Indiana University

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Annual Financial Report 2015–2016

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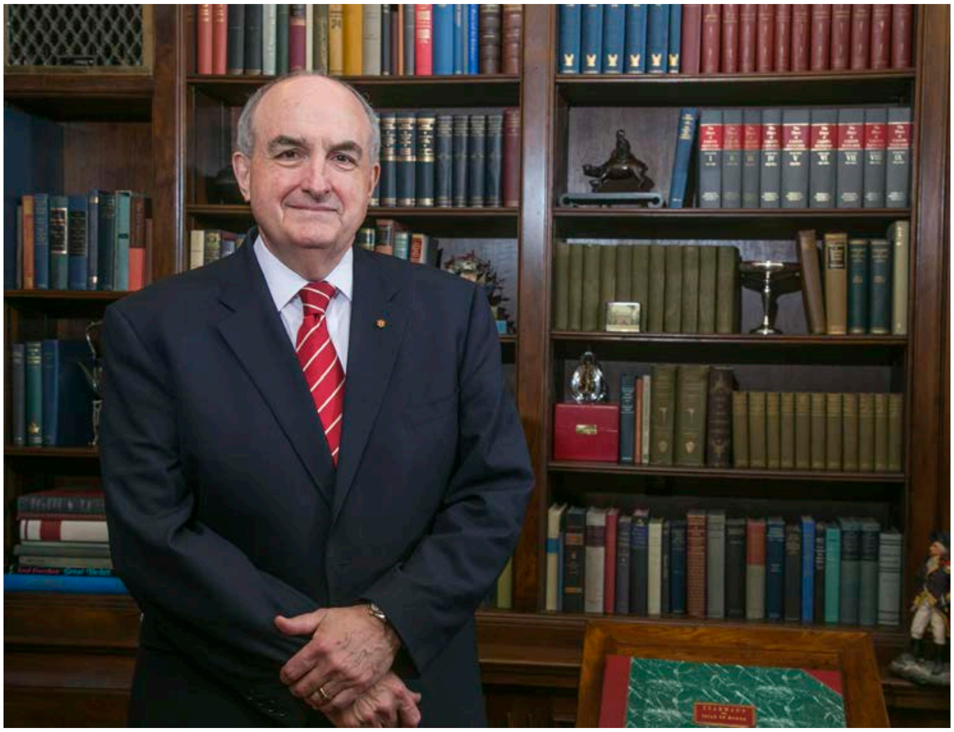
Left: Southside campus entrance, Bloomington

On the Cover: A sculpture of the university's 11th president, Herman B Wells (1902-2000), sits like an old friend on a park bench inside the Old Crescent area of the Bloomington campus.


Michael McRobbie, President, Indiana University

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

Dear Governor Pence:

On behalf of the Trustees of Indiana University, I am pleased to present to you IU's 2015–16 Financial Report.

When I became president of Indiana University a decade ago, I described IU's history as a "story of change in response to the demands of the time." Ours has been, I said in my inaugural address, an unwavering pursuit of academic excellence in teaching, discovery and creative activity—combined with a willingness to engage change and renewal—to ensure that IU will be known as one of the greatest universities of the 21st century.

I am extremely proud to say that IU remains steadfastly committed to the educational and service missions that have made it such a positive force in the life of our state, nation and world. And we have embraced thoughtful and strategic change that both builds upon IU's longstanding strengths and traditions and bolsters our future.

We have worked together to establish learning environments on all of our campuses that give our students every opportunity to succeed. We have re-envisioned our schools and programs so they provide a relevant education of lasting value. We have ensured that an IU education remains affordable, and we have adopted practices and policies that encourage our students to persist to graduation and complete their degrees on time.

Indeed, we have much to celebrate, but we at IU aren't accustomed to standing still. That is why we are already hard at work planning IU's bicentennial celebration, which will commence during the 2019-20 academic year. And that is why, even as we work diligently to preserve our great traditions and unmatched heritage, we continue to engage in a comprehensive effort to enhance the character of our campuses, ensure that they remain magnets for the best and most deserving students and elevate IU's ever-growing reputation as a truly world-class institution.

STUDENT SUCCESS: AT THE CORE OF IU's MISSION

Of course, a central part of Indiana University's heritage is its commitment, over nearly two centuries, to educating Hoosiers and students from across the state, nation, and around the world, at the highest levels of quality. For all of the many things a premiere public research university like IU does, students are its reason for being, and student success is at the core of its mission.

Recent figures also show that Indiana University is leading the state in answering the call by the Indiana Commission for Higher Education and the state Legislature to produce more Hoosier graduates. During the 2015–16 academic year, IU conferred a record 21,204 four-year and graduate degrees, an increase of 18 percent since the 2008–09 academic year, and far more than any other institution in the state.

Incidentally, last May's commencements were attended by over 100,000 people, all witness to the vital role IU plays in education across the state.

With this year's student body again numbering close to 115,000, the most accomplished and one of the most diverse student bodies in IU history—and given that more than 80 percent of currently enrolled degree-seeking undergraduates are in-state students—IU will be by far the largest producer of Hoosier graduates annually in Indiana for the foreseeable future. IU students come from all 92 Indiana counties, all 50 states, and more than 172 countries.

The Bicentennial Class at IU Bloomington, whose members will graduate in our bicentennial year of 2020, boasts the highest grade-point average and the highest average SAT/ACT scores on record. The class has also enrolled over 1,100 students from underrepresented groups—a 38 percent increase over the past five years. It also includes increasing numbers of students who receive income-based financial aid from the university.

Increasing minority enrollment at IU has been one of our highest priorities. IU's overall fall enrollment also includes a record number of minority students—nearly 20,000—more than at any other time in the university's history. Five campuses—IU Bloomington, IUPUI, IU East, IU Kokomo, and IU South Bend—set new records for minority enrollment this fall.

LEADING THE NATION IN STUDENT DEBT REDUCTION

Indiana University remains steadfastly committed to providing an environment in which students have every opportunity to succeed—by ensuring that an IU education remains affordable, that we adopt practices and policies that encourage students to persist to graduation and complete their degrees on time, and that the university's schools and programs provide a relevant education of lasting value.

We also recently announced that borrowing by Indiana University students has been reduced by nearly $100 million in the four years since the university began a series of multifaceted financial literacy programs and started adopting more vigorous policies to increase student financial assistance and promote on-time graduation. This, of course, translates directly into $100 million less debt for our students over this period.

These are remarkable figures and they clearly underscore the fact that Indiana University leads the nation in the area of student debt reduction—an area that is of great concern nationally and one that is of enormous demonstrable benefit to our students. There is, of course, more work to be done to control the cost of education, further reduce student debt and help more students graduate on time. But our financial literacy program and other initiatives, which have been widely praised and adopted by other colleges and universities, clearly have us on the right path moving forward.

NEW AND INNOVATIVE PROGRAMS

Indiana University is also committed to the fundamental principle that, as the world around us changes, and as new avenues for better understanding the world and contributing to its improvement arise, what we teach and the manner in which we teach it must also evolve.

In the last five years alone, we have seen the establishment or transformation of eight new schools.

We have seen public health schools established as central partners in the health sciences enterprise at both Bloomington and Indianapolis, a vital field in a state with such daunting public health challenges. Philanthropy has grown into a respected field of academic study in Indianapolis, after the founding of a school unique in the country. IU's School of Informatics and Computing has grown to be one of the largest schools in the university, with the highest levels of external funding for computer science research in the state, and one of the highest in the nation.

Media is now studied in a comprehensive integrated way, reflecting the digital revolution in media which has created and destroyed huge enterprises. The study of design and art has been unified, consolidated, and enhanced in Bloomington. The complex and uncertain world of online education has been skillfully navigated to become a substantial and respected part of an IU education. And in a world that struggles with both the good and the bad impacts of globalization, IU's new School of Global and International Studies has focused IU's match-less resources to educate and train a new generation of leaders fluent in their ability to work around the world and with cultures diverse and complex.

IU's regional campuses now work together efficiently and effectively to bring an IU education to nearly every part of the state, with all the impacts and benefits this brings to the university and to the communities in which the campuses are located.

The strength and vigor of medicine at IU is projected all over the state in eight different medical education centers that concentrate the medical resources and skills of their communities.

Dozens of new and innovative programs have been established, maybe none more overdue than the new engineering program at IU Bloomington, the last institution of its kind in the Association of American Universities to establish such a program. Its inaugural class was welcomed this fall. An engineering program at Bloomington is one key part of the goal of creating a culture of "building and making" on that campus, essential for enabling it to make full use of its potential for developing its inventions and innovations for the economic benefit of the people of Indiana.

A NATIONAL LEADER IN RESEARCH

Another major component of Indiana University's heritage is its longstanding status as a national leader in research and the home of scholars of outstanding international recognition.

There are many ways the vital contributions of the faculty can be measured: through the excellence of their scholarship; through the impact and influence of their inspiring teaching on successive generations; through the awards and recognition from their peers that they accrue; through the depth of the understanding they bring through their research to the physical and moral universe and the positive effects of this on society; and through the investments that the great agencies, foundations, and endowments are prepared to make in their research.

In this latter regard, their efforts last year were truly spectacular. Last academic year, IU researchers received a record $614 million in external funding to support their research and other activities—a remarkable increase of nearly 20 percent over the previous year. This is the highest total of external grant funding obtained by any public research university in the state during the last academic year, and the highest annual total in IU history.

This year's record figure is all the more noteworthy in light of the increasingly competitive environment that has faced researchers across the country in recent years. Research funding has become more scarce—in fact, the funding rates of a number of federal programs have reached historic lows. At the same time, the demand for research funding has increased and now greatly exceeds the supply. IU has achieved record success in this highly competitive arena because the National Institutes of Health, the National Science Foundation, and many other funding agencies, as well as many foundations and endowments, recognize the quality of the research being conducted at IU and the impact our faculty are making in improving our state, nation, and world, and in transforming people's lives.

At the same time IU faculty set new records with external funding support for their research, Indiana University, as part of its *Bicentennial Strategic Plan*, has expanded massively its commitment to direct support of IU researchers. One year ago, we announced the most ambitious program of research support in the university's history—the Grand Challenges Program. This program proposes to invest, in the years leading up to IU's bicentennial, $300 million in three to five major multi-investigator, multidisciplinary research projects aimed at finding solutions to the "grand challenges" of our time—solutions that will provide major improvements in the quality of life for the citizens of the state of Indiana who have helped support IU for nearly 200 years.

In June, I was very pleased to announce that, after thorough evaluation of 21 excellent preliminary proposals—five of which were selected as finalists and developed into full proposals—the Precision Health Initiative was selected as the recipient of the first round of funding. Led by Principal Investigator Dr. Anantha Shekhar, the Precision Health Initiative focuses on an approach that is expected to transform biomedical research and the delivery of health care in the future. The Precision Health Initiative will seek to cure at least one cancer and one childhood disease, as well as find ways to prevent one chronic illness and one neurodegenerative disease.

At the same time, IU continues to provide support for a wide variety of other types of research and scholarship that, this year, will total well over $10 million.

GUIDING INNOVATION

These record totals for external grants for research and other activities came on top of a number of record achievements reported in FY 2016 by the Indiana University Research and Technology Corporation (IURTC), which protects, markets, and licenses intellectual property developed at IU, enhances the application and transfer of knowledge in the state, and fosters a pervasive entrepreneurial culture.

IURTC completed 43 licensing agreements last fiscal year, an increase of 72 percent over the previous year's total. Licensing revenue topped $7 million, and IURTC was granted 53 U.S. patents last year, which is an IU record.

Since 1997, the IURTC's work with university clients has resulted in more than 2,700 inventions and nearly 4,000 global patent applications. Those discoveries have generated more than $135 million in licensing and royalty income, more than $112 million of which went directly to IU departments, laboratories and inventors.

These efforts have begun to attract major notice and put IU squarely on the map of universities that are considered nation- and world-wide leaders in engagement and innovation. IURTC ranked 44th in the world in a report by the National Academy of Inventors based on the top 100 worldwide universities granted U.S. utility patents during the 2015 calendar year. IURTC rose 43 spots in this ranking from calendar year 2014.

And, for the second consecutive year, IU has been ranked among the world's 50 most innovative universities. IU rose 12 spots above last year's performance in a Reuters News analysis of patent and publishing data from more than 600 research institutions worldwide. The latest findings of *The Reuters 100: The World's Most Innovative Universities* ranks IU 37th worldwide and 25th among U.S. universities. Ten of the Top 100 universities, including IU, are part of the Big Ten Academic Alliance, an academic consortium formerly known as the Committee on Institutional Cooperation.

This ranking is a tribute to the exceptional work of IU's first-rate community of scholars. Their pioneering research is leading to the creation of innovative new products and processes for the marketplace and driving economic growth and innovation throughout our state.

It also confirms our standing as an economic powerhouse in Indiana, reflecting the increasing success we have had in transforming the lives of people here and around the world.

CONCLUSION

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

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

Yours sincerely,

Michael A. McRobbie
President

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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

Report on the Financial Statements

We have audited the financial statements of the business-type activities and the discretely presented component unit of Indiana University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the University's Proportionate Share of the Net Pension Liability for the Indiana Public Employees' Retirement Fund, Schedule of the University's Contributions for the Indiana Public Employees' Retirement Fund, and Schedule of Funding Progress for Other Postemployment Benefits Plans 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University basic financial statements. The Message from the President, Excerpts from the Indiana University Foundation-Notes to Financial Statements, Trustees and Administrative Officers of Indiana University, and Additional Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University's internal control over financial reporting and compliance.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

October 26, 2016

Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of Indiana University (the "university") for the fiscal year ended June 30, 2016, with selected comparative information for the years ended June 30, 2015 and 2014. This discussion has been prepared by management to assist readers in understanding the accompanying financial statements and footnotes and to provide context for those statements.

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

The Statement of Net Position is the university's balance sheet. The statement presents the university's financial position by reporting all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of the fiscal year. The statement as a whole provides information about the adequacy of resources to meet current and future operating and capital needs. Net position is the residual value of the university's assets and deferred outflows of resources, after liabilities and deferred inflows of resources are deducted, and is one indicator of the financial condition of the university.

