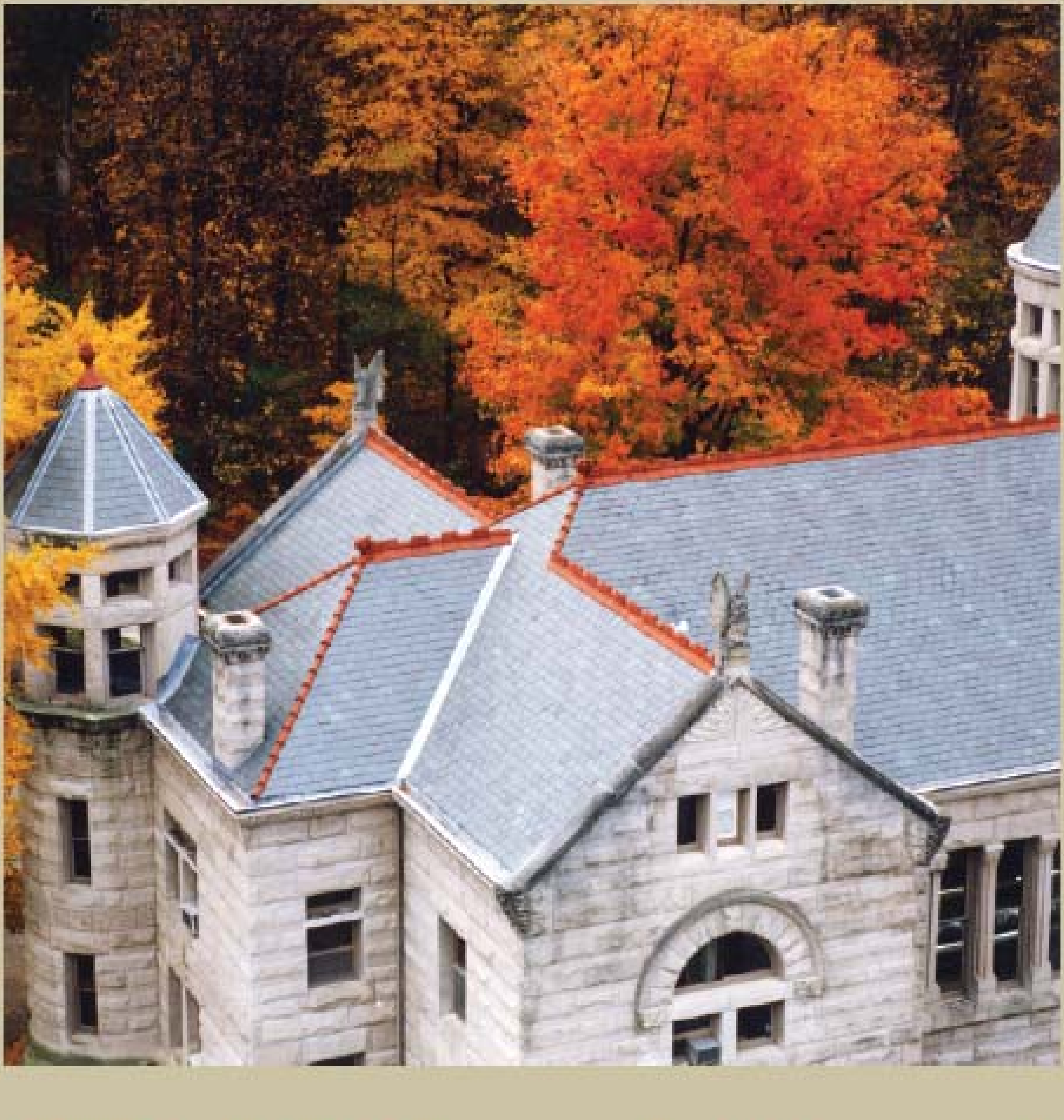
INDIANA UNIVERSITY



2012-13 Financial Report

Financial Report 2012–13

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Message from the President

Michael A. McRobbie
President, Indiana University

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

Dear Governor Pence:

On behalf of the Trustees of Indiana University, I am pleased to present to you IU's 2012-13 Financial Report.

