Indiana State University

Financial Report

2004-2005

Message from the President

Indiana State University
More. From day one.

Greetings,

I am pleased to provide the Indiana State University financial report for the fiscal year ended June 30, 2005. The Financial Statements, the accompanying Financial Statement Notes, the Independent Auditors' Report, and the Management Discussion and Analysis, are contained in the following pages of this report. These statements have been prepared in accordance with guidelines established by the Government Accounting Standards Board (GASB) and have been audited by the State Board of Accounts of Indiana. Despite the state's challenging economic climate, Indiana State University remains financially strong finishing the year ahead of its financial targets. I am proud that our management team carefully balanced operating expenditures against available resources, with a resulting increase in the University's net assets for the year's performance.

As you review the following pages, you will note that the financial statements for the Indiana State University Foundation are again included for the second year as a component unit of the University as defined by GASB Statement No. 39. You will also note that a more detailed analysis of risk of loss associated with the University's investments has been included for the first time this year in compliance with GASB Statement No. 40 (Deposit and Investment Risk Disclosures). These recent GASB reporting changes are made with the intent of assisting the reviewer of these financial statements to better understand the University's overall financial health. I hope that you will also take the time to review the Management Discussion and Analysis, along with the Notes to the Financial Statements, as these sections also contain helpful information to better understand the financial health of our University.

Despite the challenging climate of constrained state appropriations and enrollment pressure from a growing community college system, I remain very excited about the future of Indiana State University. Strategic investments in our academic programs, enrollment enhancing initiatives, state of the art instructional equipment, and our valued campus facilities continue in accordance with our long term planning forecasts. These investments are targeted to bolster preeminent academic programs, to provide experiential learning opportunities for our students, and to maintain a civically engaged academic community. I believe that these financial statements and our continued investments in strategic programs and facilities reflect our fulfillment to prudently manage the resources of our University on behalf of our students, employees, citizens, and state lawmakers. We gratefully acknowledge those who support us in this honorable charge.

Sincerely,

Dr. Lloyd W. Benjamin III
President

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Indiana State University, a component unit of the State of Indiana, as of and for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. The financial statements of this component unit were audited by another auditor whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana State University, as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2005, on our consideration of Indiana State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

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

STATE BOARD OF ACCOUNTS

October 31, 2005

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 2004-2005 fiscal year ended June 30, 2005. 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 2003-2004 fiscal year. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes that follow this section.

Indiana State University is a research intensive, residential institution offering instruction at the associate, bachelor's, master's, and doctoral levels. The University offers a diverse range of degree programs through a framework of 47 departmental units in six colleges, a school, and various divisions. Located in Terre Haute, Indiana with 11,200 students, the University contributes to the state, the nation, and the world through related research and public service programs.

Stalker Hall renovation on quad side

Financial Highlights

The University's financial position continues to be strong, with an increase in net assets of $8.7 million for the fiscal year ending June 30, 2005. This continues a trend of solid financial performance and adds to the increase of $2.3 million in the fiscal year ending June 30, 2004.

Operating revenues for the fiscal year were $95.4 million, as compared with $93.7 million for fiscal year 2004, an increase of 1.7 percent. The positive operating results included net student fee revenue increases of $.6 million. Growth of $.9 million in the grants and contracts area (which includes student financial aid) and growth of $.2 million in auxiliary enterprises fees also contributed to the positive operating results.

Other operating revenues of $4.5 million include $1.1 million, which is part of the $20 million grant received from the Lilly Endowment Inc., administered through the Indiana State University Foundation for the establishment of the Indiana State University NetWorks. An outreach program of Indiana State University's College of Business, NetWorks was developed to reflect the emerging trends in the financial services markets and in risk management industries for Indiana, the nation, and the world. This is the second year of the four-year grant. The offsetting effect of this revenue is an increase in operating expenses, which primarily affected salary and benefits.

Operating expenses were $177.6 million for fiscal year 2005. This represents a $.1 million decrease from the previous year's expenditures of $177.7 million and results from a reduction of supplies and expenses of $6.3 million from fiscal year 2004, while compensation and benefits expenses grew by $5.0 million. Utilities expenses increased by only $.3 million, and scholarships grew by $.8 million due to an increase of institutional aid for need-based students.

The Michael Simmons Student Activity Center

Net nonoperating revenues grew by $4.3 million from $87.9 million in fiscal year 2003-2004 to $90.6 million in fiscal year 2004-2005. The majority of the increase was due to the market gain of University investment assets as compared to the fiscal year 2004, as well as a reduction of interest expense due to refinancing of bond issues.

The State of Indiana has restored only a minor portion of the appropriated annual capital contribution for repairs and renovations for both fiscal years ended June 30, 2005 and 2004. This resulted in a $.5 million capital appropriation income item.

Indiana State University received over $1.7 million in capital grants and gifts, including a $.7 million gift for the Michael Simmons Student Activity Center, $.2 million for upgrading Hulman Center seating, and a $.5 million payment from Sodexho for the remodeling of the Indiana State University Commons Food Court and the Sycamore dining facility.

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 reflected 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) now requires the inclusion of financial statements for all University component units. Accordingly, and in compliance with GASB #39, included in this year's financial statement presentation are the Indiana State University Foundation's statements. As of June 30, 2005, 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 worsened during the year. Assets and liabilities are generally measured at historical values in accordance with generally accepted accounting principles. One notable exception is investments, which are recorded at fair market value as of the date of the financial statements. A summarized comparison of the University's assets, liabilities, and net assets at June 30, 2005 and 2004 is as follows:

Statement of Net Assets (in millions)

	2005	2004
Current assets	$54.3	$50.6
Non-current assets:		
State receivable	6.7	-
Deposits with bond trustee	3.0	3.6
Notes receivable	5.8	5.9
Other long-term investments	38.4	45.1
Capital assets, net	223.9	217.0
Other	0.7	0.8
Total assets	$332.8	$323.0
Current liabilities	28.7	24.7
Non-current liabilities	60.1	63.0
Total liabilities	$88.8	$87.7
Net assets	$244.0	$235.3

Current assets consist primarily of cash, operating investments, and accounts receivable. These assets totaled $54.3 million at June 30, 2005, as compared to $50.6 million at June 30, 2004.

The increase of current assets of $3.7 million is due to a $9.4 million increase of short-term investments, while long-term investments decreased $6.7 million to realign the investment pool. Accounts receivable net of allowance for bad debt was $4.4 million at June 30, 2005 and $10.7 million at June 30, 2004. Accounts receivable for the fiscal year 2004 includes the withheld payment of one month's state appropriation (representing $6.7 million), which the State of Indiana began withholding in fiscal year 2001-2002 due to state budget problems. In accordance with a state directive, this receivable as "state receivable" is listed as a non-current asset at June 30, 2005.

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portion of long-term debt. Total current liabilities increased by $3.9 million, as the balloon payment for notes payable becomes due during the upcoming 2005-2006 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.

The $5.5 million renovation of Stalker Hall was completed during the summer of 2005. This renovation included a new elevator installation to meet American with Disabilities Act standards, upgrades to the building's infrastructure systems, enhancements to classrooms, and a new front for the building on the south side which faces the main campus quadrangle.

The construction of the Michael Simmons Student Activity Center at Indiana State University Recreation East was completed during fall of 2005. The Sycamore Tricycle Derby and the Tandem Bicycle Race are two of the University's greatest traditions. Indiana State University alumni and trike race co-founders, Michael Simmons and Thomas and Deborah Hulman Bareford, furnished the funds for the building's construction. The facility includes a permanent grandstand and viewing deck, a classroom/meeting room, and commemorative displays chronicling the history and participants of the races.

One of the two new state-of-the-art flight simulators purchased this year.

Two state-of-the-art flight simulators were added to benefit Indiana State University's aviation program. Purchased at a cost of $.6 million, the additions boost Indiana State University's fleet of simulators to four for the Aerospace Technology Program, the largest program in the University's College of Technology with an enrollment of more than 300 students.