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

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

Financial Highlights

STATEMENT OF NET POSITION

A comparison of the university's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2016, 2015, and 2014, is summarized as follows:

Condensed Statement of Net Position			
(in thousands of dollars)	*June 30, 2016*	*June 30, 2015*	*June 30, 2014*
Current assets	$ 681,215	$ 739,585	$ 578,031
Capital assets, net	2,984,285	2,815,801	2,729,895
Other assets	1,645,925	1,691,873	1,717,852
Total assets	**5,311,425**	**5,247,259**	**5,025,778**
Deferred outflows of resources	**67,186**	**41,280**	**13,964**
Current liabilities	416,626	384,327	391,896
Noncurrent liabilities	1,230,957	1,268,297	1,056,658
Total liabilities	**1,647,583**	**1,652,624**	**1,448,554**
Deferred inflows of resources	**19,743**	**30,286**	**–**
Net investment in capital assets	2,048,226	1,924,031	1,830,756
Restricted net position	246,074	298,663	255,247
Unrestricted net position	1,416,985	1,382,935	1,505,185
Total net position	**$ 3,711,285**	**$ 3,605,629**	**$ 3,591,188**

ASSETS

Current Assets

Current assets include those that are used to support current operations and consist primarily of cash and cash equivalents, net receivables, and short-term investments. Cash balances support commitments to strategic initiatives, capital projects, employee benefit and retirement costs, self-liquidity requirements, and other operational needs. The overall fluctuations in current assets is primarily a function of the university's operating, capital and noncapital financing, and investing activities as reflected in the Statement of Cash Flows.

Current assets decreased $58,370,000, or 8%, and increased $161,554,000, or 28%, in 2016 and 2015, respectively. The change in 2016 reflects the use of cash and cash equivalents due in large part to spending of invested bond proceeds on capital projects, in contrast to the net investment of bond proceeds in 2015. Current net accounts receivable decreased $16,636,000, or 12%, in 2016, primarily due to a state operating appropriation receivable of $9,386,000 at June 30, 2015, which was received in July 2015. There were no outstanding state operating appropriations at the end of fiscal year 2016.

Noncurrent Assets

Major components of noncurrent assets are endowment and operating investments and capital assets, net of accumulated depreciation. Noncurrent assets increased $122,536,000, or 3%, and $59,927,000, or 1%, in 2016 and 2015, respectively. The fair value of the university's noncurrent investments decreased $45,301,000, or 3%, in 2016, largely due to tactical asset reallocation to short-term investments and cash equivalents as of June 30, 2016. The objective of the university's investment policy with respect to its operating funds is to adequately provide for the daily liquidity needs of the university while maximizing the opportunity to generate yield on investments. The management of the university's operating funds permits flexibility while providing a consolidated basis from which to meet liquidity demands. Decisions on management of cash and shorter-term holdings are based on asset prices, the economic environment, investment opportunities, and liquidity needs. Endowment funds are managed by the Indiana University Foundation using a disciplined, consistent, and diversified approach according to the policies and strategic direction of the Foundation Investment Committee and the laws of the State of Indiana.

The university's investment in capital assets, net of depreciation, which includes land, art and museum

Natatorium, Indianapolis

objects, infrastructure, equipment, and buildings, grew $168,484,000, or 6%, and $85,906,000, or 3%, in 2016 and 2015, respectively. Additions to capital assets are comprised of new construction and renovations, as well as major investments in equipment and information technology. Construction in progress includes academic and administrative building projects, student residence hall improvements, and construction of research facilities.

As described in the university's *Bicentennial Strategic Plan Principles of Excellence*, the university is committed to building for excellence to ensure that the university has the new and renovated physical facilities and infrastructure to excel, "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 masterplans."

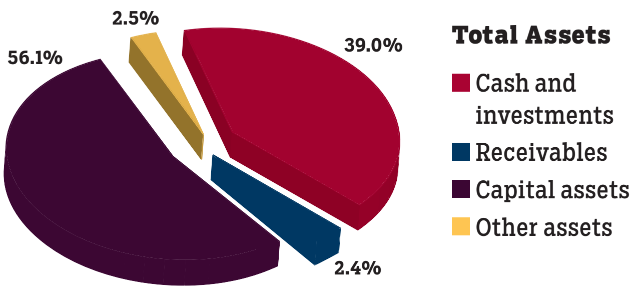
The renovation of Franklin Hall, originally built in 1907 as one of the first academic facilities on the Bloomington campus, has transformed that space from housing administrative functions to the new home of the Media School, including major investments in technology. As of August 2016, this $22,000,000 project has brought together IU's acclaimed programs of education and research in journalism, telecommunications, communications and culture, and film. A primary feature of the renovated space is a central commons open to three stories and lit by a 42-foot by 35-foot skylight. Students and faculty learn and collaborate in multimedia and production labs, studios, a screening room, digital classrooms, game design labs, and research areas.

Renovations totaling $20,000,000 were completed in time for the Indiana University Natatorium on the IUPUI campus to host the 2016 U.S. Olympic Diving Trials in June. As the nation's largest indoor pool, and home to numerous United States and world records, the Natatorium is now better prepared to continue its legacy as a world-class facility available to all levels of swimmers and divers.

The Main Building on the IU Kokomo campus has been transformed into a 21st century learning space with classrooms that feature technology stations with flat screen monitors and seating that can be reconfigured to maximize collaboration. This $13,000,000 project was completed in December 2015 and included replacement of all windows and installation of improved insulation for the exterior walls, as well as mechanical, electrical, and plumbing systems.

The following table and chart represent the composition of total assets as of June 30, 2016:

Total Assets		
(in thousands of dollars)		
Cash and investments	$ 2,068,990	39.0%
Receivables	126,586	2.4%
Capital assets	2,984,285	56.1%
Other assets	131,564	2.5%
Total assets	**$ 5,311,425**	**100.0%**



DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources represent the consumption of resources applicable to a future reporting period, but do not require a further exchange of goods or services. Deferred outflows represent the consumption of net position applicable to a future reporting period and so will not be recognized as expenses or expenditures until then. Certain changes in resources related to the net pension liability, including changes in investment returns and assumptions, are reported as deferred outflows of resources. The amounts recorded also include deferred charges on refundings of capital debt.

LIABILITIES

Current Liabilities

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

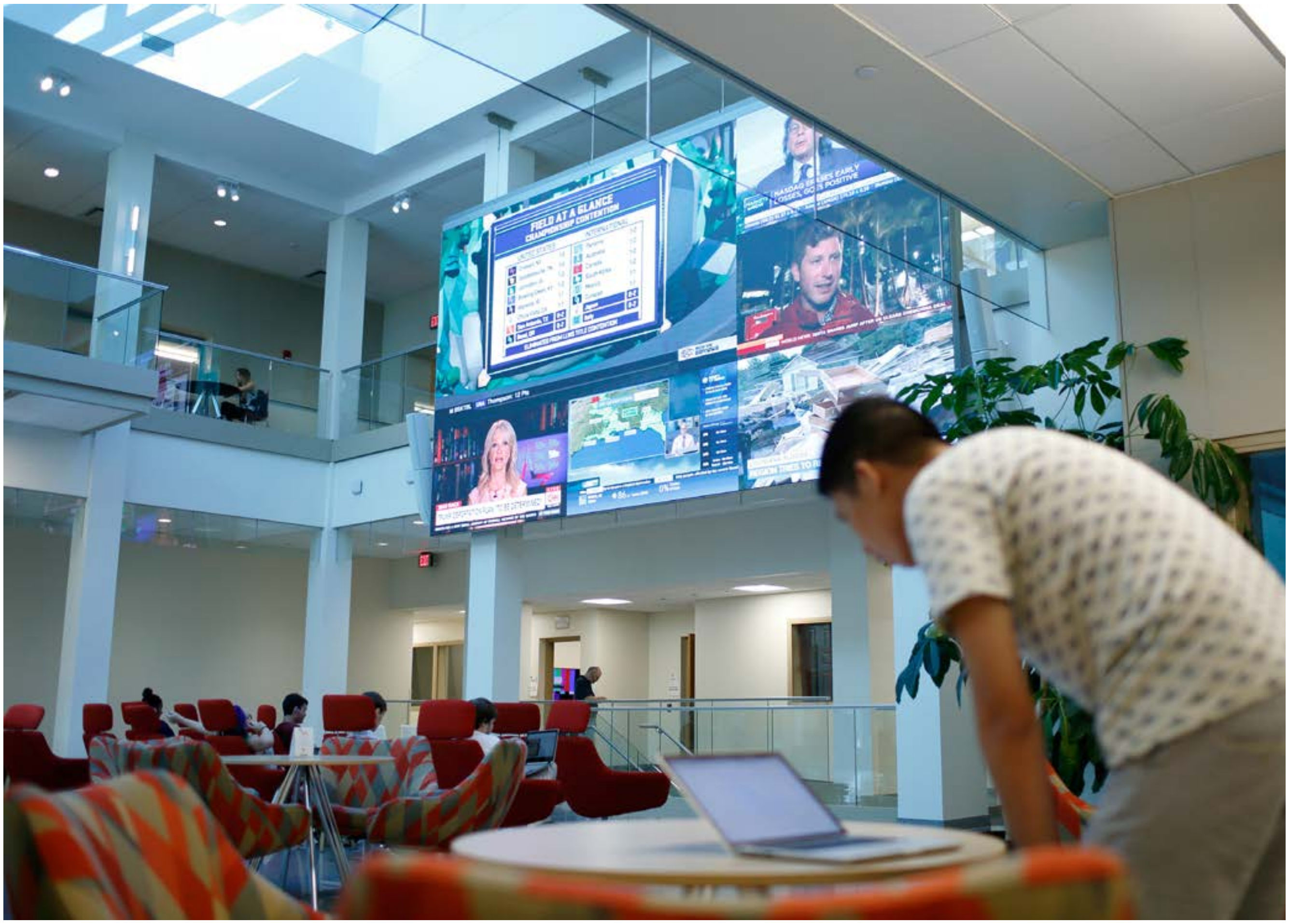
Current liabilities increased $32,299,000, or 8%, and decreased $7,569,000, or 2%, in 2016 and 2015, respectively. In April 2013, the university implemented a “freeze” of its PERF participation under which non-exempt employees hired on or after July 1, 2013, would enroll in a defined contribution plan instead of the PERF defined benefit plan. Subsequently, the Indiana General Assembly passed a law which retroactively imposed a new funding obligation for employers who had previously made the decision to freeze PERF participation. The university made payment to satisfy this obligation in August 2016, resulting in an increase to current accounts payable as of June 30, 2016 (see Note 12, Retirement Plans). The current portion of unearned revenue decreased $8,337,000 in 2016, related to the timing of spending related to capital and other grants for which receipts were received in advance of related expenditures. The 2015 decline in current liabilities was also primarily due to a reduction of $16,274,000 in unearned revenue.

Noncurrent Liabilities

Noncurrent liabilities decreased $37,340,000, or 3%, and increased $211,639,000, or 20%, in 2016 and 2015, respectively. Other noncurrent liabilities include other postemployment benefits (as described in Note 13, Postemployment Benefits) and compensated absences. Compensated absences are comprised of employee vacation and sick leave and fluctuate as employees earn and use those leave balances.

In 2015, the university adopted GASB Statement No. 68, *Accounting and Financial Reporting for*

Media School, Franklin Hall, Bloomington



Pensions, requiring governments providing defined benefit plans to recognize their unfunded pension benefit obligations for the first time. In accordance with the statement, the university recorded a net pension liability of $98,279,000 and $101,229,000 at June 30, 2016 and 2015, respectively (see Note 12, Retirement Plans).

DEBT AND FINANCING ACTIVITY

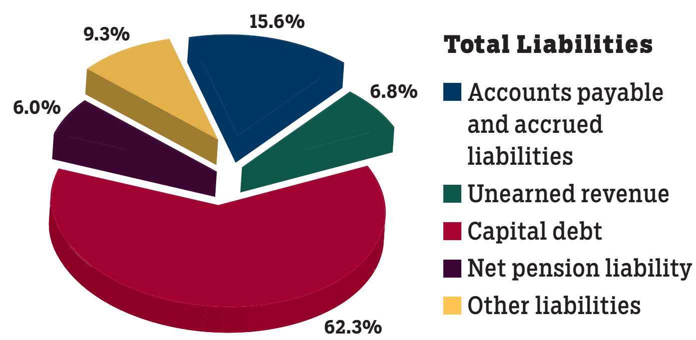
Institutional borrowing capacity is a valuable resource that is actively managed in support of the institutional mission. Bonds, notes, and capital lease obligations totaled $1,027,324,000 and $1,062,621,000 at June 30, 2016 and 2015, respectively.

On April 5, 2016, the university issued fixed rate Consolidated Revenue Bonds, Series 2016A with a par amount of $93,070,000, which included new money bonds of $26,720,000 and refunding bonds of $66,350,000. The purpose of the issue was to provide financing for the Wells Quad Renovation to renovate and repurpose two buildings, Goodbody Hall and Memorial Hall, from academic space to student housing. The proceeds were also used to pay costs to issue the bonds, including underwriters' discount. The proceeds also partially refunded Consolidated Revenue Bonds, Series 2008A; Consolidated Revenue Bonds, Series 2009A; and Consolidated Revenue Bonds, Series 2011A. The refunding portion of the transaction generated a net present value savings of $8,646,000, which was 12.53% of the refunded par bonds. The all-in true interest cost for the bonds is 3.00%.

The university's ratings on debt obligations were last reviewed and reaffirmed in June 2016. On February 25, 2016, Standard & Poor's (S&P) Ratings Services rated the university's most recent consolidated revenue bonds and raised its long-term rating and underlying rating on all student fee bonds, consolidated revenue bonds, certificates of participation, and lease-purchase obligations issued by the university to 'AAA' with a stable outlook. On June 30, 2016, S&P Global Ratings rated the university's most recent student fee bonds (which are indicated in Note 17, Subsequent Event as they were not outstanding at June 30, 2016) and reaffirmed its underlying rating on all student fee bonds, consolidated revenue bonds, lease-purchase obligations, and certificates of participation as 'AAA' with a stable outlook. On June 30, 2016, Moody's Investors Service rated the university's most recent student fee bonds (which are indicated in Note 17, Subsequent Event as they were not outstanding at June 30, 2016) and reaffirmed its underlying rating on all student fee bonds, consolidated revenue bonds, lease-purchase obligations, and certificates of participation as 'Aaa' with a stable outlook.

The following table and chart represent the composition of total liabilities as of June 30, 2016:

Total Liabilities		
(in thousands of dollars)		
Accounts payable and accrued liabilities	$ 257,253	15.6%
Unearned revenue	112,031	6.8%
Capital debt	1,027,324	62.3%
Net pension liability	98,279	6.0%
Other liabilities	152,696	9.3%
Total liabilities	**$ 1,647,583**	**100.0%**



DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent the acquisition of resources applicable to a future reporting period, but do not require a further exchange of goods or services. Deferred inflows represent an acquisition of net position applicable to a future reporting period and so will not be recognized as revenue until then. The amounts recorded are related to the net pension liability.

