10.1 |
| Auxiliary enterprises | 29.9 | 26.3 |
| Depreciation | 13.1 | 12.4 |
| | $ 200.3 | $ 193.2 |

## Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by identifying the major sources and uses of cash. The statement assists the reader to evaluate the entity's ability to generate future net cash flows to meet obligations as they come due. On the next page is a comparative summary of the Statement of Cash Flows for the years ended June 30, 2012 and 2011 and highlights of the major changes:

**Statement of Cash Flows** (in millions)

| | 2012 | 2011 |
|---|---|---|
| Cash received from operations | $ 109.6 | $ 103.5 |
| Cash expended for operations | (195.2) | (189.9) |
| Net cash used by operating activities | (85.6) | (86.4) |
| Net cash provided by non-capital financing activities | 112.3 | 116.5 |
| Net cash used by investing activities | (10.6) | (4.7) |
| Net cash used by capital and related financing activities | (38.4) | (19.9) |
| Net (decrease) increase in cash and cash equivalents | $ (22.3) | $ 5.5 |
| Cash and cash equivalents, beginning of year | $ 41.0 | $ 35.5 |
| Cash and cash equivalents, end of year | $ 18.7 | $ 41.0 |

## Operating activities

- Cash used by operating activities decreased by $0.8 million.
- Cash provided by tuition and fees and auxiliary enterprises comprise 86 percent of inflows from operating activities, and grew by $5.4 million and $4.4 million, respectively, due to the growth in enrollment.
- Payments to employees and for employee benefits make up 63 percent of outflows of cash for operating activities. Payments to employees increased by $0.7 million and payments for benefits decreased by $2.8 million.
- Payments to suppliers grew by $6.8 million due to increased expenses in team travel, room and board payments, and utilities.

## Non-capital financing activities

- Cash provided by non-capital financing activities decreased by $4.2 million. This is reflective of a $4.6 million decrease in cash received for state appropriations.
- State appropriations make up 68 percent of cash provided by non-capital financing activities.

## Capital financing activities

- Cash used by capital financing activities grew by $18.5 million. This is largely due to the change in proceeds from bond issues which was $17.8 million in 2011 compared to $4 million in 2012.
- Cash paid for capital assets increased to $35.1 million compared to $30.1 million in 2011.

## Investing activities

- Cash used by investing activities increased by $5.9 million due to an increase in net investment purchases over 2011.

For the year ended June 30, 2012 more cash was used by operating, capital financing and investing activities, while less cash was provided by non-capital financing activities. The University experienced an overall $22.3 million decrease in cash.

# Economic Factors that Will Affect the Future

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

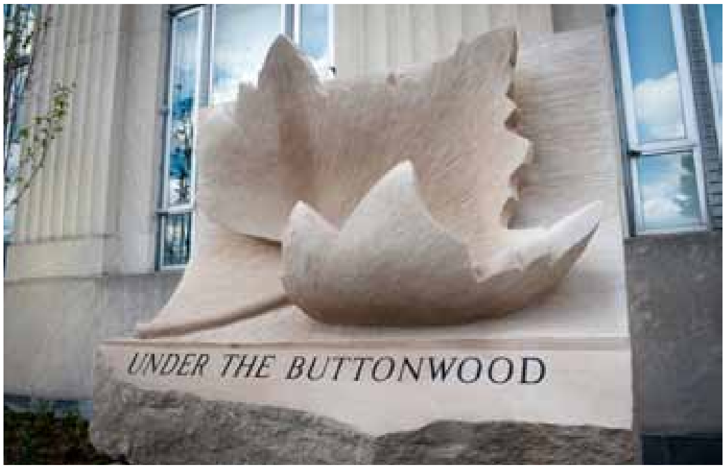
Indiana State University's fall 2012 enrollment head count grew to 12,114, an increase of nearly 600 students, or more than a 5 percent increase compared to 2011. The incoming freshman class of 2,668 is an increase of 147 students, making it the largest incoming class in the school's history. This is the third consecutive year for record new student growth and a difference in class size of 840 students since 2009, when the entering class was 1,828. Other highlights include growth in the number of instate undergraduates of 340 (4.4%), out-of-state undergraduates by 162 students (7.6%), and international enrollment by 100 students (31%). This is the overall largest enrollment since 1993, with 76 percent of the students from Indiana, and more than half of them are first generation college students. Having surpassed a goal of 12,000 students two years ahead of schedule, Indiana State University has a new enrollment target of 14,000 students by 2017. The new enrollment goal would mark the largest student body in the University's history, exceeding a record head count of 13,533 in 1970. Plans call for Indiana State to achieve its goal by adding more than 1,000 undergraduate and 800 graduate students during the next five years. More than half of that growth would come from boosting the number of students completing degrees online.

Indiana State has set a goal of increasing first-year retention to 70 percent by 2017. At the same time, Indiana State will seek to increase its four-year graduation rate from more than 22 percent to 30 percent and boost its six-year graduation rate from 42 percent to 50 percent. A new four-year graduation guarantee, the formation of a University College to better serve new students, and expanded summer programs to serve at-risk students are now in place to help achieve these goals and ensure that more students complete a bachelor's degree.

The Indiana State University Board of Trustees authorized the sale of $30 million in bonds to finance the ongoing renovation of Erickson Hall as a residence hall and to construct a new housing facility on the north end of campus. These bonds are expected to be issued in late fall 2012. The new North Housing residence hall complex will house 352 beds and will be the first new residential housing project on the Indiana State University campus since the 1960's. The overall cost of the complex is estimated at $24 million, of which approximately $3 million will be funded from Housing and Dining System reserves and the remaining $21 million from proceeds of the bond issue. The Trustees also authorized the University to seek approval to spend up to $22 million for the first phase of a multi-year project to renovate Sycamore Towers student housing. The 12-story complex constructed in the 1960's is expected to begin renovation next summer with Mills Hall as the first of four towers to be upgraded. Funding for this project would come from residence hall reserves and a bond issuance.

The University is currently working with a developer to create student housing in downtown Terre Haute. Initial plans were for 150 beds with a long-range plan of up to 600 beds, involving a mix of four-and-two-bedroom units with limited kitchen facilities. The new facility would be designed for upperclassmen and graduate students. Any new project would include retail space on the first level to be managed by a third party, with the upper floors containing student housing to be operated and managed by the University.

Lilly Endowment has awarded a six-year $3 million grant to Indiana State University to help fund the continued operation of the University's distinctive




*"Under the Buttonwood," a stone carving of a buttonwood leaf, commemorates a 1792 meeting beneath a buttonwood tree on Wall Street in New York City where 24 stockbrokers signed an agreement establishing the New York Stock Exchange.*


Networks Financial Institute (NFI). The grant brings the total amount the Lilly Endowment has invested in NFI to $32 million since the Institute's launch in 2003.

Indiana State University Board of Trustees approved a lease to develop oil and gas resources on University property. The first stage of exploration will determine the extent of oil reserves available and if drilling and production is economically viable.

Based on the University's commitment to ensure that more Hoosiers can afford to pursue a higher education degree, Indiana State University scaled back a planned tuition increase for fiscal year 2013. A scheduled 3.5 percent increase in instate undergraduate fees was reduced to 1.5 percent. This keeps in line the University's effort to limit future increases in student costs to increases in the Consumer Price Index. Other affordability measures include a restructuring of summer school fees, textbook and laptop PC rental programs, and expanded student employment opportunities. An affordability task force continues to exam other cost savings.

Other goals listed for the next three years include:  increasing programs with experiential learning from 68 percent to 100 percent, expanding the number of students involved in community engagement from 6,145 to 7,500, boosting the number of businesses served by the Business Engagement Center from 21 to 40, and increasing funding for the Unbounded Possibilities Initiative designed to strengthen the University's most distinctive and promising programs from $1.5 million to $5 million across the next five years.

