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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

INDIANA STATE UNIVERSITY
TERRE HAUTE, INDIANA
FEDERAL AWARDS AUDIT

July 1, 2005 to June 30, 2006

FILED
03/19/2007

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UNIVERSITY OFFICIALS

Office	Official	Term
President	Dr. Lloyd W. Benjamin III	07-01-00 to 06-30-08
Vice President for Business Affairs, Finance, and University Treasurer	Gregg Floyd	08-02-02 to 06-30-07
Assistant Treasurer/Bursar	Dominic Nepote	06-18-04 to 06-30-07
Assistant to Vice President/Controller	Jeffrey Jacso	06-18-04 to 06-30-07
President of the Board of Trustees	Mike Alley	07-01-05 to 06-30-07

INDIANA STATE UNIVERSITY
TERRE HAUTE, INDIANA

INTRODUCTION

GRANTEE'S ORGANIZATION

Indiana State University, is a nonprofit state-supported educational institution. The University was chartered by the General Assembly in 1865 as Indiana State Normal School. The Institution then became Indiana State Teachers College in 1929, Indiana State College in 1961, and Indiana State University in 1965. The University offers both undergraduate and graduate degree programs. The enrollment in 2005-2006 was 13,842 students. The University is governed by a nine member Board of Trustees.

SCOPE OF AUDIT

Our audit of Indiana State University was performed in accordance with generally accepted auditing standards, with the standards applicable to financial audits contained in the Government Auditing Standards, issued by the U.S. Comptroller General of the United States, and the OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. The purpose of the audit was to formulate an opinion on the basic financial statements as a whole and to determine if federally sponsored programs were administered in accordance with the applicable laws, regulations, terms of agreement, and directives which are set forth in the respective audit guides. Our work included the following:

- Expression of an opinion on the Statement of Net Assets and related Statement of Revenues, Expenses and Changes in Net Assets, and Cash Flow Statement.

- Evaluation of the University's policies, procedures, and practices used to administer the programs.

- Evaluation of the University's system of internal control, accounting and reporting, and the controls maintained in the operation of, and accounting for the funds provided for the programs.

- Reconciliation of the information on the respective required federal reports to records of the University.

- Testing charges made to selected awards for University compliance with terms and conditions of the applicable federal awards agreement.

The audit covered the period July 1, 2005 to June 30, 2006. Field work was performed during the period July 11, 2006 to February 27, 2007, at the University.

INTRODUCTION
(Continued)

HIGHLIGHTS OF AUDIT RESULTS

Our audit disclosed that the University generally administered federal awards in a satisfactory manner and in accordance with the federal regulations and directives.

Our Independent Auditor's Report on the basic financial statements is included in the Financial Report, Indiana State University 2005-2006 appended hereto.

FINANCIAL

Indiana State University's financial statements including the Independent Auditor's Report is contained in the Financial Report 2005-2006 appended hereto.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following Schedule of Expenditures of Federal Awards for the year ended June 30, 2006, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Indiana State University (University), as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the University's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS
State Board of Accounts

November 16, 2006

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Indiana State University (University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The University's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1, 2006-2, and 2006-3.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1, 2006-2, and 2006-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We have audited the general-purpose financial statements of Indiana State University as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2006. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the University's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS
State Board of Accounts

February 27, 2007

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
U.S. DEPARTMENT OF EDUCATION			
Direct Grant			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		$ 384,028
Federal Work Study Program	84.033		436,121
Federal Perkins Loan Program - Federal Capital Contributions	84.038		1,840,873
Federal Pell Grant Program	84.063		6,679,450
Total for Cluster			9,340,472
Direct Grant			
TRIO Cluster			
Student Support Services	84.042		283,334
Talent Search	84.044		202,724
Upward Bound	84.047		480,393
McNair Post-Baccalaureate Achievement	84.217		197,726
Total for Cluster			1,164,177
Total for Federal Grantor Agency			10,504,649
Research and Development Cluster			
U.S. DEPARTMENT OF AGRICULTURE			
Direct Grant			
Unknown	10.xxx	05-JV-11221616-255	3,655
Pass-Through Ohio State University Foundation			
Grants for Agricultural Research, Special Research Grants	10.200	2004-38897-02216	52,335
Total for Federal Grantor Agency			55,990
U.S. DEPARTMENT OF COMMERCE			
Direct Grant			
Undersea Research	11.430	NA030AR4300104	31,490
Pass-Through Indiana Department of Natural Resources			
Coastal Zone Management Administration Awards	11.419	NA17OZ1381	37,011
Total for Federal Grantor Agency			68,501
U.S. DEPARTMENT OF DEFENSE			
Pass-Through University of Missouri			
Basic Scientific Research	12.431	W911NF-04-0383	13,991
Total for Federal Grantor Agency			13,991
U.S. DEPARTMENT OF THE INTERIOR			
Direct Grant			
U.S. Geological Survey - Research and Data Acquisition	15.808	05CRAG0038	22,022
Pass-Through Purdue University			
Unknown	15.xxx	AV04-IN01	5,000
Unknown	15.xxx	18-05-20416-15	2,380
Total for Federal Grantor Agency			29,402
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-Through Vigo County Board of Commissioners			
Highway Planning and Construction	20.205	DES 0200988	5,710
Total for Federal Grantor Agency			5,710

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Pass-Through Boston University			
Technology Transfer	43.002	NNG04GH14A	61,109
Pass-Through Purdue University			
Unknown	43.xxx	NNG05GG54H	7,725
Pass-Through Indiana University			
Unknown	43.xxx	NCC5-695	10,707
Total for Federal Grantor Agency			79,541
NATIONAL SCIENCE FOUNDATION			
Direct Grants			
Mathematical and Physical Sciences	47.049	CHE-0521075	284,000
Biological Sciences	47.074		103,945
Social, Behavioral, and Economic Sciences	47.075		234,478
Total for Federal Grantor Agency			622,423
U.S. DEPARTMENT OF EDUCATION			
Pass-Through University of Kansas Center for Research, Inc.			
Special Education - Research and Innovation to Improve Services and Results for Children With Disabilities	84.324		25,563
Total for Federal Grantor Agency			25,563
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Grants			
Human Genome Research	93.172	1R03HG003987-01	6,344
Research and Training in Complementary and Alternative Medicine	93.213		352,941
Pharmacology, Physiology and Biological Chemistry	93.859	1R21GM072780-01A1	12,142
Total for Federal Grantor Agency			371,427
Total for Research and Development Cluster			1,272,548
Other Federal Awards			
U.S. DEPARTMENT OF AGRICULTURE			
Unknown	10.xxx		11,286
Total for Federal Grantor Agency			11,286
U.S. DEPARTMENT OF STATE			
Direct Grants			
Educational Partnerships Program	19.424	S-ECAAS-02-GR-286(JY)	21,848
Unknown	19.xxx	S-ECAPE-03-GR-250(JJ)	32,940
Total for Federal Grantor Agency			54,788
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-Through Indiana Criminal Justice Institute			
State and Community Highway Safety	20.600	OP-06-02-05-24	830
Total for Federal Grantor Agency			830
NATIONAL ENDOWMENT FOR THE ARTS			
Pass-Through State of Indiana Library			
Grants to States	45.310		7,682
Total for Federal Grantor Agency			7,682

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
NATIONAL SCIENCE FOUNDATION			
Direct Grant			
Education and Human Resources	47.076	DUE-0123124	66,935
Total for Federal Grantor Agency			66,935
SMALL BUSINESS ADMINISTRATION			
Pass-Through Indiana Small Business Administration			
Small Business Development Center	59.037		121,884
Total for Federal Grantor Agency			121,884
U.S. DEPARTMENT OF ENVIRONMENTAL MANAGEMENT			
Pass-Through American Association of Airport Executives			
Compliance Assistance Support for Services to the Regulated Community and Other Assistance Providers	66.305	CC-83144001-0	35,822
Total for Federal Grantor Agency			35,822
U.S. DEPARTMENT OF EDUCATION			
Direct Grants			
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		190,533
Child Care Access Means Parents in School	84.335	P335A010011-04	4,300
Teacher Quality Enhancement Grants	84.336		518,572
Pass-Through Indiana Department of Education			
Special Education - Grants to States	84.027		1,762,760
Pass-Through Indiana Department of Education			
Vocational Education - Basic Grants to States	84.048		72,624
Pass-Through Ivy Tech Community College			
Vocational Education - Basic Grants to States	84.048		12,591
Total for Program			85,215
Pass-Through Emporia State University			
Fund for the Improvement of Post Secondary Education	84.116	P116B011069	1,454
Pass-Through National Council on Economic Education			
Fund for the Improvement of Education	84.215		5,410
Pass-Through Indiana Department of Workforce Development			
Tech-Prep Education	84.243	TP-5-264	4,154
Pass-Through Indiana Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		191,589
Pass-Through Indiana Commission for Higher Education			
Improving Teacher Quality Partnership Program	84.367	04-03	198,383
Pass-Through Indiana Department of Education			
Unknown	84.xxx		287
Total for Federal Grantor Agency			2,962,657

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

INDIANA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Grant			
Professional Nurse Traineeship	93.358	A10HP00183E0	13,475
Pass-Through Purdue University			
Injury Prevention and Control Research and State and Community Based Programs	93.136	VF1/CCV519921-02-4	88,977
Pass-Through Hoosier Uplands			
Rural Access to Emergency Devices Grant	93.259		16,495
Pass-Through Ball State University			
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283		1,388
Pass-Through Indiana University			
Foster Care Title IV-E	93.658	01-04-LM-0203	18,615
Pass-Through Indiana University			
Basic/Core Area Health Education Centers	93.824	U76HP00593-01	290,919
Total for Federal Grantor Agency			429,869
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES			
Pass-Through Indiana University			
Americorps	94.006		11,650
Pass-Through State of Indiana Americorps			
Americorps	94.006		127,793
Total for Federal Grantor Agency			139,443
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT			
Pass-Through Association Liaison Office for University Cooperation in Development			
USAID	98.xxx	HNE-A-00-97-0059-00	53,285
Total for Federal Grantor Agency			53,285
UNKNOWN			
Direct Grant			
Japan-United States Friendship Commission	Unknown	05-11	40,379
Total for Federal Grantor Agency			40,379
Total Federal Awards Expended			$ 15,702,057

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Indiana State University (University) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs.

Student Financial Assistance

Expenditures for non-loan assistance made to students are recognized and reported in the Schedule of Expenditures of Federal Awards.

Student loan programs are funded by the federal government under various programs; e.g. Perkins Student Loan program. Activity related to this loan program includes federal and university capital contributions, loan repayments, interest earned on loans, cancellation of loans, and administrative and collection cost. The Schedule of Expenditures of Federal Awards reflects only current year loans to students.