With the purchase of a 108-CPU Linux Cluster, Indiana State University has joined the ranks of high-performance computing. The acquisition of this powerful computer cluster, capable of performing nearly a trillion operations per second, will support academic disciplines in computational chemistry, bioinformatics, life sciences, and physics.

On July 20, 2004, the Indiana State University Board of Trustees issued $30.2 million of Student Service Fee, Series K bonds. Included in this bond issue was $4.5 million for the renovation of Stalker Hall, $2.2 million in planning funds for facilities for the College of Education and the College of Business, and $23.8 million refinancing of Student Service Fee, Series H bonds. On January 27, 2005, the Indiana State University Board of Trustees issued $38.4 million of Student Service Fee, Series L bonds to refinance Student Service Fee, Series I and J bonds. The net savings of the bond refinancing of both bond issues, Series K and L was $1.9 million. The State of Indiana's share of the savings was $1.6 million and the Indiana State University share was $.3 million.

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

Net Assets

Net assets represent the residual value of the University's assets after liabilities are deducted. The University's net assets at June 30, 2005 and 2004 are summarized in the table that follows:

Net Assets (in millions)

	2005	2004
Invested in capital assets, net of related debt	$155.2	$149.3
Restricted		
Nonexpendable	0.7	0.8
Expendable	15.3	15.2
Unrestricted		
(designated for operational activities, see Note 3)	72.8	70.0
Total Net Assets	$244.0	$235.3

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations 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, 2005 and 2004 is as follows:

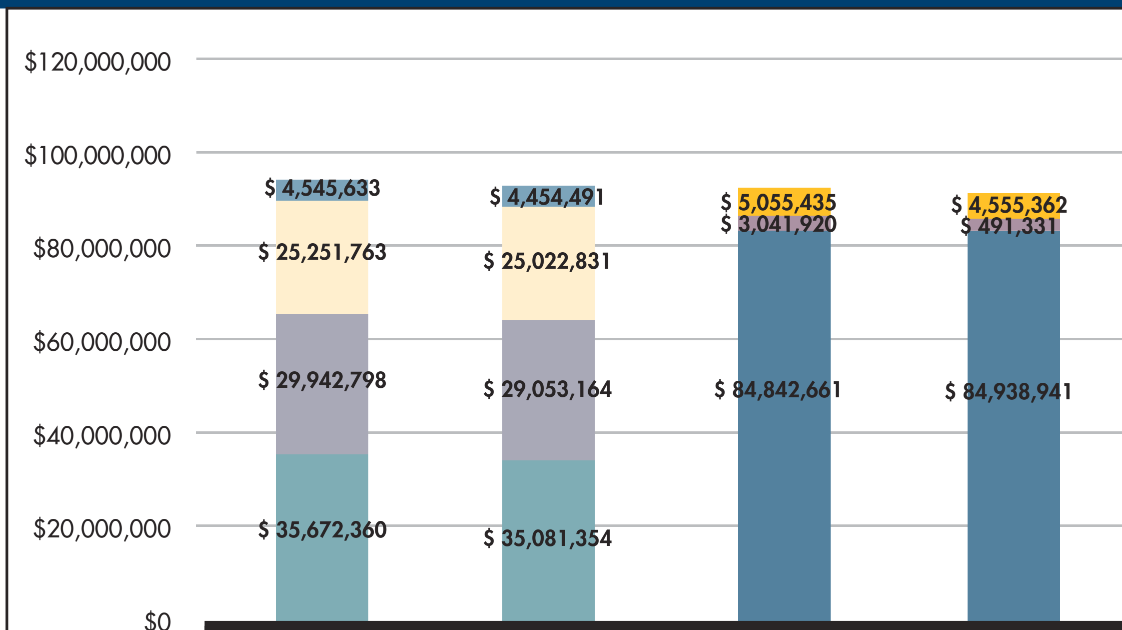
Revenues, Expenses, and Changes in Net Assets (in millions)

	2005	2004
Operating Revenues:		
Tuition and fees (net of scholarship allowances $20.6 million for 2005 and $18.9 million for 2004)	$35.7	$35.1
Grants and Contracts	29.9	29.1
Auxiliary enterprises fees and services (net of scholarship allowances of $4.8 million for 2005 and $4.7 million for 2004)	25.3	25.0
Other	4.5	4.5
Total operating revenue	$95.4	$93.7
Operating expenses	(177.6)	(177.7)
Operating loss	($82.2)	($84.0)
Nonoperating revenues (expenses):		
State appropriations	84.8	84.9
Investment income (net of investment expenses of $128,505 for 2005 and $113,076 for 2004)	3.0	0.5
Capital appropriations	0.5	0.5
Capital grants and gifts	1.7	1.5
Other nonoperating revenues	2.9	2.5
Interest on capital asset related debt	(2.0)	(3.6)
Net nonoperating revenues	$90.9	$86.3
Increase in net assets	$8.7	$2.3
Net assets, beginning of year	235.3	233.0
Net assets, end of year	$244.0	$235.3

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

The following is a comparative graphic illustration of revenues by source (both operating and nonoperating), 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 nonoperating revenues.

Revenues by Source (operating and nonoperating)



	Operating 2005	**Operating 2004**	**Nonoperating 2005**	**Nonoperating 2004**
Other nonoperating/capital revenues			$ 5,055,435	$ 4,555,362
Investment income			$ 3,041,920	$ 491,331
State appropriations			$ 84,842,661	$ 84,938,941
Other operating revenues	$ 4,545,633	$ 4,454,491		
Auxiliary enterprises fees and services, net	$ 25,251,763	$ 25,022,831		
Federal, state, and local grants and contracts	$ 29,942,798	$ 29,053,164		
Tuition and fees, net	$ 35,672,360	$ 35,081,354		

Operating revenues grew by $1.8 million for fiscal year 2005. This was due in part to a $.6 million increase in tuition and fees resulting from enrollment of the second class of incoming students at the higher fee structure established to increase tuition rates. Undergraduate enrollment declined by 294 students, but this was offset by tuition increases, as well as the growth of graduate student enrollment by 134 students. Additionally, grant and contract revenues grew by $.9 million during fiscal year 2005 as the result of increases in student aid. State student aid grew by $.9 million, while federal student aid declined by $.2 million for 2005.

Total nonoperating revenues grew by $4.6 million for fiscal year 2005 due to a $2.5 million increase in investment income and a nonoperating expense decrease of $1.6 million of interest on debt due to the bond refinancing.

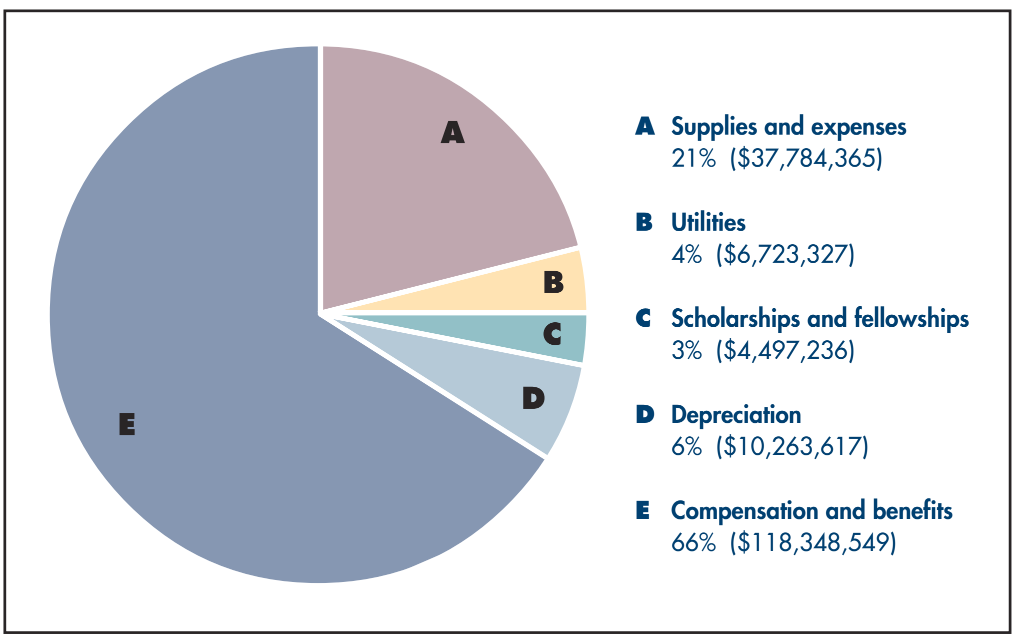
Like most universities, Indiana State University continues to make market-competitive compensation and benefits a top priority. These expenses represent 66 percent of the total University expense budget.