For nearly 200 years, Indiana University and the State of Indiana have been united in a powerful partnership in which the citizens of the state have entrusted us with land, with resources, and with the education of their children. We have returned that trust by building a community of scholars who contribute in transformative and innovative ways to the prosperity and progress of the state, the nation, and the world.

It is abundantly clear that—more than ever before in history—the future of our state and nation in a global, digital, information economy depends on the quality of our higher education. At Indiana University, we continue to steadfastly embrace the enduring value of a rigorous college education, and we are taking steps that will ensure that Indiana University offers the kinds of educational opportunities that one would expect of a university that aspires to be one of the finest universities of the 21st century.

Ensuring the Quality, Value, and Affordability of an IU Education

As a public university, we have an obligation to ensure that an IU education remains accessible and affordable for qualified Hoosier students. In recent years, we have redoubled our efforts to ensure quality, value and affordability in a number of ways.

Tuition increases for this biennium are the lowest in almost half a century with the undergraduate resident tuition increase at 1.75 percent.

IU's "Finish in Four" program guarantees no tuition increases for juniors and seniors who are on track to finish their degrees on time, and the Summer Tuition program provides a 25 percent tuition discount to students taking courses over the summer sessions.

We have also increased undergraduate and graduate financial aid from $139 million in 2007 to $255 million last year—an increase of 83 percent.

We have undertaken a complete and ongoing overhaul of career and academic advising.

We have also established programs for all students in financial literacy aimed at helping ensure lower student debt and better debt management.

We have conducted a comprehensive review of the university's financial structure with a focus on consolidation and scale in administrative and student services, procurement processes, health care and capital financing, resulting in cumulative cost containment, efficiencies and avoidance totaling nearly $400 million.

We established IU Online to coordinate and manage IU's online initiatives. IU, incidentally, now has over 100 online programs, over 1,000 online courses and, by 2015, all schools expect to offer fully online graduate certificates or degrees.

We have completed fund-raising campaigns for IU Bloomington and IUPUI totaling over $2.5 billion with a major focus on student scholarships and fellowships.

We have made targeted investments in new facilities and renovations to expand and enhance IU's core academic educational strengths. And we have begun a comprehensive university-wide program of repair and rehabilitation aimed at making the most efficient and effective use of IU's physical assets.

Recognition of IU's Value

For the sixth consecutive year, Indiana University was named among the top 40 public schools on the list of "100 Best Values in Public Colleges" released by *Kiplinger's Personal Finance.* IU rose one spot from last year's list to 39th overall and ranks fourth among Big Ten universities.

More recently, *Washington Monthly* ranked IU Bloomington at 17th overall in its "Best Bang for the Buck" survey of over 1,500 universities. IU Bloomington ranks first in the survey among Big Ten universities, and fourth among members of the prestigious Association of American Universities.

Record Enrollments

Indiana University continues to attract record numbers of highly qualified students from around the state, the nation, and the world.

This fall, we enrolled a record 115,400 students across the state. Most of IU's campuses also achieved record enrollment, including a record 46,817 students in Bloomington. And on nearly every measure of quality and achievement this is also a record class across the entire university.

As these record enrollments clearly show, more than ever before, students and their families recognize the value of an Indiana University education. Nevertheless, we cannot rest on these laurels. In all the areas mentioned above and more, we must continue to redouble our efforts to ensure the continued value and affordability of an IU education.

A Leading Public Research University

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

Indiana University received nearly $452 million in grants and awards for research and other sponsored programs in fiscal year 2013. At a time when research universities are facing unprecedented financial challenges and dwindling funding opportunities, Indiana University has been able to sustain its research excellence. The breadth, depth, and quality of our research clearly signal IU's continuing status as one of the leading public research universities in the world.

Transforming Indiana University for the 21st Century

The issue of the value of an IU education and career opportunities for our graduates in the contemporary economy was a central focus of the *New Academic Directions* report of April, 2011, when it asked "is IU offering the kinds of degrees and educational opportunities that one would expect of a university that aspires to be one of the finest universities of the 21st century?"