Note 2. Federal Student Loan Program

The University considers the federal capital contribution of federally sponsored student loan programs as a liability. Changes in the balance of loan advances for the year 2005-2006 were:

Balance of Net Federal Capital Contributions at July 1, 2005	$ 7,708,746
Federal Capital Contributions:	
Federal Perkins Loan Program	-
Balance of Net Federal Capital Contributions at June 30, 2006	$ 7,708,746

Amounts loaned to students are recorded as notes receivable. Gross student notes receivable as of June 30, 2006, were:

Cluster/Program Title	Federal CFDA Number	Amount
Federal Perkins Loan Program	84.038	$ 7,815,966

The above is presented as additional information and is not included in the Schedule of Expenditures of Federal Awards.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, the University provided federal awards to subrecipients as follows for the year ended June 30, 2006:

Program Title	Federal CFDA Number	2006
Tech-Prep Education	84.243	$ 1,960
Coastal Zone Management Administration Awards	11.419	9,000
Social, Behavioral, and Economic Sciences	47.075	12,024
Vocational Education - Basic Grants to States	84.048	13,644
Teacher Quality Enhancement Grants	84.336	90,389
Special Education – Grants to States	84.027	124,252
Research and Training in Complementary and Alternative Medicine	93.213	202,015

Note 4. Federal Family Educational Loans

The compiled information supplied by management of student financial aid for guaranteed student loans for the year ended June 30, 2006, is as follows:

Program	Federal CFDA Number	Number	Amount
Federal Stafford Loans	84.032	5,772	$ 34,535,235
Federal Parent Loans for Undergraduate Students	84.032	680	5,032,207
Totals		6,452	$ 39,567,442

The above is presented as additional information and is not included in the Schedule of Expenditures of Federal Awards.

INDIANA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
SFA Cluster	Student Financial Aid Cluster
TRIO Cluster	TRIO Cluster
R&D Cluster	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $470,923

Auditee qualified as low-risk auditee?	yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, RECORD RETENTION AND UNMET PROGRAM OBJECTIVE REQUIREMENTS

Federal Agency: U.S. Department of Education
Federal Program: Trio Cluster – Upward Bound and Upward Bound Math and Science
CFDA Numbers: 84.047 and 84.047A

34CFR74.53(a) and (b) states: "(a) This section establishes requirements for record retention and access to records for awards to recipients. The Secretary does not impose any other record retention or access requirements upon recipients. (b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Secretary."

34CFR74.51(a) states: "Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award."

Indiana State University Upward Bound (ISU UB) submitted incorrect data via its performance report covering the period June 1, 2004 to May 31, 2005, stating participant numbers for objectives that could not be supported by existing documentation.

Indiana State University (ISU) reported in the Upward Bound Annual Performance Report for 2004-2005 the following objectives and their associated accomplishments:

1. Standard Achievement Tests
   Objective: "Ninety percent (90%) of participants will achieve SAT scores above the state average."
   Accomplishments: "ISU UB had 43 participants in 2004-2005. Six of these participants were seniors. Two of these seniors sat for the SAT, both scored under the state average of 1012. ISU continues to offer test preparation workshops in both the academic and summer phases of the program. Target schools did not emphasize the importance of taking the SAT until last year, hopefully, between our workshops and their new emphasis on the SAT the program will see an increase in scores."

Per our testing of the Annual Performance Report, records only substantiated a total of 36 participants. Five participants took the SAT and one of those achieved a score higher than the state average.

2. Grade Point Average
   Objective: "Not one of our formal objectives, but we will report our status."
   Accomplishments: "ISU UB had a total of 43 participants in 2004-2005. 10 or 23% of our participants improved their GPA. 25 participants maintained the same GPA."

Per SBA testing of the Annual Performance Report, ISU records could only substantiate 36 participants. Testing also indicated 14 or 39% of participants improved their GPA and 5 maintained the same GPA.

3. Retention
   Objective: "75% of each class will be retained in the program until High School Graduation."
   Accomplishments: "At the beginning of 2004-05 ISU UB had 33 participants. 10 new participants were added. At the end of the reporting period 9 students left for graduation. We maintained 100% retention rate."

SBA testing showed at the beginning of 2004-2005 ISU UB had 29 participants. Information in the data base indicated 7 participants with project entry dates between 06-01-04 and 05-31-05 (project year). We considered these 7 "new participants." Testing indicated that 4 participants were listed with actual graduation dates occurring between 06-01-04 and 05-31-05.

4. Postsecondary Education.
   Objective: "90% of graduating seniors will enroll in postsecondary education each year."
   Accomplishments: "During 2004-05 ISU UB had 6 graduating seniors. 3 of these seniors enrolled in postsecondary education, or 50% of those eligible. 1 student enrolled in the armed services and information for the remaining two is not available at this time."

Per testing, 10 participants graduated during 2005 and 1 of the 10 enrolled in postsecondary education for 2005-2006.

ISU reported in the Upward Bound Math and Science Annual Performance Report for 2004-2005 the following objective and its associated accomplishments:

Retention
   Objective: "Seventy-Five percent of each recruitment class will be retained until high school graduation."
   Accomplishments: "20 students were recruited in 2001-2002. 1 student withdrew from the program before completion. 8 participants transferred to the Vincennes University project when our partnership grant was dissolved prior to the 2003-04 reporting period. 11 of the 12 students completed the program at Indiana State University for 92%."

Per testing of the Upward Bound Math and Science Annual Performance Report, records were not available to substantiate the recruitment and retention objective numbers as reported.

We recommend that Indiana State University maintain all records and supporting documentation for a period of three years from the date of submission of the final expenditure report or from submission of the annual report as required. We further recommend that ISU implement policies and procedures to ensure that reported data is accurate and complete.

FINDING 2006-2, RECORDKEEPING

Federal Agency: U.S. Department of Education
Federal Program: Trio Cluster – Upward Bound and Upward Bound Math and Science
CFDA Numbers: 84.047 and 84.047A

34CFR645.43(c) Recordkeeping states: "For each participant, a grantee shall maintain a record of (1) The basis for the grantee's determination that the participant is eligible to participate in the project under Sec. 645.3; (2) The basis for the grantee's determination that the participant has a need for academic support in order to pursue successfully a program of education beyond secondary school; (3) The services that are provided to the participant."

Indiana State University (ISU) stated in their grant proposals for both Upward Bound and Upward Bound Math and Science that they would complete a needs analysis for each participant within 30 days of them entering the program. Documentation to show this analysis was completed did not exist.

Of six participants tested in the Upward Bound Program, no documentation was available to verify a needs assessment had been completed for any of them, and one did not have documentation of the services provided to the participant.

The Upward Bound Math and Science program had two out of six participants tested with no documentation to support a needs analysis was completed and two out of six had no documentation for services provided.

In their grant proposal for Upward Bound Math and Science, ISU stated that recommendations from target school personnel would be maintained in the participant file. Out of six participants tested, two had no nomination forms and one had only one nomination form.

We recommend ISU develop policies and implement procedures to ensure all required documentation is completed, collected and properly retained for each participant.

FINDING 2006-3, NUMBER OF PARTICIPANTS

Federal Agency: U.S. Department of Education
Federal Program: Trio Cluster – Upward Bound, Upward Bound Math and Science, and Talent Search
CFDA Numbers: 84.047, 84.047A, and 84.044

34CFR645.43(a) states: "Number of participants. (1) In each budget period, Regular Upward Bound Projects shall serve between 50 and 150 participants and Upward Bound Math and Science projects shall serve between 50 and 75 participants."

Regarding the Talent Search Program, 34CFR643.32(b) states: "Number of Participants. A grantee shall serve a minimum of 600 participants in each budget period."

ISU did not meet the number of participant requirements as noted:

Program	Required Number of Participants Per Federal Regulations	ISU Reported Number of Participants	Verified Number of Participants
Upward Bound	50-150	43	36
Upward Bound Math and Science	50-75	45	45
Talent Search	Minimum of 600	551	551

We recommend that Indiana State University closely monitor the number of participants in each program at all times in order to maintain the required number.

Indiana State University
More. From day one.

Thomas M. Ratliff
Director of Student Financial Aid
150 Tirey Hall
Terre Haute, IN 47809

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING

November 29, 2006

Finding No. 2005-01

Original SBA audit Report Number:	B26680
Fiscal Year:	2004-2005
Auditee Contact Person:	Thomas M. Ratliff
Title of Contact Person:	Director of Student Financial Aid
Phone Number:	812-237-7615

Status of Finding:

On June 1, 2006, Indiana State University paid $11,700.00 back to the U.S. Department of Education and returned $2,250 to the Federal Perkins Loan program as complete repayment of this matter. The Office of Student Financial Aid enacted the general practice of no longer approving retroactive Satisfactory Academic Progress (SAP) appeals as of January 2, 2006. The Satisfactory Academic Progress Policy was updated, approved and placed on the department web site prior to the start of the fall 2006 semester explaining that "Appeals must be received by the committee no later than 15 business days before the end of the payment period for which reinstatement is desired."

Additionally the membership of the Satisfactory Academic Progress Appeals Committee has been restructured at the request of Provost Maynard so that no Financial Aid Office staff are included in the decision making. The Appeals Committee is now composed of representatives from the offices of Admissions, Registration and Records, Dean of Students, Student Academic Services and a faculty member. The director of student financial aid (or a designee) serves in an ex officio capacity to answer questions about the SAP calculations for the Committee. The SAP Policy has been enhanced setting deadlines for appeal submission and as noted above, reference has been made in this change that retroactive appeal approvals will not be permitted. The SAP Appeals Committee has also been instructed to take notice of the number of prior appeal approvals a student has had when making their decisions. The director of student financial aid has requested the SAP Appeals Committee to require a written agreement outlining academic expectations for any student who has had three or more prior approvals if they are approving another appeal.

Thomas M. Ratliff

Terre Haute, Indiana 47809
812-237-3067

Indiana State University
Corrective Action Plan
For Audit Period Ending June30, 2006

Finding 2006-1, RECORD RETENTION AND UNMET PROGRAM OBJECTIVE REQUIREMENTS

Federal Agency:	U.S. Department of Education
Federal Program:	Trio-Cluster - Upward Bound and Upward Bound Math/Science
CFDA Numbers:	84.047 and 84.047A

Auditee Contact Person:	Rosiline Floyd
Title of Contact Person:	Director of UB, UBMS, ETS
Phone Number:	812-237-3065
Expected Completion Date:	June 2007

Per State Auditor findings, "Indiana State University Upward Bound (ISU UB) submitted incorrect data via its performance report covering the period June 1, 2004 to May 31, 2005, stating participant numbers for objectives that could not be supported by existing documentation."

Recommendation

"We recommend that Indiana State University maintain all records and supporting documentation for a period of three years from the date of submission of the final expenditure report or from submission of the annual report as required. We further recommend that ISU implement policies and procedures to ensure that reported data is accurate and complete."

Condition: 1. Standard Achievement Tests

Objective: "Ninety percent (90%) of participants will achieve SAT scores above the state average." Accomplishments: "ISU UB had 43 participants in 2004-2005. Six of these participants were seniors. Two of these seniors sat for the SAT, both scored under the state average of 1012. ISU continues to offer test preparation workshops in both the academic and summer phases of the program. Target schools did not emphasize the importance of taking the SAT until last year, hopefully, between our workshops and their new emphasis on the SAT the program will see an increase in scores."

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"Per our testing of the Annual Performance Report, records only substantiated a total of 36 participants. Five participants took the SAT and one of those achieved a score higher than the state average."

Corrective Action Taken or Planned

1. The Director will attend the Training Program for Federal TRIO Programs Priority 1 (Record keeping, reporting student and project performance, and program evaluation for a model program).
2. The Director will install a performance reporting management system that will provide for the collection and maintenance of files of historical data used to support the Annual Performance Report submitted to the DOE.
3. SAT and ISTEP Preparation will become and integral part of our programming.

Condition 2: Grade Point Average

Objective: "Not one of our formal objectives, but we will report our status." Accomplishments: "ISU UB had a total of 43 participants in 2004-2005. 10 or 23% of our participants improved their GPA. 25 participants maintained the same GPA."

"Per SBA testing of the Annual Performance Report, ISU records could only substantiate 36 participants. Testing also indicated 14 or 39% of participants improved their GPA and 5 maintained the same GPA."