A comparative summary of the University's expenses for the years ended June 30, 2005 and 2004 is as follows:

Operating Expenses (in millions)

	2005	2004
Operating:		
Compensation and benefits	$118.3	$113.3
Supplies and expenses	37.8	44.1
Utilities	6.7	6.4
Scholarships and fellowships	4.5	3.7
Depreciation	10.3	10.2
	177.6	177.7
Nonoperating:		
Interest on capital related debt	2.0	3.6
Total expenses	$179.6	$181.3

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



Total operating expenditures decreased from $177.7 million in fiscal year 2004 to $177.6 million in fiscal year 2005. Compensation and benefits increased by $5.0 million, a 4.5 percent increase over fiscal year 2004. This increase was offset by a $6.3 million reduction in supplies and expenses in fiscal year 2005. The reduction principally resulted from the winding down of the Lilly Cape grant project, a scale back on the Department of Corrections Program, and reduction in computing expenses.

Despite the rapidly growing cost of energy, utility expenses grew by only $.3 million for 2005, a 4.7 percent increase. The University saved over $.6 million for 2005 in natural gas cost by having entered into long-term advance purchase contracts.

In keeping with an institutional priority, scholarship and fellowship expenses increased by $.8 million over 2004 amounts, a 22.2 percent increase. This is the result of the University providing additional scholarships as the increase in tuition rates created a need on the part of students for additional financial assistance.

In addition to their natural (object) classification (expenditure type), it is also informative to review operating expenses by the nature of the University division incurring the expense. A summary of the University's expenses by functional division for the years ended June 30, 2005 and 2004 is as follows:

Expenses by Function (in millions)

	2005	2004
Operating:		
Instruction	64.5	63.9
Research	11.1	11.1
Public service	1.2	1.3
Institutional and academic support	30.4	31.0
Student services	9.0	9.0
Auxiliary enterprises	24.7	23.9
Operations and maintenance of plant	21.1	22.9
Depreciation	10.3	10.2
Scholarships and fellowships	5.3	4.4
Total expense	$177.6	$177.7

Statement of Cash Flows

The Statement of Cash Flows provides information about the University's financial health and performance by identifying the major sources and uses of cash. The statement assists the reader to evaluate the entity's ability to generate future net cash flows to meet obligations as they come due. A comparative summary of the Statement of Cash Flows for the years ended June 30, 2005 and 2004 is provided on the next page.

Statement of Cash Flows (in millions)

	2005	2004
Cash received from operations	$119.7	$120.3
Cash expended for operations	(190.5)	(194.9)
Net cash used in operating activities	(70.8)	(74.6)
Net cash provided by noncapital financing activities	87.7	87.9
Net cash provided by investing activities	0.3	3.1
Net cash used in capital and related financing activities	(16.8)	(16.5)
Net increase in cash and cash equivalents	0.4	(0.1)
Cash and cash equivalents, beginning of year	35.2	35.3
Cash and cash equivalents, end of year	$35.6	$35.2

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the Common Fund are considered cash equivalents.

The University decreased the net cash used in operating activities by $3.8 million to $70.9 million for the 2005 fiscal year. Payments to suppliers showed a $7.3 million reduction in cash expenditures as telecommunication expenses for the Lilly Cape project was completed in fiscal year 2004, and reductions were made in the Indiana Department of Corrections Program. Although net student fee revenues increased by $.6 million, tuition and fee cash receipts declined by $5.3 million. This is the result of a $1.6 million increase in grants and contracts (which included federal and state financial aid), a $3.0 million increase in student loans received, and a $1.3 million increase in institutional aid. Cash paid for capital assets increased $8.6 million due to the Stalker Hall project, various roof replacements, HVAC upgrades, flight simulators for the Aerospace Program, and strategic acquisition of campus property. Overall, cash and cash equivalents grew by $.3 million for fiscal year 2005, while long-term and short-term investments increased by $2.7 million to $48.3 million.

Economic Factors Affecting the Future

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

Indiana State University received a $3 million boost from the Lilly Endowment in the form of a grant to support further development of experiential learning and community engagement activities and to build select academic programs to a level of national prominence.

Like many universities, a continuing challenge for the campus is maintaining stable undergraduate enrollment. As the climate for higher education changes, Indiana State

University has made a concerted effort to increase enrollment standards by reducing the number of conditionally admitted students and increasing admission criteria. This has resulted in increased grade point average and SAT scores, which is intented to improve the retention rate of the student body. Graduate enrollment is up 162 students from two years ago, a 9.4 percent increase. The University is dedicated to a goal of increasing undergraduate enrollment, along with increasing enrollment standards. Indiana State University has embarked on a new media campaign along with targeted scholarships to attract high-achieving students. Beginning with the fall 2007 semester, incoming freshmen at Indiana State University will become the first students at a public university in Indiana to be required to have notebook computers. This new program brings opportunities for collaboration and academic inquiry, while preparing students to become more competitive in the work environment.

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

As indicated earlier, 46 percent of support for educational programs comes to the University from the State of Indiana. The state appropriation is the largest single source of revenue and a crucial element of the University's total revenue stream. The State continued to experience the budgetary challenges of a slow economy. Therefore, the University is challenged to develop and identify additional sources of funding. Fortunately, the University's very attractive fee structure relative to other Indiana state schools allows for continued fee growth, as permitted by governing entities, while remaining an exceptional value within the State's higher education climate. The University continues to seek ways to diversify revenue streams to constrain the pressure to increase student fees.

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

Renovated Stalker Hall lobby, which includes a coffee bar.

Indiana State University

Comparative Statement of Net Assets

6/30/2005 and 6/30/2004

ASSETS	2005	2004
Current assets		
Cash and cash equivalents	$ 35,573,064	$ 35,232,710
Short-term investments	9,976,467	560,688
Accrued interest	633,186	568,468
Accounts receivable (net of allowance of $4,200,577 for 2005 and $3,784,549 for 2004)	4,397,443	10,695,208
Grants receivable	1,645,971	1,474,157
Notes receivable, current portion	1,385,711	1,436,607
Prepaid expenses	494,880	420,700
Inventories	185,872	187,294
Total current assets	$ 54,292,594	$ 50,575,832
Noncurrent assets		
State receivable	$ 6,704,419	$ —
Endowment investments—held in trust	740,640	$ 768,508
Deposits with bond trustee	3,039,637	3,626,681
Notes receivable, noncurrent portion (net of allowance of $728,512 for 2005 and $741,764 for 2004)	5,847,169	5,918,339
Other long-term investments	38,376,573	45,100,469
Capital assets, (net of accumulated depreciation of $201,072,391 for 2005 and $193,497,106 for 2004)	223,891,984	217,043,506
Total noncurrent assets	$ 278,600,422	$ 272,457,503
Total assets	$ 332,893,016	$ 323,033,335
LIABILITIES		
Current liabilities		
Accounts payable	$ 2,465,707	$ 2,660,887
Accrued payroll and deductions	5,683,535	5,539,330
Deferred revenue	2,201,918	2,226,184
Funds held in custody for others	591,361	602,760
Other liabilities	4,498,129	3,840,246
Bonds payable (Note 6)	5,653,723	5,280,000
Notes payable	4,315,000	1,000,000
Long-term liabilities, current portion (Note 5)	3,283,431	3,601,425
Total current liabilities	$ 28,692,804	$ 24,750,832
Noncurrent liabilities		
Bonds payable (Note 6)	$ 58,712,617	$ 57,125,000
Notes payable	—	4,315,000
Compensated absences	916,229	957,926
Other liabilities (Note 15)	557,835	580,169
Total noncurrent liabilities	$ 60,186,681	$ 62,978,095
Total liabilities	$ 88,879,485	$ 87,728,927
NET ASSETS		
Invested in capital assets, net of related debt	$ 155,210,644	$ 149,323,506
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	740,640	768,508
Expendable:		
Research and other grants	573,863	487,151
Capital projects	4,706,660	4,998,383
Loans	9,774,110	9,479,108
Debt service	260,194	223,738
Unrestricted	72,747,420	70,024,014
Total net assets	$ 244,013,531	$ 235,304,408

