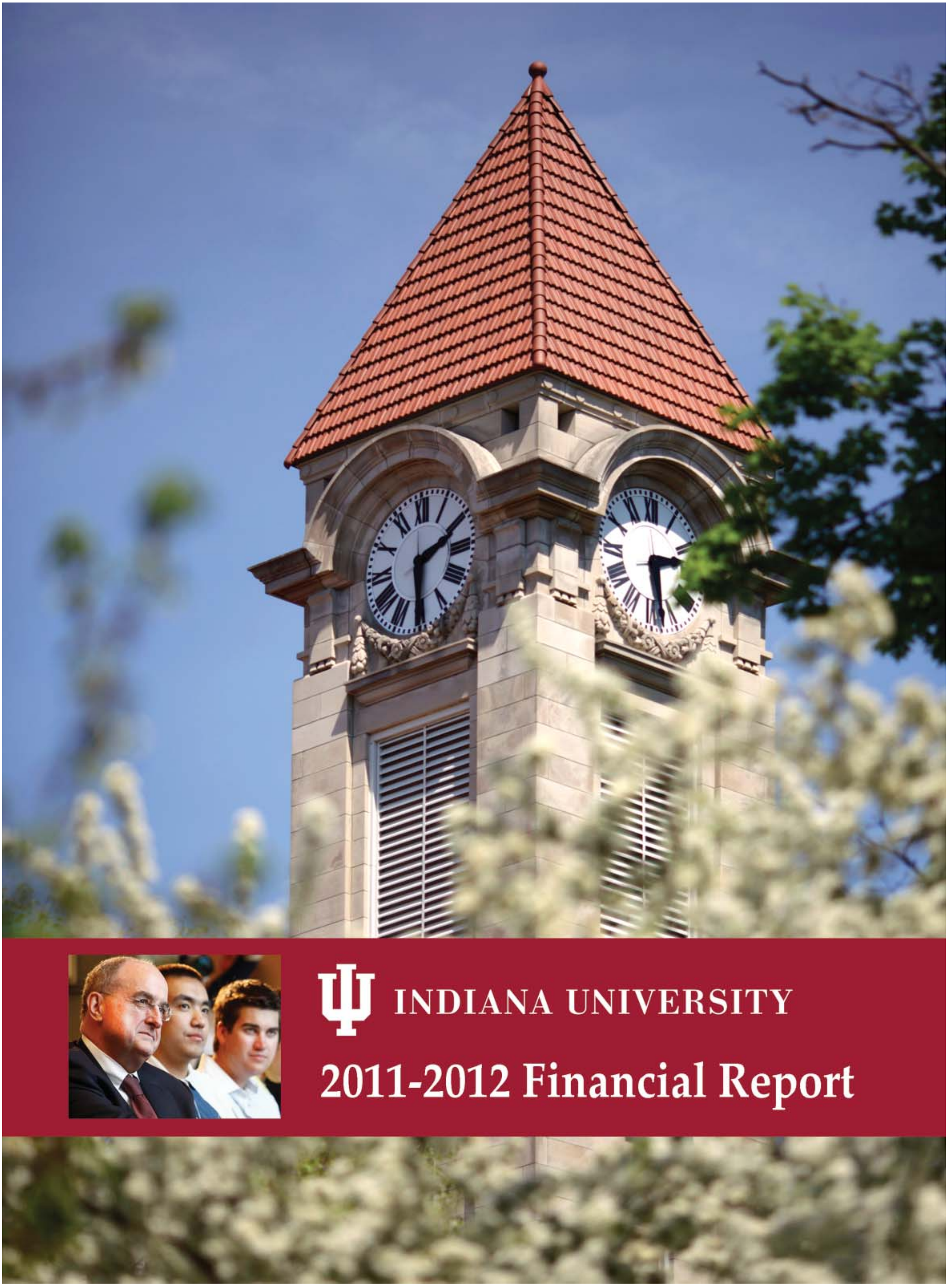
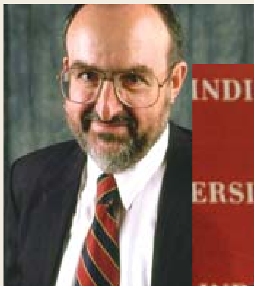


INDIANA UNIVERSITY

2011-2012 Financial Report



Michael A. McRobbie

15-Year IU Highlights 1997-2012

- As vice president for information technology, initiated the development of IU's original Information Technology Strategic Plan, launched in 1998 to enable IU to become a leader in the use and application of IT and today considered a model for educational institutions across the nation.
- Played an important role in establishing IU's School of Informatics and Computing, the first such school in the nation, as well as in securing two of the largest grants in IU history—totaling more than $80 million—to establish technology-related laboratories and initiatives at the university.
- Directed the development of I-Light, the first higher education-owned optical fiber network, which provides high-speed broadband Internet capability to colleges and universities across Indiana.
- In 2004, named to Computerworld magazine's list of the "Premier 100 IT leaders," which honors the top information technology strategists in the U.S.
- As vice president for research, was instrumental in securing a $53 million grant from the Lilly Endowment for the Indiana Metabolomics and Cytomics Initiative (METACyt)—the largest grant ever obtained at IU Bloomington.
- As IU Bloomington provost, jointly oversaw the development of the IU Life Sciences Strategic Plan, designed to move the university into the ranks of the nation's top research centers in the life sciences.
- As university provost and as president, oversaw the creation of a 50-year master plan to guide future expansions of IU's core campuses in Bloomington and Indianapolis.
- As president, dedicated several new facilities for teaching and learning and on-campus housing, including, among others, Simon Hall, the first science-only building constructed at IU Bloomington in more than 40 years, the IU Cinema, the Union Street Center student housing complex, new residence halls at IU Southeast, the Cook Hall basketball practice facility and the Glick Eye Institute.
- Accompanied Elinor Ostrom to Stockholm, Sweden, where she accepted the 2009 Nobel Prize in Economic Sciences.
- In 2010, unveiled IU's "Principles of Excellence," a guide to IU achieving its vision of becoming one of the great research universities of the 21st century and the preeminent institution of higher education in Indiana.

(Highlights continued inside back cover.)

Financial Report 2011–12

Table of Contents

2 Message from the President

5 Message from the Senior Vice President and Chief Financial Officer

7 Independent Auditors' Report

9 Management's Discussion and Analysis

16 Statement of Net Assets

17 IUF Statement of Financial Position

18 Statement of Revenues, Expenses, and Changes in Net Assets

19 IUF Statement of Activities

20 Statement of Cash Flows

22 Notes to the Financial Statements

45 Excerpts from the IU Foundation– Notes to Financial Statements

54 Trustees and Administrative Officers of Indiana University

55 Additional Information

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 2011-12 Financial Report.

Like public research universities across the nation, Indiana University has faced myriad challenges in recent years, including the nationwide economic downturn, growing concerns over college costs and student debt, the emergence of greater global competition in higher education, rapidly evolving technologies, and changing demographics. In the face of these and other challenges, Indiana University's faculty, staff, and students continue to engage in remarkable work that is improving our state, nation, and world, and transforming lives.

We continue to steadfastly embrace the enduring value of a rigorous college education, and we are taking steps that will ensure that Indiana University offers the kinds of educational opportunities that one would expect of a university that aspires to be one of the finest universities of the 21st century.

Keeping an IU Education Affordable

As a public university, we also have an obligation to ensure that an IU education remains accessible and affordable for qualified Hoosier students. The 2013 edition of the "Fiske Guide to Colleges," one of the country's leading college guides, recognized our commitment to keeping an IU education affordable by naming IU Bloomington a "best buy" school. IU Bloomington was one of only 20 public universities in the U.S. and Canada to receive the "best buy" designation.

Recent data from the U.S. Department of Education's National Center for Education Statistics shows that IU, state, and federal student financial aid programs reduce the net cost of attending Indiana University to about half of the "sticker price" of tuition, room and board, books, and miscellaneous expenses. The data also shows that the net cost for the Bloomington campus is *the lowest* of all Big Ten institutions—and that IU East has *the lowest* net cost of *any* public campus in Indiana.

We are not content, however, to rest on these laurels.

I recently announced a new on-time completion award that will help to further lower the cost of attending IU, while providing additional incentive for students to graduate in four years. Under this initiative, students who have completed four semesters in good academic standing and who are on-track to graduate in four years will receive an award that offsets any increase in tuition and fees that may occur in their junior and senior years.

This initiative comes on the heels of the university's decision, implemented this summer, to lower tuition for all undergraduates attending summer semester classes by 25 percent for Indiana resident students and an equivalent dollar amount for nonresident students. This program, which will continue next summer, saved IU students nearly $12 million and resulted in an increase in summer attendance this year over the previous year.

Moreover, IU has more than doubled the amount of institutional aid to students in the past five years. This aid consists not of loans, but of grants and scholarships that do not need to be paid back. As a result, more than half of the undergraduates at IU Bloomington have *no* student loan debt—and almost half graduate with no student loan debt.

Record Enrollments

Indiana University continues to attract record numbers of highly qualified students from around the state, the nation, and the world. This fall, we enrolled a record of more than 110,000 students across the state. That number includes our largest freshman class ever in Bloomington, which also is one of the most diverse and academically accomplished classes ever to enter the university. We are also seeing gains in both the diversity and academic qualifications of our new students at other campuses.

As a result of the breadth and quality of our academic programs, IU, which graduates significantly more students than any other higher education institution in the state, continues to play a vital role in Indiana by educating and training students for successful careers.

A Leading Public Research University

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

Indiana University received $533 million in grants and awards for research and other sponsored programs in fiscal year 2012. This amount represents the second-highest annual total ever at IU, and is only the third time in the university's history that we have passed the half-billion-dollar mark in externally funded research and related program awards in a single year.

That we have been able to sustain our research excellence when research universities are facing unprecedented financial challenges and dwindling funding opportunities makes this achievement even more impressive. The breadth, depth, and quality of our research clearly signal IU's continuing status as one of the leading public research universities in the world.

Transforming Indiana University for the 21st Century

In 2010, I appointed some of the most distinguished and insightful faculty and academic administrators on the Bloomington and IUPUI campuses to the New Academic Directions Committee. The committee examined many of the academic programs that are the heart of the university and recommend ways to bring IU's structure into the 21st century. Since the completion of the New Academic Directions report, we have seen transformation of unprecedented scale and speed at IU. By the end of this year, we will expect to have seen seven schools transformed, established, merged or closed in less than 18 months. This is more change than in the previous 40 years at IU.

On the IUPUI campus, for example, we are establishing the world's first School of Philanthropy. The school will build on the strengths of the world-renowned Center on Philanthropy. The establishment of the new School of Philanthropy will greatly expand the education and opportunities for IU students who want to pursue careers in the huge and diverse philanthropic and not-for-profit sector.

Spurred by the rapid and increasing pace of evolution in the world of informatics, computing, and libraries, the connections between programs that study information and those that study computation have become closer and more important than ever. In the coming year, Indiana University's School of Library and Information Science and its School of Informatics will merge. This merger will allow the school to compete with the best schools in the nation in these areas.

We also recently announced the establishment of IU Online, a major strategic investment in online education that will accelerate the development and delivery of quality online courses and programs at IU's campuses statewide, address Indiana's economic and professional development needs, and extend the university's global reach.

Improving Hoosier Health

Indiana's poor performance by just about any of the major measures of public health—smoking, diabetes, obesity and cancer—has been well documented. With the recent establishment of two new schools of public health, Indiana University is making major contributions to the formulation of thoughtful and effective public health policies, the education of public health professionals, and to targeted applied research that will have a demonstrable effect on the health and quality of life of Indiana's citizens.

On the IUPUI campus, we recently established the Richard M. Fairbanks School of Public Health. This school is building on the strengths of the Department of Public Health, which was formerly part of the IU School of Medicine. In Bloomington, the School of Health, Physical Education and Recreation has been transformed into the IU School of Public Health—Bloomington. The new schools will be able to compete for federal and foundation funding that is open only to schools of public health, increasing the flow of funds to Indiana to support the health of all Hoosiers.

The new schools of public health are only the most recent additions to the extensive collections of schools that train the professionals, do the research, and provide clinical care in nearly every area of health care. These include the IU schools of medicine, dentistry, nursing, optometry, social work, health and rehabilitation sciences, and physical education. These schools are the largest—sometimes the *only*—places in Indiana that train professionals in these areas, and a large percentage of the professionals in these areas practicing in Indiana have been trained in these schools.

Together with our close partner, IU Health—the largest healthcare system in Indiana and one of the largest in the nation—we collectively have the most extensive impact in the state on the health and well-being of Hoosiers. We were recently pleased to note that *U.S. News & World Report* ranked IU Health as one of the top 16 health systems in the country—the magazine's highest distinction, reserved for the top medical centers in the nation such as the Mayo Clinic and Mass General. Eleven IU Health clinical programs, staffed largely by physicians trained at the IU School of Medicine, also were named among the best in the nation by the magazine.

In Indianapolis, IU and IU Health are establishing a major new joint facility in the neurosciences. This superb new joint facility will provide outpatient rehab facilities, an imaging center, and walk-in care facilities, as well as state-of-the-art facilities in which our researchers and clinicians will conduct a broad range of neuroscience research in fields such as neurotrauma, dementias, addiction, epilepsy, and pain. This complex will also house one of the largest concentrations of researchers and clinicians in the neurosciences in the United States.

A Leading International University

By any measure, Indiana University is one of America's leading international universities, and we continue to increase our international engagement. We now rank eighth in the country in the overall number of students who are studying abroad. Study and service abroad are essential components of a 21st Century education meant to prepare students to live and work in a flat world. We also rank 11th nationally, up from 14th last year, in the number of international students enrolled.

IU also has extraordinary resources and strengths in global and international studies, including:

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

We are leveraging this outstanding reputation in scholarship and research on countries, cultures, and regions around the globe by establishing a School of Global and International Studies. By bringing together into one school the core of IU's extraordinary resources, the university stands poised to join the most outstanding programs in the world in these truly vital areas. The new school will expand the opportunities for international education for all students, and offer Hoosier students even more opportunities for the global education so necessary to their future success.