Corrective Action Taken or Planned

1. UB and UBMS will establish policies, procedures and management controls to ensure that records are maintained for the services provided to participants to clearly demonstrate the specific educational benefit(s) that participants received.
2. Academic Coordinators will communicate with high school teachers by email and in person regarding student progress.
3. Assistant Directors will review report cards with parents and students and make suggestions for improving students' academic performance through participation in program services.

Condition: 3. Retention

Objective: "75% of each class will be retained in the program until high school graduation." Accomplishments: "At the beginning of 2004-05 ISU UB had 33

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participants. 10 new participants were added. At the end of the reporting period 9 students left for graduation. We maintained 100% retention rate."

"SBA testing showed at the beginning of 2004-05 ISU UB had twenty-nine participants. Information in the database indicated seven participants with project entry dates between 6-1-04 and 5-31-05 (project year). We considered these seven "new participants." Testing indicated that four participants were listed with actual graduation dates occurring between 6-1-04 and 5-31-05."

Corrective Action Taken or Planned

1. The Director will attend training on: assessment of student needs; proven retention and graduation strategies; and the use of educational technology in order to train UB and UBMS staff.
2. Policies and procedures with managerial control will be established to ensure data is complete and accurate.
3. Student graduation dates do not coincide with the project year, but students do graduate within the project year. To alleviate this problem, we will assign the graduation date of 5/31 of the appropriate year to fall within project year ending date. (For example, students who graduated in 2005 may have had a graduation date of 6/5/2005 and were not included in the students graduating in the project year.)

Condition 4: Postsecondary Education

Objective: "90% of graduating seniors will enroll in postsecondary education each year." Accomplishments: "During 2004-05 ISU UB had 6 graduating seniors. 3 of these seniors enrolled in postsecondary education, or 50% of those eligible. 1 student enrolled in the armed services and information for the remaining two is not available at this time."

"Per testing, ten participants graduated during 2005 and one of the ten enrolled in postsecondary education for 2005-2006."

Retention

"Indiana State University (ISU) reported in the Upward Bound Math and Science Annual Performance Report for 2004-05 the following objectives and their associated accomplishments".

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Objective: "Seventy-Five percent of each recruitment class will be retained until high school graduation." Accomplishments: "20 students were recruited in 2001-2002. 1 student withdrew from the program before completion. 8 participants transferred to the Vincennes University project when our partnership grant was dissolved prior to the 2003-04 reporting period. 11 of the 12 students completed the program at Indiana State University for 92%."

"Per testing of the Upward Bound Math and Science Annual Performance Report, records were not available to substantiate the recruitment and retention objective numbers as reported."

Corrective Action Taken or Planned

1. The Director will attend training on: assessment of student needs; proven retention and graduation strategies; and the use of educational technology in order to train UB and UBMS staff.
2. Policies and procedures with managerial control will be established to ensure data is complete and accurate

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Indiana State University
Corrective Action Plan
For Audit Period Ending June 30, 2006

FINDING 2006-2. RECORDKEEPING

Federal Agency:	U.S. Department of Education
Federal Program:	Trio-Cluster - Upward Bound and Upward Bound Math/Science
CFDA Numbers:	84.047 and 84.047A

Auditee Contact Person:	Rosiline Floyd
Title of Contact Person:	Director of UB, UBMS, ETS
Phone Number:	812-237-3065
Expected Completion Date:	June 2007

"Of six participants tested in the Upward Bound Program, no documentation was available to verify a needs assessment had been completed for any of them, and one did not have documentation of the services provided to the participant."

"The Upward Bound Math and Science program had two out of six participants tested with no documentation to support a needs analysis was completed and two out of six had no documentation for services provided."

"In their grant proposal for Upward Bound Math and Science, ISU stated that recommendations from target school personnel would be maintained in the participant file. Out of six participants tested, two had no nomination forms and one had only one nomination form

Recommendation

"We recommend ISU develop policies and implement procedures to ensure all required documentation is completed, collected, and properly retained for each participant."

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Corrective Action Taken or Planned

1. The Director will attend the Training Program for Federal TRIO Programs Priority 1 (Record keeping, reporting student and project performance, and program evaluation for a model program). Individual Project Directors and staff will also receive additional training in these areas, either by the Director or other means.
2. The Director will be responsible for being knowledgeable about federal regulations regarding TRIO programs and ensuring that staff acts within these guidelines.
3. The Director will provide training to ensure that all staff members know how to properly keep records as required by TRIO and the Student Academic Services Center.
4. Policies and procedures with checklists will be established for proper recording and accountability. Each program's Assistant Director will be responsible for reviewing all files to ensure accuracy.

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Indiana State University
Corrective Action Plan
For Audit Period Ending June 30, 2006

FINDING2006-3, NUMBER OF PARTICIPANTS

Federal Agency:	U.S. Department of Education
Federal Program:	Trio-Cluster - Upward Bound, Upward Bound Math/Science and Educational Talent Search
CFDA Numbers:	84.047, 84.047A and 84.044

Auditee Contact Person:	Rosiline Floyd
Title of Contact Person:	Director of UB, UBMS, ETS
Phone Number:	812-237-3065
Expected Completion Date:	June 2007

Per State Auditor finding: ISU did not meet the number of participant requirements as noted as follows:

Program	Required Number of Participants Per Federal Regulations	ISU Reported Number of Participants	Verified Number of Participants
Upward Bound	50-150	43	36
Upward Bound Math and Science	50-75	45	45
Talent Search	Minimum of 600	551	551

Recommendation

"We recommend that Indiana State University closely monitor the number of participants in each program at all times in order to maintain the required number."

Corrective Action Taken or Planned

1. The Director and Assistant Directors of UB and UBMS will review current recruiting methods to assess over all effectiveness. This will include the development of follow up procedures.

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812-237-3067

2. The Director, with the assistance of the Academic Coordinators of each program, is initiating an incentive program for students that bring in a friend that joins the program.
3. The Director is reviewing various applications to help revise and streamline the UB and UBMS application to include the necessary information, while being more user friendly for applicants.

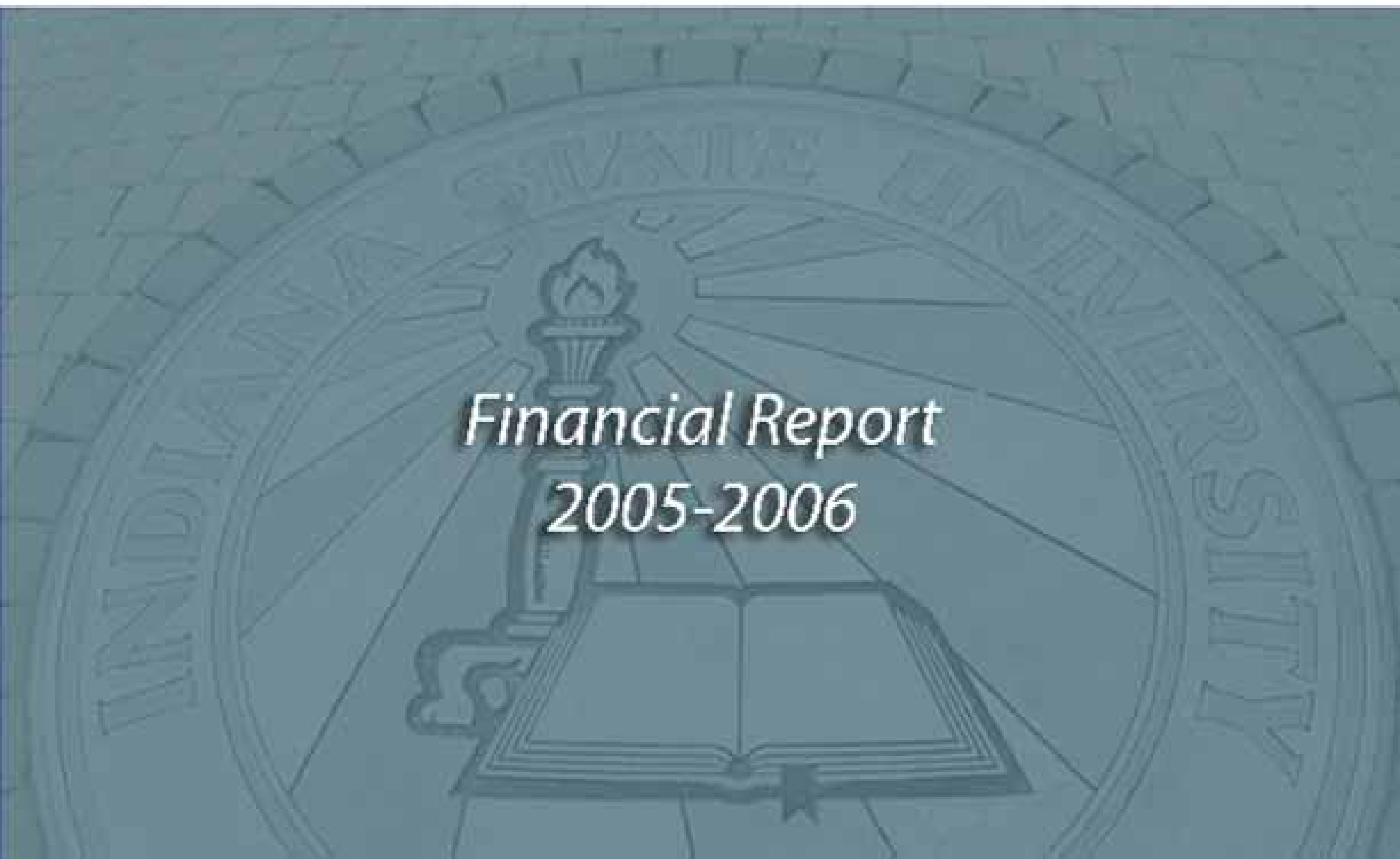
INDIANA STATE UNIVERSITY
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2007. Those attending were:

University Representatives:
- Dr. Lloyd W. Benjamin III, President of the University
- Dr. Jack Maynard, Provost and Vice President for Academic Affairs
- Melony A. Sacopulos, Executive Assistant to the President and General Counsel
- Gregg S. Floyd, Vice-President for Business Affairs, Finance, and University Treasurer
- Dr. Catherine Baker, Director, Student Academic Services Center
- Rosiline Floyd, Director of Upward Bound, Math and Science, ETS
- Thomas Ratliff, Director, Student Financial Aid
- Charlene Shivers, Assistant Director, Student Financial Aid
- Dr. Mark Green, Special Assistant to the Provost
- Dr. Kevin Snyder, Interim Associate Vice President for Enrollment Services and Executive Assistant to the President for Strategic Planning, Institutional Research, and Effectiveness
- Jeffrey Jacso, Assistant to the Vice President and Controller
- Dominic Nepote, Assistant Treasurer and University Bursar
- Sarah Ber, Director, Grants and Contracts
- Sally Hunter, Senior Internal Auditor

State Board of Accounts Representatives:
- Janice Correll, College and University Audit Supervisor
- Jane Kuhn, Field Examiner
- Lynne Spencer, Field Examiner

Indiana State University



Financial Report
2005-2006

Message from the President

Greetings,

It is my pleasure to provide the Indiana State University financial report for the fiscal year ended June 30, 2006. Despite formidable financial challenges, our management team again finished the year ahead of its financial targets. In the following pages of this report, you will find the Financial Statements with accompanying Financial Statement Notes, the Independent Auditors' Report, and the Management Discussion and Analysis. These statements have been prepared in accordance with guidelines established by the Government Accounting Standards Board (GASB) and have been audited by the State Board of Accounts of Indiana. I hope that you will take the time to review all portions of this report, as helpful information is contained in each part to better understand the financial health of our University.

