



INDIANA UNIVERSITY

2008-09

Financial Report





INDIANA UNIVERSITY

**Financial
Report
2008-09**



INDIANA UNIVERSITY

Financial Report 2008–09

TABLE OF CONTENTS

Message from the President.....	4
Message from the Vice President and Chief Financial Officer	9
Management's Discussion and Analysis	12
Statement of Net Assets	20
IU Foundation– Statement of Financial Position.....	21
Statement of Revenues, Expenses, and Changes in Net Assets	22
IU Foundation– Statement of Activities	23
Statement of Cash Flows	24
Notes to the Financial Statements.....	26
Excerpts from the IU Foundation– Notes to Financial Statements	53
Independent Auditors' Report.....	60
Trustees and Administrative Officers of Indiana University	61
Additional Information.....	62
Acknowledgements	63

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 2008-09 Financial Report.

As you know, we continue to live in challenging times. The economic downturn facing this country has touched every one of us, and IU is no exception. Over the past year, we have taken a number of measures to trim our budget, increase revenue, and reallocate resources to priority areas. Those measures include:

- freezing all salaries at IU across the board
- putting strict hiring limits in place
- cutting travel budgets by 50 percent
- establishing a committee of health care experts to identify ways to hold down increases in health care costs
- cutting back on marketing and advertising expenses
- outsourcing our bookstores.

Even with these steps, we are not lowering our expectations for excellence, and we are not settling for more modest goals. As I have

often said, there is no security in mediocrity or complacency, and there is no safety in standing still. And IU is not standing still. We are continuing to move forward confidently—yet realistically—in the face of our economic challenges. At the same time, we are maximizing efficiency in order to fully meet the educational and economic development needs of Hoosiers across the state.

Ultimately, we know that we need to remain vigilant especially given the situation many families across Indiana are facing as a result of the economic decline.

MAKING A MAJOR ECONOMIC IMPACT

Such vigilance is crucial because of the central role IU plays throughout the state as we pursue our fundamental education and research missions.

According to recent reports, the total economic impact of IU across Indiana amounts to \$4.6 billion annually.¹ That includes only a fraction of the multi-billion dollar impact of Clarian Health Partners, a partnership formed in 1997 among IU, Methodist Hospital, and Riley Hospital for Children.

¹ "Indiana University Impact Study," Indiana Business Research Center, Kelley School of Business, Indiana University, 2008. <http://www.ibrc.indiana.edu/studies/IUimpact/>

Additionally, IU faculty, staff, and students donate tens of thousands of hours of volunteer service to enhance their communities. A conservative estimate of the economic benefit of that service amounts to over \$14 million annually. And IU leads the state in the number of degrees awarded with nearly 78,000 graduates between 2002 and 2007 alone. That is nearly half of the total number of all baccalaureate, professional, and graduate degrees granted by all colleges and universities in Indiana during that period.

ATTRACTING MORE AND BETTER-PREPARED STUDENTS

Higher education is counter-cyclical. In other words, when the economy declines, university enrollments tend to increase.

Last year, IU topped the 100,000 mark in student enrollment for the first time in its history, and IU Bloomington and IUPUI saw

record enrollments top the 40,000 and 30,000 marks, respectively. IU Bloomington also welcomed the largest, brightest, and most diverse freshman class in its history, as well as the largest number of beginning students from Indiana since 1998.

All of this suggests the confidence people place in IU and higher education in general. When times are tough, they turn to education as a means for improvement.

MAKING HIGHER EDUCATION AFFORDABLE

That confidence is reciprocal. Earlier this year, I underscored the confidence we all have in IU's alumni, supporters, and friends when I announced that we had raised the goal for our "Matching the Promise" fundraising campaign from \$1 billion to \$1.1 billion. This campaign, launched six years ago, was initiated to provide scholarships and fellowships to help keep IU affordable and attractive to high-achieving students, offer funding for faculty chairs to attract and retain leading academic talent, and to construct high-quality teaching and research facilities. We recently surpassed the \$1 billion threshold, and we are very confident that we

will be able to reach our ultimate \$1.1 billion goal sometime next year.

I am extremely proud to say that in the past few years—and with the generous support of our state legislators—we have made significant strides in affordability by increasing the amount available for financial aid grants to in-state undergraduate students by \$64 million to a total of \$210 million. That represents a 44 percent increase.

And we are continuing to do everything we can to increase this number. To this end, we recently announced an exciting new development at IU: our new "University Incentive Grants" program. Through this program, in-state, undergraduate students at IU will be able to earn \$200 to \$300 grants by taking a full course load and achieving a B average this academic year. This program is an expansion of the university's Degrees of Excellence initiative, which I announced two years ago and which is helping all of our campuses raise their rates of degree completion by Indiana students.



INCREASING RESEARCH PRODUCTIVITY

During fiscal year 2009, IU researchers submitted nearly 5,000 proposals for sponsored research worth well over a billion dollars, marking the first time our proposals broke the one billion dollar mark. IU faculty members were awarded \$469 million, the third-highest total in university history, which is especially impressive in the face of increasingly fierce competition for such funding.

This is also testimony to the tremendous quality of the research taking place across the university—research that is especially vital during these difficult economic times. We recently announced a \$15 million grant to lead the development of FutureGrid, a nationwide super-computer research network. In addition, to date IU researchers have received more than \$38 million of awards through the American Recovery and Reinvestment Act, the federal government's stimulus plan that is providing colleges and universities across the nation with increases in research funding.

We aim to increase our research productivity by establishing two schools of public health—one in

Bloomington and one in Indianapolis. Although their core missions will differ, the new schools will collaborate closely to increase the amount of external funding for public health research.

In addition to these changes, the School of Medicine is working to help the state avoid a shortage of health care professionals by expanding its regional medical education programs from 2-year to 4-year programs. This will involve increasing the number of first-year medical students accepted at certain regional medical education centers and developing clinical clerkships at regional centers.

Along with new developments like the Atwater Eye Center in Bloomington, the Medical Education Building in Fort Wayne, the College of Health and Human Services in Gary, the Glick Eye Institute and IU Simon Cancer Center in Indianapolis, and Harper Hall in South Bend, this initiative demonstrates IU's



commitment to educating the next generation of health care professionals and scientific researchers who aim to find cures for diseases that touch Hoosier lives.

BUILDING FOR A BETTER FUTURE

Despite all of our success in attracting research funding, IU has yet to meet its full potential as a research university. As I have stated repeatedly over the years, for our faculty to maximize their productivity as teachers, researchers, and scholars, they need more space, and the space we have must be improved where possible.



To this end, IU is in the midst of one of the largest construction efforts in decades. Indeed, this fall we are formally dedicating six new buildings, and we have 15 others under construction or in the planning stages across the university.



Among those we are dedicating is a new \$10 million business incubator in Bloomington. The 40,000 square-foot IU Innovation Center will make a transformative difference at IU, providing space for applied research projects in the life sciences and information technology.

Such space has been in very short supply on the IU Bloomington campus. In fact, some of our most talented and enterprising faculty have been driven to explore other space options as they attempt to nurture innovative technologies and launch new start-up companies in the life sciences and in IT. This incubator creates a new state-of-the-art home for those activities at IU.

MOVING RESEARCH TO THE MARKETPLACE

These activities have the potential to translate into big business.

Last spring, ANGEL Learning, an Indianapolis-based educational software provider developed almost a decade ago by faculty

members at IUPUI, was acquired by Blackboard Inc. in Washington, D.C., for \$100 million. This was the greatest success to date of a start-up company tied to university research, and we are currently undertaking a comprehensive assessment as to how we can more effectively foster the movement of even more promising ideas, processes, and products from IU laboratories to the marketplace.

These are the discoveries and ideas that will drive Indiana's economy in the 21st century.

EXPANDING OUR INTERNATIONAL PRESENCE

As we look toward the future, we cannot help but recognize the increasingly global nature of the Indiana economy. With an international export market of over \$26 billion, the state of Indiana ranks 14th in the nation.²

² "Indiana: Exports, Jobs, and Foreign Investments," U.S. Dept. of Commerce, International Trade Administration, Aug. 2009. http://www.trade.gov/td/industry/otea/state_reports/indiana.html

In this increasingly competitive global economy, it is vital that IU students expand their international experience. This is a matter of practical necessity. Already, 20 percent of students at IU Bloomington have studied abroad by the time they graduate. Over 2,000 IUB students studied abroad last year—a 22 percent increase over the previous year—and we are currently home to over 6,000 international students, nearly 15 percent of whom are from China. We are actively seeking expanded support for study abroad opportunities.

The university continues to value and expand its partnerships with universities across the globe. Last spring, IU organized the first international alumni reunion in Asia in over a decade. IU currently has more than 8,000 alumni and friends in Asia, and more than 1,200 of the university's 6,000 international students come from Korea each year.

With dramatically expanding economies and some of the world's premier systems of higher education, this region is providing significant educational and research opportunities for students and faculty. During our alumni reunion in Korea, the dean of IU's Maurer School of Law signed an agreement with Sungkyunkwan University on a joint J.D.-M.B.A.



program, which is the first of its kind between a U.S. law school and Asian business school. We also exchanged information with senior leaders at KAIST—considered by many to be the MIT of South Korea.

Indeed, we are working in many different ways to extend educational and research opportunities for our students and faculty around the world.

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 Vice President and Chief Financial Officer



Neil Theobald
Vice President and Chief Financial Officer,
Indiana University

Greetings to President Michael McRobbie and Trustees of Indiana University:

I am pleased to present the consolidated financial report for Indiana University (IU) for the fiscal year ended June 30, 2009. The economic maelstrom of the last year negatively impacted the balance sheets of universities across the US. According to a recent Wall Street Journal article, 20 universities have had their bond ratings downgraded and another 55 have been issued “negative outlooks” going forward. In such a context, I am pleased to note that not only did IU enter 2009 with one of the highest bond ratings among public universities in the country, but that in March of this year we became one of a handful of universities that Standard &

Poor’s gave a “positive outlook” for future financial performance.

IU’s financial success is due to:

- A state budget situation that—because of outstanding stewardship by Indiana’s leaders—is much better than is found in most other states.
- Robust support from externally-funded research, especially in IU’s core research initiatives in the life sciences and information technology.
- Skilled responsiveness demonstrated by IU’s Board of Trustees during last fall’s turmoil, which leaves IU well-positioned for the future. I would like to publically thank the Trustees’ Finance & Audit Committee Chair Tom Reilly for his leadership during this difficult period.

Thus, at a time when unemployment in the state and nation is nearing or exceeding 10%, the IU Trustees approved a 2009-10 budget plan that avoided layoffs, provided a \$500 bonus this fall to our lower-paid employees, and froze employee health care premiums at last year’s level. This budget is the first step in a long-term financial strategy that seeks to transform IU in four ways:





1. Create an even sharper focus by each of IU's seven campuses on their core mission—turning Hoosier teenagers into educated college graduates. Among Indiana's public higher education institutions, IU already is the leader in degree completion. In upcoming years, though, Hoosier families are likely to face new financial challenges. IU is committed to insuring that the cost of an IU bachelor's degree will not erode our leadership position in in-state graduation rates. At the beginning of this academic year, IU announced a merit scholarship program that will begin immediately, for all in-state undergraduate students meeting the following criteria: (a) Completion of 12 or more credit hours in Fall Semester 2009 and Spring Semester 2010 with grade point averages in each semester of 3.0 or higher; and (b) Enrollment in 12 or more credit hours in Fall Semester

2010. Currently, slightly more than one-half of IU's students would qualify for this grant. Our hope is that with the \$300 incentive being provided by IU Bloomington and IUPUI, and the \$200 incentive at our regional campuses, an even a higher percentage of Hoosiers will complete 12 hours per semester with minimum GPAs of 3.0.

2. A commitment to affordability at our flagship campus in Bloomington that is unmatched by any public university in America. All too often, public discussions of college tuition focus solely on the percentage increase in the sticker price. This narrow focus fails to recognize that students at Indiana University have benefited greatly from the sustained high levels of O'Bannon and 21st Century Scholarship funding provided by the Indiana General Assembly, the herculean fundraising efforts of the IU Foundation, and the truly groundbreaking financial aid initiatives created

by Indiana University over the last four years—highlighted by IU's nationally recognized 'wrap-around' 21st Century Covenant and Pell Promise financial aid programs.

3. IU is moving boldly to seek out and hire outstanding new faculty members, while retaining our current excellent faculty. The goal is to recruit and retain outstanding teachers and researchers who will ensure that IU remains fully capable of meeting the needs of our students and our state. An aggressive building plan will allow the IU School of Medicine to strengthen its biomedical and life sciences research capabilities, and IU Bloomington to expand its renowned technology capacity and broaden its array of arts facilities. These investments in improving the capacity of our faculty and quality of our facilities seek to capitalize on major opportunities available to IU in the current economic downturn. IU's relative financial strength



should advantage us in competing with other outstanding research universities for the most sought-after faculty. The current construction trough should allow IU to build new facilities at historically low costs.

4. Just as Hoosier families and Hoosier businesses are tightening their belts this year, IU is reducing on-going non-academic spending over the course of this year by more than \$20 million. IU is already recognized by Kiplingers and other observers as a “Best Buy” for higher education. These cost containment efforts seek to insure that IU remains a tremendous value among the country’s truly great universities.

These initiatives will assist the university in strengthening its world class reputation, building on its already rising academic rankings.

I encourage you to read the financial report and I appreciate the interest you have taken in Indiana University.