As part of the initiative to increase and diversify University revenues, the Indiana State University Foundation initiated a comprehensive campaign, titled "March On!  The Campaign for Indiana State University." Fundraising dollars from this campaign are earmarked for the following areas: facility support, faculty, program support, student support and the Fund for the Future. The campaign exceeded the goal of $85 million at the end of December 2011 by raising $86.7 million. This created more than 250 new scholarships. More than 18,000 donors contributed to the campaign including 19 commitments of $1 million or more.

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

**Indiana State University**

# Comparative Statement of Net Assets

**For the Years Ended June 30, 2012 and June 30, 2011**

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 18,714,665 | $ 40,972,520 |
| Short-term investments | 7,545,331 | 16,214,781 |
| Accrued interest | 807,329 | 630,252 |
| Accounts receivable (net of allowance of$5,606,623 for 2012 and$6,280,785 for 2011) | 4,641,618 | 3,319,288 |
| Other accounts receivable | 5,222,959 | 7,195,811 |
| Grants receivable | 1,545,961 | 1,330,303 |
| State receivable | — | 1,614 |
| Notes receivable, current portion | 3,345,639 | 3,065,041 |
| Prepaid expenses | 787,148 | 1,036,797 |
| Other assets | — | 14,577 |
| Inventories | 31,153 | 85,881 |
| Total current assets | $ 42,641,803 | $ 73,866,865 |
| Non-current Assets | | |
| Endowment investments - held in trust | $ 510,704 | $ 556,956 |
| Deposits with bond trustee | 418,077 | 491,617 |
| Notes receivable, non-current portion (net of allowance of$725,436 for 2012 and $724,656 for 2011) | 4,363,689 | 4,594,469 |
| Other long-term investments | 106,683,476 | 79,882,664 |
| Net OPEB Asset (Note 19) | 11,138,913 | 7,103,613 |
| Capital assets (net of accumulated depreciation of$241,758,662 for 2012 and $232,309,242 for 2011) | 350,790,896 | 326,996,174 |
| Total non-current assets | $ 473,905,755 | $ 419,625,493 |
| **TOTAL ASSETS** | $ 516,547,558 | $ 493,492,358 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable | $ 3,660,648 | $ 3,864,339 |
| Accrued payroll and deductions | 2,881,393 | 4,172,575 |
| Deferred revenue | 1,171,922 | 1,351,088 |
| Deferred inflow of resources (Note 7) | 242,593 | — |
| Funds held in custody for others | 1,285,527 | 2,947,156 |
| Other current liabilities | 4,768,923 | 4,671,970 |
| Bonds payable (Note 6) | 7,237,945 | 7,382,945 |
| Compensated absences & termination benefits (Note 10) | 3,119,210 | 3,324,364 |
| Lease payable | 343,858 | 294,561 |
| Debt interest payable | 1,251,323 | 1,302,600 |
| Total current liabilities | $ 25,963,342 | $ 29,311,598 |
| Non-current liabilities | | |
| Funds held in custody for others | $ 465,293 | $ 609,893 |
| Deferred inflow of resources (Note 7) | 1,940,742 | — |
| Other long-term liabilities | — | 350,000 |
| Bonds payable (Note 6) | 100,956,484 | 104,194,430 |
| Compensated absences & termination benefits (Note 10) | 906,318 | 776,391 |
| Lease payable | 749,769 | 1,000,441 |
| Advances from Federal Government | 7,783,450 | 7,820,450 |
| Total non-current liabilities | $ 112,802,056 | $ 114,751,605 |
| **TOTAL LIABILITIES** | $ 138,765,398 | $ 144,063,203 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 241,508,076 | $ 222,855,308 |
| Restricted for: | | |
| Non-expendable: | | |
| Scholarships and fellowships | 510,704 | 556,956 |
| Loans | 2,190,855 | 2,203,734 |
| Expendable: | | |
| Research and other grants | 286,818 | 583,492 |
| Capital projects | 3,805,526 | 12,465,814 |
| Unrestricted | 129,480,181 | 110,763,851 |
| **TOTAL NET ASSETS** | $ 377,782,160 | $ 349,429,155 |

**Indiana State University Foundation, Inc. and Affliate**

# Consolidated Statement of Financial Position

**June 30, 2012**

| | | |
|---|---|---|
| **ASSETS** | | |
| Cash and equivalents | $ | 866,706 |
| Short-term investments | | 5,506,065 |
| Pledges and bequests, receivable, net | | 4,535,459 |
| Due from Indiana State University | | 2,056,552 |
| Investment in joint ventures | | 1,235,365 |
| Property held for future use | | 1,127,705 |
| Property and equipment, net | | 1,498,212 |
| Amortizable intangible assets, net | | 362,981 |
| Assets held in trusts, interest in trusts and split-interest agreements | | 3,516,807 |
| Investments restricted for long-term purposes | | 41,044,908 |
| Pledges and bequests receivable restricted for long-term purposes, net | | 254,210 |
| Other assets restricted for long-term purposes | | 1,755 |
| Other assets | | 637,866 |
| **TOTAL ASSETS** | $ | 62,644,591 |
| **LIABILITIES** | | |
| Accounts payable | $ | 378,469 |
| Lines of credit borrowings | | 6,764,541 |
| Due to Indiana State University | | 5,019,463 |
| Split-interest agreement obligations | | 2,092,983 |
| Refundable advances | | 499,451 |
| Deferred revenue | | 11,400 |
| Total Liabilities | | 14,766,307 |
| **NET ASSETS** | | |
| Unrestricted | | (16,745,097) |
| Temporarily restricted | | 17,037,983 |
| Permanently restricted | | 47,585,398 |
| Total net assets | | 47,878,284 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | 62,644,591 |

**Indiana State University**

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

**For the Years Ended June 30, 2012 and June 30, 2011**

| OPERATING REVENUES | 2012 | 2011 |
|---|---|---|
| Tuition and fees | $ 91,033,298 | $ 86,096,586 |
| Scholarship allowances for tuition and fees | (32,304,499) | (33,559,222) |
| Other allowances | (485,030) | (460,238) |
| Net tuition and fees | 58,243,769 | 52,077,126 |
| Federal grants and contracts | 5,077,712 | 5,077,481 |
| State and local grants and contracts | 201,092 | 203,978 |
| Non-governmental grants and contracts | 2,866,180 | 3,243,906 |
| Auxiliary enterprises fees and services | 46,134,449 | 41,343,680 |
| Scholarship allowances for room and board | (8,344,422) | (8,241,612) |
| Other allowances | (381,668) | (473,556) |
| Net auxiliary enterprises fees and services | 37,408,359 | 32,628,512 |
| Other operating revenues | 5,602,341 | 6,917,478 |
| Total operating revenues | $ 109,399,453 | $ 100,148,481 |
| **EXPENSES** | | |
| Compensation and employee benefits | $ 116,486,443 | $ 116,049,252 |
| Supplies and expenses | 51,615,498 | 45,990,468 |
| Utilities | 10,363,992 | 9,885,479 |
| Scholarships and fellowships | 8,731,582 | 8,859,322 |
| Depreciation | 13,147,322 | 12,434,670 |
| Total operating expenses | $ 200,344,837 | $ 193,219,191 |
| Operating loss | $ (90,945,384) | $ (93,070,710) |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| State appropriations | $ 76,475,333 | $ 81,125,835 |
| Gifts | 497,098 | 505,968 |
| Investment income (net of investment expenses of$393,350 for 2012 and$225,322 for 2011) | 7,614,716 | 3,542,761 |
| Interest on capital asset related debt | (4,682,284) | (4,510,470) |
| Non-operating grants and contract revenue | 31,796,829 | 31,374,371 |
| Other non-operating revenues | 4,165,166 | 2,785,241 |
| Other non-operating expenses | (29,773) | (331,571) |
| Net non-operating revenue | $ 115,837,085 | $ 114,492,135 |
| Income before other revenues, expenses, gains, or losses | $ 24,891,701 | $ 21,421,425 |
| Capital appropriations | | |
| Capital grants and gifts | $ 1,161,445 | $ 3,500,302 |
| | $ 2,299,859 | $ 6,115,353 |
| Total other revenues | | |
| | $ 3,461,304 | $ 9,615,655 |
| Increase in net assets | | |
| | $ 28,353,005 | $ 31,037,080 |
| Change in accounting estimate | | |
| | $ — | $ (1,370,918) |
| **NET ASSETS** | | |
| Net assets—beginning of year | $ 349,429,155 | $ 319,762,993 |
| Net assets—end of year | $ 377,782,160 | $ 349,429,155 |