As you review the report, you will also note that the financial statements for the Indiana State University Foundation are again included in the financial report as a component unit of the University. As required by GASB Statement No. 39, this information is included to assist the reviewer develop a complete understanding of the University's financial health.

I am pleased by the financial health, and particularly this year's financial performance, reflected in this report. Despite the state's challenging economic climate which produced a reduction in state appropriations, and the continued enrollment pressure from a growing community college system, our University again finished ahead of its financial targets. With the assistance of our entire University community, our management team carefully balanced operation expenditures against available resources to produce a growth in the University's net assets, and strengthened the University's ability to make strategic reinvestments in its future. Despite formidable challenges, I remain very excited about the future of Indiana State University. Enrollment and admissions programs have been restructured and are beginning to produce a larger cohort of better prepared students. In addition, academic program reviews have been completed, and underproductive programs are being restructured, or are being eliminated to allow for greater investments in the programs critical to our University's future. We continue to invest in our strategic academic programs, enrollment enhancing initiatives, state-of-the-art instructional equipment, and our highly valued campus facilities in accordance with our long-term strategic planning programs. These investments are targeted to bolster preeminent academic programs, to provide our students with experiential learning opportunities, and to maintain a civically engaged academic community. I believe that as you review this report, you will agree that our management has prudently managed the resources of our University on behalf of our students, employees, and citizens of our great state of Indiana. As we pursue our educational and community development objectives, we again express our gratitude to all 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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302 WEST WASHINGTON STREET
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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, 2006 and 2005. 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2006, 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
State Board of Accounts

November 16, 2006

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 2005-2006 fiscal year ended June 30, 2006. 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 2004-2005 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 10,679 students, Indiana State University is a significant economic engine for the Wabash Valley and the State of Indiana. An independent study conducted by the Jacob France Institute at the University of Baltimore indicates that Indiana State University contributed nearly $400 million to the local and state economy in 2004-2005. That is nearly a five-fold return on the state's investment in the University.

Financial Highlights

The University's financial position continues to be strong, with an increase in net assets of $16.0 million for the fiscal year ending June 30, 2006. This continues a trend of solid financial performance and adds to the increase of $8.7 million in the fiscal year ending June 30, 2005.

Operating revenues for the fiscal year were $98.5 million, as compared with $95.4 million for fiscal year 2005, an increase of 3.1 percent. The positive operating results included net student fee revenue increases of $2.6 million. Growth of $.3 million in auxiliary enterprises fees and growth of $1.5 million of other operating revenues also contributed to the positive operating results.

Other operating revenues of $6.0 million include $1.7 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's Networks Financial Institute (NFI). Headquartered in Indianapolis with satellite offices in Terre Haute on the ISU campus and in Washington, D.C., Networks is leading a variety of programs including a mobile classroom for elementary students dubbed "The Money Bus." Through its Networks Scholars program, NFI provides financial support for the best and brightest students who want to pursue careers in financial services. The annual Regulatory Reform Summit brings together policy makers and industry leaders to discuss issues facing the financial services sector. This is the third 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 $171.8 million for fiscal year 2006. This represents a $5.8 million decrease from the previous year's expenditures of $177.6 million. This change results from a reduction of salary and benefits of $2.5 million from fiscal year 2005 due to a hiring freeze implemented during fiscal year 2006, a reduction of supplies and expenses of $3.5 million, and a reduction of depreciation expense of $.5 million. Utilities expense rose by $.6 million due to increases in electricity, water, and sewage rates, while scholarships remained constant with last year's level.

Artist rendering of the Multi-Modal Transportation Facility

Net non-operating revenues decreased by $1.6 million from $90.9 million in fiscal year 2004-2005 to $89.3 million in 2005-2006. Investment income was down by $.8 million due to the unrealized loss on the market value of bonds; interest on capital asset related debt increased by $.9 million as the savings realized on the bond refinancing was recognized in 2005 and returned to appropriate debt service levels in 2006.

The operating state appropriation decreased $2.8 million for fiscal year 2006, while state appropriation for fee replacement on debt service increased $1.25 million. Reclassification on the financial statements of $.9 million from state and local grants revenue to state appropriation was included in the overall decline of state appropriation of $.6 million from 2005 to 2006.

The State of Indiana restored one-half of the appropriated annual capital contribution for major repairs and renovations totaling $2.1 million for fiscal year 2006. This is up from the $.5 million payment received in fiscal year 2005; however, this reduced funding over previous years has added to accumulated deferred maintenance costs that will need to be addressed by the University.

Indiana State University received over $1.1 million in capital grants and gifts, including the final $.5 million payment from Sodexho for the remodeling of the Indiana State University Commons Food Court and the Sycamore dining facility. An Onyx server for the Center for Instruction, Research, and Technology, and equipment for the Department of Industrial and Mechanical Technology were received during the year.

Using the Financial Statements

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

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

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

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

The Governmental Accounting Standards Board (GASB) requires the inclusion of financial statements for all significant University component units. As of June 30, 2006, 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, 2006 and 2005 is as follows:

Statement of Net Assets (in millions)

	2006	Restated 2005
Current assets	$59.6	$54.3
Non-current assets:		
State receivable	4.3	6.7
Deposits with bond trustee	2.3	3.0
Notes receivable	6.1	5.8
Other long-term investments	43.4	38.4
Capital assets, net	230.5	223.9
Other	0.7	0.7
Total assets	$346.9	$332.8
Current liabilities	24.1	28.6
Non-current liabilities	70.5	67.9
Total liabilities	$94.6	$96.5
Net assets	$252.3	$236.3

Current assets consist primarily of cash, operating investments, and accounts receivable. Current assets totaled $59.6 million at June 30, 2006, as compared to $54.3 million at June 30, 2005.

The increase of current assets of $5.3 million is due to increases of cash equivalents of $8.3 million and a state receivable of $2.4 million, while short-term investments decreased by $4.8 million. Cash equivalents which include investments that will mature in the next 90 days had increased to take advantage of higher short-term interest rates. The state receivable (which represents the withheld payment of one month's state appropriation that the State of Indiana began withholding in fiscal year 2001-2002 due to state budget problems) was reduced by $2.4 million and was reclassified as a current receivable, as the State of Indiana will allow the University to draw down this amount for fiscal year 2007 to be used for major repair and renovations.

Current liabilities include accounts payable, accrued compensation, deferred revenue, and the current portion of long-term debt. Total current liabilities decreased by $4.5 million, largely due to the balloon payment of the note payable paid during fiscal year 2006.

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 facilities, 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, with classes held in the facility beginning in fall 2005. This renovation included a new elevator installation to meet Americans with Disabilities standards, upgrades to the building's infrastructure systems, enhancements to classrooms, and a new facade facing the main campus quadrangle.

The Michael Simmons Student Activity Center in use during Homecoming 2005

The construction of the Michael Simmons Student Activity Center at the 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 the participants of the races.

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

Indiana State University's Department of Chemistry acquired a $.3 million nuclear magnetic resonance (NMR) spectrometer, one of the most powerful tools available for determining the arrangement of individual atoms within molecules and for studying the interaction between molecules in chemical solutions, thanks to a grant from the National Science Foundations' Major Research Instrumentation Program. Researchers at Indiana State University will use the NMR in studies of complex molecules found in many important drugs. The NMR will also be used by other researchers and students at Rose-Hulman Institute of Technology and Saint Mary-of-the-Woods College.

Indiana State University received approval in September 2006 to begin work on the $29.8 million renovation of University Hall, the largest state-funded project in the University's history. The State Budget Committee approved the release of $26,880,000 in bonding authority for the project which will be the new home for the University's College of Education. The remaining $2,920,000 will be paid for out of University funds. Renovation of the 1936 facility, which is listed on the Indiana Division of Historic Preservation and Archaeology's historic sites and structures list, will begin in early 2007. The renovated facility is expected to be open for classes beginning in fall 2008. In addition to providing high-tech classrooms and office space, University Hall will include an 800-seat auditorium. The building also features historic murals painted by Terre Haute native Gilbert Wilson, which will be preserved as part of the renovations.

In December 2005, Indiana State University entered into a ground lease agreement with the City of Terre Haute for the purpose of undertaking the development of a multi-modal transportation facility to accommodate parking at ISU and other Terre Haute downtown businesses, to house the city bus transfer station, and to work together to help revitalize and develop the downtown area of the city. The

$13.3 million facility will provide 628 parking spaces and will serve as Terre Haute's bus depot. The University will have access to one-half of the parking spaces and use of the facility for after-hours events. The federal government has committed $8.9 million to the project and the city will provide approximately $4.4 million. Groundbreaking was held in late October 2006, with the parking facility opening planned for late fall 2007.

The Board of Trustees approved at the January 2006 meeting, the schematic design and the budget and funding plan for a student recreational center. The total cost of the project is estimated at $24 million, with $5.5 million from private sources and the remaining funds to come from a dedicated student fee. The Indiana State Legislature has approved the project and the University is currently seeking state approval for the financing component of the project. The two-story complex will include facilities for general student fitness and recreation, multi-purpose meeting and activity space, wellness and lifestyle education programming, and recreational and intramural sports. Plans also call for an aquatics facility, jogging track, climbing wall, fitness center, juice bar, and an outdoor recreational yard.

On June 1, 2006, Indiana State University entered into a $10 million five year bank loan with a fixed 4.63 percent interest rate. Included in the loan's coverage was $6.3 million to cover costs associated with the Burford Hall renovation, and $3.7 million that was applied toward the payoff of the Jones Hall renovation loan from 2001. The remainder of the construction costs for Burford Hall were funded through Residential Life repair and rehabilitation funds.

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, 2006 and 2005 are summarized in the table that follows:

Net Assets (in millions)

	2006	Restated 2005
Invested in capital assets, net of related debt	$161.4	$155.2
Restricted		
Non-expendable	2.9	2.8
Expendable	10.0	5.5
Unrestricted (designated for operational activities, see Note 3)	78.0	72.8
Total Net Assets	$252.3	$236.3

Net assets invested in capital assets, net of related debt, reflects the University's facilities and equipment, 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 whose interest earnings are 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 require that reserves must be maintained until the issue is retired.