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

Indiana State University Foundation, Inc.

Statement of Financial Position

	JUNE 30, 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash	$ 744,446	$ 50,455	$ —	$ 794,901
Investments—at market	10,148,608	16,311,885	42,652,642	69,113,135
Assets held in trusts, interest in trusts, and split interest agreements	—	324,192	2,562,800	2,886,992
Grants, pledges, bequests, and accounts receivable	65,078	8,550	435,154	508,782
Investment income receivable	41,330	288,194	—	329,524
Land and property held for future use or sale	508,877	—	100,000	608,877
Equipment and furniture (net of accumulated depreciation of $56,446)	46,848	23,938	—	70,786
Other assets	—	329,880	250,000	579,880
Due to/from other funds	(8,725,668)	8,048,712	676,956	—
Total assets	$ 2,829,519	$ 25,385,806	$ 46,677,552	$ 74,892,877
LIABILITIES AND NET ASSETS				
Accounts payable	$ 141,635	$205,062	$ —	346,697
Scholarships payable	—	—	—	—
Present value of liability under split interest agreements	99,904	132,451	821,557	1,053,912
Due to Indiana State University	1,033	250	738,857	740,140
Refundable advances	—	—	698,442	698,442
Total liabilities	242,572	337,763	2,258,856	2,839,191
Net assets	2,586,947	25,048,043	44,418,696	72,053,686
Total liabilities and net assets	$ 2,829,519	$ 25,385,806	$ 46,677,552	$ 74,892,877

Indiana State University

Statement of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2005 and June 30, 2004

	2005	2004
OPERATING REVENUES		
Tuition and fees (net of scholarship allowances of $20,663,937 for 2005 and $18,894,027 for 2004)	$ 35,672,360	$ 35,081,354
Federal grants and contracts	12,897,043	12,410,742
State and local grants and contracts	12,613,225	10,766,688
Nongovernmental grants and contracts	4,432,530	5,875,734
Auxiliary enterprises fees and services (net of scholarship allowances of $4,871,380 for 2005 and $4,701,025 for 2004)	25,251,763	25,022,831
Other operating revenues	4,545,633	4,454,491
Total operating revenues	$ 95,412,554	$ 93,611,840
EXPENSES		
Compensation and employee benefits	$ 118,348,549	$ 113,260,461
Supplies and expenses	37,784,365	44,056,683
Utilities	6,723,327	6,437,629
Scholarships and fellowships	4,497,236	3,680,493
Depreciation	10,263,617	10,252,668
Total operating expenses	$ 177,617,094	$ 177,687,934
Operating loss	$ (82,204,540)	$ (84,076,094)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 84,842,661	$ 84,938,941
Gifts	549,555	625,302
Investment income (net of investment expenses of $128,505 for 2005 and $113,076 for 2004)	3,041,920	491,331
Interest on capital asset related debt	(2,026,353)	(3,609,311)
Other nonoperating revenues	2,255,065	1,888,551
Net nonoperating revenues	$ 88,662,848	$ 84,334,814
Income before other revenues, expenses, gains, or losses	$ 6,458,308	$ 258,720
Capital appropriations	$ 515,334	$ 515,334
Capital grants and gifts	1,735,481	1,526,175
Total other revenues	$ 2,250,815	$ 2,041,509
Increase in net assets	$ 8,709,123	$ 2,300,229
NET ASSETS		
Net assets—beginning of year	$ 235,304,408	$ 233,004,179
Net assets—end of year	$ 244,013,531	$ 235,304,408

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

Indiana State University Foundation, Inc.

Statement of Activities

Year ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	$ 480,494	$ 1,405,900	$ 2,092,081	$ 3,978,475
Lilly Endowment grants	—	3,154,575		3,154,575
Investment income				
Interest and dividends				
Trust and temporary investments	235,102	1,597,874		1,832,976
Net appreciation (depreciation) in fair value of investments	(13,034)	10,435	2,184,903	2,182,304
Non-gift income	34,139	210,617	59,778	304,534
Change in value of split interest agreements	(10,195)	2,790	(69,229)	(76,634)
Service fee income— Indiana State University	409,851			409,851
In kind support	—	204,371	—	204,371
	1,136,357	6,586,562	4,267,533	11,990,452
Net assets released from restriction				
Satisfaction of donor restriction	6,758,218	(6,758,218)	—	—
Total revenues	7,894,575	(171,656)	4,267,533	11,990,452
Expenses				
Scholarships and awards	2,080,843	—	—	2,080,843
Restricted and designated expenditures	4,975,234	—	—	4,975,234
Grants for academic and other University projects	639,912	—	—	639,912
Foundation operational expenditures	802,182	—	—	802,182
Development and advancement— fund raising	1,468,424	—	—	1,468,424
Total expenses	9,966,595	—	—	9,966,595
	(2,072,020)	(171,656)	4,267,533	2,023,857
Transfers				
Investment income allocated	530,845	1,222,571	(1,753,416)	—
Endowment administration fee	634,279	(634,279)	—	—
To establish endowments	(30,100)	(61,324)	91,424	—
Gift assessments	274,226	(104,441)	(169,785)	—
	1,409,250	422,527	(1,831,777)	—
Increase (decrease) in net assets	$ (662,770)	$ 250,871	$ 2,435,756	$ 2,023,857

Indiana State University

Statement of Cash Flows

For the Years Ended June 30, 2005 and June 30, 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 40,079,812	$ 45,429,454
Grants and contracts	28,193,345	26,601,240
Auxiliary enterprises	5,413,136	5,113,447
Payments to suppliers	(50,052,576)	(57,331,638)
Net pay to employees	(59,606,820)	(57,423,743)
Payments on behalf of employees	(58,366,599)	(59,225,127)
Payments made to students	(22,499,880)	(20,971,799)
Student loans collected and received	37,122,697	34,079,746
Other receipts	8,870,297	9,091,927
Net cash used in operating activities	$ (70,846,588)	$ (74,636,493)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 84,755,976	$ 84,945,724
Gifts and other nonoperating income	2,939,365	2,957,928
Net cash provided by noncapital financing activities	$ 87,695,341	$ 87,903,652
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	$ 515,334	$ 515,334
Capital gifts and grants received	107,443	2,248,577
Repair and replacement funds—drawndown from bond trustee	983,216	501,364
Proceeds from bond issue	71,406,856	—
Costs of issuance	(557,004)	—
Deposit to escrow fund	(63,878,574)	—
Deposit to capitalized interest	(219,904)	—
Cash paid for capital assets	(17,155,886)	(8,533,320)
Principal and interest paid on capital debt and leases	(8,024,919)	(11,207,693)
Net cash used in capital financing activities	$ (16,823,438)	$ (16,475,738)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	$ 16,250,000	$ 2,002,506
Interest and dividends on investments, net expenses	2,901,864	2,958,191
Purchase of investments	(18,836,826)	(1,809,101)
Net cash provided by investing activities	$ 315,038	$ 3,151,596
Net increase/decrease in cash for year	$ 340,353	$ (56,983)
Cash—beginning of year	$ 35,232,711	$ 35,289,694
Cash—end of year	$ 35,573,064	$ 35,232,711