Sincerely,



Neil Theobald
Vice President, Chief Financial
Officer, and Professor



Management's Discussion and Analysis

Indiana University (university) presents its audited financial statements for the fiscal year ended June 30, 2009, along with comparative data for the fiscal years ended June 30, 2008 and 2007. Three statements are described in the following discussion and analysis: The Statement of Net Assets, which presents the assets, liabilities, and net assets of the university at the end of the fiscal year; the Statement of Revenues, Expenses, and Changes in Net Assets, which reflects revenues and expenses for the fiscal year; and the Statement of Cash Flows, which provides information on cash inflows and outflows for the university by major category during the fiscal year. The university has provided analysis of major variances that occurred between fiscal years 2008 and 2009 as well as information regarding capital asset and debt administration, and an economic outlook.

STATEMENT OF NET ASSETS

Total assets at June 30, 2009, were \$3.81 billion, an increase of \$130.8 million over the prior fiscal year. Net capital assets comprised \$2.2 billion of the \$3.81 billion in assets.

Total liabilities were \$1.4 billion at June 30, 2009,

which was a \$1.2 million decrease since June 30, 2008. Noncurrent liabilities comprised 67%, or \$935.7 million, of total liabilities at June 30, 2009.

Total net assets at June 30, 2009, were \$2.42 billion, a \$132.1 million increase over the prior year, or a 5.8% increase in net assets. The breakout of net assets is shown below for the last three years:

Comparative Statement of Net Assets

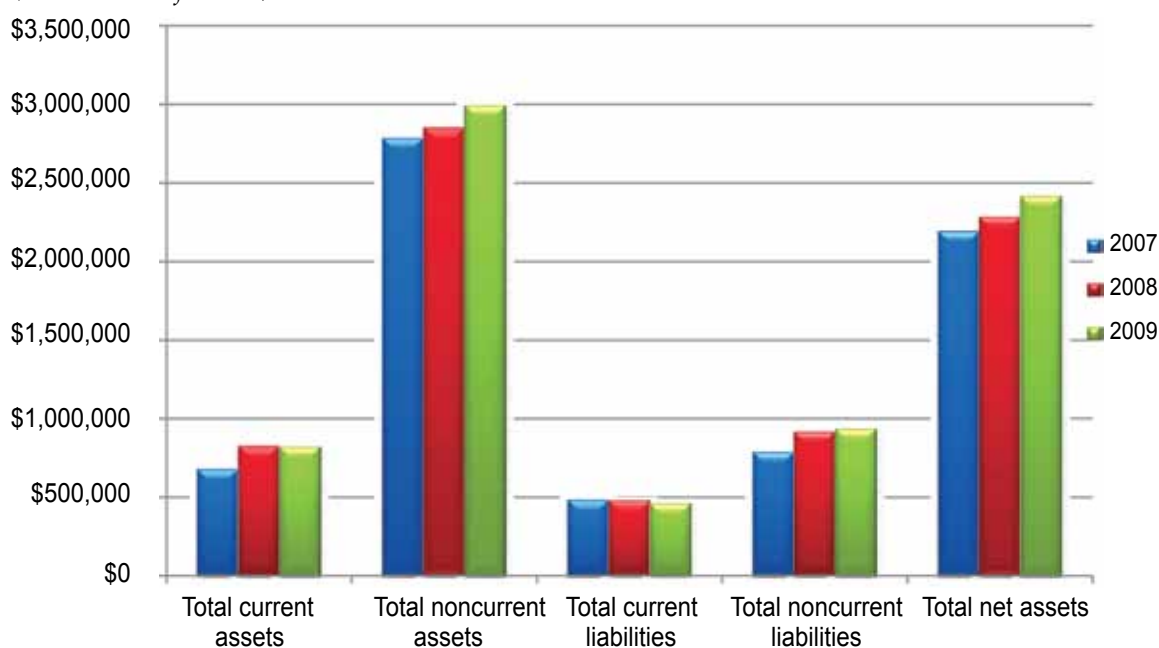
(in thousands of dollars)

	June 30, 2009	June 30, 2008	June 30, 2007
Invested in capital assets, net of related debt	\$ 1,475,395	\$ 1,336,766	\$ 1,304,656
Restricted net assets	157,711	211,828	223,977
Unrestricted net assets	784,455	736,896	663,995
Total net assets	\$ 2,417,561	\$ 2,285,490	\$ 2,192,628

The following chart displays the composition of assets and liabilities, both current and noncurrent, and net assets at June 30, 2007, 2008, and 2009:

Comparison of Statement of Net Assets at June 30, 2007, 2008, and 2009

(in thousands of dollars)



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Comparative Revenues, Expenses, and Changes in Net Assets

(in thousands of dollars)

	Fiscal Year Ended:		
	June 30, 2009	June 30, 2008	June 30, 2007
Operating revenues	\$ 1,874,070	\$ 1,722,616	\$ 1,692,210
Operating expenses	(2,434,854)	(2,287,359)	(2,223,932)
Total operating loss	(560,784)	(564,743)	(531,722)
Nonoperating revenues	694,456	717,332	726,892
Nonoperating expenses	(31,829)	(29,112)	(35,952)
Total other revenues	30,228	23,082	15,925
Increase in net assets	\$ 132,071	\$ 146,559	\$ 175,143

Revenues

University operating revenues for fiscal year ended June 30, 2009 increased by 8.8% over the previous fiscal year. The changes in revenues are as follows:

- Student fee revenues, net of scholarship allowances, were \$852.8 million in 2009 compared to \$764.1 million in 2008, an overall increase of 11.6%. This increase was due to a combination of increased student fee rates and enrollment growth.
- Federal grants and contracts were \$295.7 million in 2009, an increase of 1.7% over the previous fiscal year. This category of revenue includes funds received from the government for financial aid as well as sponsored research, training, and other sponsored activities.
- \$28.9 million in state and local grants and contracts were recognized for the fiscal year, compared to \$21.1 million in 2008.
- Nongovernmental grants and contracts were \$127

million, an increase of \$19.9 million over the previous fiscal year.

- Sales and services of educational units increased from \$48.9 million to \$61.5 million. This was a 25.7% increase from 2008. In 2007 sales and services were \$49.1 million.
- Other operating revenue of \$175.5 million was an increase of 2.5% over the previous fiscal year of \$171.3 million. This includes School of Medicine revenue from private practice plans and hospital agreements. Between 2008 and 2007 other operating revenue experienced a decrease of 7.9%.
- Auxiliary enterprises experienced an increase in revenue of 4.2% or \$13.4 million to \$332.6 million. Revenue in this category in 2008 and 2007 was \$319.2 million and \$336.4 million, respectively.

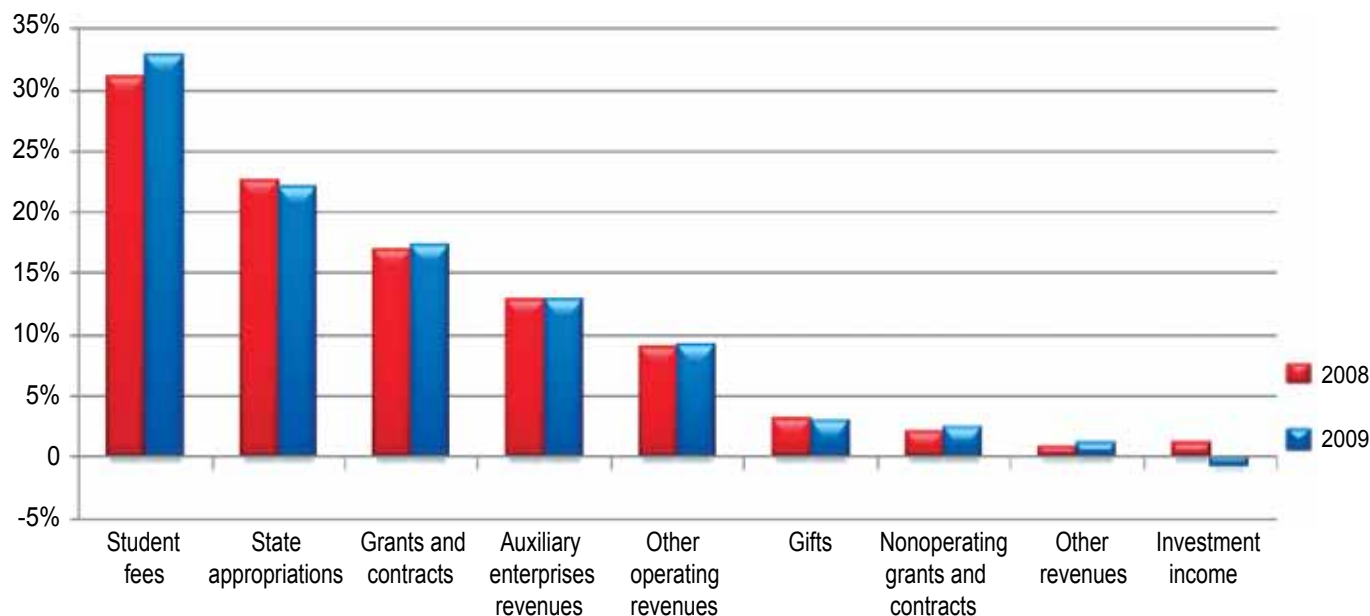
Total nonoperating revenues decreased 3.2% from \$717.3 million for fiscal year ended June 30, 2008, to \$694.5 million for fiscal year ended June 30, 2009 and includes the following:

- State appropriations, the largest single source of nonoperating revenue for the university, increased from \$558 million in 2008 to \$572.6 million in 2009. In 2007, state appropriations were \$527.7 million.
- Grants and contracts were \$63.3 million for 2009, a 23.4% increase over the previous year's revenue of \$51.3 million.
- Due to the unrealized and realized losses, investment income decreased 157.3%, from \$30.7 million for fiscal year ended June 30, 2008 to a negative \$17.6 million for fiscal year ended June 30, 2009. Between fiscal years 2007 and 2008, this category experienced a decrease of 64.1%.
- Gifts decreased 1.4% to \$76.2 million, or \$1.1 million less than the previous fiscal year. Gifts totaled \$77.3 million in 2008 and \$67.4 million in 2007.

Other revenues included capital appropriations of \$10.2 million, a decrease of \$2.4 million over the previous fiscal year; and capital gifts and grants of \$20 million, a \$9.8 million increase over 2008. There were no additions to permanent endowments in 2009.

In summary, total revenues of the university increased \$135.7 million to \$2.6 billion, an overall increase of 5.5%. Comparably, 2008 total revenues increased 0.1% and the 2007 increase was 7.3%. The composition of the 2009 and 2008 revenues is displayed in the following graph:

2008 and 2009 Revenues as a Percent of Total



Expenses

Operating expenses were \$2.43 billion for fiscal year ended June 30, 2009. This was an increase over the previous fiscal year of \$147.5 million, or 6.5%. Changes in the major categories of expenses are as follows:

- Total compensation is comprised of academic and staff salaries, hourly compensation, and benefits. This category increased by 6.4%, from \$1.54 billion to \$1.63 billion. Benefits had the largest increase in this category with a 7.8% increase over the prior year, followed closely by an increase of 6.8% in staff salaries and a 5.4% increase in academic salaries.
- Student financial aid increased from \$109.6 million to \$125.8 million. This was a 14.8% increase over the previous fiscal year. 2008 experienced an 11.7% increase over 2007.
- Energy and utilities increased 13.3%, from \$57.8 million in 2008 to \$65.4 million in 2009. The 2008 and 2007 increases were 10.2% and 4.1%, respectively.
- Travel expenses increased 2.3% in 2009, from \$39.5 million to \$40.4 million. Between 2007 and 2008 the university experienced a 9% increase in travel expenses.

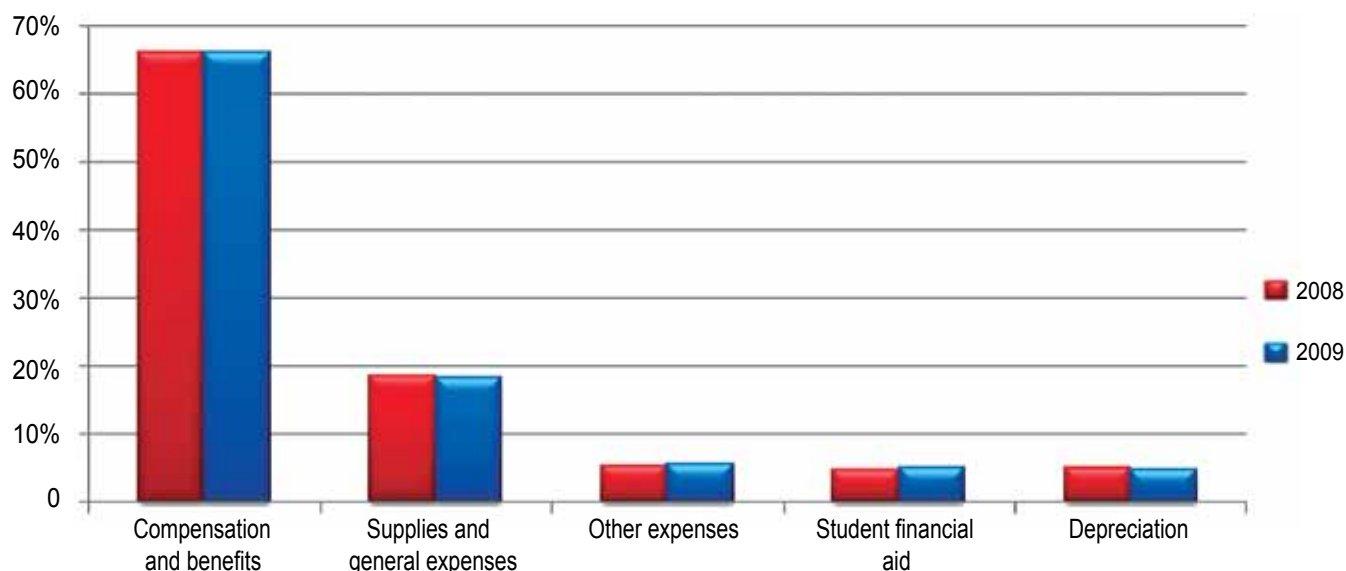
- Supplies and general expense increased by 4.9% in 2009, from \$428.5 million to \$449.4 million. The 2007 expense for this category was \$469.5 million.
- Depreciation and amortization expense of \$120.8 million in 2009 is \$4.1 million more than in 2008.