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

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets present the University's results of operations for the identified fiscal year periods. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005 is as follows:

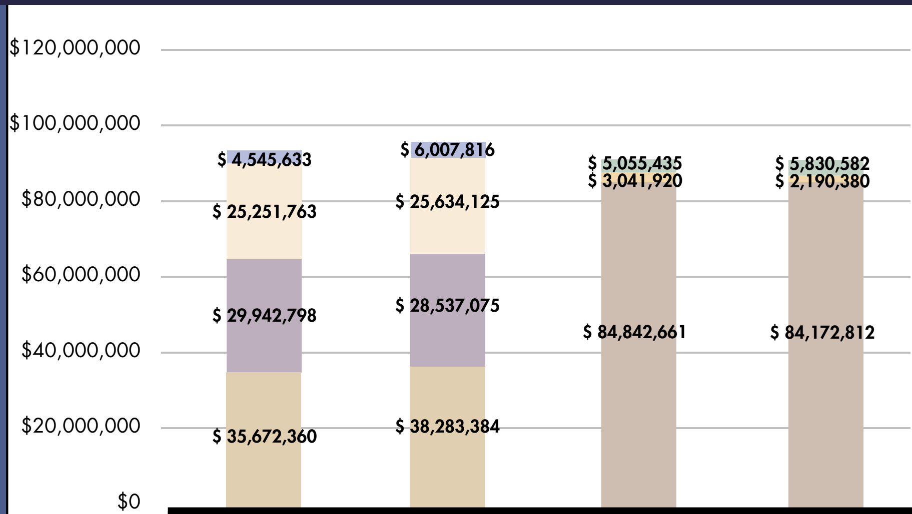
Revenues, Expenses, and Changes in Net Assets (in millions)

	2006	Restated 2005
Operating Revenues:		
Tuition and fees (net of scholarship allowances $21.0 million for 2006 and $20.6 million for 2005)	$38.3	$35.7
Grants and Contracts	28.6	29.9
Auxiliary enterprises fees and services (net of scholarship allowances of $4.6 million for 2006 and $4.8 million for 2005)	25.6	25.3
Other	6.0	4.5
Total operating revenue	$98.5	$95.4
Operating expenses	(171.8)	(177.6)
Operating loss	($73.3)	($82.2)
Non-operating revenues (expenses):		
State appropriations	84.2	84.8
Investment income (net of investment expenses of $113,651 for 2006 and $128,505 for 2005)	2.2	3.0
Capital appropriations	2.1	0.5
Capital grants and gifts	1.1	1.7
Other non-operating revenues	2.6	2.9
Interest on capital asset related debt	(2.9)	(2.0)
Net non-operating revenues	$89.3	$90.9
Increase in net assets	$16.0	$8.7
Net assets, beginning of year	236.3	227.6
Net assets, end of year	$252.3	$236.3

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 will continue to aggressively seek funding from all possible sources consistent with its mission, to supplement student tuition, and will direct the financial resources realized from these efforts to fund University operating priorities.

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

Revenues by Source (operating and non-operating)



	Operating 2005	Operating 2006	Non-operating 2005	Non-operating 2006
Other non-operating/capital revenues			$ 5,055,435	$ 5,830,582
Investment income			$ 3,041,920	$ 2,190,380
State appropriations			$ 84,842,661	$ 84,172,812
Other operating revenues	$ 4,545,633	$ 6,007,816		
Auxiliary enterprises fees and services, net	$ 25,251,763	$ 25,634,125		
Federal, state, and local grants and contracts	$ 29,942,798	$ 28,537,075		
Tuition and fees, net	$ 35,672,360	$ 38,283,384		

Operating revenues grew by $3.1 million for fiscal year 2006. This is largely due to an increase of $2.6 million in tuition and fees from the enrollment of the third class of incoming students at the higher fee structure established to increase tuition rates, additional student fees added for distance delivery, and changes in the student withdrawal policy. Overall University enrollment decreased by 4.7 percent to 10,679; this included a graduate enrollment increase of 6.9 percent from 1,879 to 2,009. This is the first time in the institution's history that graduate enrollment topped 2,000 students, and the second year in a row where graduate enrollment set records. Indiana State University implemented changes to its requirements for regular admission, effective for fall 2005 that contributed to the decline in undergraduate enrollment: completion of Core 40 course work and more rigorous standards regarding both class rank and grade point average. Indiana State University is committed to strengthening the quality of students who enter the institution.

Additionally, other operating revenues grew by $1.4 million during fiscal year 2006 as the result of increases in the reimbursements received from the ISU Foundation for the Networks Financial Institute increasing for the fiscal year.

Total non-operating revenues declined by $1.6 million for fiscal year 2006 due to an investment income decrease of $.8 million, decline of state appropriation of $.6 million, and increase of debt service expense of $.9 million. These decreases were offset by an increase in capital appropriations of $1.6 million.

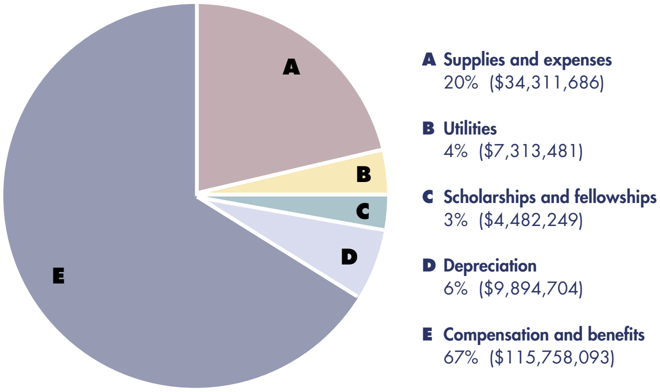
Like most universities, Indiana State University continues to make market-competitive compensation and benefits a top priority. These expenses represent 67 percent of total University expense/budget.

A comparative summary of the University's expenses for the years ended June 30, 2006 and 2005 is as follows:

Operating Expenses (in millions)

	2006	2005
Operating:		
Compensation and benefits	$115.8	$118.3
Supplies and expenses	34.3	37.8
Utilities	7.3	6.7
Scholarships and fellowships	4.5	4.5
Depreciation	9.9	10.3
	171.8	177.6
Non-operating:		
Interest on capital related debt	2.9	2.0
Total expenses	$174.7	$179.6

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



Artist rendering of the proposed Student Recreation Center

Total operating expenditures decreased from $177.6 million in fiscal year 2005 to $171.8 million in fiscal year 2006. Compensation and benefits decreased by $2.5 million as a result of staff reductions during budget reallocations, a one percent increase in salaries, and a hiring freeze implemented mid-year. Supplies and expense also showed a $3.5 million reduction for 2006. These reductions were due to a $4.8 million reallocation from the 2004-2005 base budget to offset enrollment losses, a reduction in state operating appropriation, and to provide budgetary increases for critical operations and key institutional priorities.

Utilities expenses grew by $.6 million for 2006, an 8.2 percent increase as electrical, water, and sewage rates increased. The University saved over $l.7 million for 2006 in natural gas costs by having entered into long-term advance purchase contracts.

Scholarships and fellowship expenses stayed at the same levels as 2005 in spite of the enrollment decline. This is in keeping with the institutional priority of providing additional need and merit based scholarships.

In addition to their natural (object) classification (expenditure type), the reader is also benefited by a review of operating expenses by the nature of the University division incurring the expense. A summary of the University's expenses by functional classification for the years ended June 30, 2006 and 2005 is as follows:

Expenses by Function (in millions)

	2006	2005
Operating:		
Instruction	60.8	64.5
Research	11.5	11.1
Public service	1.4	1.2
Institutional and academic support	27.6	30.4
Student services	8.9	9.0
Auxiliary enterprises	23.4	24.7
Operations and maintenance of plant	23.0	21.1
Depreciation	9.9	10.3
Scholarships and fellowships	5.3	5.3
Total expense	$171.8	$177.6

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, 2006 and 2005 is as follows:

Statement of Cash Flows (in millions)

	2006	Restated 2005
Cash received from operations	$104.0	$98.8
Cash expended for operations	(169.8)	(169.6)
Net cash used in operating activities	(65.8)	(70.8)
Net cash provided by non-capital financing activities	87.1	87.7
Net cash provided (used) by investing activities	(4.3)	0.3
Net cash used in capital and related financing activities	(14.7)	(16.8)
Net increase in cash and cash equivalents	2.3	0.4
Cash and cash equivalents, beginning of year	35.6	35.2
Cash and cash equivalents, end of year	$37.9	$35.6

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 $5.0 million to $65.8 million for the 2006 fiscal year. Payments made to employees and on the behalf of employees decreased $3.0 million from 2005 as reduction of staff, as well as the hiring freeze, impacted costs. Tuition and fees cash receipts increased by $4.9 million; this is the result of increased tuition rates, changes to the withdrawal policy, and a $.5 million reduction in federal and state financial aid.

Cash flows from capital financing activities increased by $2.1 million from 2005. Capital appropriations from the State of Indiana increased by $1.6 million and cash paid for capital assets stayed stable with 2005's level as the Burford Hall project, strategic acquisition of campus property, and final expenditures for the Stalker Hall renovation were completed. Proceeds from the note payable, as well as the balloon payment on a note payable, are also reflected in the cash flows for 2006. Overall, cash and cash equivalents grew by $2.3 million for fiscal year 2006, while long-term investments grew by $5.0 million, and short-term investments decreased by $4.8 million.

Economic Factors Affecting the Future

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

Like many universities, a continuing challenge for the University is maintaining stable undergraduate enrollment. At the same time, however, as the climate for higher education changes, Indiana State University has made a concerted effort to increase enrollment standards by reducing conditionally admitted students and increasing admission criteria. This has resulted in increased grade point averages and SAT scores, which is intended to improve the retention rate of the student body. Graduate enrollment is up 292 students from three years ago, achieving record enrollment of 2,009. The University's commitment to diversity remains a priority. Indiana State's minority population remained at 14.8 percent, the highest in Indiana.

The University is dedicated to a goal of increasing undergraduate enrollment, along with the increased enrollment standards. To assist in achieving this goal, Indiana State University has embarked on a new media campaign along with targeted scholarships to attract high-achieving students. The University has created a number of guaranteed scholarships where high school students who meet certain levels of performance and apply for admission by set deadlines, know they will receive these scholarships. One of these guaranteed scholarships is a business-grade laptop computer awarded to all incoming freshmen with a 3.0 grade point average, who earned an Indiana Core 40 diploma or equivalent, and were admitted to ISU by March 1, 2006. Over 700 laptops were awarded for the fall 2006 semester. Beginning with the fall 2007 semester, incoming freshmen at Indiana State University will become the first students at a public institution 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 University is also undergoing a program review to take advantage of new opportunities. One of these new opportunities was rolled out in the spring of 2006 as Indiana State University announced a new minor in motorsports management. Indiana State is showing responsiveness to the needs of the motorsports industry, an area of growing importance economically to the state of Indiana and the nation.

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

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, 2006 and June 30, 2005

ASSETS	2006	Restated 2005
Current assets		
Cash and cash equivalents	$ 37,917,038	$ 35,573,064
Short-term investments	11,202,062	9,976,467
Accrued interest	821,952	633,186
Accounts receivable (net of allowance of $4,603,396 for 2006 and $4,200,577 for 2005)	3,035,091	4,397,443
Other accounts receivable	454,734	—
Grants receivable	1,776,172	1,645,971
State receivable, current portion	2,399,680	—
Notes receivable, current portion	1,389,552	1,385,711
Prepaid expenses	409,208	494,880
Other Assets	62,406	—
Inventories	152,556	185,872
Total current assets	$ 59,620,451	$ 54,292,594
Non-current assets		
State receivable	$ 4,304,739	$ 6,704,419
Endowment investments—held in trust	729,928	740,640
Deposits with bond trustee	2,321,805	3,039,637
Notes receivable, noncurrent portion (net of allowance of $745,460 for 2006 and $728,512 for 2005)	6,043,001	5,847,169
Other long term investments	43,391,486	38,376,573
Capital assets, (net of accumulated depreciation of $208,035,613 for 2006 and $201,072,391 for 2005)	230,539,013	223,891,984
Total noncurrent assets	$ 287,329,972	$ 278,600,422
Total assets	$ 346,950,423	$ 332,893,016
LIABILITIES		
Current liabilities		
Accounts payable	$ 1,995,419	$ 2,465,707
Accrued payroll and deductions	5,402,205	5,683,535
Deferred revenue	1,834,046	2,201,918
Funds held in custody for others	723,068	591,361
Other liabilities	4,276,523	4,498,129
Bonds payable (Note 6)	6,133,722	5,653,723
Notes payable	1,010,000	4,315,000
Lease payable	156,744	—
Long-term liabilities, current portion (Note 5)	2,593,378	3,283,431
Total current liabilities	$ 24,125,105	$ 28,692,804
Noncurrent liabilities		
Bonds payable (Note 6)	$ 52,578,893	$ 58,712,617
Notes payable	8,990,000	—
Compensated absences	1,003,849	916,229
Lease payable	258,718	—
Other liabilities (Note 14)	—	557,835
Advances from Federal Government	7,708,746	7,708,746
Total noncurrent liabilities	$ 70,540,206	$ 67,895,427
Total liabilities	$ 94,665,311	$ 96,588,231
NET ASSETS		
Invested in capital assets, net of related debt	$ 161,410,936	$ 155,210,644
Restricted for:		
Non-expendable:		
Scholarships and fellowships	729,928	740,640
Loans	2,180,319	2,065,364
Expendable:		
Research and other grants	1,309,013	573,863
Capital projects	8,381,615	4,706,660
Debt service	252,400	260,194
Unrestricted	78,020,901	72,747,420
Total net assets	$ 252,285,112	$ 236,304,785

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

Indiana State University Foundation, Inc.

