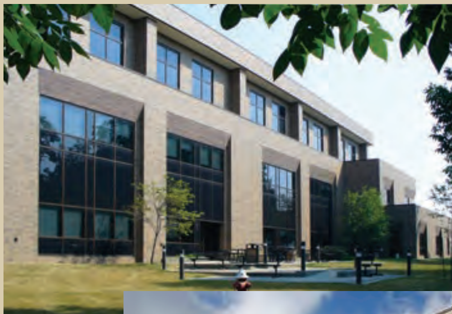
INDIANA UNIVERSITY

2010-11 Financial Report

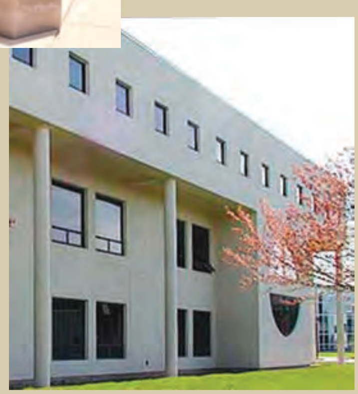


When we look at all of this evidence—increased efficiency, increased financial aid to support more Hoosier students, increased contributions to the life of the state, and the increased value of an IU education—through the clear lens of logic, the conclusion is simple. Our university community is actively engaged in and deeply committed to extending our longstanding partnership with the people of this state.

These efforts are not just reactions to the current economic situation. They are our collective and ongoing efforts to define what it means to be a public university with a dual responsibility to the people of the state and to the academy.

And together we ask, what more can we do?

President Michael A. McRobbie,
"State of the University" address, September 27, 2011



IU campuses from top left: IU East, IU Bloomington, IUPUI, IU South Bend, IU Northwest, IU Southeast, and IU Kokomo

Financial Report 2010–11

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Message from the President

Michael A. McRobbie
President, Indiana University

The Honorable
Mitchell E. Daniels, Jr.
Governor, State of Indiana
State House, Room 206
200 West Washington Street
Indianapolis, IN 46204

Dear Governor Daniels:

On behalf of the Trustees of Indiana University, I am pleased to present to you IU's 2010-11 Financial Report.

In recent years—and like many large enterprises within our state—Indiana University has been faced with increasingly difficult financial challenges as a result of the economic downturn. We continue to adjust to a rapidly changing economic and educational environment by evaluating all of our processes for efficiency and effectiveness and asking ourselves fundamental questions about what it means to be a public university in the 21st century.

Throughout these tumultuous times, though, we have been able to achieve a great deal. Our extraordinary progress—which encompasses nearly every key area at the university—reflects our commitment to the central importance and value of education and research at Indiana University and to building a community of dedicated scholars that immeasurably enriches the life of our state.

Our progress is also testament to the efforts of our faculty, staff, and students, who are responsible for record-setting achievements across the university and continue to pursue new and uncharted fields of research, scholarship, and creativity.

Making an Impact Through Research

For the first time in IU history, expenditures on research at IU performed by faculty, staff, and students—and supported over recent years by record amounts of grant funding—have exceeded the $500 million mark in a single fiscal year. IU's record $509 million in research expenditures in the last fiscal year represents about a $1.17 billion economic impact on the state of Indiana and thousands of jobs.

Our faculty discoveries continue to lead to the creation of new start-up companies, the licensing of new software, the development of new medical treatments, and the commercialization of new technologies. All of this has a direct impact on strengthening our state's economic infrastructure and improving the quality of life for all Hoosiers.

Recruiting and Retaining a World-Class Faculty

Indiana University's outstanding faculty continues to gain national and international prominence in their fields. IU boasts a large contingent of faculty who are members of the world's most prestigious national and international academies and societies, including the National Academy of Sciences, the Royal Society, the American Academy of Arts and Sciences, and the American Association for the Advancement of Science.

Last year, J. Marc Overhage, M.D., Ph.D., director of medical informatics at the Regenstrief Institute and Sam Regenstrief Professor of Medicine at the IU School of Medicine, was elected to the Institute of Medicine of the National Academy of Sciences.

Also last year, five faculty members from IU Bloomington—biologists Lynda Delph, Roger Hangarter, Roger Innes and Rudy Raff and political scientist Edward Carmines—were elected to the American Association for the Advancement of Science, the world's largest general scientific society.

In May, IU Ruth Halls and Distinguished Professor Emerita Susan Gubar, one of the nation's leading literary scholars and feminist critics, was admitted to the American Philosophical Society, the oldest learned society in the country, founded in 1745 by Benjamin Franklin. She became the 21st IU faculty member or alumnus admitted to the society in the university's history.

Currently, IU's faculty includes:

- 22 members of national academies,
- 54 members of the American Association for the Advancement of Science; and
- 6 members of the American Philosophical Society.

Attracting Top Students

The quality of our faculty, no doubt, influences students from throughout the state, across the country, and around the world to attend Indiana University.

We welcomed a record of more than 110,000 students this fall on our eight campuses, as all our campuses have reported record enrollments in the last two years. Nearly 85,000 of those students are from Indiana.

Among our record-setting class are more than 7,400 freshmen on our Bloomington campus, which collectively represent the most academically decorated class in our history—including IU's largest class of National Merit Scholars. Eighty percent of in-state students graduated in the top quarter of their high school class and forty percent in the top 10 percent, including a record 128 valedictorians this year. This cohort of students also earned the highest average SAT scores in the campus' history.

The student body is becoming steadily more diverse, with students from underrepresented groups at a record high 14 percent.

Making an IU Education Affordable and Accessible

As a public university, we have an essential obligation to ensure that an IU education remains accessible and affordable to all qualified Hoosier students geographically, programmatically, and financially.

To that end, Indiana University unveiled a plan to significantly reduce undergraduate tuition for summer semester students beginning in 2012. If this plan is received as enthusiastically by our students as I believe it will be, it could make possible a robust year-round approach to education at IU that is more closely aligned with the needs of a 21st century global marketplace than our current calendar allows. The IU Trustees approved this plan at a special session in late October.

Data published recently on the U.S. Department of Education's "College Navigator" website show that an IU education is a tremendous value. Resident undergraduates at IU Bloomington pay the lowest out-of-pocket cost of attendance in the Big Ten—nearly $4,700 per year less than the average out-of-pocket cost to attend the other public Big Ten universities. This achievement saves Hoosier families an average of more than $18,000 over four years compared with residents of other Big Ten states.

This is due in part to a 230 percent increase in resident undergraduate financial aid provided by IU Bloomington over the last five years, increasing campus-funded aid from $18 million to a record $61 million this year, fueled in part by the campus' record-setting Matching the Promise Campaign. This campaign, which we just concluded, raised $1.144 billion, including more than $338 million for undergraduate and graduate student support, making it the most successful campaign in IU history.

Other IU campuses have seen similar developments. IUPUI, which is in the midst of its record-setting $1.25 billion Impact IUPUI fundraising campaign, has increased campus-funded resident undergraduate financial aid grants by $8.1 million over four years, a compounded annual increase of 18.3 percent. Our regional campuses have increased campus-funded resident undergraduate financial aid grants by nearly 15 percent per year or $2.3 million over four years.

Building for the 21st Century

Strengthening the university's infrastructure has been one of our key priorities since the beginning of the recession. We have sought to take advantage of the historically low cost of construction in these difficult economic times to continue to build and renovate facilities for research and education.

Over the last three years, we have greatly accelerated the pace and priority of capital renewal at IU. At present across the university, we have four major buildings under construction, and several more new and renovation projects in planning for a total of nearly two million square feet. All of these buildings will support new research and educational activities or student life.

The total value of all new construction and renovations in progress or planned is approximately $625 million. Of this total, only 25 percent is provided by the State of Indiana, with 75 percent being provided through private sources or internal university sources.

Working Toward Greater Health for Hoosiers

IU's health science and clinical schools—including the schools of medicine, nursing, dentistry, optometry, social work, and health and rehabilitation science—collectively account for about 40 percent of IU's $3 billion budget, and as such they represent the largest component.

Taken as a whole, the educational, research, and clinical activities of these schools and programs are one of the major ways in which IU contributes to the social and economic development of Indiana. Indeed, more than 50 percent of Indiana's physicians, 40 percent of nurses, 90 percent of dentists, and 60 percent of optometrists are trained at IU.

Over the next few years, we will expand our efforts in the health sciences and health care. To this end, we are working to establish two new schools of public health, one at IU Bloomington and one at IUPUI. And earlier this year, Clarian Health Partners—the largest statewide hospital system in Indiana and one of the largest in the nation with a budget of $3.75 billion—officially became Indiana University Health. This change has highlighted the impact that IU has every day on the health and well being of hundreds of thousands of Hoosiers.

Strengthening Economic Engagement

In addition to our role in support of the growth and expansion of IU Health, including the recent dedication of the Glick Eye Institute and the work in progress of the new Neurosciences Center of Excellence in Indianapolis, we are also helping strengthen Indiana's economy by enhancing our business incubators, convening technology showcase events in partnership with Purdue University, and establishing new business resource services in collaboration with a number of the state's Small Business Development Centers from Merrillville to New Albany.

Many of our economic development efforts are focused through the IU Research and Technology Corporation (IURTC), whose mission is to accelerate the transformation of innovations and intellectual property developed by IU faculty, staff, and students into new products, services, and companies to improve Indiana's economy and our national competitiveness.

Last year was yet another very successful year in this regard with 175 invention disclosures received (a 13 percent increase over last year), a record seven new start-up companies arising from IU licensed technologies, more than $11 million in licensing revenues, and perhaps the biggest news of the year being the acquisition of IU-based Marcadia Biotech by Roche in a deal worth up to $537 million.

Expanding Our Global Presence

IU continues to increase its international engagement through globally aware education, enlarged study abroad activity, alumni activity, and expanded strategic partnerships with leading institutions of higher learning throughout the world.

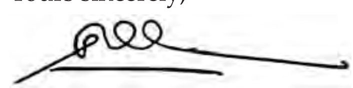
Record numbers of IU students are studying abroad, increasing 11 percent across the IU system, according to the most recent data, in more diversified locations including Asia, Africa and Latin America in addition to Western Europe. In fact, for the first time in the university's history, we ranked third in the CIC for the number of IU students studying abroad. Additionally, IU's fall 2011 semester enrollment across all eight campuses consists of 7,175 international students from 127 nations. This number represents a 9.3 percent increase over the 2010 level and is the largest number of international students ever enrolled at IU.

The New Academic Directions report for the Bloomington and Indianapolis campuses maps out new developments and even new futures for Indiana University in a number of areas, including our international presence. It recommends leveraging our outstanding reputation in scholarship and research on countries, cultures, and regions around the globe by developing a School of International Studies that will further strengthen this area and offer Hoosier students even more opportunities for the global education so necessary to their future success.

Conclusion

As the following 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 or contracts, and student fees, and are committed to achieving the best return on all of those investments. We also remain dedicated to fulfilling all of IU's core missions of education and research and to our engagement in the successful future of the state.

Yours sincerely,



Michael A. McRobbie
President

Message from the Senior Vice President and Chief Financial Officer

Neil Theobald
Senior Vice President and Chief Financial Officer, Indiana University

Dear President McRobbie and the Trustees of Indiana University:

It is with a significant measure of pride that I present to you the consolidated financial report for Indiana University for the fiscal year ended June 30, 2011.

In my letter to you presenting last year's financial report, I spoke of the challenging economic conditions under which the university, and all of higher education, was operating. And while the economic picture has brightened somewhat in the past year, significant hurdles remain.

Unemployment in Indiana, and across the nation, remains at stubbornly high levels and wages continue to be stagnant. In Indiana the current jobless rate remains above 8 percent and many of those who have jobs have seen their wages frozen or even cut, making the challenge of paying for a college education greater than ever for many.

In turn, states around the nation are responding to the effects of the continued economic stress by drastically reducing spending in many areas. Indiana has fared better than many of its neighbors, but even so the state legislature has been forced to make difficult funding decisions that have resulted in reduced support for higher education over the past several years. State support for IU has fallen below 20 percent of our operating budget and we expect that figure to decline further in the coming years.

Rising to the Challenge

Despite those challenges, however, I am very pleased to report that Indiana University has remained on extremely solid financial ground as a result of many of the initiatives we have undertaken in recent years to become more efficient in our operations. As a university, our total net assets – a critical indicator of the university's current financial health - increased 11 percent from the prior fiscal year.

We have made great strides in the hard work necessary to become more efficient in response to the current economic downturn. Faculty and staff across the university have done more with less, which has allowed us to reduce our ongoing base budget by $36 million for the past two years.

At the same time, we are working to better manage our health care spending by partnering with IU Health and other medical providers to enhance the delivery of clinical services to our employees, retirees, graduate students, and their families. In that vein, we announced a program this fall to bring expanded clinical services to our employees, retirees and graduate students, as well as their families. That program will begin in Bloomington in January 2012 and we anticipate expanding these clinical services to all seven campuses over the next few years.