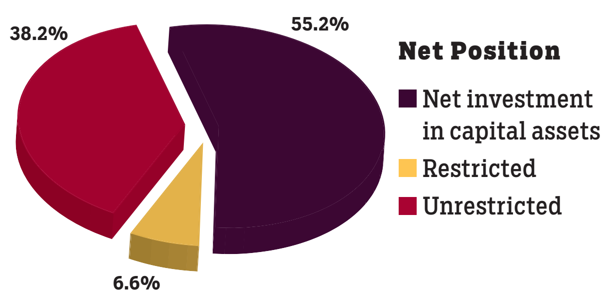
NET POSITION

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

- Net investment in capital assets consists of the university's investment in capital assets, such as equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and related debt.
- Restricted net position consists of amounts subject to externally imposed restrictions governing usage and is divided into two sub-categories:
    - ❍ Restricted non-expendable funds are subject to externally imposed stipulations that they be retained in perpetuity. These balances represent the corpus (historical value) of university's permanent endowment funds.
    - ❍ Restricted expendable funds are available for expenditure by the university, but must be spent according to restrictions imposed by third parties.
- Unrestricted net position includes amounts institutionally designated or committed to support specific purposes.

The following table and chart represent the composition of net position as of June 30, 2016

Total Net Position		
(in thousands of dollars)		
Net investment in capital assets	$ 2,048,226	55.2%
Restricted	246,074	6.6%
Unrestricted	1,416,985	38.2%
Total net position	**$ 3,711,285**	**100.0%**



The university's net investment in capital assets reflects the institutional capital investment in sustaining and enhancing the university's mission and strategic plans. The net investment in capital assets increased $124,195,000, or 6%, and $93,275,000, or 5%, in 2016 and 2015, respectively. Growth in this area is managed according to the university's long-range capital plans, along with operating units' needs to support programs and operational functions.

Restricted net position decreased $52,589,000, or 18%, and increased $43,416,000, or 17%, in 2016 and 2015, respectively. Variances in both years are largely due to fluctuations in spending of bond proceeds.

Unrestricted net position is subject to internal designations and commitments for academic and research initiatives, capital projects, and unrestricted quasi- and term endowment spending plans. Unrestricted net position increased $34,050,000, or 2%, and decreased $122,250,000, or 8%, in 2016 and 2015, respectively. The decline in 2015 was attributable to the change in accounting principle in accordance with the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Unrestricted net position represents resources available for ongoing operational needs and funding ongoing obligations, as well as providing flexibility to support the university's mission in changing economic environments.

Total net position increased $105,656,000, or 3%, over beginning net position. Net position at June 30, 2016, was $3,711,285,000.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

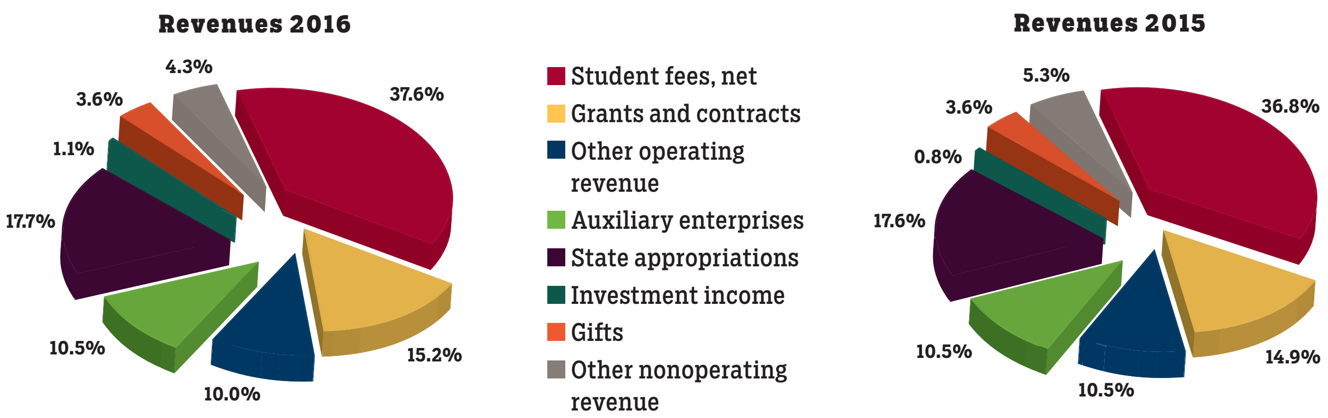
Revenues and expenses are classified as either operating or nonoperating, in accordance with GASB principles for classification into these categories. Trends in the relationship between operating revenues and expenses are important indicators of financial condition. Generally, operating revenues are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

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

Condensed Statement of Revenues, Expenses, and Changes in Net Position

(in thousands of dollars)		*Fiscal Year Ended*	
	June 30, 2016	*June 30, 2015*	*June 30, 2014*
Operating revenues	$ 2,256,204	$ 2,207,604	$ 2,195,241
Operating expenses	(2,941,624)	(2,863,815)	(2,838,946)
Total operating loss	(685,420)	(656,211)	(643,705)
Nonoperating revenues	794,928	781,232	836,077
Nonoperating expenses	(31,668)	(34,520)	(36,547)
Income before other revenues, expenses, gains, or losses	77,840	90,501	155,825
Other revenues	27,816	47,904	45,365
Increase in net position	**105,656**	**138,405**	**201,190**
Net position, beginning of year	3,605,629	3,591,188	3,389,998
Adjustment per change in accounting principle	–	(123,964)	–
Net position, beginning of year, as restated	–	3,467,224	–
Net position, end of year	**$ 3,711,285**	**$ 3,605,629**	**$ 3,591,188**

The following charts represent revenues by major source for fiscal years 2016 and 2015:



Showalter Fountain, Bloomington

Operating revenues increased $48,600,000, or 2%, and $12,363,000, or 1%, during fiscal years 2016 and 2015, respectively. The university supports its operations with diverse revenue sources, of which the largest single source is student tuition and fees. Tuition and fees, net of scholarship allowances, increased $36,857,000, or 3%, over the prior fiscal year and represents 38% of total revenue. Tuition and fees, net of scholarship allowances, increased $39,429,000, or 4%, in 2015. Tuition and fee revenue fluctuates according to a combination of changes in tuition rates, enrollment, and the mix of student levels and residency. The University's *Bicentennial Strategic Plan* articulates a commitment to access and affordability for students to "ensure that an IU education remains geographically, programmatically, and financially accessible for all qualified students." Representative of this commitment, undergraduate tuition and fee rate increases in 2016 were the lowest in more than 35 years and ranged from a tuition freeze for Indiana residents on the Bloomington campus to 1.65% for residents on the IUPUI campus. Regional campus undergraduate tuition and fee rate increases increased an average of 1.65%. IU faculty's outstanding contributions to achievements in research and creative activity across multiple disciplines, along with the university's investments in crucial infrastructure to support research taking place across diverse areas, continues to be a university priority. Operating grant and contract revenues increased $17,080,000, or 4%, to $468,551,000 in 2016, with increases in federal, state and nongovernmental grants.

Operating expenses increased $77,809,000, or 3%, and $24,869,000, or 1%, in 2016 and 2015, respectively. Compensation and benefits, at 66% of total operating expenses, represent the largest single university expense. The university is committed to recruiting and retaining outstanding faculty and staff. The university's strategic plan makes a clear statement of commitment to "recruit and retain an outstanding, diverse and inclusive faculty from researchers, scholars, teachers, and creative artists worldwide who are recognized as among the very best in their fields." Compensation and benefits expense increased $71,847,000, or 4%, and $26,817,000, or 1%, in 2016 and 2015, respectively. Increases in fringe benefits expenses include impacts related to the implementation of GASB Statement No. 68 and increases in health care costs. University benefit plans play an important role in attracting and retaining employees and the university has implemented initiatives in recent years to control costs without compromising the competitiveness of the benefit package. The university's High Deductible Health Plan (HDHP) lowers employer premiums while providing employees with greater control over healthcare spending. Approximately 85% of employees were enrolled in a HDHP in 2016. While overall health care costs have increased, the university's cost per employee is at or below market benchmarks. The combination of student financial aid expense and scholarship allowances totaled $426,137,000 in 2016, reflecting the university's student affordability priority. During 2016, energy and utilities costs decreased $4,619,000, or 6%. Factors contributing to the decline include favorable natural gas pricing, as well as electricity savings attributed to increased energy efficiency in central chilled water management, as well as a reduction in electric loads with conversions to LED lighting.

Nonoperating revenues, net of interest expense, increased $16,548,000, or 2%, and decreased $52,818,000, or 7%, in 2016 and 2015, respectively. The increase was impacted by an increase in the operating appropriation, partially offset by decreases in student fee replacement amounts. Student fee replacement appropriations are made for the purpose of reimbursing a portion of debt service for certain academic facilities. These funds are claimed according to the university's fee replacement-supported debt service schedules. Investment income increased $8,849,000, or 37%, to $32,543,000 in 2016, primarily due to unrealized gains compared to unrealized losses in 2015. Unrealized gains in 2016 were partially offset by realized losses.

Interest expense decreased $2,852,000, or 8%, and $2,027,000, or 6%, in 2016 and 2015 respectively, due to natural fluctuations in debt service requirements.

The university recognized $27,816,000 in capital appropriations and capital gifts and grants for repairs, renovations, and improvements across all campuses in 2016. Revenue recognized as capital appropriations and capital gifts and grants fluctuates as funding is brought in to the university according to the needs of the campuses.

STATEMENT OF CASH FLOWS

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

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

Comparative Statement of Cash Flows

(in thousands of dollars)		*Fiscal Year Ended*	
	June 30, 2016	*June 30, 2015*	*June 30, 2014*
Net cash provided (used) by:			
Operating activities	$ (518,997)	$ (533,968)	$ (532,911)
Noncapital financing activities	770,852	748,874	741,973
Capital and related financing activities	(371,354)	(115,494)	(206,182)
Investing activities	73,138	(21,798)	(24,195)
Net increase (decrease) in cash and cash equivalents	(46,361)	77,614	(21,315)
Beginning cash and cash equivalents	391,568	313,954	335,269
Ending cash and cash equivalents	**$ 345,207**	**$ 391,568**	**$ 313,954**

The university's cash and cash equivalents decreased $46,361,000 in 2016 and increased $77,614,000 in 2015. Net cash flows from operating activities consists primarily of student fees, grants and contracts, and auxiliary enterprise receipts. Payments to employees represent the largest use of cash for operations. Significant sources of cash provided by noncapital financing activities, as defined by GASB, including state appropriations, federal Pell grants, and private noncapital gifts, are used to fund operating activities. Fluctuations in capital and related financing activities reflect decisions made relative to the university's capital and financing plans. Cash flows from investing activities include the effects of shifts between cash equivalents and longer-term investments.

ECONOMIC OUTLOOK

After experiencing a modest increase of 3.0% in fiscal year 2015, fiscal year 2016 forecast state revenues were $78,500,000, or 0.5%, below fiscal year 2015. Total state tax revenues lagged forecast by $111,300,000, or 0.7%. Sales tax collections, the largest single state tax revenue source, were 1.7% below forecast but grew at a rate of 0.4% over 2015, while individual income tax collections lagged forecast by 0.6% and declined by 0.3% below fiscal year 2015. Rounding out the state's "Big 3" tax revenues, corporate income tax collections barely exceeded forecast by 0.5%, although were 10.0% below fiscal year 2015 collections. It is important to note that state tax revenues in fiscal year 2016 were impacted modestly by individual and corporate income tax cuts enacted by the General Assembly in recent years. These tax cuts are being phased-in over several years and were estimated to have resulted in an incremental reduction of $118 million in fiscal year 2016. In addition, sales tax collections were negatively impacted by low gasoline prices. Despite the shortfall in forecast revenue collections, the state's overall fiscal standing remains strong with total reserve balances exceeding $2,244,500,000 at June 30, 2016, nearly 15% of state operating revenues.

For fiscal year 2017, total state revenues were forecast in December 2015 to increase by $412,100,000, or 2.8%, over fiscal year 2015 revenues. However, because actual revenue collections in 2016 were below forecast, revenue growth of $523,300,000, or 3%, is required to achieve the fiscal year 2017 revenue forecast level. Given the fiscal year 2016 shortfall, such revenue growth might be difficult to achieve.

Indiana's unemployment rate was 4.6% at the beginning of fiscal year 2016 in July 2015 and although it ended the fiscal year in June 2016 slightly higher at 4.8%, Indiana's rate compared favorably to the national unemployment rate of 4.9% in June 2016. Thus, even accounting for tax reductions and lower sales tax revenue from low gas pump prices, Indiana's negative revenue growth in fiscal year 2016 is difficult to explain. It is possible that a number of socio-economic factors and changed consumer behavior since the "Great Recession", such as increased savings, are influencing Indiana's forecast revenues. In addition, while evidence indicates that both Indiana and the national economies are expanding, much economic uncertainty remains.