9.3% between 2008 and 2009, from \$29.1 million to \$31.8 million.

The following graph displays the composition of total expenses, including operating and nonoperating by major categories:

Nonoperating expense, interest expense, increased

2008 and 2009 Expenses as a Percent of Total



Gifts

Major gifts are received during the year through the Indiana University Foundation (IU Foundation), a separate not-for-profit organization, whose primary mission is to raise funds for the university. For the 2009 fiscal year a total of \$20 million was donated for various capital projects.

Net Assets

Income before other revenues, expenses, gains, or losses was \$101.8 million and \$123.5 million for fiscal years ended 2009 and 2008, respectively. This represents a decrease of 17.5%. Between 2007 and 2008 income before other revenues, expenses, gains, or losses decreased by 22.4%.

Net assets increased by \$132.1 million over the previous fiscal year. Total net assets were \$2.42 billion for fiscal year 2009, compared to net assets at June 30, 2008, of \$2.29 billion. This was a 5.8% increase in net assets. Comparatively, net assets increased 4.2% between 2007 and 2008.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides a means to assess the financial health of an institution by providing relevant information about the cash receipts and cash payments of an entity during a certain period. It assists in determining whether an entity has the ability to generate future net cash flows to meet its obligations as they become due, and to determine the need for external financing.

Comparative Statement of Cash Flows

(in thousands of dollars)

	Fiscal Year Ended:		
	June 30, 2009	June 30, 2008	June 30, 2007
Net cash provided (used) by:			
Operating activities	\$(441,935)	\$(427,854)	\$(431,904)
Noncapital financing activities	722,257	698,970	661,346
Capital and related financing activities	(261,661)	(174,292)	(194,322)
Investing activities	(40,275)	93,896	(128,010)
Net increase (decrease) in cash and cash equivalents	(21,614)	190,720	(92,890)
Beginning cash and cash equivalents	574,506	383,786	476,676
Ending cash and cash equivalents	\$ 552,892	\$ 574,506	\$ 383,786

Cash used by operating activities increased by \$14.1 million. The use of cash was impacted by a \$95.1 million increase from the previous year in payments to employees and an \$81.2 million increase in payments to suppliers. These changes in cash outlays for expenditures were offset by increases of \$91.5 million from student fees and \$23.4 million in grants and contracts receipts. Increases in cash receipts

of \$18.6 million and \$14.2 million occurred with sales and services of educational activities and auxiliary enterprises, respectively.

Cash provided by noncapital financing activities increased \$23.3 million, including collections of state appropriations and nonoperating grants. Gifts and grants received for other than capital purposes decreased \$2.9 million in 2009, from \$77.2 million in 2008.

Cash flows from capital and related financing activities decreased by \$87.4 million. The primary driver was a decrease in the proceeds from issuance of capital debt from \$289.8 million in 2008 to \$73.8 million in 2009. Cash outlays affecting this category also include a decrease in refunding and principal paid on capital debt of \$174.9 million.

Cash flows from investing activities decreased \$134.1 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

The university made significant investments in capital during fiscal year 2009 (see Note 8). New facilities were funded by bond issues, renewal and replacement reserves, and gifts. Some of the more

Hutton Honors College,
IU Bloomington



significant facilities that came on-line this year are as follows:

The South Bend campus crossed a major milestone in August 2008 with the opening of a new student apartment complex. These facilities represent the first student housing available on the campus. The nine-building, 400 bed complex features 1, 2 and 4 bedroom suites and a community building. The complex community building provides laundry facilities, a computer lab, study rooms, fitness equipment and a great room. The total building cost was \$17.8 million. Located along the St. Joseph River, housing is now just a short walk across the pedestrian bridge. The complex also features a cycle and pedestrian trail between the buildings and the St. Joseph River.

The Southeast campus also opened student housing for the first time in August 2008. The five-building complex features 1, 2, and 4 bedroom apartments. Located at both ends of a lake, each of the buildings is called a Lodge with the suites opening to an internal great room for community interaction. The Lodges are also equipped with laundry facilities, computer labs, and study rooms. The five lodges will accommodate up to 400 students. The total cost of the buildings was \$19 million.

The Joseph E. Walther Hall on the Indiana University-Purdue University Indianapolis (IUPUI) campus was occupied April 2009. The facility added space for approximately 90 new faculty members whose focus will be solving problems related to cancer and cancer treatments. This new research facility will complete a three building, 500,000 square-foot interconnected research complex where scientists can collaborate by sharing their work and vision. The building will incorporate research labs, instrumentation rooms, tissue culture rooms, a BSL3 Research Lab Suite, Vector Production Suite, and a Cell Repository/DNA Serum Bank. The total cost of the building was \$81 million.

Several facilities that will further enhance the mission of the university are in the planning and

design phase. The following have been approved by the Board of Trustees:

The Cyber Infrastructure Office Building on the Bloomington Campus will be located at the 45/46 Bypass North of Tenth Street and the former University School Complex. The Building will include administrative space that will accommodate University Information Technology Services (UITs), a large auditorium, campus-wide and statewide technology support facilities, and building-wide support facilities. The building will allow for the consolidation of the many UITs divisions currently distributed across campus. It will include spaces that encourage exchange and foster collaboration and sharing. The estimated project cost is \$35.7 million and will be funded by academic facility bonds and university funds.



Joseph E. Walther Hall, IUPUI



Above and below: Student apartment complex, IU South Bend



Above, at right,
and below:
Student
Lodges, IU
Southeast



A five-level parking garage on the IUPUI campus will provide approximately 1,300 parking spaces when completed. The garage will serve the Informatics and Communications Technology Complex, Inlow Hall, Engineering Science and Technology, Engineering and Technology, Science Building and the University Library. The facility is designed and located such that new buildings could be built on adjacent sides, thereby enclosing it as the center of a building complex. The estimated project cost is \$18.5 million and will be funded by parking operations revenues.

The Neurosciences Research Building will continue Indiana University and the School of Medicine's focus on expanding and strengthening the biomedical and life sciences research capability of the university. Located on the IUPUI campus, the building will provide additional laboratory-research space for new scientists and expansion space for existing psychiatric and neuroscience research. The estimated project cost is \$53 million and will be funded by academic facilities bonds and university funds.

Tamarack Hall on the Northwest Campus will be demolished and replaced after flooding in 2008. This facility provides critical academic, administrative, and support space for the campus. Replacement of the existing facility, which is over fifty years old, will include updated space for performing and fine arts, instructional media, minority studies, history and philosophy, general classrooms and campus police. The estimated project cost is \$33 million and will be funded with academic facilities bonds and insurance proceeds.

A major renovation of the Education and Arts building on the South Bend Campus will accommodate several academic departments, various student areas, a wide array of shared facilities and an art gallery. The project is estimated to cost \$27 million and will be funded by academic facilities bonds.

An Education and Technology Building on the Southeast campus will provide expanded space for the current and future programs of the School of Education and the Purdue College of Technology. A number of shared facilities are planned allowing both units more flexibility and access to specialized areas. This partnership between Indiana University and Purdue University will achieve savings in building costs for both institutions. The estimated project cost is \$22 million and will be funded by academic facilities bonds.

In March 2009, the university issued Consolidated Revenue Bonds, Series 2009A in the amount of \$75 million to finance the acquisition, construction and equipping of:

- Ashton Housing Complex on the Bloomington campus
- University Place food court renovation on the Indianapolis campus
- The parking lot expansion on the Southeast campus

The university's ratings on debt obligations were last reviewed and updated in March 2009. On March 18, 2009, Moody's Investors Service reaffirmed its previous underlying rating of 'Aa1' on student fee bonds, student residence system, facility revenue bonds, consolidated revenue bonds, and 'P-1' on commercial paper. Moody's assigned a stable outlook. On March 18, 2009, Standard and Poor's Credit Market Services (S&P), a Division of the McGraw-Hill Companies, reaffirmed its previous underlying rating of 'AA' on student fee bonds, student residence system, facility revenue bonds, consolidated revenue bonds and assigned a positive outlook. It also reaffirmed its previous rating of 'A1+' on commercial paper.

ECONOMIC OUTLOOK

The State of Indiana provides approximately 24% of Indiana University's total financial resources during

IU Data Center,
IU Bloomington

a fiscal year. Coincident with the national recession, fiscal year 2009 provided many financial challenges for the State as revenues consistently underperformed expectation and revenue forecasts produced in December 2008, and April and May 2009 each reduced prior projections significantly. While final fiscal year 2009 revenues met the May forecast, total revenues year over year were nearly 7.5% less than fiscal year 2008. Reflecting unemployment that exceeded 10 percent, income tax collections were down 10.8% compared to the prior year while sales tax revenues (after adjusting for a rate increase) was down nearly 4.7% from fiscal year 2008.

Looking ahead to fiscal year 2010, revenue growth expectations are a very modest 1.6%, reflecting continued concerns about the economy. Contributing to these concerns is Indiana's continued reliance on manufacturing, especially automobile assembly and components production, an industry that has been hit particularly hard by the recession. Indiana typically experiences a lag in an economic recovery compared to the nation as a whole and such a lag is likely to occur with a recovery from the current recession.

Student enrollment for the university is projected to remain strong during the 2009-10 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.

The university is not aware of any additional facts, decisions, or conditions that are expected to have significant effect on the financial position or results of operations during the next fiscal year beyond those unforeseen variations having a global effect on virtually all types of business operations.



Indiana University Statement of Net Assets

(in thousands of dollars)

	June 30, 2009	June 30, 2008 as restated
ASSETS		
Current assets		
Cash and cash equivalents	\$ 552,892	\$ 574,506
Accounts receivable, net	107,947	114,030
Current portion of notes and pledges receivable	13,295	11,086
Inventories	11,724	9,501
Short-term investments	43,601	20,351
Securities lending assets	63,600	77,920
Other assets	27,686	21,739
Total current assets	820,745	829,133
Noncurrent assets		
Accounts receivable	14,772	15,303
Notes and pledges receivable	66,770	75,406
Investments	714,836	715,369
Capital assets, net	2,197,123	2,048,204
Total noncurrent assets	2,993,501	2,854,282
Total assets	3,814,246	3,683,415
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	205,363	211,032
Deferred revenue	139,630	138,069
Current portion of capital lease obligations	1,242	1,518
Current portion of long-term debt	51,172	51,312
Securities lending liabilities	63,600	77,920
Total current liabilities	461,007	479,851
Noncurrent liabilities		
Capital lease obligations	2,730	9,064
Notes payable	11,457	4,101
Assets held in custody for others	67,958	66,577
Deferred revenue	40,097	48,729
Bonds payable	749,181	725,723
Other long-term liabilities	64,255	63,880
Total noncurrent liabilities	935,678	918,074
Total liabilities	1,396,685	1,397,925
NET ASSETS, AS RESTATED		
Invested in capital assets, net of related debt	1,475,395	1,336,766
Restricted for:		
Nonexpendable - endowments	19,088	27,859
Expendable		
Scholarships, research, instruction and other	92,627	125,129
Loans	24,239	23,182
Capital projects	16,595	14,122
Debt service	5,162	21,536
Unrestricted	784,455	736,896
Total net assets, as restated	2,417,561	2,285,490
Total liabilities and net assets	\$ 3,814,246	\$ 3,683,415

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Financial Position
As of June 30, 2009

Assets:	Unrestricted		Temporarily Restricted		Permanently Restricted		Total
	Foundation	Agency	Foundation	University	Foundation	University	
Cash and cash equivalents	\$ -	\$ 7,976,397	\$ -	\$ 142,472,674	\$ -	\$ -	\$ 150,449,071
Collateral under securities lending agreement	3,451,737	13,571,667	698,293	26,035,504	1,663,051	60,660,050	106,080,302
Receivables and other assets	10,598,577	242,064	15,588	2,280,588	30,872	9,098,028	22,265,717
Promises to give, net	9,052	-	2,398,932	68,370,338	743,046	76,334,818	147,856,186
Investments	39,382,014	149,761,952	7,647,549	287,241,089	18,343,890	668,995,262	1,171,371,756
Property, plant and equipment, net	44,103,390	-	-	-	-	-	44,103,390
Total assets	\$ 97,544,770	\$ 171,552,080	\$ 10,760,362	\$ 526,400,193	\$ 20,780,859	\$ 815,088,158	\$ 1,642,126,422
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	\$ 3,913,127	\$ 2,320,007	\$ 65,758	\$ 5,043,126	\$ 278,960	\$ 10,490,891	\$ 22,111,869
Payable under securities lending agreement	3,451,737	13,571,667	698,293	26,035,504	1,663,051	60,660,050	106,080,302
Debt	11,164,198	-	-	-	-	58,083	11,222,281
Accrued trust obligation to life beneficiaries	685,942	-	3,333,723	5,529,035	452,590	18,932,341	28,933,631
Due to (from)	62,327,029	-	86,648	(63,370,395)	7,272	949,446	-
Interfund financing	(5,400,000)	-	-	5,400,000	-	-	-
Assets held for the University	-	142,899,539	-	-	-	-	142,899,539
Assets held for University affiliates	-	12,760,867	-	-	-	-	12,760,867
Total liabilities	76,142,033	171,552,080	4,184,422	(21,362,730)	2,401,873	91,090,811	324,008,489
Net assets	21,402,737	-	6,575,940	547,762,923	18,378,986	723,997,347	1,318,117,933
Total liabilities and net assets	\$ 97,544,770	\$ 171,552,080	\$ 10,760,362	\$ 526,400,193	\$ 20,780,859	\$ 815,088,158	\$ 1,642,126,422