Conclusion

The importance of Indiana's public institutions of higher education to the long-term economic vitality of the state is immense. We are incubators for jobs and economic growth. Our researchers make discoveries that save and improve the lives of Indiana's citizens. We help to retain Indiana's own top students, keeping them in the state as our next generation of leaders. Our professors also attract top students from across the United States, many of whom stay in Indiana to become business, civic, and political leaders.

As this financial report illustrates, Indiana University continues to regard the funding it receives as a public trust. We are deeply grateful for the support we receive from state appropriations, donor contributions, grants, contracts, and student fees, and are committed to achieving the best return on all of those investments.

We continue to work diligently to make Indiana University more efficient, more affordable, more accessible, and to preserve and enhance its quality. The actions we have taken in the last year illustrate our dedication to preserving and strengthening the academic core of the university as we fulfill IU's fundamental missions of education and research. We look forward to continuing to work with the State of Indiana and our many external partners to preserve high-quality higher education as an asset that can efficiently serve our state and our students for years to come.

Yours sincerely,

Michael A. McRobbie
President

Message from the Senior Vice President and Chief Financial Officer

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

Dear President McRobbie and the Trustees of Indiana University:

I am pleased to present to you the consolidated financial report for Indiana University for the fiscal year ended June 30, 2012.

As has been the case in recent years, the economic conditions under which the university operated during the most recent fiscal year were challenging. While there have been some signs of a gradual strengthening of the national economy in recent months—as evidenced by increased consumer spending and an improving housing market—job growth remains sluggish and unemployment relatively high. In Indiana, the jobless rate remains above 8 percent, slightly higher than the national average.

In the face of these significant challenges, however, Indiana University continued to strengthen its already solid financial foundation during the recently completed fiscal year. A combination of aggressive expense management, strong investment performance, and the continued generosity of our alumni and friends allowed the university to grow its net assets—a critical indicator of current financial health—by more than 8 percent.

This was possible because the University continues to expand its expense reduction efforts. Overall, total operating expenses for the university increased by just 2 percent from the previous fiscal year, despite rising employee health care costs, and an ambitious academic agenda that has seen the university create a number of new schools and launch several new initiatives over the past 18 months. IU has managed to hold the line on overall spending by achieving cost reductions in a number of areas. Among them:

- Consolidating purchasing systems – $12 million annual savings
- Providing early retirement incentives taken by approximately 500 employees – $6 million
- Changing the vesting provision in retirement plan – $3.5 million
- Closing the School of Continuing Studies – $1.8 million

As a result of this work and other efforts to keep our costs in line, IU's creditworthiness has never been better. In fact, IU is one of only eight public universities to earn the highest credit rating—Aaa—offered by Moody's Investors Service. As an "investment grade" institution, we have lowered the cost of servicing our debt significantly in recent years, saving the state $40 million.

Faculty and staff across the university continue to do more with less and we are constantly looking for ways to lower our costs while better serving our employees. For example, we continue to increase the health care services offered to many of our employees, retirees, graduate students, and their families through enhanced delivery of clinical services in the Bloomington area under a program that started early this year. IU intends to extend the use of clinics to other communities where we have campuses. In addition, we are encouraging our employees to take a greater role in their health care decisions through increased preventative and wellness services and by offering a high-deductible insurance plan with a health savings account component that is generously funded by IU.

The combination of world-class academics and moderate price (IU's average net cost of attendance is the lowest in the Big Ten) has brought outside recognition to the university in recent years. Kiplinger's Personal Finance magazine in 2011 rated IU-Bloomington 28th in quality for the cost of education from among more than 500 public institutions, and this year the prestigious Fiske Guide to Colleges named IU-Bloomington as a "best buy" for its combination of moderate cost to students and academic quality.

Still, we are not content with our recent progress or our current performance.

The university understands that student debt levels are a significant problem, and we are aggressively addressing this issue through a two-pronged IU Student Debt Reduction Plan. First, IU is requiring each undergraduate who is applying for a student loan to complete a financial literacy course that is designed to help students understand the implications of student debt and how to manage and control it. Second, IU is funding a Completion Scholarship that seeks to encourage IU students to attend full-time, if possible, and complete 50% of a degree within two years.

Shortening the time to degree will go a long way toward lowering student debt levels, as a large percentage of borrowing goes to cover non-tuition costs of attending college each year. The Completion Scholarship will reward IU juniors and seniors who are on pace to graduate in four years by effectively freezing tuition and fees for their final two years of study. By graduating on time, students lower their overall debt load and are positioned to enter the workforce earlier, allowing them to begin repaying their debt at the earliest possible time. This focus on 4-year degree completion is consistent with the goals of state policymakers and the Indiana Commission on Higher Education.

I am proud of our steadfast efforts to become more efficient in our operations and to provide financial relief to our students over the past year. Just as importantly, as President McRobbie detailed in his letter introducing this report, we have not lost sight of our core mission: to provide an affordable world-class college education, with a special emphasis on serving the educational needs of talented Indiana high school graduates.

We currently serve more than 110,000 on eight campuses across Indiana, and the academic profile of our student body continues to improve. For example, the median grade point average of this year's freshman class was 3.7, and 87 percent of those students from Indiana who entered IU this fall earned the state's Academic Honors Diploma. In addition, international enrollment increased for the eighth consecutive year this fall and the university continues to make gains to improve the domestic diversity of its student body.

We owe all of those students a rigorous education that is designed to meet the needs of the 21st century global workplace, and to do so at a reasonable cost. In his State of the University address in October, President McRobbie acknowledged the university's responsibility to accomplish these goals despite the changing and challenging environment facing all of us in higher education today.

We have chosen to meet these challenges directly by challenging one another to be more innovative in how we create and deliver our academic offerings, and by remaining focused on the financial realities facing our students and their families in these uncertain economic times.

I think the results detailed in this report send a clear message that we are on solid financial ground as we continue our never-ending journey to better serve our students and the state of Indiana. I encourage you to closely examine the report and welcome your questions and ideas.

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

Sincerely,

Neil Theobald
Senior Vice President and
Chief Financial Officer

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

We have audited the accompanying basic financial statements of Indiana University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

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

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana University, as of June 30, 2012 and 2011, and the respective 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 18, 2012, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Introductory Section, Trustee and Administrative Officers of Indiana University, Additional Information, and Acknowledgements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section, Trustee and Administrative Officers of Indiana University, Additional Information, and Acknowledgements have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

STATE BOARD OF ACCOUNTS

October 18, 2012

State Board of Accounts

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Indiana University (university) for the fiscal years ended June 30, 2012, and 2011, along with comparative financial information for fiscal year ended June 30, 2010. This discussion has been prepared by management and should be read in conjunction with the audited financial statements and footnotes contained in this report.

The university's financial report includes three financial statements prepared in accordance with Government Accounting Standards Board (GASB) principles. The objective of the Management's Discussion and Analysis is to assist readers in understanding those statements.

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

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

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

Statement of Net Assets

A comparison of the university's assets, liabilities and net assets at June 30, 2012, 2011, and 2010, is summarized as follows:

Condensed Statement of Net Assets
(in thousands of dollars)

	June 30, 2012	*June 30, 2011*	*June 30, 2010*
Current assets	$ 888,419	$ 961,001	$ 971,819
Capital assets	2,533,362	2,422,233	2,316,762
Other assets	1,337,428	1,173,342	991,626
Total assets	**4,759,209**	**4,556,576**	**4,280,207**
Current liabilities	462,063	554,715	525,609
Noncurrent liabilities	1,096,472	1,042,860	1,077,731
Total liabilities	**1,558,535**	**1,597,575**	**1,603,340**
Invested in capital assets, net of related debt	1,694,440	1,621,228	1,555,422
Restricted net assets	179,797	190,939	175,197
Unrestricted net assets	1,326,437	1,146,834	946,248
Total net assets	**$ 3,200,674**	**$ 2,959,001**	**$ 2,676,867**

Assets

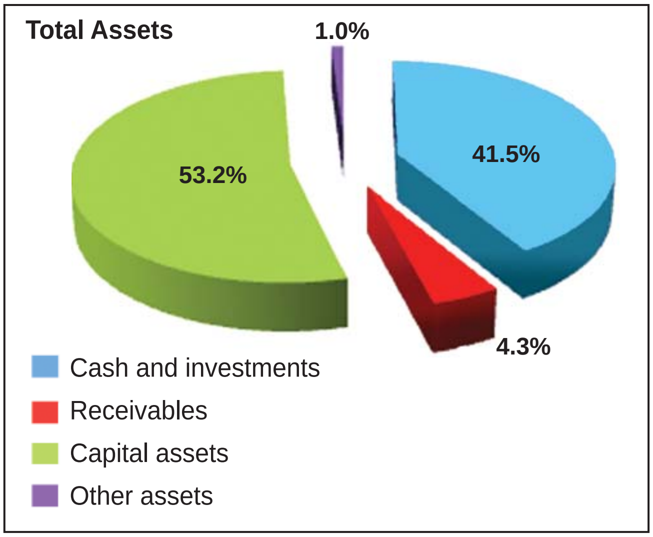
Current assets include those that are used to support current operations and consist primarily of cash and cash equivalents, net receivables, and short-term investments. Cash balances support cash flow requirements for future employee benefit and retirement costs, commitments to support the academic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

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

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

Total Assets
(in thousands of dollars)

Cash and investments	$ 1,976,012	41.5%
Receivables	200,669	4.3%
Capital assets	2,533,362	53.2%
Other assets	49,166	1.0%
Total assets	$ 4,759,209	100.0%



Total assets of $4,759,209,000 at June 30, 2012, represent an increase of $202,633,000, or 4.5% over June 30, 2011. The overall growth in assets is attributable to increases in investments and capital assets.

The discontinuation of the securities lending program in January 2012 contributed to a decrease in current assets of $72,583,000. Securities lending assets were $118,177,000 at June 30, 2011. This decrease is partially offset by an increase of $47,199,000 in invested bond proceeds held for construction projects and resulting from new debt issued during the year.

The market value of the university's noncurrent investments increased $168,144,000, to $1,269,390,000 at June 30, 2012, due to operating investment gains and continued portfolio rebalancing to optimize yield. Capital assets, net of depreciation, which include land, art and museum objects, infrastructure, equipment and buildings, increased $111,129,000, or 4.6%, over June 30, 2011, primarily due to additions, net of depreciation expense, of $114,522,000 in buildings and construction in progress. Construction in progress consists of multi-year projects, typically buildings and major improvements.

Liabilities

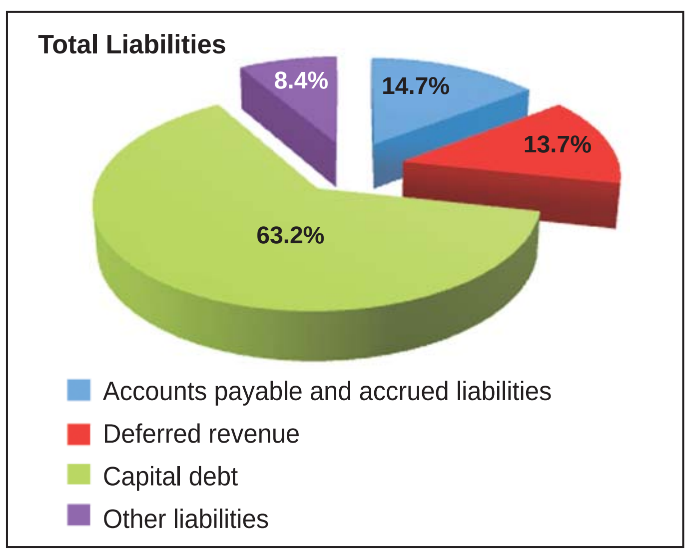
Current liabilities are those that are expected to become due and are payable over the course of the next fiscal year. Current liabilities consist primarily of vendor payables, accrued compensation and compensated absences, and deferred revenue. The decrease in current liabilities of $92,652,000 is primarily due to the discontinuation of the securities lending program, with a reduction equal to the decrease in securities lending reported as current assets in the prior year. The current portion of deferred revenue increased $21,205,000 and is comprised of receipts for which recognition of the related income is deferred to the following fiscal year – primarily summer session student fees and funds received in advance of expenditures on sponsored projects. Capital grants received in advance of related construction expenditures cause significant fluctuations in deferred revenue balances.

The university's capital debt outstanding of $984,456,000 at June 30, 2012, and $899,340,000 at June 30, 2011, represents 63.2% and 56.3% of total liabilities at June 30, 2012 and 2011, respectively. A discussion of the university's capital financing activities appears in Note 8, Bonds and Notes Payable, Note 9, Lease Obligations, and in the Debt and Financing activity section below.

Noncurrent deferred revenue represents funds received in advance of expenditures on sponsored projects for which related spending is expected to begin past the end of the following fiscal year. The reduction of $22,389,000 in this deferred revenue balance occurred as expenditures for construction grants were incurred during the fiscal year. Assets held in custody for others are advances from the federal government for the purpose of making loans to students.

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

Total Liabilities *(in thousands of dollars)*		
Accounts payable and accrued liabilities	$ 228,958	14.7%
Deferred revenue	213,015	13.7%
Capital debt	984,456	63.2%
Other liabilities	132,106	8.4%
Total liabilities	**$ 1,558,535**	**100.0%**



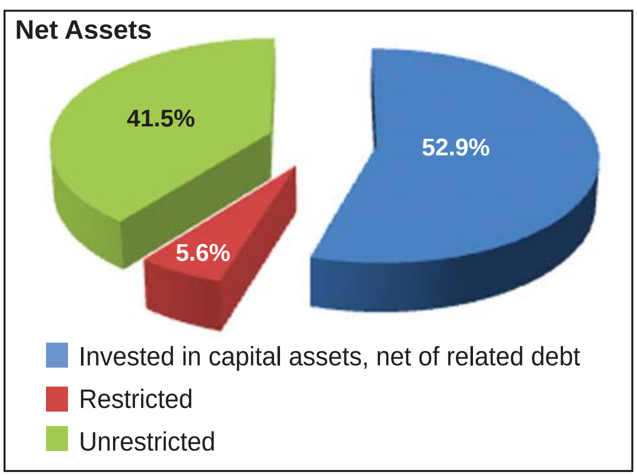
Net Assets

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

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

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

Total Net Assets *(in thousands of dollars)*		
Invested in capital assets, net of related debt	$ 1,694,440	52.9%
Restricted	179,797	5.6%
Unrestricted	1,326,437	41.5%
Total net assets	**$ 3,200,674**	**100.0%**



The $73,212,000 increase invested in capital assets, net of related debt, at June 30, 2012, reflects the university's continued investment in the future through development of its long-range capital plans. The university's facilities are essential elements in sustaining and enhancing the education and research missions of the university.

