INDIANA UNIVERSITY

2013-2014 Financial Report

Financial Report 2013–14

Table of Contents

2	Message from the President
5	Message from the Senior Vice President, Chief Financial Officer and Treasurer
7	Independent Auditors' Report
10	Management's Discussion and Analysis
18	Statement of Net Position
19	IUF Statement of Financial Position
20	Statement of Revenues, Expenses, and Changes in Net Position
21	IUF Statement of Activities
22	Statement of Cash Flows
24	Notes to the Financial Statements
47	Excerpts from the IU Foundation– Notes to Financial Statements
56	Required Supplementary Information
57	Trustees and Administrative Officers of Indiana University
58	Additional Information

Message from the President

Michael A. McRobbie
President, Indiana University

The Honorable
Michael R. Pence
Governor, State of Indiana
State House, Room 206
200 West Washington Street
Indianapolis, IN 46204

Dear Governor Pence:

On behalf of the Trustees of Indiana University, I am pleased to present to you IU's 2013-14 Financial Report.

A number of recent studies from well-respected researchers have consistently shown that a college degree has never been more valuable to students. Consider these studies from 2014 alone:

- The Pew Research Center found that the wage gap between the college educated and those without a degree is higher for the 'millennial' generation than for any previous generation. The study finds that college graduates have lower unemployment and poverty rates, and higher job satisfaction.
- MIT economist David Autor, in a study published in the journal *Science*, found that the cost of *not* graduating from college is in the range of $500,000, given the higher pay and employment prospects from a degree.

It is clear that—perhaps more than ever before in our history—the future of our state and nation in a global, digital, information economy depends on the quality of our higher education.

Enhancing Our Commitment to Student Success

For almost two centuries Indiana University has been educating Hoosiers, and students from across the nation and around the world, at the highest levels of quality. For all of the many things a premier research university like IU does, students are its reason for being, and student success is at the core of its mission.

Great public universities like Indiana University educate students for what lies beyond the horizon. As the world around us changes, and as new avenues for better understanding the world and contributing to its improvement arise, what we teach and the manner in which we teach it must also evolve.

The *New Academic Directions Report* of 2011, a major effort to scrutinize and renew IU's educational programs, led to the establishment in Bloomington of:

- the School of Public Health,
- the School of Informatics and Computing,
- the School of Global and International Studies,

and

- the Media School,

while the Indianapolis campus has seen the establishment of:

- the Lilly Family School of Philanthropy

and

- the Fairbanks School of Public Health.

This process of self-examination and renewal must be ongoing. Indiana University will continue to conduct systematic reviews of our existing programs and realign schools and programs as necessary to leverage the university's strengths, to ensure that what we are teaching is relevant, and to respond to the needs of our students and the needs of the state.

But it is also imperative that we ensure that students are able to afford to pursue and complete degrees.

We have had great success in this regard through five key strategies that comprise our Affordable IU initiative. These strategies include:

- Keeping tuition increases as low as possible. IU's most recent tuition increases have been at the lowest levels in nearly 40 years.
- Providing extensive financial aid for qualified students. IU has doubled institutional gift aid to students over the last seven years.
- Ensuring that comprehensive measures are in place to assist all students in graduating on time. Our Finish in Four program effectively freezes tuition for juniors and seniors on track to graduate in four years.
- Providing programs in financial literacy aimed at managing and reducing student loan debt. IU's Money Smarts programs reduced student debt across all IU campuses by $31 million in just one year.

and

- Implementing strategies to reduce other costs of attendance at IU. Costs of textbooks and software have been significantly reduced, and residence hall rate increases have been kept low.

IU will build upon these efforts to ensure that an Indiana University education is accessible and affordable for qualified students from diverse socio-economic backgrounds, including first-generation college students, veterans, and students from under-represented minorities.

Near-Record Enrollments

Despite changing demographics that have led to declining student populations at many universities, especially in the Midwest, enrollment at Indiana University continues to remain strong.

This fall, we enrolled a total 114,382 students across the state. This continued strong enrollment—which includes record student populations on our Indianapolis, IU East, and IU Kokomo campuses—along with the record 1.3 million credit hours that IU students are taking this fall as well as the extremely impressive profile of our incoming freshman class, are testament to IU's reputation as an affordable world-class educational institution.

Nevertheless, we cannot rest on these laurels. In all the areas mentioned above and more, we must continue to redouble our efforts to ensure the continued value and affordability of an IU education.

Catalyzing Research

Indiana University is a national leader in research, a long-standing member of the select Association of American Universities, and the home of scholars of outstanding international recognition.

The benefits to all the people of Indiana from having a great research university in the state are profound. Research universities spur economic growth, generate new industries, and educate and train a world-class workforce.

Our outstanding faculty members continue to successfully compete with top researchers across the nation and around the world for research funding that is becoming increasingly scarce.

IU's academic leadership and faculty will continue to work together to identify the grand challenges to which IU can contribute most effectively, and to provide support to multi-disciplinary and multi-campus research teams to address those challenges.

Fulfilling the Promise of the Global University

Today, increased international integration and global inter-connectivity are among the major forces driving and shaping our contemporary society. Understanding and responding to these forces is of paramount concern to all of us.

By any measure, Indiana University is one of America's leading international universities, and we continue to increase our international engagement. IU Bloomington now ranks fifth in the country in the overall number of students studying abroad. Study and service abroad are essential components of a 21st Century education meant to prepare students to live and work in a flat world. IU Bloomington also ranks 10th nationally in the number of international students enrolled.

Recognizing that global literacy and collaboration have never been more important to higher education in the United States, we inaugurated the School of Global and International Studies last year. The school now provides Hoosier students with deep knowledge and sophisticated tools to understand, critically evaluate, and ethically participate in this complex and interconnected world. The school also provides the nexus for many of our international engagement efforts.

The School of Global and International Studies brings together IU's extraordinary resources and strengths in global and international studies, including:

- more than 70 foreign languages taught, (more than any other university);
- 11 international area studies programs that receive funding through the U.S. Department of Education's Title VI Program (again, more than any other university);
- a great breadth and depth of international research and scholarship;

and

- a high level and wide variety of international engagement.

Indiana University has a long history of international institutional engagement, in the form of exchanges and partnerships with peer institutions around the globe. We now have over 200 such partnerships, and they can be found on every continent and in nearly every part of the world. Such relationships are vitally important to our research and education missions. They support faculty research, provide venues for study abroad programs, and are of great advantage in our faculty and student recruitment efforts.

We will also continue to expand IU's Global Gateway Network. In 2014, we officially dedicated the Indiana University China Office in Beijing and the IU India Office in New Delhi. These offices support a variety of activities, including scholarly research and teaching, study abroad programs, distance learning initiatives, student recruitment activities, executive and corporate training, and alumni events. We are also exploring the possibilities of opening such offices in the Middle East, Europe, Latin America, Africa, and South East Asia.

Health Sciences Research and Education to Improve the State and Nation's Health

The educational, research, and clinical activities of Indiana University's health science and clinical schools—which include the IU schools of medicine, nursing, dentistry, optometry, social work, public health, and health and rehabilitation sciences—are one of the major ways in which IU contributes to the social and economic development of the state of Indiana.

IU has also launched a major effort to address our state's poor performance among all states in measures of the leading causes of illness and death as well as measures of the determinants of health through the establishment of the Fairbanks School of Public Health on the IUPUI campus, and the School of Public Health at IU Bloomington. These two schools are now helping to improve public health by conducting research of the highest quality and by educating the next generation of public health professionals.

IU's impact is amplified even further by its close partnership with Indiana University Health, the state's most comprehensive healthcare system. This partnership allows research at the School of Medicine to be translated into new and improved treatments, procedures, and cures within IU Health hospitals and facilities. In turn, the revenues generated from the provision of such advanced health services and access to state-of-the-art treatments and facilities are invested in further research and training.

The IU School of Medicine, and a number of IU's other clinical schools will continue to build research capacity in selected areas of the health sciences, with emphasis on population health management, cancer, cardiovascular disease, and the neurosciences. And the IU School of Medicine will lead a statewide expansion of primary care residencies to help address the shortage of primary care physicians in the state.

The Bicentennial Strategic Plan for Indiana University

On January 20, 2020, we will celebrate Indiana University's bicentennial—an event of the greatest importance in the life of any institution. IU will be older than most universities in the United States and most universities in the rest of the world outside of Europe. The academic year in which the bicentennial falls—2019/20—will be a year of truly unique importance in the life of the university—a year of celebration and pride across all campuses and across the whole state, and a year to reflect on all that IU has achieved in the previous 200 years.

In 2013, I directed all IU campuses to collectively develop strategic plans for the next five years, identifying goals to be completed and recognized during IU's bicentennial year. Those planning efforts have now been integrated into a single *Bicentennial Strategic Plan for Indiana University*. The current draft of the plan is available at *strategicplan.iu.edu* for public comment before it is presented to the IU Board of Trustees for approval.

The *Bicentennial Strategic Plan* includes an ambitious set of initiatives focused on student success and the value of an IU education; research and scholarly excellence; the university's role as an economic powerhouse in Indiana; and more—all of which are designed to carry IU into its third century as one of the premier public universities in the United States.

Conclusion

As this financial report illustrates, Indiana University continues to regard the funding it receives as a public trust. We are deeply grateful for the support we receive from state appropriations, donor contributions, grants, contracts, and student fees, and are committed to achieving the best return on all of those investments. We also remain dedicated to fulfilling IU's core missions of education and research and to our engagement in the successful future of the state.

As we approach Indiana University's bicentennial, we must commit to strengthening our powerful partnership with the state of Indiana and its citizens and to extending that partnership over the next 200 years.

Yours sincerely,

Michael A. McRobbie
President

Message from the Senior Vice President, Chief Financial Officer and Treasurer

MaryFrances McCourt
Senior Vice President, Chief Financial Officer and Treasurer, Indiana University

Dear President McRobbie and the Trustees of Indiana University:

I am pleased to present you with the consolidated financial report for Indiana University for the fiscal year ended June 30, 2014.

We continue to be recognized by Moody's Investor Services as one of only eight public institutions of higher education holding a Aaa long-term credit rating. This highest rating reflects not only IU's strong financial performance and focus on the highest standards of financial management, but also on the effective governance of our senior leadership and the Board of Trustees, our attention toward strong internal controls, our ability to plan over the short and long term, and our continued self-assessment and drive toward operating efficiency.

Institutions of higher education are operating in a "new normal" with revenue, cost, and competitive pressures causing us to rethink historical practices while we meet the growing demands of students for greater affordability, reduced student debt, and a return on their higher education investment. Indiana University is committed to meeting these challenges as we focus on resource reallocation for strategic investment.

Through our efforts Indiana University has continued its strong financial track record and further strengthened its balance sheet. Continued efficiencies in our operation, strong investment performance, investment from the state, and the continued generosity of our donors have resulted in further growth of our net position – a critical indicator of current financial health – by $201 million, or 5.9%.

Initiatives contributing to positive performance for fiscal year 2014 were:

- Implementation of an Early Retirement Incentive Program that provided attractive retirement packages for employees at or near retirement age while delivering savings to the university
- Implementation of a strategic parking plan to optimize revenue streams, streamline processes and standardize parking procedures and systems
- Heightened focus on managed spend resulting in material procurement savings
- Reduction of healthcare costs through a significant shift to high deductible health plans
- Continued strong performance of our investment portfolio through increased focus on cash forecasting and tiered investment strategy

As we continue to chart our path toward long term financial strength, we will stay the course with our focus on cost containment and leveraging our scale to drive efficiency. There are several initiatives underway to broaden the scope of impactful work and collaborate across units, schools and campuses to implement best-in-class work.

But, cost containment will not drive long term viability. We must look for ways to offset the pressures on revenue growth. Our strategic plan will guide us as we encourage and incent schools and campuses to innovate in areas of new program development, commercialization,

external grants, and fundraising. We will also expand an initiative to develop institution-wide business analytics to aid in focused investment and predictive modeling.

Other Initiatives

Indiana University has gained national attention for its comprehensive student financial literacy programming and the 11%, or $31 million, reduction in student debt over this past fiscal year. We are committed to delivering an affordable, quality education and have developed a six-point education affordability initiative to target all key drivers of student affordability.

We have bent the cost curve on healthcare with further engagement in our high deductible health plan. During a time when health care costs are rising, we have reduced our employee benefit rate, resulting in a $28 million budget savings to redeploy to strategic initiatives. Healthy IU, our comprehensive institution-wide wellness initiative also signals our commitment to employee health and well-being. This initiative leverages knowledge experts from all aspects of wellness to provide accessible programming and environmental support.

Finance personnel across the university are also formally collaborating to identify further areas to drive efficiency with people, processes, and facilities.

It is an exciting time in higher education. Our current position of financial strength and the continued strong demand for the Indiana University brand will allow us to take an offensive approach as we embrace these challenges for improvement.

Sincerely,

MaryFrances McCourt
Senior Vice President, Chief Financial Officer and Treasurer

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Indiana University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Indiana University Foundation, a component unit of the University as discussed in Note 1, which represents 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Indiana University Foundation, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT
(Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the University as of June 30, 2014 and 2013, and the respective changes in financial position, where applicable, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Message from the President, Message from the Senior Vice President, Chief Financial Officer and Treasurer, Trustees and Administrative Officers of Indiana University, and Additional Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Message from the President, Message from the Senior Vice President, Chief Financial Officer and Treasurer, Trustees and Administrative Officers of Indiana University, and Additional Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The

INDEPENDENT AUDITOR'S REPORT
(Continued)

purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

October 24, 2014

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Indiana University (the "university") for the fiscal years ended June 30, 2014 and 2013, along with comparative financial information for the fiscal year ended June 30, 2012. This discussion has been prepared by management to assist readers in understanding the accompanying financial statements and footnotes.

The university's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The university's financial statements, related footnote disclosures, and discussion and analysis have been prepared by university management in accordance with Governmental Accounting Standards Board (GASB) principles.

The Statement of Net Position presents the university's financial position by reporting all assets, deferred outflows of resources, liabilities, and net position at the end of the fiscal years audited. Deferred outflows represent the consumption of resources applicable to a future financial reporting period. The statement as a whole provides information about the adequacy of resources to meet current and future operating and capital needs. Net position is the residual of all other elements presented in the Statement of Net Position and is one indicator of the current financial condition of the university.

The Statement of Revenues, Expenses, and Changes in Net Position presents the total revenues earned and expenses incurred by the university during the fiscal year. This statement depicts the university's revenue streams, along with the categories of expenses supported by that revenue. Changes in net position are an indication of improvement or decline in the university's overall financial condition.

The Statement of Cash Flows provides additional information about the university's financial results by presenting detailed information about cash activity during the year. The statement reports the major sources and uses of cash and is useful in the assessment of the university's ability to generate future net cash flows, the ability to meet obligations as they come due, and the need for external financing.

Statement of Net Position

A comparison of the university's assets, deferred outflows of resources, liabilities, and net position at June 30, 2014, 2013, and 2012 is summarized as follows:

Condensed Statement of Net Position
(in thousands of dollars)

	June 30, 2014	*June 30, 2013**	*June 30, 2012**
Current assets	$ 578,031	$ 635,060	$ 888,419
Capital assets, net	2,729,895	2,695,502	2,533,362
Other assets	1,717,852	1,559,666	1,337,428
Total assets	**5,025,778**	**4,890,228**	**4,759,209**
Deferred outflows of resources on refunding of debt	**13,964**	**16,850**	**9,536**
Current liabilities	391,896	417,846	463,308
Noncurrent liabilities	1,056,658	1,099,234	1,104,763
Total liabilities	**1,448,554**	**1,517,080**	**1,568,071**
Invested in capital assets, net of related debt	1,830,756	1,779,033	1,694,440
Restricted net position	261,879	213,279	163,304
Unrestricted net position	1,498,553	1,397,686	1,342,930
Total net position	**$ 3,591,188**	**$ 3,389,998**	**$ 3,200,674**

*As reclassified in accordance with GASB 65.