Reconciliation of operating loss to net cash used by operating activities

	2005	2004
Operating loss	$ (82,204,540)	$ (84,076,094)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	10,263,617	10,252,668
Changes in assets and liabilities		
Accounts receivable *	988,170	(875,893)
Grants receivable	(171,814)	104,967
Notes receivable	50,896	72,471
Inventories	1,422	743
Prepaid expenses	(74,180)	(47,441)
Accounts payable	(195,180)	(30,525)
Accrued payroll and deductions	144,205	706,105
Deferred revenue	(24,266)	(1,828,789)
Funds held in custody for others	(11,399)	(56,515)
Other liabilities	657,883	258,883
Compensated absences	117,172	302,758
Contingent/other liabilities	(388,574)	580,169
Net cash used by operating activities	$ (70,846,588)	$ (74,636,493)

* Accounts receivable reconciliation excludes all nonoperating receivables from the calculation.

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

Indiana State University Foundation, Inc.

Statement of Cash Flows

Year Ended June 30, 2005

Cash flows from operating activities:	
Change in net assets	$ 2,023,857
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	15,658
(Gain) loss on disposal of assets	933
Net (appreciation) depreciation in fair value of investments	(2,182,304)
Reinvestment of certificate of deposit earnings	(419)
Gift of trusts held by third parties and charitable remainder trusts	—
Change in value of accounts due to the Office of the Controller	(28,369)
Changes in assets and liabilities:	
Grants, pledges, bequests, and accounts receivable	756,294
Investment income receivable	(72,376)
Other assets	9,738
Accounts payable	10,631
Scholarships payable	(1,250)
Change in value of split interest agreements	165,239
Net cash from operating activities	697,632
Cash flows from investing activities:	
Purchase of collection items	(500)
Proceeds from sale of investments	38,051,906
Purchase of investments	(40,310,489)
Purchase of equipment and furniture	(30,123)
Purchase of real estate	(110,895)
Net cash from investing activities	(2,400,101)
Net (decrease) in cash	(1,702,469)
Cash at beginning of the period	2,497,370
Cash at end of period	$ 794,901

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

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.

New powerful computer cluster capable of performing nearly a trillion operations per second.

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

A. Reporting Entity

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

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

B. Basis of Accounting

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

C. Cash Equivalents

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the Common Fund are considered cash equivalents.

D. Investments

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

E. Inventories

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

F. Capital Assets

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

Minimum Capitalization Value and Useful Life by Asset Types

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

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

G. Scholarship Discounts and Allowances

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

H. Net Assets

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

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

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

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

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

I. Operating Revenues

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

J. Nonoperating Revenues

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, including state appropriations and investment income.

K. Restricted and Unrestricted Resources

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

L. Component Units

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 77 member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

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

During the year ended June 30, 2005, the Foundation distributed $5,541,566 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 217 North Sixth Street, Gillum Hall, room 320, Terre Haute, IN 47809.

Note 2—Cash and Investments

The University maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed in the Statement of Net Assets under *Cash and cash equivalents*, *Short-term investments*, *Other long-term investments*, *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, 2005 are classified in the accompanying financial statements as follows:

Statement of Net Assets		
Cash and cash equivalents	$	35,573,064
Short-term investments	$	9,976,467
Endowment investments held in trust	$	740,640
Deposits with bond trustee	$	3,039,637
Other long-term investments	$	38,376,573
Total cash and investments	$	87,706,381
Cash and investments as of June 30, 2005 consist of the following:		
Cash on hand	$	86,181
Deposits with financial institutions	$	2,642,078
Investments	$	84,978,122
	$	87,706,381

Authorization for investment activity is stated in Indiana Code Title 20, Article 12, Chapter 1, Section 2. Additionally, a resolution was adopted by the Trustees of Indiana State University to authorize the treasurer to manage the investment activity of the University. A revised investment policy was approved by the Board of Trustees on February 16, 2001. Investments authorized by the Indiana State University investment policy can include, but are not limited to, certificates of deposits, repurchase agreements, U.S. Treasury, or government agency obligations. The University has also been the recipient of stocks and bonds through endowments and scholarship funds. It is the intent of the Indiana State University general investment policy that the University not have funds directly invested in corporate equity or to directly invest in financial instruments which could be considered to have volatile price variances. Gifts of stock to the University may be accepted, and outside investment managers may have limited equity positions as part of their longer term investment strategy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that 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 limit exposure to interest rate risk is by purchasing a combination of short- and long-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.

The University's investment policy does not dictate a specific earnings rate and is maintained with two general terms: (1) the liquidity investment objective is to obtain the highest income while maintaining safety of principal to meet the operating needs of the University, and (2) the investment of remaining funds is to obtain the highest possible income levels while maintaining safety of the principal over longer periods of time with a wide variety of securities.

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

University Investments and Maturities

As of June 30, 2005, 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)	$ 86,181	$ 86,181	$ —	$ —	$ —
Demand deposits	$ 2,642,078	$ 2,642,078	$ —	$ —	$ —
Common Fund	$ 25,157,466	$ 25,157,466	$ —	$ —	$ —
Money markets	$ 4,726,976	$ 4,726,976	$ —	$ —	$ —
Certificates of deposit	$ 9,528,722	$ 9,528,722	$ —	$ —	$ —
Government agencies	$ 29,029,676	$ 3,414,290	$ 18,477,185	$ 7,138,201	$ —
Government obligations	$ 543,260	$ —	$ 543,260	$ —	$ —
Corporate bonds	$ 12,253,593	$ 3,033,456	$ 5,919,328	$ 3,300,810	$ —
Mortgage backed securities	$ 2,926,729	$ —	$ —	$ 1,051,710	$ 1,875,019
Corporate stock	$ 71,060	$ —	$ —	$ —	$ 71,060
Endowment investment held in trust	$ 740,640	$ —	$ —	$ —	$ 740,640
	$ 87,706,381	$ 48,589,169	$ 24,939,773	$ 11,490,720	$ 2,686,719

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Highly Sensitive Investments	Fair Market Value at Year End
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of the securities and makes the fair values of these securities highly sensitive to changes in interest rates.	$ 2,926,729
Callable bonds. These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affect the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates.	$ 6,493,589

Disclosure Relating to Credit Risk

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

Moody's Rating Scale

Investment Type	Fair Value	AAA	Aa	A	Not Rated
Cash on hand (petty cash)	$ 86,181	$ —	$ —	$ —	$ 86,181
Demand deposits	$ 2,642,078	$ —	$ —	$ —	$ 2,642,078
Common Fund	$ 25,157,466	$ —	$ —	$ —	$ 25,157,466
Money markets	$ 4,726,976	$ —	$ —	$ —	$ 4,726,976
Certificates of deposit	$ 9,528,722	$ —	$ —	$ —	$ 9,528,722
Government agencies	$ 29,029,676	$ 29,029,676	$ —	$ —	$ —
Government obligations	$ 543,260	$ 543,260	$ —	$ —	$ —
Corporate bonds	$ 12,253,593	$ 984,787	$ 6,683,063	$ 4,585,743	$ —
Mortgage backed securities	$ 2,926,729	$ 2,926,729	$ —	$ —	$ —
Corporate stock	$ 71,060	$ —	$ —	$ —	$ 71,060
Endowment investments held in trust	$ 740,640	$ —	$ —	$ —	$ 740,640
	$ 87,706,381	$ 33,484,451	$ 6,683,063	$ 4,585,743	$ 42,953,124

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount
Irwin Union Bank	Certificate of deposit	$ 6,000,000
First Financial Bank	Certificate of deposit	$ 3,528,722
Federal Home Loan Bank	Federal agency securities	$ 8,918,243
Federal National Mortgage Association	Federal agency securities	$ 10,267,900
Federal Home Loan Mortgage	Federal agency securities	$ 7,679,379
Federal Farm Credit Bank	Federal agency securities	$ 3,145,747

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 given to Indiana institutions because of additional insurance coverage provided by the State.