Although unrestricted net assets are not subject to third-party restrictions, these funds are subject to internal designations and commitment for academic and research initiatives, capital projects, and unrestricted quasi and term endowment spending plans. The majority of the university's overall increase in net assets of $241,673,000 during fiscal year 2012 is comprised of the increase in unrestricted net assets.

Statement of Revenues, Expenses, and Changes in Net Assets

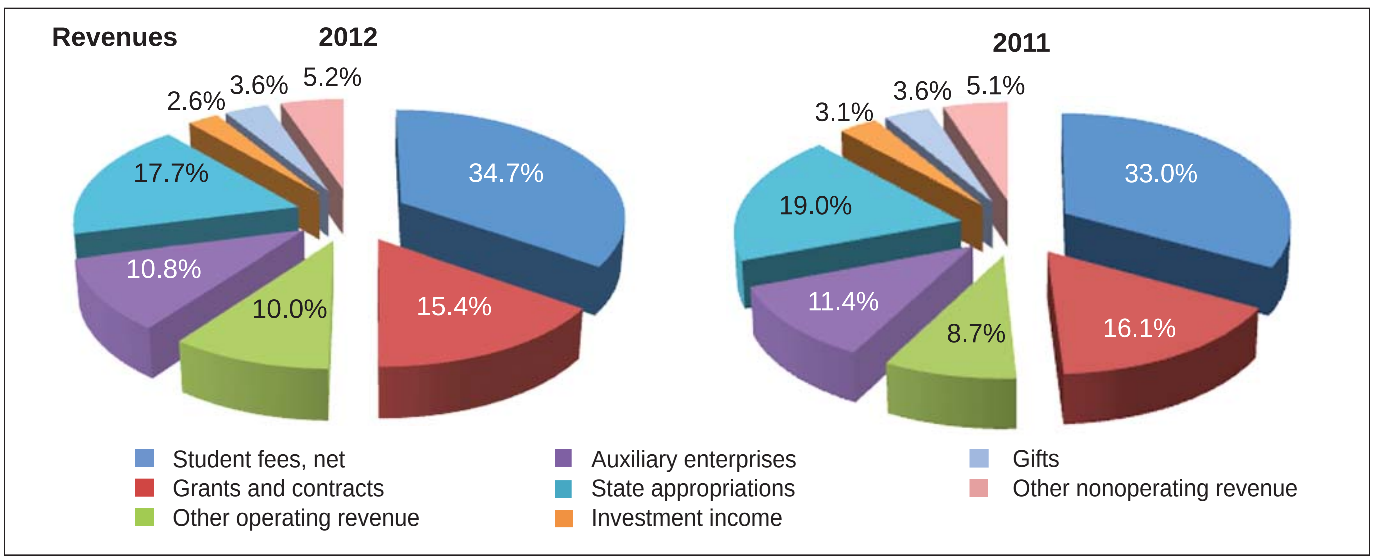
Revenues and expenses are classified as either operating or nonoperating. Trends in the relationship between operating revenues and expenses are important indicators of financial conditions. Generally, operating revenues are received for providing goods and services and include tuition and fees, grants and contracts, sales and services, and auxiliary revenue. Nonoperating revenues include state appropriations, gifts, and investment income. Operating expenses are those incurred to carry out the normal operations of the university. As a public university, Indiana University is required by GASB standards to report certain revenue sources that are an integral part of operations as nonoperating revenues.

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

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

		Fiscal Year Ended	
	June 30, 2012	*June 30, 2011*	*June 30, 2010*
Operating revenues	$ 2,065,918	$ 2,003,416	$ 1,933,283
Operating expenses	(2,639,127)	(2,579,131)	(2,493,131)
Total operating loss	(573,209)	(575,715)	(559,848)
Nonoperating revenues	811,550	864,410	830,682
Nonoperating expenses	(31,100)	(33,155)	(32,401)
Income before other revenues, expenses, gains and losses	207,241	255,540	238,433
Other revenues	34,432	26,594	20,873
Increase in net assets	**241,673**	**282,134**	**259,306**
Net assets, beginning of year	**2,959,001**	**2,676,867**	**2,417,561**
Net assets, end of year	**$ 3,200,674**	**$ 2,959,001**	**$ 2,676,867**

The following charts represent revenues by major source for fiscal years 2012 and 2011:



Total operating revenues increased by $62,502,000, or 3.1%, from $2,003,416,000 in fiscal year 2011 to $2,065,918,000 in fiscal year 2012. The largest single source of operating revenue for the university is student tuition and fees. Tuition and fees, net of scholarship allowances, increased $55,696,000 over the prior fiscal year. The university implemented a repair and rehabilitation fee beginning in 2012 to address the university's obligation to protect the state's investment in the buildings and infrastructure on IU's campuses. The revenue from this new fee is reflected in the increase in student fees. As the American Recovery and Reinvestment Act (ARRA) projects were completed, ARRA funding declined by $13,784,000 compared to the prior year. This decline contributed to the overall decrease of $19,434,000 in federal grant and contract revenue. The cyclical nature of state and local grants and contracts contributed to an overall increase of $4,807,000 in those revenues. Other revenue increased $36,879,000 in fiscal year 2012. An increase of $18,042,000 in medical practice plan revenue was a major component of this increase, corresponding to a $16,071,000 decrease in auxiliary revenue, along with a $16,759,000 decrease in auxiliary expenses. This shift is the result of the transition of clinical activities to Indiana University Health Physicians (IUHP). The restructuring is part of a plan to achieve efficiencies and more appropriately align activities between IU and IUHP.

Total operating expenses were $2,639,127,000 in fiscal year 2012, an increase of $59,996,000, or 2.3% over the prior year. Scholarship allowances applied to student accounts increased $9,128,000, or 4.8%, over fiscal year 2011. Federal financial aid received in 2012 decreased by $12,417,000, contributing to a decrease of $1,734,000, or 1.1%, compared to fiscal year 2011. A component of the federal Pell Grant program was eliminated due to lack of funding. The federal Academic Competitiveness and National Science and Mathematics Access to Retain Talent Grant programs, enacted in 2006, were not reauthorized, and funding was eliminated for 2012. Compensation and benefits represent the largest single university expense, at 66.1% of total operating expenses. The increase in total compensation and benefits was only 0.8%, or $13,567,000 in fiscal year 2012 compared to 2011. The university implemented the Early Retirement Incentive Plan in late fiscal year 2011 for eligible academic and staff employees. Voluntary separations under the plan during fiscal year 2012 were instrumental in achieving specific institutional objectives, including reducing compensation costs and redirecting positions to focus on higher priorities. In addition, there was a shift in staff salaries associated with the transition to IUHP. Total travel expenses, 20% of which arises from grants and contracts, increased $7,230,000. Supplies and general expenses increased by $34,962,000, including an additional outlay of $17,837,000 in repairs and renovations, expendable equipment, and contractual services.

Nonoperating revenues, net of expenses, declined $50,805,000, or 6.1% in fiscal year 2012 compared to 2011. State appropriations declined 6.3% over the prior year, with a reduction of $9,108,000 in operating appropriations received. Appropriations for fee replacement declined $21,111,000, commensurate with a decline in the university's debt service schedules. Fee replacement appropriations are made for the purpose of reimbursing a portion of debt service for certain academic facilities. Gifts for scholarships and fellowships, general program support, and specific gifts to schools and departments comprise the majority of gift income. Total investment income declined from $89,644,000 in fiscal year 2011 to $74,637,000 in fiscal year 2012, a decrease of $15,007,000, primarily driven by unrealized losses on endowment investments, compared to unrealized gains in the prior year.

Capital appropriations increased $2,173,000, and consist of federal fiscal stabilization funds authorized by the American Recovery and Reinvestment Act and awarded to the university through the state for repair and rehabilitation. Capital gifts and grants increased $5,210,000 between fiscal years 2011 and 2012. Capital grant income is recognized as related construction expenditures are incurred. In fiscal year 2012, $12,609,000 was spent on construction costs for the Jacobs School of Music Studio Building which is funded by a grant from the Lilly Endowment.

Statement of Cash Flows

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

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

Comparative Statement of Cash Flows
(in thousands of dollars)

		Fiscal Year Ended	
	June 30, 2012	*June 30, 2011*	*June 30, 2010*
Net cash provided (used) by:			
Operating activities	$ (446,436)	$ (417,254)	$ (369,350)
Noncapital financing activities	750,452	763,296	729,931
Capital and related financing activities	(166,036)	(303,733)	(140,467)
Investing activities	(72,943)	(133,492)	(101,713)
Net increase (decrease) in cash and cash equivalents	65,037	(91,183)	118,401
Beginning cash and cash equivalents	580,110	671,293	552,892
Ending cash and cash equivalents	**$ 645,147**	**$ 580,110**	**$ 671,293**

Cash received from operations consists primarily of student fees, grants and contracts, and auxiliary enterprise receipts. The university's liquidity increased in fiscal year 2012, with an increase in cash and cash equivalents of $65,037,000. Payments to employees represent the largest use of cash for operations. Significant sources of cash provided by noncapital financing activities are used to fund operating activities, including state appropriations, federal Pell grants, and private noncapital gifts. Fluctuations in capital and related financing activities reflect decisions made relative to the university's capital and financing plans. Cash flows from investing activities include shifts between cash equivalents and longer term investments.

Capital Asset Activity

Indiana University President Michael McRobbie has set forth goals to "ensure that the university has the new and renovated physical facilities and infrastructure essential to achieve the Principles of Excellence, while recognizing the importance of historical stewardship, an environment that reflects IU's values, and the imperative to meet future needs in accordance with long-term master plans."

Each of the university's seven campuses is in the process of assembling its own master plan to guide the physical vision of the campuses. The master plans address traffic flow, new buildings, green space, land use, rehabilitation of buildings, and repurposing of existing buildings.

The university expended a total of $83,183,000 on facility renovations and $13,900,000 on facility repair and replacements during fiscal year 2012.

On the Bloomington campus, major renovations were completed to upgrade the Briscoe Quad student residence center from a traditional residence center to a modern facility where each floor will offer a variety of room styles ranging from a single with private bath to a four-person suite with a bath and living room. A community lounge and a laundry room will also be incorporated into the new layout on each floor. Upgrades to the fire safety and electrical systems are included in the project to improve building safety and security. The current phase of renovations was completed at a cost of $21,495,000.

The expansion of the Sports Complex Parking Garage, adding 1,300 parking spaces on the IUPUI campus, is part of the expansion and repurposing of the south side of the campus under the IUPUI master plan. The project was completed at a cost of $16,590,000.

The Music Studio Building is an 85,000 square foot project under construction on the Bloomington campus, with

Neurosciences Research Building, IUPUI Indianapolis

an estimated project cost of $40,000,000, and an estimated completion date of July 2013. The project is funded by a grant from the Lilly Endowment. The facility is expected to provide technologically and acoustically superior teaching and practice facilities to rival any music school or conservatory in the world, while also marking the entrance to the university's music and performing arts district. The new Studio Building will provide studio space with excellent acoustics and state-of-the-art wiring and technology, as well as more and larger practice and rehearsal rooms. In all, the structure will contain 84 studios for faculty and assistant instructors as well as 15 classrooms, administrative offices, graduate student spaces, mechanical support space, and a faculty lounge.

Debt and Financing Activity

Institutional borrowing capacity is a valuable resource that is actively managed in support of the institutional mission. Bonds, notes, and capital lease obligations totaled $984,456,000 and $899,340,000 at June 30, 2012 and June 30, 2011, respectively.

On July 26, 2011, the university issued Student Fee Bonds, Series U with a par amount of $94,460,000. The purpose of the issue was to provide financing for the construction of the Neurosciences Research Building on the Indianapolis campus and for certain land acquisitions on the South Bend campus. The proceeds of the bonds also partially refunded Indiana University Student Fee Bonds, Series N, Series O, and Series P. The refunding portion of the transaction generated future debt service savings of $6,646,000, which equated to a net present value savings of $5,663,000.

On January 25, 2012, the university issued Consolidated Revenue Bonds, Series 2012A with a par amount of $94,490,000. The purpose of the issue was to provide financing for the construction of the Rose Residence Hall (previously referred to as the New Third and Union Residence Hall Complex) and the Forest Dining Hall Expansion and Renovation on the Bloomington campus, the Science and Engineering Lab Building on the Indianapolis campus, and the Residence Hall Expansion on the Southeast campus. The proceeds of the bonds also partially refunded Facility Revenue Bonds, Series 2004 and Student Residence System Bonds, Series 2004B. The refunding portion of the transaction generated future debt service savings of $2,499,000, which equated to a net present value savings of $2,391,000.

On February 9, 2012, the university issued Certificates of Participation, Series 2012A with a par amount of $23,750,000. The purpose of the issue was to provide financing for the construction of the Baseball and Softball Complex on the Bloomington campus. The proceeds of the bonds also refunded Certificates of Participation, Series 2003A. The refunding portion of the transaction generated future debt service savings of $1,080,000, which equated to a net present value savings of $896,000.

On October 26, 2012, the university will issue Indiana University Tax Exempt Student Fee Bonds, Series V-1 and Taxable Student Fee Bonds, Series V-2 in the total par amount of $107,750,000, of which $95,875,000 will be refunding bonds and $11,875,000 will be new money bonds. The purpose of the issue is to provide financing for qualified energy savings projects on the Indianapolis and South Bend campuses. The proceeds of the bonds will also be used to refund all or a portion of Student Fee Bonds, Series P, Q, and R, and Qualified Energy Savings Notes, Series 2005, 2007 and 2008. The refunding portion of the transaction will produce a net present value savings of $7,961,000.