In response to this, we have seen the most comprehensive academic restructuring in IU's history, with the establishment, merger, transformation or closure of seven schools. In the last year, we have seen the formal establishment of the Fairbanks School of Public Health at IUPUI, the School of Public Health at IU Bloomington, the Lilly Family School of Philanthropy, the School of Global and International Studies, and the inauguration of the newly configured School of Informatics and Computing, which now includes all programs previously offered by the IU's School of Library and Information Science.

I am also pleased to note that, at their October 2013 meeting, the IU Board of Trustees voted to approve the formation of a new school that will provide a nexus for IU's acclaimed programs of education and research in journalism, telecommunications, communications and culture, and film. The new IU Media School, which will officially come into existence on July 1, 2014, will be housed in the College of Arts and Sciences. The innovative new IU Media School will ensure that IU is at the forefront of teaching, research, and service about the understanding and production of media as it continues its dramatic evolution and transformation. The culmination of many years of productive discussions, it will build upon and honor the traditions of excellence IU has attained in the fields that will serve as the school's academic foundation. At the same time, it will position the university for a future in which IU is the nation's leading gateway for students seeking to master the professional skills needed to actively engage in multiple platforms of media, both traditional and emerging, and to fully understand how media affect and inform our attitudes, beliefs and values.

A Leading International University

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

Today, without question, increased international integration and global interconnectivity truly are the major forces driving and shaping our contemporary society. The need for internationally minded and diplomatically skillful citizens is greater than ever. Understanding and responding to these forces is a paramount concern for us all.

This spring, we celebrated two historic milestones in the life of Indiana University that will help address these crucial challenges and help prepare this generation and future generations to collaborate across cultures and nations and forge global solutions: the inauguration of the School of Global and International Studies within the College of Arts and Sciences, and the beginning of construction on the school's new home. The building will be financed entirely through university sources. Approximately half of the funding is coming from IU's revenues from our athletics conference's television network, the Big Ten Network. This represents, by far, the largest commitment from athletics revenue to support the core academic mission of Indiana University that has ever been made, and, one of the largest ever in the nation.

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

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

By bringing together into the new School of Global and International Studies the core of IU's extraordinary resources in global and international studies, the university stands poised to join the most eminent programs in the world in these truly vital areas. The new school will expand the opportunities for international education for all students, and offer Hoosier students even more opportunities for the global education so necessary to their future success.

Conclusion

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

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

As we approach Indiana University's bicentenary, which we will celebrate during the 2019-20 academic year, we must commit to strengthening our partnership with the State of Indiana and its citizens and to extending that partnership over the next 200 years.

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

Yours sincerely,

Michael A. McRobbie
President

Message from the Vice President, Chief Financial Officer and Treasurer

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

Dear President McRobbie and the Trustees of Indiana University:

I am very pleased to present you with the consolidated financial report for Indiana University for the fiscal year ended June 30, 2013.

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

We are at an inflection point in higher education as disruptive forces impact the market. Every aspect of higher education, from the academic delivery system to the operational financing, is being closely scrutinized. We continue to see significant headwinds across all revenue sources combined with pressures to reduce operating expenses. Indiana University takes these issues seriously, and continues to examine all aspects of its operation with heightened focus.

Despite these recent market trends, Indiana University has continued its strong financial track record and has further strengthened its balance sheet. Continued efficiencies in our operation, strong investment performance, further restructuring of our debt, and the continued generosity of our donors have resulted in continued growth of our net position—a significant indicator of financial health—by $189 million, or 5.9%.

Among the initiatives that contributed to IU's positive performance for fiscal year 2013 were:

- Limiting employee headcount growth, with FY 2013 full-time headcount ending almost flat with FY2012 headcount and down from headcount two years prior;
- Curtailing the upward trend in healthcare costs;
- Delivering procurement savings through increased focus on managed spend;
- Maximizing the efficiency of our cash;
- Optimizing investment returns; and
- Further restructuring of the debt portfolio.