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

Indiana University

Statement of Revenues, Expenses, and Changes in Net Assets

(in thousands of dollars)

	Fiscal Year Ended	
	June 30, 2009	June 30, 2008 as restated
OPERATING REVENUES		
Student fees	\$ 985,888	\$ 878,229
Less scholarship allowance	(133,054)	(114,154)
Federal grants and contracts	295,737	290,929
State and local grants and contracts	28,860	21,100
Nongovernmental grants and contracts	127,049	107,146
Sales and services of educational units	61,498	48,929
Other revenue	175,506	171,284
Auxiliary enterprises (net of scholarship allowance of \$15,850 in 2009 and \$13,796 in 2008)	332,586	319,153
Total operating revenues	1,874,070	1,722,616
OPERATING EXPENSES		
Compensation and benefits	1,632,926	1,535,335
Student financial aid	125,830	109,566
Energy and utilities	65,447	57,773
Travel	40,397	39,481
Supplies and general expense	449,435	428,521
Depreciation and amortization expense	120,819	116,683
Total operating expenses	2,434,854	2,287,359
Total operating loss	(560,784)	(564,743)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	572,578	558,022
Grants and contracts	63,304	51,317
Investment income	(17,607)	30,721
Gifts	76,181	77,272
Interest expense	(31,829)	(29,112)
Net nonoperating revenues	662,627	688,220
Income before other revenues, expenses, gains, or losses	101,843	123,477
Capital appropriations	10,248	12,601
Capital gifts and grants	19,980	10,217
Additions to permanent endowments	—	264
Total other revenues	30,228	23,082
Increase in net assets	132,071	146,559
Net assets, beginning of year, as restated	2,285,490	2,138,931
Net assets, end of year	\$ 2,417,561	\$ 2,285,490

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Activities
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted		Permanently Restricted		Total
		Foundation	University	Foundation	University	
Revenue and support:						
Contributions, net	\$ 1,011,343	\$ 179,318	\$ 71,536,635	\$ 2,516	\$ 27,572,743	\$ 100,302,555
Investment income including net gains (losses), net of outside investment management fees	(8,047,691)	(1,994,412)	(35,576,896)	(7,361,340)	(243,207,897)	(296,188,236)
Management/administrative fees	13,638,382	(185)	(10,587,406)	-	(1,111,246)	1,939,545
Grants	-	-	21,020,500	-	-	21,020,500
Other income	7,259,431	40,500	3,987,897	53	225,673	11,513,554
Development service fees from the University	4,923,219	-	-	-	-	4,923,219
Net assets released from restriction	108,625,096	436,154	(109,305,287)	-	244,037	-
Total revenue and support	127,409,780	(1,338,625)	(58,924,557)	(7,358,771)	(216,276,690)	(156,488,863)
Expenditures:						
Program expenditures	123,460,142	-	-	-	78,112	123,538,254
Management and general	11,807,686	8,776	(1,244,860)	(173)	(907,520)	9,663,909
Fund raising	14,781,099	-	-	-	-	14,781,099
Change in value of split interest agreement obligation to life beneficiaries						
Total expenditures	680,144	444,139	1,895,806	139,694	7,427,472	10,587,255
	150,729,071	452,915	650,946	139,521	6,598,064	158,570,517
Change in net assets:						
Unrestricted	(23,319,291)	-	-	-	-	(23,319,291)
Temporarily restricted	-	(1,791,540)	(59,575,503)	-	-	(61,367,043)
Permanently restricted	-	-	-	(7,498,292)	(222,874,754)	(230,373,046)
Total change in net assets	(23,319,291)	(1,791,540)	(59,575,503)	(7,498,292)	(222,874,754)	(315,059,380)
Beginning net assets	44,722,028	8,367,480	607,338,426	25,877,278	946,872,101	1,633,177,313
Ending net assets	\$ 21,402,737	\$ 6,575,940	\$ 547,762,923	\$ 18,378,986	\$ 723,997,347	\$ 1,318,117,933

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

Indiana University Statement of Cash Flows

(in thousands of dollars)

	Fiscal Year Ended	
	June 30, 2009	June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Student fees	\$ 857,522	\$ 766,000
Grants and contracts	429,288	405,897
Sales and services of educational activities	66,624	47,988
Auxiliary enterprise charges	329,765	315,580
Other operating receipts	183,746	165,802
Payments to employees	(1,621,284)	(1,526,190)
Payments to suppliers	(566,558)	(485,354)
Student financial aid	(128,528)	(112,375)
Student loans collected	15,563	9,411
Student loans issued	(8,073)	(14,613)
Net cash used in operating activities	(441,935)	(427,854)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	584,501	570,194
Nonoperating grants and contracts	63,304	52,356
Gifts and grants received for other than capital purposes	74,276	77,206
Direct lending receipts	512,207	440,162
Direct lending payments	(512,031)	(440,948)
Net cash provided by noncapital financing activities	722,257	698,970
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	10,248	12,601
Capital grants and gifts received	6,922	47,340
Purchase of capital assets	(254,898)	(261,030)
Proceeds from issuance of capital debt, including refunding activity	73,766	289,754
Principal payments on capital debt, including refunding activity	(50,075)	(224,948)
Principal paid on capital leases	(1,906)	(1,760)
Interest paid on capital debt and leases	(45,718)	(36,249)
Net cash used in capital and related financing activities	(261,661)	(174,292)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,500,824	2,239,333
Investment income	27,114	40,658
Purchase of Investments	(1,568,213)	(2,186,095)
Net cash provided (used) by investing activities	(40,275)	93,896
Net increase (decrease) in cash and cash equivalents	(21,614)	190,720
Cash and cash equivalents, beginning of year	574,506	383,786
Cash and cash equivalents, end of year	<u>\$ 552,892</u>	<u>\$ 574,506</u>

See accompanying notes to the financial statements.

(Continued from previous page)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

(in thousands of dollars)

	<i>Fiscal Year Ended</i>	
	<i>June 30, 2009</i>	<i>June 30, 2008</i>
Operating loss	\$ (560,784)	\$ (564,743)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	120,819	116,683
Loss on disposal of capital assets	4,175	22,246
Changes in assets and liabilities:		
Accounts receivable	(72)	6,450
Inventories	(2,223)	6,158
Other assets	(5,947)	(804)
Notes receivable	6,251	(3,311)
Accounts payable and accrued liabilities	(9,303)	11,887
Deferred revenue	(7,071)	(29,370)
Assets held in custody for others	1,381	654
Other noncurrent liabilities	10,839	6,296
Net cash used in operating activities	\$ (441,935)	\$ (427,854)

See accompanying notes to the financial statements.

Indiana University Notes to the Financial Statements

June 30, 2009 and June 30, 2008

(dollar amounts presented in thousands)

Note 1—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(c)(3) of the Internal Revenue Code. Certain revenues of the university may be subject to federal income tax as unrelated business income, as defined in section 513 of the Internal Revenue Code. Note 17 describes an organization related to the university, the nature of the relationship and pertinent financial information of the organization.

FINANCIAL STATEMENT PRESENTATION: As a component unit of the state, the university presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. GASB No. 35 allows public colleges and universities to report as a business type activity under GASB No. 34, which requires a comprehensive, entity-wide presentation of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. 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 has the option to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure, except for those that conflict with or contradict GASB pronouncements. The university has elected not to apply FASB pronouncements issued after the applicable date.

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 are different 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 \$109,090 and \$145,815 to the university during fiscal years 2009 and 2008, respectively. Complete financial statements for the IU Foundation can be obtained from: Indiana University Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

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

CASH 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. Investment maturities are evaluated as of the financial statement date for purposes of liquidity classification.

INVESTMENTS: Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses are reported as investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTES AND PLEDGES RECEIVABLE: Notes receivable consist primarily of student loans. A pledge receivable is recorded at the time the pledge is measurable, probable of collection, and all applicable eligibility requirements have been met.

CAPITAL ASSETS: Capital assets are recorded at cost or, for contributed assets, at fair value at the date of acquisition. The university capitalizes equipment with a cost of \$5 or more and a useful life in excess of one year. Capital assets also include land improvements and infrastructure costing in excess of \$75. Buildings and building renovations that increase the useful life of the building and with cost of the lesser of \$75 or twenty percent of the acquisition cost of the existing building are capitalized. 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 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 decision whether to apply restricted or unrestricted resources first is a management matter, and the decision is made 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.

NEW ACCOUNTING PRONOUNCEMENTS: In 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The statement does not apply to pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The requirements of this statement are effective for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. Management has determined that the provisions of this statement have no material impact on current financial statements.

In 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2008. The university applied the reporting standards of this statement to periods prior to those presented in this financial report.

Note 2—Correction of Prior Period Error

Indiana University issued capital appreciation bonds (CABS) in 1991 through 1995. CABS are bonds sold at a deeply discounted price that is deemed to be par, but which do not remit interest to the holder until maturity, with maturity values in multiples of \$5. The interest accretes at a stated coupon rate. They differ from Original Issue Discount (OID) bonds in that for OID's, the maturity amount is par. Totals over the life of these bonds are as follows:

Original principal (par)	\$ 55,040
Interest	<u>112,104</u>
Total payments	<u>\$167,144</u>

The bonds were issued in various series with 15 to 25 year terms. The payment schedules are based on stated interest rates with principal and accreted interest payable semi-annually starting at 15 to 20 years from issue date (varies with series). The first payments, both principal and interest, for CABS started in August 2005 and the last payment will be August 2017.

A portion of the CABS were issued as student fee replacement bonds. Debt service on student fee replacement bonds is funded by the State of Indiana under a fee replacement appropriation in which the General Assembly may choose to provide direct funding support for debt that is payable from student fees, through a biennial appropriation called "fee replacement appropriation" which, in effect, reimburses state universities for student fees used to pay debt service on specific buildings. Approximately 82% of the interest expense on CABS is eligible for fee replacement

appropriations subject to subsequent General Assembly actions. (See Note 11 for additional information).

Prior to June 30, 2005, based on the scheduled payments at maturity dates, the university had not accrued interest expense for CABS. The first interest expense accrual was made at June 30, 2005, for the first scheduled CABS interest payment to be made August 1, 2005, in the amount of \$11,513. Each year thereafter, interest expense has been accrued at June 30th according to the payment schedule, the same method used to accrue interest expense on regular maturity bonds. Subsequent analysis of the CABS accretion schedules resulted in the determination that the unpaid interest on the outstanding debt should instead be accrued over the life of the bonds based on the total accreted value matured at year end. There is no corresponding accrual of student fee replacement revenue.

As this error was made in prior fiscal years, opening balances at July 1, 2007, were restated to correct the prior period error with an adjustment to the June 30, 2008 Statement of Revenues, Expenses, and Changes in Net Assets as follows: Net assets, beginning of year were reduced by \$53,697.

In addition, the following line items for the year ended June 30, 2008, were restated as follows:

Statement of Net Assets: Accounts payable and accrued liabilities and Total current liabilities were increased by \$993. Other long-term liabilities and Total noncurrent liabilities were increased by \$45,481. The effect on Total liabilities was an increase of \$46,474 to recognize interest expense not previously recorded.

Statement of Revenues, Expenses and Changes in Net Assets: Interest expense was reduced by \$7,223 and Net nonoperating revenues, Income before other revenues, expenses, gains, or losses, and Increase in net assets were increased by \$7,223 to reflect the recognition of interest expense over the life of the bonds to the current period.

Note 10 Noncurrent Liabilities: Other liabilities and Total noncurrent liabilities were increased by \$45,481.

Note 3—Deposits and Investments

DEPOSITS

The combined bank balances of the university's demand deposits were \$11,885 and \$17,699 at June 30, 2009 and

2008, respectively. The university had balances in excess of Federal Deposit Insurance Corporation limits in the amount of \$10,833 and \$16,659 at June 30, 2009 and 2008, respectively. These balances, 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.

ENDOWMENTS

Endowment funds have a very long 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. The trustees may, at their discretion, direct all or a portion of the endowment funds to other investments, exclusive of the IU Foundation's investment funds. 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, 2009, all endowments held with the IU Foundation were invested in pooled funds.

At June 30, 2009 and 2008, the university had investments and deposits, including endowment funds, as shown below:

<i>Investment Type</i>	<i>Fair Value</i>	
	<i>June 30, 2009</i>	<i>June 30, 2008</i>
Money market funds	\$ 679,016	\$ 602,183
Corporate bonds	198,951	147,833
Government mortgage-backed securities	135,655	161,894
External investment pools	120,020	191,767
Government agencies	38,731	17,430
Nongovernment backed C.M.O.s	37,028	60,353
Asset-backed securities	36,152	49,611
Government bonds	35,219	48,339
Commercial mortgage-backed	31,530	46,021
Short-term bills and notes	20,921	17,284
Guaranteed fixed income	12,772	-
Municipal/provincial bonds	7,823	3,344
Index-linked government bonds	7,262	4,408
Real estate	3,165	3,165
Venture capital	2,852	2,885
Mutual funds	1,835	2,013
All other	(57,603)	(48,304)
Total	\$ 1,311,329	\$ 1,310,226

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 IU Foundation's investment policy stipulates that the Pooled Short-Term Fund is invested in securities that typically mature within one year and the fixed income allocation includes securities with a duration benchmark index of +/- 1.5 years.