We also generate an additional $40 million in savings each year through continuing innovative software licensing agreements that allow faculty, staff and students to access essential computer applications at greatly reduced cost. This continues to be a hallmark of information technology at IU and goes back to IU's path-breaking agreement with Microsoft in 1998 that has since saved IU tens of millions of dollars.

Altogether, our operating costs last year, calculated as a percentage of full-time enrollment were up less than 1 percent in the 2010-2011 academic year as compared to the previous year.

Indeed, a recent benchmarking study found that our administrative costs are lower than those at our peer institutions and that our human resource and payroll processes are world-class among even for-profit companies. Based on this study, we are also currently restructuring both IU marketing and student services to increase efficiency. We are looking for further efficiencies, combining functions where we can without harming our core missions.

As just one example of our progress in these areas, Kiplinger's Personal Finance magazine rated IU-Bloomington 28th in quality for the cost of education, from among more than 500 public institutions.

Additionally, both major credit rating agencies, Moody's and Standard and Poor's, either reaffirmed or raised our credit ratings during the 2010-2011 fiscal year. IU remains one of a small handful of U.S. universities to carry a coveted "Aaa" rating from Moody's. As an "investment grade" institution, we have lowered the cost of servicing our debt significantly in recent years, saving the state more than $30 million.

Remaining True to our Mission

At the same time we have focused on becoming more efficient, we have not lost sight of our core mission: to provide an affordable world-class college education, with a special emphasis on serving the educational needs of talented Indiana high school graduates.

As President McRobbie noted in his letter introducing this report, IU welcomed a record of more than 110,000 students to class this fall, including the most academically recognized freshman class in our history on the Bloomington campus. The fact that 40 percent of our current in-state freshman students finished in the top 10 percent of their high school classes is a testament to the high quality students IU continues to attract.

Attracting good students is only part of our job, however. Once they are here, we need to help them stay on course to graduate on time with the academic credentials they need to succeed in the 21st century global marketplace.

Central to that effort is attracting and retaining the outstanding faculty needed to train tomorrow's scholars and leaders, and to conduct vital research across myriad disciplines. We benefit from a faculty that is decorated for its scholarship and teaching, and with our research expenditures breaking the $500 million mark for the first time during the 2010-2011 fiscal year, IU continues to make a significant contribution to the state's economy and to the well being of its residents.

We are not resting on our laurels, however. For example, we have ambitious plans in place to strengthen the already considerable body of work done at the IU School of Medicine through our Strategic Research Initiative that will leverage the combined strengths of IU Health and the School of Medicine to produce transformational research with an emphasis on cancer, cardiovascular health and neuroscience.

Additionally, we seek to improve the quality of health for all Hoosiers through the creation of schools of Public Health in Bloomington and Indianapolis, for which we received state approval this fall.

These are just two recent examples of the ambitious research agenda at Indiana University, which adds a sense of urgency to our work to retain and attract top-flight faculty. As part of our efforts in this area, money was set aside in the current budget to reward top faculty with raises of up to 5.5 percent in order to remain competitive in the market, even as economic conditions required us to limit overall average salary increases to 1.5 percent for the current academic year. We also continue to actively recruit outstanding faculty while other institutions have been forced to lay off staff.

Committed to Affordable Excellence

Given the economic challenges we face as a state and a country today, much of the public debate on higher education has centered on costs, specifically tuition.

Tuition represents only a fraction of the overall cost of attending college, and the facts are that vast majority of Indiana resident students pay far less than the stated "sticker price" for their IU education. In fact, resident undergraduates at our Bloomington campus pay the lowest out-of-pocket cost of attendance in the Big Ten, and IU campuses across the state represent six of the seven most affordable universities in the state for earning a bachelor's degree.

Still, we recognize that we can – and should – do even more to increase access to an IU education by improving affordability. We have taken a major step this fall through a bold new initiative that will lower costs, provide incentive for students to graduate on time, or even ahead of schedule, and allow us to make better use of our facilities.

Our plan to reduce tuition for all students attending summer sessions on all our campuses by 25 percent for Indiana residents – and by an equivalent dollar amount for non-residents-will provide significant financial relief to students and their families. It also will encourage more students to take advantage of the IU academic calendar 12 months a year, and in doing so helping them graduate in shorter time with less debt.

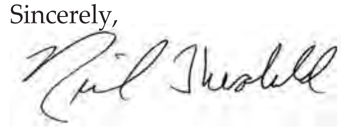
This type of innovative thinking has been a hallmark of Indiana University for nearly 200 years, and we are committed to further innovation – from the way we teach our students to the areas of research our faculty pursues to the manner in which we operate the university in a time of significant economic challenges.

In his State of the University address this September, President McRobbie urged all of us at IU to rethink what it means to be a public university in the 21st century so that we can strengthen our position as a leading research institution and our commitment to affordable excellence.

I think the results detailed in this report make it clear that we begin the next phase in our ongoing journey on solid financial footing. I encourage you to closely examine the report and welcome your questions and ideas.

Thanks to all of you for your continued support and leadership of Indiana University.

Sincerely,



Neil Theobald
Senior Vice President and Chief Financial Officer

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

We have audited the accompanying basic financial statements of Indiana University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

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

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana University, as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2011, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Introductory Section, Trustee and Administrative Officers of Indiana University, Additional Information, and Acknowledgements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section, Trustee and Administrative Officers of Indiana University, Additional Information, and Acknowledgements have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS
State Board of Accounts

October 21, 2011

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Indiana University (university) for the fiscal years ended June 30, 2011 and 2010, along with comparative financial information for fiscal year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the audited financial statements and footnotes contained in this report.

The university's financial report includes three financial statements prepared in accordance with Government Accounting Standards Board (GASB) principles. This discussion is designed to assist readers in understanding those statements.

The Statement of Net Assets presents the university's financial position by reporting all assets, liabilities and net assets at the end of the fiscal year. Net assets, the difference between total assets and total liabilities, are one indicator of the current financial condition of the university.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the total revenues earned and expenses incurred by the university during the fiscal year. Changes in net assets are an indication of improvement or decline in the overall financial condition.

The Statement of Cash Flows provides additional material about the university's financial results by presenting detailed information about the cash activity of the university during the year. The statement reports the major sources and uses of cash.

Statement of Net Assets

A comparison of the university's assets, liabilities and net assets at June 30, 2011, 2010 and 2009, is summarized as follows:

Condensed Statement of Net Assets
(in thousands of dollars)

	June 30, 2011	*June 30, 2010*	*June 30, 2009*
Current assets	$ 961,001	$ 971,819	$ 820,745
Capital assets	2,422,233	2,316,762	2,197,123
Other assets	1,173,342	991,626	796,378
Total assets	**4,556,576**	**4,280,207**	**3,814,246**
Current liabilities	554,715	525,609	461,007
Noncurrent liabilities	1,042,860	1,077,731	935,678
Total liabilities	**1,597,575**	**1,603,340**	**1,396,685**
Invested in capital assets, net of related debt	1,621,228	1,555,422	1,475,395
Restricted net assets	170,156	175,197	157,711
Unrestricted net assets	1,167,617	946,248	784,455
Total net assets	**$ 2,959,001**	**$ 2,676,867**	**$ 2,417,561**

Assets

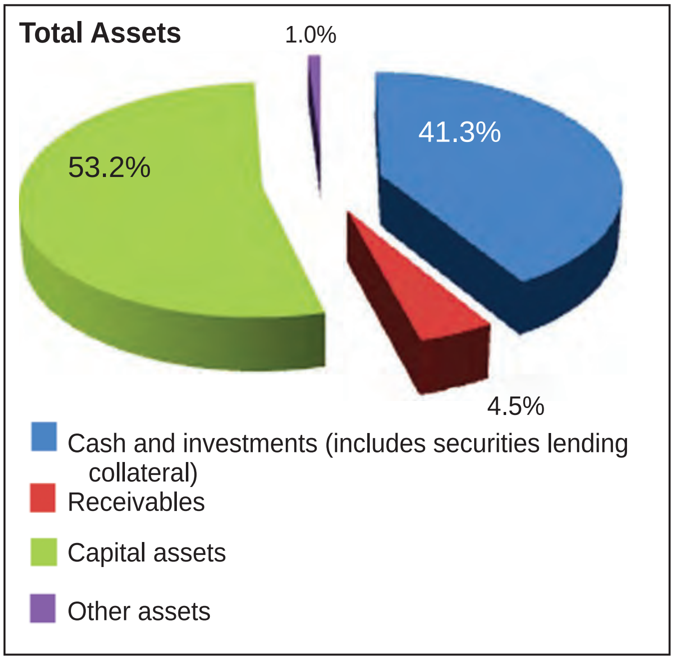
Current assets include those that are used to support current operations and consist primarily of cash and cash equivalents, securities lending collateral and net receivables.

Noncurrent assets consist mainly of endowments, other noncurrent investments, and capital assets, net of accumulated depreciation. Noncurrent receivables consist of student loan receivables scheduled for collection beyond the current year reported.

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

Total Assets
(in thousands of dollars)

Cash and investments (includes securities lending collateral)	$ 1,882,569	41.3%
Receivables	206,378	4.5%
Capital assets	2,422,233	53.2%
Other assets	45,396	1.0%
Total assets	**$ 4,556,576**	**100.0%**



Total assets of $4,556,576,000 at June 30, 2011 represent an increase of $276,369,000 over June 30, 2010.

The net decrease in current assets of $10,817,000 is primarily due to a $91,183,000 decrease in cash and cash equivalents, reflecting net spending of bond proceeds on construction projects and rebalancing of the investment portfolio with a shift to longer term investments. This decrease is partially offset by an increase of $36,958,000 in securities lending collateral and an increase of $36,302,000 in short-term investments, or investments with longer maturity timeframes compared to cash equivalents. Securities lending collateral balances vary with the volume of investments available for loan and with the level of demand by borrowers.

Noncurrent investments increased by $186,238,000, primarily due to rebalancing and investment gains. Capital assets, net of accumulated depreciation, increased $105,471,000, or 4.6%, at June 30, 2011, primarily due to net additions of $95,895,000 in buildings and construction in progress.

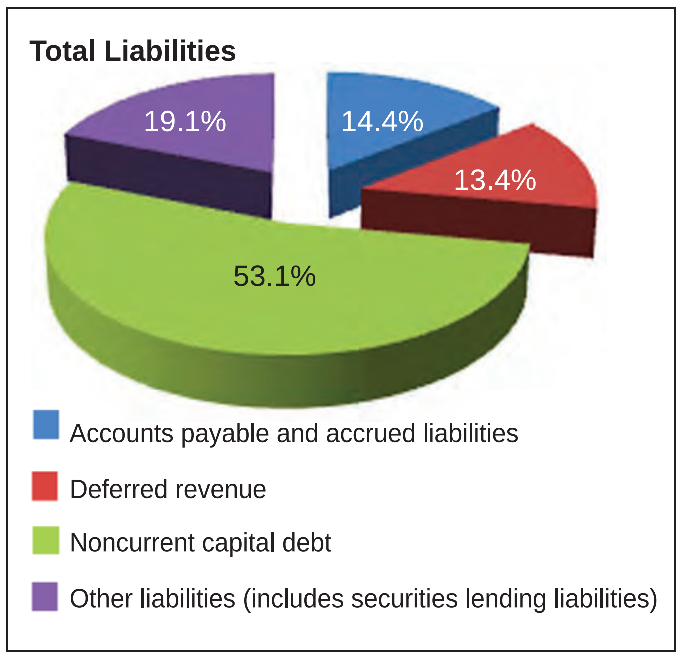
Liabilities

Current liabilities are those that are expected to become due and are payable over the course of the next fiscal year. Current liabilities consist primarily of accounts payable and other accrued liabilities, including salaries, wages and compensated absences, deferred revenue, and liabilities for securities lending activity. The current portion of deferred revenue is comprised of summer session student fees received and deferred to the following fiscal year and funds received in advance of expenditures on sponsored projects.

The university's noncurrent capital obligations, leases, notes, and bonds payable, represent 53.1% and 55% of total liabilities at June 30, 2011 and 2010, respectively. Noncurrent deferred revenue represents funds received in advance of expenditures on sponsored projects and deferred past the end of the following fiscal year. Assets held in custody for others are advances from the federal government for the purpose of making loans to students.

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

Total Liabilities *(in thousands of dollars)*		
Accounts payable and accrued liabilities	$ 229,753	14.4%
Deferred revenue	214,200	13.4%
Noncurrent capital debt	849,263	53.1%
Other liabilities (includes securities lending liabilities)	304,359	19.1%
Total liabilities	**$ 1,597,575**	**100.0%**



Total liabilities decreased $5,765,000 from June 30, 2010 to June 30, 2011. Current liabilities increased $29,106,000, largely due to an increase of $36,958,000 in securities lending liabilities, which was offset by an equivalent increase in securities lending collateral. Noncurrent liabilities decreased by $34,871,000, or 3.2%, primarily due to net principal payments on bonds and notes.