Statement of Financial Position

	June 30, 2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash	$ 318,271	$ 3,885	$ —	$ 322,156
Investments—at market	6,191,678	13,742,250	45,894,209	65,828,137
Assets held in trusts, interest in trusts, and split interest agreements	—	315,527	2,560,543	2,876,070
Grants receivable	—	43,750	1,671,035	1,714,785
Pledges, bequests, and accounts receivable	107,981	217,315	182,000	507,296
Investment income receivable	33,736	179,187	—	212,923
Land and property held for future use or sale	633,623	—	100,000	733,623
Equipment and furniture (net of accumulated depreciation of $79,313)	61,827	17,954	—	79,781
Other assets	21,912	332,380	250,000	604,292
Due to/from other funds	(5,470,502)	5,096,705	373,797	—
Total assets	$ 1,898,526	$ 19,948,953	$ 51,031,584	$ 72,879,063
LIABILITIES AND NET ASSETS				
Accounts payable	$ 152,363	$ 164,177	$ —	$ 316,540
Scholarships payable	4,000	7,472	—	11,472
Present value of liability under split interest agreements	94,597	123,855	725,077	943,529
Due to Indiana State University	1,033	250	728,645	729,928
Refundable advances	—	—	628,862	628,862
Total liabilities	251,993	295,754	2,082,584	2,630,331
Net assets	1,646,533	19,653,199	48,949,000	70,248,732
Total liabilities and net assets	$ 1,898,526	$ 19,948,953	$ 51,031,584	$ 72,879,063

Indiana State University

Statement of Revenues, Expenses, and Changes in Net Asset

For the Years Ended June 30, 2006 and June 30, 2005

	2006	Restated 2005
OPERATING REVENUES		
Tuition and fees (net of scholarship allowances of $21,013,071 for 2006 and $20,663,937 for 2005)	$ 38,283,384	$ 35,672,360
Federal grants and contracts	12,540,698	12,897,043
State and local grants and contracts	11,185,452	12,613,225
Non-governmental grants and contracts	4,810,925	4,432,530
Auxiliary enterprises fees and services (net of scholarship allowances of $4,631,094 for 2006 and $4,871,380 for 2005)	25,634,125	25,251,763
Other operating revenues	6,007,816	4,545,633
Total operating revenues	$ 98,462,400	$ 95,412,554
EXPENSES		
Compensation and employee benefits	$ 115,758,093	$118,348,549
Supplies and expenses	34,311,686	37,784,365
Utilities	7,313,481	6,723,327
Scholarships and fellowships	4,482,249	4,497,236
Depreciation	9,894,704	10,263,617
Total operating expenses	$ 171,760,213	$177,617,094
Operating loss	$ (73,297,813)	$(82,204,540)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	$ 84,172,812	$ 84,842,661
Gifts	685,229	549,555
Investment income (net of investment expenses of $113,651 for 2006 and $128,505 for 2005)	2,190,380	3,041,920
Interest on Capital Asset Related Debt	(2,915,634)	(2,026,353)
Other non-operating revenues	1,947,457	2,255,065
Net non-operating revenues	$ 86,080,244	$ 88,662,848
Income before other revenues, expenses, gains, or losses	$ 12,782,431	$ 6,458,308
Capital appropriations	$ 2,061,338	$ 515,334
Capital grants and gifts	1,136,558	1,735,481
Total other revenues	$ 3,197,896	$ 2,250,815
Increase in Net Assets	$ 15,980,327	$ 8,709,123
NET ASSETS		
Net assets—beginning of year	$ 236,304,785	$227,595,662
Net assets—end of year	$ 252,285,112	$236,304,785

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, 2006			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues				
Contributions	$ 492,604	$ 1,366,218	$ 1,390,044	$ 3,248,866
Lilly Endowment grants	—	1,023,196	1,762,285	2,785,481
Investment income				
Interest and dividends				
Trust and temporary investments	282,268	1,506,131	—	1,788,399
Net appreciation (depreciation) in fair value of investments	(33,207)	13,750	3,374,080	3,354,623
Non-gift income	18,164	209,912	51,512	279,588
Change in value of split interest agreements	(6,727)	(4,967)	(32,251)	(43,945)
Service fee income— Indiana State University	421,469	—	—	421,469
In kind support	—	209,375	—	209,375
	1,174,571	4,323,615	6,545,670	12,043,856
Net assets released from restriction				
Satisfaction of donor restriction	10,292,088	(10,292,088)	—	—
Total revenues	11,466,659	(5,968,473)	6,545,670	12,043,856
Expenses				
Scholarships and awards	2,223,532	—	—	2,223,532
Restricted and designated expenditures	8,267,347	—	—	8,267,347
Grants for academic and other University projects	720,597	—	—	720,597
Foundation operational expenditures	1,030,662	—	—	1,030,662
Development and advancement— fund raising	1,606,672	—	—	1,606,672
Total expenses	13,848,810	—	—	13,848,810
	(2,382,151)	(5,968,473)	6,545,670	(1,804,954)
Transfers				
Investment income allocated	539,584	1,337,802	(1,877,386)	—
Endowment administration fee	698,988	(698,988)	—	—
To establish endowments	—	(19,988)	19,988	—
Gift assessment	203,165	(45,197)	(157,968)	—
	1,441,737	573,629	(2,015,366)	—
Increase (decrease) in net assets	$ (940,414)	$ (5,394,844)	$ 4,530,304	$ (1,804,954)

Indiana State University
Statement of Cash Flows
For the Years Ended June 30, 2006 and June 30, 2005

	2006	Restated 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 39,542,273	$ 34,614,307
Grants and contracts	26,491,381	28,193,346
Auxiliary enterprises	26,314,992	24,663,344
Payments to suppliers	(52,930,675)	(50,052,576)
Net pay to employees	(58,203,597)	(59,606,820)
Payments on behalf of employees	(56,785,737)	(58,366,599)
Loans issued to students	(1,840,873)	(1,558,285)
Student loans collected	1,984,963	2,091,121
Other receipts	9,613,988	9,175,574
Net cash used in operating activities	$ (65,813,285)	$ (70,846,588)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	$ 84,172,812	$ 84,755,976
Stafford loan receipts	22,055,422	20,941,595
Stafford loan disbursements	(22,055,422)	(20,941,595)
Gifts and other non-operating income	2,996,136	2,939,365
Net cash provided by non-capital financing activities	$ 87,168,948	$ 87,695,341
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital appropriations received	$ 2,061,338	$ 515,334
Capital gifts and grants received	1,979,253	107,443
Repair and replacement funds—drawndown from bond trustee	913,956	983,216
Proceeds from bond issue	—	71,406,856
Proceeds from note payable	10,000,000	—
Costs of issuance	—	(557,004)
Deposit to escrow fund	—	(63,878,574)
Deposit to capitalized interest	—	(219,904)
Cash paid for capital assets	(16,834,690)	(17,155,886)
Principal and interest paid on capital debt and leases	(12,830,514)	(8,024,919)
Net cash used in capital financing activities	$ (14,710,657)	$ (16,823,438)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	$ 13,000,000	$ 16,250,000
Interest and dividends on investments, net expenses	3,738,107	2,901,864
Purchase of investments	(21,039,139)	(18,836,826)
Net cash provided by investing activities	$ (4,301,032)	$ 315,038
Net increase/decrease in cash for year	$ 2,343,974	$ 340,353
Cash—beginning of year	$ 35,573,064	$ 35,232,711
Cash—end of year	$ 37,917,038	$ 35,573,064

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

	2006	2005
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	$ (73,297,814)	$ (82,204,540)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	9,894,704	10,263,617
Changes in assets and liabilities		
Accounts receivable *	(652,424)	988,170
Grants receivable	(130,201)	(171,814)
Notes receivable	(3,841)	50,896
Inventories	33,316	1,422
Prepaid expenses	85,672	(74,180)
Accounts payable	(470,288)	(195,180)
Lease payable, current	156,744	—
Accrued payroll and deductions	(281,330)	144,205
Deferred revenue	(367,872)	(24,266)
Funds held in custody for others	131,707	(11,399)
Other liabilities	(221,606)	657,883
Compensated absences	11,672	117,172
Contingent/Other liabilities	(701,724)	(388,574)
Net cash used by operating activities	$ (65,813,285)	$ (70,846,588)
Non-cash transactions		
Equipment	417,191	—
Capital lease	(417,191)	—

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

Indiana State University Foundation, Inc.

Statement of Cash Flow

	Year Ended June 30, 2006
Cash flows from operating activities:	
Change in net assets	$ (1,804,954)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	22,866
(Gain) loss on disposal of assets	—
Net (appreciation) depreciation in fair value of investments	(3,354,623)
Reinvestment of certificate of deposit earnings	(7,576)
Gift of trusts held by third parties and charitable remainder trusts	(112,065)
Change in value of accounts due to Office of the Controller	(10,212)
Changes in assets and liabilities:	
Grants, pledges, bequests, and accounts receivable	(1,713,299)
Investment income receivable	116,601
Other assets	(21,912)
Accounts payable	(30,157)
Scholarships payable	11,472
Change in value of split interest agreements	(56,976)
Net cash from operating activities	(6,960,835)
Cash flows from investing activities:	
Purchase of collection items	(2,500)
Proceeds from sale of investments	52,455,920
Purchase of investments	(45,808,723)
Purchase of equipment and furniture	(31,861)
Purchase of real estate	(124,746)
Net cash from investing activities	6,488,090
Net (decrease) in cash	(472,745)
Cash at beginning of the period	794,901
Cash at end of period	$ 322,156

Notes to Financial Statements

As of June 30, 2006

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.

Nuclear Magnetic Resonance Spectrometer

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*.

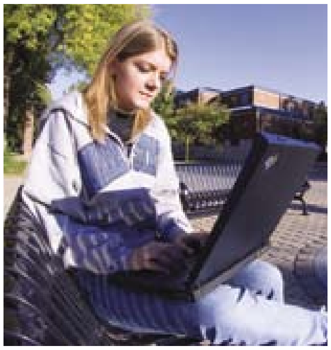
A. Reporting Entity

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.

Minimum Capitalization Value and Useful Life by Asset Types

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

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

G. Scholarship Discounts and Allowances

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

H. Net Asset

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

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

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

purpose of producing present and future income, which may either be expended or added to principal.

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

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

I. Operating Revenues

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

J. Non-Operating Revenues

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

Burford Hall

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, 2006, the Foundation distributed $8,575,188 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office at 217 North 6th Street, Gillum Hall, room 320, Terre Haute, IN 47809.