Assets

Current assets include those that are used to support current operations and consist primarily of cash and cash equivalents, net receivables, and short-term investments. Cash balances support commitments to strategic initiatives, future employee benefit and retirement costs, self-liquidity requirements, and other operational needs.

In fiscal year 2014, current assets declined $57,029,000, or 9%, to $578,031,000 at June 30, 2014. This decline is primarily due to a decline of cash, cash equivalents, and short-term investments totaling $69,658,000. The objective of the university's operating fund investment policy is to adequately provide for the liquidity needs of the university while maximizing the opportunity to increase yield on investments. Continued investment portfolio rebalancing to optimize yield, along with spending of invested bond proceeds on capital projects, contributed to this shift to longer-term resources. Partially offsetting the impact of these amounts on current assets was a $12,565,000 increase in prepaid expenses representing payments for goods or services to be received in future periods. The overall decline in current assets is primarily a function of the university's operating, capital financing, and investing activities as reflected in the Statement of Cash Flows.

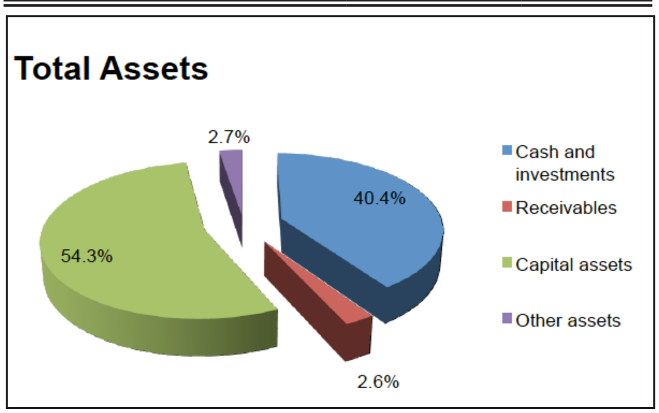
Major components of noncurrent assets are endowment and operating investments, and capital assets, net of accumulated depreciation. Noncurrent assets increased $192,579,000, or 5%, to $4,447,747,000 at June 30, 2014, compared to June 30, 2013. The market value of the university's noncurrent investment portfolio increased $168,202,000, or 11%, to $1,659,726,000 at June 30, 2014, largely due to operating portfolio rebalancing and unrealized gains on investments. Realized losses in the operating portfolio partially offset the increase.

As described in the Capital Assets section of Management's Discussion and Analysis, the university continues to actively invest in expanding and renovating facilities to support IU's central missions of education and research, and to enhance the student life experience. These investments in facilities capitalize on the unique character, structure, sense of place, culture, and physical form of the campuses.

Total assets increased $135,550,000, or 3%, to $5,025,778,000 as of June 30, 2014.

The following table and chart represent the composition of total assets:

Total Assets (in thousands of dollars)		
Cash and investments	$ 2,032,400	40.4%
Receivables	131,915	2.6%
Capital assets	2,729,895	54.3%
Other assets	131,568	2.7%
Total assets	**$ 5,025,778**	**100.0%**



Deferred Outflows of Resources

Deferred outflows of resources represent consumption of resources applicable to a future reporting period. The amounts recorded result from capital debt refunding transactions, and consist of the amortized cumulative differences between reacquisition prices and the net carrying amounts of previously issued debt.

Liabilities

Current liabilities are those that are expected to become due and are payable over the course of the next fiscal year. Current liabilities consist of accounts payable, accrued compensation and compensated absences, unearned revenue, and the current portion of long-term debt and capital lease obligations.

Current liabilities declined $25,950,000, or 6%, to $391,896,000 at June 30, 2014, primarily due to a decline in unearned revenue. Unearned revenue is comprised of receipts for which recognition of the related revenue will be recognized in future periods. The university's unearned revenue is attributable in part to the academic calendar, in which a portion of summer session student fees collected in the current fiscal year is classified as unearned until the following fiscal year when the related summer session classes are taught. In addition, funds received in advance of expenditures on sponsored projects are classified as unearned revenue. The reduction of $37,023,000 in current unearned revenue is primarily due to the timing of spending related to capital and other grants for which receipts were received in prior years in advance of related expenditures.

Noncurrent liabilities declined $42,576,000, or 4%, to $1,056,658,000 at June 30, 2014, due in large part to principal payments on bonds and notes payable of $55,430,000. Noncurrent liabilities include other postemployment benefits, as described in Note 12, Postemployment Benefits.

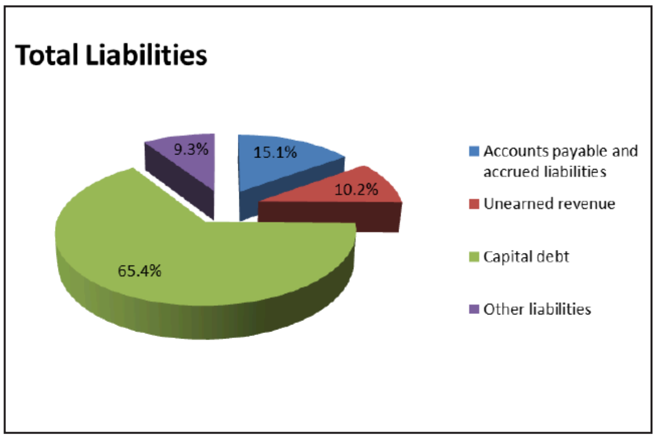
The university's capital debt outstanding of $947,519,000 at June 30, 2014, and $986,083,000 at June 30, 2013, after reclassification for the implementation of GASB 65 (See Note 1, Organization and Summary of Significant Accounting Policies), represents 65% of total liabilities at June 30, 2014 and 2013. A discussion of the university's capital financing activities appears in Note 7, Bonds and Notes Payable, and

Note 8, Lease Obligations, and in the Debt and Financing activity section below.

Total liabilities decreased $68,526,000, or 5%, to $1,448,554,000 at June 30, 2014.

The following table and chart represent the composition of total liabilities:

Total Liabilities *(in thousands of dollars)*		
Accounts payable and accrued liabilities	$ 218,611	15.1%
Unearned revenue	147,120	10.2%
Capital debt	947,519	65.4%
Other liabilities	135,304	9.3%
Total liabilities	**$ 1,448,554**	**100.0%**



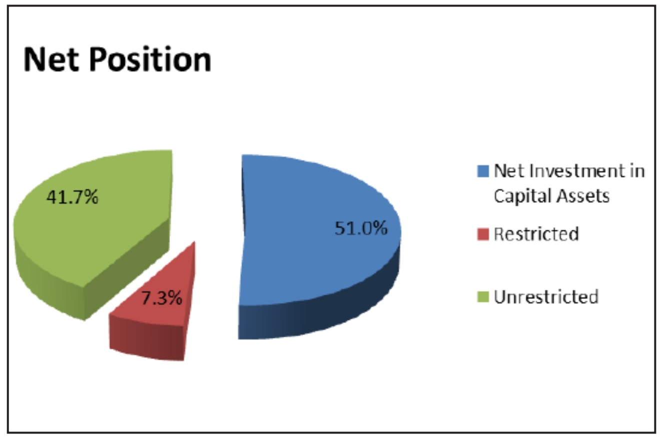
Net Position

Net position is the residual of all other elements presented in the Statement of Net Position. Net position is classified into three major categories:

- Net investment in capital assets consists of the university's investment in capital assets, such as equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and related debt.
- Restricted net position consists of amounts that have been restricted by external parties and are divided into two sub-categories:
  - Restricted non-expendable funds must be held inviolate and in perpetuity. These balances represent the university's permanent endowment funds received for the purpose of creating present and future income.
  - Restricted expendable funds are available for expenditure by the university, but must be spent according to restrictions imposed by third parties.
- Unrestricted net position includes amounts institutionally designated or committed to support specific purposes.

The following table and chart represent the composition of net position:

Total Net Position *(in thousands of dollars)*		
Net investment in capital assets	$ 1,830,756	51.0%
Restricted	261,879	7.3%
Unrestricted	1,498,553	41.7%
Total net position	**$ 3,591,188**	**100.00%**



The university's net investment in capital assets reflects the institutional long-term investment in sustaining and enhancing the missions of research and education. The net investment in capital assets increased $51,723,000, or 3%, to $1,830,756,000 at June 30, 2014. Growth in this area is managed according to the university's long-range capital plans, along with operating units' needs for equipment and infrastructure to support programs and operational functions.

Unrestricted net position is subject to internal designations and commitments for academic and research initiatives, capital projects, and unrestricted quasi and term endowment spending plans. Unrestricted net position increased $100,867,000, or 7%, to $1,498,553,000 at June 30, 2014. This category of resources is essential for ongoing operational needs, funding ongoing obligations such as Other Postemployment Benefits, as well as for providing flexibility to support the university's mission in changing economic environments.

Net position in total increased $201,190,000, or 6%, to $3,591,188,000 at June 30, 2014.

Statement of Revenues, Expenses, and Changes in Net Position

Revenues and expenses are classified as either operating or nonoperating, in accordance with GASB principles for classification into these categories. Trends in the relationship between operating revenues and expenses are important indicators of financial condition. Generally, operating revenues are received for providing goods and services and include tuition and fees, grants and contracts, sales and services, and auxiliary revenue. Scholarship allowances are recorded as offsets to gross tuition and fees and auxiliary revenue. Student financial aid in excess of amounts owed for tuition, fees, and housing are recorded as expenses. Nonoperating revenues include state appropriations, grants, contracts, gifts, and investment income. Operating expenses are those incurred to carry out the normal operations of the university. As a public university, Indiana University is required by GASB standards to report certain revenue sources that are an integral part of operations as nonoperating revenues.

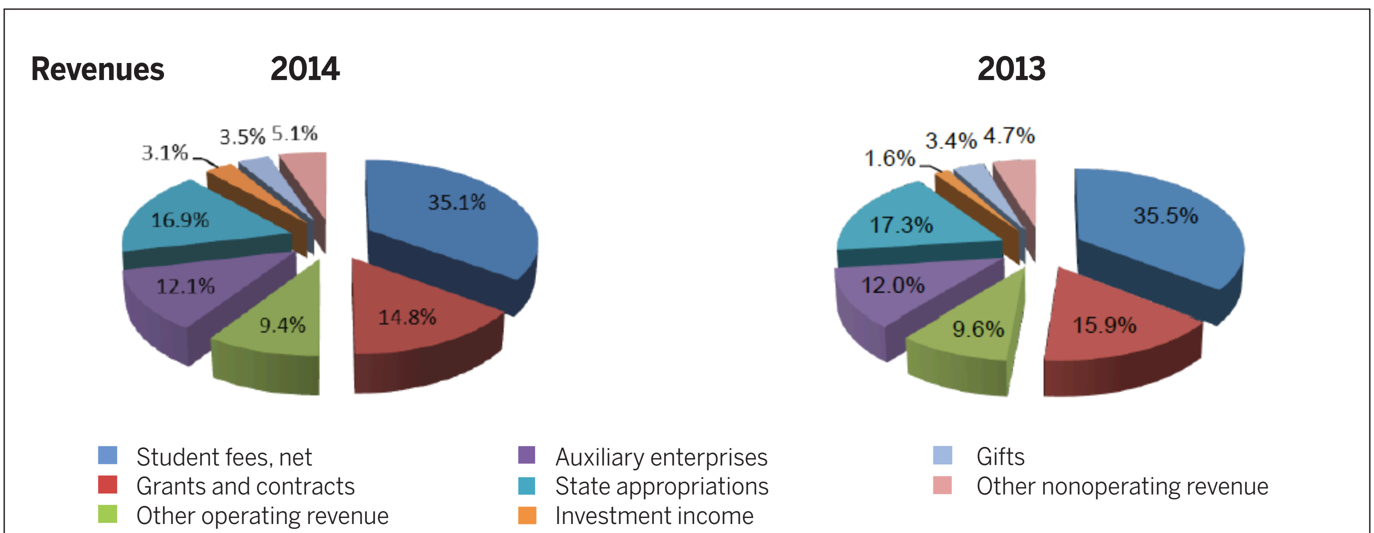
Total revenues increased $135,088,000, or 5%, to $3,076,683,000 in fiscal year 2014. Total expenses increased $123,222,000, or 4%, to $2,875,493,000 in fiscal year 2014.

A summarized comparison of the university's revenues, expenses, and changes in net position is presented below:

Condensed Statement of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

		Fiscal Year Ended	
	June 30, 2014	*June 30, 2013*	*June 30, 2012*
Operating revenues	$ 2,195,241	$ 2,146,736	$ 2,065,918
Operating expenses	(2,838,946)	(2,721,541)	(2,639,127)
Total operating loss	(643,705)	(574,805)	(573,209)
Nonoperating revenues	836,077	772,775	811,550
Nonoperating expenses	(36,547)	(30,730)	(31,100)
Income before other revenues, expenses, gains, or losses	155,825	167,240	207,241
Other revenues	45,365	22,084	34,432
Increase in net position	**201,190**	**189,324**	**241,673**
Net position, beginning of year	3,389,998	3,200,674	2,959,001
Net position, end of year	**$ 3,591,188**	**$ 3,389,998**	**$ 3,200,674**

The following charts represent revenues by major source for fiscal years 2014 and 2013:



Total operating revenues increased $48,505,000, or 2%, to $2,195,241,000 in fiscal year 2014. The university supports its operations with diverse revenue sources, of which the largest single source is student tuition and fees. Tuition and fees, net of scholarship allowances, increased $35,103,000, or 3%, over the prior fiscal year and represents 35% of total revenue. Tuition and fee revenue fluctuates according to a combination of changes in tuition rates, enrollment, and the mix of student levels and residency. Fiscal year 2014 tuition and fee rate increases are more than five points lower than the university's historical average, indicative of the university's strong focus on student affordability. Operating grant and contract revenue declined $10,354,000, or 2%, to $456,474,000 in 2014. Since 2010, the national trend in federal research funding has declined significantly, more recently due to the across-the-board federal sequestration cuts. Indiana University's federal grants and contracts revenue declined $16,223,000, or 5%, to $290,301,000. Nongovernmental grants and contracts revenue increased $6,409,000, or 5%, to $146,211,000, due to a combination of natural variability in the awarding of foundation and not-for-profit agency grants, along with revenue recognition timing as grant revenue is recognized in the financial statements as spending takes place.