Net Assets

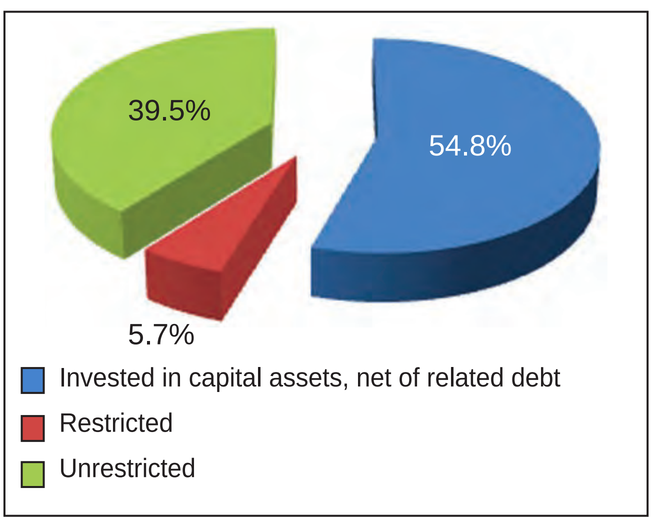
Net assets represent the residual interest in the university's assets after liabilities are deducted. Net assets are classified into three major categories:

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

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

Total Net Assets
(in thousands of dollars)

Invested in capital asssets, net of related debt	$ 1,621,228	54.8%
Restricted	170,156	5.7%
Unrestricted	1,167,617	39.5%
Total net assets	**$ 2,959,001**	**100.0%**



The $65,806,000 increase in capital assets, net of related debt during fiscal year 2011 reflects the university's continued investment in the future through development of its long-range capital plans.

Although unrestricted net assets are not subject to third-party restrictions, these funds are subject to internal designations for academic and research initiatives, capital projects, and unrestricted quasi and term endowments. The majority of the university's overall increase in net assets of $282,134,000 during fiscal year 2011 is comprised of the increase in unrestricted net assets.

Statement of Revenues, Expenses, and Changes in Net Assets

Revenues and expenses are classified as either operating or nonoperating. Generally, operating revenues are received for providing goods and services. Nonoperating revenues include state appropriations, gifts and investment income. Operating expenses are those incurred to carry out the normal operations of the university. As a public university, certain revenue sources that are an integral part of operations are required by GASB standards to be reported as nonoperating revenues.

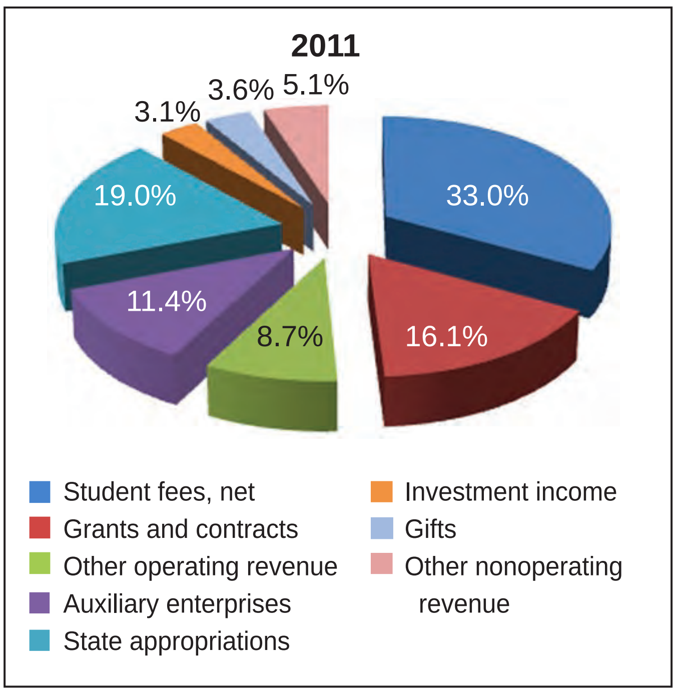
Union Street Dorms, IU Bloomington

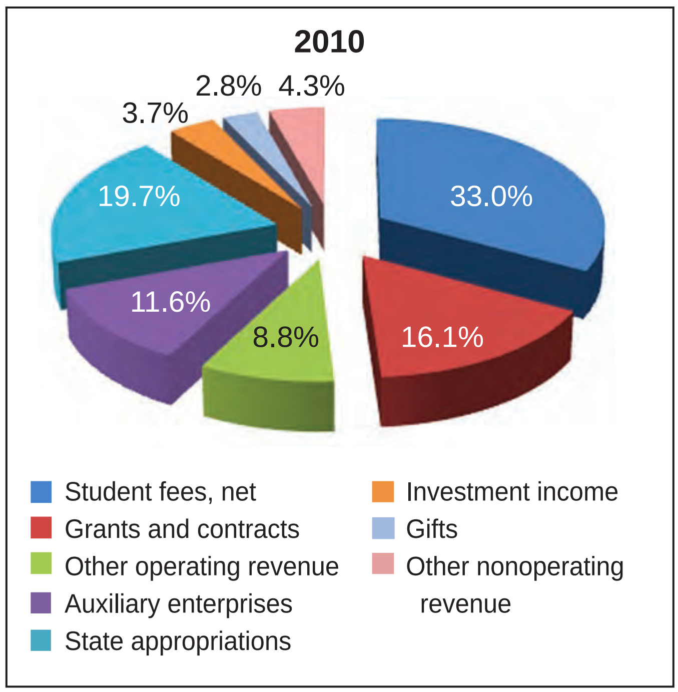
A summarized comparison of the university's revenues, expenses, and changes in nets assets is presented below:

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

	Fiscal Year Ended		
	June 30, 2011	*June 30, 2010*	*June 30, 2009*
Operating revenues	$ 2,003,416	$ 1,933,283	$ 1,874,070
Operating expenses	(2,579,131)	(2,493,131)	(2,434,854)
Total operating loss	(575,715)	(559,848)	(560,784)
Nonoperating revenues	864,410	830,682	694,456
Nonoperating expenses	(33,155)	(32,401)	(31,829)
Income before other revenues, expenses, gains and losses	255,540	238,433	101,843
Other revenues	26,594	20,873	30,228
Increase in net assets	**282,134**	**259,306**	**132,071**
Net assets, beginning of year	**2,676,867**	**2,417,561**	**2,285,490**
Net assets, end of year	**$ 2,959,001**	**$ 2,676,867**	**$ 2,417,561**

The following charts represent revenues by major source for fiscal years 2011 and 2010:





Total operating revenues in fiscal year 2011 increased by $70,134,000, or 3.6%, to $2,003,416,000. The most significant single source of operating revenue for the university is tuition and fees. Tuition and fees, net of scholarship allowances, increased $37,899,000, or 4.1% over the prior fiscal year. Gross tuition and fees increased 5.2% in fiscal year 2011, reflecting a 1.6% growth in total enrollment and an effective rate increase of 3.6%. Additional competitive funding related to the American Recovery and Reinvestment Act (ARRA) contributed to an increase of $25,996,000 in federal grant and contract revenue, which was offset by decreases in state and local grants and contracts.

Operating expenses of $2,579,131,000 in fiscal year 2011 increased $86,000,000, or 3.4% compared to fiscal year 2010. Student financial aid increased percentage-wise more than any other category of expense. The university's commitment to preserving access to education is reflected in the increase in total financial aid (including scholarship allowances) of $35,909,000 or 10.6% from 2010 to 2011. Compensation and benefits represent 67.1% of total operating expenses and increased by $46,078,000, or 2.7% in fiscal year 2011. Energy and utilities increased $4,503,000 and travel increased $3,289,000.

Nonoperating revenues, net of expenses, increased $32,974,000, or 4.1% from fiscal years 2010 to 2011. In fiscal year 2011, federal government financial aid grants increased $22,747,000 and private, non-capital gifts increased $26,765,000. Significant components of gift income were received in the areas of scholarships, athletics, the Indiana University Art Museum, the Glick Eye Institute and unrestricted endowments. Total investment income declined from $103,265,000 in fiscal year 2010 to $89,644,000 in fiscal year 2011 due to lower unrealized gains.

Capital appropriations increased $8,979,000 from fiscal year 2010 to 2011, primarily due to the receipt of one-time federal fiscal stabilization funds authorized by the ARRA and awarded to the university through the state for repair and rehabilitation.

Statement of Cash Flows

The Statement of Cash Flows provides additional 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 determining 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 Assets 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, 2011	*June 30, 2010*	*June 30, 2009*
Net cash provided (used) by:			
Operating activities	$ (417,254)	$ (369,350)	$ (441,935)
Noncapital financing activities	763,296	729,931	722,257
Capital and related financing activities	(303,733)	(140,467)	(261,661)
Investing activities	(133,492)	(101,713)	(40,275)
Net increase (decrease) in cash and cash equivalents	(91,183)	118,401	(21,614)
Beginning cash and cash equivalents	671,293	552,892	574,506
Ending cash and cash equivalents	**$ 580,110**	**$ 671,293**	**$ 552,892**

Cash received from operations consists primarily of student fees, grants and contracts, and auxiliary enterprise revenue. Payments to employees represent the largest use of cash for operations. Net cash used in operating activities increased $47,904,000 from fiscal years 2010 to 2011. 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. Cash flows from noncapital financing activities increased $33,365,000 in fiscal year 2011. Fluctuations in capital and related financing activities reflect decisions made relative to the university's capital and financing plans and the net increase in cash used in this category is primarily due to a lower volume of debt issued in fiscal year 2011 compared to that in fiscal year 2010. Cash flows from investing activities include shifts between cash equivalents and longer term investments.

Capital Asset Activity

The university has undertaken projects to develop master plans for the Bloomington and IUPUI campuses. The master plans are intended to guide the university in creating a framework for strategic development and decision-making grounded in academic and research needs, the realities of campus environments, fiscal constraints and broad campus constituencies. On all of the university's campuses, the development and renewal of facilities continues to support the mission of the university.

The Cyberinfrastructure Building (CIB) was substantially completed in June 2011 at a total project cost of $35.7 million. The CIB is the latest addition to the university's growing technology park on the Bloomington campus. The building is designed to visually represent the university's technology environment and its commitment to innovation in service to the university's teaching, learning and research missions.

The Glick Eye Institute, an $18.5 million construction project, was completed on the IUPUI campus in early 2011. The new building combines space for research, patient care, and education to advance the understanding and treatment of eye disease. The Glick Eye Institute was made possible with a major gift from the Eugene and Marilyn Glick Family Foundation.

The university formally dedicated Union Street Center on the Bloomington campus in December 2010. The student residential complex offers fully furnished apartments to undergraduate students along with fitness areas, a student government office, and classroom and seminar space. The cost of building construction was $68 million.

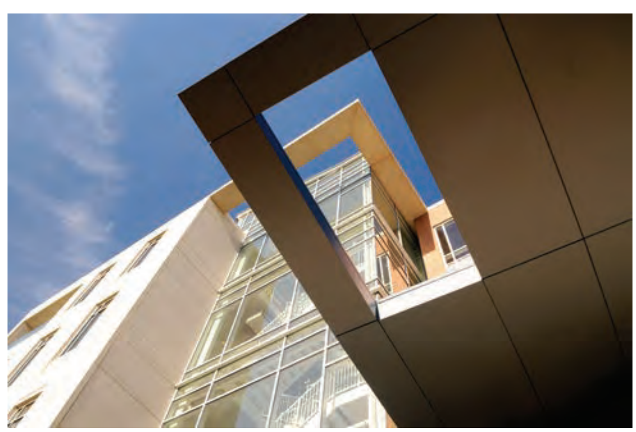
Harper Hall on the South Bend campus, home of the Mike and Josie Harper Cancer Research Institute, was dedicated in March 2011. The building was constructed as a collaborative effort between the University of Notre Dame and the Indiana University School of Medicine. A gift of $10 million to Notre Dame was matched with a $10 million appropriation from the State of Indiana to Indiana University. Scientists from both institutions will collaborate on research in cancer biology in the new facility.

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 $899,340,000 and $943,970,000 at June 30, 2011 and June 30, 2010, respectively.

On March 10, 2011, the university issued Consolidated Revenue Bonds, Series 2011A with a par amount of $16,040,000. The purpose of the issue was to provide financing for the construction of the Sports Complex Garage Expansion on the Indianapolis campus.

The University's ratings on debt obligations were reviewed and updated in December 2010. On December 21, 2010, Moody's Investors Service (Moody's) reaffirmed its underlying rating of 'Aaa' (global scale) with a Stable Outlook on student fee bonds, student residence system, facility revenue bonds, consolidated revenue bonds, and certificates of participation. On December 16, 2010, Standard & Poor's Ratings Services (S&P), raised its long-term rating and underlying rating from 'AA' with a positive outlook to 'AA+' with a stable outlook on student fee bonds, student



Glick Eye Center,
IUPUI

residence system, facility revenue bonds, consolidated revenue bonds, and certificates of participation.