The university had investments with the following maturities at June 30, 2009:

Investment Type	Fair Value	Investment Maturities (in years)			
		June 30, 2009	Less than 1	1-5	6-10
Investments with maturity date					
Corporate bonds	\$ 198,951	\$ 17,540	\$ 73,872	\$ 72,372	\$ 35,167
Government mortgage-backed securities	135,655	46,262	7,155	2,678	79,560
Government agencies	38,731	4,252	31,042	3,396	41
Nongovernment backed C.M.O.s	37,028	455	107	1,610	34,856
Asset-backed securities	36,152	2,013	22,013	3,154	8,972
Government bonds	35,219	-	19,000	10,323	5,896
Commercial mortgage-backed	31,530	-	706	237	30,587
Short-term bills and notes	20,921	20,921	-	-	-
Guaranteed fixed income	12,772	-	12,772	-	-
Municipal/provincial bonds	7,823	1,012	841	366	5,604
Index-linked government bonds	7,262	788	-	2,005	4,469
Other fixed income	928	451	612	-	(135)
	562,972	93,694	168,120	96,141	205,017
Investments with undetermined maturity date					
Money market funds	679,016	679,016	-	-	-
External investment pools	120,020	120,020	-	-	-
Real estate	3,165	3,165	-	-	-
Venture capital	2,852	2,852	-	-	-
Mutual funds	1,835	1,835	-	-	-
All other	(58,531)	(58,531)	-	-	-
	748,357	748,357	-	-	-
Total	\$ 1,311,329	\$ 842,051	\$ 168,120	\$ 96,141	\$ 205,017

The university had investments with the following maturities at June 30, 2008:

Investment Type	Fair Value June 30, 2008	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Investments with maturity date					
Government mortgage-backed securities	\$ 161,894	\$ 20	\$ 5,290	\$ 3,074	\$ 153,510
Corporate bonds	147,833	25,877	56,351	39,040	26,565
Nongovernment backed C.M.O.s	60,353	-	-	871	59,482
Asset-backed securities	49,611	1,326	26,451	5,003	16,831
Government bonds	48,339	6,362	24,673	8,717	8,587
Commercial mortgage-backed	46,021	-	745	214	45,062
Government agencies	17,430	3,947	9,195	4,168	120
Short-term bills and notes	17,284	17,284	-	-	-
Index-linked government bonds	4,408	-	-	2,442	1,966
Municipal/provincial bonds	3,344	-	-	-	3,344
Other fixed income	(599)	(17)	(1,315)	1,376	(643)
	555,918	54,799	121,390	64,905	314,824
Investments with undetermined maturity date					
Money market funds	602,183	602,183	-	-	-
External investment pools	191,767	191,767	-	-	-
Real estate	3,165	3,165	-	-	-
Venture capital	2,885	2,885	-	-	-
Mutual funds	2,013	2,013	-	-	-
All other	(47,705)	(47,705)	-	-	-
	754,308	754,308	-	-	-
Total	\$ 1,310,226	\$ 809,107	\$ 121,390	\$ 64,905	\$ 314,824

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.

ENDOWMENTS

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund commercial paper must be rated 'A1/P1' and that the average quality of the fixed income securities will 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.

At June 30, 2009 and 2008, university investments had debt securities with associated credit ratings as shown below:

<i>Credit Quality Rating</i>	<i>Fair Value</i>	<i>Percentage of</i>	<i>Fair Value</i>	<i>Percentage of</i>
	<i>June 30, 2009</i>	<i>Total Pool</i>	<i>June 30, 2008</i>	<i>Total Pool</i>
AAA	\$ 511,543	39.01%	\$ 350,716	26.77%
AA	27,312	2.08%	24,548	1.87%
A	68,298	5.21%	33,530	2.56%
BBB	97,050	7.40%	52,232	3.99%
BB	20,507	1.56%	13,804	1.05%
B	5,430	0.41%	7,825	0.60%
CCC	8,893	0.68%	2,852	0.22%
Not Rated	572,296	43.65%	824,719	62.94%
Total	\$ 1,311,329	100.00%	\$ 1,310,226	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.

ENDOWMENTS

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund limit commercial paper, Certificates of Deposit, Bankers' Acceptances, and Repurchase Agreements to \$10,000 per issuer and money market funds to \$30,000 per fund. The Pooled Long-Term portfolio is diversified based on manager selection, investment style, and asset class to avoid any disproportionate risk related to any one industry or security.

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, 2009, and June 30, 2008, the university's investments were not exposed to foreign currency risk.

Note 4—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. These loans can be terminated on demand by either lender or borrower. U.S. securities are lent versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Marking to market is performed each business day and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the university will equal at least the fair value plus accrued interest of the borrowed securities.

All security loans can be terminated on demand by either the university or the borrowers. Cash received as securities lending collateral was \$63,600 and \$77,920 at June 30, 2009 and 2008, 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 \$62,113 and \$76,085 at June 30, 2009 and 2008, 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. The university recorded an unrealized loss due to collateral impairment of \$1,012 during fiscal year 2009.

Note 5—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2009 and 2008:

	June 30, 2009	June 30, 2008
Student accounts	\$ 35,471	\$ 34,391
Auxiliary enterprises and other operating activities	47,285	52,471
State appropriations	-	11,924
Federal, state and other grants and contracts	23,207	18,387
Capital appropriations and gifts	4,041	127
Other	7,668	5,725
Current accounts receivable, gross	117,672	123,025
Less allowance for uncollectible accounts	(9,725)	(8,995)
Current accounts receivable, net	107,947	114,030
Auxiliary enterprises and other operating activities	14,772	15,303
Noncurrent accounts receivable	\$ 14,772	\$ 15,303



Note 6—Notes and Pledges Receivable

Notes and pledges receivable consisted of the following at June 30, 2009 and 2008:

	June 30, 2009	June 30, 2008
Student loans receivable	\$ 80,065	\$ 77,563
Pledges receivable, net	-	8,929
Total notes and pledges receivable	\$ 80,065	\$ 86,492

During fiscal year 2003, the university entered into a lease purchase agreement with the IU Foundation to finance a portion of the cost of constructing and equipping of the Biotechnology Research and Training Center maintained and operated by the university on the IUPUI campus (also see Note 12). Private funds held by the IU Foundation, solely for the use of the university, were used for related construction costs of \$15,177. The IU Foundation transferred rights to the facility to the university through an unconditional promise to give the university use of the facility over a 20 year period. This promise to give was reflected at net present value of \$8,929 as a pledge receivable of the university at June 30, 2008. Effective June 1, 2009, the foundation conveyed this property to the Indiana University Building Corporation. At the same time, the university recognized the remaining pledge receivable as gift income.

Note 7—Endowment Funds

Endowment funds are managed pursuant to an Investment Agency Agreement between the trustees and the IU Foundation, which delegates investment management responsibilities to the IU Foundation. 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 is to distribute 5% of the 12 quarter rolling average of pooled fund values. Indiana Code 30-2-12, *Uniform Management of Institutional Funds*, sets forth the provisions governing the expenditure of endowment fund appreciation, under which the trustees may authorize expenditure, consistent with donor intent.

Funds held by endowments, managed by the IU Foundation, are used to acquire pooled shares. The value of the pooled shares is determined each month on the basis of the total market value of pooled investments and the number of pooled shares outstanding. Income from pooled funds is distributed pro rata to each participating fund according to the number of pooled shares it holds. Fair value of the Indiana University Consolidated Fund totaled \$105,762 and \$144,072 at June 30, 2009 and 2008, respectively. Additional pooled funds totaled \$35,593 and \$40,693 at fair value at June 30, 2009 and 2008, respectively. The university holds investments in the Indiana Future Fund I, LLC, a coalition of institutional investors investing in regional and national venture capital funds to encourage direct investment in Indiana life sciences initiatives, which is administered by Credit Suisse Securities (USA), LLC. The investment in the Indiana Future Fund I, LLC, totaled \$2,852 and \$2,885 at fair value at June 30, 2009 and 2008, respectively.

Additional endowment funds include the endowment fund for Riley Hospital for Children which is managed as an investment pool by the Riley Children's Foundation. The funds are invested in accordance with the Riley Children's Foundation investment policy. These funds are used to acquire pooled shares. The value of the pooled shares is determined each quarter on the basis of the total market value of the pooled investments and the number of pooled shares outstanding. Income is distributed pro rata to each participating fund according to the number of shares it holds. The funds totaled \$5,341 and \$6,217 at fair value at June 30, 2009 and 2008, respectively. The State of Indiana holds an endowment fund valued at \$785 on behalf of the university. Income from this endowment is received and distributed on a yearly basis. Real estate held as endowments for investment purposes at June 30, 2009 and 2008, totaled \$3,165, at fair value. Endowments of separately held stock had fair value of \$35 and \$44 at June 30, 2009 and 2008, respectively.

In addition, the university shares the income from a trust held by a major bank with Purdue University and the Indianapolis Center for Advanced Research. The fair value of the principal of this trust was \$23,314 and \$25,917 at June 30, 2009 and 2008, respectively. The trust principal is not included on the university's financial statements.



Note 8—Capital Assets

Fiscal year ended June 30, 2009

	<i>Balance June 30, 2008</i>	<i>Additions</i>	<i>Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2009</i>
Assets not being depreciated:					
Land	\$ 52,962	\$ 95	\$ —	\$ —	\$ 53,057
Art & museum objects	72,597	1,075	—	—	73,672
Construction in progress	226,497	163,048	(163,777)	928	224,840
Total capital assets not being depreciated	352,056	164,218	(163,777)	928	351,569
Other capital assets:					
Infrastructure	143,508	3,088	3,194	—	149,790
Land improvements	24,017	1,579	1,052	—	26,648
Equipment	342,261	34,969	12,024	22,342	366,912
Library books	197,458	25,108	—	14,945	207,621
Buildings	2,483,775	44,682	147,507	5,377	2,670,587
Total other capital assets	3,191,019	109,426	163,777	42,664	3,421,558
Less accumulated depreciation for:					
Infrastructure	114,362	3,982	—	—	118,344
Land improvements	6,552	1,388	—	—	7,940
Equipment	241,519	34,111	—	20,788	254,842
Library books	92,680	20,085	—	14,945	97,820
Buildings	1,039,758	61,253	—	3,953	1,097,058
Total accumulated depreciation, other capital assets	1,494,871	120,819	—	39,686	1,576,004
Capital assets, net	\$ 2,048,204	\$ 152,825	\$ —	\$ 3,906	\$ 2,197,123

(Continued from previous page)

Fiscal year ended June 30, 2008

	<i>Balance</i> <i>June 30, 2007</i>		<i>Additions</i>	<i>Transfers</i>	<i>Retirements</i>	<i>Balance</i> <i>June 30, 2008</i>				
Assets not being depreciated:										
Land	\$	49,163	\$	3,799	\$	–	\$	52,962		
Art & museum objects		65,868		6,729		–		72,597		
Construction in progress		216,748		143,956		(134,049)		158	226,497	
Total capital assets not being depreciated		331,779		154,484		(134,049)		158	352,056	
Other capital assets:										
Infrastructure		141,055		2,183		270		–	143,508	
Land improvements		20,858		3,353		350		544	24,017	
Equipment		374,616		22,829		2,699		57,883	342,261	
Library books		188,836		23,411		–		14,789	197,458	
Buildings		2,308,648		64,324		130,730		19,927	2,483,775	
Total other capital assets		3,034,013		116,100		134,049		93,143	3,191,019	
Less accumulated depreciation:										
Infrastructure		110,649		3,713		–		–	114,362	
Land improvements		5,553		1,121		–		122	6,552	
Equipment		230,291		35,124		–		23,896	241,519	
Library books		88,284		19,185		–		14,789	92,680	
Buildings		997,564		57,540		–		15,346	1,039,758	
Total accumulated depreciation, other capital assets		1,432,341		116,683		–		54,153	1,494,871	
Capital assets, net	\$	1,933,451	\$	153,901	\$	–	\$	39,148	\$	2,048,204

Note 9—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2009 and 2008:

	<i>June 30, 2009</i>	<i>June 30, 2008</i>
Accrued payroll	\$ 20,612	\$ 18,923
Accrual for compensated absences	34,155	36,308
Interest payable	24,284	20,651*
Vendor and other payables	126,312	135,150
Total accounts payable and accrued liabilities	\$ 205,363	\$ 211,032

* As restated, see Note 2

Note 10—Noncurrent Liabilities

Noncurrent liability activity for the fiscal years ended June 30, 2009 and 2008 is summarized as follows:

Fiscal year ended June 30, 2009

	<i>Balance June 30, 2008</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance June 30, 2009</i>	<i>Current</i>
Bonds payable	\$ 776,590	\$ 74,275	\$ 51,441	\$ 799,424	\$ 50,243
Notes payable	4,546	8,510	670	12,386	929
Capital lease obligations	10,582	3,806	10,416	3,972	1,242
Total bonds, notes, and capital leases payable	791,718	86,591	62,527	815,782	52,414
Other liabilities					
Deferred revenue	186,798	1,561	8,632	179,727	139,630
Assets held in custody for others	67,027	1,459	—	68,486	528
Compensated absences	50,368	24,361	20,448	54,281	34,154
Other	49,820	4,900	10,592	44,128	—
Total other liabilities	354,013	32,281	39,672	346,622	174,312
Total noncurrent liabilities	\$ 1,145,731	\$ 118,872	\$ 102,199	\$ 1,162,404	\$ 226,726

(Continued from previous page)
Fiscal year ended June 30, 2008

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Current
Bonds payable	\$ 575,806	\$ 286,840	\$ 86,056	\$ 776,590	\$ 50,867
Notes payable	141,449	3,388	140,291	4,546	445
Capital lease obligations	11,512	830	1,760	10,582	1,518
Total bonds, notes, and capital leases payable	728,767	291,058	228,107	791,718	52,830
Other liabilities					
Deferred revenue	172,169	23,950	9,321	186,798	138,069
Assets held in custody for others	66,405	654	32	67,027	450
Compensated absences	48,679	22,493	20,804	50,368	36,308
Other	53,928	3,756	7,864	49,820	–
Total other liabilities	341,181	50,853	38,021	354,013	174,827
Total noncurrent liabilities	\$ 1,069,948	\$ 341,911	\$ 266,128	\$ 1,145,731	\$ 227,657

Certain restatements have been made to the prior year for comparative purposes. See Note 2.