Total operating expenses increased $117,405,000, or 4%, to $2,838,946,000 in fiscal year 2014. The combined total of student financial aid expense and scholarship allowances, including those related to auxiliary revenue, increased $8,520,000, or 2%. The university's strategy to promote student affordability and to control student debt levels includes a focus on access to financial aid in conjunction with financial literacy programs. Compensation and benefits, at 65% of total operating expenses, represent the largest single university expense. Compensation and benefits expense increased $68,459,000, or 4%, over the prior year, to $1,850,432,000. University benefit plans are an important element in attracting and retaining employees to support the university's missions. Specific initiatives have been implemented to control benefit program expenses. Notably, the university has implemented a High Deductible Health Plan (HDHP) with lower employer premiums while providing employees with greater control over healthcare spending. Approximately 79% of employees were enrolled in an HDHP in 2014. The university implemented an Early Retirement Incentive Plan for 2014, applicable to full-time academic and staff employees meeting certain eligibility requirements. The program was instrumental in providing opportunities for cost savings, redirecting positions to focus on higher priorities, and avoiding or minimizing future involuntary reductions in personnel. Energy and utilities expense increased $6,857,000, or 10%, over the prior year. In spite of the addition of new buildings with an increase in square feet served on the Bloomington and IUPUI campuses, favorable electrical usage variances were achieved through energy savings measures. These factors were offset by increased electricity rates and higher fuel and steam costs related to the colder temperatures compared to the prior year.

Nonoperating revenues, net of interest expense, increased $57,485,000, or 8%, to $799,530,000 in 2014. State operating appropriations increased a total of $9,819,000, or 2%, compared to fiscal year 2013. The State enacted an operating appropriation increase of $16,512,000, or 3.6%, for the university for fiscal year 2014. In December 2013, the Governor of Indiana announced a 2% reserve on operating appropriations of all Indiana state universities' fiscal year appropriations. The reserve was withheld from the university's June 2014 claim and amounted to $9,600,000. Special line item appropriations, net of the 2% cut, increased $1,502,000. Student fee replacement appropriations are made for the purpose of reimbursing a portion of debt service for certain academic facilities. These funds are claimed according to the university's fee replacement-supported debt service schedules, and were not subject to the 2% reduction. Investment income increased $47,892,000, or 100%, in fiscal year 2014 to $95,560,000, primarily due to unrealized gains in 2014, compared to overall unrealized losses in 2013. The unrealized gains were partially offset by realized losses. Interest expense increased $5,817,000 over 2013, primarily due to the timing of capitalization of construction period interest on completed projects.

The university recognized $25,876,000 in capital appropriations in 2014. Capital gifts and grants received during the year include funding for projects for construction of the Neurosciences Research Building and renovation of the Rotary Building on the IUPUI campus, and building renovations on the South Bend campus.

Statement of Cash Flows

The Statement of Cash Flows provides information about the university's financial results by reporting the major sources and uses of cash during the fiscal year. The statement assists in evaluating the university's ability to generate future net cash flows to meet its obligations as they become due and aids in analysis of the need for external financing. The statement is divided into four sections based on major activity: operating, noncapital financing, capital and related financing, and investing. A fifth section reconciles the operating income or loss on the Statement of Revenues, Expenses, and Changes in Net Position to the net cash used in operations.

A summarized comparison of the university's changes in cash and cash equivalents is presented below:

Comparative Statement of Cash Flows
(in thousands of dollars)

		Fiscal Year Ended	
	June 30, 2014	*June 30, 2013*	*June 30, 2012*
Net cash provided (used) by:			
Operating activities	$ (532,911)	$ (476,724)	$ (446,436)
Noncapital financing activities	741,973	723,772	750,452
Capital and related financing activities	(206,182)	(336,521)	(166,036)
Investing activities	(24,195)	(220,405)	(72,943)
Net increase (decrease) in cash and cash equivalents	(21,315)	(309,878)	65,037
Beginning cash and cash equivalents	335,269	645,147	580,110
Ending cash and cash equivalents	**$ 313,954**	**$ 335,269**	**$ 645,147**

Cash received from operations consists primarily of student fees, grants and contracts, and auxiliary enterprise receipts. Payments to employees represent the largest use of cash for operations. Significant sources of cash provided by noncapital financing activities are used to fund operating activities, including state appropriations, federal Pell grants, and private noncapital gifts. Fluctuations in capital and related financing activities reflect decisions made relative to the university's capital and financing plans. Cash flows from investing activities include the effects of shifts between cash equivalents and longer-term investments.

Capital Asset Activity

In his State of the University address, Indiana University President Michael McRobbie emphasized the importance of facilities to the University's overall mission: "New, expanded, and renovated facilities to support IU's central missions of education, research, and the long-term preservation of knowledge are a central priority of the university. They are critical to help recruit and retain the best faculty and researchers, ensure IU remains competitive in research and scholarship, and to help provide a high-quality living and educational environment for IU students on all campuses."

The university's investment in capital assets, net of depreciation, which include land, art and museum objects, infrastructure, equipment, and buildings, grew $34,393,000, or 1%, to $2,729,895,000 at June 30, 2014. Additions to capital assets are comprised of new construction, renewal and renovations, as well as major investments in equipment and information technology. Construction in progress includes academic and administrative building projects, student residence hall improvements, and construction of research facilities.

The Neurosciences Research Building is a new building on the IUPUI campus which provides scientists with state-of-the-art facilities in which to conduct a broad range of collaborative neuroscience research. In partnership with clinical care providers, the facility will be part of a national model for collaborative, transdisciplinary patient care, research, and education for neuropsychiatric and neurological disorders. The project features a unique connection of lab support suites, which allows better access to the extensive biological model studies used in research. The research space is designed for flexibility to enable interdisciplinary research teams to be grouped according to health specialties rather than by traditional academic departments. Construction was completed in March 2014. The facility was awarded LEED Gold Certification in August 2014 for achieving high standards of energy-conscious and environmentally-sustainable design and construction. The 239,000 square foot facility was completed at a cost of $48,000,000.

The Science and Engineering Laboratory Building on the IUPUI campus was dedicated in November 2013. The $28,000,000 high-tech building provides facilities for education and research that contribute to the economic vitality of the state of Indiana. The facility provides 35,000 square feet of research and teaching space that enable scientists and scholars to engage in collaborative, multidisciplinary activities, critical to recruit and retain the best faculty and researchers. Among the interdisciplinary programs housed in the new building are biomedical engineering, forensic science, psychobiology, and renewable energy research.

Renovation of the Rotary Building, one of the oldest buildings on the Indiana University School of Medicine campus, was completed in May 2014. The $8,000,000 project included all new mechanical, electrical, and plumbing systems, along with upgrades to the fire safety and security systems. Walls which divided the floors into small, inefficient rooms were removed to allow natural light to penetrate further into the building and to create open office areas on all floors. In addition, the building was brought up to current energy efficiency standards with new windows and newly insulated walls. The renovation created 40,000 square feet of office and academic space for School of Medicine departments and programs.

The Indiana University Jacobs School of Music officially opened its 85,000 square foot East Studio Building in fiscal year 2014. The facility highlights the entrance to the university's music, fine arts, film, and performing arts district. Construction of the building, at a cost of $38,000,000, was made possible by a grant from the Lilly Endowment. The state-of-the-art technical and acoustical facilities offer connectivity and technology to faculty and students with advanced teaching and practice space. Each studio features high-definition videoconferencing capabilities, allowing faculty to teach interactively around the world. In addition to faculty studios, the building houses administrative offices for the Jacobs School of Music.

The $24,000,000 Forest Dining Hall project provides new and upgraded dining facilities for students on the Bloomington campus. A pedestrian-friendly north/south connector through the building was constructed to link the front of Forest Quad with Rose Avenue Residence Hall. The expansion portion of this project consisted of construction of a new 14,000 gross square foot, 700-seat dining hall featuring a "marketplace" with unique food venues. Installation of upgraded mechanical systems was included in the project. The project was completed in August 2013.

Debt and Financing Activity

Institutional borrowing capacity is a valuable resource that is actively managed in support of the institutional mission. Bonds, notes, and capital lease obligations totaled $947,519,000 at June 30, 2014, and $986,083,000 at June 30, 2013, after reclassifications for GASB Statement No. 65 (see Note 1).

On February 13, 2014, the university issued natural fixed rate Lease Purchase Obligations, Series 2014A with a par amount of $21,045,000. The proceeds financed the construction of University Hall on the IUPUI campus and included the costs of issuing the bonds, including underwriters' discount. The true interest cost for the obligations was 3.8%.

The University's ratings on debt obligations were reviewed and reaffirmed in January 2014. On January 22, 2014, Moody's Investors Service rated lease purchase obligations and reaffirmed its underlying rating on student fee bonds, student residence system bonds, facility revenue bonds, consolidated revenue bonds, and certificates of participation as 'Aaa' with a stable outlook. On January 21, 2014, Standard & Poor's Ratings Services rated lease purchase obligations and reaffirmed its underlying rating on student fee bonds, student residence system bonds, facility revenue bonds, consolidated revenue bonds, and certificates of participation as 'AA+' with a stable outlook.

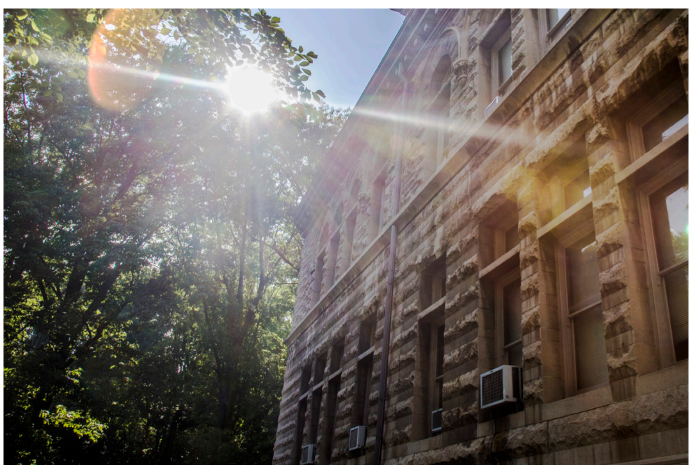
Economic Outlook

While the Indiana General Assembly appropriated a 3.6% system-wide increase in Indiana University operating appropriations for fiscal year 2014, the State Budget Agency withheld 2% of funds appropriated to each state university due to concerns over state revenue performance. Although the state slightly surpassed its December 2013 revenue forecast for fiscal year 2014, total revenues were $60,000,000, or 0.4%, lower than fiscal year 2013 revenue collections. State revenue performance was impacted modestly by tax cuts enacted by the General Assembly that are being phased-in over several years (a nearly 1% reduction) and individual income tax collections were significantly below forecast. Sales tax collections achieved forecast, but grew at a modest rate of 1.9% over 2013, while corporate tax revenues strongly exceeded forecast by $117,000,000, nearly offsetting the shortfall in individual income tax collections. Fortunately, the state's overall fiscal standing is strong with total reserve balances exceeding $2,000,000,000, more than 13% of state revenues.

For fiscal year 2015, total state revenues are forecast to increase by 3.2% over actual fiscal year 2014 collections, after accounting for the continued phase-in of previously enacted tax cuts. Indiana's unemployment rate improved substantially during 2014, dropping from 8.4% in July 2013 to 5.9% in June 2014. With lower unemployment, there is hope that individual income and sales tax collections will improve during fiscal year 2015 compared to fiscal year 2014, which will be essential to achieving the revenue forecast.

While evidence indicates that both Indiana and the national economies are expanding at a moderate pace, much uncertainty continues, including continued underutilization of the labor market, and global headwinds.

The university is committed to curtailing expenditures and increasing productivity to drive institutional efficiency. At the same time, the university continues to be acknowledged for delivering excellent educational quality with a focus on student affordability, and the demand for an Indiana University education remains strong. Overall, the financial position of the university is favorable and management will continue to monitor state, national, and global economic conditions as part of its critical financial decision-making process.



Statement of Net Position

(in thousands of dollars)	*June 30, 2014*	*June 30, 2013*
Assets		
Current assets		
Cash and cash equivalents	$ 313,954	$ 335,269
Accounts receivable, net	131,915	132,489
Current portion of notes and pledges receivable	15,215	14,416
Inventories	10,917	11,078
Short-term investments	58,720	107,063
Other assets	47,310	34,745
Total current assets	578,031	635,060
Noncurrent assets		
Accounts receivable	–	10,634
Notes and pledges receivable	58,126	57,508
Investments	1,659,726	1,491,524
Capital assets, net	2,729,895	2,695,502
Total noncurrent assets	4,447,747	4,255,168
Total assets	**5,025,778**	**4,890,228**
Deferred outflows of resources on refunding of debt	**13,964**	**16,850**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	218,611	210,378
Unearned revenue	108,051	145,074
Current portion of capital lease obligations	783	1,249
Current portion of long-term debt	64,451	61,145
Total current liabilities	391,896	417,846
Noncurrent liabilities		
Capital lease obligations	930	1,103
Notes payable	79,560	61,315
Assets held in custody for others	77,710	76,677
Unearned revenue	39,069	36,955
Bonds payable	801,795	861,271
Other long-term liabilities	57,594	61,913
Total noncurrent liabilities	1,056,658	1,099,234
Total liabilities	**1,448,554**	**1,517,080**
Net Position		
Net investment in capital assets	1,830,756	1,779,033
Restricted for:		
Nonexpendable - endowments	45,268	27,998
Expendable		
Scholarships, research, instruction and other	150,792	136,955
Loans	19,604	19,830
Capital projects	26,051	8,249
Debt service	20,164	20,247
Unrestricted	1,498,553	1,397,686
Total net position	**$ 3,591,188**	**$ 3,389,998**

See accompanying notes to the financial statements.

INDIANA UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND 2013
(In thousands of dollars)

	2014	2013
ASSETS		
CASH AND CASH EQUIVALENTS	$ 102,714	$ 87,276
CASH COLLATERAL UNDER SECURITIES LENDING AGREEMENT	98,766	66,935
RECEIVABLES AND OTHER ASSETS	36,973	52,681
PROMISES TO GIVE - NET	159,539	142,368
INVESTMENTS	2,147,618	1,875,083
PROPERTY, PLANT, AND EQUIPMENT - NET	50,894	53,223
TOTAL ASSETS	$ 2,596,504	$ 2,277,566
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and other	$ 25,725	$ 39,566
Payable under securities lending agreement	98,766	66,935
Debt	2,990	3,844
Accrued trust obligation to life beneficiaries	36,441	36,186
Assets held for the University	243,118	205,621
Assets held for University affiliates	24,290	22,128
Total liabilities	431,330	374,280
NET ASSETS:		
Unrestricted net assets	51,363	40,750
Temporarily restricted net assets	841,110	762,899
Permanently restricted net assets	1,272,701	1,099,637
Total net assets	2,165,174	1,903,286
TOTAL LIABILITIES AND NET ASSETS	$ 2,596,504	$ 2,277,566

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses, and Changes in Net Position

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2014	*June 30, 2013*
Operating revenues		
Student fees	$ 1,303,046	$ 1,255,936
Less scholarship allowance	(223,516)	(211,509)
Federal grants and contracts	290,301	306,524
State and local grants and contracts	19,962	20,502
Nongovernmental grants and contracts	146,211	139,802
Sales and services of educational units	65,374	61,724
Other revenue	222,871	220,912
Auxiliary enterprises (net of scholarship allowance of $27,612 in 2014 and $24,391 in 2013)	370,992	352,845
Total operating revenues	**2,195,241**	**2,146,736**
Operating expenses		
Compensation and benefits	1,850,432	1,781,973
Student financial aid	152,532	159,240
Energy and utilities	77,361	70,504
Travel	48,840	47,245
Supplies and general expense	564,623	521,813
Depreciation and amortization expense	145,158	140,766
Total operating expenses	**2,838,946**	**2,721,541**
Total operating loss	**(643,705)**	**(574,805)**
Nonoperating revenues (expenses)		
State appropriations	519,417	509,598
Grants, contracts, and other	112,795	115,250
Investment income	95,560	47,668
Gifts	108,305	100,259
Interest expense	(36,547)	(30,730)
Net nonoperating revenues	**799,530**	**742,045**
Income before other revenues, expenses, gains, or losses	**155,825**	**167,240**
Capital appropriations	25,876	–
Capital gifts and grants	19,102	21,062
Additions to permanent endowments	387	1,022
Total other revenues	**45,365**	**22,084**
Increase in net position	**201,190**	**189,324**
Net position, beginning of year	**3,389,998**	**3,200,674**
Net position, end of year	**$ 3,591,188**	**$ 3,389,998**

See accompanying notes to the financial statements.