**Indiana State University Foundation, Inc. and Affliate**

# Consolidated Statement of Activities

**Year Ended June 30, 2012**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **REVENUE AND SUPPORT** | | | | |
| Contributions | $ 317,489 | $ 3,249,875 | $ 654,267 | $ 4,221,631 |
| Investment income | | | | |
| Interest and dividends | 459,383 | 1,281,611 | — | 1,740,994 |
| Net realized and unrealized losses on investments | (217,919) | (674,223) | (558) | (892,700) |
| Total Investment Income | 241,464 | 607,388 | (558) | 848,294 |
| Non-gift income | 396,494 | 644,693 | — | 1,041,187 |
| Change in value of split-interest agreements | (67,575) | (34,922) | (143,778) | (246,275) |
| Service fee income—Indiana State University | 1,548,500 | — | — | 1,548,500 |
| Endowment administration, gift assessments, and campaign subsidy | 2,922,431 | (2,732,408) | (190,023) | — |
| Prospect league | 301,767 | — | — | 301,767 |
| | 5,660,570 | 1,734,626 | 319,908 | 7,715,104 |
| Net assets released from restrictions | 6,448,986 | (6,448,986) | — | — |
| | 12,109,556 | (4,714,360) | 319,908 | 7,715,104 |
| **EXPENSES** | | | | |
| Scholarships and awards | 1,934,610 | — | — | 1,934,610 |
| Restricted and designated expenditures | 4,826,104 | — | — | 4,826,104 |
| Total Program Services | 6,760,714 | — | — | 6,760,714 |
| Foundation operations | 2,079,121 | — | — | 2,079,121 |
| Sycamore operations | 1,197,000 | — | — | 1,197,000 |
| Development and President | 3,019,592 | — | — | 3,019,592 |
| Alumni affairs | 477,839 | — | — | 477,839 |
| Total Expenses | 13,534,266 | — | — | 13,534,266 |
| **INCREASE (DECREASE) IN NET ASSETS** | (1,424,710) | (4,714,360) | 319,908 | (5,819,162) |
| **NET ASSETS** | | | | |
| Beginning of Year - Restated | (15,320,387) | 21,752,343 | 47,265,490 | 53,697,446 |
| End of Year | $ (16,745,097) | $ 17,037,983 | $ 47,585,398 | $ 47,878,284 |

## Indiana State University

# Statement of Cash Flows

### For the Years Ended June 30, 2012 and June 30, 2011

| | 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ 57,136,401 | $ 51,714,388 |
| Grants and contracts | 8,105,624 | 8,557,174 |
| Auxiliary enterprises | 36,776,908 | 32,438,781 |
| Payments to suppliers | (65,180,573) | (58,378,918) |
| Payments to employees | (64,570,483) | (63,941,416) |
| Payments for benefits | (57,506,188) | (60,280,694) |
| Payments to students | (6,882,381) | (6,380,200) |
| Loans issued to students | (1,000,750) | (950,024) |
| Student loans collected | 1,195,037 | 1,301,932 |
| Other receipts | 6,386,340 | 9,455,648 |
| Net cash used by operating activities | $ (85,540,065) | $ (86,463,329) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | $ 76,513,684 | $ 81,087,484 |
| Direct loan program receipts | 17,892,429 | 20,519,461 |
| Direct loan program disbursements | (17,892,429) | (20,519,461) |
| Non-operating grants and contracts | 32,134,838 | 31,402,700 |
| Gifts and other non-operating income | 3,645,232 | 4,035,120 |
| Net cash provided by non-capital financing activities | $ 112,293,754 | $ 116,525,304 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | | |
| Capital appropriations received | $ 1,163,059 | $ 5,003,444 |
| Capital gifts and grants received | 3,875,064 | - |
| Proceeds from trustee drawdowns | 84,252 | 97,296 |
| Proceeds from sale of land | 30,578 | - |
| Proceeds from bond issue | 4,000,000 | 17,846,453 |
| Costs of issuance | 25,000 | (331,571) |
| Cash paid for capital assets | (35,135,040) | (30,058,947) |
| Principal and interest paid on capital debt and leases | (12,435,209) | (12,441,798) |
| Net cash used by capital financing activities | $ (38,392,296) | $ (19,885,123) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of investments | $ 13,174,283 | $ 23,802,441 |
| Income from investing activities | 5,673,518 | 5,723,141 |
| Purchase of investments | (29,467,049) | (34,200,000) |
| Net cash used by investing activities | $ (10,619,248) | $ (4,674,418) |
| Net (decrease) increase in cash for year | $ (22,257,855) | $ 5,502,434 |
| Cash and cash equivalents- beginning of year | $ 40,972,520 | $ 35,470,086 |
| Cash and cash equivalents- end of year | $ 18,714,665 | $ 40,972,520 |

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

| Reconciliation of Operating Loss to Net Cash Used by Operating Activities | 2012 | 2011 |
|---|---|---|
| Operating Loss | $ (90,945,384) | $ (93,070,710) |
| Adjustments to reconcile operating loss to net cash used by operating activities | | |
| Depreciation expense | 13,147,322 | 12,434,670 |
| Other non-cash adjustments | (5,082,914) | - |
| Changes in assets and liabilities | | |
| Accounts receivable | (1,322,330) | 96,076 |
| Grants receivable | (215,658) | 248,383 |
| Notes receivable | (280,598) | (244,714) |
| Inventories | 54,728 | 11,696 |
| Prepaid expenses | 249,649 | (422,334) |
| Accounts payable | 922,779 | (283,205) |
| Lease payable, current | 49,297 | 33,189 |
| Accrued payroll and deductions | (1,291,182) | (385,964) |
| Deferred revenue | (179,166) | 30,814 |
| Funds held in custody for others | (188,407) | (37,192) |
| Other liabilities | (253,047) | (782,163) |
| Compensated absences | (205,154) | (4,091,875) |
| Net cash used by operating activities | $ (85,540,065) | $ (86,463,329) |
| Non-cash transactions | | |
| Equipment | $ 99,054 | $ 82,783 |
| Capital lease | $ (99,054) | $ (82,783) |