Economic Outlook

The State of Indiana provides less than 20% of Indiana University's total financial resources during a fiscal year. While still seriously affected by the lasting effects of the national recession, fiscal year 2011 provided some financial improvement for the state.

Unemployment, while still at recession levels, declined to 8.3% in June 2011, down from its high of 10.9% during the height of the recession. At the same time, state tax revenues improved considerably during fiscal year 2011 with total revenues 8.9% higher than fiscal year 2010. In fact, actual revenue collections exceeded forecast by $204 million. This improved revenue performance, combined with successful state expenditure cuts, improved the state's overall fiscal standing as measured by total state reserves. These reserves increased from $831 million at the close of fiscal year 2010 to $1,182 million at the close of fiscal year 2011, or 8.4% of projected net state expenditures. Thus, the state's fiscal standing improved significantly.

Looking ahead to fiscal year 2012, total revenues were forecast to increase by 5.1%. However, since fiscal year 2011 actual revenues were $204 million above forecast, revenues will need to increase by only 3.5% to achieve the level of revenue forecast for the year. The cushion provided by excess collection above forecast in fiscal year 2011 could be needed due to the national economic slowdown experienced during the first three quarters of calendar year 2011.

Student enrollment for the university is projected to remain strong during the 2011-12 academic year. Overall, the financial position of the university is favorable and management will continue to monitor state and national economic conditions as part of its critical financial decision-making process.

Cyberinfrastructure Building, IU Bloomington

Statement of Net Assets

(in thousands of dollars)	*June 30, 2011*	*June 30, 2010*
Assets		
Current assets		
Cash and cash equivalents	$ 580,110	$ 671,293
Accounts receivable, net	121,106	111,087
Current portion of notes and pledges receivable	13,176	14,199
Inventories	12,020	13,021
Short-term investments	83,036	46,735
Securities lending assets	118,177	81,219
Other assets	33,376	34,265
Total current assets	961,001	971,819
Noncurrent assets		
Accounts receivable	12,327	13,445
Notes and pledges receivable	59,769	63,173
Investments	1,101,246	915,008
Capital assets, net	2,422,233	2,316,762
Total noncurrent assets	3,595,575	3,308,388
Total assets	**4,556,576**	**4,280,207**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	229,753	231,074
Deferred revenue	156,708	151,319
Current portion of capital lease obligations	1,269	1,149
Current portion of long-term debt	48,808	60,848
Securities lending liabilities	118,177	81,219
Total current liabilities	554,715	525,609
Noncurrent liabilities		
Capital lease obligations	2,069	2,600
Notes payable	29,274	31,168
Assets held in custody for others	75,792	74,334
Deferred revenue	57,492	62,874
Bonds payable	817,920	848,205
Other long-term liabilities	60,313	58,550
Total noncurrent liabilities	1,042,860	1,077,731
Total liabilities	**1,597,575**	**1,603,340**
Net assets		
Invested in capital assets, net of related debt	1,621,228	1,555,422
Restricted for:		
Nonexpendable - endowments	20,429	19,399
Expendable		
Scholarships, research, instruction and other	124,382	114,316
Loans	15,998	25,067
Capital projects	9,059	10,115
Debt service	288	6,300
Unrestricted	1,167,617	946,248
Total net assets	**2,959,001**	**2,676,867**
Total liabilities and net assets	**$ 4,556,576**	**$ 4,280,207**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Financial Position
As of June 30, 2011

	Unrestricted		Temporarily Restricted		Permanently Restricted		
	Foundation	**Agency**	**Foundation**	**University**	**Foundation**	**University**	**Total**
Assets:							
Cash and equivalents	$ -	$ 14,161,778	$ 248,483	$ 127,698,836	$ 500	$ 2,546,163	144,655,760
Collateral under securities lending agreement	1,697,493	7,866,877	182,526	14,060,598	851,789	36,182,767	60,842,050
Receivables and other assets	6,570,616	265,249	7,305	3,296,502	28,574	8,066,694	18,234,940
Promises to give, net	322,698	-	2,765,305	77,617,893	922,367	71,136,946	152,765,209
Investments	83,755,653	199,754,181	8,388,185	369,732,465	22,186,420	940,831,044	1,624,647,948
Property, plant and equipment, net	53,728,819	-	-	-	-	-	53,728,819
Total assets	$ 146,075,279	$ 222,048,085	$ 11,591,804	$ 592,406,294	$ 23,989,650	$ 1,058,763,614	$ 2,054,874,726
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	$ 3,076,608	$ 121,471	$ 8,963	$ 544,038	$ 148,744	$ 746,335	$ 4,646,159
Payable under securities lending agreement	1,697,493	7,866,877	182,526	14,060,598	851,789	36,182,767	60,842,050
Debt	4,052,416	-	-	-	-	58,083	4,110,499
Accrued trust obligation to life beneficiaries	92,013	-	3,383,623	6,044,774	138,809	21,629,229	31,288,448
Due to (from)	104,313,514	1,680,132	247,991	(115,927,806)	215,507	9,470,662	-
Interfund financing	(2,400,000)	-	-	2,400,000	-	-	-
Assets held for the University	-	196,092,687	-	-	-	-	196,092,687
Assets held for University affiliates	-	16,286,918	-	-	-	-	16,286,918
Total liabilities	110,832,044	222,048,085	3,823,103	(92,878,396)	1,354,849	68,087,076	313,266,761
Net assets	35,243,235	-	7,768,701	685,284,690	22,634,801	990,676,538	1,741,607,965
Total liabilities and net assets	$ 146,075,279	$ 222,048,085	$ 11,591,804	$ 592,406,294	$ 23,989,650	$ 1,058,763,614	$ 2,054,874,726

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

Statement of Revenues, Expenses, and Changes in Net Assets

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2011	*June 30, 2010*
Operating revenues		
Student fees	$ 1,145,260	$ 1,088,373
Less scholarship allowance	(189,079)	(170,091)
Federal grants and contracts	344,642	318,646
State and local grants and contracts	17,074	23,830
Nongovernmental grants and contracts	103,439	102,839
Sales and services of educational units	60,869	64,475
Other revenue	190,661	181,640
Auxiliary enterprises (net of scholarship allowance of $21,151 in 2011 and $18,750 in 2010)	330,550	323,571
Total operating revenues	**2,003,416**	**1,933,283**
Operating expenses		
Compensation and benefits	1,731,042	1,684,964
Student financial aid	165,299	150,779
Energy and utilities	68,534	64,031
Travel	40,219	36,930
Supplies and general expense	443,499	430,712
Depreciation and amortization expense	130,538	125,715
Total operating expenses	**2,579,131**	**2,493,131**
Total operating loss	**(575,715)**	**(559,848)**
Nonoperating revenues (expenses)		
State appropriations	549,917	549,755
Grants, contracts, and other	120,035	99,613
Investment income	89,644	103,265
Gifts	104,814	78,049
Interest expense	(33,155)	(32,401)
Net nonoperating revenues	**831,255**	**798,281**
Income before other revenues, expenses, gains, or losses	**255,540**	**238,433**
Capital appropriations	11,984	3,005
Capital gifts and grants	14,565	17,323
Additions to permanent endowments	45	545
Total other revenues	**26,594**	**20,873**
Increase in net assets	**282,134**	**259,306**
Net assets, beginning of year	**2,676,867**	**2,417,561**
Net assets, end of year	**$ 2,959,001**	**$ 2,676,867**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Activities
For the year ended June 30, 2011

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	**Foundation**	**University**	**Foundation**	**University**	**Total**
Revenue and support:						
Contributions, net	$ 2,208,752	$ 284,539	$ 56,470,962	$ 13,804	$ 40,339,715	$ 99,317,772
Investment income including net gains (losses), net of outside investment management fees	11,400,698	664,072	117,557,028	3,039,206	121,081,867	253,742,871
Management/administrative fees	13,874,180	(32,646)	(11,515,927)	-	(46,497)	2,279,110
Grants	-	-	4,453,000	-	-	4,453,000
Other income	7,829,333	-	6,521,780	355	578,983	14,930,451
Development service fees from the University	4,923,219	-	-	-	-	4,923,219
Net assets released from restriction	102,357,025	(224,006)	(101,585,569)	-	(547,450)	-
Total revenue and support	142,593,207	691,959	71,901,274	3,053,365	161,406,618	379,646,423
Expenditures:						
Program expenditures	107,308,037	18,971	-	-	201,747	107,528,755
Management and general	9,516,298	8,750	1,018,493	(72)	(411,145)	10,132,324
Fundraising	13,908,510	-	-	-	-	13,908,510
Change in value of split interest agreement obligation to life beneficiaries	(237,582)	(311,685)	(1,166,561)	(384,636)	(5,163,323)	(7,263,787)
Total expenditures	130,495,263	(283,964)	(148,068)	(384,708)	(5,372,721)	124,305,802
Change in net assets:						
Unrestricted	12,097,944	-	-	-	-	12,097,944
Temporarily restricted	-	975,923	72,049,342	-	-	73,025,265
Permanently restricted	-	-	-	3,438,073	166,779,339	170,217,412
Total change in net assets	12,097,944	975,923	72,049,342	3,438,073	166,779,339	255,340,621
Beginning net assets	23,145,291	6,792,778	613,235,348	19,196,728	823,897,199	1,486,267,344
Ending net assets	$ 35,243,235	$ 7,768,701	$ 685,284,690	$ 22,634,801	$ 990,676,538	$ 1,741,607,965

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

Statement of Cash Flows

(in thousands of dollars)	*Fiscal Year Ended June 30, 2011*	*June 30, 2010*
Cash flows from operating activities		
Student fees	$ 965,295	$ 917,302
Grants and contracts	485,029	470,505
Sales and services of educational activities	60,755	63,915
Auxiliary enterprise charges	324,455	331,501
Other operating receipts	171,533	184,325
Payments to employees	(1,710,221)	(1,661,635)
Payments to suppliers	(559,301)	(523,649)
Student financial aid	(164,140)	(154,558)
Student loans collected	12,008	8,231
Student loans issued	(2,667)	(5,287)
Net cash used in operating activities	**(417,254)**	**(369,350)**
Cash flows from noncapital financing activities		
State appropriations	540,221	549,755
Nonoperating grants and contracts	120,035	99,613
Gifts and grants received for other than capital purposes	103,806	80,592
Direct lending receipts	615,100	584,784
Direct lending payments	(615,866)	(584,813)
Net cash provided by noncapital financing activities	**763,296**	**729,931**
Cash flows from capital and related financing activities		
Capital appropriations	11,984	3,005
Capital grants and gifts received	9,618	18,456
Purchase of capital assets	(232,859)	(244,778)
Proceeds from issuance of capital debt, including refunding activity	16,610	180,073
Principal payments on capital debt, including refunding activity	(58,722)	(49,909)
Principal paid on capital leases	(1,265)	(1,464)
Interest paid on capital debt and leases	(49,099)	(45,850)
Net cash used in capital and related financing activities	**(303,733)**	**(140,467)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	3,642,358	2,633,797
Investment income	30,674	72,718
Purchase of Investments	(3,806,524)	(2,808,228)
Net cash used in investing activities	**(133,492)**	**(101,713)**
Net increase (decrease) in cash and cash equivalents	**(91,183)**	**118,401**
Cash and cash equivalents, beginning of year	**671,293**	**552,892**
Cash and cash equivalents, end of year	**$ 580,110**	**$ 671,293**

See accompanying notes to the financial statements.

Statement of Cash Flows

(continued from previous page)

(in thousands of dollars)	*Fiscal Year Ended* *June 30, 2011*	*June 30, 2010*
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (575,715)	$ (559,848)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	130,538	125,715
Loss on disposal of capital assets	3,675	4,487
Changes in assets and liabilities:		
Accounts receivable	2,185	(7,091)
Inventories	1,001	(1,297)
Other assets	891	(6,579)
Notes receivable	4,427	2,722
Accounts payable and accrued liabilities	5,808	25,249
Deferred revenue	7	34,466
Assets held in custody for others	1,457	6,376
Other noncurrent liabilities	8,472	6,450
Net cash used in operating activities	**$ (417,254)**	**$ (369,350)**

See accompanying notes to the financial statements.

Indiana University Notes to the Financial Statements

June 30, 2011 and June 30, 2010

Note 1—Organization and Summary of Significant Accounting Policies

ORGANIZATION

Indiana University (university) is a state-supported institution that is fiscally responsible for operations and has students enrolled on seven campuses. Campuses are located in Bloomington, Indianapolis (IUPUI), Richmond (East), Kokomo, Gary (Northwest), South Bend, and New Albany (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, under Indiana Code Section IC 20-12-23, in 1838, changing the name of its predecessor, Indiana College, to Indiana University. The university's governing body, the Trustees of Indiana University (trustees), is comprised of nine members charged by the Indiana General Assembly 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 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

As a component unit of the state, the university presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, within the financial reporting guidelines established by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and with accounting principles generally accepted in the United States of America, as prescribed by GASB. The university reports on a consolidated basis, with a comprehensive, entity-wide presentation of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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, as required by GASB Statement No. 14, *The Financial Reporting Entity.* As additionally required by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, organizations that raise and hold economic resources for the direct benefit of the university are included in the reporting entity. The university evaluates potential component units for inclusion in the reporting entity based on these criteria.