Note 2—Cash and Investments

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

Cash and Investments

Cash and Investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets	
Cash and cash equivalents	$ 37,917,038
Short-term investments	11,202,062
Endowment investments held in trust	729,928
Deposits with bond trustee	2,321,805
Other long-term investments	43,391,486
Total cash and investments	$ 95,562,319
Cash and investments as of June 30, 2006 consist of the following:	
Cash on hand	$ 99,322
Deposits with financial institutions	3,711,585
Investments	91,751,412
	$ 95,562,319

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

Disclosures Relating to Interest Rate Risk

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

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

University Investments and Maturities

As of June 30, 2006, 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)	$ 99,322	$ 99,322	$ —	$ —	$ —
Demand deposits	3,711,585	3,711,585	—	—	—
Common Fund	26,359,056	26,359,056	—	—	—
Money markets	4,068,880	4,068,880	—	—	—
Certificates of deposit	12,000,000	12,000,000	—	—	—
Government agencies	33,849,114	3,400,927	17,702,702	11,837,950	907,535
Government obligations	845,474	—	512,480	332,994	—
Corporate bonds	9,742,512	1,801,134	5,102,173	2,839,205	—
Mortgage backed securities	4,083,615	—	—	769,904	3,313,711
Corporate stock	72,833	—	—	—	72,833
Endowment investment held in trust	729,928	—	—	—	729,928
	$ 95,562,319	$ 51,440,904	$ 23,317,355	$ 15,780,053	$ 5,024,007

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.	$ 4,083,615
Callable bonds. These securities are subject to be called or early redeemed by the issuing agency in periods of declining interest rates. The possible reduction in expected cash flows affect the fair value of these securities and makes the fair value of these securities more sensitive to changes in interest rates.	$ 13,208,152

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)	$ 99,322	$ —	$ —	$ —	$ 99,322
Demand deposits	3,711,585	—	—	—	3,711,585
Common Fund	26,359,056	—	—	—	26,359,056
Money markets	4,068,880	—	—	—	4,068,880
Certificates of deposit	12,000,000	—	—	—	12,000,000
Government agencies	33,849,114	33,849,114	—	—	—
Government obligations	845,474	845,474	—	—	—
Corporate bonds	9,742,512	918,204	5,433,421	3,390,887	—
Mortgage backed securities	4,083,615	4,083,615	—	—	—
Corporate stock	72,833	—	—	—	72,833
Endowment investments held in trust	729,928	—	—	—	729,928
	$ 95,562,319	$ 39,696,407	$ 5,433,421	$ 3,390,887	$ 47,041,604

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
Federal Home Loan Bank	Federal agency securities	$ 9,621,037
Federal National Mortgage Association	Federal agency securities	$ 10,499,106
Federal Home Loan Mortgage	Federal agency securities	$ 9,910,565
Federal Farm Credit Bank	Federal agency securities	$ 3,818,406
First Financial Bank	FNMA Pool	$ 3,472,416

Custodial Credit Risk

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

As of June 30, 2006, Indiana State University's deposits with financial institutions held in uncollateralized accounts are insured up to $100,000 by FDIC and in excess of $100,000 by the Indiana Public Deposits Fund. The Certificates of Deposits of $12,000,000 are also covered under the Indiana Public Deposits Fund as they were invested in Indiana financial institutions. As of June 30, 2006 Indiana State University's investments in the following investment types that were held by the external investment managers included:

Investment Type	Amount
Common Fund	$ 26,359,056
Money market funds	$ 4,068,881
Government agencies	$ 33,849,113
Government obligation	$ 845,474
Corporate bonds	$ 9,742,512
Mortgage backed securities	$ 4,083,615

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	$ 19,623,065
Allocated for academic/administrative activities	12,868,720
Allocated for auxiliary enterprises	12,224,223
Allocated for debt service reserve	8,516,266
Allocated for University initiatives	7,495,678
Allocated for reserves for encumbrances	5,705,768
Allocated for benefit claims	4,447,111
Allocated for technology improvements	3,643,708
Allocated for enrollment stabilization	2,067,073
Allocated for graduate and undergraduate aid	1,174,409
Allocated for working funds	254,880
Total allocated unrestricted net assets	$ 78,020,901

Note 4—Capital Assets

Following are the changes in capital assets for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets not being depreciated				
Land	$ 17,327,655	$ 876,532	$ —	$ 18,204,187
Works of art	540,847	201,186	—	742,033
Construction in progress	8,965,475	8,552,523	(5,853,038)	11,664,960
Total capital assets not being depreciated	$ 26,833,977	$ 9,630,241	$ (5,853,038)	$ 30,611,180
Capital assets being depreciated				
Infrastructure	$ 33,629,798	$ —	$ —	$ 33,629,798
Land improvements	18,868,419	148,196	—	19,016,615
Buildings	269,044,431	7,999,744	(1,238,364)	275,805,811
Equipment	76,587,750	4,972,870	(2,487,036)	79,073,584
Capital lease assets	—	437,638	—	437,638
Total capital assets depreciation	$ 398,130,398	$ 13,558,448	$ (3,725,400)	$ 407,963,446
Less accumulated depreciation for				
Infrastructure	$ (24,694,112)	$ (882,629)	$ —	$ (25,576,741)
Land improvements	(12,159,854)	(793,062)	—	(12,952,916)
Buildings	(112,801,934)	(4,831,821)	748,899	(116,884,856)
Equipment	(51,416,491)	(4,178,523)	2,990,961	(52,604,053)
Lease amortization	—	(17,047)	—	(17,047)
Total accumulated depreciation	$(201,072,391)	$ (10,703,082)	$ 3,739,860	$(208,035,613)
Total capital assets being depreciated, net	$ 197,058,007	$ 2,855,366	$ 14,460	$ 199,927,833
Total capital assets, net	$ 223,891,984	$ 12,485,607	$ (5,838,578)	$ 230,539,013

Note 5—Long-Term Liabilities

Long-term liabilities of the University consist of bonds and notes payable, capital leases payable, compensated absences, and other liabilities.

The changes in long-term liabilities are as shown below:

	Balance 6-30-05	Additions	Reductions	Balance 6-30-06	Due Within One Year
Bonds payable (Note 6):					
Student fee bonds					
Series K	$ 27,420,000	$ —	$ 3,560,000	$23,860,000	$ 3,665,000
Series L	38,370,000	—	2,055,000	36,315,000	2,565,000
Student service bonds					
Student Union Series B	135,000	—	135,000	—	—
Series K bond premium	739,116	—	37,903	701,213	37,903
Series L bond premium	2,018,355	—	130,216	1,888,139	130,216
Bond defeasements:					
Series K deferral of loss	(1,062,622)	—	(54,493)	(1,008,129)	(54,493)
Series L deferral of loss	(3,253,511)	—	(209,904)	(3,043,607)	(209,904)
Total bonds payable	$ 64,366,338	$ —	5,653,722	$58,712,616	$6,133,722
Lease payable					
Merrimak (laptops)	$ —	$ 437,638	$ 22,176	$ 415,462	$ 156,744
Notes payable (Note 6):					
Bank One	4,315,000	—	4,315,000	—	—
First Financial Bank	—	10,000,000	—	10,000,000	1,010,000
Total lease/notes payable	$ 4,315,000	$ 10,437,638	$ 4,337,176	$10,415,462	$ 1,166,744
Compensated absences (Note 8)					
Vacation accrual	$ 3,269,609	$ 110,426	$ —	$ 3,380,035	$ 2,440,991
Sick accrual	140,743	$ —	$ 11,134	$ 129,609	$ 64,804
Total compensated absences	$ 3,410,352	$ 110,426	$ 11,134	$ 3,509,644	$ 2,505,795
Contingent liability (Note 14)	$ 1,191,595	$ —	$ 1,191,595	$ —	$ —
Advances from federal government	$ 7,708,746	$ —	$ —	$ 7,708,746	$ —
Total long-term liabilities	$ 80,992,031	$ 10,548,064	$ 11,193,627	$ 80,346,468	$ 9,806,261
Bond redemption reserve (matured unpaid bonds and coupons)					$ 87,583
Total long-term liabilities current portion					$ 9,893,844

Note 6—Bonds and Notes Payable

Indiana State University is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing the construction of the student union building, housing, athletic, parking, and academic facilities. The outstanding bond and note indebtedness at June 30, 2006 was $70,175,000.

The issues are serial or term bonds and notes payable with maturities extending until 2024. For the fiscal year 2005-2006, 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, 2006	Bond Premium	Deferral of Loss	Total Outstanding June 30, 2006
Student Fee Bonds							
Series K	2004	3.0%-5.0%	2024	$ 23,860,000	$ 701,213	($1,008,129)	$ 23,553,084
Series L	2005	3.5%-5.0%	2020	$ 36,315,000	$1,888,139	($3,043,607)	35,159,532
Notes Payable							
Jones Hall/Burford Hall Remodel	2006	4.63%	2011	$ 10,000,000	N/A	N/A	10,000,000
Total							$ 68,712,616

The University has pledged $59,634,578 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.

The Student Union, Series B bonds matured during the fiscal year.

On June 1, 2006 Indiana State University entered into a bank loan with First Financial Bank for $10,000,000. This loan was used for the financing of the Burford Hall renovation project and the final payment on the Jones Hall renovation.

Debt Service Requirements

Year	Bonds	Notes	Total Principal	Interest	Total Payments
2007	$ 6,230,000	$ 1,010,000	$ 7,240,000	$ 2,828,065	$ 10,068,065
2008	6,445,000	1,060,000	7,505,000	2,556,098	10,061,098
2009	6,690,000	1,115,000	7,805,000	2,277,854	10,082,854
2010	5,780,000	1,170,000	6,950,000	2,005,704	8,955,704
2011	5,215,000	5,645,000	10,860,000	1,752,154	12,612,154
2012-2016	19,710,000	—	19,710,000	4,731,775	24,441,775
2017-2021	8,195,000	—	8,195,000	1,509,491	9,704,491
2022-2025	1,910,000	—	1,910,000	197,250	2,107,250
TOTALS	$ 60,175,000	$10,000,000	$ 70,175,000	$17,858,391	$ 88,033,391

Note 7—Lease Payable

Indiana State University has entered into a capital lease agreement with Merrimak Capital Company LLC. This is an agreement to lease computers for the faculty of Indiana State University for three years with three amendments to the agreement as of June 30, 2006.

Fiscal Year	Lease Payments
2007	$ 158,942
2008	156,744
2009	132,323
Total minimum lease payments	$ 448,009
Less amount representing interest	32,547
Present value of net minimum lease payments	$ 415,462

Note 8—Retirement Plans and Other Post-Employment Benefits

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

Faculty and Executive/Administrative/Professional Staff.

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

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

For fiscal year 2005-2006, the University made contributions totaling $6,781,046 to this plan. For the fiscal year ended June 30, 2006 there were 871employees and retirees participating in TIAA with annual salaries equal to $51,956,781.

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, 2006, 2005, and 2004 were $18,676, $24,926, and $29,198, respectively. The University contributed

97 percent of the required contributions for each of the fiscal years, respectively. For the fiscal year ended June 30, 2006, there were two employees participating in STRF with annual salaries equal to $179,805. STRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the State Teachers Retirement Fund, 150 West Market Street, Suite 300, Indianapolis, IN 46204, or by calling (317) 232-3860.

Support Staff.