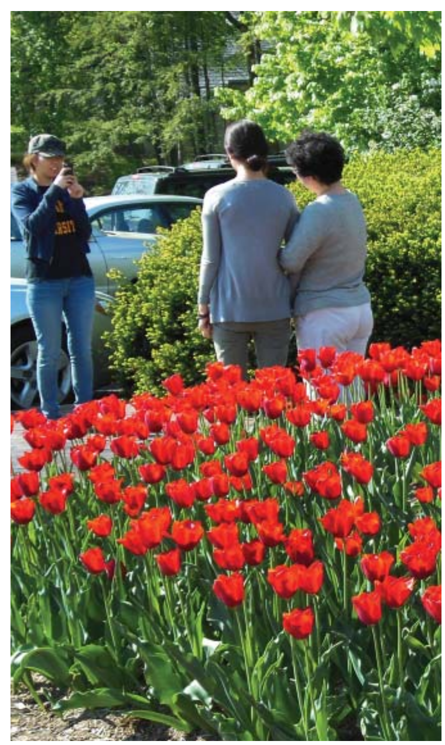
Operating Efficiency Initiatives

We recently announced a second Early Retirement Incentive Program to provide an attractive retirement package for employees who are at or near retirement age while delivering significant savings to the university.

We have also taken several steps to reduce healthcare costs, which continue to be one of most significant drivers of operating expense increases. IU partnered with IU Health to offer a same-day primary care clinic in Indianapolis to serve IU employees and dependents age 16 or older covered by an IU-sponsored medical plan. We also enhanced our high-deductible health care plan for our employees. Under this plan, the employee and the university put pre-tax money in a special savings account that can be used for current or future health care costs. Employees benefit from building tax-free balances for health care and having increased flexibility, while the university saves money because employees enrolled in the plan tend to spend more prudently.

We are also engaged in ongoing collaboration with faculty members in the new Fairbanks School of Public Health on the IUPUI campus and the School of Public Health—Bloomington to increase our focus on wellness and encourage IU employees to adopt healthy lifestyles.

Beginning in 2010, IU conducted an institution-wide review of 187 business processes in the areas of admissions, financial aid, student records, and the office of the bursar, which revealed duplication of services and



found potential for the increased use of shared resources to minimize duplication and to expand and improve services. In addition, the project recommended the adoption of "one-stop" points of service on each campus in the student service area, where customers can obtain assistance from all of the functions within student services. As we continue to refine the Student Services Initiative, our goals are to achieve standardization of processes, to identify ways we can deliver better service through the use of technology, and to develop processes that can be centralized to achieve cost efficiency without diminishing the human interaction necessary to answer student questions about grades, finances, course advising, and other operations.

In the upcoming fiscal year, we will conduct a focused review of Indiana University's auxiliary enterprises across all campuses to identify similar efficiencies through leveraging resources and standardized processes.

Student Affordability

As outlined in President Michael McRobbie's introduction to this report, we have also instituted a number of programs, including the "Finish in Four" on-time completion award and the 25% Summer Tuition Discount. The university also just delivered the lowest university-wide tuition increase for both undergraduate and graduate students in almost 40 years.

During the fiscal year the university announced and began implementation of a comprehensive student financial literacy program designed to reach students across all seven campuses through varied delivery systems – from traditional Kelley Business School credit courses, to online mandatory course work, peer counseling, and a dedicated website. In addition, we have increased our investment in people and technology to increase advising/ counseling resources and enable the development/ tracking of academic pathways to graduation. Student success remains a top priority.

Kuali Implementation

Indiana University implemented and fully transitioned to the Kuali Financial System, an open source software that was created to fit the needs of colleges and universities, in February 2013. As a result, we saved nearly $20 million by joining with other universities to reduce administrative costs for essential financial software systems.

The Kuali Financial System gives IU faculty and administration one common place to monitor and approve purchases, research grants, human resources transactions, compliance, and other administrative tasks that used too much personal interaction and paper. With the Kuali Financial System, IU will route, approve and act on more than 3 million electronic documents this year.