INDIANA UNIVERSITY FOUNDATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(In thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:				
Contributions — net	$ 1,326	$ 100,418	$ 44,313	$ 146,057
Investment income — net	13,281	123,736	122,243	259,260
Management/administrative fees	16,420	(13,669)	(39)	2,712
Grants	-	5,400	-	5,400
Other income	9,940	4,893	660	15,493
Development service fees from the University	4,923	-	-	4,923
Net assets released from restriction	138,827	(139,607)	780	-
Total revenue and support	184,717	81,171	167,957	433,845
EXPENDITURES:				
Program expenditures	144,998	-	-	144,998
Management and general	11,683	3,994	(218)	15,459
Fundraising	17,741	-	-	17,741
Change in value of split interest agreement obligation	(318)	(1,034)	(4,889)	(6,241)
Total expenditures	174,104	2,960	(5,107)	171,957
Total change in net assets	10,613	78,211	173,064	261,888
BEGINNING NET ASSETS	40,750	762,899	1,099,637	1,903,286
ENDING NET ASSETS	$ 51,363	$ 841,110	$ 1,272,701	$ 2,165,174

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

(in thousands of dollars)	*Fiscal Year Ended* *June 30, 2014*	*June 30, 2013*
Cash flows from operating activities		
Student fees	$ 1,074,775	$ 1,043,398
Grants and contracts	425,305	400,472
Sales and services of educational activities	65,225	61,251
Auxiliary enterprise charges	369,968	350,830
Other operating receipts	229,652	221,969
Payments to employees	(1,845,793)	(1,760,333)
Payments to suppliers	(694,943)	(639,401)
Student financial aid	(156,749)	(156,893)
Student loans collected	10,111	11,064
Student loans issued	(10,462)	(9,081)
Net cash used in operating activities	**(532,911)**	**(476,724)**
Cash flows from noncapital financing activities		
State appropriations	519,417	509,598
Nonoperating grants and contracts	112,795	115,250
Gifts and grants received for other than capital purposes	109,866	100,387
Direct lending receipts	556,085	600,943
Direct lending payments	(556,190)	(602,406)
Net cash provided by noncapital financing activities	**741,973**	**723,772**
Cash flows from capital and related financing activities		
Capital appropriations	25,876	–
Capital grants and gifts received	16,558	16,885
Purchase of capital assets	(172,532)	(303,479)
Proceeds from issuance of capital debt, including refunding activity	20,375	40,820
Principal payments on capital debt	(55,430)	(50,096)
Principal paid on capital leases	(1,390)	(1,660)
Interest paid on capital debt and leases	(39,639)	(38,991)
Net cash used in capital and related financing activities	**(206,182)**	**(336,521)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	2,851,564	2,808,571
Investment income	44,129	45,242
Purchase of investments	(2,919,888)	(3,074,218)
Net cash used in investing activities	**(24,195)**	**(220,405)**
Net decrease in cash and cash equivalents	**(21,315)**	**(309,878)**
Cash and cash equivalents, beginning of year	335,269	645,147
Cash and cash equivalents, end of year	**$ 313,954**	**$ 335,269**

See accompanying notes to the financial statements.

Statement of Cash Flows

(continued from previous page)

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2014	***June 30, 2013***
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (643,705)	$ (574,805)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	145,158	140,766
Loss on disposal of capital assets	6,903	6,513
Changes in assets and liabilities:		
Accounts receivable	725	(14,272)
Inventories	162	311
Other assets	(12,565)	(4,633)
Notes receivable	(1,416)	1,458
Accounts payable and accrued liabilities	9,258	(18,544)
Unearned revenue	(34,910)	(23,320)
Assets held in custody for others	1,033	294
Other noncurrent liabilities	(3,554)	9,508
Net cash used in operating activities	**$ (532,911)**	**$ (476,724)**

See accompanying notes to the financial statements.

Indiana University Notes to the Financial Statements

June 30, 2014 and June 30, 2013

Note 1—Organization and Summary of Significant Accounting Policies

ORGANIZATION

Indiana University (the "university") is a major public research institution with fiscal responsibility for operations on seven campuses. Core campuses are located in Bloomington and Indianapolis ("Indiana University Purdue University at Indianapolis", or "IUPUI"), and regional campuses are located in Richmond ("IU East"), Kokomo ("IU Kokomo"), Gary ("IU Northwest"), South Bend ("IU South Bend"), and New Albany ("IU Southeast"). The financial statements include the individual schools, colleges, and departments as part of the comprehensive reporting entity. The university was established by state legislative act in 1838, changing the name of its predecessor, Indiana College, to Indiana University. The university's governing body, the Trustees of Indiana University (the "trustees"), is comprised of nine members charged by Indiana statutes with policy and decision-making authority to carry out the programs and missions of the university. Six of the members are appointed by the Governor of Indiana, and three are elected by university alumni. The university is a state-supported institution and is classified as exempt from federal income tax under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3), and also under Section 115(a). Certain revenues of the university may be subject to federal income tax as unrelated business income under Internal Revenue Code Sections 511 to 514.

BASIS OF PRESENTATION

The university financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"). The university reports on a consolidated basis, with a comprehensive, entity-wide presentation of the university's assets and deferred outflows, liabilities, net position, revenues, expenses, changes in net position, and cash flows. All significant intra-university transactions are eliminated upon consolidation. The university follows all applicable GASB pronouncements.

The university reports as a special-purpose government entity engaged primarily in business-type activities, as defined by GASB. Accordingly, these financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

As a component unit of the state, the university is included as a discrete entity in the State of Indiana's Comprehensive Annual Financial Report.

REPORTING ENTITY

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. GASB Statement No. 14, *The Financial Reporting Entity*, additional requirements of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, provide criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for these organizations. Based on these criteria, the financial report includes the university and its blended and discretely presented component units.

DISCRETELY PRESENTED COMPONENT UNIT

The Indiana University Foundation, Inc. (IU Foundation) is organized as a not-for-profit corporation under the laws of the State of Indiana for the exclusive purpose of supporting the university by receiving, holding, investing, and administering property and making expenditures to or for the benefit of the university. The IU Foundation is considered a component unit of the university, which requires discrete presentation. Accordingly, the IU Foundation's audited financial statements are presented in their original formats on separate pages.

The IU Foundation is a not-for-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features differ from GASB revenue recognition criteria and presentation features. No modifications have been made to the IU Foundation's financial information in the university's financial reporting to adjust for these differences. The IU Foundation distributed $140,665,000 and $105,726,000 to the university during fiscal years 2014 and 2013, respectively. Complete financial statements for the IU Foundation can be obtained from: Indiana University Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

BLENDED COMPONENT UNIT

In September 2008, the Trustees of Indiana University directed, by resolution, that the Indiana University Building Corporation (IUBC) be formed to serve specific purposes on behalf of the university and designated that certain of the university's administrative officers, by virtue of their titles, serve as directors and officers of IUBC. The sole purpose of IUBC is to assist the university in the financing and development of university facilities by owning and leasing such facilities to the university on a lease purchase basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all highly liquid investments with maturities of 90 days or less that bear little or no market risk. Restricted cash and cash equivalents includes unspent bond proceeds restricted for capital expenditures.

INVESTMENTS

Investments are carried at fair value, as quoted by the major securities markets. Realized and unrealized gains and losses are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position.

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from students, grants and contracts, and auxiliary enterprises and are recorded net of estimated uncollectible amounts.

NOTES RECEIVABLE

Notes receivable consists primarily of student loan repayments due to the university.

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of contribution in the case of gifts. The university capitalizes equipment with a cost of $5,000 or more and a useful life in excess of one year. Capital assets also include land improvements and infrastructure costing in excess of $75,000. Buildings and building renovations that increase the useful life of the building, costing at least the lesser of $75,000 or twenty percent of the acquisition cost of the existing building, are capitalized. Intangible assets with a cost of $500,000 or more are subject to capitalization. Art and museum objects purchased by or donated to the university are capitalized if the value is $5,000 or greater. Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets, generally five to twenty years for equipment, ten years for library books, ten to forty years for infrastructure and land improvements, and fifteen to forty years for buildings and building components. Useful lives for capital assets are established using a combination of the American Hospital Association guidelines, Internal Revenue Service guidelines, and documented university experience. Land and capitalized art and museum collections are not depreciated.

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources represent the consumption of resources that are applicable to a future reporting period, but do not require a further exchange of goods or services. Accumulated deferred charges on refundings of capital debt represent deferred outflows.

UNEARNED REVENUE

Unearned revenue is recorded for current cash receipts of student tuition and fees and certain auxiliary goods and services, which will be recorded as revenue in future periods. Also included are amounts received from contract and grant sponsors that have not yet been earned.

COMPENSATED ABSENCES

Liabilities for compensated absences are recorded for vacation leave based on actual earned amounts for eligible employees who qualify for termination payments. Liabilities for sick leave are recorded for employees who are eligible for and have earned termination payments for accumulated sick days upon termination or retirement.

NET POSITION

The university's net position is classified for financial reporting in the following categories:

- *Net investment in capital assets:* This component of net position includes capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction, or improvement of those assets.
- *Restricted—nonexpendable:* Assets included in the nonexpendable restricted net position category are subject to externally imposed stipulations that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income, which may be either expended or added to principal. Such assets include permanent endowment funds.

- *Restricted—expendable:* Resources classified as restricted and expendable are those for which the university is legally obligated to spend in accordance with externally imposed stipulations, or those stipulations that expire with the passage of time.
- *Unrestricted:* Unrestricted resources are not subject to externally imposed restrictions and are primarily used for meeting expenses for academic and general operations of the university.

When an expense is incurred for which both restricted and unrestricted resources are available, the university's policy is to apply the most appropriate fund source based on the relevant facts and circumstances.

REVENUES

University revenues are classified as either operating or nonoperating as follows:

- *Operating revenues:* Operating revenues result from exchange transactions, such as student tuition and fees (net of scholarship discounts and allowances), government and other grants and contracts, and sales and services of auxiliary enterprises (net of scholarship discounts and allowances).
- *Nonoperating revenues:* Nonoperating revenues include those derived from nonexchange transactions such as gifts and certain federal and state grants. Nonoperating revenues include significant revenue sources that are relied upon for operations, such as state appropriations, federal Pell grants, and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fees and other student revenues are reported gross with the related scholarship discounts and allowances directly below in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are calculated as the difference between the stated charges for goods and services provided by the university and the amounts paid by students and/or third parties making payments on behalf of students.

NEW ACCOUNTING PRONOUNCEMENTS

Change in accounting policy: Effective with the fiscal year ended June 30, 2014, the university adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard provides guidance on the financial statement classification of certain items previously reported as assets and liabilities. In accordance with the standard, the university has reclassified deferred charges on refundings of capital debt as deferred outflows of resources (previously classified as liabilities) for fiscal years ended June 30, 2013, and June 30, 2014. The presentation of the Statement of Net Position has been modified accordingly for both years presented.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year statements and certain notes to conform to new reporting standards as described above, and do not constitute a restatement of prior periods.

Note 2—Deposits and Investments

DEPOSITS

The combined bank balances of the university's demand deposits were $71,868,000 and $67,819,000 at June 30, 2014 and 2013, respectively. The university had balances in excess of Federal Deposit Insurance Corporation limits in the amount of $71,617,000 and $67,547,000 at June 30, 2014 and 2013, respectively. The balance in excess of FDIC limits is subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk, however the university monitors the credit rating and certain financial performance metrics of its custodial and commercial banks on a quarterly basis.

INVESTMENTS

The trustees have acknowledged responsibility as a fiduciary body for the invested assets of the university. Indiana Code 30-4-3-3 requires the trustees to "exercise the judgment and care required by Indiana Code 30-4-3.5," the *Indiana Uniform Prudent Investor Act.* That act requires the trustees to act "as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution." The trustees have the responsibility to assure the assets are prudently invested in a manner consistent with the university's investment policy. The trustees have delegated the day-to-day responsibilities for overseeing the investment program to the Office of the Treasurer.

At June 30, 2014 and 2013, the university had investments and deposits, including endowment funds, as shown below:

(dollar amounts presented in thousands)

	Fair Value	
	June 30, 2014	*June 30, 2013*
Cash and cash equivalents	$ 313,954	$ 335,269
Short term investments	58,720	107,063
Investments	1,659,726	1,491,524
Total	**$ 2,032,400**	**$ 1,933,856**

Investment Custodial Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university manages custodial credit risk through the types of investments that are allowed by investment policy. The university also monitors the credit rating and certain financial performance metrics of its custodial and commercial banks. The university had $1,961,000 and $1,519,000 exposed to custodial credit risk at June 30, 2014 and 2013, respectively. The university had $16,782,000 and $20,428,000 where custodial credit risk could not be determined at June 30, 2014 and 2013, respectively. The remainder of the university's investments are not exposed to custodial credit risk and reflect either investment securities registered in the name of the university, investment securities loaned for collateral received, or other types of investments not exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The university's policy for controlling its exposure to fair value losses arising from increasing interest rates is to constrain average portfolio duration within ranges of a target portfolio duration set for each portfolio of operating fund investments. The portfolios may seek to enhance returns by attempting to time movements of interest rates within the allowable ranges.

The university had investments with the following maturities at June 30, 2014:

(dollar amounts presented in thousands)

	Fair Value	*Investment Maturities (in years)*			
Investment Type	*June 30, 2014*	*Less than 1*	*1–5*	*6–10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 509,509	$ 47,419	$ 311,002	$ 102,040	$ 49,048
Asset-backed securities	369,385	280	125,007	38,319	205,779
Government bonds	324,760	16,954	134,090	130,071	43,645
Government issued asset-backed securities	113,516	1	5,945	14,866	92,704
Other fixed income	44,020	(6,392)	27,982	15,662	6,768
Total investments with maturity date	**1,361,190**	**58,262**	**604,026**	**300,958**	**397,944**
Investments with undetermined maturity date					
External investment pools	251,018	251,018	–	–	–
Money market funds	234,676	234,676	–	–	–
Fixed income funds	100,244	100,244	–	–	–
All other	85,272	85,272	–	–	–
Total investments with undetermined maturity date	**671,210**	**671,210**	**–**	**–**	**–**
Total	**$ 2,032,400**	**$ 729,472**	**$ 604,026**	**$ 300,958**	**$ 397,944**

The university had investments with the following maturities at June 30, 2013:

(dollar amounts presented in thousands)

	Fair Value	*Investment Maturities (in years)*			
Investment Type	*June 30, 2013*	*Less than 1*	*1–5*	*6–10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 505,798	$ 64,020	$ 273,807	$ 117,958	$ 50,013
Asset-backed securities	278,753	1,453	90,299	35,197	151,804
Government bonds	273,502	45,828	61,143	104,925	61,606
Government issued asset-backed securities	185,896	57,904	3,227	13,697	111,068
Other fixed income	85,834	44,988	17,322	13,264	10,260
Total investments with maturity date	**1,329,783**	**214,193**	**445,798**	**285,041**	**384,751**
Investments with undetermined maturity date					
Money market funds	350,906	350,906	–	–	–
External investment pools	212,546	212,546	–	–	–
Fixed income funds	99,019	99,019	–	–	–
All other	(58,398)	(58,398)	–	–	–
Total investments with undetermined maturity date	**604,073**	**604,073**	**–**	**–**	**–**
Total	**$ 1,933,856**	**$ 818,266**	**$ 445,798**	**$ 285,041**	**$ 384,751**

Certain reclassifications have been made to the prior year for comparative purposes and do not constitute a restatement of prior periods.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The weighted average credit quality of each portfolio of university operating funds investments must be at least 'AA-/Aa3' for Defensive Managers; 'A/A2' for Core Plus Managers, or as specified in each manager's guidelines.