The University's ratings on debt obligations were last reviewed and affirmed in October 2012. On October 10, 2012, Moody's Investors Service (Moody's) reaffirmed its underlying rating of 'Aaa' with a stable outlook on student fee bonds, student residence system bonds, facility revenue bonds, consolidated revenue bonds, and certificates of participation. On October 12, 2012, Standard & Poor's Ratings Services (S&P) reaffirmed its underlying rating of 'AA+' with a stable outlook on student fee bonds, student residence system bonds, facility revenue bonds, consolidated revenue bonds, and certificates of participation.

Economic Outlook

While remaining an important source of revenue, the State of Indiana currently provides less than 20% of Indiana University's total financial resources during a fiscal year. While effects of the national recession were severe and ongoing, fiscal year 2012 provided substantial financial improvement for the state, marking the second straight year of positive results.

State revenues for fiscal year 2012 were 6.4% above fiscal year 2011, slightly exceeding the state revenue forecast. State reserves were dramatically increased from $1.18 billion or 8.9% of operating revenue to $2.16 billion, or 15.1% of operating revenue.

Unemployment, still at recession levels, remains a major concern. During fiscal year 2012, Indiana's unemployment rate dropped from a high of 8.7% in January to 7.9% in May and June. Unfortunately, in recent months the Indiana unemployment rate has edged upward from its low in April and May and was 8.3% in August 2012.

Looking ahead to fiscal year 2013, total revenues were forecast to increase by a modest 2.5%. However, since fiscal year 2012 actual revenues were $50 million above forecast, revenues will need to increase by only 2.2% to achieve the level of revenue forecast for the year. In addition to concerns about continued high unemployment, both the U.S. and international economies face many uncertainties and threats to continued economic expansion.

Student enrollment for the university is projected to remain strong during the 2012-13 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.

Rose Residence Hall, IU Bloomington

Statement of Net Assets

(in thousands of dollars)	*June 30, 2012*	*June 30, 2011*
Assets		
Current assets		
Cash and cash equivalents	$ 645,147	$ 580,110
Accounts receivable, net	116,646	121,106
Current portion of notes and pledges receivable	15,985	13,176
Inventories	11,389	12,020
Short-term investments	61,475	83,036
Securities lending assets	-	118,177
Other assets	37,777	33,376
Total current assets	888,419	961,001
Noncurrent assets		
Accounts receivable	10,640	12,327
Notes and pledges receivable	57,398	59,769
Investments	1,269,390	1,101,246
Capital assets, net	2,533,362	2,422,233
Total noncurrent assets	3,870,790	3,595,575
Total assets	**4,759,209**	**4,556,576**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	228,958	229,753
Deferred revenue	177,913	156,708
Current portion of capital lease obligations	1,538	1,269
Current portion of long-term debt	53,654	48,808
Securities lending liabilities	-	118,177
Total current liabilities	462,063	554,715
Noncurrent liabilities		
Capital lease obligations	1,853	2,069
Notes payable	43,449	29,274
Assets held in custody for others	76,383	75,792
Deferred revenue	35,102	57,492
Bonds payable	883,962	817,920
Other long-term liabilities	55,723	60,313
Total noncurrent liabilities	1,096,472	1,042,860
Total liabilities	**1,558,535**	**1,597,575**
Net assets		
Invested in capital assets, net of related debt	1,694,440	1,621,228
Restricted for:		
Nonexpendable - endowments	26,842	20,429
Expendable		
Scholarships, research, instruction and other	116,307	124,382
Loans	15,979	15,998
Capital projects	398	9,059
Debt service	20,271	21,071
Unrestricted	1,326,437	1,146,834
Total net assets	**3,200,674**	**2,959,001**
Total liabilities and net assets	**$ 4,759,209**	**$ 4,556,576**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Financial Position
As of June 30, 2012

	Unrestricted		Temporarily Restricted		Permanently Restricted		
	Foundation	**Agency**	**Foundation**	**University**	**Foundation**	**University**	**Total**
Assets:							
Cash and cash equivalents	$ -	$ 11,519,534	$ 195,973	$ 190,902,769	$ -	$ 1,793,729	$ 204,412,005
Collateral under securities lending agreement	1,436,404	7,187,380	150,072	12,230,874	712,842	31,879,597	53,597,169
Receivables and other assets	6,901,205	8,693,461	183,907	16,797,136	859,554	47,389,348	80,824,611
Promises to give, net	52,143	-	2,892,397	75,288,515	858,789	73,731,004	152,822,848
Investments	107,202,029	193,855,646	7,925,039	344,104,595	19,149,828	886,436,565	1,558,673,702
Property, plant and equipment, net	55,204,091	-	-	-	-	-	55,204,091
Total assets	$ 170,795,872	$ 221,256,021	$ 11,347,388	$ 639,323,889	$ 21,581,013	$ 1,041,230,243	$ 2,105,534,426
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	$ 4,550,869	$ 9,225,591	$ 207,168	$ 16,236,764	$ 1,054,026	$ 41,174,754	$ 72,449,172
Payable under securities lending agreement	1,436,404	7,187,380	150,072	12,230,874	712,842	31,879,597	53,597,169
Debt	3,922,574	-	-	-	-	58,083	3,980,657
Accrued trust obligation to life beneficiaries	412,428	-	3,242,179	6,103,460	-	23,812,123	33,570,190
Due to (from)	125,016,119	(7,013,523)	109,167	(89,390,196)	(704,431)	(28,017,136)	-
Interfund financing	(1,900,000)	-	-	1,900,000	-	-	-
Assets held for the University	-	198,080,430	-	-	-	-	198,080,430
Assets held for University affiliates	-	13,776,143	-	-	-	-	13,776,143
Total liabilities	133,438,394	221,256,021	3,708,586	(52,919,098)	1,062,437	68,907,421	375,453,761
Net assets	37,357,478	-	7,638,802	692,242,987	20,518,576	972,322,822	1,730,080,665
Total liabilities and net assets	$ 170,795,872	$ 221,256,021	$ 11,347,388	$ 639,323,889	$ 21,581,013	$ 1,041,230,243	$ 2,105,534,426

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

Statement of Revenues, Expenses, and Changes in Net Assets

(in thousands of dollars)	*Fiscal Year Ended* *June 30, 2012*	*June 30, 2011*
Operating revenues		
Student fees	$ 1,210,085	$ 1,145,260
Less scholarship allowance	(198,207)	(189,079)
Federal grants and contracts	325,208	344,642
State and local grants and contracts	21,881	17,074
Nongovernmental grants and contracts	101,957	103,439
Sales and services of educational units	62,975	60,869
Other revenue	227,540	190,661
Auxiliary enterprises (net of scholarship allowance of $22,411 in 2012 and $21,151 in 2011)	314,479	330,550
Total operating revenues	**2,065,918**	**2,003,416**
Operating expenses		
Compensation and benefits	1,744,609	1,731,042
Student financial aid	163,565	165,299
Energy and utilities	71,561	68,534
Travel	47,449	40,219
Supplies and general expense	478,461	443,499
Depreciation and amortization expense	133,482	130,538
Total operating expenses	**2,639,127**	**2,579,131**
Total operating loss	**(573,209)**	**(575,715)**
Nonoperating revenues (expenses)		
State appropriations	515,421	549,917
Grants, contracts, and other	116,257	120,035
Investment income	74,637	89,644
Gifts	105,235	104,814
Interest expense	(31,100)	(33,155)
Net nonoperating revenues	**780,450**	**831,255**
Income before other revenues, expenses, gains, or losses	**207,241**	**255,540**
Capital appropriations	14,157	11,984
Capital gifts and grants	19,775	14,565
Additions to permanent endowments	500	45
Total other revenues	**34,432**	**26,594**
Increase in net assets	**241,673**	**282,134**
Net assets, beginning of year	**2,959,001**	**2,676,867**
Net assets, end of year	**$ 3,200,674**	**$ 2,959,001**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Activities
For the year ended June 30, 2012

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	Foundation	University	Foundation	University	Total
Revenue and support:						
Contributions, net	$ 1,276,253	$ 261,121	$ 76,837,849	$ 16,014	$ 44,989,575	$ 123,380,812
Investment income including net gains (losses), net of outside investment management fees	2,676,067	(47,123)	45,747,907	(1,572,177)	(63,165,955)	(16,361,281)
Management/administrative fees	14,568,862	(32,559)	(12,111,201)	-	(48,642)	2,376,460
Grants	-	-	547,140	-	-	547,140
Other income	7,867,374	-	5,023,000	236	759,605	13,650,215
Development service fees from the University	4,923,219	-	-	-	-	4,923,219
Net assets released from restriction	107,379,296	(294,791)	(107,647,713)	(456,392)	1,019,600	-
Total revenue and support	138,691,071	(113,352)	8,396,982	(2,012,319)	(16,445,817)	128,516,565
Expenditures:						
Program expenditures	112,273,885	-	-	-	-	112,273,885
Management and general	10,157,932	6,835	1,163,860	720	149,566	11,478,913
Fundraising	13,824,596	-	-	-	-	13,824,596
Change in value of split interest agreement obligation to life beneficiaries	320,415	9,712	274,825	103,186	1,758,333	2,466,471
Total expenditures	136,576,828	16,547	1,438,685	103,906	1,907,899	140,043,865
Change in net assets:						
Unrestricted	2,114,243	-	-	-	-	2,114,243
Temporarily restricted	-	(129,899)	6,958,297	-	-	6,828,398
Permanently restricted	-	-	-	(2,116,225)	(18,353,716)	(20,469,941)
Total change in net assets	2,114,243	(129,899)	6,958,297	(2,116,225)	(18,353,716)	(11,527,300)
Beginning net assets	35,243,235	7,768,701	685,284,690	22,634,801	990,676,538	1,741,607,965
Ending net assets	$ 37,357,478	$ 7,638,802	$ 692,242,987	$ 20,518,576	$ 972,322,822	$ 1,730,080,665

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

Statement of Cash Flows

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2012	***June 30, 2011***
Cash flows from operating activities		
Student fees	$ 1,004,520	$ 965,295
Grants and contracts	444,877	485,029
Sales and services of educational activities	62,548	60,755
Auxiliary enterprise charges	314,593	324,455
Other operating receipts	246,365	171,533
Payments to employees	(1,756,363)	(1,710,221)
Payments to suppliers	(604,822)	(559,301)
Student financial aid	(158,942)	(164,140)
Student loans collected	7,226	12,008
Student loans issued	(6,438)	(2,667)
Net cash used in operating activities	**(446,436)**	**(417,254)**
Cash flows from noncapital financing activities		
State appropriations	525,118	540,221
Nonoperating grants and contracts	116,257	120,035
Gifts and grants received for other than capital purposes	106,865	103,806
Direct lending receipts	615,458	615,100
Direct lending payments	(613,246)	(615,866)
Net cash provided by noncapital financing activities	**750,452**	**763,296**
Cash flows from capital and related financing activities		
Capital appropriations	14,157	11,984
Capital grants and gifts received	20,015	9,618
Purchase of capital assets	(244,954)	(232,859)
Proceeds from issuance of capital debt, including refunding activity	134,816	16,610
Principal payments on capital debt, including refunding activity	(46,697)	(58,722)
Principal paid on capital leases	(1,664)	(1,265)
Interest paid on capital debt and leases	(41,709)	(49,099)
Net cash used in capital and related financing activities	**(166,036)**	**(303,733)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	3,150,406	3,642,358
Investment income	33,968	30,674
Purchase of Investments	(3,257,317)	(3,806,524)
Net cash used in investing activities	**(72,943)**	**(133,492)**
Net increase (decrease) in cash and cash equivalents	**65,037**	**(91,183)**
Cash and cash equivalents, beginning of year	**580,110**	**671,293**
Cash and cash equivalents, end of year	**$ 645,147**	**$ 580,110**

See accompanying notes to the financial statements.

Statement of Cash Flows

(continued from previous page)

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2012	*June 30, 2011*
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (573,209)	$ (575,715)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	133,482	130,538
Loss on disposal of capital assets	2,568	3,675
Changes in assets and liabilities:		
Accounts receivable	(6,642)	2,185
Inventories	631	1,001
Other assets	(4,402)	891
Notes receivable	(438)	4,427
Accounts payable and accrued liabilities	3,848	5,808
Deferred revenue	(1,185)	7
Assets held in custody for others	591	1,457
Other noncurrent liabilities	(1,680)	8,472
Net cash used in operating activities	**$ (446,436)**	**$ (417,254)**

See accompanying notes to the financial statements.

Indiana University Notes to the Financial Statements

June 30, 2012 and June 30, 2011

Note 1—Organization and Summary of Significant Accounting Policies

ORGANIZATION

Indiana University (university) is a state-supported institution that is fiscally responsible for operations and has students enrolled on seven campuses. Campuses are located in Bloomington, Indianapolis (IUPUI), Richmond (East), Kokomo, Gary (Northwest), South Bend, and New Albany (Southeast). The financial statements include the individual schools, colleges, and departments as part of the comprehensive reporting entity. The university was established by state legislative act, under Indiana Code Section IC 20-12-23, in 1838, changing the name of its predecessor, Indiana College, to Indiana University. The university's governing body, the Trustees of Indiana University (trustees), is comprised of nine members charged by the Indiana General Assembly with policy and decision-making authority to carry out the programs and missions of the university. Six of the members are appointed by the Governor of Indiana, and three are elected by university alumni. The university is classified as exempt from federal income tax under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3), and also under Section 115(a). Certain revenues of the university may be subject to federal income tax as unrelated business income under Internal Revenue Code Sections 511 to 514.

BASIS OF PRESENTATION

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

REPORTING ENTITY

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, as required by GASB Statement No. 14, *The Financial Reporting Entity.* As additionally required by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* organizations that raise and hold economic resources for the direct benefit of the university are included in the reporting entity. The university evaluates potential component units for inclusion in the reporting entity based on these criteria.