Statement of Net Position

(in thousands of dollars)	*June 30, 2016*	*June 30, 2015*
ASSETS		
Current assets		
Cash and cash equivalents	$ 345,207	$ 391,568
Accounts receivable, net	126,586	143,222
Current portion of notes and pledges receivable	15,091	14,660
Inventories	8,980	9,558
Short-term investments	136,187	130,989
Other assets	49,164	49,588
Total current assets	681,215	739,585
Noncurrent assets		
Notes and pledges receivable	58,329	58,976
Investments	1,587,596	1,632,897
Capital assets, net	2,984,285	2,815,801
Total noncurrent assets	4,630,210	4,507,674
Total assets	**5,311,425**	**5,247,259**
Deferred outflows of resources	**67,186**	**41,280**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	257,253	221,205
Unearned revenue	83,440	91,777
Current portion of capital lease obligations	1,044	940
Current portion of long-term debt	74,889	70,405
Total current liabilities	416,626	384,327
Noncurrent liabilities		
Capital lease obligations	2,373	1,895
Notes payable	111,310	107,050
Assets held in custody for others	79,705	79,208
Unearned revenue	28,591	32,503
Bonds payable	837,708	882,331
Other long-term liabilities	72,991	64,081
Net pension liability	98,279	101,229
Total noncurrent liabilities	1,230,957	1,268,297
Total liabilities	**1,647,583**	1,652,624
Deferred inflows of resources	**19,743**	**30,286**
NET POSITION		
Net investment in capital assets	2,048,226	1,924,031
Restricted for:		
Nonexpendable - endowments	54,406	52,893
Expendable		
Scholarships, research, instruction, and other	123,899	146,919
Loans	19,396	19,994
Capital projects	27,037	52,551
Debt service	21,336	26,306
Unrestricted	1,416,985	1,382,935
Total net position	**$ 3,711,285**	**$ 3,605,629**

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

Indiana University Foundation

Statements of Financial Position
June 30, 2016 and 2015
(In thousands)

	2016	2015
Assets		
Cash and cash equivalents	**$ 65,214**	$ 87,396
Collateral under securities lending agreement	**99,083**	95,016
Receivables and other assets	**21,978**	19,257
Due from brokers	**74,628**	33,542
Promises to give, net	**196,358**	154,819
Investments	**2,099,995**	2,190,545
Property, plant, and equipment, net	**43,900**	44,452
Total assets	**$ 2,601,156**	$ 2,625,027
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	**$ 8,957**	$ 4,787
Due to brokers	**86,577**	32,464
Collateral under securities lending agreement	**99,083**	95,016
Split interest agreement obligations	**33,172**	35,384
Assets held for the University	**209,925**	232,308
Assets held for University affiliates	**38,194**	39,092
Total liabilities	**475,908**	439,051
Net Assets		
Unrestricted	**50,762**	54,614
Temporarily restricted	**831,736**	839,191
Permanently restricted	**1,242,750**	1,292,171
Total net assets	**2,125,248**	2,185,976
Total liabilities and net assets	**$ 2,601,156**	$ 2,625,027

See notes to financial statements.

Statement of Revenues, Expenses, and Changes in Net Position

(in thousands of dollars)	*Fiscal Year Ended* *June 30, 2016*	*June 30, 2015*
OPERATING REVENUES		
Student fees	$ 1,402,098	$ 1,357,804
Less scholarship allowance	(246,282)	(238,845)
Federal grants and contracts	298,221	293,846
State and local grants and contracts	24,437	21,104
Nongovernmental grants and contracts	145,893	136,521
Sales and services of educational units	41,358	39,397
Other revenue	266,032	279,096
Auxiliary enterprises (net of scholarship allowance of $32,023 in 2016 and $30,086 in 2015)	324,447	318,681
Total operating revenues	**2,256,204**	**2,207,604**
OPERATING EXPENSES		
Compensation and benefits	1,949,096	1,877,249
Student financial aid	147,832	151,579
Energy and utilities	73,465	78,084
Travel	54,996	52,945
Supplies and general expense	565,528	557,070
Depreciation and amortization expense	150,707	146,888
Total operating expenses	**2,941,624**	**2,863,815**
Total operating loss	**(685,420)**	**(656,211)**
NONOPERATING REVENUES (EXPENSES)		
State appropriations	545,330	535,021
Grants, contracts, and other	104,976	113,373
Investment income	32,543	23,694
Gifts	112,079	109,144
Interest expense	(31,668)	(34,520)
Net nonoperating revenues	**763,260**	**746,712**
Income before other revenues, expenses, gains, or losses	**77,840**	**90,501**
Capital appropriations	14,844	26,794
Capital gifts and grants	12,970	20,870
Additions to permanent endowments	2	240
Total other revenues	**27,816**	**47,904**
Increase in net position	**105,656**	**138,405**
Net position, beginning of year	**3,605,629**	**3,591,188**
Adjustment per change in accounting principle	–	(123,964)
Net position, beginning of year, as restated	**–**	**3,467,224**
Net position, end of year	**$ 3,711,285**	**$ 3,605,629**

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

Indiana University Foundation

Statement of Activities
Year Ended June 30, 2016
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Other Revenue				
Contributions	$ 2,279	$ 105,380	$ 83,228	**$ 190,887**
Investment income (loss), net	643	43,596	(126,996)	**(82,757)**
Management/administrative fees	18,860	(15,753)	(39)	**3,068**
Grants	-	1,780	-	**1,780**
Other income	8,603	4,388	1,337	**14,328**
Development service fees from the University	4,923	-	-	**4,923**
Change in value of split interest agreements	(193)	(112)	(2,396)	**(2,701)**
Net assets released from restrictions	151,289	(146,734)	(4,555)	**-**
Total support and other revenue	186,404	(7,455)	(49,421)	**129,528**
Expenses				
Grants and aid to the University	140,173	-	-	**140,173**
Management and general	27,626	-	-	**27,626**
Fundraising	22,457	-	-	**22,457**
Total expenses	190,256	-	-	**190,256**
Change in net assets	(3,852)	(7,455)	(49,421)	**(60,728)**
Net assets, beginning of year	54,614	839,191	1,292,171	**2,185,976**
Net assets, end of year	$ 50,762	$ 831,736	$ 1,242,750	**$ 2,125,248**

See notes to financial statements.

Statement of Cash Flows

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2016	*June 30, 2015*
CASH FLOWS FROM OPERATING ACTIVITIES		
Student fees	$ 1,160,481	$ 1,118,299
Grants and contracts	449,814	443,412
Sales and services of educational activities	42,670	38,731
Auxiliary enterprise charges	326,954	318,090
Other operating receipts	264,015	287,649
Payments to employees	(1,945,497)	(1,903,833)
Payments to suppliers	(671,415)	(686,639)
Student financial aid	(147,475)	(150,639)
Student loans collected	11,716	11,996
Student loans issued	(10,260)	(11,034)
Net cash used in operating activities	**(518,997)**	**(533,968)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	554,930	525,421
Nonoperating grants and contracts	104,976	113,374
Gifts and grants received for other than capital purposes	111,897	109,060
Direct lending receipts	532,963	553,208
Direct lending payments	(533,914)	(552,189)
Net cash provided by noncapital financing activities	**770,852**	**748,874**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	14,844	26,794
Capital grants and gifts received	6,211	22,158
Purchase of capital assets	(304,465)	(231,211)
Proceeds from issuance of capital debt, including refunding activity	30,595	184,238
Principal payments on capital debt	(61,987)	(59,104)
Principal paid on capital leases	(9,330)	(1,268)
Interest paid on capital debt and leases	(47,222)	(57,101)
Net cash used in capital and related financing activities	**(371,354)**	**(115,494)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	5,593,697	4,484,685
Investment income	46,348	41,347
Purchase of Investments	(5,566,907)	(4,547,830)
Net cash provided (used) by investing activities	**73,138**	**(21,798)**
Net increase (decrease) in cash and cash equivalents	**(46,361)**	**77,614**
Cash and cash equivalents, beginning of year	391,568	313,954
Cash and cash equivalents, end of year	**$ 345,207**	**$ 391,568**

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

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2016	*June 30, 2015*
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (685,420)	$ (656,211)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	150,707	146,888
Loss on disposal of capital assets	8,567	2,157
Changes in assets and liabilities:		
Accounts receivable	8,485	(4,988)
Inventories	578	1,359
Other assets	424	(2,278)
Notes receivable	217	(296)
Accounts payable and accrued liabilities	6,783	2,781
Unearned revenue	(12,249)	(22,839)
Assets held in custody for others	496	1,499
Other noncurrent liabilities	8,126	8,827
Net pension liability and related deferreds	(5,711)	(10,867)
Net cash used in operating activities	**$ (518,997)**	**$ (533,968)**

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

Note 1—Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

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

The IU Foundation is a not-for-profit organization that reports under FASB standards, including FASB Statement Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. 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 $136,856,000 and $151,624,000 to the university during fiscal years 2016 and 2015, 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 university administrative officers, by virtue of their titles, serve as directors and officers of IUBC. The sole purpose of IUBC is to assist the university in the financing and development of university facilities by owning and leasing such facilities to the university on a lease-purchase basis.

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

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

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

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

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

DEFERRED OUTFLOWS OF RESOURCES: In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources represent the consumption of resources that are applicable to a future reporting period, but do not require a further exchange of goods or services. The university's total deferred outflows of resources were $67,186,000 and $41,280,000 as of fiscal years 2016 and 2015, respectively. The portion of deferred outflows of resources related to the accumulated deferred charges on refundings of capital debt was

$23,893,000 and $22,862,000 in fiscal years 2016 and 2015, respectively. The portion of deferred outflows of resources related to the university's net pension liability was $43,293,000 and $18,418,000 in fiscal years 2016 and 2015, respectively.

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

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

DEFERRED INFLOWS OF RESOURCES: In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources represent the acquisition of resources that are applicable to a future reporting period, but do not require a further exchange of goods or services. Deferred inflows of resources related to the university's net pension liability was $19,743,000 and $30,286,000 in fiscal years 2016 and 2015, respectively.

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

- *Net investment in capital assets:* This component of net position includes capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction, or improvement of those assets.
- *Restricted—nonexpendable:* Assets included in the nonexpendable restricted net position category are subject to externally imposed stipulations that the principal is to be main tained in perpetuity and invested for the purpose of producing present and future income, which may be either expended or added to principal. Such assets include permanent endowment funds.
- *Restricted—expendable:* Resources classified as restricted and expendable are those for which the university is legally obligated to spend in accordance with externally imposed stipulations, or those stipulations that expire with the passage of time.
- *Unrestricted:* Unrestricted resources are not subject to externally imposed restrictions and are primarily used for meeting expenses for academic and general operations of the university.

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

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

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

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

NEW ACCOUNTING PRONOUNCEMENTS:
Adoption of New Standard – As of June 30, 2016, the university retrospectively applied GASB Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

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

Reclassifications have been made to deferred inflows of resources and deferred outflows of resources related to the net pension liability to reflect the university's gross, rather than net, deferred balances of the plan.

Note 2—Deposits and Investments

CUSTODIAL CREDIT RISK – DEPOSITS:
The combined bank balances of the university's demand deposits were $95,351,000 and $52,555,000 with balances subject to custodial credit risk in the amount of $35,167,000 and $6,429,000 at June 30, 2016 and 2015, respectively. Of this amount, $736,000 and $796,000 was uninsured and uncollateralized and $34,431,000 and $5,633,000 was uninsured and collateralized with securities held by the pledging financial institution at June 30, 2016 and 2015, respectively. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk, however the university monitors the credit rating and certain financial performance metrics of its custodial and commercial banks on a quarterly basis.

DEPOSITS AND 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, 2016 and 2015, the university had deposits and investments, including endowment funds, as shown below:

(dollar amounts presented in thousands)

	June 30, 2016	*June 30, 2015*
Cash and cash equivalents	$ 345,207	$ 391,568
Short-term investments	136,187	130,989
Investments	1,587,596	1,632,897
Total	**$ 2,068,990**	**$ 2,155,454**

CUSTODIAL CREDIT RISK – DEPOSITS AND INVESTMENTS: The custodial credit risk for deposits and 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 deposits and investments that are allowed by investment policy. The university also monitors the credit rating and certain financial performance metrics of its custodial and commercial banks. The university had $1,606,000 and $1,281,000 exposed to custodial credit risk at June 30, 2016 and 2015, respectively. The university had $14,483,000 and $21,053,000 where custodial credit risk could not be determined at June 30, 2016 and 2015, respectively. The remainder of the university's deposits and investments is not exposed to custodial credit risk and reflects either investment securities registered in the name of the university, investment securities loaned for collateral received, or other types of deposits and 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 a deposit or 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 deposits and investments with the following maturities at June 30, 2016:

(dollar amounts presented in thousands)

	Fair Value	*Maturities (in years)*			
Deposit and Investment Type	*June 30, 2016*	*Less than 1*	*1–5*	*6-10*	*More than 10*
Deposits and investments with maturity date					
Corporate bonds	$ 674,102	$ 217,171	$ 315,177	$ 84,828	$ 56,926
Asset-backed securities	368,437	5,276	127,112	48,511	187,538
Government bonds	320,090	15,966	151,644	84,824	67,656
Government issued asset-backed securities	87,275	75	11,718	16,354	59,128
Money market funds	67,957	67,957	–	–	–
Fixed income funds	28,626	28,626	–	–	–
Other fixed income	34,436	4,909	26,006	680	2,841
Total deposits and investments with maturity date	**1,580,923**	**339,980**	**631,657**	**235,197**	**374,089**
Deposits and investments with undetermined maturity date					
External investment pools	218,309	218,309	–	–	–
Money market funds	158,199	158,199	–	–	–
Government issued asset-backed securities	27,607	27,607	–	–	–
All other	83,952	83,952	–	–	–
Total deposits and investments with undetermined maturity date	**488,067**	**488,067**	–	–	–
Total	**$ 2,068,990**	**$ 828,047**	**$ 631,657**	**$ 235,197**	**$ 374,089**

The university had deposits and investments with the following maturities at June 30, 2015:

(dollar amounts presented in thousands)

Deposit and Investment Type	*Fair Value June 30, 2015*	*Maturities (in years)* Less than 1	*1–5*	*6-10*	*More than 10*
Deposits and investments with maturity date					
Corporate bonds	$ 604,065	$ 87,777	$ 363,697	$ 91,923	$ 60,668
Asset-backed securities	391,639	1,092	127,361	45,304	217,882
Government bonds	274,960	47,719	104,205	80,426	42,610
Government issued asset-backed securities	76,907	115	8,292	9,874	58,626
Other fixed income	68,642	15,899	43,119	5,754	3,870
Total deposits and investments with maturity date	**1,416,213**	**152,602**	**646,674**	**233,281**	**383,656**
Deposits and investments with undetermined maturity date					
External investment pools	359,384	359,384	–	–	–
Money market funds	240,120	240,120	–	–	–
Fixed income funds	126,375	126,375	–	–	–
All other	13,362	13,362	–	–	–
Total deposits and investments with undetermined maturity date	**739,241**	**739,241**	–	–	–
Total	**$ 2,155,454**	**$ 891,843**	**$ 646,674**	**$ 233,281**	**$ 383,656**

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, 2016 and 2015, university deposits and investments had debt securities with associated credit ratings as shown below:

(dollar amounts presented in thousands)

Credit Quality Rating	*Fair Value June 30, 2016*	*Percentage of Total Pool*	*Fair Value June 30, 2015*	*Percentage of Total Pool*
AAA	$ 258,108	12.48%	$ 248,615	11.53%
AA	355,068	17.16%	401,442	18.62%
A	221,722	10.72%	239,866	11.13%
BBB	234,695	11.34%	275,152	12.77%
BB	106,563	5.15%	97,368	4.52%
Below BB	248,229	12.00%	108,933	5.05%
Not rated	644,605	31.15%	784,078	36.38%
Total	**$ 2,068,990**	**100.00%**	**$ 2,155,454**	**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 deposits and 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 deposits and investments. The university's policy for controlling exposure to foreign currency risk is to constrain deposits and investments in non-U.S. dollar denominated debt to 25% of an individual manager's portfolio or as specified in each manager's guidelines. Minimal foreign currency exposure could occur if one of the university's investment managers purchases non-U.S. dollar holdings and does not hedge the currency. At June 30, 2016 and 2015, the university had immaterial amounts of deposits and investments 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 dated November 14, 2005, 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 deposits or investments, exclusive of the IU Foundation's investment funds. The spending policy of the trustees is to distribute 4.58% of the twelve quarter rolling average of pooled fund values. This rate will be reduced next year 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 better suited to IU Foundation's longer time horizon, including but not limited to: stocks, bonds, real estate, private placements, and alternative investments. Endowment assets may be invested in pooled funds, 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, 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, 2016, all endowments held with the IU Foundation were invested in pooled funds. The Pooled Long-Term portfolio is diversified based on manager selection, investment style, and asset type to avoid any disproportionate risk related to any one industry or security.