Regular clerical and service staff participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the State of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the State of Indiana. There are two parts to this plan: an annuity savings plan and a defined benefit agent multi-employer plan. The employee contributes three percent of his or her gross earnings during the first year of employment to the annuity savings plan. After one year of continuous employment, the employee's contribution is paid by the University. The University contributed 4.5 percent of the employee's gross earnings to the defined benefit agent multi-employer plan during the 2005-2006 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, 2006, there were 740 employees participating in PERF with annual salaries equal to $18,690,790.

Actuarial information related to the University's portion of the plan is disclosed as follows for the fiscal year ending June 30, 2006:

Public Employee Retirement Fund
Three-Year Trend Information (in thousands)

	Valuation of Assets (a)	Accrued Liability (AL) (b)	Excess (Underfunded) Assets over (Under) AL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Excess (Unfunded) AL as a Percentage of Covered Payroll ((a-b)/c)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
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)
7/1/2006	$19,715	$20,115	($400)	98.0 %	$18,251	(2.2%)	$763	94%	($827)

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, 1,243 retirees and dependents meet those eligibility requirements. Expenditures for post-retirement benefits are recognized as retiree claims are incurred. During the year, expenditures of $5,158,560 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 $59,383 were recognized for post-retirement life insurance.

Note 9—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, 7/01/05	$ 3,680,474
Claims occurred	15,079,673
Claims paid	(15,008,118)
Unpaid medical claims, 6/30/06	$ 3,752,029

Note 10—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, 2006, is as follows:

Beginning fund balance	$ 33,605,966
Transfer of employee/employer contributions	2,040,000
Reinvested net earnings	1,048,663
Less: management fees	(67,183)
Realized gain on sale of investments	831,996
Fund balance at June 30, 2006	$ 37,459,442

The market value of the trust was $40.7 million on June 30, 2006. These funds cannot under any circumstances revert to the University; therefore, the financial statements of the University do not include the value of these assets.

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

post retirement benefits. This change does not affect any current employees/dependents that are already covered on the ISU plan.

An actuarial valuation was completed in 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% subsidy, the amount of the liability was valued at $124.3 million.

Note 11—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 12—Funds Held in Custody for Others

Funds held in custody for others consist of $723,068 held for other agencies (student and faculty organizations).

Note 13—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	$ 56,588,420	$ 4,184,250	$ —	$ —	$ —	$ 60,772,670
Research	7,595,788	3,905,467	—	—	—	11,501,255
Public service	892,130	556,748	—	—	—	1,448,878
Academic support	10,040,801	2,395,353	—	—	—	12,436,154
Student services	7,636,786	1,227,216	—	—	—	8,864,002
Institutional support	12,149,162	3,067,733	—	—	—	15,216,895
Operation of plant	8,997,214	6,728,671	7,261,928	—	—	22,987,813
Scholarships	756,132	30,956	—	4,482,249	—	5,269,337
Auxiliary enterprises	11,101,660	12,215,292	51,553	—	—	23,368,505
Depreciation	—	—	—	—	9,894,704	9,894,704
	$115,758,093	$34,311,686	$7,313,481	$4,482,249	$ 9,894,704	$171,760,213

Note 14—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.

On December 5, 2005 the final settlement from the U.S. Department of Education was disbursed for $442,370. This closed the liability to the University while decreasing expenses by $749,225 during fiscal year 2005-06.

Note 15—Restatement 2005

The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets for the year ending June 30, 2005 have been restated to reflect the following reclassification due to a change in reporting requirements:

- The federal portion of Perkins Loans was reclassified from a restricted, expendable net asset to a non-current liability.
- The university share of Perkins Loans was reclassified from a restricted, expendable net asset to a restricted, nonexpendable net asset.

Net Assets

Noncurrent Liabilities	2005	Correction	Restated 2005
Advances from Federal Government	$ —	$ 7,708,746	$ 7,708,746
Net Assets			
Nonexpendable Loans	$ —	$ 2,065,364	$ 2,065,364
Expendable Loans	$ 9,774,110	$ (9,774,110)	$ —

Revenues, Expenses, and Changes in Net Assets

Net Assets	2005	Correction	Restated 2005
Net assets—beginning of year	$235,304,408	$ (7,708,746)	$227,595,662
Net assets—end of year	$244,013,531	$ (7,708,746)	$236,304,785

The Statement of Cash Flows for the year ending June 30, 2005 has been restated to reflect the following corrections due to reclassification of revenues and loans for both operating activities and non-capital financing activities.

- Tuition and Fees was restated to reflect the proportion of revenues that should be associated with Auxiliary Enterprises.
- Student Loans Collected and Payments Made to Students were reallocated to reflect the cash receipts and disbursements associated with Perkins Loan and Stafford Loan programs. Stafford loan receipts and disbursements were segregated and categorized as Cash Flows from NonCapital Financing Activities.

	2005	Correction	Restated 2005
Cash Flow from Operating Activities			
Tuition and fees	$ 40,079,812	$ (5,465,505)	$ 34,614,307
Auxiliary enterprises	$ 5,413,136	$ 19,250,208	$ 24,663,344
Payments made to students	$ (22,499,880)	$ 22,499,880	$ —
Student loans collected and received	$ 37,122,297	$ (37,122,697)	$ —
Loans issued to students	$ —	$ (1,558,285)	$ (1,558,285)
Student loans collected	$ —	$ 2,091,121	$ 2,091,121
Other receipts	$ 8,870,297	$ 305,277	$ 9,175,574
Cash Flow from Non-capital Financing Activities			
Stafford Loan receipts	$ —	$ 20,941,595	$ 20,941,595
Stafford Loan disbursements	$ —	$ (20,941,595)	$ (20,941,595)

The restatement did not change the net cash flow from operating activities or non-capital financing activities for the fiscal year 2004-2005.

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% 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 December 2010 and were entered into as a cost avoidance strategy. The estimated cost savings to the University for the 2005-06 fiscal year was $1,743,871. As of October 2, 2006 the estimated cost avoidance from October 2006 to December 2010 is $4.6 million.

Home Counties of Indiana State Students
(Fall 2005) Unaudited

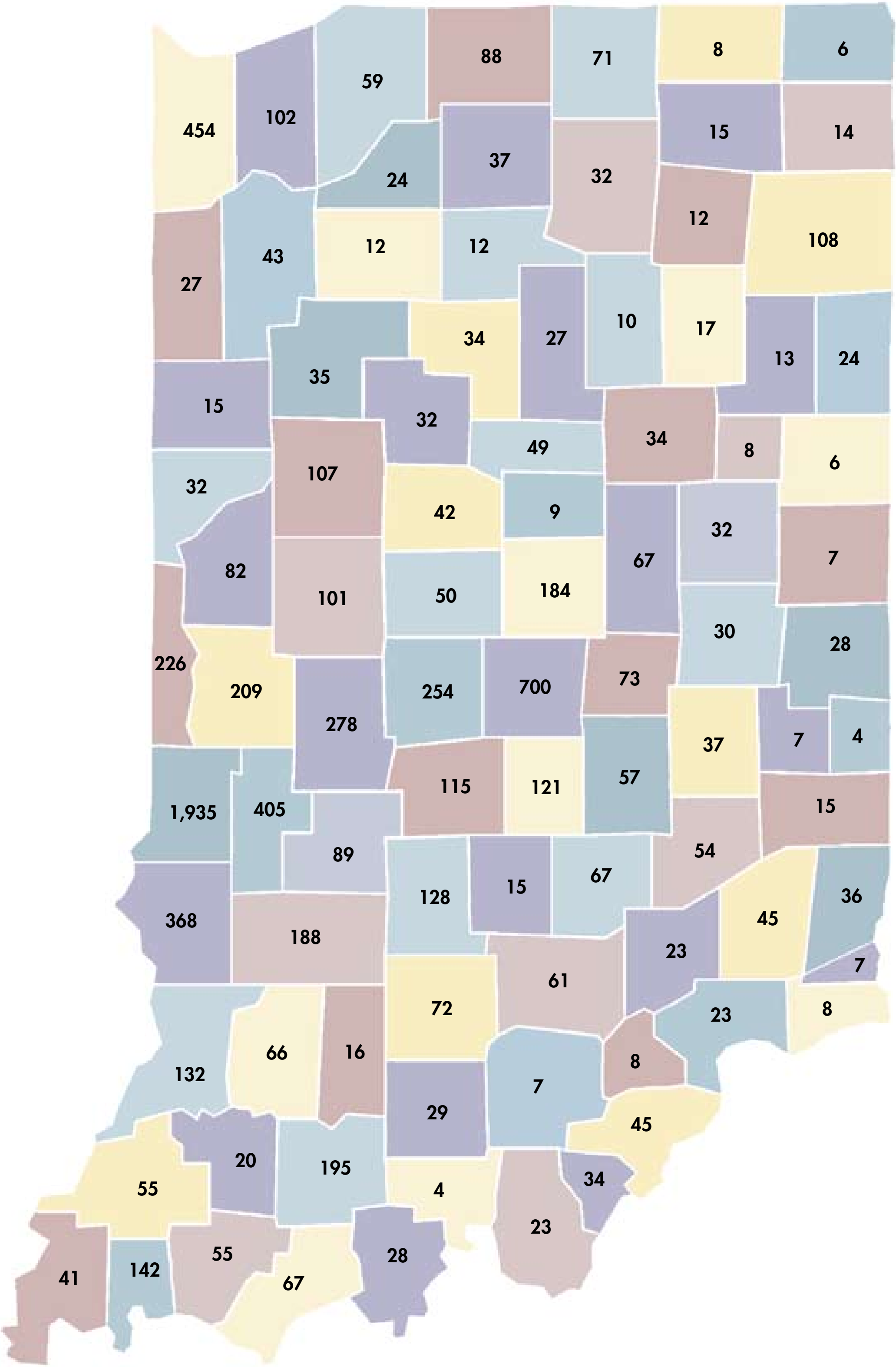
Adams 24	Hendricks 254	Pike 20
Allen 108	Henry 30	Porter 120
Bartholomew 67	Howard 49	Posey 41
Benton 15	Huntington 17	Pulaski 12
Blackford 8	Jackson 61	Putnam 278
Boone 50	Jasper 43	Randolph 7
Brown 15	Jay 6	Ripley 45
Carroll 32	Jefferson 23	Rush 37
Cass 37	Jennings 23	Scott 8
Clark 45	Johnson 121	Shelby 57
Clay 405	Knox 132	Spencer 67
Clinton 42	Kosciusko 32	St. Joseph 88
Crawford 4	La Grange 8	Starke 24
Daviess 66	Lake 454	Steuben 6
Dearborn 36	Laporte 59	Sullivan 368
Decatur 54	Lawrence 72	Switzerland 8
Dekalb 14	Madison 67	Tippecanoe 107
Delaware 32	Marion 700	Tipton 9
Dubois 195	Marshall 37	Union 4
Elkhart 71	Martin 16	Vanderburgh 142
Fayette 7	Miami 27	Vermillion 226
Floyd 34	Monroe 128	Vigo 1,935
Fountain 82	Montgomery 101	Wabash 10
Franklin 15	Morgan 115	Warren 32
Fulton 12	Newton 27	Warrick 55
Gibson 55	Noble 15	Washington 7
Grant 34	Ohio 7	Wayne 28
Greene 188	Orange 29	Wells 13
Hamilton 184	Owen 89	White 35
Hancock 73	Parke 209	Whitley 12
Harrison 23	Perry 28	

Indiana (all 92 counties)—8,807

Out-of-State (48 states)—1,440

International (58 countries)—432

Total Enrollment—10,679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Additional copies of the 2006 Financial Report may be obtained from:

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

For Additional Information:

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

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

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ISU Foundation
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