The Kuali Financial System is another example of Indiana University's continued mission to be on the leading edge of using technology to streamline functional operations. In addition, Kuali open source allowed us to benefit from best-in-class processing and ideas across the higher education industry.

Navigating the Future

We must continue to contain expenses while increasing top line growth to successfully navigate the future. Our current position of financial strength and the continued strong demand for an Indiana University education will allow us to take an offensive approach and we embrace these challenges as opportunities for improvement.

The results detailed in this report send a clear message that we are on solid financial ground as we continue our journey to better serve our students and the State of Indiana. I encourage you to closely examine the report and welcome your questions and ideas.

Thank you for your continued support and leadership of Indiana University.

Sincerely,

MaryFrances McCourt
Vice President, Chief Financial Officer and Treasurer

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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 accompanying financial statements of the business-type activities and aggregate discretely presented component unit of Indiana University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Indiana University Foundation, a component unit of the University as discussed in Note 1, which represents 100% of the 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 Indiana University Foundation, is based solely on the report of the other auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Indiana University as of June 30, 2013 and 2012, and the respective changes in its financial position and its cash flows, thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Message from the President, Message from the Vice President, Chief Financial Officer and Treasurer, Trustees and Administrative Officers of Indiana University, and Additional Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Message from the President, Message from the Vice President, Chief Financial Officer and Treasurer, Trustees and Administrative Officers of Indiana University, and Additional Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on this information.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013, 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 the University's internal control over financial reporting and compliance.

Bruce Hartman
State Examiner

October 23, 2013

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Indiana University (the "university") for the fiscal years ended June 30, 2013, and 2012, along with comparative financial information for fiscal year ended June 30, 2011. This discussion has been prepared to assist readers in understanding the accompanying financial statements and footnotes.

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

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

The Statement of Revenues, Expenses, and Changes in Net Position presents the total revenues earned and expenses incurred by the university during the fiscal year. This statement illustrates 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 the cash activity of the university during the year. The statement reports the major sources and uses of cash and is useful in the assessment of the university's ability to generate future net cash flow, the ability to meet obligations as they come due, and the need for external financing.

Statement of Net Position

A comparison of the university's assets, liabilities and net position at June 30, 2013, 2012, and 2011, is summarized as follows:

Condensed Statement of Net Position
(in thousands of dollars)

	June 30, 2013	*June 30, 2012*	*June 30, 2011*
Current assets	$ 635,060	$ 888,419	$ 961,001
Capital assets, net	2,695,502	2,533,362	2,422,233
Other assets	1,559,666	1,337,428	1,173,342
Total assets	**4,890,228**	**4,759,209**	**4,556,576**
Current liabilities	415,503	462,063	554,715
Noncurrent liabilities	1,084,727	1,096,472	1,042,860
Total liabilities	**1,500,230**	**1,558,535**	**1,597,575**
Net investment in capital assets	1,779,033	1,694,440	1,621,228
Restricted net position	213,279	163,304	190,939
Unrestricted net position	1,397,686	1,342,930	1,146,834
Total net position	**$ 3,389,998**	**$ 3,200,674**	**$ 2,959,001**

Assets

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

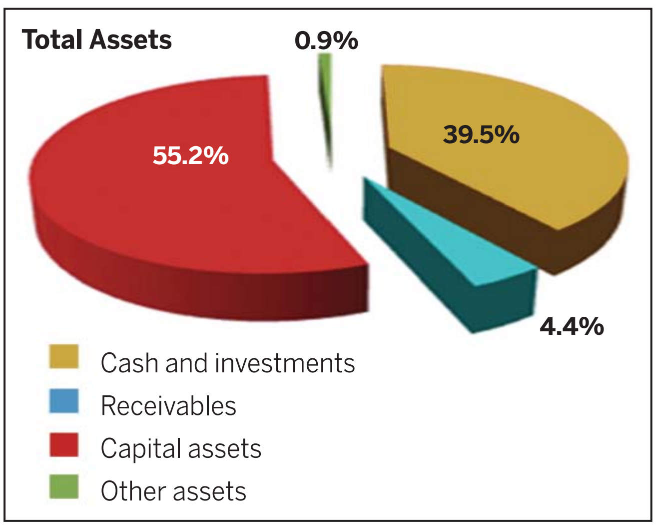
In fiscal year 2013, current assets declined $253,359,000 to $635,060,000 at June 30, 2013. This decline is primarily due to investment portfolio rebalancing to optimize yield. Spending of invested bond proceeds on capital projects also contributed to the decline in cash equivalents, resulting in a $91,182,000 net reduction of these balances compared to June 30, 2012. Current net accounts receivable increased $15,843,000, to $132,489,000 during 2013, primarily due to clinical activities and transactions related to affiliated hospitals.