Note 11 — Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purpose of financing construction of facilities that include academic and administrative facilities, athletic facilities, halls of music, health service facilities, research on the Bloomington and Indianapolis campuses, parking facilities, student housing, student union buildings, and energy savings projects. The outstanding bond and note indebtedness at June 30, 2009 and 2008 were \$811,810 and \$781,136, respectively. This indebtedness includes principal outstanding at June 30, 2009 and 2008 for bonds issued under Indiana Code 21-34-6 of \$479,861 and \$520,721, respectively, which had an additional accreted value of outstanding capital appreciation bonds associated with them of \$48,293 and \$56,094, respectively. The outstanding bond issues include both serial bonds, term bonds, 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 Indiana Code 21-34-6 for certain academic facilities. Such academic facilities can 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 expanded 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 more than 35 years ago. The outstanding bond and note indebtedness principal balances which are eligible for fee replacement appropriations, as of June 30, 2009 and 2008, are \$426,623 and \$463,265, respectively. As of June 30, 2009, of the \$1,203,337 of total debt service payments to maturity, \$625,759 is for bonds that are eligible for fee replacement appropriation.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CABS). A CAB is a long-term municipal security, on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at 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 the accreted interest is payable. As of June 30, 2009, total debt service payments to maturity includes \$91,670 of CABS payments, of which \$65,370 is eligible for fee replacement appropriation.

Indiana Code 21-32-2 permits the use of debt in the form of temporary borrowing in anticipation of future long-term borrowing for capital projects, when such long-term borrowing is authorized under other sections of the Indiana Code. The university has used tax-exempt commercial paper (TECP) programs to provide interim financing for certain capital projects and may continue to do so in the future. No TECP is outstanding as of June 30, 2009. However, a standby liquidity support agreement with JPMorgan Chase Bank, National Association, which allows for a principal amount of up to \$40,000 is in place, which could be used in conjunction with future series of commercial paper notes. The liquidity support agreement has a stated expiration date of June 19, 2010, and is renewable, subject to the agreement of both parties.

As of June 30, 2009 and 2008, outstanding indebtedness from bonds and notes consisted of the following:

<i>Bonding Authority</i>	<i>Interest Rates</i>	<i>Final Maturity Year Ended</i>	<i>Principal Outstanding At June 30, 2009</i>	<i>Principal Outstanding At June 30, 2008</i>
Indiana Code 21-34-6 (Student Fee Debt)	3.25 to 7.25%	2033	\$479,861	\$520,721
Indiana Code 21-35-2 (Student Union Debt)	N/A	2009	—	415
Indiana Code 21-35-3 (Auxiliary Revenue Debt)	2.88 to 5.80%	2038	293,390	231,735
Indiana Code 21-34-10-7 (Energy Savings Debt)	3.64 to 4.49%	2018	4,101	4,546
Indiana Code 21-33-3-5 (Certificates of Participation)	3.40 to 5.25%	2023	8,285	—
Subtotal bonds and notes payable			785,637	757,417
Add unamortized bond premium			30,992	29,047
Less deferred charges			(4,819)	(5,328)
Total bonds and notes payable			\$ 811,810	\$ 781,136

As of June 30, 2009, the university does not have any variable rate bonds or notes outstanding. Principal and interest requirements to maturity for bonds and notes are as follows:

<i>Fiscal Year Ended June 30</i>	<i>Bond Principal</i>	<i>Note Principal</i>	<i>Total Principal</i>	<i>Bond Interest</i>	<i>Note Interest</i>	<i>Total Interest</i>	<i>Total Debt Service Payments</i>
2010	\$ 48,555	\$ 929	\$ 49,484	\$ 51,410	\$ 550	\$ 51,960	\$ 101,444
2011	51,463	969	52,432	49,337	514	49,851	102,283
2012	39,233	1,009	40,242	40,603	474	41,077	81,319
2013	39,345	1,050	40,395	34,299	434	34,733	75,128
2014	41,365	1,093	42,458	32,552	390	32,942	75,400
2015-2019	228,845	4,671	233,516	120,166	1,271	121,437	354,953
2020-2024	172,970	2,665	175,635	57,001	287	57,288	232,923
2025-2029	117,740	–	117,740	22,191	–	22,191	139,931
2030-2034	25,140	–	25,140	5,120	–	5,120	30,260
2035-2038	8,595	–	8,595	1,101	–	1,101	9,696
Total	\$ 773,251	\$ 12,386	\$ 785,637	\$ 413,780	\$ 3,920	\$ 417,700	\$ 1,203,337

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 maturity, and have been deposited in irrevocable trusts with trustees. Neither the defeased bonds nor the related trusts are reflected on the university's books. At June 30, 2009, Building Facilities Fee Bonds, Series M, defeased by the university on October 1, 1985, have principal outstanding of \$3,655, with a final maturity of July 1, 2010. As of June 30, 2009, Student Fee Bonds, Series M, which were partially defeased on December 14, 2004, have principal outstanding of \$10,420, with a final maturity of August 1, 2009. On June 20, 2006, the university partially defeased Student Fee Bonds, Series M and Series N, which as of June 30, 2009, have principal outstanding of \$24,870, with a final maturity of August 1, 2011.

On April 2, 2009, the university issued Consolidated Revenue Bonds, Series 2009A with a par amount of \$69,785. The purpose of the issue was to provide financing for the construction of the Ashton Housing Complex on the Bloomington campus, and reimburse financing for the

University Place Food Court Renovation on the IUPUI campus and the Parking Lot Expansion on the Southeast campus. The true interest cost for the bonds is 4.53%.

On June 1, 2009, pursuant to mutual agreements between the university, the IU Foundation, and the Indiana University Building Corporation, and with the consent of the trustee bank, the Biotechnology Research and Training Center property and related capital lease-purchase agreement obligations were assigned and transferred by the Indiana University Foundation to the Indiana University Building Corporation. The Indiana University Building Corporation is an affiliated single purpose Indiana not-for-profit corporation that was formed by the Trustees of Indiana University. The sole purpose of this entity is to own and lease facilities back to the university in order to facilitate the financing of such facilities through the issuance of certificates of participation. The principal amount of the Certificates of Participation that was outstanding on the date of transfer was \$8,510. These obligations are listed in the outstanding indebtedness table above under Indiana Code 21-33-3-5 and are classified as notes payable.

Note 12—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. During fiscal year 2003, the IU Foundation and the university entered into a lease purchase agreement, which was securitized and sold as Certificates of Participation, Series 2003A, in April of 2003 in the amount of \$10,830. The proceeds of the Series 2003A certificates were used to finance a portion of the cost of construction and equipping of the Biotechnology Research and Training Center on the IUPUI campus. Effective June 1, 2009, the IU Foundation's net investment in this direct financing lease was assigned to the Indiana University Building Corporation (IUBC). IUBC is presented as a blended component unit of the university, and as such, the capital lease transactions are eliminated to avoid double counting.

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

	<i>Capital</i>	<i>Operating</i>
2010	\$ 1,439	\$ 11,990
2011	1,102	10,116
2012	905	7,697
2013	741	5,719
2014	231	5,469
2015-2019		19,617
2020-2024		9,659
2025-2029		1,154

Total future minimum payments	4,418	\$ 71,421
Less: interest	(446)	
Present value of future principal outstanding	\$ 3,972	

Note 13—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 \$1,564 and \$707 for health professions and nursing loan programs for fiscal years ended June 30, 2009 and 2008, respectively.

Liabilities at June 30, 2009 and 2008 for loan programs were as follows:

	<i>June 30, 2009</i>	<i>June 30, 2008</i>
Current portion of assets held in custody for others	\$ 527	\$ 450
Noncurrent liabilities:		
Federal share of interest	32,239	31,226
Perkins loans	20,202	20,630
Health professions loans	14,932	14,047
Nursing loans	585	674
Total noncurrent portion of assets held in custody for others	67,958	66,577
Total assets held in custody for others	\$ 68,485	\$ 67,027

Note 14—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 per occurrence with an additional

\$900 per occurrence covered by OCIC. The university is self-funded for comprehensive general liability and automobile liability for the first \$100 per occurrence with an additional \$900 per occurrence covered by OCIC and has supplementary commercial liability umbrella policies. The university has a malpractice and professional liability policy in the amount of \$250 for each claim and \$750 annually in aggregate provided by OCIC. The university is self-funded for the first \$750 of any worker's compensation claim. Excess commercial coverage for up to \$1,000 is in place for employer liability claims. Worker's compensation claims above \$750 are subject to statutory limits.

The university has three 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 20% of the paid self-funded claims during the fiscal year, and totals \$30,020 and \$27,228 at June 30, 2009 and 2008, respectively. In addition, a potential claims fluctuation liability of \$9,876 has been recorded at June 30, 2009 and 2008.

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 15—Retirement Plans

The university provided retirement plan coverage to 18,649 and 18,187 active employees, as of June 30, 2009 and 2008, 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 7,027 and 6,950 active university employees covered by this retirement plan as of June 30, 2009 and 2008, 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, Harrison Building, Suite 700, 143 West Market Street, Indianapolis, IN 46204, by calling 317-233-4162 or 1-888-526-1687, or reviewing the Annual Report online at www.in.gov/perf.

Contributions made by the university totaled \$20,346 and \$19,607, for fiscal years ended June 30, 2009 and 2008, respectively. This represented a 6.3% university pension benefit contribution for fiscal years ended June 30, 2009 and 2008, and a 3% university contribution for the annuity savings account provisions each year.

PERF FUNDING POLICY AND ANNUAL PENSION COST

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

The employer contributions required by the funding policy at actuarial determined rates are sufficient to fund the pension 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 funding method is entry age normal cost. The employer required contribution is determined using an asset smoothing method. The actuarial valuation date is July 1, 2007.

Actuarial assumptions include: 1) an investment rate of return of 7.25%, 2) a projected salary increase of 4%, and 3) a 1.5% cost of living increase granted in each future year, applying to current and future retirees.

The following schedules show the funding progress, net pension obligation, and trend information for PERF:

	<i>Fiscal Year¹ Ended June 30, 2008</i>	<i>Fiscal Year Ended June 30, 2007</i>
Annual required contribution	\$ 11,962	\$ 12,287
Interest on net pension obligation	(231)	(342)
Adjustment to annual required contribution	264	390
Annual pension cost	11,995	12,335
Contributions made	(12,794)	(10,809)
Increase/(decrease) in net pension obligation	(799)	1,526
Net pension obligation, beginning of year	(3,197)	(4,723)
Net pension obligation, end of year	\$ (3,996)	\$ (3,197)

¹Actuarial data for 2009 not available at the time of this report.

<i>Fiscal Year Ended</i>	<i>Annual Pension Cost (APC)²</i>	<i>Percentage of APC Net Pension Contributed</i>	<i>Net Pension Obligation</i>
June 30, 2006	\$ 10,350	91%	\$ (4,723)
June 30, 2007	12,335	88%	(3,197)
June 30, 2008	11,994	107%	(3,996)

²Does 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 \$70,676 during fiscal year ended June 30, 2009, and \$68,657 during fiscal year ended June 30, 2008, to TIAA-CREF for the IU Retirement Plan. The university contributed \$20,188 during fiscal year ended June 30, 2009, and \$17,675, during fiscal year ended June 30, 2008, to Fidelity Investments for the IU Retirement Plan. Under this plan, 8,693 and 8,527 employees directed university contributions to TIAA-CREF as of June 30, 2009 and 2008, respectively. In addition, 3,492 and 3,195 employees directed university contributions to Fidelity Investments as of June 30, 2009 and 2008, 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 1,242 and 1,300 active employees on June 30, 2009 and 2008, 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 \$2,698 and \$1,299 to IUSERP during fiscal years ended June 30, 2009 and 2008, respectively. The same class of employees hired prior to January 1, 1989, are 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, 2009, the university made total payments of \$34,183 to 399 individuals receiving 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2008, the university made total payments of \$33,997 to 416 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. 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, 2009 and 2008, 97 and 100 employees, respectively, were eligible to participate. University contributions related to this plan totaled \$997, and \$937, for fiscal years ended June 30, 2009 and 2008, respectively, with no employee contributions.

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, 2008, for the fiscal year ended June 30, 2009, prepared as of July 1, 2007, for the fiscal year ended June 30, 2008, and prepared as of July 1, 2006, for the fiscal year ended June 30, 2007.