**Indiana State University Foundation, Inc. and Affliate**

# Consolidated Statement of Cash Flows

**Year Ended June 30, 2012**

| | |
|---|---|
| **OPERATING ACTIVITIES** | |
| Decrease in net assets | $ (5,819,162) |
| Adjustments to reconcile decrease in net assets to net cash used by operating activities: | |
| Depreciation of property and equipment | 185,054 |
| Amortization of intangible assets | 476,724 |
| Loss on sales of property and equipment | 2,198 |
| Net realized and unrealized losses on investments | 892,700 |
| In-kind contributions of investments | (661,563) |
| Property held for future use transferred to Indiana State University | 292,833 |
| Contributions related to charitable remainder trusts | (374,059) |
| Change in value of split-interest agreement obligations | 246,275 |
| Contributions restricted for permanent endowment | (654,267) |
| Change in allowance for doubtful accounts | 677,381 |
| (Increase) decrease in certain assets: | |
| Pledges and bequests receivable | (836,574) |
| Due from Indiana State University | 715,784 |
| Other assets | (31,489) |
| Increase (decrease) in certain liabilities: | |
| Accounts payable | 11,669 |
| Due to Indiana State University | (1,606,000) |
| Deferred revenue | (1,000) |
| Net Cash Used by Operating Activities | (6,483,496) |
| **INVESTING ACTIVITIES** | |
| Purchases of investments | (20,888,930) |
| Proceeds from sales and maturities of investments | 17,033,212 |
| Proceeds from sales of property and equipment | 30,774 |
| Purchases of property and equipment | (124,155) |
| Net Cash Used by Investing Activities | (3,949,099) |
| **FINANCING ACTIVITIES** | |
| Borrowings on lines of credit | 6,970,582 |
| Repayments of lines of credit | (206,041) |
| Proceeds for new charitable gift annuities | 19,288 |
| Payments on charitable gift annuities and annuity trust | (236,213) |
| Collections of contributions restricted for permanent endowment | 602,681 |
| Net Cash Provided by Financing Activities | 7,150,297 |
| **NET DECREASE IN CASH AND EQUIVALENTS** | (3,282,298) |
| **CASH AND EQUIVALENTS** | |
| Beginning of Year | 4,149,004 |
| End of Year | $866,706 |

# Notes to Financial Statements

As of June 30, 2012

## Note 1. Summary of Significant Accounting Policies

Indiana State University (the University), a publicly supported, comprehensive, doctoral granting University, serves the State of Indiana, the nation, and the international community by generating and disseminating knowledge in the humanities, arts, social sciences, scientific, and professional disciplines through instruction and research. The University is governed by a nine-member Board of Trustees, appointed by the Governor.

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

### A. Reporting Entity

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity* to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

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

### B. Basis of Accounting

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

*John W. Moore Welcome Center*

## C. Cash Equivalents

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

## D. Investments

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

## E. Inventories

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

## F. Capital Assets

The capitalization guidelines were changed during the 2011 fiscal year and reflected on the chart below. See Note 2 for the details of the change.

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

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

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

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

## G. Scholarship Discounts and Other Allowances

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

## H. Net Assets

University resources are classified for financial reporting purposes into four net asset categories:

***Invested in capital assets, net of related debt:*** This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

***Restricted net assets, expendable:*** Restricted expendable net assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

## I. Compensated Absences

Liabilities for compensated absences are recorded for vacation leave based on actual amounts earned as of the balance sheet date. Employees may accrue vacation benefits up to a maximum of 300 hours, which is payable upon termination. The accompanying statement of net assets reflects an accrual for the amounts earned and ultimately payable for such benefits at the end of the fiscal year.

## J. Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on institutional student loans.

## K. Non-Operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, including state appropriations and investment income. Non-operating revenues include any grant that the University has administrative duties and is a non-exchange transaction. This would include Pell Grant, SEOG, and any State Grant that the University has to determine eligibility, even if the eligibility requirements are set forth by Federal or State agencies.

*Sycamore Banquet Center*

## L. Restricted and Unrestricted Resources

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

## M. Component Units

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

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

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

During the year ended June 30, 2012 the Foundation distributed $6,173,126 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 30 North 5th Street, Terre Haute, IN 47809.

# Note 2. Changes in Accounting Estimate

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

# Note 3. Cash and Investments

The University maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed in the Statement of Net Assets under cash and cash equivalents, short-term investments, long-term investments, deposits with bond trustee, or endowment investments-held in trust, depending on the nature of the investment.

## Cash and Investments

Cash and investments as of June 30, 2012 consist of the following:

| | |
|---|---|
| Cash on hand | $ 92,179 |
| Deposits with financial institutions | (373,724) |
| Investments | 134,153,798 |
| | $ 133,872,253 |

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

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

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

## Disclosures Relating to Interest Rate Risk

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

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

**As of June 30, 2012, the University had the following investments and maturities:**

| | | Investment Maturities (in years) | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| Cash on hand (petty cash) | $ 92,179 | $ 92,179 | $ — | $ — | $ — |
| Demand deposits | (373,724) | (373,724) | — | — | — |
| Money market funds | 11,621,490 | 11,621,490 | — | — | — |
| Commercial paper | 2,459,184 | 2,459,184 | — | — | — |
| Certificates of deposit | 6,487,725 | 5,829,032 | 658,693 | — | — |
| Asset-backed securities | 9,070,143 | 61,090 | 8,026,431 | 982,622 | — |
| Collateralized mortgage obligations | 11,049,333 | — | 1,303,012 | 1,171,254 | 8,575,067 |
| Corporate bonds | 47,795,655 | 2,215,810 | 24,690,726 | 12,653,496 | 8,235,623 |
| Corporate stock | 79,761 | — | — | — | 79,761 |
| Credit default swap | 40,803 | — | 40,803 | — | — |
| Government agencies | 9,880,908 | — | 7,935,750 | 838,747 | 1,106,411 |
| Mortgage-backed securities | 14,238,241 | 178,350 | 110,452 | 3,356,372 | 10,593,067 |
| Municipal bonds | 1,109,157 | — | 577,380 | 89,727 | 442,050 |
| Treasury notes and bonds | 19,810,694 | 4,594,662 | 6,125,194 | 4,424,938 | 4,665,900 |
| Endowment investments held in trust | 510,704 | — | — | — | 510,704 |
| | $ 133,872,253 | $ 26,678,073 | $ 49,468,441 | $ 23,517,156 | $ 34,208,583 |

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

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

| Highly Sensitive Investments | Fair Market Value at Year End |
|---|---|
| **Mortgage-backed securities and asset-backed securities.** These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of the securities and makes the fair values of these securities highly sensitive to changes in interest rates. | $23,308,384 |
| **Callable bonds.** These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affects the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates. | $6,260,299 |

## Disclosure Relating to Credit Risk

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

**Moody's Rating Scale**

| Investment Type | Fair Value | AAA | Aa | A | B or lower | Not Rated |
|---|---|---|---|---|---|---|
| Cash on hand (petty cash) | $ 92,179 | $ — | $ — | $ — | $ — | $ 92,179 |
| Demand deposits | (373,724) | — | — | — | — | (373,724) |
| Money market funds | 11,621,490 | — | — | — | — | 11,621,490 |
| Commercial paper | 2,459,184 | — | — | 2,459,184 | — | — |
| Certificates of deposit | 6,487,725 | — | — | — | — | 6,487,725 |
| Asset-backed securities | 9,070,143 | 8,683,480 | 386,663 | — | — | — |
| Collateralized mortgage obligations | 11,049,333 | 8,911,293 | 508,995 | 1,214,860 | 414,185 | — |
| Corporate bonds | 47,795,655 | — | 4,350,916 | 15,555,854 | 27,888,885 | — |
| Corporate stock | 79,761 | — | — | — | — | 79,761 |
| Credit default swap | 40,803 | — | — | — | — | 40,803 |
| Government agencies | 9,880,908 | 9,880,908 | — | — | — | — |
| Mortgage-backed securities | 14,238,241 | 14,238,241 | — | — | — | — |
| Municipal bonds | 1,109,157 | 235,111 | 550,814 | 323,232 | — | — |
| Treasury notes and bonds | 19,810,694 | 19,810,694 | — | — | — | — |
| Endowment investments held in trust | 510,704 | — | — | — | — | 510,704 |
| | $133,872,253 | $ 61,759,727 | $ 5,797,388 | $ 19,553,130 | $ 28,303,070 | $ 18,458,938 |

## Concentration of Credit Risk

The investment policy of the University contains no limitations on the amount that can be invested in any one issuer. At June 30, 2012 investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5 percent or more of total University investments included the Federal National Mortgage Association totaling $6,045,032.

## 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. Of the University's investments, $19,810,694 in U.S. Government Obligations, $9,880,908 in U.S. Government Agencies and $11,621,490 of the Money Market funds invested in U.S. Government-backed funds are held by a trust department not in the University's name.