As of June 30, 2005, Indiana State University's deposits with financial institutions held in uncollateralized accounts were insured up to $100,000 by FDIC and in excess of $100,000 by the Indiana Public Deposits Fund. The amounts held in Indiana financial institutions at June 30, 2005 were $3,228,754. The certificates of deposits of $9,528,722 are also covered under the Indiana Public Deposits Fund as they were invested in Indiana financial institutions. As of June 30, 2005, Indiana State University's investments in the following investment types held by the same broker-dealer (counterparty) that was used by the University to purchase these securities included:

Investment Type	Amount
Common Fund	$ 25,157,466
Money market funds	$ 4,726,976
Government agencies	$ 29,029,676
Government obligation	$ 543,260
Corporate bonds	$ 12,253,593
Mortgage backed securities	$ 2,926,729

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

Note 3—Unrestricted Net Assets

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

Allocated for capital projects	$ 21,564,489
Allocated for auxiliary enterprises	10,818,953
Allocated for academic/administrative activities	10,211,818
Allocated for debt service reserve	8,319,263
Allocated for reserves for encumbrances	7,092,765
Allocated for University initiatives	5,712,583
Allocated for technology improvements	3,781,997
Allocated for benefit claims	2,548,528
Allocated for enrollment stabilization	2,066,652
Allocated for graduate and undergraduate aid	388,039
Allocated for working funds	242,333
Total allocated unrestricted net assets	$ 72,747,420

Note 4—Capital Assets

Following are the changes in capital assets for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Capital assets not being depreciated				
Land	$ 17,031,208	$ 296,447	$ —	$ 17,327,655
Works of art	198,716	356,581	(14,450)	540,847
Construction in progress	2,651,141	11,866,709	(5,552,375)	8,965,475
Total capital assets not being depreciated	$ 19,881,065	$ 12,519,737	$ (5,566,825)	$ 26,833,977
Capital assets being depreciated				
Infrastructure	$ 33,333,260	$ 296,538	$ —-	$ 33,629,798
Land improvements	18,185,857	1,105,758	(423,196)	18,868,419
Buildings	265,525,871	4,296,645	(778,085)	269,044,431
Equipment	73,614,559	5,737,927	(2,764,736)	76,587,750
Total capital assets	$ 390,659,547	$ 11,436,868	$ (3,966,017)	$ 398,130,398
Less accumulated depreciation for				
Infrastructure	$ (23,695,973)	$ (998,139)	$ —	$ (24,694,112)
Land improvements	(11,651,123)	(792,334)	283,603	(12,159,854)
Buildings	(109,149,518)	(3,949,108)	296,692	(112,801,934)
Equipment	(49,000,492)	(5,026,421)	2,610,422	(51,416,491)
Total accumulated depreciation	$ (193,497,106)	$ (10,766,002)	$ 3,190,717	$ (201,072,391)
Total capital assets being depreciated, net	$ 197,162,441	$ 670,866	$ (775,300)	$ 197,058,007
Total capital assets, net	$ 217,043,506	$ 13,190,603	$ (6,342,125)	$ 223,891,984

Note 5—Long-Term Liabilities

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

	Balance 6-30-04	Additions	Reductions	Balance 6-30-05	Due Within One Year
Bonds payable (Note 6):					
Student fee bonds					
Series H	$ 22,865,000	$ —	$ 22,865,000	$ —	$ —
Series I	$ 23,365,000	$ —	$ 23,365,000	$ —	$ —
Series J	$ 15,815,000	$ —	$ 15,815,000	$ —	$ —
Series K	$ —	$ 30,165,000	$ 2,745,000	$ 27,420,000	$ 3,560,000
Series L	$ —	$ 38,370,000	$ —	$ 38,370,000	$ 2,055,000
Student service bonds					
Student Union Series B	$ 360,000	$ —	$ 225,000	$ 135,000	$ 135,000
Series K bond premium	$ —	$ 777,019	$ 37,903	$ 739,116	$ 37,903
Series L bond premium	$ —	$ 2,083,463	$ 65,108	$ 2,018,355	$ 130,216
Bond defeasements:					
Series K deferral of loss	$ —	$ (1,117,115)	$ (54,493)	$ (1,062,622)	$ (54,493)
Series L deferral of loss	$ —	$ (3,358,463)	$ (104,952)	$ (3,253,511)	$ (209,904)
Total bonds payable	$ 62,405,000	$ 66,919,904	$ 64,958,566	$ 64,366,338	$ 5,653,722
Notes payable (Note 6):					
Bank One	$ 5,315,000	$ —	$ 1,000,000	$ 4,315,000	$ 4,315,000
Compensated absences (Note 8)					
Vacation accrual	$ 3,135,020	$ 134,589	$ —	$ 3,269,609	$ 2,423,751
Sick accrual	$ 158,160	$ —	$ 17,417	$ 140,743	$ 70,371
Total compensated absences	$ 3,293,180	$ 134,589	$ 17,417	$ 3,410,352	$ 2,494,122
Other liability (Note 15)	$ 1,580,169	$ —	$ 388,574	$ 1,191,595	$ 633,760
Total long-term liabilities	$ 72,593,349	$ 67,054,493	$ 66,364,557	$ 73,283,285	$ 13,096,604
Bond redemption reserve (Matured unpaid bonds and coupons)					$ 155,547
Total long-term liabilities current portion					$ 13,252,151

Note 6—Bonds and Notes Payable

Indiana State University is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing the construction of the student union building, housing, athletic, parking, and academic facilities. The gross outstanding bond and note indebtedness at June 30, 2005 was $70,240,000.

The issues are serial or term bonds and notes payable with maturities extending until 2024. For the fiscal year 2004-2005, a separate fee replacement appropriation was received from the State of Indiana. The appropriation represented the amount required to make principal and interest payments for financing certain academic and student facilities.

	Issue Date	Interest Rate	Maturity Dates	Principal Outstanding June 30, 2005	Bond Premium	Deferral of Loss	Total Outstanding June 30, 2005
Student Fee Bonds							
Series K	2004	3.0%-5.0%	2024	$27,420,000	739,116	($1,062,621)	$27,096,495
Series L	2005	3.5%-5.0%	2020	38,370,000	2,018,355	($3,253,510)	37,134,845
Student Service Bonds							
Student Union, Series B	1976	6.2%-6.75%	2005	135,000	—	—	135,000
Notes Payable							
Jones Hall remodel	2001	4.46%	2006	4,315,000	—	—	4,315,000
Total							$68,681,340

The University has pledged $56,682,632 in student tuition as collateral for student fee bonds and student service bonds.

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

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

On January 27, 2005, Indiana State University issued Student Service Fee Series L, which refunded Series I and Series J. See Note 7 for details on this bond issue.