At June 30, 2014 and 2013, university investments had debt securities with associated credit ratings as shown below:

(dollar amounts presented in thousands)

Credit Quality Rating	*Fair Value June 30, 2014*	*Percentage of Total Pool*	*Fair Value June 30, 2013*	*Percentage of Total Pool*
AAA	$ 269,118	13.24%	$ 296,587	15.34%
AA	460,409	22.65%	522,507	27.02%
A	191,327	9.42%	174,998	9.05%
BBB	265,082	13.04%	219,757	11.36%
BB	91,120	4.48%	99,318	5.14%
Below BB	94,741	4.66%	75,378	3.90%
Not Rated	660,603	32.51%	545,311	28.19%
Total	**$ 2,032,400**	**100.00%**	**$ 1,933,856**	**100.00%**

Certain reclassifications have been made to the prior year for comparative purposes and do not constitute a restatement of prior periods.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The university's investment policy requires that investments are to be diversified to the extent that the securities of any single issuer shall be limited to 3.5% of the market value in a particular manager's portfolio. U.S. Government and U.S. governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a government's investments and deposits. The university's policy for controlling exposure to foreign currency risk is to constrain investments in non-U.S. dollar denominated debt to 25% of an individual manager's portfolio, or as specified in each manager's guidelines. Minimal foreign currency exposure could occur if one of the university's investment managers purchases non-U.S. dollar holdings and does not hedge the currency.

At June 30, 2014 and 2013, the university had investments exposed to foreign currency risk stated in U.S. dollar equivalents as shown below:

(dollar amounts presented in thousands)

Currency	*2014*	*2013*
Mexican peso	$11,686	$13,018
Brazilian real	7,350	514
South Korean won	4,322	–
Australian dollar	2,500	(1,064)
All other	(16,918)	(4,169)
Total	**$ 8,940**	**$ 8,299**

The negative values are a result of investments in foreign currency derivatives which have a negative market value and from large pending foreign exchange sales.

ENDOWMENTS

Endowment funds are managed pursuant to an Investment Agency Agreement between the Trustees of Indiana University (trustees) and the IU Foundation, which delegates investment management responsibilities to the IU Foundation. Indiana Code 30-2-12, *Uniform Management of Institutional Funds,* sets forth the provisions governing the investment of endowment assets and the expenditure of endowment fund appreciation. The code requires that the trustees and their agents act in good faith and with the care a prudent person acting in a like position would use under similar circumstances, with respect to the investment of endowment assets. The code also sets forth provisions governing the expenditure of endowment fund appreciation, under which the trustees may authorize expenditure, consistent with donor intent. The trustees may, at their discretion, direct all or a portion of the university's endowment funds to other investments, exclusive of the IU Foundation's investment funds. The spending policy of the trustees is to distribute 4.75% of the twelve quarter rolling average of pooled fund values. This rate will be reduced evenly over the next three years resulting in a 4.5% distribution rate in fiscal year 2016-2017. Funds held by endowments managed by the IU Foundation are used to acquire pooled shares.

Endowment funds have a perpetual investment horizon and, as appropriate, may be invested in asset classes with longer term risk/return characteristics, including, but not limited to stocks, bonds, real estate, private placements, and alternative investments. The Indiana University Endowments (endowments) are managed pursuant to an Investment Agency Agreement between the trustees and the IU Foundation dated November 14, 2005, which delegated investment management responsibilities to the IU Foundation, subject to the university's management agreement with the IU Foundation. Endowment assets may be invested in pooled funds or in direct investments, or a combination of the two. Assets will typically be diversified among high quality stocks and bonds. Additional asset classes, such as absolute return, private equity, and real asset investments, may be included when it is reasonable to expect these investments will either increase return or reduce risk, or both. Participation in the pooled investments is achieved by owning units of the Pooled Long-Term Fund and considered an external investment pool to the university. At June 30, 2014, all endowments held with the IU Foundation were invested in pooled funds. The Pooled Long-Term portfolio is diversified based on manager selection, investment style, and asset type to avoid any disproportionate risk related to any one industry or security.

Pooled Short Term Fund (PSTF)

Spending policy distributions from the Endowment funds are held in the PSTF until utilized by the university. The IU Foundation's PSTF Investment Policy Statement governs investment of PSTF assets. Objectives of the PSTF include providing for the preservation of capital for account holders and maintenance of adequate liquidity to meet spending requirements.

The PSTF investments are managed to address appropriate diversification, specifically to mitigate interest rate risk and protect the fund against a concentration of credit risk. The IU Foundation's PSTF policy limits commercial paper, Certificates of Deposit, Bankers' Acceptances, and Repurchase Agreements to $10,000,000 per issuer and money market funds and short term bond funds to $50,000,000 per fund, with the exception of U.S. Treasuries and Agencies, or accounts collateralized by Treasuries or Agencies.

Note 3—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2014 and 2013:

(dollar amounts presented in thousands)

	June 30, 2014	June 30, 2013
Student accounts	$ 43,378	$ 37,174
Auxiliary enterprises and other operating activities	64,357	74,958
State appropriations	–	–
Federal, state, and other grants and contracts	22,262	16,881
Capital appropriations and gifts	3,652	2,241
Other	8,843	10,103
Current accounts receivable, gross	**142,492**	**141,357**
Less allowance for uncollectible accounts	(10,577)	(8,868)
Current accounts receivable, net	**$ 131,915**	**$ 132,489**
Noncurrent accounts receivable	**$ –**	**$ 10,634**

Note 4—Capital Assets

Fiscal year ended June 30, 2014

(dollar amounts presented in thousands)

	Balance June 30, 2013	Additions	Transfers	Retirements	Balance June 30, 2014
Assets not being depreciated:					
Land	$ 65,979	$ 2,362	$ –	$ –	$ 68,341
Art & museum objects	79,636	539	–	–	80,175
Construction in progress	209,355	50,700	(172,878)	71	87,106
Total capital assets not being depreciated	354,970	53,601	(172,878)	71	235,622
Other capital assets:					
Infrastructure	172,758	7,999	4,097	–	184,854
Intangibles	10,334	159	1,098	–	11,591
Land improvements	48,416	5,023	3,757	–	57,196
Equipment	427,188	20,817	3,959	16,417	435,547
Library books	222,143	15,548	–	19,891	217,800
Buildings	3,389,420	83,561	159,967	8,181	3,624,767
Total other capital assets	4,270,259	133,107	172,878	44,489	4,531,755
Less accumulated depreciation for:					
Infrastructure	133,327	3,320	–	–	136,647
Intangibles	2,318	2,051	–	–	4,369
Land improvements	15,577	2,838	–	–	18,415
Equipment	298,934	33,572	–	14,926	317,580
Library books	111,696	21,996	–	19,891	113,801
Buildings	1,367,875	81,381	–	2,586	1,446,670
Total accumulated depreciation, other capital assets	1,929,727	145,158	–	37,403	2,037,482
Capital assets, net	**$ 2,695,502**	**$ 41,550**	**$ –**	**$ 7,157**	**$ 2,729,895**

Fiscal year ended June 30, 2013

(dollar amounts presented in thousands)

	Balance June 30, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
Assets not being depreciated:					
Land	$ 57,085	$ 8,894	$ –	$ –	$ 65,979
Art & museum objects	79,342	313	–	19	79,636
Construction in progress	146,311	148,105	(85,072)	(11)	209,355
Total capital assets not being depreciated	282,738	157,312	(85,072)	8	354,970
Other capital assets:					
Infrastructure	164,285	4,914	3,559	–	172,758
Intangibles	2,690	948	6,696	–	10,334
Land improvements	37,530	8,068	2,818	–	48,416
Equipment	408,724	37,352	4,246	23,134	427,188
Library books	223,935	17,059	–	18,851	222,143
Buildings	3,243,814	82,467	67,753	4,614	3,389,420
Total other capital assets	4,080,978	150,808	85,072	46,599	4,270,259
Less accumulated depreciation for:					
Infrastructure	130,042	3,285	–	–	133,327
Intangibles	1,009	1,309	–	–	2,318
Land improvements	13,238	2,339	–	–	15,577
Equipment	287,912	32,735	–	21,713	298,934
Library books	106,910	23,638	–	18,852	111,696
Buildings	1,291,243	77,460	–	828	1,367,875
Total accumulated depreciation, other capital assets	1,830,354	140,766	–	41,393	1,929,727
Capital assets, net	**$ 2,533,362**	**$ 167,354**	**$ –**	**$ 5,214**	**$ 2,695,502**

Note 5—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2014 and 2013:

(dollar amounts presented in thousands)

	June 30, 2014	June 30, 2013
Accrued payroll	$ 24,984	$ 21,876
Accrual for compensated absences	47,705	41,536
Interest payable	11,913	12,937
Vendor and other payables	134,009	134,029
Total accounts payable and accrued liabilities	**$ 218,611**	**$ 210,378**

Note 6—Other Liabilities

Other liability activity for the fiscal years ended June 30, 2014 and 2013 is summarized as follows:

Fiscal year ended June 30, 2014

(dollar amounts presented in thousands)

	Balance June 30, 2013	*Additions*	*Reductions*	*Balance June 30, 2014*	*Current*
Bonds, notes, and capital leases payable	$ 986,083	$ 47,153	$ 85,717	$ 947,519	$ 65,234
Other liabilities:					
Unearned revenue	182,029	–	34,909	147,120	108,051
Assets held in custody for others	77,201	1,026	–	78,227	517
Compensated absences	67,316	17,131	18,023	66,424	47,705
Other	36,134	5,160	2,419	38,875	–
Total	362,680	23,317	55,351	330,646	156,273
Total other liabilities	**$1,348,763**	**$ 70,470**	**$ 141,068**	**$ 1,278,165**	**$ 221,507**

Fiscal year ended June 30, 2013

(dollar amounts presented in thousands)

	Balance June 30, 2012	*Additions*	*Reductions*	*Balance June 30, 2013*	*Current*
Bonds, notes, and capital leases payable	$ 993,992	$ 51,992	$ 59,901	$ 986,083	$ 62,394
Other liabilities:					
Unearned revenue	213,015	–	30,986	182,029	145,074
Assets held in custody for others	76,784	417	–	77,201	524
Compensated absences	64,142	20,986	17,812	67,316	41,537
Other	36,053	3,442	3,361	36,134	–
Total	389,994	24,845	52,159	362,680	187,135
Total other liabilities	**$ 1,383,986**	**$ 76,837**	**$ 112,060**	**$ 1,348,763**	**$ 249,529**

Certain reclassifications have been made to the prior year for comparative purposes and do not constitute a restatement of prior periods.

Note 7 — Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds, notes, and other forms of indebtedness for the purpose of financing construction of facilities that include academic and administrative facilities, research facilities on the Bloomington and Indianapolis campuses, athletic facilities, parking facilities, student housing, student union buildings, and energy savings projects. At June 30, 2014 and 2013, the university had serial bonds, term bonds, and capital appreciation bonds outstanding with maturities that extend to June 1, 2038. The university has both tax-exempt and taxable bonds outstanding.

The total outstanding bonds and notes payable at June 30, 2014 and 2013, were $945,806,000 and $983,731,000, respectively. This indebtedness included principal outstanding at June 30, 2014 and 2013, for bonds issued under Indiana Code (IC) 21-34-6 (Student Fee debt) of $414,690,000 and $448,520,000, respectively, and for bonds issued under IC 21-35-3 (Revenue debt) of $391,820,000 and $410,895,000, respectively. Total bonds and notes payable at June 30, 2014 and 2013, include an additional accreted value of outstanding Student Fee bonds issued as capital appreciation bonds of $10,435,000 and $13,936,000, respectively. The calculation of total bonds and notes payable at June 30, 2014 and 2013, includes the addition of bond premium outstanding of $56,936,000 and $60,476,000, respectively. As of June 30, 2014, debt service payments to maturity total $1,269,602,000, of which $460,404,000 is from bonds eligible for fee replacement appropriations.

On a biennial basis, the Indiana General Assembly authorizes a specific state appropriation to the university for the purpose of reimbursing a portion of the debt service payments on bonds issued under IC 21-34-6 for certain academic facilities. Such academic facilities include classrooms, libraries, laboratories, and other academic support facilities as designated by the Indiana General Assembly. These specific state appropriations are referred to as "fee replacement" appropriations, and are received from the State of Indiana on a semi-annual basis. This appropriation is renewed and supplemented on a biennial basis because state statutes prohibit a sitting General Assembly from binding subsequent General Assemblies with respect to future appropriation of funds. The State of Indiana has fully funded all fee replacement obligations established by prior General Assemblies since the State began authorizing fee replacement appropriations over 40 years ago. The outstanding principal balances which are eligible for fee replacement appropriations, as of June 30, 2014 and 2013, are $356,993,000 and $386,207,000, respectively.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CABs). A CAB is a long-term municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity. At maturity, the investor receives both the initial principal amount and the total investment return. CABs typically are sold at a deeply discounted price and are distinct from traditional zero coupon bonds because the investment return is considered to be in the form of compounded interest rather than accreted original issue discount. Total debt service payments to maturity, as of June 30, 2014 and 2013, include CAB payments of $15,925,000 and $22,305,000, respectively, of which $900,000 and $3,525,000 are eligible for fee replacement appropriations, respectively.

Consolidated Revenue Bonds are unsecured obligations of the university that carry a promise of repayment that will come first from net income generated from certain designated housing facilities, parking facilities, and other auxiliary facilities along with certain research revenues and athletic revenues, and secondly, from other legally available funds of the university.

The Indiana University Building Corporation (IUBC) is an affiliated single-purpose Indiana not-for-profit corporation that was formed by the Trustees of Indiana University in 2008. The sole purpose of this entity is to assist the university in the financing and development of university facilities by owning and leasing such facilities to the university on a lease purchase basis. Lease purchase obligations (LPOs) or Certificates of Participation (COPs), collectively "Obligations", in lease payments between the university as lessee and IUBC as lessor are included in the outstanding indebtedness table under IC 21-33-3-5 and are classified as notes payable. Under the terms of the most recent applicable indenture, the university intends to issue this type of debt as LPOs and securities issued as COPs under all prior supplemental indentures will be on parity with, and refundable by LPOs. The credit and legal structure of the LPOs is identical to that of the COPs previously issued under prior applicable indentures.

(dollar amounts presented in thousands)

Bonding Authority	*Interest Rates*	*Final Maturity Year Ended*	*Principal Outstanding At June 30, 2014*	*Principal Outstanding At June 30, 2013*
Indiana Code 21-34-6 (Bonds: Student Fee Bonds)	0.56 to 6.40%	2033	$ 414,690	$ 448,520
Indiana Code 21-35-3 (Bonds: Consolidated Revenue Bonds)	2.00 to 5.64%	2038	391,820	410,895
Indiana Code 21-33-3-5 (Notes: Obligations - Lease Purchase Obligations and Certificates of Participation)	2.00 to 5.95%	2037	82,360	63,840
Subtotal bonds and notes payable			888,870	923,255
Add unamortized bond premium			56,936	60,476
Total bonds and notes payable			**$ 945,806**	**$ 983,731**

Certain reclassifications have been made to the prior year for comparative purposes and do not constitute a restatement of prior periods.