As of June 30, 2012 Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to $250,000 by FDIC and in excess of $250,000 by the Indiana Public Deposits Fund. The Certificates of Deposits of $6,487,726 are also covered under the Indiana Public Deposits Fund, as they

*Scott College of Business Federal Hall*

were invested in Indiana financial institutions. The University has no investments that are made up of foreign currency; therefore, the University is not exposed to foreign currency risk.

## Note 4. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2012:

| | Balance June 30, 2011 | Additions | Deductions | Balance June 30, 2012 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 27,983,677 | $ 1,046,673 | $ (9,059) | $ 29,021,291 |
| Works of art | 1,396,605 | 56,140 | (12,115) | 1,440,630 |
| Construction in progress | 28,446,963 | 25,992,634 | (27,015,567) | 27,424,030 |
| Total capital assets not being depreciated | $ 57,827,245 | $ 27,095,447 | $ (27,036,741) | $ 57,885,951 |
| Capital assets being depreciated | | | | |
| Infrastructure | $ 33,384,890 | $ 250,902 | $ — | $ 33,635,792 |
| Land improvements | 20,998,660 | 4,067,500 | (337,090) | 24,729,070 |
| Buildings | 366,320,998 | 29,524,975 | (1,038,382) | 394,807,591 |
| Equipment | 79,143,787 | 3,245,677 | (2,627,200) | 79,762,264 |
| Capital lease assets | 1,629,836 | 99,054 | — | 1,728,890 |
| Total capital assets depreciated | $ 501,478,171 | $ 37,188,108 | $ (4,002,672) | $ 534,663,607 |
| Less accumulated depreciation for | | | | |
| Infrastructure | $ (29,784,408) | $ (861,233) | $ — | $ (30,645,641) |
| Land improvements | (14,324,417) | (754,550) | 337,090 | (14,741,877) |
| Buildings | (132,311,300) | (7,524,755) | 910,146 | (138,925,909) |
| Equipment | (55,508,760) | (3,689,488) | 2,452,208 | (56,746,040) |
| Lease amortization | (380,357) | (318,838) | — | (699,195) |
| Total accumulated depreciation | $ (232,309,242) | $ (13,148,864) | $ 3,699,444 | $ (241,758,662) |
| Total capital assets being depreciated, net | $ 269,168,929 | $ 24,039,244 | $ (303,228) | $ 292,904,945 |
| Total capital assets, net | $ 326,996,174 | $ 51,134,691 | $ (27,339,969) | $ 350,790,896 |

# 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 June 30, 2011 | Additions | Reductions | Balance June 30, 2012 | Current Portion |
|---|---|---|---|---|---|
| Bonds payable, net | $111,577,375 | $ 4,000,000 | $ 7,382,946 | $108,194,429 | $ 7, 237,945 |
| Lease payable | 1,295,002 | 99,054 | 300,429 | 1,093,627 | 343,858 |
| Compensated absences and termination benefits | 4,100,755 | 348,087 | 423,314 | 4,025,528 | 3,119,210 |
| Advances from federal government | 7,820,450 | — | 37,000 | 7,783,450 | — |
| Total long-term liabilities | $124,793,582 | $ 4,447,141 | $ 8,143,689 | $121,097,034 | $ 10,701,013 |
| Bond redemption reserve (matured unpaid bonds and coupons) | | | | | 287,348 |
| Total long-term liabilities—current portion | | | | | $ 10,988,361 |

# Note 6. Bonds Payable

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

| | Issue Date | Interest Rate | Final Maturity Dates | Principal Outstanding June 30, 2012 | Bond Premium | Deferral of Loss | Total Net Outstanding June 30, 2012 |
|---|---|---|---|---|---|---|---|
| **Student Fee Bonds** | | | | | | | |
| Series K | 2004 | 3.0%-5.0% | 2025 | $ 6,090,000 | $ 473,792 | $ (681,169) | $ 5,882,623 |
| Series L | 2005 | 3.0%-5.0% | 2021 | 19,570,000 | 1,106,840 | (1,784,183) | 18,892,657 |
| Series M | 2007 | 4.0%-5.0% | 2033 | 40,530,000 | 612,561 | N/A | 41,142,561 |
| Series N | 2010 | 1.0%-6.64% | 2029 | 8,875,000 | N/A | N/A | 8,875,000 |
| Series O | 2011 | 2.0%-5.0% | 2031 | 8,375,000 | 10,475 | N/A | 8,385,475 |
| **Housing and Dining Revenue Bonds** | | | | | | | |
| Series 2009 | 2009 | 3.0%-6.38% | 2027 | 12,305,000 | 56,113 | N/A | 12,361,113 |
| Series 2010 | 2010 | 1.43%-5.41% | 2027 | 8,655,000 | N/A | N/A | 8,655,000 |
| **Parking Revenue Bond** | | | | | | | |
| Series 2012 | 2012 | 1.72% | 2017 | 4,000,000 | N/A | N/A | 4,000,000 |
| **Total Bonds** | | | | $108,400,000 | $ 2,259,781 | $ (2,465,352) | $ 108,194,429 |

The issues are serial or term bonds with maturities extending until 2033. For the fiscal year 2012 an $8,160,595 separate fee replacement appropriation was received from the State of Indiana. The appropriation represented the amount required to make principal and interest payments for financing certain academic and student facilities. The University has pledged $91,127,043 in student tuition as collateral for student fee bonds and student service bonds, $1,681,390 of the dedicated Student Recreational Fee for Series M, and $1,019,779 of parking revenue for the Parking Revenue Bonds.

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

| Description of Bonds | Final Maturity/ Call Date | Amount Outstanding June 30, 2012 |
|---|---|---|
| Apartment Revenue Bonds: | | |
| Series E | 11/1/2012 | $ 105,000 |

The University issued  $4 million of Parking Revenue Bonds, Series 2012 on March 8, 2012. See Note 8 for details.

**Debt Service Requirements**

| Fiscal Year | Principal Bonds | Interest Bonds | Total |
|---|---|---|---|
| 2012-2013 | $ 7,300,000 | $ 4,895,425 | $ 12,195,425 |
| 2013-2014 | 7,590,000 | 4,590,552 | 12,180,552 |
| 2014-2015 | 7,895,000 | 4,274,177 | 12,169,177 |
| 2015-2016 | 7,435,000 | 3,948,903 | 11,383,903 |
| 2017-2021 | 32,755,000 | 15,499,078 | 48,254,078 |
| 2022-2026 | 27,880,000 | 8,399,886 | 36,279,886 |
| 2027-2031 | 14,860,000 | 2,203,476 | 17,063,476 |
| 2032-2033 | 2,685,000 | 125,684 | 2,810,684 |
| | $ 108,400,000 | $ 43,937,181 | $ 152,337,181 |
| Net unamortized premium and deferral of loss | (205,571) | — | (205,571) |
| Total | $ 108,194,429 | $ 43,937,181 | $ 152,131,610 |

# Note 7. Service Concession Arrangements

In July 2010, Indiana State University entered into a contract with Sodexo Services of Indiana Limited Partnership to provide food services for ISU's students, faculty, staff and invited guests for a term of 11 years. Included in the agreement was a commitment by Sodexo to provide equipment and facility enhancements of up to $2,900,000 to construct the new Sycamore Banquet Center inside the Hulman Memorial Student Union, with contributions by the University of approximately $800,000. Construction was completed and the Banquet Center was put into use in April 2012.

Food services for the Banquet Center will be provided by Sodexo, and it will remain an asset of the University. Due to the nature of this agreement, whereas Sodexo is the operator and ISU is the transferor, it has been classified as a Service Concession Arrangement. The Sycamore Banquet Center has been classified as a capital asset with an offsetting Deferred Inflow of Resources. Over the life of the contract, ISU will amortize the Deferred Inflow of Resources, while recognizing Auxiliary Revenue each year. If the agreement expires, terminates, or is amended in a way that has an adverse impact on Sodexo, ISU will be liable for the unamortized portion of Sodexo's investment.