Major components of noncurrent assets are endowment and operating investments, and capital assets, net of accumulated depreciation. Noncurrent notes receivable are made up of student loan balances scheduled for collection beyond the current year reported. Noncurrent assets increased $384,378,000, to $4,255,168,000 at June 30, 2013. The increase of $222,134,000 in the university's noncurrent investment portfolio, from $1,269,390,000 at June 30, 2012, to $1,491,524,000 at June 30, 2013, was largely due to operating portfolio rebalancing and unrealized gains in endowment investments. Unrealized losses in the operating portfolio partially offset the increase.

As detailed in the Capital Assets section of Management's Discussion and Analysis, the university continues to invest actively in its campus master plans for capital improvements. The university's facilities are an essential element in sustaining and enhancing the mission of the university, contributing importantly to research and education, as well as the student life experience.

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

Total Assets (in thousands of dollars)		
Cash and investments	$ 1,933,856	39.5%
Receivables	215,047	4.4%
Capital assets	2,695,502	55.2%
Other assets	45,823	0.9%
Total assets	**$ 4,890,228**	**100.0%**



Liabilities

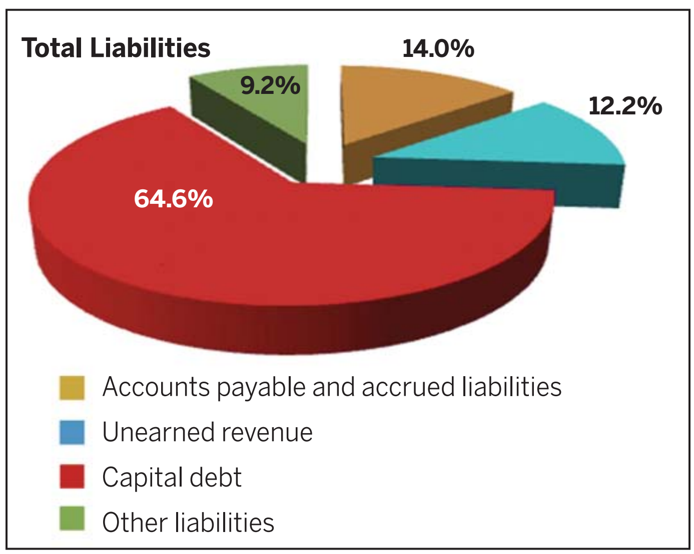
Current liabilities are those that are expected to become due and are payable over the course of the next fiscal year. Current liabilities consist of accounts payable, accrued compensation and compensated absences, unearned revenue, the current portion of long-term debt, and the current portion of capital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

During fiscal year 2013, current liabilities decreased $46,560,000 to $415,503,000. Unearned revenue is comprised of receipts for which recognition of the related revenue will be recognized in future periods.Unearned revenue consists primarily of summer session student fees and funds received in advance of expenditures on sponsored projects. The decrease of $32,839,000 in current unearned revenue is due to spending related to capital and other grants for which receipts were received in advance of related expenditures.

The university's capital debt outstanding of $969,233,000 at June 30, 2013, and $984,456,000 at June 30, 2012, represents 64.6% and 63.2% of total liabilities. A discussion of the university's capital financing activities appears in Note 7, Bonds and Notes Payable, Note 8, Lease Obligations, and in the Debt and Financing activity section below.