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

The PSTF deposits and investments are managed to address appropriate diversification, specifically to mitigate interest rate risk and protect the fund against a concentration of credit risk. The IU Foundation's PSTF policy limits commercial paper, Certificates of Deposit, Bankers' Acceptances, and Repurchase Agreements to $10,000,000 per issuer with the exception of U.S. Treasuries and Agencies, or accounts collateralized by Treasuries or Agencies. In addition, individual funds or managers such as money market funds and short-term bond funds, are not to exceed $50,000,000 or 15% of the portfolio.

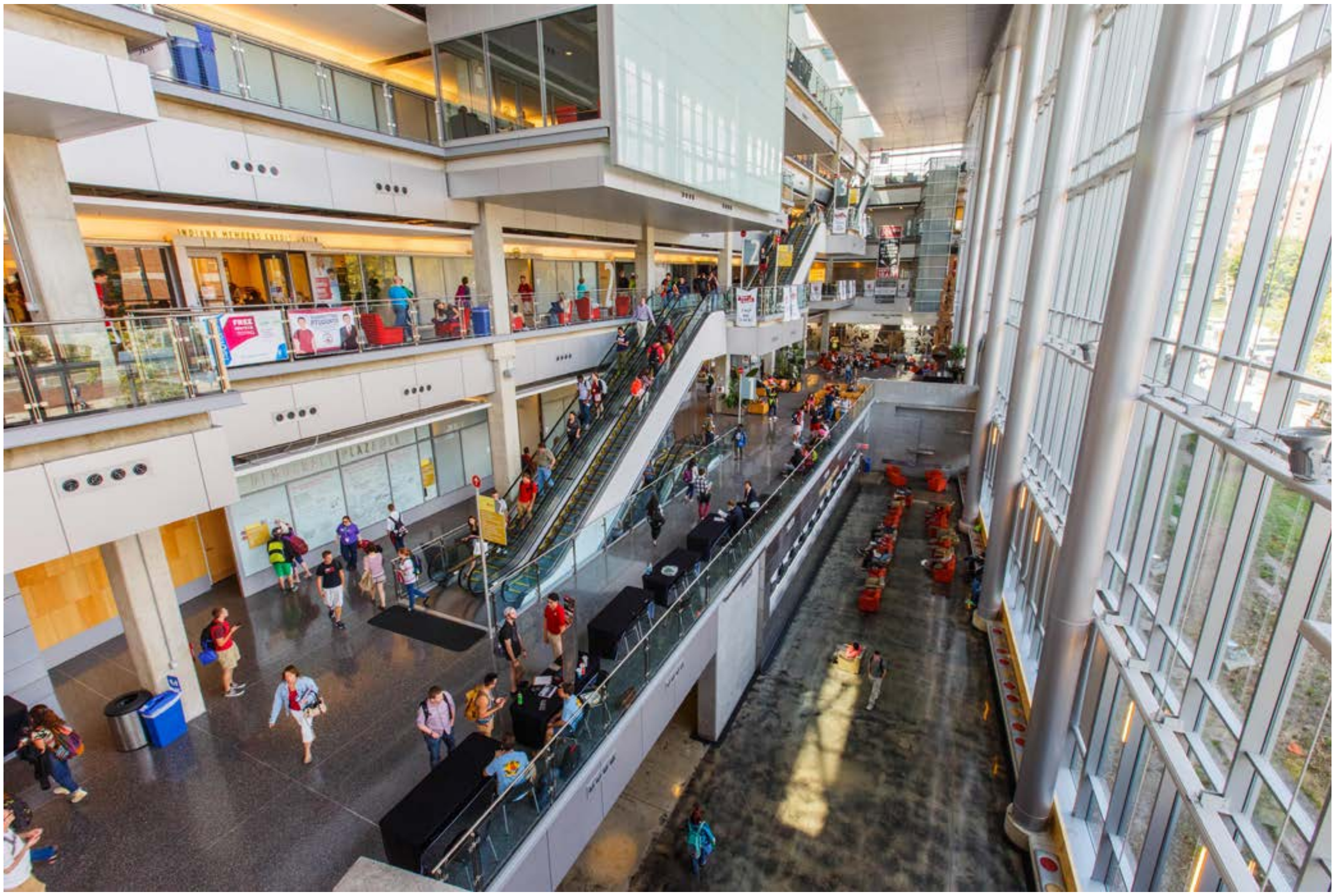
Note 3—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2016 and 2015:

(dollar amounts presented in thousands)

	June 30, 2016	*June 30, 2015*
Student accounts	$ 44,337	$ 43,648
Auxiliary enterprises and other operating activities	59,686	71,016
State appropriations	–	9,600
Federal, state, and other grants and contracts	21,417	19,009
Capital appropriations and gifts	1,723	–
Other	8,940	9,214
Current accounts receivable, gross	**136,103**	**152,487**
Less allowance for uncollectible accounts	(9,517)	(9,265)
Current accounts receivable, net	**$ 126,586**	**$ 143,222**

Campus Center, Indianapolis



Note 4—Fair Value Measurements

The university categorizes its fair value measurements within the fair value hierarchy as established by GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. The university had the following recurring fair value measurements as of June 30, 2016:

(dollar amounts presented in thousands)

		Fair Value Measurements Using		
	June 30, 2016	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Investments by fair value level:				
Debt securities				
Corporate bonds	$ 541,716	$ –	$ 539,679	$ 2,037
Collateralized obligations and mortgage-backed securities	486,943	–	480,938	6,005
Government bonds	295,844	–	292,810	3,034
Inflation index linked notes	48,321	–	48,321	–
Municipal and provincial bonds	10,216	–	10,216	–
Bank loans	9,195	–	9,195	–
Total debt securities	**1,392,235**	**–**	**1,381,159**	**11,076**
External investment pool	218,309	–	–	218,309
Real estate	2,245	–	2,245	–
All other	6,087	–	6,087	–
Total investments by fair value level	**1,618,876**	**$ –**	**$ 1,389,491**	**$ 229,385**
Investments measured at the net asset value (NAV):				
Commingled bond fund	103,303			
Venture capital	1,604			
Total investments measured at the NAV	**104,907**			
Total investments measured at fair value	**$ 1,723,783**			

The university had the following recurring fair value measurements as of June 30, 2015:

(dollar amounts presented in thousands)

		Fair Value Measurements Using		
	June 30, 2015	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Investments by fair value level:				
Debt securities				
Corporate bonds	$ 587,291	$ –	$ 585,947	$ 1,344
Collateralized obligations and mortgage-backed securities	504,151	35,721	459,018	9,412
Government bonds	264,723	–	261,205	3,518
Inflation index linked notes	38,715	–	38,715	–
Bank loans	17,013	–	17,013	–
Municipal and provincial bonds	3,801	–	3,801	–
Total debt securities	**1,415,694**	**35,721**	**1,365,699**	**14,274**
External investment pool	240,120	–	–	240,120
Real estate	1,025	–	–	1,025
All other	5,770	–	5,719	51
Total investments by fair value level	**1,662,609**	**$ 35,721**	**$ 1,371,418**	**$ 255,470**
Investments measured at the net asset value (NAV):				
Commingled bond fund	98,964			
Venture capital	2,313			
Total investments measured at the NAV	**101,277**			
Total investments measured at fair value	**$ 1,763,886**			

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The university's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Debt securities classified in level 1 at June 30, 2015, are valued using prices quoted in active markets for those securities. The fair value of debt securities at June 30, 2016 and 2015, was determined primarily based on level 2 inputs. The university estimates the fair value of these investments using observable market-based inputs. Observable inputs are those that market participants would use in pricing the asset based on market data obtained from independent sources such as quoted market prices, reported sales of similar securities, and reference data.

The fair value of debt securities at level 3 as of June 30, 2016 and 2015, was determined using extrapolated data, proprietary models, indicative quotes, or similar techniques taking into account the characteristics of the asset.

The fair value of external investment pools at June 30, 2016 and 2015, was determined primarily based on level 3 inputs. A monthly valuation assigned to the shares of the pool is used to determine the fair value of the investment pools. A significant portion of the investment pool, $208,808,000 and $230,672,000 respectively at June 30, 2016 and 2015, was held at the IU Foundation. The fair value hierarchy of the foundation's investments can be found in Note 18, Excerpts from IU Foundation Notes to Financial Statements.

The university holds several parcels of real estate for investment purposes. The fair value at June 30, 2015, was based on historic appraisals of these properties. The fair value of these properties was adjusted at June 30, 2016, to match that of appraisals received in June 2016. The appraisals changed the leveling of the real estate from a level 3 to a level 2.

The fair value of all other investments at June 30, 2016 and 2015, was determined primarily based on level 2 inputs. The university estimates the fair value of these investments using observable market-based inputs.

The university holds shares or interests in commingled bond funds where the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment company as a practical expedient. The commingled bond fund's investment objective is to invest primarily in a portfolio of higher-yielding fixed income securities. There are no unfunded commitments and the investment can be redeemed with a written three-day notice.

The university holds shares or interests in a venture capital investment company where the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment company as a practical expedient. The company invests in venture capital firms with the objective that 60% of these are in Indiana and 60% are in the life sciences field. The unfunded commitment was $70,000 and $106,000 as of June 30, 2016 and 2015, respectively. This investment cannot be redeemed until the fourteenth anniversary of the first closing date which occurs in 2017.

The view from the Sample Gates, the main entrance to the Bloomington campus, looking west down Kirkwood Avenue toward the city center.

Note 5—Capital Assets

Fiscal year ended June 30, 2016

(dollar amounts presented in thousands)

	Balance June 30, 2015	*Additions*	*Transfers*	*Retirements*	*Balance June 30, 2016*
Assets not being depreciated:					
Land	$ 70,826	$ 6,583	$ –	$ –	$ 77,409
Art & museum objects	82,124	7,531	–	417	89,238
Construction in progress	143,365	170,869	(89,515)	383	224,336
Total capital assets not being depreciated	296,315	184,983	(89,515)	800	390,983
Other capital assets:					
Infrastructure	205,457	17,833	2,404	4	225,690
Intangibles	11,777	552	–	–	12,329
Land improvements	68,653	5,016	993	–	74,662
Equipment	429,971	28,759	6,651	29,889	435,492
Library books	212,934	10,877	–	22,425	201,386
Buildings	3,722,365	75,028	79,467	6,794	3,870,066
Total other capital assets	4,651,157	138,065	89,515	59,112	4,819,625
Less accumulated depreciation for:					
Infrastructure	149,951	4,426	–	4	154,373
Intangibles	6,056	1,561	–	–	7,617
Land improvements	21,725	3,705	–	–	25,430
Equipment	313,635	33,997	–	28,537	319,095
Library books	114,924	20,716	–	22,424	113,216
Buildings	1,525,380	86,302	–	5,090	1,606,592
Total accumulated depreciation, other capital assets	2,131,671	150,707	–	56,055	2,226,323
Capital assets, net	**$ 2,815,801**	**$ 172,341**	**$ –**	**$ 3,857**	**$ 2,984,285**

Fiscal year ended June 30, 2015

(dollar amounts presented in thousands)

	Balance June 30, 2014	*Additions*	*Transfers*	*Retirements*	*Balance June 30, 2015*
Assets not being depreciated:					
Land	$ 68,341	$ 2,485	$ –	$ –	$ 70,826
Art & museum objects	80,175	1,949	–	–	82,124
Construction in progress	87,106	102,737	(46,472)	6	143,365
Total capital assets not being depreciated	235,622	107,171	(46,472)	6	296,315
Other capital assets:					
Infrastructure	184,854	18,028	2,575	–	205,457
Intangibles	11,591	633	–	447	11,777
Land improvements	57,196	10,530	930	3	68,653
Equipment	435,547	21,232	3,180	29,988	429,971
Library books	217,800	15,545	–	20,411	212,934
Buildings	3,624,767	68,415	39,787	10,604	3,722,365
Total other capital assets	4,531,755	134,383	46,472	61,453	4,651,157
Less accumulated depreciation for:					
Infrastructure	136,647	13,304	–	–	149,951
Intangibles	4,369	1,867	–	180	6,056
Land improvements	18,415	3,310	–	–	21,725
Equipment	317,580	22,605	–	26,550	313,635
Library books	113,801	21,534	–	20,411	114,924
Buildings	1,446,670	84,268	–	5,558	1,525,380
Total accumulated depreciation, other capital assets	2,037,482	146,888	–	52,699	2,131,671
Capital assets, net	**$ 2,729,895**	**$ 94,666**	**$ –**	**$ 8,760**	**$ 2,815,801**

Note 6—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2016 and 2015:

(dollar amounts presented in thousands)

	June 30, 2016	*June 30, 2015*
Accrued payroll	$ 29,139	$ 25,562
Accrual for compensated absences	43,231	44,916
Interest payable	8,334	11,726
Vendor and other payables	176,549	139,001
Total accounts payable and accrued liabilities	**$ 257,253**	**$ 221,205**

Vendor and other payables include a liability to Indiana Public Retirement System (INPRS) paid in August of 2016. See Note 12, Retirement Plans for details.