	<i>Fiscal Year Ended June 30, 2009</i>	<i>Fiscal Year Ended June 30, 2008</i>	<i>Fiscal Year Ended June 30, 2007</i>
Cost of benefits earned during the year	\$ 696	\$ 698	\$ 985
Amortization of unfunded actuarial accrued liabilities	473	170	727
Interest	94	69	120
Funding policy contribution	\$ 1,263	\$ 937	\$ 1,832

The funded status of the IU Replacement Retirement Plan as provided by the actuarial valuation reports for fiscal years ended June 30, 2009, 2008, and 2007 are as follows:

<i>Actuarial Valuation Date</i>	<i>July 1, 2008</i>	<i>July 1, 2007</i>	<i>July 1, 2006</i>
Actuarial accrued liability (AAL)	\$ 16,750	\$ 13,322	\$ 11,685
Actuarial valuation of plan assets	11,159	11,293	8,314
Unfunded actuarial liability	5,591	2,029	3,371
Actuarial value of assets as a percentage of (AAL) (funded ratio)	66.6%	84.8%	71.1%
Annual covered payroll	\$ 8,612	\$ 8,933	\$ 8,673
Ratio of unfunded actuarial liability to annual covered payroll	64.9%	22.7%	38.9%

Actuarial assumptions include an 8% asset rate of return and future salary increases of 3% compounded annually for the fiscal year ended June 30, 2009 and an 8% asset rate of return and future salary increases of 3% compounded annually for the fiscal year ended June 30, 2008. 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 16—Postemployment Benefits

PLAN DESCRIPTION

In addition to providing pension benefits, 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, divided by five. The 18/20 Plan was adopted by the Trustees of Indiana University. Indiana University provides medical care coverage to individuals with Indiana University retiree status and their dependents. The cost of the coverage is borne fully by the individual. However, the retirees participate in the same healthcare plan as current university employees, increasing the university's cost of providing coverage to current employees. The university provides retiree life insurance benefits in the amount of \$6 to terminated employees with IU 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 of Indiana University. 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 \$919 and \$512 in premiums in the fiscal years ended June 30, 2008 and 2007, respectively. The university contributed \$47,263 and \$43,882 to the consolidated OPEB Plan in fiscal years ended June 30, 2008 and 2007, 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, 2008:

	<i>Fiscal Year Ended June 30, 2008</i>	<i>Fiscal Year Ended June 30, 2007</i>
Annual required contribution (ARC)/Annual OPEB cost	\$ 52,164	\$ 47,637
Less Employer contribution	47,262	43,882
Increase in OPEB obligation	4,902	3,755
Net OPEB obligation, beginning of year	3,755	-
Net OPEB obligation, end of year	\$ 8,657	\$ 3,755
Percentage of annual OPEB cost contributed	90.60%	92.12%

FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2007, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$488,523 at June 30, 2008, and \$475,118 at June 30, 2007, and the actuarial value of assets was zero each year, resulting in an unfunded actuarial accrued liability (UAAL) of \$488,523 at June 30, 2008, and \$475,118 at June 30, 2007. The covered payroll (annual payroll of active employees covered by the plan) was \$868,809 for fiscal year 2008 and \$858,452 for fiscal year 2007, and the ratio of the UAAL to the covered payroll was 56.2 percent for fiscal year 2008 and 55.3 percent for fiscal year 2007.

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 Indiana 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 two years of information

and in subsequent years will present 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 Indiana University and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between Indiana 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, 2007, actuarial valuation. The actuarial assumptions include a 4.5 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on Indiana University's investments calculated based on the funded level of the plan at June 30, 2008, and an annual healthcare cost trend rate that ranges from 9.5 percent in 2010 to 4.5 percent in 2020. The rate includes a 3 percent inflation assumption. The UAAL is being amortized over 25 years using level dollar amounts on an open group basis.

A schedule of funding progress for the current year is presented as required supplementary information immediately following the notes to the financial statements.

Note 17—Related Organizations

In 1922 the Riley Children's Foundation presented the James Whitcomb Riley Hospital for Children to Indiana University. On May 2, 1996, the James Whitcomb Riley Hospital for Children separated from Indiana University and is now part of Clarian Health Partners, Inc. The university has been a major beneficiary of this foundation. Riley Children's Foundation net assets were \$209,453 and \$243,878 at June 30, 2009 and 2008, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Note 18—Functional Expenses

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

Fiscal year ended June 30, 2009

Functional Classification	Natural Classification						Total
	Compensation & Benefits	Utilities	Supplies & Expenses	Scholarships & Fellowships	Depreciation	Travel	
Instruction	\$ 756,771	\$ 200	\$ 94,695	\$ 15,751	\$ —	\$ 15,679	\$ 883,096
Research	144,339	14	70,344	4,333	—	5,278	224,308
Public service	83,053	384	60,744	5,083	—	4,557	153,821
Academic support	177,410	25	39,155	2,276	—	4,544	223,410
Student services	69,151	14	19,598	1,655	—	1,519	91,937
Institutional support	131,613	446	10,737	989	—	2,181	145,966
Physical plant	68,152	61,249	58,360	2	—	248	188,011
Scholarships & fellowships	8,922	—	567	88,931	—	99	98,519
Auxiliary enterprises	193,515	3,115	95,235	6,810	—	6,292	304,967
Depreciation	—	—	—	—	120,819	—	120,819
Total operating expenses	\$ 1,632,926	\$ 65,447	\$ 449,435	\$ 125,830	\$ 120,819	\$ 40,397	\$ 2,434,854

Fiscal year ended June 30, 2008

Functional Classification	Natural Classification						Total
	Compensation & Benefits	Utilities	Supplies & Expenses	Scholarships & Fellowships	Depreciation	Travel	
Instruction	\$ 703,778	\$ 115	\$ 90,103	\$ 14,199	\$ —	\$ 13,895	\$ 822,090
Research	141,000	69	71,613	3,964	—	5,321	221,967
Public service	82,693	411	48,877	5,028	—	4,377	141,386
Academic support	150,948	24	28,122	802	—	4,359	184,255
Student services	55,075	12	7,624	784	—	1,219	64,714
Institutional support	165,256	571	50,908	713	—	3,032	220,480
Physical plant	51,005	53,375	44,629	—	—	152	149,161
Scholarships & fellowships	8,337	—	746	77,858	—	76	87,017
Auxiliary enterprises	177,243	3,196	85,899	6,218	—	7,050	279,606
Depreciation	—	—	—	—	116,683	—	116,683
Total operating expenses	\$ 1,535,335	\$ 57,773	\$ 428,521	\$ 109,566	\$ 116,683	\$ 39,481	\$ 2,287,359

Note 19—Segment Information

The university issued revenue bonds to finance certain auxiliary enterprise activities. The university repays these bonds with the net income of certain parking and housing facilities.

Revenue bonds have been issued to finance certain auxiliary parking enterprise activities on the Bloomington, IUPUI, Kokomo, and South Bend campuses. These auxiliary entities provide parking services to students, staff, faculty, and the general public.

Revenue bonds have been issued to finance certain auxiliary housing activities on the Bloomington and IUPUI campuses. These auxiliary entities provide housing primarily to students.

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

CONDENSED STATEMENT OF NET ASSETS

	<i>Parking Operations</i>		<i>Housing Operations</i>	
	<i>June 30, 2009</i>	<i>June 30, 2008</i>	<i>June 30, 2009</i>	<i>June 30, 2008</i>
Assets				
Current assets	\$ 20,671	\$ 21,479	\$ 50,255	\$ 44,857
Capital assets, net	69,201	70,902	127,236	124,657
Total assets	89,872	92,381	177,491	169,514
Liabilities				
Current liabilities	4,617	5,134	6,019	6,053
Long-term liabilities	43,163	46,448	49,698	51,818
Due to other funds	—	—	451	802
Total liabilities	47,780	51,582	56,168	58,673
Net assets				
Invested in capital assets, net of related debt	22,753	23,499	75,794	71,185
Unrestricted	19,339	17,300	45,529	39,656
Total net assets	\$ 42,092	\$ 40,799	\$ 121,323	\$ 110,841

(Continued from previous page)

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<i>Parking Operations</i>		<i>Housing Operations</i>	
	<i>Fiscal Year Ended June 30, 2009</i>	<i>Fiscal Year Ended June 30, 2008</i>	<i>Fiscal Year Ended June 30, 2009</i>	<i>Fiscal Year Ended June 30, 2008</i>
Operating revenues	\$ 18,468	\$ 17,427	\$ 58,289	\$ 55,131
Depreciation expense	(3,083)	(2,942)	(5,119)	(4,964)
Other operating expenses	(11,645)	(7,389)	(39,526)	(36,439)
Net operating income	3,740	7,096	13,644	13,728
Nonoperating revenues (expenses)				
Investment income	1	22	–	32
Interest expense	(2,405)	(2,018)	(2,558)	(2,356)
Increase in net assets	1,336	5,100	11,086	11,404
Net Assets				
Net assets, beginning of year	40,799	37,309	110,841	100,407
Net transfers	(43)	(1,610)	(604)	(970)
Net assets, end of year	\$ 42,092	\$ 40,799	\$ 121,323	\$ 110,841

CONDENSED STATEMENT OF CASH FLOWS

	<i>Parking Operations</i>		<i>Housing Operations</i>	
	<i>Fiscal Year Ended June 30, 2009</i>	<i>Fiscal Year Ended June 30, 2008</i>	<i>Fiscal Year Ended June 30, 2009</i>	<i>Fiscal Year Ended June 30, 2008</i>
Net cash provided (used) by:				
Operating activities	\$ 6,474	\$ 2,829	\$ 17,562	\$ 20,217
Capital and related financing activities	(7,375)	(6,006)	(11,806)	(15,529)
Investing activities	1	22	–	32
Net increase (decrease) in cash	(900)	(3,155)	5,756	4,720
Beginning cash and cash equivalent balances	20,261	23,416	43,483	38,763
Ending cash and cash equivalent balances	\$ 19,361	\$ 20,261	\$ 49,239	\$ 43,483

Total revenue-backed debt for capital financing of housing and parking auxiliary activities is outstanding in the amount of \$45,925 at June 30, 2009, with remaining terms of 1 to 20 years. Revenues of the activities are sufficient to meet the principal and interest requirements for the debt.

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

Note 20—Commitments and Loss Contingencies

CONSTRUCTION PROJECTS

The university had outstanding commitments for capital construction projects of \$129,702 and \$156,046 at June 30, 2009 and 2008, respectively.



Required Supplementary Information

Schedule of Funding Progress for IU Replacement Retirement Plan:

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 a Percentage of Covered Payroll ((b - a) / c)
7/1/2008	\$ 11,159	\$ 16,750	\$ 5,591	66.6%	\$ 8,612	64.9%
7/1/2007	11,293	13,322	2,029	84.8%	8,933	22.7%
7/1/2006	8,314	11,685	3,371	71.1%	8,673	38.9%

Schedule of Funding Progress for Other Postemployment Benefit Plans:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Projected Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2008*	--	\$ 488,523	\$ 488,523	0.0%	\$ 868,809	56.2%
7/1/2007	--	475,118	475,118	0.0%	858,452	55.3%

*The standard requires three years of information for this schedule. An additional year of information will be added next year and then it will be the current and two preceding years going forward.

Indiana University Foundation
Notes to the Financial Statements
June 30, 2009 and 2008

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, 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 intended for endowment purposes, 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

Investments are stated at fair value and are recorded on the trade date. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The hedge funds, limited partnerships and real asset funds, for which quoted market prices are not available, are carried at estimated fair market values as provided by the external general partners or investment managers and/or audited financial statements of the fund or partnership. Such values may be based on a variety of estimates and assumptions requiring varying degrees of judgment and may be subject to volatility in market conditions and the possibility that their value could substantially change in the near term and/or be materially different than the values reported in the statements of financial position. Management of the Foundation believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Realized gains and losses on sales of investments are determined on the specific identification basis. Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, the Foundation may use valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, the Foundation may make adjustments for risks and uncertainties if a market participant would include such an adjustment in its pricing. Investment income, including net gains (losses), is recorded in the net asset class pursuant to the donor's original intentions. If unspecified by the donor, trust and endowment gains and losses are recorded with the original gift corpus. A summary of investments by security type as of June 30, 2009 and 2008 follows:

	Unrestricted			Temporarily Restricted		Permanently Restricted	
	Foundation	Agency		Foundation	University	Foundation	University
Common, preferred and international stocks	\$ 15,628,144	\$ 65,238,150	\$	2,774,250	\$ 126,590,909	\$ 8,227,164	\$ 295,347,199
Fixed income	3,172,549	15,383,849		974,590	28,090,563	1,749,088	64,942,405
Cash equivalents	4,567,041	2,502,274		209,952	5,201,408	355,062	12,386,190
Alternative investments	15,851,670	66,167,625		1,875,434	123,619,217	7,956,056	289,175,647
Real estate	162,610	470,054		1,813,323	3,728,963	56,520	6,417,801
Mortgage securities	-0-	-0-		-0-	10,029	-0-	726,020
Total investments	\$ 39,382,014	\$ 149,761,952	\$	7,647,549	\$ 287,241,089	\$ 18,343,890	\$ 668,995,262

2009

Excerpts from Indiana University Foundation Notes to the Financial Statements:

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 as determined by the Foundation's investment manager. Significant open positions as of June 30, 2009 and 2008 are summarized as follows:

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 \$2,826,735 and \$2,269,390 in cash, and \$-0- and \$3,801,429 of US Treasury Bills as collateral in a margin maintenance account as of June 30, 2009 and 2008, respectively. The related net gains generated were \$1,130,791 and \$1,143,814 for the years ended June 30, 2009 and 2008.