DISCRETE COMPONENT UNIT

The Indiana University Foundation, Inc. (IU Foundation) is organized as a not-for-profit corporation under the laws of the State of Indiana for the exclusive purpose of supporting the university by receiving, holding, investing, and administering property and making expenditures to or for the benefit of the university. The IU Foundation is considered a component unit of the university according to the criteria in GASB No. 39, *Determining Whether Certain Organizations Are Component Units,* and the university's financial statements include discrete presentation of the IU Foundation by displaying the IU Foundation's audited financial statements in their original formats on separate pages.

The IU Foundation is a not-for-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features differ from GASB revenue recognition criteria and presentation features. No modifications have been made to the IU Foundation's financial information in the university's financial reporting to adjust for these differences. The IU Foundation distributed $107,057,000 and $102,174,000 to the university during fiscal years 2012 and 2011, respectively. Complete financial statements for the IU Foundation can be obtained from: Indiana University Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

BLENDED COMPONENT UNIT

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

BASIS OF ACCOUNTING

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

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

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

CASH EQUIVALENTS

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

INVESTMENTS

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

ACCOUNTS RECEIVABLE

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

NOTES RECEIVABLE

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

CAPITAL ASSETS

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

DEFERRED REVENUE

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

COMPENSATED ABSENCES

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

NET ASSETS

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

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

- *Restricted net assets—expendable:* Restricted expendable net assets are resources the university is legally obligated to spend in accordance with externally imposed restrictions.
- *Unrestricted net assets:* Unrestricted net assets are not subject to externally imposed restrictions and are primarily used for meeting expenses for academic and general operations of the university.

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

REVENUES

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

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

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

NEW ACCOUNTING PRONOUNCEMENTS

In 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53.* This statement amends paragraphs 28d and 82 of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* to set forth criteria that establish when an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider in respect of a hedging derivative instrument and when hedge accounting should continue to be applied. The requirements of this statement are effective for periods beginning after June 15, 2011. Since the university's investment portfolio in the current fiscal year does not include any hedging derivative instruments, the provisions of this statement have no impact on current financial statements.

RECLASSIFICATIONS

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

Note 2—Deposits and Investments

DEPOSITS

The combined bank balances of the university's demand deposits were $120,507,000 and $71,123,000 at June 30, 2012 and 2011, respectively. The university had balances in excess of Federal Deposit Insurance Corporation limits in the amount of $44,013,000 and $4,994,000 at June 30, 2012 and 2011, respectively. The balance in excess of FDIC limits is subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk.

INVESTMENTS

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

At June 30, 2012 and 2011, the university had investments and deposits, including endowment funds, as shown as follows:

(dollar amounts presented in thousands)

Investment Type	*Fair Value* June 30, 2012	*Fair Value* June 30, 2011
Corporate bonds	$ 469,713	$ 379,826
Money market funds	440,312	570,718
External investment pools	204,238	201,442
Government bonds	172,901	133,040
Government mortgage-backed securities	157,230	191,625
Asset-backed securities	141,065	91,646
Commercial mortgage-backed	52,955	63,133
Nongovernment backed C.M.O.s	46,316	23,836
Government agencies	34,154	41,448
Index-linked government bonds	26,524	1,258
Short-term bills and notes	13,818	57,798
Municipal/provincial bonds	12,928	12,091
Guaranteed fixed income	5,708	9,632
Commercial paper	4,799	6,598
Government-issued commercial mortgage-backed	2,961	1,237
Venture capital	2,750	4,090
Mutual funds	2,238	1,667
Real estate	1,105	2,260
All other	184,298	(28,953)
Total	**$1,976,013**	**$1,764,392**

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

The large variance in all other investments compared to prior year is the result of initiatives to decrease bank fees and de-risk the portfolio. Significant cash balances were held both as bank deposits to offset fees and in the form of securities that are classified as pending trades.

Investment Custodial Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university manages custodial credit risk through the types of investments that are allowed by investment policy. The university's investments are not exposed to custodial credit risk and reflect either investment securities registered in the name of the university, investment securities loaned for collateral received, or other types of investments not exposed to custodial credit risk.

Interest Rate Risk

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

The university had investments with the following maturities at June 30, 2012:

(dollar amounts presented in thousands)

Investment Type	*Fair Value June 30, 2012*	*Investment Maturities (in years) Less than 1*	*1–5*	*6–10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 469,713	$ 44,406	$ 239,730	$ 127,528	$ 58,049
Government bonds	172,901	10,980	64,405	60,456	37,060
Government mortgage-backed securities	157,230	2,913	2,295	27,195	124,827
Asset-backed securities	141,065	807	95,554	25,322	19,382
Commercial mortgage-backed	52,955	–	355	1,442	51,158
Non-government backed C.M.O.s	46,316	–	18	3,796	42,502
Government agencies	34,154	9,432	17,539	2,284	4,899
Index-linked government bonds	26,524	–	393	20,593	5,538
Short-term bills and notes	13,818	13,818	–	–	–
Municipal/provincial bonds	12,928	1,053	4,741	842	6,292
Guaranteed fixed income	5,708	4,616	1,092	–	–
Commercial paper	4,799	4,799	–	–	–
Government-issued commercial mortgage-backed	2,961	–	–	2,811	150
Other fixed income	13,633	2,900	2,948	6,299	1,486
Total investments with maturity date	**1,154,705**	**95,724**	**429,070**	**278,568**	**351,343**
Investments with undetermined maturity date					
Money market funds	440,312	440,312	–	–	–
External investment pools	204,238	204,238	–	–	–
Venture capital	2,750	2,750	–	–	–
Mutual funds	2,238	2,238	–	–	–
Real estate	1,105	1,105	–	–	–
All other	170,665	170,665	–	–	–
Total investments with undetermined maturity date	**821,308**	**821,308**	**–**	**–**	**–**
Total	**$ 1,976,013**	**$ 917,032**	**$ 429,070**	**$ 278,568**	**$ 351,343**

The university had investments with the following maturities at June 30, 2011:

(dollar amounts presented in thousands)

	Fair Value	*Investment Maturities (in years)*			
Investment Type	*June 30, 2011*	*Less than 1*	*1–5*	*6–10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 379,826	$ 35,128	$ 202,041	$ 102,560	$ 40,097
Government mortgage-backed securities	191,625	43,600	1,192	24,628	122,205
Government bonds	133,040	4,938	40,996	54,746	32,360
Asset-backed securities	91,646	1,669	67,095	11,174	11,708
Commercial mortgage-backed	63,133	–	–	1,539	61,594
Short-term bills and notes	57,798	57,798	–	–	–
Government agencies	41,448	14,237	20,286	5,192	1,733
Non-government backed C.M.O.s	23,836	–	1,258	3,936	18,642
Municipal/provincial bonds	12,091	371	4,312	1,281	6,127
Guaranteed fixed income	9,632	4,185	5,447	–	–
Commercial paper	6,598	6,598	–	–	–
Index-linked government bonds	1,258	–	–	–	1,258
Government-issued commercial mortgage-backed	1,237	736	–	501	–
Other fixed income	5,586	2,242	3,044	958	(658)
Total investments with maturity date	**1,018,754**	**171,502**	**345,671**	**206,515**	**295,066**
Investments with undetermined maturity date					
Money market funds	570,718	570,718	–	–	–
External investment pools	201,442	201,442	–	–	–
Venture capital	4,090	4,090	–	–	–
Real estate	2,260	2,260	–	–	–
Mutual funds	1,667	1,667	–	–	–
All other	(34,539)	(34,539)	–	–	–
Total investments with undetermined maturity date	**745,638**	**745,638**	**–**	**–**	**–**
Total	**$ 1,764,392**	**$ 917,140**	**$ 345,671**	**$ 206,515**	**$ 295,066**

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

Credit Risk

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

At June 30, 2012 and 2011, university investments had debt securities with associated credit ratings as shown below:

(dollar amounts presented in thousands)

Credit Quality Rating	*Fair Value June 30, 2012*	*Percentage of Total Pool*	*Fair Value June 30, 2011*	*Percentage of Total Pool*
AAA	$ 271,937	13.76%	$ 343,755	19.48%
AA	447,172	22.63%	140,345	7.95%
A	162,315	8.21%	163,559	9.27%
BBB	202,314	10.24%	114,146	6.47%
BB	81,791	4.14%	62,705	3.55%
B	41,044	2.08%	20,198	1.14%
CCC	12,127	0.61%	8,319	0.47%
CC	3,971	0.20%	625	0.04%
D	2,164	0.11%	1,970	0.11%
Not Rated	751,178	38.02%	908,770	51.52%
Total	**$ 1,976,013**	**100.00%**	**$ 1,764,392**	**100.00%**

Concentration of Credit Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a government's investments and deposits. The university's policy for controlling exposure to foreign currency risk is to constrain investments in non-U.S. dollar denominated debt to 25% of an individual manager's portfolio, or as specified in each manager's guidelines. Minimal foreign currency exposure could occur if one of the university's investment managers purchases non-U.S. dollar holdings and does not hedge the currency. As of June 30, 2012, and June 30, 2011, the university's investments were not exposed to foreign currency risk.

ENDOWMENTS

Endowment funds are managed pursuant to an Investment Agency Agreement between the Trustees of Indiana University (trustees) and the IU Foundation, which delegates investment management responsibilities to the IU Foundation. Indiana Code 30-2-12, *Uniform Management of Institutional Funds,* sets forth the provisions governing the investment of endowment assets and the expenditure of endowment fund appreciation. The code requires that the trustees and their agents act in good faith and with the care a prudent person acting in a like position would use under similar circumstances, with respect to the investment of endowment assets. The code also sets forth provisions governing the expenditure of endowment fund appreciation, under which the trustees may authorize expenditure, consistent with donor intent. The trustees may, at their discretion, direct all or a portion of the university's endowment funds to other investments, exclusive of the IU Foundation's investment funds. The spending policy of the trustees is to distribute 4.917% of the twelve quarter rolling average of pooled fund values. This rate will be reduced at the rate of 0.083% per year over the next five years resulting in a 4.5% distribution rate in fiscal year 2016-2017. Funds held by endowments, managed by the IU Foundation, are used to acquire pooled shares.

Endowment funds have a perpetual investment horizon, and as appropriate, may be invested in asset classes with longer term risk/return characteristics, including, but not limited to stocks, bonds, real estate, private placements, and alternative investments. The Indiana University Endowments (endowments) are managed pursuant to an Investment Agency Agreement between the trustees and the IU Foundation dated November 14, 2005, which delegated investment management responsibilities to the IU Foundation, subject to the university's management agreement with the IU Foundation. Endowment assets may be invested in pooled funds or in direct investments, or a combination of the two. Assets will typically be diversified among high quality stocks and bonds. Additional asset classes, such as absolute return, private equity, and real asset investments, may be included when it is reasonable to expect these investments will either increase return or reduce risk, or both. Participation in the pooled investments is achieved by owning units of the Pooled Long-Term Fund and considered an external investment pool to the university. At June 30, 2012, all endowments held with the IU Foundation were invested in pooled funds.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund, with the exception of U.S. Treasuries and Agencies, or accounts collateralized by Treasuries or Agencies, will limit commercial paper, Certificates of Deposit, Bankers' Acceptances, and Repurchase Agreements to $10,000,000 per issuer and money market funds and short term bond funds to $50,000,000 per fund. The Pooled Long-Term portfolio is diversified based on manager selection, investment style, and asset type to avoid any disproportionate risk related to any one industry or security.

DERIVATIVES

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

Derivatives are entered into for at least four reasons:
- As an investment
- As a hedge to reduce a specific financial risk
- To lower borrowing costs
- To manage cash flows

The university holds derivative instruments, such as futures, forwards, options, and swaps in its portfolio for investment purposes only. The fair value of derivatives held by the university was ($113,000) and $1,456,000 at June 30, 2012 and June 30, 2011, respectively. The notional market value was ($65,418,000) and $47,430,000 at June 30, 2012 and June 30, 2011, respectively. The change in fair value was $544,000 and $62,000 in fiscal years 2012 and 2011, respectively.

Credit Risk, Interest Rate Risk and Foreign Currency Risk

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

Note 3—Securities Lending

State statutes and policy of the Trustees of Indiana University permit the university to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The university participated in such a securities lending program for a number of years but chose to discontinue the program as of January 1, 2012. The university's custodial bank managed the securities lending program and received cash, U.S. government securities, or irrevocable letters of credit as collateral. Noncash collateral could not be pledged or sold unless the borrower defaulted. Cash collateral was invested in a short-term investment pool. Cash collateral could also be invested separately in "term loans," in which case the investment term matched the loan term. Maintenance margins for same currency U.S. equity and fixed income securities and international fixed income securities were 101.5%. Maintenance margins for different or cross currency U.S. and international equity and fixed income securities were 104.5%. Security loans could be terminated on demand by either the university or the borrowers. Cash received as securities lending collateral was $0 and $118,177,000 at June 30, 2012 and 2011, respectively, and was 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 $0 and $115,778,000 at June 30, 2012 and 2011, respectively. Credit risk was calculated as the aggregate of the lender's exposure to individual borrowers, or on individual loans. Although the securities being lent were collateralized, the university bore the risk of the cash collateral being impaired.