DISCRETE 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 according to the criteria in GASB No. 39 and the university's financial statements include discrete presentation of the IU Foundation by displaying the IU Foundation's audited financial statements 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 $102,174,000 and $145,704,000 to the university during fiscal years 2011 and 2010, 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.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared by the university operating as a special-purpose government entity engaged in business-type activities. Accordingly, these financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Eliminations have been made to minimize the "double-counting" of internal activities.

The university applies all applicable GASB pronouncements. In addition, the university has elected to apply only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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.

CASH EQUIVALENTS

The university considers all highly liquid investments with maturities of three months or less to be cash equivalents. The university invests operating cash in investments with varying maturities.

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 Assets.

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 consist 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 and with cost greater than or equal to 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. 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 REVENUE

Deferred revenue is recorded for amounts received for student tuition and fees and for certain auxiliary goods and services prior to year end, but which relate to the subsequent fiscal year. Amounts received from contract and grant sponsors that have not yet been earned are also recorded as deferred revenue.

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 ASSETS

The university's net assets are classified for financial reporting in the following net asset categories:

- *Invested in capital assets, net of related debt:* This component of net assets includes capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction, or improvement of those assets.
- *Restricted net assets—nonexpendable:* Nonexpendable restricted net assets 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 net assets—expendable:* Restricted expendable net assets are resources the university is legally obligated to spend in accordance with externally imposed restrictions.
- *Unrestricted net assets:* Unrestricted net assets 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. Other nonoperating revenues include significant revenue sources that are relied upon for operations, such as state appropriations 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 Assets. 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.

Note 2—Deposits and Investments

DEPOSITS

The combined bank balances of the university's demand deposits were $71,123,000 and $6,920,000 at June 30, 2011 and 2010, respectively. The university had balances in excess of Federal Deposit Insurance Corporation limits in the amount of $4,994,000 and $6,170,000 at June 30, 2011 and 2010, respectively. The balance in excess of FDIC limits in 2011 is subject to custodial credit risk. The 2010 balance, deposited in approved financial institutions and in excess of the limits of coverage by federal deposit insurance, were covered by the Public Deposit Insurance Fund, created to protect the public funds of the State of Indiana and its political subdivisions. 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.

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, 2011 and 2010, the university had investments and deposits, including endowment funds, as shown as follows:

(dollar amounts presented in thousands)

	Fair Value	
Investment Type	*June 30, 2011*	*June 30, 2010*
Money market funds	$ 570,718	$ 702,168
Corporate bonds	379,826	310,373
External investment pools	201,442	163,132
Government mortgage-backed securities	191,625	99,403
Government bonds	133,040	151,569
Asset-backed securities	91,646	82,448
Commercial mortgage-backed	63,133	52,811
Short-term bills and notes	57,798	10,643
Government agencies	41,448	47,722
Nongovernment backed C.M.O.s	23,836	25,257
Municipal/provincial bonds	12,091	7,576
Guaranteed fixed income	9,632	9,353
Commercial paper	6,598	6,095
Venture capital	4,090	3,023
Real estate	2,260	3,165
Mutual funds	1,667	1,132
Index-linked government bonds	1,258	1,358
All other	(27,716)	(44,192)
Total	**$ 1,764,392**	**$ 1,633,036**

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'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, 2011:

(dollar amounts presented in thousands)

	Fair Value	*Investment Maturities (in years)*			
Investment Type	*June 30, 2011*	*Less than 1*	*1–5*	*6–10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 379,826	$ 35,128	$ 202,041	$ 102,560	$ 40,097
Government mortgage backed securities	191,625	43,600	1,192	24,628	122,205
Government bonds	133,040	4,938	40,996	54,746	32,360
Asset backed securities	91,646	1,669	67,095	11,174	11,708
Commercial mortgage–backed	63,133	–	–	1,539	61,594
Short–term bills and notes	57,798	57,798	–	–	–
Government agencies	41,448	14,237	20,286	5,192	1,733
Non–government backed C.M.O.s	23,836	–	1,258	3,936	18,642
Municipal/provincial bonds	12,091	371	4,312	1,281	6,127
Guaranteed fixed income	9,632	4,185	5,447	–	–
Commercial paper	6,598	6,598	–	–	–
Index–linked government bonds	1,258	–	–	–	1,258
Other fixed income	6,823	2,978	3,044	1,459	(658)
Total investments with maturity date	**1,018,754**	**171,502**	**345,671**	**206,515**	**295,066**
Investments with undetermined maturity date					
Money market funds	570,718	570,718	–	–	–
External investment pools	201,442	201,442	–	–	–
Venture capital	4,090	4,090	–	–	–
Real estate	2,260	2,260	–	–	–
Mutual funds	1,667	1,667	–	–	–
All other	(34,539)	(34,539)	–	–	–
Total investments with undetermined maturity date	**745,638**	**745,638**	**–**	**–**	**–**
Total	**$ 1,764,392**	**$ 917,140**	**$ 345,671**	**$ 206,515**	**$ 295,066**

The university had investments with the following maturities at June 30, 2010:

(dollar amounts presented in thousands)

	Fair Value	Investment Maturities (in years)			
Investment Type	*June 30, 2010*	*Less than 1*	*1–5*	*6–10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 310,373	$ 35,012	$ 132,651	$ 83,053	$ 59,657
Government bonds	151,569	2,482	57,106	65,183	26,798
Government mortgage backed securities	99,403	8,575	1,827	18,818	70,183
Asset backed securities	82,448	4,598	55,219	13,396	9,235
Commercial mortgage–backed	52,811	-	765	1,292	50,754
Government agencies	47,722	1,651	41,567	3,003	1,501
Non–government backed C.M.O.s	25,257	–	1,524	821	22,912
Short–term bills and notes	10,643	10,643	–	–	–
Guaranteed fixed income	9,353	504	8,849	–	–
Municipal/provincial bonds	7,576	1,012	4,279	359	1,926
Commercial paper	6,095	6,095	–	–	–
Index–linked government bonds	1,358	–	–	–	1,358
Other fixed income	3,819	41	3,018	(89)	849
Total investments with maturity date	**808,427**	**70,613**	**306,805**	**185,836**	**245,173**
Investments with undetermined maturity date					
Money market funds	702,168	702,168	–	–	–
External investment pools	163,132	163,132	–	–	–
Real estate	3,165	3,165	–	–	–
Venture capital	3,023	3,023	–	–	–
Mutual funds	1,132	1,132	–	–	–
All other	(48,011)	(48,011)	–	–	–
Total investments with undetermined maturity date	**824,609**	**824,609**	**–**	**–**	**–**
Total	**$ 1,633,036**	**$ 895,222**	**$ 306,805**	**$ 185,836**	**$ 245,173**

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, 2011 and 2010, university investments had debt securities with associated credit ratings as shown below:

(dollar amounts presented in thousands)

Credit Quality Rating	*Fair Value June 30, 2011*	*Percentage of Total Pool*	*Fair Value June 30, 2010*	*Percentage of Total Pool*
AAA	$ 343,755	19.48%	$ 582,193	35.65%
AA	140,345	7.95%	46,763	2.86%
A	163,559	9.27%	124,023	7.59%
BBB	114,146	6.47%	114,622	7.02%
BB	62,705	3.55%	44,574	2.73%
B	20,198	1.14%	19,362	1.19%
CCC	8,319	0.47%	7,707	0.47%
CC	625	0.04%	–	–
D	1,970	0.11%	–	–
Not Rated	908,770	51.52%	693,792	42.49%
Total	**$ 1,764,392**	**100.00%**	**$ 1,633,036**	**100.00%**

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. As of June 30, 2011, and June 30, 2010, the university's investments were not exposed to foreign currency risk.

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 5% of the twelve quarter rolling average of pooled fund values. 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, 2011, all endowments held with the IU Foundation were invested in pooled funds.

Interest Rate Risk

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund be invested in securities that typically mature within one year and each investment grade fixed income investment manager maintain duration within +/-20% of the effective duration of the appropriate benchmark.

Credit Risk

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund commercial paper be rated 'A1/P1' and that the average quality of the fixed income securities be maintained at 'A' or better, except for high-yield. For high-yield securities, the weighted average credit quality of the portfolio should be 'B' or better at all times.

Concentration of Credit Risk

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund, with the exception of U.S. Treasuries and Agencies, or accounts collateralized by Treasuries or Agencies, limit 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. 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.

DERIVATIVES

A derivative is a unique and often complex financial arrangement between the university and another party. The value of a derivative or the cash it provides is based on changes in market prices, such as interest rates or commodity prices, in a separate transaction or agreement.

Derivatives are entered into for at least four reasons:

- As an investment
- As a hedge to reduce a specific financial risk
- To lower borrowing costs
- To manage cash flows

The university holds derivative instruments, such as futures, forwards, options, and swaps in its portfolio for investment purposes only. The fair value of derivatives held by the university was $1,456,000 and ($749,000) at June 30, 2011 and June 30, 2010, respectively. The notional market value was $47,430,000 and ($5,963,000) at June 30, 2011 and June 30, 2010, respectively. The change in fair value was $62,000 and ($253,000) in fiscal years 2011 and 2010, respectively.

Credit Risk, Interest Rate Risk and Foreign Currency Risk

Derivative transactions involve, to varying degrees, credit risk, interest rate risk, and foreign currency risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Interest rate risk is the possibility that a change in interest rates will cause the value of a financial instrument to decrease or become more costly to settle. Foreign currency risk is the possibility that changes in exchange rates will adversely affect the cash flows or fair value of a transaction. The credit risk, interest rate risk, and foreign currency risk associated with derivatives, the prices of which are constantly fluctuating, are regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake.

Note 3—Securities Lending

State statutes and policy of the Trustees of Indiana University permit the university to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The university's custodial bank manages the securities lending program and receives cash, U.S. government securities, or irrevocable letters of credit as collateral. Noncash collateral cannot be pledged or sold unless the borrower defaults. Cash collateral is invested in a short-term investment pool. Cash collateral may also be invested separately in "term loans," in which case the investment term matches the loan term. Maintenance margins for same currency U.S. equity and fixed income securities and international fixed income securities are 101.5%. Maintenance margins for different or cross currency U.S. and international equity and fixed income securities are 104.5%. Security loans can be terminated on demand by either the university or the borrowers. Cash received as securities lending collateral was $118,177,000 and $81,219,000 at June 30, 2011 and 2010, respectively, and is recorded as an asset and corresponding liability on the university's Statement of Net Assets. The university had securities involved in loans with fair value of $115,778,000 and $79,383,000 at June 30, 2011 and 2010, respectively. Credit risk is calculated as the aggregate of the lender's exposure to individual borrowers or on individual loans. Although collateralized, the university would bear risk if the cash collateral is impaired.