Debt Service Requirements

Year	Bonds	Notes	Total Principal	Interest	Total Payments
2006	$ 5,750,000	$ 4,315,000	$ 10,065,000	$ 2,768,945	$ 12,833,945
2007	6,230,000	—	6,230,000	2,376,640	8,606,640
2008	6,445,000	—	6,445,000	2,152,015	8,597,015
2009	6,690,000	—	6,690,000	1,923,428	8,613,428
2010	5,780,000	—	5,780,000	1,703,596	7,483,596
2011-2015	21,340,000	—	21,340,000	5,665,813	27,005,813
2016-2020	9,980,000	—	9,980,000	1,940,613	11,920,613
2021-2025	3,710,000	—	3,710,000	336,656	4,046,656
TOTALS	$ 65,925,000	$ 4,315,000	$ 70,240,000	$ 18,867,706	$ 89,107,706

Note 7—Refunding Bonds

On July 20, 2004, the University issued $30,165,000 in Student Service Fee Bonds Series K with an average interest rate of 3.87 percent. This bond issue was used to advance refund $22,865,000 of outstanding Student Service Fee Bonds Series H with an average interest rate of 4.76 percent, and to provide funding for the renovation of Stalker Hall ($4.5 million) and planning funds for facilities for the College of Education and College of Business ($2.24 million). The net proceeds for the advance refunding of $23,749,906 after payment of $167,754 in issuance costs were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series H bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the balance sheet. The refunding resulted in the accounting loss of $1,117,115, which has been recognized on the balance sheet as deferral of loss on refunding. This amount will be amortized using the straight line method and charged to interest expense over the next 20 years. The University, in effect, reduced its aggregate debt service payment by $765,852 over the next ten years and realized an economic gain (the difference between the present values of the old and new debt service payments) of $751,226.

On January 27, 2005, the University issued $38,370,000 Student Fee Bonds Series L with an average interest rate of 3.80 percent to advance refund $37,095,000 of outstanding Series I and Series J bonds with an average interest rate of 5.42 percent. The net proceeds of $40,128,668 after payment of $324,795 in issuance costs were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series I and Series J bonds. As a result, these bonds are considered to be defeased, and the liability for those bonds has been removed from the balance sheet. The refunding resulted in the accounting loss of $3,358,463, which has been recognized on the balance sheet as deferral of loss on refunding. This amount will be amortized using the straight line method and charged to interest expense over the next 17 years. The University, in effect, reduced its aggregate debt service payment by $1,170,728 over the next 17 years and realized an economic gain (the difference between the present values of the old and new debt service payments) of $1,125,938.

Note 8—Compensated Absences

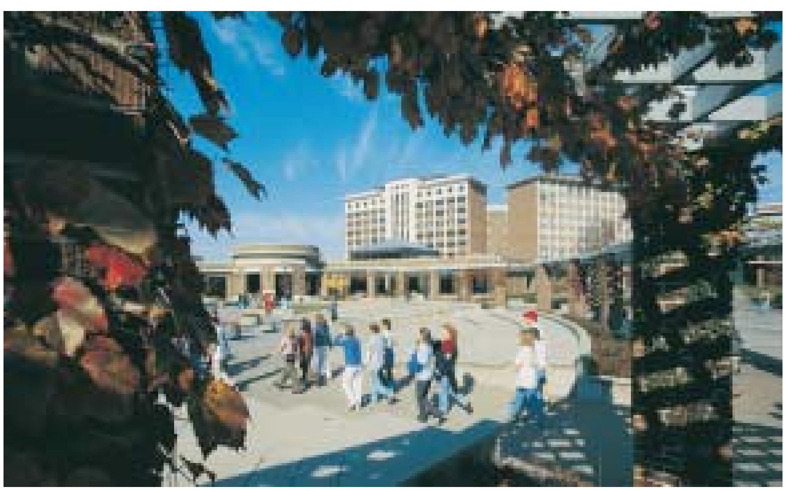
The University records a liability for all unused vacation and sick leave balances, as well as related fringe benefits that are payable upon employee termination in accordance with University policy. The current vacation policy states that an employee cannot accrue more than 40 days vacation, for which they would be paid upon termination. Support staff who have at least ten years of service and are age 60 will receive payment of one-half of the accrued sick leave, not to exceed 45 days, upon retirement from the University.

Note 9—Retirement Plans and Other Post Employment Benefits

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

Faculty and Executive/Administrative/Professional Staff

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



Effective July 1, 2004, employees hired after this date will participate in the defined contribution plan at the contribution rate of ten percent (10%) with no two-year waiting period. The employee will become vested in the plan at the end of two years.

For fiscal year 2004-2005, the University made contributions totaling $7,379,934 to this plan. For the fiscal year ended June 30, 2005, there were 957 employees and retirees participating in TIAA with annual salaries equal to $54,806,709.

The University also makes contributions to the State Teachers Retirement Fund (STRF), which is a defined benefit plan for a grandfathered group of employees. The University's required contribution to the plan for the fiscal years ending June 30, 2005, 2004, and 2003 were $24,926, $29,198, and $72,174, respectively. The University contributed 97 percent of the required contributions for each of the fiscal years, respectively. For the fiscal year ended June 30, 2005, there were five employees participating in STRF with annual salaries equal to $365,478. STRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the State Teachers Retirement Fund, 150 West Market Street, Suite 300, Indianapolis, IN 46204, or by calling (317) 232-3860.

Support Staff

Regular clerical and service staff participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the State of Indiana. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The employee contributes three percent (3%) of his or her gross earnings during the first year of employment to the annuity savings plan. After one year of continuous employment, the employee's contribution is paid by the University. The University contributed 3.8 percent of each employee's gross earnings to the defined benefit agent multi-employer plan during the 2004-2005 year. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after ten years of employment. For the fiscal year ended June 30, 2005, there were 863 employees participating in PERF with annual salaries equal to $18,991,993.

Actuarial information related to the University's portion of the plan is disclosed as follows for the fiscal year ending June 30, 2005:

Public Employee Retirement Fund
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 (APC)	Percentage of APC Contributed	Net Pension Obligation
7/1/2003	18,101	18,645	(544)	97.1 %	16,968	(3.2%)	861	100%	(484)
7/1/2004	18,718	16,748	1,970	111.7 %	17,016	11.5%	921	100%	(473)
7/1/2005	18,169	17,092	1,077	106.3 %	17,459	6.2%	641	100%	(870)

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

The University provides post-retirement healthcare benefits to regular full-time faculty and staff who may become eligible for those benefits if they retire from the University after accruing the required years of service. Currently, 1,231 retirees and dependents meet those eligibility requirements. Expenditures for post-retirement benefits are recognized as retiree claims are incurred. During the year, expenditures of $4,656,360 were recognized for post-retirement healthcare.

The University also provides life insurance benefits to all retired employees if they reach normal retirement age while working for the University. During the year, expenditures of $58,104 were recognized for post-retirement life insurance.

Note 10—Risk Management

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

The University retains the risk for medical benefits up to a stop-loss provision of $215,000 per member.

Medical Claims	
Unpaid medical claims, 7/01/04	$ 3,385,527
Claims occurred	14,721,894
Claims paid	(14,426,947)
Unpaid medical claims, 6/30/05	$ 3,680,474

Note 11—VEBA Trust

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

The trust is funded from reserves set aside in previous years for this purpose, University contributions, employee payroll deductions for post-retirement benefits, and reinvested net earnings. A summary of the activity in the trust for the year ending June 30, 2005, is as follows:

Beginning fund balance	$29,970,681
Transfer of employee/employer contributions	2,040,000
Reinvested net earnings	859,638
Less: management fees	(71,625)
Realized gain on sale of investments	806,791
Settlement	481
Fund balance at June 30, 2005	$33,605,966

The market value of the trust was $36.0 million on June 30, 2005. These funds cannot under any circumstances revert to the University; therefore, the financial statements of the University do not include the value of these assets.

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

An actuarial evaluation was completed in July 2005 projecting the accrued liability for future retiree health care for current retiree and active employees considering the restriction of only current employees/dependents on the plan and the University receiving the Medicare part D 28 percent subsidy. The amount of the liability was valued at $124.3 million.

Note 12—Litigation

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

Note 13—Funds Held in Custody for Others

Funds held in custody for others consist of $591,361 held for other agencies (student and faculty organizations).