Note 7—Other Liabilities

Other liability activity for the fiscal years ended June 30, 2016 and 2015, is summarized as follows:

Fiscal year ended June 30, 2016

(dollar amounts presented in thousands)

	Balance June 30, 2015	*Additions*	*Reductions*	*Balance June 30, 2016*	*Current*
Bonds, notes, and capital leases payable	$ 1,062,621	$ 36,476	$ 71,773	$ 1,027,324	$ 75,933
Other liabilities:					
Unearned revenue	124,280	–	12,249	112,031	83,440
Assets held in custody for others	79,847	354	–	80,201	496
Compensated absences	68,572	20,358	16,885	72,045	43,231
Other	40,425	5,070	1,318	44,177	–
Net pension liability	101,229	33,336	36,286	98,279	–
Total	414,353	59,118	66,738	406,733	127,167
Total other liabilities	**$ 1,476,974**	**$ 95,594**	**$ 138,511**	**$ 1,434,057**	**$ 203,100**

Fiscal year ended June 30, 2015

(dollar amounts presented in thousands)

	Balance June 30, 2014	*Additions*	*Reductions*	*Balance June 30, 2015*	*Current*
Bonds, notes, and capital leases payable	$ 947,519	$ 188,824	$ 73,722	$ 1,062,621	$ 71,345
Other liabilities:					
Unearned revenue	147,120	–	22,840	124,280	91,777
Assets held in custody for others	78,227	1,620	–	79,847	639
Compensated absences	66,424	20,280	18,132	68,572	44,916
Other	38,875	3,890	2,340	40,425	–
Net pension liability	–	155,224	53,995	101,229	–
Total	330,646	181,014	97,307	414,353	137,332
Total other liabilities	**$ 1,278,165**	**$ 369,838**	**$ 171,029**	**$ 1,476,974**	**$ 208,677**

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. At June 30, 2016 and 2015, the university had serial bonds, term bonds, and capital appreciation bonds outstanding with maturities that extend to June 1, 2042. The university has both tax-exempt and taxable bonds outstanding.

The total outstanding bonds and notes payable at June 30, 2016 and 2015, were $1,023,907,000 and $1,059,786,000, respectively. This indebtedness included principal outstanding at June 30, 2016 and 2015, for bonds issued under Indiana Code (IC) 21-34-6 as student fee debt (“Student Fee Bonds”) of $391,995,000 and $431,651,000, respectively, and under IC 21-35-3 as consolidated revenue bonds of

$431,860,000 and $426,605,000, respectively. This indebtedness also included principal outstanding at June 30, 2016 and 2015, for notes issued under IC 21-33-3-5 as lease-purchase obligations (LPOs) or certificates of participation (COPs), collectively "Obligations", of $107,050,000 and $110,585,000, respectively. Total bonds and notes payable at June 30, 2016 and 2015, have an additional accreted value of outstanding Student Fee Bonds issued as capital appreciation bonds of $5,773,000 and $8,236,000, respectively, which is not in the principal or face value. The calculation of total bonds and notes payable at June 30, 2016 and 2015, includes the addition of bond premium outstanding of $93,002,000 and $90,945,000, respectively. As of June 30, 2016, debt service payments to maturity total $1,314,339,000, of which $444,494,000 is from bonds eligible for fee replacement appropriations.

On a biennial basis, the Indiana General Assembly authorizes a specific state appropriation to the university for the purpose of reimbursing a portion of the debt service payments on bonds issued under IC 21-34-6 for certain academic facilities. Such academic facilities include classrooms, libraries, laboratories, and other academic support facilities as designated by the Indiana General Assembly. These specific state appropriations are referred to as "fee replacement" appropriations and are received from the State of Indiana on a semi-annual basis. This appropriation is renewed and supplemented on a biennial basis because state statutes prohibit a sitting General Assembly from binding subsequent General Assemblies with respect to future appropriation of funds. In the 40 plus years of making fee replacement appropriations, the State has never failed to fully fund or otherwise provide for a fee replacement obligation established by a prior General Assembly. The outstanding principal balances which are eligible for fee replacement appropriations as of June 30, 2016 and 2015, are $345,139,000 and $380,217,000, respectively.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CABs). A CAB is a long-term municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity. At maturity, the investor receives both the initial principal amount and the total investment return. CABs are typically sold at a deeply discounted price and are distinct from traditional zero coupon bonds because the investment return is considered to be in the form of compounded interest rather than accreted original issue discount. Total debt service payments to maturity as of June 30, 2016 and 2015, include CAB payments of $7,960,000 and $11,940,000, respectively, of which $450,000 and $675,000 are eligible for fee replacement appropriations, respectively.

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

The Indiana University Building Corporation (IUBC) is an affiliated single-purpose Indiana not-for-profit corporation that was formed by the Trustees of Indiana University in 2008. Its sole purpose 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. The Obligations are included in the outstanding indebtedness table under IC 21-33-3-5 and are classified as notes payable.

(dollar amounts presented in thousands)

Bonding Authority	*Interest Rates*	*Final Maturity Year Ended*	*Principal Outstanding At June 30, 2016*	*Principal Outstanding At June 30, 2015*
Indiana Code 21-34-6 (Bonds: Student Fee Bonds)	1.05 to 6.40%	2035	$ 391,995	$ 431,651
Indiana Code 21-35-3 (Bonds: Consolidated Revenue Bonds)	1.50 to 5.64%	2042	431,860	426,605
Indiana Code 21-33-3-5 (Notes: Obligations – Lease Purchase Obligations and Certificates of Participation)	2.00 to 5.95%	2037	107,050	110,585
Subtotal bonds and notes payable			930,905	968,841
Add unamortized bond premium			93,002	90,945
Total bonds and notes payable			**$ 1,023,907**	**$ 1,059,786**

As of June 30, 2016, the university did not have any variable rate bonds, notes, or commercial paper outstanding. The principal and interest requirements to maturity for bonds and notes payable are as follows:

(dollar amounts presented in thousands)

Fiscal Year Ended June 30	*Bond Principal*	*Note Principal*	*Total Principal*	*Bond Interest*	*Note Interest*	*Total Interest*	*Total Debt Service Payments*
2017	$ 61,659	$ 4,205	$ 65,864	$ 40,079	$ 4,700	$ 44,779	$ 110,643
2018	64,451	4,965	69,416	37,563	4,542	42,105	111,521
2019	58,635	5,150	63,785	31,756	4,343	36,099	99,884
2020	54,135	5,330	59,465	29,439	4,145	33,584	93,049
2021	55,475	5,555	61,030	27,033	3,908	30,941	91,971
2022–2026	231,595	28,755	260,350	100,795	15,563	116,358	376,708
2027–2031	174,855	31,745	206,600	47,370	8,217	55,587	262,187
2032–2036	88,965	20,830	109,795	17,664	2,128	19,792	129,587
2037–2041	31,490	515	32,005	4,074	11	4,085	36,090
2042–2046	2,595	–	2,595	104	–	104	2,699
Total	**$ 823,855**	**$ 107,050**	**$ 930,905**	**$ 335,877**	**$ 47,557**	**$ 383,434**	**$ 1,314,339**

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

In prior years, the university has defeased several bond issues 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 or cash have been deposited in irrevocable trusts as required to defease the bonds. The defeased bonds and the related trusts balances are not reflected within principal outstanding, total debt service, or the university's liabilities.

As of June 30, 2016, the previously defeased bonds held in escrow have the following amounts of principal redeemed:

(dollar amounts presented in thousands)

Defeased Bonds (Refunded)	*Principal Redeemed*	*Call Date*
Student Fee Bonds, Series Q	$ 20,270	8/1/2016
Student Fee Bonds, Series R	33,570	8/1/2016
Student Fee Bonds, Series S	50,165	8/1/2018
Consolidated Revenue Bonds, Series 2008A	113,360	6/1/2018
Consolidated Revenue Bonds, Series 2009A	42,965	6/1/2019
Consolidated Revenue Bonds, Series 2011A	5,375	6/1/2020
Total defeased bonds	**$ 265,705**	

In February 2009, the United States Congress enacted the *American Recovery and Reinvestment Act of 2009* (ARRA). ARRA allowed certain tax advantages to state and local governmental entities when such entities issued qualifying taxable obligations, referred to as Build America Bonds (BABs). While the BAB provisions in ARRA expired as of January 1, 2011, the obligation of the U.S. Treasury to make subsidy payments on BABs will remain in effect through the final maturity date of BABs. Although issuers of BABs were eligible to receive subsidy payments from the U.S. Treasury equal to 35% of the corresponding interest payable on the related BABs, subsidies paid after February 28, 2013, were cut due to the federal sequestration. Through June 30, 2016, BABs subsidies for Student Fee Bonds, Series T-2; Consolidated Revenue Bonds, Series 2010B; and Certificates of Participation, Series 2009B combined were reduced by $641,000, which was less than $200,000 per fiscal year that has been affected. Total federal interest subsidies as scheduled at issuance to be received over the life of the BABs debt outstanding as of June 30, 2016, were $24,490,000. BABs subsidies paid between October 1, 2016, and September 30, 2017, are scheduled to be reduced by 6.90% due to the federal sequestration, as compared to 6.80% in the prior year. For fiscal year ending June 30, 2017, the total expected subsidy reductions due to the sequestration is $174,000, which is subject to changes enacted by Congress at subsequent dates.

On April 5, 2016, the university issued fixed rate Consolidated Revenue Bonds, Series 2016A with a par amount of $93,070,000, which included new money bonds of $26,720,000 and refunding bonds of $66,350,000. The purpose of the issue was to provide financing for the Wells Quad Renovation on the Bloomington campus. The proceeds were also used to pay costs to issue the bonds, including underwriters' discount. The proceeds also partially refunded Consolidated Revenue Bonds, Series 2008A; Consolidated Revenue Bonds, Series 2009A; and Consolidated Revenue Bonds, Series 2011A. The refunding portion of the transaction generated a net present value savings of $8,646,000, which was 12.53% of refunded par bonds. The all-in true interest cost for the bonds is 3.00%.

Note 9—Lease Obligations

The university has acquired equipment under various lease-purchase contracts and other capital lease agreements. The cost of equipment held under capital leases totaled $5,751,000 and $5,494,000 as of June 30, 2016 and 2015, respectively. Accumulated amortization of leased equipment totaled $2,098,000 and $2,167,000 at June 30, 2016 and 2015, respectively.

The university entered into agreements for the right to use certain infrastructure assets for a given period of time. The cost of the leased infrastructure assets totaled $8,100,000 with accumulated depreciation of $217,000 as of June 30, 2016.

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

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

(dollar amounts presented in thousands)

	Capital	*Operating*
2017	$ 1,190	$ 11,963
2018	1,018	5,543
2019	831	4,965
2020	487	3,673
2021	201	3,366
2022-2026	–	8,510
2027-2029	–	391
Total future minimum payments	3,727	$ 38,411
Less: interest	(310)	
Total principal payments outstanding	**$ 3,417**	

Northside campus entrance, Bloomington

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 $127,000 and $1,225,000 for health professions and nursing loan programs for fiscal years ended June 30, 2016 and 2015, respectively.

Liabilities at June 30, 2016 and 2015, for loan programs were as follows:

(dollar amounts presented in thousands)

	June 30, 2016	*June 30, 2015*
Current portion of assets held in custody for others	$ 496	$ 639
Noncurrent liabilities:		
Federal share of interest	46,164	44,750
Perkins loans	15,450	15,906
Health professions loans	16,006	16,582
Nursing loans	2,085	1,970
Total noncurrent portion of assets held in custody for others	79,705	79,208
Total assets held in custody for others	**$ 80,201**	**$ 79,847**

The Federal Perkins Loan program is set to expire on September 30, 2017. Barring any subsequent renewal of the program, Perkins federal funds will be required to be repaid over successive future periods.

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

The university has four health care plans for full-time appointed employees, one of which is also available to retirees not eligible for Medicare. All of the employee plans are self-funded. The university records a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans. This liability is estimated to be no more than 15% of the paid self-funded claims during the fiscal year, and totals $29,866,000 and $28,637,000 at June 30, 2016 and 2015, respectively. In addition, a potential claims fluctuation liability of $9,876,000 has been recorded at June 30, 2016 and 2015.

Changes in the balances of accrued insurance liabilities were as follows:

(dollar amounts presented in thousands)

Fiscal Year	*Beginning Balance*	*Claims Incurred*	*Claims Paid*	*Ending Balance*
2016	$ 28,637	$ 212,588	$ 211,359	$ 29,866
2015	25,969	206,801	204,133	28,637

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

The university also provides health care plans for international students, graduate assistants, fellowship recipients, and medical residents. These plans consist of fully insured and self-funded plans, along with a stop/loss provision. The university has recorded a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans in the amount of $2,614,000 at June 30, 2016 and 2015. Funding for the medical residents plan is provided by direct charge to the School of Medicine and the other plans are funded by direct charges to the associated schools and/or departments.

Note 12—Retirement Plans

The university provided retirement plan coverage to 18,929 and 18,382 active employees as of June 30, 2016 and 2015, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

RETIREMENT AND SAVINGS PLAN

All Support and Service employees with at least a 50% full-time equivalent (FTE) appointment and Temporary with Retirement employees scheduled to work at least 1,000 hours or more in a calendar year hired on or after July 1, 2013, participate in the Retirement and Savings Plan. This is a defined contribution plan under IRC 401(a). The university contributed $2,567,000 during fiscal year ended June 30, 2016, and $1,749,000 during fiscal year ended June 30, 2015, to TIAA-CREF for the plan.

The university contributed $444,000 during fiscal year ended June 30, 2016, and $342,000 during fiscal year ended June 30, 2015, to Fidelity Investments for the plan. Under this plan, 1,759 and 1,266 employees directed university contributions to TIAA-CREF as of June 30, 2016 and 2015, respectively. In addition, 317 and 240 directed university contributions to Fidelity Investments as of June 30, 2016 and 2015, respectively.

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). The university contributed $59,803,000 during fiscal year ended June 30, 2016, and $59,627,000 during fiscal year ended June 30, 2015, to TIAA-CREF for the IU Retirement Plan. The university contributed $39,408,000 during fiscal year ended June 30, 2016, and $34,502,000 during fiscal year ended June 30, 2015, to Fidelity Investments for the IU Retirement Plan. Under this plan, 7,194 and 7,245 employees directed university contributions to TIAA-CREF as of June 30, 2016 and 2015, respectively. In addition, 6,786 and 6,188 employees directed university contributions to Fidelity Investments as of June 30, 2016 and 2015, respectively.

In addition to the above, the university provides early retirement benefits to full-time appointed academic and professional staff employees who were in positions Grade 16 and above on or before June 30, 1999. There were 901 and 935 active employees on June 30, 2016 and 2015, 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 $1,951,000 and $1,796,000 to IUSERP during fiscal years ended June 30, 2016 and 2015, 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, 2016, the university made total payments of $27,507,000 to 285 individuals receiving IU 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2015, the university made total payments of $30,269,000 to 295 individuals receiving IU 18/20 Retirement Plan payments.