Note 4—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2012 and 2011:

(dollar amounts presented in thousands)

	June 30, 2012	*June 30, 2011*
Student accounts	$ 36,193	$ 35,066
Auxiliary enterprises and other operating activities	57,870	51,883
State appropriations	–	9,697
Federal, state, and other grants and contracts	21,771	21,760
Capital appropriations and gifts	327	1,599
Other	10,447	10,580
Current accounts receivable, gross	**126,608**	**130,585**
Less allowance for uncollectible accounts	(9,962)	(9,479)
Current accounts receivable, net	**116,646**	**121,106**
Auxiliary enterprises and other operating activities	10,640	12,327
Noncurrent accounts receivable	**$ 10,640**	**$ 12,327**

Note 5—Capital Assets

Fiscal year ended June 30, 2012

(dollar amounts presented in thousands)

	Balance June 30, 2011	*Additions*	*Transfers*	*Retirements*	*Balance June 30, 2012*
Assets not being depreciated:					
Land	$ 54,439	$ 2,646	$ –	$ –	$ 57,085
Art & museum objects	79,059	283	–	–	79,342
Construction in progress	154,340	103,087	(109,345)	1,771	146,311
Total capital assets not being depreciated	287,838	106,016	(109,345)	1,771	282,738
Other capital assets:					
Infrastructure	160,075	3,669	541	–	164,285
Intangibles	2,690	–	–	–	2,690
Land improvements	34,309	3,221	–	–	37,530
Equipment	395,455	27,054	6,271	20,056	408,724
Library books	218,308	24,936	–	19,309	223,935
Buildings	3,061,556	84,557	102,533	4,832	3,243,814
Total other capital assets	3,872,393	143,437	109,345	44,197	4,080,978
Less accumulated depreciation for:					
Infrastructure	126,384	3,658	–	–	130,042
Intangibles	336	673	–	–	1,009
Land improvements	11,266	1,972	–	–	13,238
Equipment	274,166	31,917	–	18,171	287,912
Library books	104,079	22,140	–	19,309	106,910
Buildings	1,221,767	73,122	–	3,646	1,291,243
Total accumulated depreciation, other capital assets	1,737,998	133,482	–	41,126	1,830,354
Capital assets, net	**$ 2,422,233**	**$ 115,971**	**$ –**	**$ 4,842**	**$ 2,533,362**

Fiscal year ended June 30, 2011

(dollar amounts presented in thousands)

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

Note 6—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2012 and 2011:

(dollar amounts presented in thousands)

	June 30, 2012	June 30, 2011
Accrued payroll	$ 27,140	$ 40,663
Accrual for compensated absences	44,471	41,585
Interest payable	12,973	17,617
Vendor and other payables	144,374	129,888
Total accounts payable and accrued liabilities	**$ 228,958**	**$ 229,753**

Note 7—Other Liabilities

Noncurrent liability activity for the fiscal years ended June 30, 2012 and 2011 is summarized as follows:

Fiscal year ended June 30, 2012

(dollar amounts presented in thousands)

	Balance June 30, 2011	*Additions*	*Reductions*	*Balance June 30, 2012*	*Current*
Bonds, notes, and capital leases payable	$ 899,340	$ 153,781	$ 68,665	$ 984,456	$ 55,193
Other liabilities:					
Deferred revenue	214,200	–	1,185	213,015	177,913
Assets held in custody for others	76,308	476	–	76,784	401
Compensated absences	65,789	16,035	17,682	64,142	44,471
Other	36,110	3,201	3,258	36,053	–
Total other liabilities	392,407	19,712	22,125	389,994	222,785
Total noncurrent liabilities	**$ 1,291,747**	**$ 173,493**	**$ 90,790**	**$ 1,374,450**	**$ 277,978**

Fiscal year ended June 30, 2011

(dollar amounts presented in thousands)

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

Note 8 — Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds, notes, and other forms of indebtedness for the purpose of financing construction of facilities that include academic and administrative facilities, research facilities on the Bloomington and Indianapolis campuses, athletic facilities, parking facilities, student housing, student union buildings, and energy savings projects. The outstanding bond and note indebtedness at June 30, 2012 and 2011, was $981,065,000 and $896,002,000, respectively. This indebtedness included principal outstanding at June 30, 2012 and 2011, for bonds issued under Indiana Code (IC) 21-34-6 (Student Fee debt) of $463,056,000 and $464,428,000, respectively, and for bonds issued under IC 21-35-3 (Revenue debt) of $428,840,000 and $375,630,000, respectively. The Student Fee Bonds had an additional accreted value of outstanding capital appreciation bonds associated with them of $17,017,000 and $24,142,000, at June 30, 2012 and 2011, respectively. The outstanding bond series include serial, term, and capital appreciation bonds with maturities extending to June 1, 2038.

On a biennial basis, the Indiana General Assembly authorizes a specific state appropriation to the university for the purpose of reimbursing a portion of the debt service payments on bonds issued under IC 21-34-6 for certain academic facilities. Such academic facilities include classrooms, libraries, laboratories, utility infrastructure, and other academic facilities as designated by the Indiana

General Assembly. These specific state appropriations are referred to as "fee replacement" appropriations, and are received from the State of Indiana on a semi-annual basis. This appropriation is renewed and modified on a biennial basis because the Constitution of the State of Indiana prohibits a sitting General Assembly from binding subsequent General Assemblies as to the continuation of any appropriated funds. The State of Indiana has fully funded all fee replacement obligations established by prior General Assemblies since the State began authorizing fee replacement appropriations 40 years ago. The outstanding principal balances which are eligible for fee replacement appropriations, as of June 30, 2012 and 2011, are $411,423,000 and $409,737,000, respectively. As of June 30, 2012, debt service payments to maturity total $1,394,601,000, of which $562,814,000 is from bonds eligible for fee replacement appropriations.

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 of the accreted interest is payable. Total debt service payments to maturity, as of June 30, 2012, include $28,690,000 of CAB payments, of which $6,150,000 is eligible for fee replacement appropriations. Total debt service payments to maturity, as of June 30, 2011, include $42,625,000 of CAB payments, of which $16,325,000 is eligible for fee replacement appropriations.

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

The Indiana University Building Corporation (IUBC) is an affiliated single-purpose Indiana not-for-profit corporation that was formed by the Trustees of Indiana University in 2008. The sole purpose of this entity is to assist the university in the financing and development of university facilities by owning and leasing such facilities to the university on a lease purchase basis. Certificates of Participation in lease payments between the university as lessee and IUBC as lessor are included in the outstanding indebtedness table under IC 21-33-3-5 and are classified as notes payable.

As of June 30, 2012 and 2011, outstanding indebtedness from bonds and notes is summarized as follows:

(dollar amounts presented in thousands)

Bonding Authority	*Interest Rates*	*Final Maturity Year Ended*	*Principal Outstanding At June 30, 2012*	*Principal Outstanding At June 30, 2011*
Indiana Code 21-34-6 (Bonds: Student Fee Debt)	2.00 to 6.40%	2033	$ 463,056	$ 464,428
Indiana Code 21-35-3 (Bonds: Revenue Debt)	2.00 to 5.64%	2038	428,840	375,630
Indiana Code 21-34-10-7 (Notes: Energy Savings Debt)	3.64 to 4.49%	2018	2,649	3,153
Indiana Code 21-33-3-5 (Notes: Certificates of Participation)	2.00 to 5.95%	2037	43,270	28,015
Subtotal bonds and notes payable			937,815	871,226
Add unamortized bond premium			52,786	28,605
Less deferred charges			(9,536)	(3,829)
Total bonds and notes payable			**$ 981,065**	**$ 896,002**

As of June 30, 2012, the university does not have any variable rate bonds or notes outstanding. The principal and interest requirements to maturity for bonds and notes are as follows:

(dollar amounts presented in thousands)

Fiscal Year Ended June 30	*Bond Principal*	*Note Principal*	*Total Principal*	*Bond Interest*	*Note Interest*	*Total Interest*	*Total Debt Service Payments*
2013	$ 47,690	$ 2,470	$ 50,160	$ 46,444	$ 1,825	$ 48,269	$ 98,429
2014	50,300	2,528	52,828	44,447	1,760	46,207	99,035
2015	53,639	2,596	56,235	40,496	1,689	42,185	98,420
2016	54,097	2,442	56,539	38,175	1,615	39,790	96,329
2017	56,384	2,509	58,893	35,726	1,540	37,266	96,159
2018 – 2022	255,791	11,794	267,585	127,565	6,300	133,865	401,450
2023 – 2027	211,475	10,030	221,505	70,562	3,897	74,459	295,964
2028 – 2032	117,470	7,265	124,735	26,309	1,562	27,871	152,606
2033 – 2037	42,740	4,285	47,025	6,306	453	6,759	53,784
2038	2,310	–	2,310	115	–	115	2,425
Total	**$ 891,896**	**$ 45,919**	**$ 937,815**	**$ 436,145**	**$ 20,641**	**$ 456,786**	**$ 1,394,601**

In prior years, the university has defeased several bond issues either with cash or by issuing new debt. United States Treasury obligations or federal agency securities have been purchased in amounts sufficient to pay principal and interest payments when due, through the maturity or call dates of the defeased bonds. These securities have been deposited in irrevocable trusts as required to defease the bonds. The defeased bonds and the related trusts balances are not reflected on the university's books. As of June 30, 2012, the previously defeased bonds that remain outstanding are Student Fee Bonds, Series O with principal outstanding of $41,710,000 and a call date of August 1, 2013; Student Fee Bonds, Series P with principal outstanding of $14,725,000 and a call date of August 1, 2014; Facility Revenue Bonds, Series 2004 with principal outstanding of $9,705,000 and a call date of November 15, 2014; Student Resident System Bonds, Series 2004B with principal outstanding of $16,400,000 and a call date of November 1, 2014; and Certificates of Participation, Series 2003A with principal outstanding of $6,830,000 to final maturity of June 30, 2013.

In February 2009, the United States Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA allows certain tax advantages to state and local governmental entities when such entities issue qualifying taxable obligations, referred to as Build America Bonds (BABs). Issuers of BABs are eligible to receive subsidy payments from the U.S. Treasury equal to 35 percent of the corresponding interest payable on the related BABs. The BABs provisions in ARRA expired as of January 1, 2011. The obligation of the U.S. Treasury to make subsidy payments on BABs will remain in effect through the final maturity date of BABs that are issued prior to the expiration of the program. Bond and note interest shown above has not been reduced by any federal interest subsidy due on taxable BABs. The total federal interest subsidy scheduled to be received over the life of the BABs debt outstanding as of June 30, 2012, is $34,993,000.

On July 26, 2011, the university issued Student Fee Bonds, Series U with a par amount of $94,460,000. The purpose of the issue was to provide financing for the construction of the Neurosciences Research Building on the Indianapolis campus and for certain land acquisitions on the South Bend campus. The proceeds of the bonds also partially refunded Indiana University Student Fee Bonds, Series N, Series O, and Series P. The true interest cost for the bonds is 2.96%. The refunding portion of the transaction generated future debt service savings of $6,646,000, which equated to a net present value savings of $5,663,000.

On January 25, 2012, the university issued Consolidated Revenue Bonds, Series 2012A with a par amount of $94,490,000. The purpose of the issue was to provide financing for the construction of the Rose Residence Hall (previously referred to as the New Third and Union Residence Hall Complex) and the Forest Hall Dining Renovation and Expansion on the Bloomington campus, the Science and Engineering Lab Building on the Indianapolis campus, and the Residence Hall Expansion on the Southeast campus. The proceeds of the bonds also partially refunded Facility Revenue Bonds, Series 2004 and Student Residence System Bonds, Series 2004B. The true interest cost for the bonds is 3.27%. The refunding portion of the transaction generated future debt service savings of $2,499,000, which equated to a net present value savings of $2,391,000.

On February 9, 2012, the university issued Certificates of Participation, Series 2012A with a par amount of $23,750,000. The purpose of the issue was to provide financing for the construction of the Baseball and Softball Complex on the Bloomington campus. The proceeds of the bonds also refunded Certificates of Participation, Series 2003A. The true interest cost for the certificates is 3.26%. The refunding portion of the transaction generated future debt service savings of $1,080,000, which equated to a net present value savings of $896,000.

Note 9—Lease Obligations

The university leases certain facilities. The majority of the facility leases include renewal options and some provide for escalation of rent based on changes in operating costs. Some leases are in substance lease-purchases and, as such, are recorded as capital lease obligations.

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

(dollar amounts presented in thousands)

	Capital	*Operating*
2013	$ 1,685	$ 13,382
2014	1,179	8,198
2015	510	6,951
2016	230	6,278
2017	48	3,185
2018-2022	–	3,436
2023-2027	–	1,162
2028	–	38
Total future minimum payments	3,652	**$ 42,630**
Less: interest	(261)	
Total principal payments outstanding	**$ 3,391**	

Note 10—Federal Obligations Under Student Loan Programs

Campus based student loans are funded by new allocations received from the federal government, as well as principal and interest collected from previous student loan recipients. The federal government advanced $214,000 and $705,000 for health professions and nursing loan programs for fiscal years ended June 30, 2012 and 2011, respectively.

Liabilities at June 30, 2012 and 2011, for loan programs were as follows:

(dollar amounts presented in thousands)

	June 30, 2012	*June 30, 2011*
Current portion of assets held in custody for others	$ 401	$ 516
Noncurrent liabilities:		
Federal share of interest	40,286	38,896
Perkins loans	17,942	18,935
Health professions loans	16,204	16,617
Nursing loans	1,951	1,344
Total noncurrent portion of assets held in custody for others	76,383	75,792
Total assets held in custody for others	**$ 76,784**	**$ 76,308**

Note 11—Risk Management

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

The university has four health care plans for full-time appointed employees, one of which is also available to retirees not eligible for Medicare. All of the employee plans are self-funded. The university records a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans. This liability is estimated to be no more than 15% of the paid self-funded claims during the fiscal year, and totals $26,990,000 and $26,435,000 at June 30, 2012 and 2011, respectively. In addition, a potential claims fluctuation liability of $9,876,000 has been recorded at June 30, 2012 and 2011.

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

Note 12—Retirement Plans

The university provided retirement plan coverage to 18,441 and 18,645 active employees, as of June 30, 2012 and 2011, 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. Indiana Public Retirement System (INPRS) administers the multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. All support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment participate in the PERF plan. There were 6,352 and 6,678 active university employees covered by this retirement plan as of June 30, 2012 and 2011, respectively. State statutes authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. The annuity savings account consists of contributions set by state statute at three percent of compensation plus the earnings credited to members' accounts. The university has elected to make the contributions on behalf of the members. PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Public Employees Retirement Fund, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 1-888-526-1687, or by reviewing the Annual Report online at www.in.gov/inprs/annual reports.htm.

Contributions made by the university totaled $23,972,000 and $21,404,000 for fiscal years ended June 30, 2012 and 2011, respectively. This represented an 8.6% and 7.0% university pension benefit contribution for fiscal years ended June 30, 2012 and 2011, respectively, and a 3% university contribution for the annuity savings account provisions each year.