Note 4—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2011 and 2010:

(dollar amounts presented in thousands)

	June 30, 2011	*June 30, 2010*
Student accounts	$ 35,066	$ 35,985
Auxiliary enterprises and other operating activities	51,883	51,910
State appropriations	9,697	-
Federal, state, and other grants and contracts	21,760	21,083
Capital appropriations and gifts	1,599	4,242
Other	10,580	7,343
Current accounts receivable, gross	**130,585**	**120,563**
Less allowance for uncollectible accounts	(9,479)	(9,476)
Current accounts receivable, net	**121,106**	**111,087**
Auxiliary enterprises and other operating activities	12,327	13,445
Noncurrent accounts receivable	**$ 12,327**	**$ 13,445**

Note 5—Capital Assets

Fiscal year ended June 30, 2011

(dollar amounts presented in thousands)

	Balance June 30, 2010	Additions	Transfers	Retirements	Balance June 30, 2011
Assets not being depreciated:					
Land	$ 53,183	$ 1,256	$ –	$ –	$ 54,439
Art & museum objects	74,215	4,844	–	–	79,059
Construction in progress	168,155	100,254	(113,846)	223	154,340
Total capital assets not being depreciated	295,553	106,354	(113,846)	223	287,838
Other capital assets:					
Infrastructure	155,243	4,601	231	–	160,075
Intangibles	–	2,690	–	–	2,690
Land improvements	30,268	3,074	967	–	34,309
Equipment	398,800	28,805	5,139	37,289	395,455
Library books	211,716	23,405	–	16,813	218,308
Buildings	2,893,943	71,443	107,509	11,339	3,061,556
Total other capital assets	3,689,970	134,018	113,846	65,441	3,872,393
Less accumulated depreciation for:					
Infrastructure	122,369	4,015	–	–	126,384
Intangibles	–	336	–	–	336
Land improvements	9,469	1,797	–	–	11,266
Equipment	275,665	33,412	–	34,911	274,166
Library books	99,381	21,511	–	16,813	104,079
Buildings	1,161,877	69,466	–	9,576	1,221,767
Total accumulated depreciation, other capital assets	1,668,761	130,537	–	61,300	1,737,998
Capital assets, net	**$ 2,316,762**	**$ 109,835**	**$ –**	**$ 4,364**	**$ 2,422,233**

Fiscal year ended June 30, 2010

(dollar amounts presented in thousands)

	Balance June 30, 2009	Additions	Transfers	Retirements	Balance June 30, 2010
Assets not being depreciated:					
Land	$ 53,057	$ 126	$ –	$ –	$ 53,183
Art & museum objects	73,672	543	–	–	74,215
Construction in progress	224,840	130,988	(186,643)	1,030	168,155
Total capital assets not being depreciated	351,569	131,657	(186,643)	1,030	295,553
Other capital assets:					
Infrastructure	149,790	3,284	2,169	–	155,243
Land improvements	26,648	3,438	182	–	30,268
Equipment	366,912	30,809	17,348	16,269	398,800
Library books	207,621	23,430	–	19,335	211,716
Buildings	2,670,587	57,361	166,944	949	2,893,943
Total other capital assets	3,421,558	118,322	186,643	36,553	3,689,970
Less accumulated depreciation for:					
Infrastructure	118,344	4,025	–	–	122,369
Land improvements	7,940	1,529	–	–	9,469
Equipment	254,842	34,020	–	13,197	275,665
Library books	97,820	20,896	–	19,335	99,381
Buildings	1,097,058	65,245	–	426	1,161,877
Total accumulated depreciation, other capital assets	1,576,004	125,715	–	32,958	1,668,761
Capital assets, net	**$ 2,197,123**	**$ 124,264**	**$ –**	**$ 4,625**	**$ 2,316,762**

Note 6—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2011 and 2010:

(dollar amounts presented in thousands)

	June 30, 2011	June 30, 2010
Accrued payroll	$ 40,663	$ 24,414
Accrual for compensated absences	41,585	42,608
Interest payable	17,617	24,746
Vendor and other payables	129,888	139,306
Total accounts payable and accrued liabilities	**$ 229,753**	**$ 231,074**

Note 7—Other Liabilities

Noncurrent liability activity for the fiscal years ended June 30, 2011 and 2010 is summarized as follows:

Fiscal year ended June 30, 2011

(dollar amounts presented in thousands)

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current
Bonds, notes, and capital leases payable	$ 943,970	$ 17,490	$ 62,120	$ 899,340	$ 50,077
Other liabilities:					
Deferred revenue	214,193	7	-	214,200	156,708
Assets held in custody for others	74,884	1,424	-	76,308	516
Compensated absences	64,023	21,111	19,345	65,789	41,586
Other	37,135	5,655	6,680	36,110	-
Total other liabilities	390,235	28,197	26,025	392,407	198,810
Total noncurrent liabilities	**$ 1,334,205**	**$ 45,687**	**$ 88,145**	**$ 1,291,747**	**$ 248,887**

Fiscal year ended June 30, 2010

(dollar amounts presented in thousands)

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Current
Bonds, notes, and capital leases payable	$ 815,782	$ 181,823	$ 53,635	$ 943,970	$ 61,997
Other liabilities:					
Deferred revenue	179,727	34,466	-	214,193	151,319
Assets held in custody for others	68,486	6,398	-	74,884	550
Compensated absences	54,281	30,921	21,179	64,023	42,608
Other	44,128	5,246	12,239	37,135	-
Total other liabilities	346,622	77,031	33,418	390,235	194,477
Total noncurrent liabilities	**$ 1,162,404**	**$ 258,854**	**$ 87,053**	**$ 1,334,205**	**$ 256,474**

Note 8 — 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. The outstanding bond and note indebtedness at June 30, 2011 and 2010, was $896,002,000 and $940,221,000, respectively. This indebtedness included principal outstanding at June 30, 2011 and 2010, for bonds issued under Indiana Code (I.C.) 21-34-6 (Student Fee debt) of $464,428,000 and $507,317,000, respectively, and for bonds issued under IC 21-35-3 (Revenue debt) of $375,630,000 and $373,595,000, respectively. The Student Fee Bonds have an additional accreted value of outstanding capital appreciation bonds associated with them of $24,142,000 and $37,113,000, respectively. The outstanding bond series include serial, term, and capital appreciation bonds with maturities extending to June 1, 2038.

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 I.C. 21-34-6 for certain academic facilities. Such academic facilities include classrooms, libraries, laboratories, utility infrastructure, and other academic 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 modified on a biennial basis because the Constitution of the State of Indiana prohibits a sitting General Assembly from binding subsequent General Assemblies as to the continuation of any appropriated 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 40 years ago. The outstanding principal balances which are eligible for fee replacement appropriations, as of June 30, 2011 and 2010, are $409,737,000 and $447,043,000, respectively. As of June 30, 2011, debt service payments to maturity total $1,304,984,000, of which $571,494,000 represents bonds eligible for fee replacement appropriations.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CAB). 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 which time the investor receives a single payment representing both the initial principal amount and the total investment return. A CAB pays no current interest, but accretes in value from the date of issuance to the date of maturity. At maturity, the original par amount plus all of the accreted interest is payable. Total debt service payments to maturity, as of June 30, 2011, include $42,625,000 of CAB payments, of which $16,325,000 is eligible for fee replacement appropriations. Total debt service payments to maturity, as of June 30, 2010, include $69,320,000 of CAB payments, of which $43,020,000 is eligible for fee replacement appropriations.

Consolidated Revenue Bonds (CRB) 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 second, 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. Certificates of Participation in lease payments between the university as lessee and IUBC as lessor are included in the outstanding indebtedness table under I.C. 21-33-3-5 and are classified as notes payable.

As of June 30, 2011 and 2010, outstanding indebtedness from bonds and notes is summarized as follows:

(dollar amounts presented in thousands)

Bonding Authority	*Interest Rates*	*Final Maturity Year Ended*	*Principal Outstanding At June 30, 2011*	*Principal Outstanding At June 30, 2010*
Indiana Code 21-34-6 (Bonds: Student Fee Debt)	2.00 to 6.40%	2033	$ 464,428	$ 507,317
Indiana Code 21-35-3 (Bonds: Revenue Debt)	2.00 to 5.64%	2038	375,630	373,595
Indiana Code 21-34-10-7 (Notes: Energy Savings Debt)	3.67 to 4.49%	2018	3,153	3,637
Indiana Code 21-33-3-5 (Notes: Certificates of Participation)	2.00 to 5.95%	2030	28,015	29,360
Subtotal bonds and notes payable			871,226	913,909
Add unamortized bond premium			28,605	30,622
Less deferred charges			(3,829)	(4,310)
Total bonds and notes payable			**$ 896,002**	**$ 940,221**

As of June 30, 2011, the university does not have any variable rate bonds or notes outstanding. The principal and interest requirements to maturity for bonds and notes 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
2012	$ 44,783	$ 1,894	$ 46,677	$ 48,812	$ 1,434	$ 50,246	$ 96,923
2013	45,185	1,960	47,145	42,217	1,369	43,586	90,731
2014	47,415	2,018	49,433	40,260	1,304	41,564	90,997
2015	50,804	2,090	52,894	36,385	1,232	37,617	90,511
2016	51,221	1,937	53,158	34,114	1,155	35,269	88,427
2017 - 2021	255,390	9,274	264,664	124,099	4,506	128,605	393,269
2022 - 2026	190,330	7,355	197,685	64,889	2,345	67,234	264,919
2027 - 2031	117,005	4,640	121,645	23,363	530	23,893	145,538
2032 - 2036	33,415	-	33,415	5,403	-	5,403	38,818
2037 - 2038	4,510	-	4,510	341	-	341	4,851
Total	**$ 840,058**	**$ 31,168**	**$ 871,226**	**$ 419,883**	**$ 13,875**	**$ 433,758**	**$ 1,304,984**

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, 2011, the only previously defeased bonds that remain outstanding are Series N bonds with principal outstanding of $6,795,000 and a call date of August 1, 2011.

In February 2009, the United States Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA allows certain tax advantages to state and local governmental entities when such entities issue qualifying taxable obligations, referred to as Build America Bonds (BABs). Issuers of BABs are eligible to receive subsidy payments from the U.S. Treasury equal to 35 percent of the corresponding interest payable on the related BABs. The BABs provisions in the 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 that are issued prior to the expiration of the program. Bond and note interest shown above has not been reduced by any federal interest subsidy due on taxable BABs. The total federal interest subsidy scheduled to be received over the life of the BABs debt outstanding as of June 30, 2011 is $37,632,000.

On March 10, 2011, the university issued Consolidated Revenue Bonds, Series 2011A with a par amount of $16,040,000. The purpose of the issue was to provide financing for the construction of the Sports Complex Garage Expansion on the Indianapolis campus. The true interest cost for the bonds is 4.07%.

Note 9—Lease Obligations

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. Some leases are in substance lease-purchases and, as such, are recorded as capital lease obligations.

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

(dollar amounts presented in thousands)

	Capital	*Operating*
2012	$ 1,436	$ 12,710
2013	1,237	8,280
2014	659	7,267
2015	258	6,542
2016	57	6,165
2017-2021	–	5,901
2022-2026	–	1,604
2027-2028	–	353
Total future minimum payments	3,647	**$ 48,822**
Less: interest	(309)	
Total principal payments outstanding	**$ 3,338**	

Note 10—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 $705,000 and $242,000 for health professions and nursing loan programs for fiscal years ended June 30, 2011 and 2010, respectively.

Liabilities at June 30, 2011 and 2010, for loan programs were as follows:

(dollar amounts presented in thousands)

	June 30, 2011	*June 30, 2010*
Current portion of assets held in custody for others	$ 516	$ 550
Noncurrent liabilities:		
Federal share of interest	38,896	37,407
Perkins loans	18,935	19,375
Health professions loans	16,617	16,346
Nursing loans	1,344	1,206
Total noncurrent portion of assets held in custody for others	75,792	74,334
Total assets held in custody for others	**$ 76,308**	**$ 74,884**

Note 11—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 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 $750,000 of any worker's compensation claim. Excess commercial coverage for up to $1,000,000 is in place for employer liability claims. Worker's compensation claims above $750,000 are subject to statutory limits.

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 $26,435,000 and $33,099,000 at June 30, 2011 and 2010, respectively. In addition, a potential claims fluctuation liability of $9,876,000 has been recorded at June 30, 2011 and 2010.

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.

Note 12—Retirement Plans

The university provided retirement plan coverage to 18,645 and 18,690 active employees, as of June 30, 2011 and 2010, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

Indiana Public Employees' Retirement Fund

The university contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. PERF administers the multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. All support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment participate in the PERF plan. There were 6,678 and 6,892 active university employees covered by this retirement plan as of June 30, 2011 and 2010, 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 reviewing the Annual Report online at www.in.gov/inprs/annual reports.htm.

Contributions made by the university totaled $21,404,000 and $20,551,000 for fiscal years ended June 30, 2011 and 2010, respectively. This represented a 7.0% and 6.5% university pension benefit contribution for fiscal years ended June 30, 2011 and 2010, 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 with 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 portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities. 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 July 1, 2009.

Actuarial assumptions include: (a) an investment rate of return of 7.25%, (b) projected salary increases of 4%, 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[1] Ended June 30, 2010	*Fiscal Year Ended June 30, 2009*
Annual required contribution	$ 14,699	$ 13,330
Interest on net pension obligation	(312)	(290)
Adjustment to annual required contribution	355	330
Annual pension cost	14,742	13,370
Contributions made	(14,016)	(13,681)
Increase/(decrease) in net pension obligation	726	(311)
Net pension obligation, beginning of year	(4,307)	(3,996)
Net pension obligation, end of year	**$ (3,581)**	**$ (4,307)**

[1]*Actuarial data for 2011 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, 2008	$ 11,995	107%	$ (3,996)
June 30, 2009	13,370	102%	(4,307)
June 30, 2010	14,742	95%	(3,581)

[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 $66,860,000 during fiscal year ended June 30, 2011, and $65,418,000 during fiscal year ended June 30, 2010, to TIAA-CREF for the IU Retirement Plan. The university contributed $21,804,000 during fiscal year ended June 30, 2011, and $21,203,000, during fiscal year ended June 30, 2010, to Fidelity Investments for the IU Retirement Plan. Under this plan, 8,504 and 8,810 employees directed university contributions to TIAA-CREF as of June 30, 2011 and 2010, respectively. In addition, 4,138 and 3,635 employees directed university contributions to Fidelity Investments as of June 30, 2011 and 2010, respectively.