IU REPLACEMENT RETIREMENT PLAN FUNDING POLICY AND ANNUAL PENSION COST

The university has established an early retirement plan for eligible employees to accommodate IRS requirements and as authorized by the trustees. This plan is called the IU Replacement Retirement Plan. It is a single-employer plan and is qualified under IRC Section 401(a), with normal benefits payable for the participants' lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. There were 79 and 84 employees eligible to participate as of June 30, 2016 and 2015, respectively. University contributions related to this plan totaled $1,061,000 and $1,134,000, for fiscal years ended June 30, 2016 and 2015, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution. As of June 30, 2016 and 2015, the net pension liability was $4,829,000 and $4,719,000, respectively.

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 cost-sharing, multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. Support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment hired prior to July 1, 2013, participate in the PERF plan. There were 3,715 and 4,238 active university employees covered by this retirement plan as of June 30, 2016 and 2015, 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. Contributions to PERF are determined by INPRS Board of Trustees in accordance with IC 5-10.2-2-11 and are based on actuarial investigation and valuation. Per IC 5-10.2-4-4, key elements of the pension formula include years of PERF creditable service multiplied by average annual compensation multiplied by 1.1%, resulting in an annual lifetime benefit. Cost of living adjustments for members in pay status are not guaranteed by statute, but may be granted by the Indiana General Assembly on an ad hoc basis. Refunds of employee contributions are included in total benefit payments. Participants must have at least ten years of PERF creditable service to have a vested right to the pension benefit. The annuity savings account consists of contributions set by state statute at 3.0% of compensation plus the earnings credited to members' accounts. Participants are 100% vested from inception in the annuity savings account. The university has elected to make the contributions for annuity savings account on behalf of the members. INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The financial report and corresponding fiduciary net position is prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations. Investments of the pension plan are valued as follows: Pooled and non-pooled investments are reported at fair value. Short-term investments are reported at cost. Fixed income and equity securities are valued based on published market prices, quotations from national security exchanges or using modeling techniques that approximate a fair value for securities that are not traded on a national exchange. Alternative investments are valued based on quoted market prices or using estimates of fair value in the absence of readily determinable public market values. Derivative instruments are marked to market daily. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 1-888-286-3544, or by reviewing the Annual Report online at www.in.gov/inprs/annualreports.htm.

Required and actual contributions made by the university totaled $19,712,000 and $21,503,000 for fiscal years ended June 30, 2016 and 2015, respectively. This represented an 11.2% university pension benefit contribution for fiscal years ended June 30, 2016 and 2015, and a 3.0% university contribution for the annuity savings account provisions each year.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

Indiana Public Employees' Retirement Fund. At June 30, 2016, the University reported a liability of $98,279,000 for its proportionate share of the net pension liability, as compared to $101,229,000 for the year ended June 30, 2015. Effective July 1, 2015, Indiana Code 5-10.2-2-21 was amended concerning pensions. The legislation imposed a requirement on employers that stopped enrolling new employees in the fund to make a payment in an amount necessary to fund the employer's share of the unfunded liability attributable to the earned benefit of the employer's PERF covered employees. At June 30, 2016, the university's net pension liability of $134,565,000 at the measurement date was reduced by $36,286,000 which reflects the payment of the obligation related to Indiana Code 5-10.2-2-21. A payment of $3,630,000 was made during the 2016 fiscal year, with the remaining balance of $32,656,000 reflected in accounts payable. The June 30, 2016, net pension liability of $134,565,000 at the measurement date was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, which used update procedures to roll forward the estimated liability to June 30, 2015. The university's proportion of the net pension liability was based on wages reported by the university relative to the collective wages of the plan. This basis measures the proportionate relationship of an employer to all employers and is consistent with the manner in which contributions to the pension plan are determined. At June 30, 2015, the university's proportion was 3.30%, a decrease of 0.55 percentage points from its proportion measured as of June 30, 2014, which was 3.85%. Pension expense of the university as of June 30, 2016 and 2015, was $17,689,000 and $10,636,000, respectively.

At June 30, 2016, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(dollar amounts presented in thousands)

PERF		
	Deferred Outflows of Resources	*Deferred Inflows of Resources*
Differences between expected and actual experience	$ 5,776	$ 278
Changes of assumptions	11,375	–
Net difference between projected and actual earnings on pension plan investments	10,034	–
Changes in proportion and differences between university contributions and proportionate share of contributions	563	19,465
University contributions subsequent to the measurement date	15,545	–
Total	**$ 43,293**	**$ 19,743**

Deferred outflows of resources in the amount of $15,545,000 related to pensions resulting from university contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

At June 30, 2015, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(dollar amounts presented in thousands)

PERF		
	Deferred Outflows of Resources	*Deferred Inflows of Resources*
Differences between expected and actual experience	$ –	$ 454
Changes of assumptions	–	–
Net difference between projected and actual earnings on pension plan investments	–	19,673
Changes in proportion and differences between university contributions and proportionate share of contributions	788	10,159
University contributions subsequent to the measurement date	17,630	–
Total	**$ 18,418**	**$ 30,286**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(dollar amounts presented in thousands)

Fiscal Year Ended June 30, 2016	*PERF*
2016	$ (733)
2017	(733)
2018	(866)
2019	(5,672)
2020	–
Thereafter	–

Actuarial Assumptions. The total pension liability as of June 30, 2015, and June 30, 2014, based on the results of actuarial valuation dates of June 30, 2014, and June 30, 2013, and rolled forward, respectively, were determined using the following actuarial assumptions, which were applied to all periods included in the measurement:

PERF		
	Measurement date as of June 30, 2015	*Measurement date as of June 30, 2014*
Cost of living	1.0%	1.0%
Inflation	2.25%, average	3.0%, average
Future salary increases	0.25% to 2.0%	0.25% to 1.5%
Investment rate of return	6.75%, net of pension plan investment expense	6.75%, net of pension plan investment expense
Mortality rates	Based on RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Tables	Based on the 2013 IRS Static Mortality Table

The actuarial assumptions used in the valuations of June 30, 2015, were adopted by the Indiana Public Retirement System Board pursuant to the experience studies completed in April 2015, which reflected the experience period from July 1, 2010, through June 30, 2014. The valuations of June 30, 2015, incorporate member census data as of June 30, 2014, adjusted for certain activity during fiscal year 2015. Standard actuarial techniques were used to roll forward valuation results over one year.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PERF				
	Measurement date as of June 30, 2015		*Measurement date as of June 30, 2014*	
	Target Allocation	*Long-Term Expected Real Rate of Return*	*Target Allocation*	*Long-Term Expected Real Rate of Return*
Public equity	22.5%	5.3%	22.5%	6.0%
Private equity	10.0%	5.6%	10.0%	7.7%
Fixed income – ex inflation-linked[1]	22.0%	2.1%	22.0%	2.1%
Fixed income – inflation-linked	10.0%	0.7%	10.0%	0.5%
Commodities	8.0%	2.0%	8.0%	2.5%
Real estate	7.5%	3.0%	7.5%	3.9%
Absolute return	10.0%	3.9%	10.0%	1.8%
Risk parity	10.0%	5.0%	10.0%	4.3%
Total	**100.0%**		**100.0%**	

[1] *Includes cash & cash equivalents*

Discount rate. The discount rate used to measure the total pension liability was 6.75% for PERF at June 30, 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the university's proportionate share of the PERF net pension liability. The following table presents the university's proportionate share of the PERF net pension liability using the discount rate of 6.75% for both years, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

(dollar amounts presented in thousands)

	PERF		
Sensitivity of net pension liability	*1% Decrease (5.75%)*	*Current Discount Rate (6.75%)*	*1% Increase (7.75%)*
June 30, 2016	$ 198,496	$ 134,565	$ 81,492
June 30, 2015	162,506	101,229	49,310

Pension Plan Fiduciary Net Position. Detailed information about the pension plans' fiduciary net position is available in the separately issued INPRS financial report.

PAYABLE TO THE PENSION PLAN

The university reported a payable of $1,339,000 at June 30, 2016, and $1,281,000 at June 30, 2015, for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2016 and 2015, respectively.

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 ("trustees"). The university provides medical care coverage to individuals with retiree status and their eligible dependents. The cost of the coverage is borne fully by the individual. However, retiree medical care coverage is implicitly more expensive than active-employee coverage, which creates an implicit rate subsidy. The university provides retiree life insurance benefits in the amount of $6,000 to terminated employees with retiree status. The health and life insurance plans have been established and may be amended under the authority of the trustees. The Plan does not issue a stand-alone financial report. Reflected in this note are benefits related to early retirement incentive plans, approved by executive management in fiscal year 2011 and 2014, which include five years of annual contributions to a health reimbursement account.

FUNDING POLICY

The contribution requirements of plan members and the university are established and may be amended by the trustees. The university contribution to the 18/20 Plan and retiree life insurance is based on pay-as-you-go financing requirements. Plan members do not make contributions. The medical plans are self-funded and each plan's premiums are updated annually based on actual claims. Retirees receiving medical benefits paid $2,301,000 and $2,024,000 in premiums in the fiscal years ended June 30, 2016 and 2015, respectively. The university contributed $48,546,000 and $51,266,000 to the consolidated OPEB Plan in fiscal years ended June 30, 2016 and 2015, respectively.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

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

The following table shows the university's annual OPEB cost for the year, the amount actually contributed to the plan, and the university's net OPEB obligation as provided by the actuarial results for the fiscal years ended June 30, 2016 and 2015, respectively:

(dollar amounts presented in thousands)

	Fiscal Year Ended	
	June 30, 2016	*June 30, 2015*
Annual OPEB cost	$ 51,514	$ 55,156
Less employer contributions	(48,546)	(51,266)
Increase in OPEB obligation	2,968	3,890
Net OPEB obligation, beginning of year	33,597	29,707
Net OPEB obligation, end of year	**$ 36,565**	**$ 33,597**
Percentage of annual OPEB cost contributed	**94.24%**	**92.95%**

FUNDED STATUS AND FUNDING PROGRESS
The funding progress of the plan as of the most recent and preceding valuation date are as follows:

(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
July 1, 2015	–	$ 294,446	$ 294,446	0.0%	$ 1,135,294	25.9%
July 1, 2014	–	336,524	336,524	0.0%	1,073,719	31.3%

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

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

The projected unit credit cost method was used in the actuarial valuation of June 30, 2016. The actuarial assumptions include a 4.5% investment rate of return, which is a blended rate of (1) the expected long-term investment returns on plan assets and (2) the university's investments which is calculated based on the funded level of the Plan at June 30, 2016; and an annual healthcare cost trend rate that ranges from 9.0% in fiscal year 2017 to 5.0% in fiscal year 2025. The rate includes a 3.0% inflation assumption. The Unfunded Actuarial Accrued Liability is being amortized over 25 years using level dollar amounts on an open group basis.

Note 14—Related Organization

The university is a major beneficiary of the Riley Children's Foundation, of which a majority of the board of directors is appointed by, or serve by virtue of position with, Indiana University. Riley Children's Foundation net assets were $337,715,000 and $351,210,000 at June 30, 2016 and 2015, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Note 15—Functional Expenses

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

Fiscal year ended June 30, 2016

(dollar amounts presented in thousands)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 941,720	$ 583	$ 118,239	$ 12,460	–	$ 20,968	$ 1,093,970
Research	159,080	7	83,295	2,672	–	5,958	251,012
Public service	71,848	339	54,170	2,542	–	3,746	132,645
Academic support	315,320	169	101,451	3,032	–	8,326	428,298
Student services	81,811	11	23,651	2,729	–	2,734	110,936
Institutional support	87,801	44	44,574	60	–	1,549	134,028
Physical plant	97,583	69,373	66,107	–	–	380	233,443
Scholarships & fellowships	12,522	–	1,016	118,246	–	98	131,882
Auxiliary enterprises	181,411	2,939	73,025	6,091	–	11,237	274,703
Depreciation	–	–	–	–	150,707	–	150,707
Total operating expenses	**$ 1,949,096**	**$ 73,465**	**$ 565,528**	**$ 147,832**	**$ 150,707**	**$ 54,996**	**$ 2,941,624**

Fiscal year ended June 30, 2015

(dollar amounts presented in thousands)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 909,112	$ 839	$ 101,977	$ 11,982	–	$ 20,921	$ 1,044,831
Research	151,376	30	76,858	2,487	–	6,065	236,816
Public service	76,497	365	55,072	2,877	–	3,961	138,772
Academic support	296,301	47	90,768	3,094	–	8,195	398,405
Student services	76,524	11	26,313	1,956	–	2,281	107,085
Institutional support	86,539	58	41,934	53	–	1,396	129,980
Physical plant	94,908	73,290	72,444	3	–	401	241,046
Scholarships & fellowships	11,988	–	1,150	123,277	–	94	136,509
Auxiliary enterprises	174,004	3,444	90,554	5,850	–	9,631	283,483
Depreciation	–	–	–	–	146,888	–	146,888
Total operating expenses	**$ 1,877,249**	**$ 78,084**	**$ 557,070**	**$ 151,579**	**$ 146,888**	**$ 52,945**	**$ 2,863,815**

Note 16—Commitments and Loss Contingencies

The university had outstanding commitments for capital construction projects of $153,195,000 and $238,257,000 at June 30, 2016 and 2015, respectively.

Note 17—Subsequent Event

On August 4, 2016, the university issued fixed rate Student Fee Bonds Series X with a par amount of $71,710,000, which included new money bonds of $41,685,000 and refunding bonds of $30,025,000. The purpose of the issue was to provide financing for the Old Crescent Renovation Phase II project, which includes the renovation of Kirkwood Hall, Ernie Pyle Hall, and Swain Hall on the Bloomington campus. The proceeds were also used to pay costs to issue the bonds, including underwriters' discount. The proceeds also partially refunded Student Fee Bonds Series R and Student Fee Bonds Series U. The refunding portion of the transaction generated a net present value savings of $2,270,000, which was 7.54% of the refunded par bonds. The all-in true interest cost for the bonds is 2.26%.

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

Maxwell Hall, Bloomington

INDIANA UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS)

Note 1. Organization and Operations and Significant Accounting Policies

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

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

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

Note 3. Fair Value Measurement and Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below.

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based

on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to future circumstances that cannot be reasonably determined.
Because of the inherent uncertainty of valuation, those estimated values might be materially higher or lower than the values that would have been used had a readily available market for the securities existed.
Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for securities categorized in Level 3.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policies regarding the recognition of transfers between levels of the fair value hierarchy. During the fiscal years ended June 30, 2016 and 2015, no such transfers were made.