As of June 30, 2012 the Banquet Center had been in use for three months, and the University recognized $60,648 in Auxiliary Revenue with an offsetting decrease of Deferred Inflow of Resources.

| | |
|---|---|
| Banquet Center Capital Asset: | $ 3,021,294 |
| Less: Contribution by ISU | (777,311) |
| Deferred Inflow of Resources | $ 2,243,983 |
| | |
| Deferred Inflow of Resources | $ 2,243,983 |
| Revenue Recognition as of 6/30/12 | (60,648) |
| Deferred Inflow of Resources as 6/30/12 | $ 2,183,335 |

# Note 8. Bond Issues

## Parking Revenue Bonds (Direct Bank Placement), Series 2012

On March 8, 2012 the University issued $4,000,000 of Parking Revenue Bonds, Series 2012. This issue was a Tax-Exempt, Non-Bank Qualified Direct Bank Placement. Old National Bank was selected during a RFP process with an interest rate of 1.72 percent and a final maturity date of April 1, 2017. Bond proceeds of $4,000,000 and parking revenue reserves of $850,000 were used for the project described below.

### Cherry Street Parking Garage

Series 2012 consists of the acquisition of the Cherry Street Parking Garage from the City of Terre Haute Indiana, at a total cost of $4,850,000, of which $4,000,000 was paid from the proceeds of the Series 2012 Bond and the remainder from parking revenues reserves. Originally opened in May 2008, the parking garage has 626 parking spaces which are needed to accommodate the parking demand due to the opening of the Scott College of Business across the street. The Multi-Modal Transportation facility cost approximately $14 million to build, with $9 million coming from the U.S. Department of Transportation. The Federal Transportation Authority granted the city authority to transfer the facility's garage portion to Indiana State University.

# Note 9. Lease Payable

Indiana State University has entered into a capital lease agreement with GE Capital Information Technology Solutions Inc. This is an agreement to lease copiers and printers for the campus of Indiana State University as of June 30, 2012.

| Fiscal Year | Lease Payments |
|---|---|
| 2013 | $ 400,724 |
| 2014 | 400,724 |
| 2015 | 398,536 |
| Total minimum lease payments | $1,199,984 |
| Less amount representing interest | $ 106,357 |
| Present value of net minimum lease payment | $1,093,627 |

# Note 10. Termination Benefits Liability

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

The ISU Board of Trustees approved a Retirement Severance Plan for eligible faculty and staff on February 18, 2010. Under the Retirement Severance Plan, employees must be age 62 or older and have 20 years of service to retire from Indiana State University. The severance payments available under the plan are 60 percent for those employees with 15 years or more of service on December 31, 2010, and 40 percent for employees with less than 15 years of service on December 31, 2010. New employees hired on or after March 1, 2010, would be eligible for a 25 percent severance pay at retirement.

A total of seven employees enrolled in the program during the 2012 fiscal year at a cost of $334,688. An additional $43,627 was reclassified as current compensated absences and termination benefits liability from non-current.

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

The University informed employees in February 2010 that a displaced workers plan would be implemented. This plan provides employees with severance pay of between 8 to 20 weeks, depending on years of service and notification period, in a lump-sum payment. Additional benefits included COBRA heath insurance paid at 100 percent by ISU for six months, up to four semesters of employee/spouse fee waiver benefits, up to ten semesters of dependent child fee waivers, and use of the Student Recreation Center. During fiscal year 2012, ten employees were displaced under this plan at a cost of $171,835.

# Note 11. Risk Management

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

The University retains the risk for medical benefits up to a stop-loss provision of $225,000 per member. Accrued liabilities for unpaid medical claims, as of June 30, 2012, are included in current other liabilities. The liability is based on 25 percent of actual claims paid during the year, which represents a three-month average turnover period for claims processing. Changes in the balance of claims liabilities during the 2012 fiscal year are as follows:

| | |
|---|---|
| Unpaid medical claims, 7/01/11 | $ 3,824,108 |
| Claims incurred | 15,064,627 |
| Claims paid | (15,180,530) |
| Unpaid medical claims, 6/30/12 | $ 3,708,205 |

## Note 12. Litigation

The University has been named as a defendant in a number of lawsuits. For most of these lawsuits, the final outcome cannot be determined and management is of the opinion that any ultimate outcome will not have a material effect upon the University's financial position. A workmen's compensation lawsuit that involved an injury of an employee of the University, in which the full worker's compensation board agreed with the assertion that the injury was sustained during a routine activity of daily living and was not employment related, was overturned by the Indiana Court of Appeals. The University's appeal to the Indiana Supreme Court was not heard. Total damage of $1,000,000 is estimated in the case, with a stop-loss amount of $350,000. Based on medical payments and legal expenses paid by the University, the $350,000 obligation has been met and the additional claims will be paid by Employers Reinsurance. The contingent liability has been removed for fiscal year 2012.

## Note 13. Funds Held in Custody for Others

Included in the balance Funds Held in Custody for Others are funds held on behalf of the ISU Foundation for Networks as part of a Lilly Foundation gift. These funds are currently invested on behalf of the Foundation, with $688,400 classified as a current liability and the remaining $465,293 classified as a non-current liability.

## Note 14. Pollution Remediation Obligation

To comply with GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, the University must report a liability for an obligating event. An obligating event occurs when the University commences or legally obligates itself to commence pollution remediation. During fiscal year 2012, Indiana State University worked on pollution remediation in Erickson Hall and Hulman Center renovations, and the Statesman Towers demolition. Erickson Hall and Hulman Center roof replacement renovations totaling $33,500 are capitalized in the Construction in Progress account. The Statesman Tower demolition totaling $250,000 has been expensed in fiscal year 2012. As of June 30, 2012, these projects have not been completed, leaving an outstanding obligation of $283,500 which is classified as a current other liability.

# Note 15. Natural Classifications with Functional Classifications

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

| Functional Classification | Compensation and Benefits | Supplies and Materials | Utilities | Scholarships and Fellowships | Depreciation | Total |
|---|---|---|---|---|---|---|
| Instruction | $ 59,045,816 | $ 6,818,125 | $ — | $ — | $ — | $ 65,863,941 |
| Research | 5,032,519 | 3,373,600 | — | — | — | 8,406,119 |
| Public service | 1,032,438 | 853,937 | — | — | — | 1,886,375 |
| Academic support | 9,432,898 | 4,829,941 | — | — | — | 14,262,839 |
| Student services | 8,094,163 | 2,090,301 | — | — | — | 10,184,464 |
| Institutional support | 11,785,548 | 7,214,866 | — | — | — | 19,000,414 |
| Operation of plant | 8,655,798 | 8,986,276 | 10,276,238 | — | — | 27,918,312 |
| Scholarships | 1,036,974 | 2,494 | — | 8,731,582 | — | 9,771,050 |
| Auxiliary enterprises | 12,370,289 | 17,445,958 | 87,754 | — | — | 29,904,001 |
| Depreciation | — | — | — | — | 13,147,322 | 13,147,322 |
| | $ 116,486,443 | $ 51,615,498 | $ 10,363,992 | $ 8,731,582 | $ 13,147,322 | $ 200,344,837 |

# 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. There were costs in excess of the contract amount of $1,949,204 for the 2012 fiscal year. This was due to the market price of natural gas being lower than the price at which the University had contracted to buy. This results from lower demand due to economic conditions as well as a lack of hurricanes and tropical storms in the Natural Gas production areas of the Gulf of Mexico, which have not caused any supply interruptions and minimal shut downs. Additional Natural Gas found in Shale Fields is made accessible due to advances in drilling technology. There is also a risk that the University is exposed related to the failure of the counterparty to fulfill the contract.