In addition to the above, the university provides early retirement benefits to appointed academic and professional staff employees Grade 16 and above. There were 1,173 and 1,215 active employees on June 30, 2011 and 2010, 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 $2,695,000 and $2,661,000 to IUSERP during fiscal years ended June 30, 2011 and 2010, respectively. The same class of employees hired prior to January 1, 1989, is covered by the 18/20 Retirement Plan, a combination of IRC Section 457(f) and Section 403(b) provisions. The 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, 2011, the university made total payments of $33,153,000 to 386 individuals receiving 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2010, the university made total payments of $32,928,000 to 394 individuals receiving 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, 730 Third Avenue, New York, NY 10017-3206.

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.

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, 2011 and 2010, 98 employees were eligible to participate. University contributions related to this plan totaled $1,677,000 and $1,479,000, for fiscal years ended June 30, 2011 and 2010, 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, 2010, for the fiscal year ended June 30, 2011, prepared as of July 1, 2009, for the fiscal year ended June 30, 2010, and prepared as of July 1, 2008, for the fiscal year ended June 30, 2009:

(dollar amounts presented in thousands)

	Fiscal Year Ended June 30, 2011	*Fiscal Year Ended June 30, 2010*	*Fiscal Year Ended June 30, 2009*
Cost of benefits earned during the year	$ 808	$ 659	$ 696
Amortization of unfunded actuarial accrued liabilities	767	710	473
Interest	102	110	94
Funding policy contribution	**$ 1,677**	**$ 1,479**	**$ 1,263**

The funded status of the IU Replacement Retirement Plan, as provided by the actuarial valuation reports for fiscal years ended June 30, 2011, 2010, and 2009, is as follows:

(dollar amounts presented in thousands)

Actuarial Valuation Date	*July 1, 2010*	*July 1, 2009*	*July 1, 2008*
Actuarial accrued liability (AAL)	$ 21,497	$ 17,713	$ 16,750
Actuarial valuation of plan assets	11,541	9,422	11,159
Unfunded actuarial liability	9,956	8,291	5,591
Actuarial value of assets as a percentage of (AAL) (funded ratio)	53.7%	53.2%	66.6%
Annual covered payroll	$ 8,643	$ 8,446	$ 8,612
Ratio of unfunded actuarial liability to annual covered payroll	115.2%	98.2%	64.9%

Actuarial assumptions include a 6.5% asset rate of return and future salary increases of 3% for the fiscal year ended June 30, 2011, and an 8% asset rate of return and future salary increases of 3% compounded annually for the fiscal year ended June 30, 2010. Liabilities are based on the projected unit credit method. The actuarial value of assets is equal to the fair 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, 730 Third Avenue, New York, NY 10017-3206.

Note 13 – 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. 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.

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 $1,088,000 and $1,066,000 in premiums in the fiscal years ended June 30, 2011 and 2010, respectively. The university contributed $52,512,000 and $52,613,000 to the consolidated OPEB Plan in fiscal years ended June 30, 2011 and 2010, 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 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 year ended June 30, 2011:

(dollar amounts presented in thousands)

	Fiscal Year Ended June 30, 2011	*Fiscal Year Ended June 30, 2010*
Annual required contribution (ARC)/Annual OPEB cost	$ 58,166	$ 57,859
Less employer contributions	52,512	52,613
Increase in OPEB obligation	5,654	5,246
Net OPEB obligation, beginning of year	13,903	8,657
Net OPEB obligation, end of year	$ 19,557	$ 13,903
Percentage of annual OPEB cost contributed	**90.28%**	**90.93%**

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the Plan was unfunded. The schedule of funding progress is below:

(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, 2010	–	$ 441,968	$ 441,968	0.0%	$ 959,198	46.1%
July 1, 2009	–	$ 443,276	$ 443,276	0.0%	$ 967,369	45.8%

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, 2011 actuarial valuation. The actuarial assumptions include a 4.5 percent investment rate of return, which is a blended rate of (a) the expected long-term investment returns on plan assets and (b) the university's investments which is calculated based on the funded level of the Plan at June 30, 2011; and an annual healthcare cost trend rate that ranges from 9% in fiscal year 2011 to 4.5% in fiscal year 2020. 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 14—Termination Benefits

In fiscal year 2011 the university offered certain employees an Early Retirement Incentive Plan (ERIP) intended to attain specific institutional objectives:

a. Achieve reduction in salary/wage and benefit expenses;
b. redirect positions to focus on higher priorities; and
c. avoid or minimize future involuntary reductions in personnel.

The ERIP provides three benefits not normally provided to separating employees:

1. Income Replacement Payment: A lump sum payment equal to 10-months pay for tenured faculty, clinical faculty, and librarians and equal to 6-months pay for any other academic employees and all staff employees.
2. Health Reimbursement Account (HRA): Five years of annual contributions to an account that reimburses employees for some healthcare expenses, such as premiums, deductibles, and copays. These annual HRA contributions will be based on the employee's current medical plan enrollment, from $6,000 for Employee Only coverage to $14,500 for Family coverage; with a reduction to $5,000 annually at Medicare age (65).
3. Medical Coverage until Medicare Age (65): Continuation in an IU-sponsored medical plan until age 65, by paying the full premium. (Employees with IU Retiree Status may participate in a post-65 Medicare supplement medical plan.)

In fiscal year 2011 the university recognized an expense and liability in the amount of $14,295,000 for income replacement payments. The actuarial accrued liability associated with Other Post Employment Benefits was increased by $15,669,000 for health reimbursement account contributions.

Note 15—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 $284,848,000 and $240,011,000 at June 30, 2011 and 2010, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Note 16—Functional Expenses

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

Fiscal year ended June 30, 2011

(dollar amounts presented in thousands)

Functional Classification	Natural Classification: Compensation & Benefits	Utilities	Supplies & Expenses	Scholarships & Fellowships	Depreciation	Travel	Total
Instruction	$ 818,630	$ 735	$ 100,123	$ 15,119	$ –	$ 15,041	$ 949,648
Research	161,397	25	81,899	3,396	–	6,145	252,862
Public service	86,779	416	57,197	3,527	–	3,760	151,679
Academic support	199,436	57	33,312	3,322	–	5,128	241,255
Student services	70,135	10	20,554	709	–	1,424	92,832
Institutional support	117,171	598	12,343	3,585	–	1,876	135,573
Physical plant	75,363	62,873	56,336	6	–	149	194,727
Scholarships & fellowships	12,056	–	1,026	129,786	–	118	142,986
Auxiliary enterprises	190,075	3,820	80,709	5,849	–	6,578	287,031
Depreciation	–	–	–	–	130,538	–	130,538
Total operating expenses	**$ 1,731,042**	**$ 68,534**	**$ 443,499**	**$ 165,299**	**$ 130,538**	**$ 40,219**	**$ 2,579,131**

Fiscal year ended June 30, 2010

(dollar amounts presented in thousands)

Functional Classification	Natural Classification: Compensation & Benefits	Utilities	Supplies & Expenses	Scholarships & Fellowships	Depreciation	Travel	Total
Instruction	$ 780,546	$ 320	$ 101,417	$ 12,943	$ –	$ 13,921	$ 909,147
Research	152,063	19	71,210	2,978	–	5,603	231,873
Public service	85,801	430	51,474	3,522	–	3,576	144,803
Academic support	193,857	28	39,669	2,971	–	4,445	240,970
Student services	75,254	13	28,055	1,479	–	1,315	106,116
Institutional support	119,194	453	1,405	1,704	–	1,696	124,452
Physical plant	73,487	59,370	52,191	4	–	128	185,180
Scholarships & fellowships	9,940	–	535	120,065	–	19	130,559
Auxiliary enterprises	194,822	3,398	84,756	5,113	–	6,227	294,316
Depreciation	–	–	–	–	125,715	–	125,715
Total operating expenses	**$ 1,684,964**	**$ 64,031**	**$ 430,712**	**$ 150,779**	**$ 125,715**	**$ 36,930**	**$ 2,493,131**

Note 17—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 Resident 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 Assets	*Parking Operations*		*Housing Operations*	
	June 30, 2011	*June 30, 2010*	*June 30, 2011*	*June 30, 2010*
Assets				
Current assets	$ 39,876	$ 28,082	$ 112,002	$ 135,885
Capital assets, net	79,740	74,705	168,011	127,261
Total assets	**119,616**	**102,787**	**280,013**	**263,146**
Liabilities				
Current liabilities	6,263	5,544	10,377	6,578
Noncurrent liabilities	64,213	52,571	116,431	121,112
Total liabilities	**70,476**	**58,115**	**126,808**	**127,690**
Net assets				
Invested in capital assets, net of related debt	26,505	23,918	81,636	73,989
Unrestricted	22,635	20,754	71,569	61,467
Total net assets	**49,140**	**44,672**	**153,205**	**135,456**
Total liabilities and net assets	**$ 119,616**	**$ 102,787**	**$ 280,013**	**$ 263,146**

(dollar amounts presented in thousands)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Parking Operations		Housing Operations	
	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
Operating revenues	$ 22,742	$ 19,727	$ 63,396	$ 62,749
Depreciation expense	(3,291)	(3,121)	(4,292)	(4,625)
Other operating expenses	(12,976)	(11,285)	(41,070)	(41,869)
Net operating income	6,475	5,321	18,034	16,255
Nonoperating revenues (expenses)				
Grants, contracts, and other revenues	192	-	1,183	-
Interest expense	(1,726)	(1,986)	(1,931)	(2,184)
Net nonoperating revenues (expenses)	(1,534)	(1,986)	(748)	(2,184)
Other revenues (expenses)				
Capital gifts	-	-	15	-
Net other revenues (expenses)	-	-	15	-
Net transfers from (to) University Funds	(473)	(755)	448	62
Increase in net assets	**4,468**	**2,580**	**17,749**	**14,133**
Net assets				
Net assets, beginning of year	44,672	42,092	135,456	121,323
Net assets, end of year	**$ 49,140**	**$ 44,672**	**$ 153,205**	**$ 135,456**

(dollar amounts presented in thousands)

Condensed Statement of Cash Flows	Parking Operations		Housing Operations	
	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
Net cash provided (used) by:				
Operating activities	$ 9,551	$ 8,770	$ 26,007	$ 18,904
Noncapital financing activities	192	-	1,183	-
Capital and related financing activities	1,593	(1,296)	(50,919)	66,892
Net increase (decrease) in cash	11,336	7,474	(23,729)	85,796
Beginning cash and cash equivalent balances	26,835	19,361	135,035	49,239
Ending cash and cash equivalent balances	**$ 38,171**	**$ 26,835**	**$ 111,306**	**$ 135,035**

Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $39,895,000 at June 30, 2011, with remaining terms of 12 to 18 years. Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $43,015,000 at June 30, 2010, with remaining terms of less than one year to 19 years. Revenues of the activities are sufficient to meet the principal and interest requirements for the debt.

Note 18—Commitments and Loss Contingencies

Construction Projects

The university had outstanding commitments for capital construction projects of $146,604,000 and $138,611,000 at June 30, 2011 and 2010, respectively.

Note 19—Subsequent Event

On July 26, 2011, the university issued Student Fee Bonds Series U in the amount of $94,460,000. Par bonds of $32,030,000 were issued for new projects and $62,430,000 for refunding prior bonds. Series U Bond proceeds provided funds for the costs of acquiring, constructing and equipping a neurosciences research building at the Indianapolis campus and for acquiring land at the South Bend campus. Proceeds of the bonds were also used to refund certain outstanding Student Fee Bonds Series N, O, and P and to pay certain related costs of issuance. Certain Series N bonds were subject to a current refunding and redeemed prior to maturity on August 25, 2011. Certain Series O and Series P bonds were subject to an advance refunding to their first call dates of August 1, 2013 and August 1, 2014, respectively. The Series U bonds were issued under the authority of Indiana Code 21-34-6 (Student Fee Bonds). The true interest cost for the bonds is 2.96%. The refunding portion of the transaction generated future debt service savings of $6,646,000, which equates to a net present value savings of $5,663,000.

Refer to Note 8, Bonds and Notes Payable, for more information on long-term debt.

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)
7/1/2010	$ 11,541	$ 21,497	$ 9,956	53.7%	$ 8,643	115.2%
7/1/2009	9,422	17,713	8,291	53.2%	8,446	98.2%
7/1/2008	11,159	16,750	5,591	66.6%	8,612	64.9%

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)
7/1/2010	$ –	$ 441,968	$ 441,968	0.0%	$ 959,198	46.1%
7/1/2009	–	443,276	443,276	0.0%	967,369	45.8%
7/1/2008	–	488,523	488,523	0.0%	868,809	56.2%

Note 1 - Organization and Operations

The Indiana University Foundation, Inc. (the "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 (IUBC), Riley Children's Foundation, the Indiana University Research & Technology Corporation, Indiana University Health, Inc., formerly known as the Clarian Health Partners, Inc., the Indiana University Alumni Association, and certain medical practice plans), herein referred to as 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 fund raising 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.