Investments in money market funds, mutual funds, exchange-traded funds, and securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

Preferred stock and other equities traded on inactive markets or valued by reference to similar instruments are categorized as Level 2 in the fair value hierarchy. Investments in government securities and bonds and corporate notes and debt securities which are traded on a national securities exchange or market are valued at the mean between the current "bid" and "asked" quotations on that day. If a reliable bid and asked quotation cannot be obtained from a national securities exchange, the security is priced at the mean between the bid and asked quotation of a reliable market maker. If the investments are not traded on an exchange, they are stated at cost plus accrued interest, which approximates the fair value. These financial instruments are classified as Level 2 in the fair value hierarchy.

Investments in real estate are valued by the Foundation using independent appraisals and statements provided by the management companies of the properties. These financial instruments are classified as Level 3 in the fair value hierarchy.

Net asset value (NAV): Investments in non-registered investment companies consisting of certain hedged equity funds, absolute return funds, venture capital funds, buyout funds, distressed, special situation funds, real estate funds, alternative fixed income funds, national resource funds, and public inflation funds are valued at fair value based on the applicable percentage ownership of the underlying investment entities' net assets as of the measurement date as determined by the Foundation, commonly referred to as the practical expedient. In determining fair value, the Foundation utilizes valuations provided by the underlying investment entities. The underlying investment entities value securities and other financial instruments on a fair value based upon market price, when possible, or at fair value determined by the respective entities' investment manager when no market price is determinable. Although the Foundation uses their best judgment in estimating the fair value of alternative investments, there are inherent limitations in any estimation technique. The estimated fair values of certain of the investments of the underlying investment entities, which may include derivatives, securities and other designated or side pocketed investments for which prices are not readily available, may not reflect amounts that could be realized upon immediate sale, nor amounts that may be ultimately realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments, and differences could be material.

The practical expedient allows for investments in non-registered investment companies, to be valued at the net asset value (NAV) which represents fair value. The Foundation classifies these investments using NAV within the fair value measurement table.

Charitable trusts and gift annuities: Assets received from charitable trusts and gift annuities are recorded at fair value in the unrestricted and temporarily restricted funds, respectively, until the Foundation's obligations to the annuitants have been met. The difference between the fair value of assets contributed and the split interest obligations recorded is recognized as contribution revenue. The Foundation records a split interest agreement obligation to life beneficiaries based on the present value of the estimated payments to designated life beneficiaries.

(IN THOUSANDS)

Liabilities for charitable gift annuities are recorded in an amount equal to the present value of the estimated future obligations based on mortality rates derived from ordinary life annuity tables. In computing the liability, management considers the estimated return on the invested assets and the contractual payment obligation during the expected term of each respective annuity agreement. Fair value estimates are classified as Level 3.

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	Quoted Prices for Identical Assets in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valued Using Net Asset Value **	Total
Assets					
Investments					
Domestic equities	$ 376,586	$ 12,018	$ -	$ 122,813	$ 511,417
International equities	255,311	-	-	57,266	312,577
Domestic fixed income	73,780	144,047	-	78,988	296,815
International fixed income	1,774	13,285	-	10,780	25,839
Real estate	-	-	25,452	-	25,452
Cash equivalents	28,017	1,490	-	-	29,507
Alternative investments					
Hedged equity funds	-	-	-	98,493	98,493
Absolute return funds	-	-	-	253,399	253,399
Venture capital	-	-	-	141,908	141,908
Buyouts	-	-	-	112,539	112,539
Distressed / special situations	-	-	-	39,457	39,457
Real estate	-	-	-	75,914	75,914
Alternative fixed income	-	-	-	44,811	44,811
Natural resources	-	-	-	102,245	102,245
Public inflation hedge	-	-	-	29,622	29,622
	$ 735,468	$ 170,840	$ 25,452	$ 1,168,235	$ 2,099,995
Liabilities					
Split interest agreement obligations	$ -	$ -	$ 33,172	$ -	$ 33,172

INDIANA UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS)

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	Quoted Prices for Identical Assets in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valued Using Net Asset Value **	Total
Assets					
Investments					
Domestic equities	$ 391,789	$ 13,442	$ -	$ 141,273	$ 546,504
International equities	279,049	-	-	-	279,049
Domestic fixed income	16,640	167,108	-	88,447	272,195
International fixed income	2,825	36,858	-	10,321	50,004
Real estate	-	-	21,842	-	21,842
Cash equivalents	22,828	-	-	-	22,828
Alternative investments					
Hedged equity funds	-	-	-	135,109	135,109
Absolute return funds	-	-	-	291,201	291,201
Venture capital	-	-	-	170,977	170,977
Buyouts	-	-	-	126,997	126,997
Distressed / special situations	-	-	-	35,462	35,462
Real estate	-	-	-	76,376	76,376
Alternative fixed income	-	-	-	39,354	39,354
Natural resources	-	-	-	90,861	90,861
Public inflation hedge	-	-	-	31,786	31,786
	$ 713,131	$ 217,408	$ 21,842	$ 1,238,164	$ 2,190,545
Liabilities					
Split interest agreement obligations	$ -	$ -	$ 35,384	$ -	$ 35,384

** Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

INDIANA UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS)

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investments in financial instruments in which at least one significant unobservable input is used in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments as of June 30, 2016 and 2015:

	2016	2015
Beginning balance (real estate)	$ 21,842	$ 19,047
Realized and unrealized gains (losses)	774	1,493
Purchases	4,295	2,588
Sales and settlements	(1,459)	(1,286)
Ending balance	$ 25,452	$ 21,842

The following presents a reconciliation for the changes in the Foundation's liability for charitable remainder and annuity trusts, which is deemed a Level 3 liability:

	2016	2015
Beginning balance	$ 35,384	$ 36,441
Liability portion of charitable gifts received	1,984	784
Payments to annuitants	(3,950)	(4,308)
Change in the present value of split interest obligations	(246)	2,467
	$ 33,172	$ 35,384

The table below presents the Foundation's ability to redeem investments valued at net asset value or its equivalent as of June 30, 2016 and 2015, and includes the underlying investment entities' redemption frequency and redemption notice period. The tables also include a summary of the significant categories of such investments measured at net asset value, their attributes and investment strategies as of June 30, 2016 and 2015:

Investment Category and Strategy	2016 Fair Value	2016 Unfunded Commitments	2015 Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic equities[(a)]	$ 122,813	$ -	$ 141,273	monthly, quarterly	30-60 days
International equities[(b)]	57,266	-	-	monthly	30 days
Domestic fixed income[(c)]	78,988	-	88,447	monthly, bimonthly, quarterly	30-45 days
International fixed income[(d)]	10,780	-	10,321	monthly, bimonthly, quarterly	30-45 days
Hedge equity funds[(e)]	98,493	-	135,109	monthly, quarterly, semi-annually, annually	30-90 days
Absolute return funds[(f)]	253,399	-	291,201	monthly, quarterly, semi-annually, annually	33-95 days
Venture capital funds[(g)]	141,908	88,314	170,977	Long-term commitment ***	none
Buyout funds[(h)]	112,539	110,043	126,997	Long-term commitment ***	none
Distressed/special situation funds[(i)]	39,457	30,429	35,462	Long-term commitment ***	none
Real estate funds[(j)]	75,914	77,121	76,376	Long-term commitment ***	none
Alternative fixed income[(k)]	44,811	18,698	39,354	Long-term commitment ***	none
Natural resources funds[(l)]	102,245	84,360	90,861	Long-term commitment ***	none
Public inflation hedge[(m)]	29,622	-	31,786	monthly	10 days
	$ 1,168,235	$ 408,965	$ 1,238,164		

INDIANA UNIVERSITY FOUNDATION

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(IN THOUSANDS)

*** The nature of this investment class is that distributions are received through liquidations of the underlying assets of the underlying investment fund. These underlying funds generally hold long term liquid investments, therefore, distributions are at the discretion of the underlying fund manager.

(a) This category includes investments held in mutual funds, exchange-traded funds, partnerships, and limited liability companies located in the U.S. Redemptions range from daily to annually.

(b) This category includes investments held in mutual funds, exchange-traded funds, partnerships, and limited liability companies located in economies outside of the U.S. Redemptions range from daily to annually.

(c) This category includes investments that are primarily in both long and short term fixed income securities located in the U.S. Management of the investments has the ability to shift investments from a net long position to a net short position. There were no restricted investments as of June 30, 2016.

(d) This category includes investments that are primarily in both long and short term fixed income securities located in economies outside of the U.S. Management of the investments has the ability to shift investments from a net long position to a net short position. There were no restricted investments as of June 30, 2016.

(e) 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.

(f) 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. As of June 30, 2016, 56% of the total Marketable Alternative Investments (Hedged equity funds and Absolute return funds) could be redeemed in 0-6 months, an additional 21% could be redeemed between 7-12 months, another 17% could be redeemed between 13- 24 months, and 2% could be redeemed between 25- 36 months. The remaining 4% is designated as illiquid investments.

(g) This category includes investments that are primarily in early-stage companies in the technology and life science sectors. The nature of investments in this category is that money is distributed as underlying companies are exited via acquisition or Initial Public Offering (IPO). The typical life of a partnership is 10 years but is subject to extensions.

(h) This category includes private equity funds that invest across sectors primarily in the United States, but also internationally. The nature of investments in this category is that money is distributed as underlying companies are recapitalized or exited via acquisition or IPO. The typical life of a partnership is 10 years but is subject to extensions.

(i) This category includes investments that are focused on distressed or secondary investments. The typical life of a partnership is 10 years but is subject to extensions.

(j) This category includes investments that are primarily in U.S. commercial real estate, but also includes real estate funds focused on Europe and Asia. The real estate exposure can include both publicly traded Real Estate Investment Trust funds and private partnerships. The typical life of a partnership is 10 years but is subject to extensions.

(k) This category includes investments that are focused primarily on direct lending across the corporate and real estate sectors. The investments are structured to provide a steady stream of income to the Foundation based on floating interest rate loans. The typical life of a partnership is 5 years but is subject to extensions.

(l) This category includes investments that are focused on direct energy, mining and minerals, and timber. The typical life of a partnership is 10 years but is subject to extensions. Certain funds in this category will provide an income stream as the underlying commodity is harvested/sold.

(m) This category includes investments that are in equity and equity-related securities, commodity derivatives, fixed income obligations, and derivatives related to equity, fixed income, and commodity securities.

INDIANA UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS)

The following table summarizes the qualitative information about certain of the Foundation's Level 3 inputs as of June 30, 2016 and 2015:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges
Real estate investments, 2016	$ 25,452	Market approach	Comparable transactions	N/A
Real estate investments, 2015	$ 21,842	Market approach	Comparable transactions	N/A

A summary of total investment income (loss) for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Dividend, interest, and other investment income	$ 14,098	$ 6,632
Net realized and unrealized gains (losses) on investments	(92,480)	51,287
Outside investment management fees	(4,375)	(4,877)
	$ (82,757)	$ 53,042

Note 8. Restricted Net Assets

The income generated from restricted net assets is used in accordance with the donors' time and/or purpose restrictions. Foundation operations and University programs permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor imposed restrictions as of June 30, 2016 and 2015 are as follows:

	2016		2015	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Foundation operations	$ 8,478	$ 23,085	$ 9,434	$ 25,164
University programs:				
Awards	5,721	16,005	5,806	9,601
Capital and capital improvements	135,923	2,320	110,701	2,565
Fellowships / lectureships	24,366	90,084	23,075	97,946
General endowments	261,362	273,892	280,401	288,851
Medical practice plans	32,532	-	35,002	-
Operations	75,218	4,992	75,497	4,392
Professorships / chairs	100,710	331,979	120,439	335,316
Research	41,931	52,777	37,225	66,773
Scholarships	145,495	447,616	141,611	461,563
	$ 831,736	$ 1,242,750	$ 839,191	$ 1,292,171

INDIANA UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(IN THOUSANDS)

Note 10. Grants and Aid to the University

Program expenditures include support for Foundation and University programs. For the years ended June 30, 2016 and 2015, a summary of these expenditures is as follows:

	2016	2015
Program expenditures		
Foundation programs		
Real estate	$ 1,885	$ 3,265
Student foundation	485	471
Air services	908	1,249
Woman's programs	21	129
Miscellaneous	18	17
Total foundation programs	3,317	5,131
University grants and aid		
Grants and aid - operating support		
University support	32,437	29,270
Student scholarship and financial aid	44,247	45,746
Faculty support	27,407	23,475
Faculty research	8,859	8,232
	112,950	106,723
Grants - endowment and capital and land, building and equipment purchases	23,906	44,901
Total University grants and aid	136,856	151,624
	$ 140,173	$ 156,755

Schedule of the university's proportionate share of the net pension liability for the Indiana Public Employees' Retirement Fund (last 10 years[1]):

(dollar amounts presented in thousands)

	Measurement Date as of June 30, 2015	*Measurement Date as of June 30, 2014*
University's proportion of the net pension liability	3.30%	3.85%
University's proportionate share of the net pension liability	$134,565	$101,229
University's covered-employee payroll	$158,252	$188,067
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.03%	53.82%
Plan fiduciary net position as a percentage of the total pension liability	77.30%	84.30%

The amounts presented for each fiscal year were determined as of June 30.

Schedule of the university's contributions for the Indiana Public Employees' Retirement Fund (last 10 years[1]):

(dollar amounts presented in thousands)

	Fiscal Year 2016	*Fiscal Year 2015*
Contractually required contribution	$ 19,769	$ 21,339
Contributions in relations to the contractually required contribution	$ (19,769)	$ (21,339)
Contribution deficiency	–	–
University's covered-employee payroll	$ 139,962	$ 157,743
Contributions as a percentage of covered-employee payroll	14.12%	13.53%

The amounts presented for each fiscal year were determined as of June 30.
Changes of Benefit Terms. None
Changes of Assumptions. None

[1] *GASB Statement No. 68 requires disclosure of a 10-year schedule. The financial statement information was not available for years prior to those presented. Additional years will be included in future reports as data becomes available.*

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)*
July 1, 2015	–	$ 294,446	$ 294,446	0.0%	$ 1,135,294	25.9%
July 1, 2014	–	336,524	336,524	0.0%	1,073,719	31.3%
July 1, 2013	–	364,137	364,137	0.0%	1,042,446	34.9%

A view from North Hall, Indianapolis

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for fiscal year ended June 30, 2016

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Eastside campus entrance, Bloomington

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