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

Total Liabilities (in thousands of dollars)		
Accounts payable and accrued liabilities	$ 210,378	14.0%
Unearned revenue	182,029	12.2%
Capital debt	969,233	64.6%
Other liabilities	138,590	9.2%
Total liabilities	**$ 1,500,230**	**100.0%**



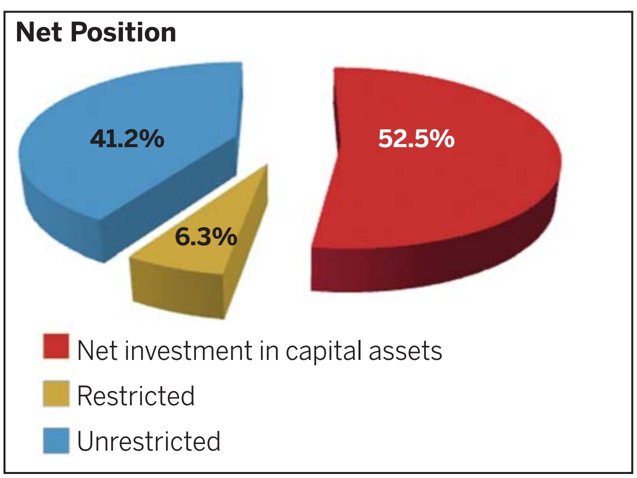
Net Position

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

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

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

Total Net Position *(in thousands of dollars)*		
Net investment in capital assets	$ 1,779,033	52.5%
Restricted	213,279	6.3%
Unrestricted	1,397,686	41.2%
Total net position	**$ 3,389,998**	**100.0%**



Net position in total increased $189,324,000, or 5.9%, at June 30, 2013, compared to June 30, 2012.

The $84,593,000 increase in the university's net investment in capital assets reflects the institutional investment in physical facilities and infrastructure net of related capital debt. Growth in this area is managed according to the university's long-range capital plans.

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 by $54,756,000 in 2013. This category of resources is essential for ongoing operational needs, as well as providing flexibility to support the university's mission in changing economic environments.

Statement of Revenues, Expenses, and Changes in Net Position

Revenues and expenses are classified as either operating or nonoperating. 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. Nonoperating revenues include state appropriations, gifts, and investment income. Operating expenses are those incurred to carry out the normal operations of the university. As a public university, Indiana University is required by GASB standards to report certain revenue sources that are an integral part of operations as nonoperating revenues.

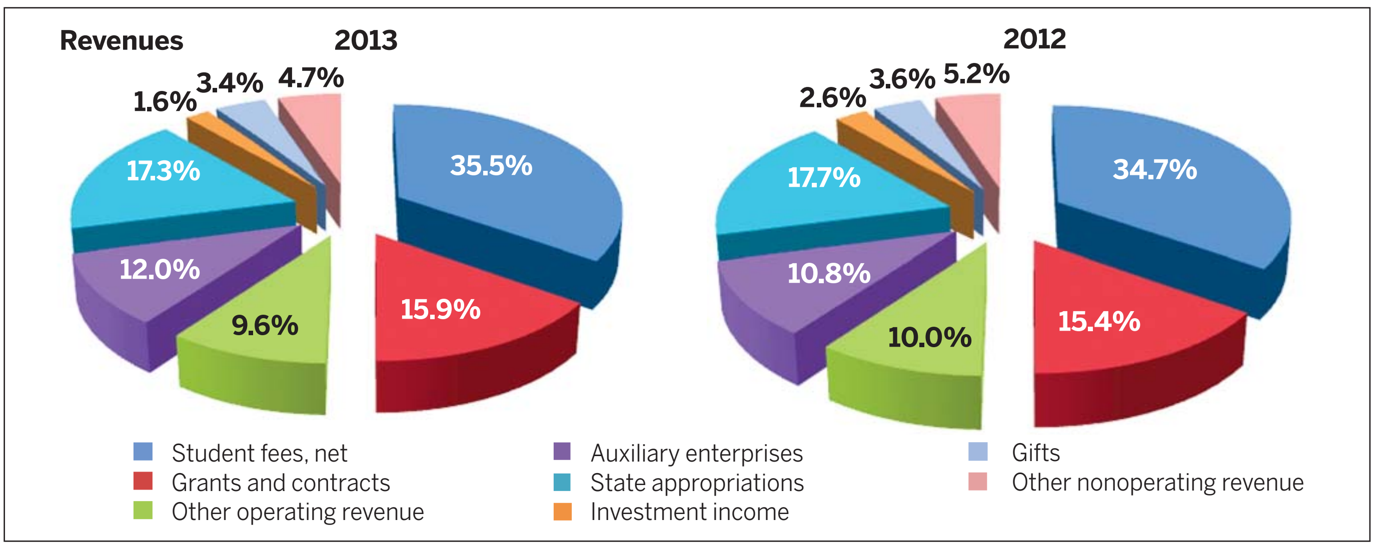
Total revenues increased $29,695,000, or 1%, to $2,941,595,000 in fiscal year 2013 compared to fiscal year 2012. Total expenses increased $82,044,000, or 3.1%, to $2,752,271,000 in fiscal year 2013 compared to fiscal year 2012.