PERF Funding Policy and Annual Pension Cost

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

The employer contributions required by the funding policy at actuarial determined rates are sufficient to fund the pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities. The amortization method and period are level dollar closed over 30 years. The actuarial cost method is entry age normal cost. The employer required contribution is determined using an asset smoothing method. The actuarial valuation date is June 30, 2010.

Actuarial assumptions include: (a) an investment rate of return of 7.0%, (b) projected salary increases of 4%, and (c) a 1% cost of living increase granted in each future year, applying to current and future retirees.

(dollar amounts presented in thousands)

	Fiscal Year Ended	
	June 30, 2011[1]	*June 30, 2010*
Annual required contribution	$ 21,855	$ 14,699
Interest on net pension obligation	(251)	(312)
Adjustment to annual required contribution	289	355
Annual pension cost	21,893	14,742
Contributions made	(14,790)	(14,016)
Increase/(decrease) in net pension obligation	7,103	726
Net pension obligation, beginning of year	(3,581)	(4,307)
Net pension obligation, end of year	**$ 3,522**	**$ (3,581)**

[1]Actuarial data for 2012 not available at the time of this report.

(dollar amounts presented in thousands)

Fiscal Year Ended	*Annual Pension Cost (APC)*[2]	*Percentage of APC Net Pension Contributed*	*Net Pension Obligation*
June 30, 2009	$ 13,370	102%	$ (4,307)
June 30, 2010	14,742	95%	(3,581)
June 30, 2011	21,893	68%	3,522

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

Academic and Professional Staff Employees

Appointed academic and professional staff employees with at least 50% FTE are covered by the IU Retirement Plan. This is a defined contribution plan under IRC 403(b) with four contribution levels. The university contributed $62,833,000 during fiscal year ended June 30, 2012, and $66,860,000 during fiscal year ended June 30, 2011, to TIAA-CREF for the IU Retirement Plan. The university contributed $26,854,000 during fiscal year ended June 30, 2012, and $21,804,000, during fiscal year ended June 30, 2011, to Fidelity Investments for the IU Retirement Plan. Under this plan, 8,081 and 8,504 employees directed university contributions to TIAA-CREF as of June 30, 2012 and 2011, respectively. In addition, 4,711 and 4,138 employees directed university contributions to Fidelity Investments as of June 30, 2012 and 2011, respectively.

In addition to the above, the university provides early retirement benefits to full-time appointed academic and professional staff employees Grade 16 and above. There were 1,093 and 1,173 active employees on June 30, 2012 and 2011, 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 $2,336,000 and $2,695,000 to IUSERP during fiscal years ended June 30, 2012 and 2011, respectively. The same class of employees covered by the IU Retirement Plan 15% Level of Contributions on or before July 14, 1988, is covered by the IU 18/20 Retirement Plan, a combination of IRC Section 457(f) and Section 403(b) provisions. The IU 18/20 Retirement Plan allows this group of employees to retire as early as age 64, provided the individual has at least 18 years of participation in the IU Retirement Plan and at least 20 years of continuous university service. During the fiscal year ended June 30, 2012, the university made total payments of $33,601,000 to 405 individuals receiving IU 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2011, the university made total payments of $33,153,000 to 386 individuals receiving IU 18/20 Retirement Plan payments.

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

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

IU Replacement Retirement Plan Funding Policy and Annual Pension Cost

The university has established an early retirement plan for eligible employees to accommodate IRS requirements and as authorized by the Trustees of Indiana University. This plan is called the IU Replacement Retirement Plan. It is a single-employer plan and is qualified under IRC Section 401(a), with normal benefits payable for the participant's lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. As of June 30, 2012 and 2011, 96 and 98 employees, respectively, were eligible to participate. University contributions related to this plan totaled $1,571,000 and $1,677,000, for fiscal years ended June 30, 2012 and 2011, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution.

The following schedule shows the funding policy contributions for the fiscal years indicated for the IU Replacement Retirement Plan as provided by the actuarial valuation report prepared as of July 1, 2011, for the fiscal year ended June 30, 2012, prepared as of July 1, 2010, for the fiscal year ended June 30, 2011, and prepared as of July 1, 2009, for the fiscal year ended June 30, 2010:

(dollar amounts presented in thousands)

		Fiscal Year Ended	
	June 30, 2012	*June 30, 2011*	*June 30, 2010*
Cost of benefits earned during the year	$ 811	$ 808	$ 659
Amortization of unfunded actuarial accrued liabilities	664	767	710
Interest	96	102	110
Funding policy contribution	**$ 1,571**	**$ 1,677**	**$ 1,479**

The funded status of the IU Replacement Retirement Plan as provided by the actuarial valuation reports for fiscal years ended June 30, 2012, 2011, and 2010, are as follows:

(dollar amounts presented in thousands)

Actuarial Valuation Date	*July 1, 2011*	*July 1, 2010*	*July 1, 2009*
Actuarial accrued liability (AAL)	$ 23,034	$ 21,497	$ 17,713
Actuarial valuation of plan assets	14,558	11,541	9,422
Unfunded actuarial liability	8,476	9,956	8,291
Actuarial value of assets as a percentage of (AAL) (funded ratio)	63.2%	53.7%	53.2%
Annual covered payroll	$ 8,679	$ 8,643	$ 8,446
Ratio of unfunded actuarial liability to annual covered payroll	97.7%	115.2%	98.2%

Actuarial assumptions include a 6.5% asset rate of return and future salary increases of 3% for the fiscal years ended June 30, 2012 and 2011. 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, 8500 Andrew Carnegie Blvd, Charlotte, NC 28262, by calling 1-800-842-2252, or by reviewing the annual report online at www.tiaa-cref.org/public/about/governance/corporate/annual-reports.

Note 13 – Postemployment Benefits

Plan Description

The university provides certain postemployment benefits for retired employees. The IU 18/20 Plan, Medical, and Life Insurance benefits are presented for financial statement purposes as a consolidated plan (the Plan) under the requirements for reporting Other Postemployment Benefit Plans (OPEB) required by GASB Statement No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The Plan is a single-employer defined benefit plan administered by Indiana University.

The 18/20 Plan provides interim benefits to full-time appointed academic and professional staff employees who meet the following eligibility requirements: 18 years of participation in the IU Retirement Plan 15% level, at least 20 years of continuous full-time university service, and at least 64 years of age. This group of employees is eligible to receive monthly payments based on a hypothetical monthly annuity amount at age 70, up to the amount of terminal base salary, calculated as the average budgeted base salary for the five 12-month periods immediately preceding retirement. The 18/20 Plan was adopted by the Trustees of Indiana University. The university provides medical care coverage to individuals with retiree status and their eligible dependents. The cost of the coverage is borne fully by the individual. However, retiree medical care coverage is implicitly more expensive than active-employee coverage, which creates an implicit rate subsidy. The university provides retiree life insurance benefits in the amount of $6,000 to terminated employees with retiree status. The health and life insurance plans have been established and may be amended under the authority of the trustees. The Plan does not issue a stand-alone financial report.

Funding Policy

The contribution requirements of plan members and the university are established and may be amended by the trustees. The university contribution to the 18/20 Plan and retiree life insurance is based on pay-as-you-go financing requirements. Plan members do not make contributions. The medical plans are self-funded and each plan's premiums are updated annually based on actual claims. Retirees receiving medical benefits paid $1,330,000 and $1,088,000 in premiums in the fiscal years ended June 30, 2012 and 2011, respectively. The university contributed $53,851,000 and $52,512,000 to the consolidated OPEB Plan in fiscal years ended June 30, 2012 and 2011, 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, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. 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, 2012:

(dollar amounts presented in thousands)

	Fiscal Year Ended	
	June 30, 2012	*June 30, 2011*
Annual required contribution (ARC)/Annual OPEB cost	$ 57,052	$ 58,166
Less employer contributions	53,851	52,512
Increase in OPEB obligation	3,201	5,654
Net OPEB obligation, beginning of year	19,557	13,903
Net OPEB obligation, end of year	$ 22,758	$ 19,557
Percentage of annual OPEB cost contributed	**94.39%**	**90.28%**

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the Plan was unfunded. The schedule of funding progress is below:

(dollar amounts presented in thousands)

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as Percentage of Covered Payroll ((b-a) / c)*
July 1, 2011	–	$ 414,985	$ 414,985	0.0%	$ 984,200	42.2%
July 1, 2010	–	441,968	441,968	0.0%	959,198	46.1%

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

Actuarial Methods and Assumptions

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

The projected unit credit cost method was used in the June 30, 2012, actuarial valuation. The actuarial assumptions include a 4.5% investment rate of return, which is a blended rate of (a) the expected long-term investment returns on plan assets and (b) the university's investments which is calculated based on the funded level of the Plan at June 30, 2012; and an annual healthcare cost trend rate that ranges from 10% in fiscal year 2013 to 5% in fiscal year 2023. The rate includes a 3% inflation assumption. The Unfunded Actuarial Accrued Liability is being amortized over 25 years using level dollar amounts on an open group basis.

Note 14—Termination Benefits

In fiscal year 2011 the university offered an Early Retirement Incentive Plan (ERIP).

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

Retirement Date	*Number of ERIP Participants*
June 30, 2011	321
August 31, 2011	137
December 31, 2011	25
Total	**483**

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

a. A lump sum income replacement payment.
b. Five years of annual contributions to a health reimbursement account (HRA) that reimburses employees, based on their current medical plan enrollment, for some healthcare expenses such as premiums, deductibles, and copays.
c. The option to continue in an IU-sponsored medical plan until age 65. Employees with IU Retiree Status could opt to participate in a post-65 Medicare supplement medical plan. The opting employees would need to pay their respective full premium amounts to receive this benefit.

In fiscal year 2011, the university recognized the expense and liability for the income replacement payments for all employees participating in the ERIP. The actuarial accrued liability associated with Other Post-Employment Benefits was increased by $15,669,000 for health reimbursement account contributions.

In fiscal year 2012, the actuarial accrued liability associated with Other Post-Employment Benefits was increased by $10,931,000 for health reimbursement account contributions.

Note 15—Related Organization

The university is a major beneficiary of the Riley Children's Foundation, of which a majority of the board of directors is appointed by, or serve by virtue of position with, Indiana University. Riley Children's Foundation net assets were $289,907,000 and $284,848,000 at June 30, 2012 and 2011, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Note 16—Functional Expenses

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

Fiscal year ended June 30, 2012

(dollar amounts presented in thousands)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 839,533	$ 836	$ 99,882	$ 14,599	$ –	$ 17,467	$ 972,317
Research	159,814	56	80,017	3,269	–	6,700	249,856
Public service	83,837	388	62,237	3,196	–	4,401	154,059
Academic support	223,927	52	45,328	2,365	–	6,896	278,568
Student services	73,212	11	21,393	1,551	–	2,242	98,409
Institutional support	95,035	602	35,126	2,731	–	2,351	135,845
Physical plant	77,216	65,306	61,433	4	–	181	204,140
Scholarships & fellowships	10,881	–	1,166	130,102	–	30	142,179
Auxiliary enterprises	181,154	4,310	71,879	5,748	–	7,181	270,272
Depreciation	–	–	–	–	133,482	–	133,482
Total operating expenses	**$ 1,744,609**	**$ 71,561**	**$ 478,461**	**$ 163,565**	**$ 133,482**	**$ 47,449**	**$ 2,639,127**

Fiscal year ended June 30, 2011

(dollar amounts presented in thousands)

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

Note 17—Segment Information

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

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

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

(dollar amounts presented in thousands)

Condensed Statement of Net Assets	Parking Operations		Housing Operations	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Assets				
Current assets	$ 27,228	$ 39,876	$ 82,018	$ 112,002
Capital assets, net	92,927	79,740	215,325	168,011
Total assets	**120,155**	**119,616**	**297,343**	**280,013**
Liabilities				
Current liabilities	7,022	6,263	8,928	10,377
Noncurrent liabilities	58,764	64,213	111,553	116,431
Total liabilities	**65,786**	**70,476**	**120,481**	**126,808**
Net assets				
Invested in capital assets, net of related debt	30,095	26,505	101,007	81,636
Unrestricted	24,274	22,635	75,855	71,569
Total net assets	**54,369**	**49,140**	**176,862**	**153,205**
Total liabilities and net assets	**$ 120,155**	**$ 119,616**	**$ 297,343**	**$ 280,013**

(dollar amounts presented in thousands)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	*Parking Operations*		*Housing Operations*	
	Fiscal Year Ended		*Fiscal Year Ended*	
	June 30, 2012	*June 30, 2011*	*June 30, 2012*	*June 30, 2011*
Operating revenues	$ 24,887	$ 22,742	$ 69,243	$ 63,396
Depreciation expense	(3,722)	(3,291)	(4,795)	(4,292)
Other operating expenses	(13,078)	(12,976)	(43,455)	(41,070)
Net operating income	**8,087**	**6,475**	**20,993**	**18,034**
Nonoperating revenues (expenses)				
Grants, contracts, and other revenues	190	192	1,170	1,183
Interest expense	(2,009)	(1,726)	(1,597)	(1,931)
Net nonoperating revenues (expenses)	**(1,819)**	**(1,534)**	**(427)**	**(748)**
Other revenues				
Capital gifts	–	–	–	15
Net other revenues	**–**	**–**	**–**	**15**
Net transfers from (to) university funds	(1,039)	(473)	3,091	448
Increase in net assets	**5,229**	**4,468**	**23,657**	**17,749**
Net assets				
Net assets, beginning of year	49,140	44,672	153,205	135,456
Net assets, end of year	**$ 54,369**	**$ 49,140**	**$ 176,862**	**$ 153,205**

(dollar amounts presented in thousands)

Condensed Statement of Cash Flows	*Parking Operations*		*Housing Operations*	
	Fiscal Year Ended		*Fiscal Year Ended*	
	June 30, 2012	*June 30, 2011*	*June 30, 2012*	*June 30, 2011*
Operating activities	$ 12,605	$ 9,551	$ 23,740	$ 26,007
Noncapital financing activities	190	192	1,170	1,183
Capital and related financing activities	(24,895)	1,593	(55,420)	(50,919)
Net increase (decrease) in cash	(12,100)	11,336	(30,510)	(23,729)
Beginning cash and cash equivalent balances	38,171	26,835	111,306	135,035
Ending cash and cash equivalent balances	**$ 26,071**	**$ 38,171**	**$ 80,796**	**$ 111,306**

In January 2012, $26,105,000 of the revenue-backed debt was refunded into Consolidated Revenue Bonds causing a significant drop in the outstanding principal of the revenue-backed debt and the number of years to maturity. Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $10,625,000 at June 30, 2012, with remaining terms of 2 years. Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $39,895,000 at June 30, 2011, with remaining terms of 12 to 18 years. Revenues of the activities are sufficient to meet the principal and interest requirements for the debt.