# Note 17. Retirement Plans

## Authorization

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

## Faculty and Exempt Staff

Faculty and executive/administrative/professional employees of the University participate in a defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equity Fund (CREF). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. Beginning July 1, 2010, all TIAA-CREF contributions were converted to a flat 10 percent of base salary for all eligible faculty and exempt staff. For those faculty and exempt staff hired prior to July 1, 2004, the difference between the current amount and the new rate was added to the employee's base salary. For fiscal year 2011-12, the University made contributions totaling $5,675,228 to this plan. For the fiscal year ended June 30, 2012 there were 848 employees and retirees participating in TIAA/CREF, with annual salaries equal to $56,435,680.

## Non-exempt Staff

Regular clerical and service staff participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the Board of Trustees of PERF. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The University contributes 3 percent of the gross earnings to the annuity savings plan. The University also contributed 8.6 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2011-2012 year. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after ten years of service. For the fiscal year ended June 30, 2012 there were 596 employees participating in PERF with annual salaries equal to $17,652,394.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling (317) 232-4162.

The University's annual pension cost and related information, as provided by the actuary, for the periods ended June 30, 2011 and 2010, is presented below. The actuarial methods and significant assumptions used are as follows:

| | |
|---|---|
| **Actuarial cost method:** | Entry age normal cost (level percent of payroll) |
| **Asset valuation method:** | 4-year smoothed market value with 20% corridor |
| **Investment rate of return:** | 7% |
| **Projected salary increases:** | 3.25%-4.5% (includes 3% wage inflation) |
| **Cost of living increases:** | 1.0% compounded annually on employer funded pension |
| **Amortization method:** | Level dollar |
| **Amortization period:** | 30 years closed |

### Net Pension Obligation

| | Fiscal Year Ended June 30, 2011 | Fiscal Year Ended June 30, 2010 |
|---|---|---|
| Annual required contribution | $ 1,785,096 | $ 1,250,360 |
| Interest on net pension obligation | (35,962) | (42,431) |
| Adjustment to annual required contribution | 41,401 | 48,354 |
| Annual pension cost | 1,790,535 | 1,256,283 |
| Contributions made | (1,277,662) | (1,184,771) |
| Increase (decrease) in net pension obligation | 512,873 | 71,512 |
| Net pension obligation, beginning of year | (513,749) | (585,260) |
| **Net pension obligation, end of year** | **$ (876)** | **$ (513,748)** |

### Three-Year Trend Information (in thousands)

| | Valuation of Assets (a) | Accrued Liability (AL) (b) | Excess of Assets over (unfunded) 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 |
|---|---|---|---|---|---|---|---|---|---|
| 7/1/2009 | $22,492 | $25,900 | ($3,408) | 86.8% | $18,877 | -18.19% | $1,143 | 102% | ($585) |
| 7/1/2010 | $17,551 | $26,060 | ($8,509) | 67.4% | $17,523 | -48.6% | $1,256 | 94.3% | ($514) |
| 7/1/2011 | $14,355 | $25,424 | ($11,069) | 56.5% | $16,203 | -67.9% | $1,791 | 71.4% | ($1) |

# Note 18. VEBA Trust

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

The trust is funded from reserves set aside in previous years for this purpose, University contributions, and employee payroll deductions for post-retirement benefits, and reinvested net earnings. Beginning January 1, 2012, the University ceased making contributions to the VEBA trust. A summary of the activity in the trust for the year ending June 30, 2012 is as follows:

| | |
|---|---|
| Beginning fund balance 7/1/11 (market value) | $ 65,730,650 |
| Transfer of employee/employer contributions | 1,019,170 |
| Reinvested net earnings | 1,876,219 |
| Less: management fees | (141,970) |
| Realized gain on sale of investments | 967,393 |
| Unrealized loss on increase in market value | (2,706,221) |
| Market value at June 30, 2012 | $ 66,745,241 |

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**

| | Actual $ | Actual % |
|---|---|---|
| Core Equity (indexed) | 9,179,212 | 13.8 |
| Growth Equity | 2,899,607 | 4.3 |
| Value Equity | 4,419,918 | 6.6 |
| Small Cap Equity | 1,129,738 | 1.7 |
| Small Cap Growth Equity | 1,513,461 | 2.3 |
| Small Cap Value Equity | 1,246,837 | 1.8 |
| International Core Equity | 6,125,887 | 9.2 |
| International Emerging Mkts | 2,832,124 | 4.3 |
| Unconstrained | 3,055,530 | 4.5 |
| Fixed Income | 31,301,343 | 46.9 |
| Non-Directional Hedge Fund | 3,041,582 | 4.6 |
| | 66,745,239 | 100.0% |

# Note 19. Other Post Employment Benefits

## Plan Description

Beginning January 1, 2010, Indiana State University selected NEBCO, a division of AmWins Group Benefits to administer the post-65 retiree medical plan. This plan replaced the self-insured program for retirees with an insurance policy for which the University's cost is based on premiums instead of claims. All retirees, after reaching the age of 65, are required to participate in the fully insured plan in order to retain the retirement medical benefit. The University's cost is $236 per month for each plan participant including dental insurance coverage. Retirees pay $69 or $93 per month directly to NEBCO, depending on the prescription drug plan option taken. The medical plan portion of the policy is guaranteed for two years, while the prescription policy is subject to yearly rate adjustments. This group of post-65 retirees retains dental coverage through Delta Dental of Indiana and life insurance through the Hartford Insurance.

*Inside the Scott College of Business Federal Hall*

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

| | Participant Counts who have Health Care Coverage | | |
|---|---|---|---|
| **Valuation Date** | **6/30/10** | **6/30/11** | **6/30/12** |
| Active and eligible to retire | 57 | 62 | 64 |
| Active and not eligible to retire | 634 | 571 | 545 |
| Total actives | 691 | 633 | 609 |
| Inactives | 1,276 | 1,335 | 1,169 |
| Average age | | | |
| Actives | 53.0 | 53.0 | 53.5 |
| Inactives | 74.6 | 74.8 | 75.1 |
| Average service actives | 16.0 | 16.6 | 19.7 |

## Funding Policy

The contribution requirements of plan members for the Indiana State University Retirement Healthcare Plan are established by the University's Board of Trustees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to fund the VEBA. For the fiscal year ended June 30, 2012 the total contribution to the plan was $5.4 million, with the University contributing $4.1 million for current premiums and $1 million contributed to the VEBA. Plan members receiving benefits contributed $0.3 million, based on the required contribution rates as follows:

| **Participants' Monthly Contributions:** | Retiree Only | Retiree and Spouse |
|---|---|---|
| Under age 65 | | |
| Salary under $27,000 | $ 126 | $ 283 |
| Salary greater than $27,000 and less than$77,000 | $ 154 | $ 363 |
| Salary $77,000 and over | $ 190 | $ 410 |
| Age 65 and over (AmWins-Nebco fully insured) | | |
| Option 1 | $ 69 | $ 138 |
| Option 2 | $ 93 | $ 186 |

## Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the University's annual OPEB cost for fiscal years 2010, 2011, and 2012, the amount actually contributed to the plan, and changes in the University's net OPEB obligation to the plan:

| **GASB 45 ARC and Annual Expense** | **2010** | **2011** | **2012** |
|---|---|---|---|
| Annual required contribution | $ 4,558,822 | $ 2,548,416 | $ 959,417 |
| Interest on net OPEB obligation | (68,205) | (226,573) | (426,217) |
| Adjustment to annual required contribution | 82,583 | 274,338 | 516,070 |
| Annual OPEB cost | $ 4,573,200 | $ 2,596,181 | $ 1,049,270 |
| Contributions made | (7,212,671) | (5,923,577) | (5,084,570) |
| Decrease in net OPEB obligation | $ (2,639,471) | $ (3,327,396) | $ (4,035,300) |
| Net OPEB obligation (asset), beginning of year | $ (1,136,746) | $ (3,776,217) | $ (7,103,613) |
| Net OPEB obligation (asset), end of year | $ (3,776,217) | $ (7,103,613) | $ (11,138,913) |

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 years ending as follows:

| **Year Ending** | **Annual OPEB Cost** | **Percentage of Annual OPEB Cost Contributed** | **Net OPEB Asset** |
|---|---|---|---|
| 6/30/12 | $1,049,270 | 530.00 % | $11,138,913 |
| 6/30/11 | $2,596,181 | 228.20 % | $ 7,103,613 |
| 6/30/10 | $4,573,200 | 157.79 % | $ 3,776,217 |

## Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 103.6 percent funded. The actuarial accrued liability for benefits was $65.3 million, and the actuarial value of assets was $66.7 million, resulting in an overfunded actuarial accrued liability (UAAL) of $1.5 million. The covered payroll (annual payroll of active employees covered by the plan) was $41.7 million, and the ratio of the UAAL to covered payroll was 103.6 percent.