As of June 30, 2014, the university does not have any variable rate bonds, notes, or commercial paper outstanding. The principal and interest requirements to maturity for bonds and notes payable are as follows:

(dollar amounts presented in thousands)

Fiscal Year Ended June 30	*Bond Principal*	*Note Principal*	*Total Principal*	*Bond Interest*	*Note Interest*	*Total Interest*	*Total Debt Service Payments*
2015	$ 56,304	$ 2,800	$ 59,104	$ 39,377	$ 3,493	$ 42,870	$ 101,974
2016	56,216	3,535	59,751	37,157	3,417	40,574	100,325
2017	58,564	3,640	62,204	34,932	3,307	38,239	100,443
2018	60,261	3,745	64,006	32,529	3,172	35,701	99,707
2019	54,955	3,885	58,840	26,859	3,022	29,881	88,721
2020-2024	232,610	20,540	253,150	101,285	12,554	113,839	366,989
2025-2029	188,025	22,365	210,390	50,833	7,562	58,395	268,785
2030-2034	76,005	17,790	93,795	15,777	2,812	18,589	112,384
2035-2038	23,570	4,060	27,630	2,425	219	2,644	30,274
Total	**$ 806,510**	**$ 82,360**	**$ 888,870**	**$ 341,174**	**$ 39,558**	**$ 380,732**	**$1,269,602**

Bond and note interest shown above are reported gross of (before) any federal interest subsidy scheduled to be received on taxable Build America Bonds.

In prior years, the university has defeased several bond issues either with cash or by issuing new debt. United States Treasury obligations or federal agency securities have been purchased in amounts sufficient to pay principal and interest payments when due, through the maturity or call dates of the defeased bonds. These securities have been deposited in irrevocable trusts as required to defease the bonds. The defeased bonds and the related trusts balances are not reflected on the university's books.

As of June 30, 2014, the previously defeased bonds held in escrow have the following amounts of principal outstanding:

(dollar amounts presented in thousands)

Defeased Bonds (Refunded)	*Principal Outstanding*	*Call Date*
Student Fee Bonds, Series P	$ 71,215	8/1/2014
Student Fee Bonds, Series Q	20,270	8/1/2016
Student Fee Bonds, Series R	15,780	8/1/2016
Facility Revenue Bonds, Series 2004	9,705	11/15/2014
Student Residence System Bonds, Series 2004B	16,400	11/1/2014
Total Defeased Bonds	**$ 133,370**	

In February 2009, the United States Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA allowed certain tax advantages to state and local governmental entities when such entities issued qualifying taxable obligations, referred to as Build America Bonds (BABs). While the BAB provisions in ARRA expired as of January 1, 2011, the obligation of the U.S. Treasury to make subsidy payments on BABs will remain in effect through the final maturity date of BABs. Although issuers of BABs were eligible to receive subsidy payments from the U.S. Treasury equal to 35 percent of the corresponding interest payable on the related BABs, subsidies that paid after February 28, 2013, were cut initially by 8.7% and then 7.2% due to the federal sequestration. Total federal interest subsidies that were originally scheduled to be received over the life of the BABs debt outstanding as of June 30, 2014, were $29,714,000. However, through June 30, 2014, BABs subsidies for Student Fee Bonds, Series T-2; Consolidated Revenue Bonds, Series 2010B; and Certificates of Participation, Series 2009B were reduced by $270,000. Subsequent to the financial reporting date, the BABs subsidy for Student Fee Bonds, Series T-2 was reduced by $35,000. BABs subsidies paid between October 1, 2014, and September 30, 2015, are scheduled to be reduced by 7.3% due to the federal sequestration. For fiscal year ending June 30, 2015, the total expected subsidy reductions due to the sequestration is $192,000, which is subject to changes enacted by Congress at subsequent dates.

On February 13, 2014, the university issued natural fixed rate Lease Purchase Obligations, Series 2014A with a par amount of $21,045,000. The proceeds financed the construction of University Hall on the IUPUI campus and costs to issue the bonds, including underwriters' discount. The true interest cost for the Obligations was 3.79%.

Note 8—Lease Obligations

The university has acquired equipment under various lease-purchase contracts and other capital lease agreements. The cost of equipment held under capital leases totaled $3,791,000 and $6,957,000 as of June 30, 2014 and 2013. Accumulated amortization of leased equipment totaled $1,699,000 and $3,913,000 at June 30, 2014 and 2013, respectively.

The university leases certain facilities. The majority of the facility leases include renewal options and some provide for escalation of rent based on changes in operating costs.

Scheduled lease payments for the years ending June 30 are as follows:

(dollar amounts presented in thousands)

	Capital	*Operating*
2015	$ 846	$ 13,968
2016	560	8,664
2017	279	5,648
2018	103	4,045
2019	28	3,615
2020-2024	–	11,839
2025-2029	–	1,018
Total future minimum payments	1,816	**$ 48,797**
Less: interest	(103)	
Total principal payments outstanding	**$ 1,713**	

Note 9—Federal Obligations Under Student Loan Programs

Campus based student loans are funded by new allocations received from the federal government, as well as principal and interest collected from previous student loan recipients. The federal government advanced $396,000 and $144,000 for health professions and nursing loan programs for fiscal years ended June 30, 2014 and 2013, respectively.

Liabilities at June 30, 2014 and 2013, for loan programs were as follows:

(dollar amounts presented in thousands)

	June 30, 2014	*June 30, 2013*
Current portion of assets held in custody for others	$ 517	$ 524
Noncurrent liabilities:		
Federal share of interest	43,177	41,740
Perkins loans	16,712	17,028
Health professions loans	15,834	15,938
Nursing loans	1,987	1,971
Total noncurrent portion of assets held in custody for others	77,710	76,677
Total assets held in custody for others	**$ 78,227**	**$ 77,201**

Note 10—Risk Management

The university is exposed to various risks of loss, including torts, theft, damage or destruction of assets, errors or omissions, job-related illnesses or injuries to employees, and health care claims on behalf of students, employees, and their dependents. The university manages these risks through a combination of risk retention and commercial insurance, including coverage from internally maintained funds as well as from a wholly-owned captive insurance company, Old Crescent Insurance Company (OCIC). The university is self-funded for damage to buildings and building contents for the first $100,000 per occurrence with an additional $400,000 per occurrence covered by OCIC, with commercial excess property coverage above this amount. The university is self-funded for comprehensive general liability and automobile liability for the first $100,000 per occurrence with an additional $900,000 per occurrence covered by OCIC and with supplementary commercial liability umbrella policies. The university has a malpractice and professional liability policy in the amount of $250,000 for each claim and $750,000 annually in aggregate provided by OCIC. The university is self-funded for the first $850,000 for each Workers' Compensation claim and $125,000 in the aggregate for all claims in excess of $850,000 for each claim. Workers' Compensation claims above these amounts are covered by commercial insurance and are subject to statutory limits. The university is self-funded for the first $850,000 for employer liability claims with additional $1,000,000 coverage through commercial insurances.

The university has four health care plans for full-time appointed employees, one of which is also available to retirees not eligible for Medicare. All of the employee plans are self-funded. The university records a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans. This liability is estimated to be no more than 15% of the paid self-funded claims during the fiscal year, and totals $25,969,000 and $25,133,000 at June 30, 2014 and 2013, respectively. In addition, a potential claims fluctuation liability of $9,876,000 has been recorded at June 30, 2014 and 2013.

Separate funds have been established to account for the liability of incurred but unpaid health care claims, as well as any unusual catastrophic claims fluctuation experience. All organizational units of the university are charged fees based on estimates of the amounts necessary to pay health care coverage costs, including premiums and claims.

The university also provides health care plans for international students, graduate assistants, fellowship recipients, and medical residents. These plans consist of fully insured and self-funded plans, along with a stop/loss provision. The university has recorded a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans in the amount of $2,614,000 at June 30, 2014. Funding for the medical residents plan is provided by direct charge to the School of Medicine and the other plans are funded by direct charges to the associated schools and/or departments.

Note 11—Retirement Plans

The university provided retirement plan coverage to 18,691 and 18,494 active employees, as of June 30, 2014 and 2013, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

Retirement and Savings Plan

All Support and Service employees with at least a 50% full-time equivalent (FTE) appointment and Temporary with Retirement employees scheduled to work at least 1,000 hours or more in a calendar year hired on or after July 1, 2013, participate in the Retirement and Savings Plan. This is a defined contribution plan under IRC 401(a) with two distinct contribution provisions. The university contributed $621,000 during fiscal year ended June 30, 2014, to TIAA-CREF for the plan. The university contributed $132,000 during fiscal year ended June 30, 2014, to Fidelity Investments for the plan. Under this plan, 719 employees directed university contributions to TIAA-CREF as of June 30, 2014. In addition, 130 directed university contributions to Fidelity Investments as of June 30, 2014.

TIAA-CREF issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Teachers Insurance and Annuity Association/College Retirement Equities Fund, 8500 Andrew Carnegie Blvd, Charlotte, NC 28262, by calling 1-800-842-2252, or by reviewing the annual report online at www.tiaa-cref.org/public/about/governance/corporate/annual-reports.

Fidelity Investments issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing Fidelity Investments, 82 Devonshire Street, Boston, MA 02109, or by calling 1-800-343-0860.

Indiana Public Employee's Retirement Fund

The university contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. Indiana Public Retirement System (INPRS) administers the multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. Support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment hired prior to July 1, 2013, participate in the PERF plan. There were 5,238 and 6,267 active university employees covered by this retirement plan as of June 30, 2014 and 2013, respectively. State statutes authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. The annuity savings account consists of contributions set by state statute at three percent of compensation plus the earnings credited to members' accounts. The university has elected to make the contributions on behalf of the members. 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. This report may be obtained by writing the Public Employees Retirement Fund, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 1-888-526-1687, or by reviewing the Annual Report online at www.in.gov/inprs/annualreports.htm.

Contributions made by the university totaled $28,077,000 and $25,785,000 for fiscal years ended June 30, 2014 and 2013, respectively. This represented a 11.2% and 9.7% university pension benefit contribution for fiscal years ended June 30, 2014 and 2013, respectively, and a 3% university contribution for the annuity savings account provisions each year.

PERF Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The university's annual pension cost and related information, as provided by the actuary, is presented below.

The employer contributions required by the funding policy at actuarial determined rates are sufficient to fund the pension benefits when they become due. The amortization method and period are level dollar closed over 30 years. The actuarial cost method is entry age normal cost. The employer required contribution is determined using an asset smoothing method. The actuarial valuation date is June 30, 2013.

Actuarial assumptions include: (a) an investment rate of return of 6.75%, (b) projected salary increases of 3.25%-4.5%, and (c) a 1% cost of living increase granted in each future year, applying to current and future retirees.

(dollar amounts presented in thousands)

	Fiscal Year Ended	
	June 30, 2013[1]	*June 30, 2012*
Annual required contribution	$ 19,567	$ 22,735
Interest on net pension obligation	571	246
Adjustment to annual required contribution	(665)	(284)
Annual pension cost	19,473	22,697
Contributions made	(19,896)	(17,757)
Increase/(decrease) in net pension obligation	(423)	4,940
Net pension obligation, beginning of year	8,462	3,522
Net pension obligation, end of year	**$ 8,039**	**$ 8,462**

[1]*Actuarial data for 2014 was not available at the time of this report.*

(dollar amounts presented in thousands)

Fiscal Year Ended	*Annual Pension Cost (APC)*[2]	*Percentage of APC Net Pension Contributed*	*Net Pension Obligation*
June 30, 2011	$ 21,893	68%	$ 3,522
June 30, 2012	22,697	78%	8,462
June 30, 2013	19,473	102%	8,039

[2]*Does not reflect costs attributable to the university's 3% defined contribution benefit. See Indiana Public Employees' Retirement Fund above.*

Academic and Professional Staff Employees

Appointed academic and professional staff employees with at least 50% FTE are covered by the IU Retirement Plan. This is a defined contribution plan under IRC 403(b) with four contribution levels. The university contributed $60,129,000 during fiscal year ended June 30, 2014, and $61,118,000 during fiscal year ended June 30, 2013, to TIAA-CREF for the IU Retirement Plan. The university contributed $31,042,000 during fiscal year ended June 30, 2014, and $28,669,000, during fiscal year ended June 30, 2013, to Fidelity Investments for the IU Retirement Plan. Under this plan, 7,569 and 7,743 employees directed university contributions to TIAA-CREF as of June 30, 2014 and 2013, respectively. In addition, 5,791 and 5,185 employees directed university contributions to Fidelity Investments as of June 30, 2014 and 2013, respectively.

In addition to the above, the university provides early retirement benefits to full-time appointed academic and professional staff employees who were in positions Grade 16 and above on or before June 30, 1999. There were 1,011 and 1,057 active employees on June 30, 2014 and 2013, respectively, covered by the IU Supplemental Early Retirement Plan (IUSERP), a defined contribution plan in compliance with IRC 401(a), with participant accounts at TIAA-CREF and Fidelity Investments. The university contributed $2,045,000 and $2,553,000 to IUSERP during fiscal years ended June 30, 2014 and 2013, respectively. The same class of employees covered by the IU Retirement Plan 15% Level of Contributions on or before July 14, 1988, is covered by the IU 18/20 Retirement Plan, a combination of IRC Section 457(f) and Section 403(b) provisions. The IU 18/20 Retirement Plan allows this group of employees to retire as early as age 64, provided the individual has at least 18 years of participation in the IU Retirement Plan and at least 20 years of continuous university service. During the fiscal year ended June 30, 2014, the university made total payments of $31,039,000 to 348 individuals receiving IU 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2013, the university made total payments of $32,027,000 to 361 individuals receiving IU 18/20 Retirement Plan payments.

TIAA-CREF issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Teachers Insurance and Annuity Association/College Retirement Equities Fund, 8500 Andrew Carnegie Blvd, Charlotte, NC 28262, by calling 1-800-842-2252, or by reviewing the annual report online at www.tiaa-cref.org/public/about/governance/corporate/annual-reports.

Fidelity Investments issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing Fidelity Investments, 82 Devonshire Street, Boston, MA 02109, or by calling 1-800-343-0860.

IU Replacement Retirement Plan Funding Policy and Annual Pension Cost

The university has established an early retirement plan for eligible employees to accommodate IRS requirements and as authorized by the Trustees of Indiana University. This plan is called the IU Replacement Retirement Plan. It is a single-employer plan and is qualified under IRC Section 401(a), with normal benefits payable for the participant's lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. As of June 30, 2014 and 2013, 87 and 95 employees, respectively, were eligible to participate. University contributions related to this plan totaled $1,130,000 and $1,611,000, for fiscal years ended June 30, 2014 and 2013, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution.