Note 18—Commitments and Loss Contingencies

Construction Projects

The university had outstanding commitments for capital construction projects of $145,603,000 and $146,604,000 at June 30, 2012 and 2011, respectively.

Note 19—Subsequent Event

On October 26, 2012, the university will issue Indiana University Tax Exempt Student Fee Bonds, Series V-1 and Taxable Student Fee Bonds, Series V-2 in the total par amount of $107,750,000, of which $95,875,000 will be refunding bonds and $11,875,000 will be new money bonds. The bonds will be issued as natural fixed rate debt under Indiana Code sections IC 21-34-6 through 10 and have been approved by all appropriate state authorities. The proceeds will be used to pay for (a) refunding all or a portion of Student Fee Bonds, Series P, Q, and R; (b) financing for qualified energy savings projects on the Indianapolis and South Bend campuses; (c) refunding Qualified Energy Savings Notes, Series 2005, 2007 and 2008; and (d) costs to issue the bonds including underwriters' discount. The new money bonds for the qualified energy savings projects will have a final maturity of 10 years. The refunding bonds will produce a net present value savings of $7,961,000, or 8.37% of refunded bonds.

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

Required Supplementary Information

Schedule of Funding Progress for IU Replacement Retirement Plan:
(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
7/1/2011	$ 14,558	$ 23,034	$ 8,476	63.2%	$ 8,679	97.7%
7/1/2010	11,541	21,497	9,956	53.7%	8,643	115.2%
7/1/2009	9,422	17,713	8,291	53.2%	8,446	98.2%

Schedule of Funding Progress for Other Postemployment Benefit Plans:
(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
7/1/2011	–	$ 414,985	$ 414,985	0.0%	$ 984,200	42.2%
7/1/2010	–	441,968	441,968	0.0%	959,198	46.1%
7/1/2009	–	443,276	443,276	0.0%	967,369	45.8%

Schedule of Funding Progress for Public Employees' Retirement Fund:
(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
6/30/2011	$ 214,453	$ 379,812	$ 165,359	56.5%	$ 215,496	76.7%
6/30/2010	215,702	320,269	104,567	67.4%	214,529	48.7%
6/30/2009	263,017	302,873	39,856	86.8%	222,902	17.9%

Note 1 - Organization and Operations

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

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

Note 4 - Investments

A summary of total investment income, including net gains (losses) net of outside management fees for the year ended June 30, 2012 and 2011 consist of the following:

	2012	2011
Dividend, interest and other investment income	$ 9,920,514	$ 8,766,433
Net realized and unrealized gains (losses) on investments	(21,571,091)	249,785,736
Outside investment management fees	(4,710,704)	(4,809,298)
Total investment income, including net gains, net of outside investment management fees	$ (16,361,281)	$ 253,742,871

The Foundation's investments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. The following tables present information about the Foundation's investments by security type measured at fair value as of June 30, 2012 and 2011:

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Domestic equities	$ 216,328,769	$ 63,877,854	$ 480,957	$ 280,687,580
International equities	275,090,775	9,034	-0-	275,099,809
Domestic fixed income	70,941,499	130,956,163	3,075,523	204,973,185
International fixed income	-0-	18,208,525	-0-	18,208,525
Cash equivalents	8,391,823	-0-	-0-	8,391,823
Alternative investments:				
Hedged equity funds	-0-	75,582,024	203,752	75,785,776
Absolute return funds	-0-	112,035,004	111,415,599	223,450,603
Venture capital funds	-0-	551,832	92,686,612	93,238,444
Buyout funds	-0-	-0-	113,709,268	113,709,268
Distressed/special situation funds	-0-	-0-	55,972,168	55,972,168
Real estate funds	8,627,769	-0-	80,563,458	89,191,227
Natural resource funds	-0-	-0-	78,748,874	78,748,874
Public inflation hedge	-0-	20,842,156	-0-	20,842,156
Direct commercial real estate	-0-	-0-	19,678,883	19,678,883
Mortgage securities	-0-	-0-	695,381	695,381
Total	$ 579,380,635	$ 422,062,592	$ 557,230,475	$ 1,558,673,702

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

Changes in Level 3 assets measured at fair value as of and for the years ended June 30, 2012 and 2011 follow. The 2012 presentation has been expanded to reflect the disclosure requirements of ASU No. 2010-06. There were no significant transfers between levels 1, 2 and 3 for the years ended June 30, 2012 and 2011.

	2012
Beginning balance	$ 562,292,724
Realized and unrealized gains (losses)	12,124,593
Purchases	99,083,787
Sales	(111,925,455)
Transfers in	138,000
Transfers out	(4,483,174)
Ending balance	$ 557,230,475

	2012		2011		
	Fair Value	Unfunded Commitments	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedged equity funds (a)	$ 75,785,776	$ -0-	$ 114,845,205	monthly, quarterly, semi-annually, annually	45-100 days
Absolute return funds (b)	223,450,603	5,272,254	195,729,800	monthly, quarterly, semi-annually, annually	45-90 days
Venture capital funds (c)	93,238,444	34,499,016	96,886,470		
Buyout funds (d)	113,709,268	56,799,810	104,916,485		
Distressed/special situation funds (e)	55,972,168	34,045,445	47,714,669		
Real estate funds (f)	80,563,458	34,396,007	78,124,112		
Natural resources funds (g)	78,748,874	34,857,185	75,981,990		
Public Inflation Hedge (h)	20,842,156	-0-	-0-	monthly	10 days
Total	$ 742,310,747	$ 199,869,717	$ 714,198,731		

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

(b) This category includes investments in hedge funds that invest opportunistically across various strategies including long/short equity, fixed income, distressed credit, merger arbitrage, convertible arbitrage, etc. The fair values of the investments in this category are based on the net asset value per share of the investment. As of June 30, 2012, 58% of the total Marketable Alternative Investments (hedged equity and absolute return) could be redeemed in 0-6 months, 67% could be redeemed within 12 months, 81% could be redeemed within 24 months, and 85% could be redeemed within 36 months. The remaining 15% is designated as illiquid investments.

(c) This category includes funds which invest primarily in early-stage companies in the technology and life science sectors. The nature of investments in this category is that money is distributed as underlying companies are exited via acquisition or IPO. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2012.

(d) This category includes private equity funds that invest across sectors primarily in the United States, but also Asia and Europe. The nature of investments in this category is that money is distributed as underlying companies are recapitalized or exited via acquisition or IPO. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2012.

(e) This category includes funds that are focused on distressed, mezzanine, or secondary investments, primarily in the United States. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2012.

(f) This category includes funds that invest primarily in U.S. commercial real estate, but also include real estate funds focused on Europe and Asia. The real estate exposure consists of publicly traded REIT funds (11.4%) and private partnerships (88.6%). Publicly traded REIT funds have daily liquidity. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2012.

(g) This category includes several funds that are focused on direct energy and timber. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. Certain funds in this category will provide an income stream as the underlying commodity is harvested/sold. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation’s ownership interest as of June 30, 2012.

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

Note 8 – Restricted Net Assets

The income generated from restricted net assets is used in accordance with the donors' time or purpose restrictions. Foundation and University permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor imposed restrictions as of June 30, 2012 and 2011 are as follows:

2012

	Temporarily Restricted		Permanently Restricted	
	Foundation	**University**	**Foundation**	**University**
Foundation operations	$ 7,638,802	$ -0-	$ 20,518,576	$ -0-
University Programs:				
Awards	-0-	6,462,179	-0-	7,643,380
Capital and capital improvements	-0-	81,714,502	-0-	2,143,383
Fellowships/lectureships	-0-	20,960,628	-0-	80,896,984
General endowments	-0-	228,179,220	-0-	221,330,071
Medical practice plans	-0-	31,053,837	-0-	-0-
Operations	-0-	71,462,141	-0-	3,439,699
Professorships/chairs	-0-	106,354,539	-0-	253,336,864
Research	-0-	28,786,485	-0-	40,427,466
Scholarships	-0-	117,269,456	-0-	363,104,975
Total	$ 7,638,802	$ 692,242,987	$ 20,518,576	$ 972,322,822

2011

	Temporarily Restricted		Permanently Restricted	
	Foundation	**University**	**Foundation**	**University**
Foundation operations	$ 7,768,701	$ -0-	$ 22,634,801	$ -0-
University Programs:				
Awards	-0-	6,486,245	-0-	8,025,341
Capital and capital improvements	-0-	77,268,183	-0-	2,344,855
Fellowships/lectureships	-0-	21,100,010	-0-	81,469,916
General endowments	-0-	229,753,800	-0-	224,798,229
Medical practice plans	-0-	33,096,842	-0-	-0-
Operations	-0-	69,800,767	-0-	5,016,297
Professorships/chairs	-0-	103,359,243	-0-	261,991,574
Research	-0-	30,100,572	-0-	37,382,524
Scholarships	-0-	114,319,028	-0-	369,647,802
Total	$ 7,768,701	$ 685,284,690	$ 22,634,801	$ 990,676,538

Note 10 - Contingencies and Commitments

The Foundation has borrowed $125,016,119 and $104,313,514 of restricted cash and cash equivalents as displayed in its Foundation Unrestricted, Foundation Temporarily Restricted, and Permanently Restricted assets as of June 30, 2012 and 2011, 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 $1,900,000 and $2,400,000 as of June 30, 2012 and 2011, respectively, represents amounts financed by the Foundation unrestricted net assets to the agency and temporarily restricted University net assets. The carrying value of interfund financing approximates fair market value, as the borrowing rates currently available to the Foundation are similar to the terms on remaining maturities. Interest rates are from 4.0% to 4.95% as of June 30, 2012 and June 30, 2011.

Note 11 - Program Expenditures

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, air services, Student Foundation, cultural center, women's programs and other miscellaneous programs. These University related program expenditures primarily support "Grants and aid to the University" and "Endowment and capital additions for the University." For the years ended June 30, 2012 and 2011, a summary of these expenditures follows:

	2012		
		Unrestricted	
Program expenditures:	**Foundation**	**University***	**Total**
Foundation programs:			
Real estate	$ 2,190,814	$ -0-	$ 2,190,814
Student Foundation	528,518	-0-	528,518
Air Services	622,297	-0-	622,297
Women's programs	37,895	-0-	37,895
Miscellaneous	47,855	-0-	47,855
	3,427,379	-0-	3,427,379
Grants and aid to the University:			
Operating support:			
University support	1,610,263	33,749,453	35,359,716
Student scholarship and financial aid	8,037	33,025,994	33,034,031
Faculty support	153,168	13,709,730	13,862,898
Faculty research	-0-	8,699,702	8,699,702
	1,771,468	89,184,879	90,956,347
Endowment and capital additions for the University:			
Land, building and equipment purchases	17,948	17,872,211	17,890,159
Total program expenditures	$ 5,216,795	$ 107,057,090	$ 112,273,885

	2011		
Program expenditures:	**Foundation**	**Unrestricted University***	**Total**
Foundation programs:			
Real estate	$ 1,863,040	$ -0-	$ 1,863,040
Student Foundation	520,220	-0-	520,220
Cultural center	150,619	-0-	150,619
Air Services	526,112	-0-	526,112
Women's programs	126,634	-0-	126,634
Miscellaneous	19,680	-0-	19,680
	3,206,305	-0-	3,206,305
Grants and aid to the University:			
Operating support:			
University support	1,742,198	33,192,348	34,934,546
Student scholarship and financial aid	12,300	30,562,306	30,574,606
Faculty support	92,283	13,281,190	13,373,473
Faculty research	-0-	8,972,395	8,972,395
	1,846,781	86,008,239	87,855,020
Endowment and capital additions for the University:			
Land, building and equipment purchases	81,103	15,745,209	15,826,312
Library and art acquisitions	300	420,100	420,400
	81,403	16,165,309	16,246,712
Total program expenditures	$ 5,134,489	$ 102,173,548	$ 107,308,037

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

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for fiscal year ended June 30, 2012

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for fiscal year ended June 30, 2012

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Charles R. Bantz, Executive Vice President and Chancellor, Indiana University-Purdue University Indianapolis
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J Thomas Forbes, Executive Director, IU Alumni Association
Eugene R. Tempel, President, IU Foundation

Additional copies of this report may be obtained from:

Office of the Senior Vice President and Chief Financial Officer
Bryan Hall 212
Indiana University
Bloomington, IN 47405-7000
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http://www.indiana.edu/~pagr/

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

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

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

Alumni
Alumni Association
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Indiana University
Bloomington, IN 47408
http://alumni.indiana.edu

Acknowledgements

The following members of Financial Management Services prepared the *2011-2012 Financial Report* and the included financial statements:

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

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

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

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

(Highlights continued from inside front cover.)

MICHAEL A. MCROBBIE

15-YEAR IU HIGHLIGHTS
1997-2012

- As vice president for information technology, initiated the development of IU's original Information Technology Strategic Plan, launched in 1998 to enable IU to become a leader in the use and application of IT and today considered a model for educational institutions across the nation.
- Played an important role in establishing IU's School of Informatics and Computing, the first such school in the nation, as well as in securing two of the largest grants in IU history—totaling more than $80 million—to establish technology-related laboratories and initiatives at the university.
- Directed the development of I-Light, the first higher education-owned optical fiber network, which provides high-speed broadband Internet capability to colleges and universities across Indiana.