Note 4 - Investments

A summary of total investment income, including net gains (losses) net of outside management fees for the year ended June 30, 2011 and 2010 consist of the following:

	2011	2010
Dividend, interest and other investment income	$ 8,766,433	$ 24,018,151
Net realized and unrealized gains on investments	249,785,736	95,447,882
Outside investment management fees	(4,809,298)	(3,707,427)
Total investment income, including net gains, net of outside investment management fees	$ 253,742,871	$ 115,758,606

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, 2011 and 2010:

	2011			
	Level 1	Level 2	Level 3	Total
Domestic equities	$ 289,114,491	$ 69,554,088	$ 484,298	$ 359,152,877
International equities	316,897,620	6,486	-0-	316,904,106
Domestic fixed income	44,635,780	105,539,966	2,981,685	153,157,431
International fixed income	-0-	23,746,554	-0-	23,746,554
Cash equivalents (includes securities in-transit of $18 million)	41,083,431	-0-	-0-	41,083,431
Alternative investments:				
Hedged equity funds	-0-	87,762,261	27,082,944	114,845,205
Absolute return funds	-0-	75,137,301	120,592,499	195,729,800
Venture capital funds	-0-	-0-	96,886,470	96,886,470
Buyout funds	-0-	-0-	104,916,485	104,916,485
Distressed/special situation funds	-0-	-0-	47,714,669	47,714,669
Real estate funds	8,877,246	-0-	69,246,866	78,124,112
Natural resource funds	-0-	-0-	75,981,990	75,981,990
Direct commercial real estate	-0-	-0-	15,682,812	15,682,812
Mortgage securities	-0-	-0-	722,006	722,006
Total	$ 700,608,568	$ 361,746,656	$ 562,292,724	$ 1,624,647,948

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Domestic equities	$ 296,451,410	$ 38,445,082	$ 487,851	$ 335,384,343
International equities	242,497,910	-0-	-0-	242,497,910
Domestic fixed income	30,627,429	81,168,081	-0-	111,795,510
International fixed income	(1,336)	11,386,548	-0-	11,385,212
Cash equivalents	14,297,954	-0-	-0-	14,297,954
Alternative investments:				
Hedged equity funds	-0-	66,746,585	30,103,413	96,849,998
Absolute return funds	-0-	14,087,066	157,874,534	171,961,600
Venture capital funds	-0-	-0-	76,116,188	76,116,188
Buyout funds	-0-	-0-	77,691,278	77,691,278
Distressed/special situation funds	-0-	-0-	38,749,724	38,749,724
Real estate funds	6,572,553	-0-	44,159,787	50,732,340
Natural resource funds	-0-	15,261,272	63,814,125	79,075,397
Direct commercial real estate	-0-	-0-	16,749,571	16,749,571
Mortgage securities	-0-	-0-	741,467	741,467
Total	$ 590,445,920	$ 227,094,634	$ 506,487,938	$ 1,324,028,492

Changes in Level 3 assets measured at fair value as of and for the years ended June 30, 2011 and 2010 follow:

	2011	**2010**
Beginning balance	$ 506,487,938	$ 447,480,014
Realized and unrealized gains (losses)	75,036,851	33,400,411
Purchases, sales and settlements	(5,260,948)	28,997,416
Net transfers in and/or out of Level 3	(13,971,117)	(3,389,903)
Ending balance	$ 562,292,724	$ 506,487,938

Included in the underlying US Government and agency debt instruments are futures, forwards, and option contracts that are considered derivative financial instruments. The carrying values of these derivative financial instruments are adjusted to net fair market value. Open positions as of June 30, 2011 and 2010 are summarized as follows:

	2011		2010	
	Notional Par	Net Fair Market Value Asset (Liability)	Notional Par	Net Fair Market Value Asset (Liability)
Futures:				
Eurodollars	$ 98,000,000	$ 218,750	$ 82,000,000	$ 694,350
90 Day Libor	-0-	-0-	-0-	-0-
Euribor	15,000,000	308,334	15,000,000	(523,796)
10 yr Euro	-0-	-0-	500,000	4,820
10 yr US	(2,100,000)	27,891	-0-	-0-
EURO-BOBL	600,000	15,312	-0-	-0-
Midcap Mini	-0-	-0-	37	(169,360)
Russell 2000 Mini	-0-	-0-	46	(170,200)
S&P 500 E-Mini	271	447,550	159	(420,555)
Forwards:				
US Government Agencies	$ 5,100,000	$ (55,042)	$ 300,000	$ 18,922

The gross and net credit risk associated with the related counterparties on these open futures and forwards positions is insignificant. The market risk for these futures and forwards is directly linked with exchange rates or market interest rates as the underlying securities bear a fixed rate of interest. The futures instruments required $2,289,733 and $1,256,969 in cash, as of June 30, 2011 and 2010, respectively. The related net gains generated were $3,549,514 and $5,525,318 for the years ended June 30, 2011 and 2010, respectively.

The Foundation's alternative investments include investments in: (1) private equity such as venture capital and leveraged buyout funds; and (2) absolute return and inflation hedge strategies, including opportunistic 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 52% in these types of investments. Following is a summary of the Level 2 and 3 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, 2011 follows:

	2011		2010		
	Fair Value	**Unfunded Commitments**	**Fair Value**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Hedged equity funds (a)	$ 114,845,205	$ -0-	$ 96,849,998	monthly, quarterly, semi-annually, annually	45-100 days
Absolute return funds (b)	195,729,800	7,900,000	171,961,600	monthly, quarterly, semi-annually, annually	45-90 days
Venture capital funds (c)	96,886,470	32,600,000	76,116,188		
Buyout funds (d)	104,916,485	79,300,000	77,691,278		
Distressed/special situation funds (e)	47,714,669	34,300,000	38,749,724		
Real estate funds (f)	78,124,112	48,400,000	44,159,787		
Natural resources funds (g)	75,981,990	33,600,000	79,075,397		
Total	$ 714,198,731	$ 236,100,000	$ 584,603,972		

(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, 2011, 58.2% of the total Marketable Alternative Investments (hedged equity and absolute return) could be redeemed in 0-6 months, 66.8% could be redeemed within 12 months, 80.5% could be redeemed within 24 months, and 85.1% could be redeemed within 36 months. The remaining 14.9% is designated as illiquid investments.

(c) This category includes several 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 IPO. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. 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, 2011.

(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. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. 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, 2011.

(e) This category includes several funds that are focused on distressed, mezzanine, or secondary investments, primarily in the United States. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. 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, 2011.

(f) This category includes several funds that invest primarily in U.S. commercial real estate, but also include real estate funds focused on Europe and Asia. The real estate exposure consists of publicly traded REIT funds (11.4%) and private partnerships (88.6%). Publicly traded REIT funds have daily liquidity. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. 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, 2011.

g) This category includes several funds that are focused on direct energy and timber. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. 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, 2011.

Note 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, 2011 and 2010 are as follows:

2011

	Temporarily Restricted		Permanently Restricted	
	Foundation	**University**	**Foundation**	**University**
Foundation operations	$ 7,768,701	$ -0-	$ 22,634,801	$ -0-
University Programs:				
Awards	-0-	6,486,245	-0-	8,025,341
Capital and capital improvements	-0-	77,268,183	-0-	2,344,855
Fellowships/lectureships	-0-	21,100,010	-0-	81,469,916
General endowments	-0-	229,753,802	-0-	224,798,229
Medical practice plans	-0-	33,096,842	-0-	-0-
Operations	-0-	69,800,767	-0-	5,016,297
Professorships/chairs	-0-	103,359,243	-0-	261,991,574
Research	-0-	30,100,572	-0-	37,382,524
Scholarships	-0-	114,319,028	-0-	369,647,802
Total	$ 7,768,701	$ 685,284,691	$ 22,634,801	$ 990,676,538

2010

	Temporarily Restricted		Permanently Restricted	
	Foundation	**University**	**Foundation**	**University**
Foundation operations	$ 6,792,778	$ -0-	$ 19,196,728	$ -0-
University Programs:				
Awards	-0-	6,020,632	-0-	6,675,687
Capital and capital improvements	-0-	81,603,584	-0-	1,970,202
Fellowships/lectureships	-0-	18,775,364	-0-	66,728,954
General endowments	-0-	201,482,175	-0-	188,424,560
Medical practice plans	-0-	27,599,363	-0-	-0-
Operations	-0-	63,524,470	-0-	3,058,373
Professorships/chairs	-0-	93,338,195	-0-	223,223,211
Research	-0-	24,426,121	-0-	26,381,724
Scholarships	-0-	96,465,444	-0-	307,434,488
Total	$ 6,792,778	$ 613,235,348	$ 19,196,728	$ 823,897,199

Note 10 - Contingencies and Commitments

The Foundation has borrowed $104,313,514 and $68,684,083 of restricted cash and cash equivalents as displayed in its Foundation Unrestricted, Foundation Temporarily Restricted, and Permanently Restricted assets as of June 30, 2011 and 2010, respectively, and has reported this interfund borrowing as "due to (from)" on the Statement of Financial Position. The Foundation assumes all risk associated with the composition of assets related to the Foundation's reinvestment of the temporarily restricted University monies. These borrowings were used to (1) acquire property, plant and equipment for the benefit of the University, (2) purchase investment securities, and (3) support on-going Foundation operations. Repayment of the borrowings is primarily dependent on the Foundation's ability to (1) generate future appreciation and income from investment securities, (2) receive future revenue from existing property leases arrangements with the University and (3) receive future unrestricted gifts. Management has currently developed initiatives to reduce such borrowings in the future and maintain an appropriate composition of assets to comply with all donor restrictions.

Interfund financing of $2,400,000 and $3,800,000 as of June 30, 2011 and 2010, respectively, represents amounts financed by the Foundation unrestricted net assets to the agency and temporarily restricted University net assets. The carrying value of interfund financing approximates fair market value, as the borrowing rates currently available to the Foundation are similar to the terms on remaining maturities. Interest rates are from 4.0% to 6.0% as of June 30, 2011 and June 30, 2010.

Note 11 - Program Expenditures

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, air services, Student Foundation, cultural center, 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, 2011 and 2010, a summary of these expenditures follows:

		2011 Unrestricted	
Program expenditures:	**Foundation**	**University***	**Total**
Grants and aid to the University:			
Operating support:			
University support	1,742,198	33,192,348	34,934,546
Student scholarship and financial aid	12,300	30,562,306	30,574,606
Faculty support	92,283	13,281,190	13,373,473
Faculty research	-0-	8,972,395	8,972,395
	1,846,781	86,008,239	87,855,020
Endowment and capital additions for the University:			
Land, building and equipment purchases	81,103	15,745,209	15,826,312
Library and art acquisitions	300	420,100	420,400
	81,403	16,165,309	16,246,712
Total program expenditures	$ 5,134,489	$ 102,173,548	$ 107,308,037

	2010		
		Unrestricted	
Program expenditures:	**Foundation**	**University***	**Total**
Foundation programs:			
Real estate	$ 4,052,917	$ -0-	$ 4,052,917
Student Foundation	516,477	-0-	516,477
Cultural center	159,047	-0-	159,047
Air Services	550,137	-0-	550,137
Women's programs	16,853	-0-	16,853
Miscellaneous	699	-0-	699
	5,296,130	-0-	5,296,130
Grants and aid to the University:			
Operating support:			
University support	1,995,797	33,875,388	35,871,185
Student scholarship and financial aid	53,482	31,294,232	31,347,714
Faculty support	1,027,433	11,376,973	12,404,406
Faculty research	-0-	47,370,601	47,370,601
	3,076,712	123,917,194	126,993,906
Endowment and capital additions for the University:			
Land, building and equipment purchases	122,293	21,151,225	21,273,518
Library and art acquisitions	-0-	635,306	635,306
	122,293	21,786,531	21,908,824
Total program expenditures	$ 8,495,135	$ 145,703,725	$ 154,198,860

*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 Statement of Activities as net assets released from restriction.

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for fiscal year ended June 30, 2011

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for fiscal year ended June 30, 2011

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

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Office of the Vice Provost for Research
601 E. Kirkwood Avenue, Franklin Hall 116
Bloomington, IN 47405
http://www.research.indiana.edu/leadership/index.html

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

Alumni
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Bloomington, IN 47408
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Acknowledgements

The following members of Financial Management Services prepared the *2010-2011 Financial Report* and the included financial statements:

Joan Hagen, Associate Vice President and University Controller
Dave Gooptu, Chief Accountant and Managing Director, Financial Management Services
William Overman, Manager of External Financial Reporting and University Chart
Melody Amato, External Reporting and Compliance
Aaron Pritchett, External Reporting and Compliance
Phyllis Taylor, Senior Communications Specialist

The following entities provided data essential in the preparation of the financial statements:

Construction Management
Indiana University Foundation
Office of the Treasurer
Real Estate
Risk Management
Student Information and Fiscal Services
University Architect's Office
University Human Resource Services

Photos courtesy of Office of University Communications and Financial Management Services.