The following schedule shows the funding policy contributions for the fiscal years indicated for the IU Replacement Retirement Plan as provided by the actuarial valuation report prepared as of July 1, 2013, for the fiscal year ended June 30, 2014, prepared as of July 1, 2012, for the fiscal year ended June 30, 2013, and prepared as of July 1, 2011, for the fiscal year ended June 30, 2012:

(dollar amounts presented in thousands)

	Fiscal Year Ended		
	June 30, 2014	*June 30, 2013*	*June 30, 2012*
Cost of benefits earned during the year	$ 691	$ 796	$ 811
Amortization of unfunded actuarial accrued liabilities	370	716	664
Interest	69	98	96
Funding policy contribution	**$ 1,130**	**$ 1,610**	**$ 1,571**

The funded status of the IU Replacement Retirement Plan as provided by the actuarial valuation reports for fiscal years ended June 30, 2014, 2013, and 2012, are as follows:

(dollar amounts presented in thousands)

Actuarial Valuation Date	*July 1, 2013*	*July 1, 2012*	*July 1, 2011*
Actuarial accrued liability (AAL)	$ 21,438	$ 23,818	$ 23,034
Less actuarial valuation of plan assets	(16,896)	(14,838)	(14,558)
Unfunded actuarial liability	4,542	8,980	8,476
Actuarial value of assets as a percentage of AAL (funded ratio)	78.8%	62.3%	63.2%
Annual covered payroll	$ 8,411	$ 8,445	$ 8,679
Ratio of unfunded actuarial liability to annual covered payroll	54.0%	106.3%	97.7%

Actuarial assumptions include a 6.5% asset rate of return and future salary increases of 3% for the fiscal years ended June 30, 2014 and 2013. Liabilities are based on the projected unit credit method. The actuarial value of assets is equal to the fair market value on the valuation date adjusted for employer contributions receivable. Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of future events including future employment and mortality, and are based on the substantive plan provisions.

Additional multiyear trend information regarding the funding progress of the IU Replacement Retirement Plan is provided immediately following the notes to the financial statements.

TIAA-CREF issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Teachers Insurance and Annuity Association/College Retirement Equities Fund, 8500 Andrew Carnegie Blvd, Charlotte, NC 28262, by calling 1-800-842-2252, or by reviewing the annual report online at www.tiaa-cref.org/public/about/governance/corporate/annual-reports.

Note 12 – Postemployment Benefits

Plan Description

The university provides certain postemployment benefits for retired employees. The IU 18/20 Plan, Medical, and Life Insurance benefits are presented for financial statement purposes as a consolidated plan (the Plan) under the requirements for reporting Other Postemployment Benefit Plans (OPEB) required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Plan is a single-employer defined benefit plan administered by Indiana University. The 18/20 Plan provides interim benefits to full-time appointed academic and professional staff employees who meet the following eligibility requirements: 18 years of participation in the IU Retirement Plan 15% level, at least 20 years of continuous full-time university service, and at least 64 years of age. This group of employees is eligible to receive monthly payments based on a hypothetical monthly annuity amount at age 70, up to the amount of terminal base salary, calculated as the average budgeted base salary for the five 12-month periods immediately preceding retirement. The 18/20 Plan was adopted by the Trustees of Indiana University (trustees). The university provides medical care coverage to individuals with retiree status and their eligible dependents. The cost of the coverage is borne fully by the individual. However, retiree medical care coverage is implicitly more expensive than active-employee coverage, which creates an implicit rate subsidy. The university provides retiree life insurance benefits in the amount of $6,000 to terminated employees with retiree status. The health and life insurance plans have been established and may be amended under the authority of the trustees. The Plan does not issue a stand-alone financial report. Reflected in this note are benefits related to early retirement incentive plans, approved by executive management in fiscal years 2011 and 2014, which include five years of annual contributions to a health reimbursement account.

Funding Policy

The contribution requirements of plan members and the university are established and may be amended by the trustees. The university contribution to the 18/20 Plan and retiree life insurance is based on pay-as-you-go financing requirements. Plan members do not make contributions. The medical plans are self-funded and each plan's premiums are updated annually based on actual claims. Retirees receiving medical benefits paid $2,503,000 and $2,018,000 in premiums during the fiscal years ended June 30, 2014 and 2013, respectively. The university contributed $51,780,000 and $51,608,000 to the consolidated OPEB Plan in fiscal years ended June 30, 2014 and 2013, respectively.

Annual OPEB Cost and Net OPEB Obligation

The university's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of twenty-five years.

The following table shows the university's annual OPEB cost for the year, the amount actually contributed to the plan, and the university's net OPEB obligation as provided by the actuarial results for the fiscal years ended June 30, 2014 and 2013, respectively:

(dollar amounts presented in thousands)

	Fiscal Year Ended	
	June 30, 2014	*June 30, 2013*
Annual OPEB cost	$ 55,623	$ 54,714
Less employer contributions	(51,780)	(51,608)
Increase in OPEB obligation	3,843	3,106
Net OPEB obligation, beginning of year	25,864	22,758
Net OPEB obligation, end of year	**$ 29,707**	**$ 25,864**
Percentage of annual OPEB cost contributed	**93.09%**	**94.32%**

Funded Status and Funding Progress

The funding progress of the plan as of the most recent and preceding valuation date are as follows:

(dollar amounts presented in thousands)

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as Percentage of Covered Payroll ((b-a) / c)*
July 1, 2013	–	$ 364,137	$ 364,137	0.0%	$ 1,042,446	34.9%
July 1, 2012	–	390,227	390,227	0.0%	1,013,726	38.5%

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

Actuarial Methods and Assumptions

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

The projected unit credit cost method was used in the June 30, 2014, actuarial valuation. The actuarial assumptions include a 4.5% investment rate of return, which is a blended rate of (1) the expected long-term investment returns on plan assets and (2) the university's investments which is calculated based on the funded level of the Plan at June 30, 2014; and an annual healthcare cost trend rate that ranges from 9.0% in fiscal year 2015 to 5.0% in fiscal year 2023. The rate includes a 3% inflation assumption. The Unfunded Actuarial Accrued Liability is being amortized over 25 years using level dollar amounts on an open group basis.

Note 13—Termination Benefits

In fiscal year 2014, the university offered an Early Retirement Incentive Plan (ERIP).

The ERIP provided three benefits not normally provided to separating employees:
1. A lump sum income replacement payment
2. Five years of annual contributions to a health reimbursement account (HRA) account that reimburses employees, based on their current medical plan enrollment, for some healthcare expenses, such as premiums, deductibles, and copays
3. The option to continue in an IU-sponsored medical plan until age 65. Employees with IU Retiree Status could opt to participate in a post-65 Medicare supplement medical plan. The opting employees would need to pay their respective full premium amounts to receive this benefit.

Depending on the eligibility criteria of the participating employees, the early retirement became effective from one of two dates, as shown in the table below:

Retirement Date	Number of ERIP participants
December 31, 2013	108
May 31, 2014	212
Total	**320**

In fiscal year 2014, the university recognized the expense for the income replacement payments for all employees participating in the ERIP. The actuarial accrued liability associated with other post-employment benefits was increased by $6,134,000 for health reimbursement account contributions.

Note 14—Related Organization

The university is a major beneficiary of the Riley Children's Foundation, of which a majority of the board of directors is appointed by, or serve by virtue of position with, Indiana University. Riley Children's Foundation net assets were $349,556,000 and $313,697,000 at June 30, 2014 and 2013, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Note 15—Functional Expenses

The university's operating expenses by functional classification were as follows:

Fiscal year ended June 30, 2014

(dollar amounts presented in thousands)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 886,362	$ 905	$ 123,391	$ 13,443	$ –	$ 18,581	$ 1,042,682
Research	148,309	51	79,577	2,686	–	5,799	236,422
Public service	76,680	327	53,166	2,515	–	4,050	136,738
Academic support	290,806	50	82,879	3,079	–	8,222	385,036
Student services	69,026	13	29,282	1,723	–	2,262	102,306
Institutional support	92,446	70	32,401	50	–	1,436	126,403
Physical plant	93,482	72,204	62,864	4	–	320	228,874
Scholarships & fellowships	11,688	–	1,331	123,277	–	112	136,408
Auxiliary enterprises	181,633	3,741	99,732	5,755	–	8,058	298,919
Depreciation	–	–	–	–	145,158	–	145,158
Total operating expenses	**$ 1,850,432**	**$ 77,361**	**$ 564,623**	**$ 152,532**	**$ 145,158**	**$ 48,840**	**$ 2,838,946**

Fiscal year ended June 30, 2013

(dollar amounts presented in thousands)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 864,284	$ 979	$ 110,606	$ 13,864	$ –	$ 17,923	$ 1,007,656
Research	153,421	54	84,653	3,301	–	6,448	247,877
Public service	84,241	324	57,131	3,032	–	4,078	148,806
Academic support	256,391	42	59,769	4,380	–	6,889	327,471
Student services	73,116	10	24,342	1,189	–	2,050	100,707
Institutional support	81,339	626	36,364	1,006	–	1,985	121,320
Physical plant	79,566	64,697	66,018	4	–	166	210,451
Scholarships & fellowships	11,288	–	1,318	126,259	–	164	139,029
Auxiliary enterprises	178,327	3,772	81,612	6,205	–	7,542	277,458
Depreciation	–	–	–	–	140,766	–	140,766
Total operating expenses	**$ 1,781,973**	**$ 70,504**	**$ 521,813**	**$ 159,240**	**$ 140,766**	**$ 47,245**	**$ 2,721,541**

Note 16—Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more bonds are outstanding, with a revenue stream pledged in support of the debt. The primary source of repayment of these bonds is pledged net income from certain parking and housing operations, including campuses for which bonds are no longer outstanding. Facilities Revenue Bonds carry a pledge of net income from the Parking System. Student Residence System Bonds carry a pledge of net income from the Student Residence System. The university has Facilities Revenue Bonds and Student Residence System Bonds outstanding related to the following auxiliary enterprise activities:

- Parking operations on the IUPUI and South Bend campuses providing parking services to students, staff, faculty, and the general public.
- Housing operations on the IUPUI campus providing housing primarily to students.

Condensed financial statements for Parking and Housing Operations are as follows:

(dollar amounts presented in thousands)

Condensed Statement of Net Position	*Parking Operations*		*Housing Operations*	
	June 30, 2014	*June 30, 2013*	*June 30, 2014*	*June 30, 2013*
Assets				
Current assets	$ 32,086	$ 29,558	$ 100,352	$ 92,695
Capital assets, net	87,469	90,816	206,368	221,499
Total assets	**119,555**	**120,374**	**306,720**	**314,194**
Deferred outflows of resources	**679**	**773**	**1,777**	**2,013**
Liabilities				
Current liabilities	6,890	6,990	7,302	7,904
Noncurrent liabilities	48,205	53,722	102,866	108,278
Total liabilities	**55,095**	**60,712**	**110,168**	**116,182**
Net position				
Net investment in capital assets	34,754	32,841	100,337	110,544
Unrestricted	30,385	27,594	97,992	89,481
Total net position	**$ 65,139**	**$ 60,435**	**$ 198,329**	**$ 200,025**

Certain reclassifications have been made to the prior year for comparative purposes and do not constitute a restatement of prior periods.

(dollar amounts presented in thousands)

Condensed Statement of Revenues, Expenses, and Changes in Net Position	*Parking Operations*		*Housing Operations*	
	Fiscal Year Ended		*Fiscal Year Ended*	
	June 30, 2014	*June 30, 2013*	*June 30, 2014*	*June 30, 2013*
Operating revenues	$ 25,451	$ 25,326	$ 74,477	$ 73,702
Depreciation expense	(4,042)	(3,985)	(6,340)	(6,151)
Other operating expenses	(13,481)	(12,734)	(48,354)	(46,446)
Net operating income	**7,928**	**8,607**	**19,783**	**21,105**
Nonoperating revenues (expenses)				
Grants, contracts, and other revenues	176	182	1,086	1,119
Interest expense	(2,165)	(2,429)	(5,044)	(5,457)
Net nonoperating revenues (expenses)	**(1,989)**	**(2,247)**	**(3,958)**	**(4,338)**
Other revenues				
Capital gifts and grants	–	250	–	–
Net other revenues	**–**	**250**	**–**	**–**
Net transfers	**(1,235)**	**(544)**	**(17,521)**	**6,396**
Increase (decrease) in net position	**4,704**	**6,066**	**(1,696)**	**23,163**
Net position				
Net position, beginning of year	60,435	54,369	200,025	176,862
Net position, end of year	**$ 65,139**	**$ 60,435**	**$ 198,329**	**$ 200,025**

(dollar amounts presented in thousands)

Condensed Statement of Cash Flows	*Parking Operations*		*Housing Operations*	
	Fiscal Year Ended		*Fiscal Year Ended*	
	June 30, 2014	*June 30, 2013*	*June 30, 2014*	*June 30, 2013*
Operating activities	$ 12,818	$ 11,905	$ 26,240	$ 25,342
Noncapital financing activities	177	182	1,086	1,119
Capital and related financing activities	(10,187)	(10,009)	(19,559)	(16,081)
Net increase in cash	**2,808**	**2,078**	**7,767**	**10,380**
Beginning cash and cash equivalent balances	28,149	26,071	91,176	80,796
Ending cash and cash equivalent balances	**$ 30,957**	**$ 28,149**	**$ 98,943**	**$ 91,176**

Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $3,440,000 at June 30, 2014, with remaining terms of 5 months. Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $7,180,000 at June 30, 2013, with remaining terms of 1 year. Revenues of the activities are sufficient to meet the principal and interest requirements for the debt.

Note 17—Commitments and Loss Contingencies

The university had outstanding commitments for capital construction projects of $137,775,000 and $58,580,000 at June 30, 2014 and 2013, respectively.

Based on information available at the financial report date, it is reasonably possible that the university will be obligated to repay funds received under a sponsored award under which the university served as the "prime recipient." The amount of the repayment obligation is not known as of the financial report date. The current version of the sponsored award audit report, described by the audit firm as "final draft," indicates that the university will have an obligation of up to $31,000,000 in connection with questioned costs of subgrantees in an external audit. Final determination of the questioned costs, and therefore, the university's repayment obligation is not known as of the financial report date. The final amount may be reduced during audit resolution process which occurs once the sponsored award audit report is final. As of the financial report date, it is also not known to what extent IU's repayment will be reimbursed in whole or part by the subgrantees that incurred the questioned costs.

Note 18—Subsequent Event

On August 22, 2014, Indiana University Research and Technology Corporation and Indiana University Health announced the closure of the Indiana University Health Proton Therapy Center. At the same time, the university announced the closure of the IU Cyclotron. Both facilities will cease operations on December 5, 2014. The Cyclotron has approximately $15,500,000 of assets being used for operations. The university will participate in providing severance payments to eligible staff at both facilities. At the time of closure, the university anticipates additional costs will be incurred to decommission the facility. The university is currently assessing the impact of this closure.

INDIANA UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
IN THOUSANDS OF DOLLARS

1. ORGANIZATION AND OPERATIONS

The Indiana University Foundation, Inc. (Foundation) is a not-for-profit corporation organized under the laws of the State of Indiana. The corporate purposes of the Foundation are to raise, receive, hold, invest and administer property and to make expenditures to or for the benefit of Indiana University, including its regional campuses and associated entities (such as the Purdue University schools housed at the Indiana University-Purdue University Indianapolis campus, the Indiana University Building Corporation, Riley Children's Foundation, the Indiana University Research & Technology Corporation, Indiana University Health, the Indiana University Alumni Association, and certain medical practice plans), herein referred to as the "University."

The mission of the Foundation is to maximize private support for Indiana University by fostering lifelong relationships with key stakeholders and providing advancement leadership and fundraising services for campuses and units across the university.