Indiana University Foundation
Notes to the Financial Statements
June 30, 2009 and 2008

respectively. Investment income including net gains (losses), net of outside investment management fees, for the years ended June 30, 2009 and 2008 consists of the following:

	2009			
	Unrestricted	Temporarily Restricted		Permanently Restricted
		Foundation	University	Foundation University
Dividend, interest and other investment income	\$ 1,440,231	\$ (15,286)	\$ 9,029,535	\$ -0- \$ (243,207,897)
Net realized and unrealized gains (losses) on investments	(9,287,936)	(1,979,084)	(41,443,272)	(7,361,340)
Outside investment management fees	(199,986)	(42)	(3,163,159)	-0-
Total investment income, including net gains (losses), net of outside investment management fees	\$ (8,047,691)	\$ (1,994,412)	\$ (35,576,896)	\$ (7,361,340) \$ (243,207,897)
	2008			
	Unrestricted	Temporarily Restricted		Permanently Restricted
		Foundation	University	Foundation University
Dividend, interest and other investment income	\$ 1,676,950	\$ 215,632	\$ 11,338,434	\$ -0- \$ (96,832,173)
Net realized and unrealized gains (losses) on investments	(1,973,316)	(300,953)	15,590,947	(3,816,686)
Outside investment management fees	(303,110)	-0-	(4,194,927)	-0-
Total investment income, including net gains (losses), net of outside investment management fees	\$ (599,476)	\$ (85,321)	\$ 22,734,454	\$ (3,186,686) \$ (96,832,173)

The Foundation's investment assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157. See Note 2 for a discussion of the Foundation's policies. The following table presents information about the Foundation's assets and liabilities measured at fair value as of June 30, 2009 follows:

	Level 1	Level 2	Level 3	Total
Common, preferred and international stocks	\$ 480,852,733	\$ 32,396,212	\$ 556,871	\$ 513,805,816
Fixed income	101,813,983	12,150,178	348,883	114,313,044
Cash equivalents	5,593,037	8,199,938	11,428,952	25,221,927
Alternative investments	4,745,440	78,140,221	421,759,988	504,645,649
Real estate	-0-	-0-	12,649,271	12,649,271
Mortgage securities	-0-	-0-	736,049	736,049
Total	\$ 593,005,193	\$ 130,886,549	\$ 447,480,014	\$ 1,171,371,756

Excerpts from Indiana University Foundation Notes to the Financial Statements:

Beginning balance	\$ 451,532,430
Realized and unrealized gains (losses)	(94,819,895)
Purchases, sales and settlements	91,027,625
Net transfers in and/or out of level 3	(260,145)
Ending balance	<u>\$ 447,480,015</u>

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, 2009 and 2008 are as follows:

	Temporarily Restricted		Permanently Restricted	
	Foundation	University	Foundation	University
Foundation operations	\$ 6,575,940	\$ -0-	\$ 18,378,986	\$ -0-
University Programs:				
Awards	-0-		-0-	
Capital and capital improvements	-0-	5,626,346	-0-	6,324,928
Fellowships/lectureships	-0-	60,715,486	-0-	1,841,655
General endowments	-0-	16,915,308	-0-	61,965,866
Medical practice plans	-0-	198,965,747	-0-	153,182,837
Professorships/chairs	-0-	26,644,775	-0-	-0-
Research	-0-	52,904,793	-0-	2,708,477
Scholarships	-0-	80,013,268	-0-	199,357,174
Operations	-0-	20,043,267	-0-	20,335,482
	-0-	85,933,933	-0-	278,280,927
Total	\$ 6,575,940	\$ 547,762,923	\$ 18,378,986	\$ 723,997,347

**Indiana University Foundation
Notes to the Financial Statements
June 30, 2009 and 2008**

Excerpts from Indiana University Foundation Notes to the Financial Statements:

	2008			
	Temporarily Restricted		Permanently Restricted	
	Foundation	University	Foundation	University
Foundation operations	\$ 8,367,480	\$ -0-	\$ 25,877,278	\$ -0-
University Programs:				
Awards	-0-	6,736,294	-0-	8,755,053
Capital and capital improvements	-0-	34,632,544	-0-	2,519,497
Fellowships/lectureships	-0-	17,707,402	-0-	80,276,214
General endowments	-0-	245,257,509	-0-	211,309,745
Medical practice plans	-0-	34,101,518	-0-	-0-
Professorships/chairs	-0-	59,885,171	-0-	3,202,903
Research	-0-	85,739,029	-0-	263,341,247
Scholarships	-0-	28,887,752	-0-	26,289,092
Operations	-0-	94,391,207	-0-	351,178,348
Total	\$ 8,367,480	\$ 607,338,426	\$ 25,877,278	\$ 946,872,101

Note 10 - Contingencies and Commitments

The Foundation has borrowed \$63,370,395 and \$48,716,110 of temporarily restricted University cash and cash equivalents as of June 30, 2009 and 2008, 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 \$5,400,000 and \$5,900,000 as of June 30, 2009 and 2008, 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 5.1% to 6.0% as of June 30, 2009 and from 3.8% to 6.0% as of June 30, 2008.

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. The Foundation's asset allocation policy allocates up to 50% in these types of investments. As of June 30, 2009 and 2008, the Foundation has entered into agreements with unfunded commitments of \$259.0 million and \$225.2 million, respectively. These commitments are expected to be fulfilled over the next three to five years.

Indiana University Foundation
Notes to the Financial Statements
June 30, 2009 and 2008

Note 11 - Program Expenditures

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, air transportation 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 years ended June 30, 2009 and 2008, a summary of these expenditures follows:

	2009		
	Foundation	University*	Total
Program expenditures:			
Foundation programs:			
Real estate	\$ 7,907,942	\$ -0-	\$ 7,907,942
Student Foundation	485,300	-0-	485,300
Cultural center	180,474	-0-	180,474
Women's programs	43,916	-0-	43,916
Miscellaneous	113,582	-0-	113,582
	8,731,214	-0-	8,731,214
Grants and aid to the University:			
Operating support:			
University support	2,162,254	30,431,424	32,593,678
Student scholarship and financial aid	98,887	27,714,355	27,813,242
Faculty support	3,335,046	34,210,851	37,545,897
Faculty research	-0-	6,837,617	6,837,617
	5,596,187	99,194,247	104,790,434
Endowment and capital additions:			
Land, building and equipment purchases	41,288	9,338,522	9,379,810
Library and art acquisitions	1,800	556,884	558,684
	43,088	9,895,406	9,938,494
Total program expenditures	\$ 14,370,489	\$ 109,089,653	\$ 123,460,142

Indiana University Foundation
Notes to the Financial Statements
June 30, 2009 and 2008

Excerpts from Indiana University Foundation Notes to the Financial Statements:

	2008		
	Unrestricted		
Program expenditures:	Foundation	University*	Total
Foundation programs:			
Real estate	\$ 5,419,483	\$ -0-	\$ 5,419,483
Air transportation services	900,155	-0-	900,155
Student Foundation	598,266	-0-	598,266
Cultural center	262,681	-0-	262,681
Women's programs	4,569	-0-	4,569
Miscellaneous	774	-0-	774
	<u>7,185,928</u>	<u>-0-</u>	<u>7,185,928</u>
Grants and aid to the University:			
Operating support:			
University support	6,531,497	38,697,972	45,229,469
Student scholarship and financial aid	99,083	26,415,260	26,514,343
Faculty support	1,877	15,009,768	15,011,645
Faculty research	-0-	7,880,327	7,880,327
	<u>6,632,457</u>	<u>88,003,327</u>	<u>94,635,784</u>
Endowment and capital additions:			
Land, building and equipment purchases	277,558	56,487,477	56,765,035
Library and art acquisitions	10,329	1,324,375	1,334,704
	<u>287,887</u>	<u>57,811,852</u>	<u>58,099,739</u>
Total program expenditures	<u>\$ 14,106,272</u>	<u>\$ 145,815,179</u>	<u>\$ 159,921,451</u>

*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.



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

We have audited the accompanying basic financial statements of Indiana University, a component unit of the State of Indiana, as of and for the years ended June 30, 2009 and 2008. 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. The financial statements of this component unit were audited by another auditor whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

We conducted our 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, 2009 and 2008, 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 20, 2009, on our consideration of Indiana University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

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

October 20, 2009

STATE BOARD OF ACCOUNTS
State Board of Accounts

Trustees and Administrative Officers of Indiana University

THE TRUSTEES OF INDIANA UNIVERSITY

for fiscal year ended June 30, 2009

Stephen L. Ferguson, Monroe County, President
Patrick A. Shoulders, Vanderburgh County, Vice President

William R. Cast, Allen County

Philip N. Eskew, Jr., Kosciusko County

Jack M. Gill, Harris County, Texas

Arthur D. (A.D.) King, Bartholomew County

Thomas E. Reilly, Jr., Marion County

Derica W. Rice, Hamilton County

Sue H. Talbot, Monroe County

Robin Roy Gress, Secretary

Dorothy J. Frapwell, Assistant Secretary

MaryFrances McCourt, Treasurer

Stewart T. Cobine, Assistant Treasurer

ADMINISTRATIVE OFFICERS

for fiscal year ended June 30, 2009

Michael A. McRobbie, President of the University

Adam W. Herbert, President Emeritus of the University

Myles Brand, President Emeritus of the University

Thomas Ehrlich, President Emeritus of the University

John W. Ryan, President Emeritus of the University

Kenneth R. R. Gros Louis, University Chancellor

John Applegate, Vice President for Planning and Policy

Charles R. Bantz, Executive Vice President and Chancellor, Indiana University-Purdue University Indianapolis

Bruce W. Bergland, Chancellor, Indiana University Northwest (Gary)

D. Craig Brater, Vice President for Life Sciences

J. Terry Clapacs, Vice President and Chief Administrative Officer

Dorothy J. Frapwell, Vice President and General Counsel

G. Frederick Glass, Vice President and Director of Intercollegiate Athletics

Stuart M. Green, Interim Chancellor, Indiana University Kokomo

Karen Hanson, Executive Vice President, and Provost, IU Bloomington

Edwin C. Marshall, Vice President for Diversity, Equity, and Multicultural Affairs

MaryFrances McCourt, Treasurer of the University

Patrick O'Meara, Vice President for International Affairs

Sandra R. Patterson-Randles, Chancellor, Indiana University Southeast (New Albany)

Nasser Paydar, Chancellor, Indiana University East (Richmond)

Ora Hirsch Pescovitz, Interim Vice President for Research Administration (until May 10, 2009)

Una Mae Reck, Chancellor, Indiana University South Bend

Michael M. Sample, Vice President for Public Affairs and Government Relations

William B. Stephan, Vice President for Engagement

Neil D. Theobald, Vice President and Chief Financial Officer

Michael A. Wartell, Chancellor, Indiana University-Purdue University Fort Wayne

Brad Wheeler, Vice President for Information Technology and Chief Information Officer

Additional Information

Additional copies of this report may be obtained from:

Office of the Vice President and Chief Financial Officer

Bryan Hall 204

Indiana University

Bloomington, IN 47405-7000

<http://www.indiana.edu/~vpcco/>

PDF file of this report: <http://www.indiana.edu/~vpcco/reports/index.shtml>

For additional information:

GENERAL INFORMATION

Vice President for Public Affairs and Government Relations

Bryan Hall 300

107 S. Indiana Avenue

Bloomington, IN 47405-7000

<http://www.indiana.edu/~pagr/>

FINANCIAL REPORT

Associate Vice President and Executive Director

Financial Management Services

Poplars 519

Indiana University

Bloomington, IN 47405-3085

<http://www.fms.iu.edu/>

ADMISSIONS

Vice Provost for Enrollment Management

Office of Admissions

300 N. Jordan Ave.

Indiana University

Bloomington, IN 47405-1106

<http://www.admit.indiana.edu>

GIFTS

Indiana University Foundation

Showalter House

P.O. Box 500

Bloomington, IN 47402-0500

<http://iufoundation.iu.edu/>

GRANTS

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

Alumni Association

1000 East 17th Street

Indiana University

Bloomington, IN 47408

<http://alumni.indiana.edu>

Acknowledgements

The following members of Financial Management Services prepared the 2008-09 *Financial Report* and the included financial statements.

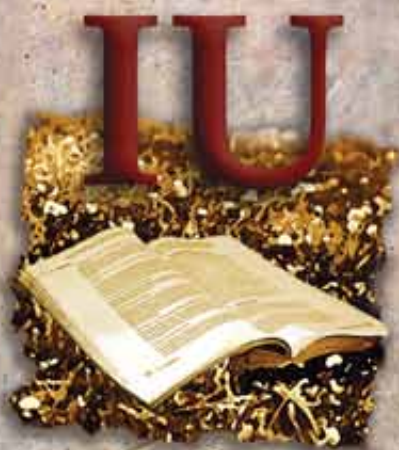
Kathleen T. McNeely, Associate Vice President and
Executive Director, Financial Management Services
Joan Hagen, Chief Accountant and Managing Director,
Financial Management Services
William Overman, Manager of External Financial
Reporting
Melody Amato, External Reporting and Compliance
Aaron Pritchett, External Reporting and Compliance

The following members of Financial Management Services assisted in the preparation of the 2008-09 *Financial Report* and the included financial statements.

Sterling George, Director of Operations, Systems
Administration, and Records Management
Jennifer George, Director of Accounts Receivable,
Auxiliary Accounting, Capital Assets, and Student Loan
Administration
Rhonda Inman, Manager, Auxiliary Accounting
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 Communications
University Human Resource Services



W. Taylor