Note 14—Natural Classifications with Functional Classifications

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

Functional Classification	Compensation and Benefits	Supplies and Materials	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 58,684,616	$ 5,825,785	$ —	$ —	$ —	$ 64,510,401
Research	7,162,043	3,920,611	—	—	—	11,082,654
Public service	937,693	312,269	—	—	—	1,249,962
Academic support	10,466,027	2,844,397	—	—	—	13,310,424
Student services	7,686,837	1,358,977	—	—	—	9,045,814
Institutional support	12,165,136	4,951,813	—	—	—	17,116,949
Operation of plant	8,952,973	5,478,929	6,674,358	—	—	21,106,260
Scholarships	728,246	32,771	—	4,497,236	—	5,258,253
Auxiliary enterprises	11,564,978	13,058,813	48,969	—	—	24,672,760
Depreciation	—	—	—	—	10,263,617	10,263,617
	$118,348,549	$37,784,365	$ 6,723,327	$ 4,497,236	$10,263,617	$177,617,094

Note 15—Other Liability

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

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

During the fiscal year 2004, the State of Indiana's obligation was settled for $245,186. In September 2004, Indiana State University received the U. S. Department of Education's final determination concerning the overpayment of student financial aid. The liability for this finding totaled $1,580,169. The University recognized the additional expense of $825,355 in fiscal year 2004, while recognizing a $1,000,000 current liability and a $580,169 other long-term liability. On November 15, 2004, Indiana State University disbursed $388,574 to the U.S. Department of Education as a partial payment with the remaining $1,191,595 being appealed through the judicial process.

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 to be used in the production of steam at the University's Power Plant. The natural gas hedges run through December 2010 and were entered into as a cost avoidance strategy. The estimated cost savings to the University for the 2004-2005 fiscal year was $629,746. As of September 21, 2005, the estimated cost avoidance from July 2005 to December 2010 is $9.2 million.

Home Counties of Indiana State Students (Fall 2004) unaudited

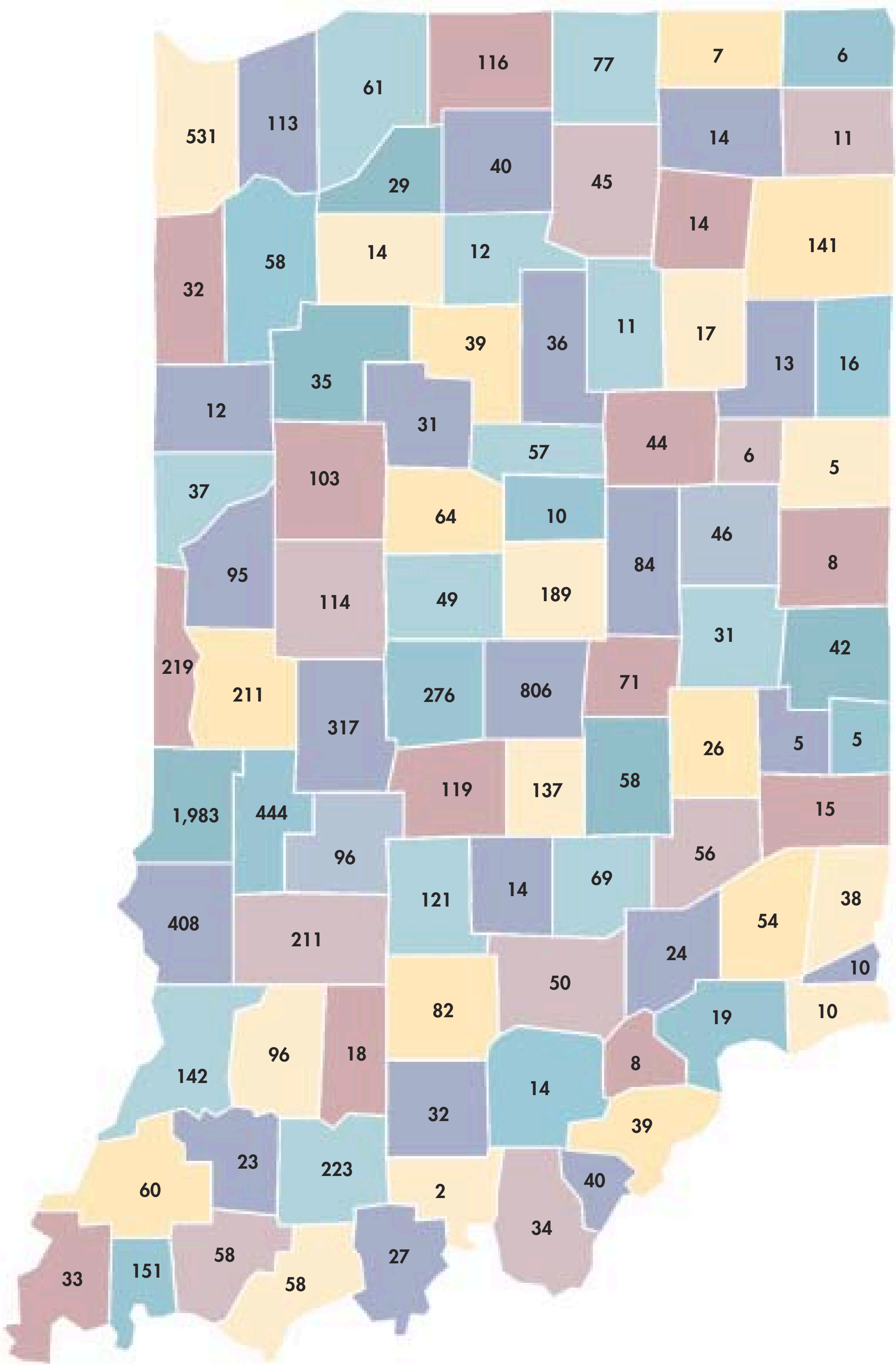
Adams 16
Allen 141
Bartholomew 69
Benton 12
Blackford 6
Boone 49
Brown 14
Carroll 31
Cass 39
Clark 39
Clay 444
Clinton 64
Crawford 2
Daviess 76
Dearborn 38
Decatur 56
Dekalb 11
Delaware 46
Dubois 223
Elkhart 77
Fayette 5
Floyd 40
Fountain 95
Franklin 15
Fulton 12
Gibson 60
Grant 44
Greene 211
Hamilton 189
Hancock 71
Harrison 34
Hendricks 276
Henry 31
Howard 57
Huntington 17
Jackson 50
Jasper 58
Jay 5
Jefferson 19
Jennings 24
Johnson 137
Knox 142
Kosciusko 45
La Grange 7
Lake 531
Laporte 61
Lawrence 82
Madison 84
Marion 806
Marshall 40
Martin 18
Miami 36
Monroe 121
Montgomery 114
Morgan 119
Newton 32
Noble 14
Ohio 10
Orange 32
Owen 96
Parke 211
Perry 27
Pike 23
Porter 113
Posey 33
Pulaski 14
Putnam 317
Randolph 8
Ripley 54
Rush 26
Scott 8
Shelby 58
Spencer 58
St. Joseph 116
Starke 29
Steuben 6
Sullivan 408
Switzerland 10
Tippecanoe 103
Tipton 10
Union 5
Vanderburgh 151
Vermillion 219
Vigo 1,983
Wabash 11
Warren 37
Warrick 58
Washington 14
Wayne 42
Wells 13
White 35
Whitley 14

Indiana (all 92 counties)—9,507

Out-of-State (48 states)—1,266

International (58 countries)—427

Total Enrollment—11,200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Additional copies of the 2005 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

Board of Trustees
as of June 30, 2005

University Officials
as of June 30, 2005

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President of the University

C. Jack Maynard
Provost and Vice President for
Academic Affairs

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

Thomas Ramey
Vice President for
Student Affairs

Gary A. Bouse
Vice President for University Advance-
ment and Executive Vice President of
the ISU Foundation

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

For Additional Information:

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

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

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ISU Foundation
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