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

### Three-Year Trend Information

| | Actuarial Valuation of Plan Assets (a) | Accrued Liability (b) | Underfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded AL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/2012 | $ 66,745,241 | $ 65,260,507 | $ (1,484,734) | 102.3% | $ 41,697,127 | (3.6%) |
| 6/30/2011 | $ 65,730,650 | $ 75,312,342 | $ 9,581,692 | 87.0% | $ 40,482,648 | 23.7% |
| 6/30/2010 | $ 54,024,224 | $ 77,397,637 | $ 23,373,413 | 70.0% | $ 41,945,064 | 55.7% |

## Actuarial Methods and Assumptions

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

### Actuarial Assumptions

| | |
|---|---|
| Valuation and measurement date | June 30, 2012 |
| Participant data | June 30, 2011 |
| Discount rate | 6% |
| Mortality | RP 2000 Mortality Table Healthy Lives Fully Generational projected Using scale AA |

### Health Care Trend Rates

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

### Methods

| | |
|---|---|
| Actuarial cost method | Projected unit credit with linear proration to decrement age |
| Assets method | Market value |
| Amortization method | 30 year level dollar |
| Accounting method | Unit credit |
| Actuarial gains/losses | Reflected immediately in cost method |

# Note 20. Reclassifications

Reclassifications have been made to the Statement of Cash Flows for the year ending June 30, 2011 for comparative purposes. These reclassifications do not necessitate a restatement of prior periods, since they do not affect the net change in cash originally reported. These reclassifications are the result of the following:

- Payments to students for refunds of financial aid and scholarships, previously reported as a decrease in cash received for tuition and fees and auxiliary enterprises, was reclassified as payments to students. This resulted in an increase in cash received for tuition and fees and auxiliary enterprises and the addition of payments to students.
- A change has been made in the calculation of direct loan receipts that are disbursed to students as refunds. This did not result in a net change of cash provided by non-capital financing activities.

| | Prior to Reclassification | Reclassification Amount | After Reclassification |
|---|---|---|---|
| Cash Flows From Operating Activities | | | |
| Tuition and fees | $ 47,525,305 | $ 4,189,083 | $ 51,714,388 |
| Auxiliary enterprises | $ 30,247,664 | $ 2,191,117 | $ 32,438,781 |
| Payments to students | $ — | $ (6,380,201) | $ (6,380,201) |
| Cash Flows From Non-Capital Financing Activities | | | |
| Direct loan program receipts | $ 28,815,236 | $ (8,295,775) | $ 20,519,461 |
| Direct loan program disbursements | $ (28,815,236) | $ 8,295,775 | $ (20,519,461) |

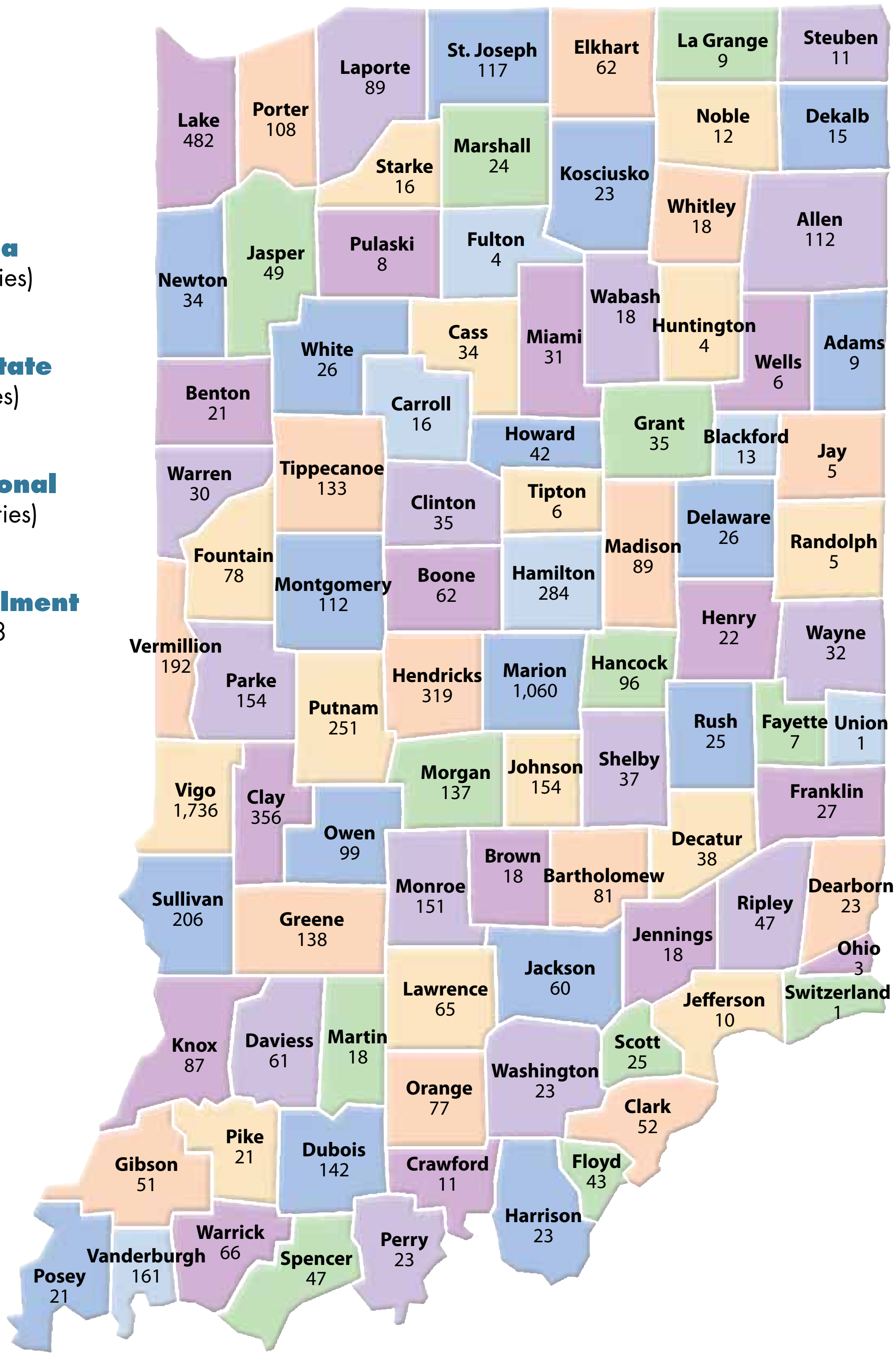
# Home Counties of Indiana State Students
## (Fall 2011) Unaudited

**Indiana**
(92 counties)
8,829

**Out-of-State**
(47 states)
2,123

**International**
(65 countries)
576

**Total Enrollment**
11,528



# Board of Trustees

as of June 30, 2012



**Additional copies of the 2012 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/

# University Officials

as of June 30, 2012



## For Additional Information:

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Indiana State University