The Foundation was originally incorporated in 1936 and is empowered to perform a wide range of services and conduct a variety of activities that support the University as it carries out its missions of teaching, research, and public service. The Foundation conducts general and special purpose fundraising programs, receives and acknowledges gifts for the benefit of the University, administers those gifts to ensure that they are used as specified by the donor, invests those gifts, serves as trustee for certain types of planned gift arrangements, and provides other services for the benefit of the University as requested from time to time.

4. INVESTMENTS

A summary of total investment income for the years ended June 30, 2014 and 2013 is as follows (dollar amounts presented in thousands):

	2014	2013
Dividend, interest and other investment income	$ 8,772	$ 9,767
Net realized and unrealized gains (losses) on investments	255,266	155,663
Outside investment management fees	(4,778)	(5,520)
Total investment income, including net gains (losses) — net of outside investment management fees	$ 259,260	$ 159,910

The Foundation’s investments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. The following tables present information about the Foundation’s investments by security type measured at fair value as of June 30, 2014 and 2013 (dollar amounts presented in thousands):

	2014			
	Level 1	Level 2	Level 3	Total
Domestic equities	$ 352,023	$ 135,812	$ 483	$ 488,318
International equities	281,654	52,891	-	334,545
Domestic fixed income	67,312	218,465	2,113	287,890
International fixed income	-	39,407	-	39,407
Cash equivalents	33,122	-	-	33,122
Alternative investments:				
Hedged equity funds	-	-	120,316	120,316
Absolute return funds	-	-	277,944	277,944
Venture capital funds	-	-	122,883	122,883
Buyout funds	-	-	131,693	131,693
Distressed/special situation funds	-	-	42,562	42,562
Real estate funds	-	-	95,181	95,181
Alternative fixed income	-	-	15,704	15,704
Natural resource funds	-	-	99,465	99,465
Public inflation hedge	-	40,027	-	40,027
Direct commercial real estate	-	-	17,878	17,878
Mortgage securities	-	-	683	683
Total	$ 734,111	$ 486,602	$ 926,905	$ 2,147,618

	2013			
	Level 1	Level 2	Level 3	Total
Domestic equities	$ 313,477	$ 68,537	$ 552	$ 382,566
International equities	294,412	-	-	294,412
Domestic fixed income	95,603	146,761	2,768	245,132
International fixed income	-	58,037	-	58,037
Cash equivalents	21,825	-	-	21,825
Alternative investments:				
Hedged equity funds	-	-	114,709	114,709
Absolute return funds	-	-	254,715	254,715
Venture capital funds	-	-	100,497	100,497
Buyout funds	-	-	129,125	129,125
Distressed/special situation funds	-	-	58,626	58,626
Real estate funds	-	-	95,126	95,126
Natural resource funds	-	-	79,755	79,755
Public inflation hedge	-	19,739	-	19,739
Direct commercial real estate	-	-	20,129	20,129
Mortgage securities	-	-	690	690
Total	$ 725,317	$ 293,074	$ 856,692	$ 1,875,083

There were no significant transfers between Levels 1 and 2 for the years ended June 30, 2014 and 2013. Transfers into Level 3 for the year ended June 30, 2013 of $187,852, were the result of a change in categorization from Level 2 to Level 3 for those funds valued using NAV per share (or its equivalent) based on redemption liquidity restrictions. Changes in Level 3 assets measured at fair value as of and for the years ended June 30, 2014 and 2013 follow (dollar amounts presented in thousands):

	2014	2013
Beginning balance	$ 856,692	$ 557,230
Realized and unrealized gains	117,519	90,312
Purchases	82,479	126,894
Sales	(129,785)	(105,596)
Transfers in	-	187,852
Ending balance	$ 926,905	$ 856,692

Included in the Statements of Financial Position and Statement of Activities is the fair value of derivative instruments and the related net gain (loss) as of and for the years ended June 30, 2014 and 2013. The gross and net credit risk associated with the related counterparties on these open derivative positions is insignificant. The market risk is directly linked with exchange rates or market interest rates as the underlying securities bear a fixed rate of interest.

The following tables present the Foundation's derivatives instrument, net gain (loss), and net asset classifications as of and for the years ended June 30, 2014 and 2013 (dollar amounts presented in thousands):

Derivative Instruments as of and for the year ended June 30, 2014:

Description	Assets	Balance Sheet Location	Liabilities	Balance Sheet Location	Net Fair Market Value	Net Gain (Loss) [(a)]
Currency Instruments:						
Foreign Exchange Contracts	$ 11,183	Accounts receivable and other assets	$ 11,185	Accounts payable and other	$ (2)	$ (380)
Fixed Income Instruments:						
Swap contracts	789	Accounts receivable and other assets	151	Accounts payable and other	638	568
Futures contracts	358	Investments	337	Investments	21	9,033
Forward contracts	5,077	Accounts receivable and other assets	5,069	Accounts payable and other	8	281
Total	$ 17,407		$ 16,742		$ 665	$ 9,502

Offsetting of Derivative Assets as of June 30, 2014:

Description	Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount Presented in the Statement of Financial Position
Futures	$ 358	$ 337	$ 21
	$ 358	$ 337	$ 21

IN THOUSANDS OF DOLLARS

Derivative Instruments as of and for the year ended June 30, 2013:

Description	Assets	Balance Sheet Location	Liabilities	Balance Sheet Location	Net Fair Market Value	Net Gain (Loss) [a]
Currency Instruments:						
Futures contracts	$ 337	Investments	$ -	Investments	$ 337	$ 523
Forward contracts	13,032	Accounts receivable and other assets	13,213	Accounts payable and other	(181)	500
Total	$ 13,369		$ 13,213		$ 156	$ 1,023

Offsetting of Derivative Assets as of June 30, 2013:

Description	Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount Presented in the Statement of Financial Position
Futures	$ 337	$ (337)	$ -
	$ 337	$ (337)	$ -

(a) Net gain (loss) on all derivative financial instruments is reported in investment income on the Statement of Activities.

The Foundation's alternative investments include investments in: (1) private equity such as venture capital and leveraged buyout funds; (2) absolute return/hedged equity strategies; and (3) inflation hedge strategies, including real estate and natural resources. These investments are valued at NAV per share or its equivalent. The Foundation's asset allocation policy allocates up to 51% in these types of investments. A summary of the alternative investments categorized by major security type, with a description of the investment managers' strategies, and the nature of any restrictions to redeem the investment value as of June 30, 2014 and 2013 follows (dollar amounts presented in thousands):

	2014		2013		
	Fair Value	Unfunded Commitments	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedged equity funds [(a)]	$120,316	$ -	$114,708	monthly, quarterly, semi-annually, annually	30–90 days
Absolute return funds [(b)]	277,944	2,559	254,715	monthly, quarterly, semi-annually, annually	33–95 days
Venture capital funds [(c)]	122,883	56,439	100,497		
Buyout funds [(d)]	131,693	67,400	129,125		
Distressed/special situation funds [(e)]	42,562	26,777	58,626		
Real estate funds [(f)]	95,181	34,547	95,126		
Alternative fixed income [(g)]	15,704	14,883	-		
Natural resources funds [(h)]	99,465	51,143	79,755		
Public inflation hedge [(i)]	40,027	-	19,739	monthly	10 days
Total	$945,775	$253,748	$852,291		

(a) This category includes investments in hedge funds that invest globally in both long and short common stocks across all market capitalizations. Management of the hedge funds may opportunistically shift investments across sectors, geographies, and net market exposures. The fair values of the investments in this category are based on the net asset value per share of the investment.

(b) This category includes investments in hedge funds that invest opportunistically across various strategies including long/short equity, fixed income, distressed credit, merger arbitrage, convertible arbitrage, etc. The fair values of the investments in this category are based on the net asset value per share of the investment. As of June 30, 2014, 58% of the total Marketable Alternative Investments (hedged equity and absolute return) could be redeemed in 0-6 months, an additional 20% could be redeemed between 7-12 months, another 13% could be redeemed between 13-24 months, and 5% could be redeemed between 25- 36 months. The remaining 4% is designated as illiquid investments.

(c) This category includes funds which invest primarily in early-stage companies in the technology and life science sectors. The nature of investments in this category is that money is distributed as underlying companies are exited via acquisition or Initial Public Offering (IPO). The typical life of a partnership is 10 years but is subject to extensions. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2014.

(d) This category includes private equity funds that invest across sectors primarily in the United States, but also Asia and Europe. The nature of investments in this category is that money is distributed as underlying companies are recapitalized or exited via acquisition or IPO. The typical life of a partnership is 10 years but is subject to extensions. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2014.

(e) This category includes funds that are focused on distressed or secondary investments. The typical life of a partnership is 10 years but is subject to extensions. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2014.

(f) This category includes funds that invest primarily in U.S. commercial real estate, but also includes real estate funds focused on Europe and Asia. The real estate exposure can include both publicly traded Real Estate Investment Trust funds and private partnerships. Publicly traded REIT funds have daily liquidity. The typical life of a partnership is 10 years but is subject to extensions. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2014.

(g) This category includes funds focused primarily on direct lending across the corporate and real estate sectors. The investments are structured to provide a steady stream of income to the Foundation based on floating interest rate loans. The typical life of a partnership is 5 years but is subject to extensions. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2014.

(h) This category includes funds that are focused on direct energy, mining and minerals, and timber. The typical life of a partnership is 10 years but is subject to extensions. Certain funds in this category will provide an income stream as the underlying commodity is harvested/sold. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2014.

(i) This category includes funds that invest in equity and equity-related securities, commodity derivatives, fixed income obligations, and derivatives related to equity, fixed income, and commodity securities.

8. RESTRICTED NET ASSETS

The income generated from restricted net assets is used in accordance with the donors' time or purpose restrictions. Foundation and University permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor imposed restrictions as of June 30, 2014 and 2013 are as follows (dollar amounts presented in thousands):

	2014	
	Temporarily Restricted	Permanently Restricted
Foundation operations	$ 9,247	$ 25,512
University programs:		
Awards	7,327	9,542
Capital and capital improvements	116,697	2,515
Fellowships/lectureships	22,744	99,260
General endowments	273,850	283,792
Medical practice plans	40,092	-
Operations	74,692	5,456
Professorships/chairs	124,508	328,107
Research	34,908	59,183
Scholarships	137,045	459,334
Total	$ 841,110	$ 1,272,701

	2013	
	Temporarily Restricted	Permanently Restricted
Foundation operations	$ 7,925	$ 22,209
University programs:		
Awards	6,742	8,316
Capital and capital improvements	74,316	2,261
Fellowships/lectureships	21,256	84,121
General endowments	259,306	246,326
Medical practice plans	33,026	-
Operations	82,292	4,040
Professorships/chairs	116,176	290,236
Research	31,637	50,253
Scholarships	130,223	391,875
Total	$ 762,899	$ 1,099,637

10. PROGRAM EXPENDITURES

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, the Student Foundation, air services, women's programs and other miscellaneous programs. These University-related program expenditures primarily support "Grants and aid to the University" and "Endowment and capital additions for the University." For the years ended June 30, 2014 and 2013, a summary of these expenditures follows (dollar amounts presented in thousands):

	2014		
	Foundation	Unrestricted University (a)	Total
Program expenditures:			
Foundation programs:			
Real estate	$ 1,901	$ -	$ 1,901
Student Foundation	531	-	531
Air services	1,266	-	1,266
Women's programs	48	-	48
Miscellaneous	21	-	21
	3,767	-	3,767
Grants and aid to the University — operating support:			
University support	560	30,459	31,019
Student scholarship and financial aid	6	40,444	40,450
Faculty support	-	25,321	25,321
Faculty research	-	13,575	13,575
	566	109,799	110,365
Endowment and capital additions for the University — land, building and equipment purchases	-	30,866	30,866
Total program expenditures	$ 4,333	$ 140,665	$ 144,998

INDIANA UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
IN THOUSANDS OF DOLLARS

	2013		
		Unrestricted	
	Foundation	University (a)	Total
Program expenditures:			
Foundation programs:			
Real estate	$ 2,877	$ -	$ 2,877
Student Foundation	546	-	546
Air services	736	-	736
Women's programs	151	-	151
Miscellaneous	17	-	17
	4,327	-	4,327
Grants and aid to the University — operating support:			
University support	1,771	29,877	31,649
Student scholarship and financial aid	6	36,739	36,745
Faculty support	109	15,023	15,131
Faculty research	-	8,203	8,203
	1,886	89,842	91,728
Endowment and capital additions for the University — land, building and equipment purchases	-	15,884	15,884
Total program expenditures	$ 6,213	$ 105,726	$ 111,939

(a) These expenditures relate to temporarily restricted University net assets reclassified to unrestricted as the time or purpose restrictions are met. These amounts are included in the Statements of Activities as net assets released from restriction.

Required Supplementary Information

Schedule of Funding Progress for IU Replacement Retirement Plan:

(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
7/1/2013	$ 16,896	$ 21,438	$ 4,542	78.8%	$ 8,411	54.0%
7/1/2012	14,838	23,818	8,980	62.3%	8,445	106.3%
7/1/2011	14,558	23,034	8,476	63.2%	8,679	97.7%

Schedule of Funding Progress for Other Postemployment Benefit Plans:

(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
7/1/2013	–	$ 364,137	$ 364,137	0.0%	$ 1,042,446	34.9%
7/1/2012	–	390,227	390,227	0.0%	1,013,726	38.5%
7/1/2011	–	414,985	414,985	0.0%	984,200	42.2%

Schedule of Funding Progress for Public Employees' Retirement Fund:

(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
6/30/2013	$ 129,927	$ 251,660	$ 121,733	51.6%	$ 201,139	60.5%
6/30/2012	175,411	370,470	195,059	47.3%	211,519	92.2%
6/30/2011	214,453	379,812	165,359	56.5%	215,496	76.7%

Trustees and Administrative Officers of Indiana University

The Trustees of Indiana University
for fiscal year ended June 30, 2014

Administrative Officers
for fiscal year ended June 30, 2014

The Presidents and Vice Presidents

The Chancellors

Other Officers and Senior Leaders

Additional copies of this report may be obtained from:

Office of the Senior Vice President, Chief Financial Officer and Treasurer
Bryan Hall 212
Indiana University
Bloomington, IN 47405-7000
http://vpcfo.iu.edu

To print a PDF file of this report, go to http://vpcfo.iu.edu/reports/reports.shtml

For additional information:

General Information
Vice President for Public Affairs and Government Relations
Bryan Hall 300
107 S. Indiana Avenue
Bloomington, IN 47405-1211
http://www.indiana.edu/~pagr/

Financial Reporting
Associate Vice President and University Controller
Financial Management Services
Poplars 519
Indiana University
Bloomington, IN 47405-3085
http://fms.iu.edu

Admissions
Vice Provost for Enrollment Management
Office of Admissions
300 N. Jordan Ave.
Indiana University
Bloomington, IN 47405-1106
http://admissions.indiana.edu

Gifts
Indiana University Foundation
Showalter House
P.O. Box 500
Bloomington, IN 47402-0500
http://iufoundation.iu.edu/

Grants
Vice President for Research
Carmichael Center Suite 202
530 E. Kirkwood Avenue
Bloomington, IN 47408-4003
http://www.iu.edu/~vpr/contact.shtml

Athletics
Athletics Media Relations
Assembly Hall
1001 East 17th Street
Indiana University
Bloomington, IN 47408
http://www.iub.edu/athletic/

Alumni
Alumni Association
1000 East 17th Street
Indiana University
Bloomington, IN 47408
http://alumni.indiana.edu