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, 2013	*June 30, 2012*	*June 30, 2011*
Operating revenues	$ 2,146,736	$ 2,065,918	$ 2,003,416
Operating expenses	(2,721,541)	(2,639,127)	(2,579,131)
Total operating loss	(574,805)	(573,209)	(575,715)
Nonoperating revenues	772,775	811,550	864,410
Nonoperating expenses	(30,730)	(31,100)	(33,155)
Income before other revenues, expenses, gains and losses	167,240	207,241	255,540
Other revenues	22,084	34,432	26,594
Increase in net position	**189,324**	**241,673**	**282,134**
Net position, beginning of year	3,200,674	2,959,001	2,676,867
Net position, end of year	**$ 3,389,998**	**$ 3,200,674**	**$ 2,959,001**

The following charts represent revenues by major source for fiscal years 2013 and 2012:



Total operating revenues increased by $80,818,000, or 3.9%, from $2,065,918,000 in fiscal year 2012 to $2,146,736,000 in fiscal year 2013. The university supports its operations with diverse revenue sources. The largest single source of operating revenue is student tuition and fees. Tuition and fees, net of scholarship allowances, increased $32,549,000, or 3.2% over the prior fiscal year. Tuition and fee revenue is influenced by tuition rate increases, along with enrollment change and changes in the mix of student levels and residency. The university implemented a repair and rehabilitation fee beginning in 2012, which accounted for a $12,516,000 increase in total tuition and fee revenue in 2013. The university recognized total revenue of $466,828,000 for research and other sponsored programs, as IU faculty continue to compete successfully with researchers and scholars worldwide. Reflecting a national trend in constrained federal funding sources, federal grants and contracts revenue declined $18,684,000, or 5.7% from the prior year. Nongovernmental grants and contracts revenue of $139,802,000 represents an increase of $37,845,000 over fiscal year 2012. The increase is attributable to a combination of natural variability in the awarding of foundation and not-for-profit agency grants, along with recognition of previously unearned revenue.

Total operating expenses increased by $82,414,000, or 3.1%, from $2,639,127,000 in fiscal year 2012 to $2,721,541,000 in fiscal year 2013. The combined total of scholarship allowances and student financial aid expense increased by $8,977,000, or 2.5%, as the university continued to focus on student affordability and access to education. Effective July 1, 2012, the Federal Pell Grant Program reduced eligibility for Pell grants to no more than twelve semesters, resulting in a decline in federal financial aid of $3,201,000 compared to fiscal year 2012. Compensation and benefits, at 65.5% of total operating expenses, represent the largest single university expense. Compensation and benefits expense increased $37,364,000 over the prior year, or 2.1%, to $1,781,973,000. The university is taking a measured approach to providing benefits that attract and retain employees, with specific initiatives to reduce benefit program expenses. For example, all new employees are covered by a defined contribution retirement plan, with lower employer contributions than existing defined benefit plans. In addition, the university promotes a High Deductible Health Plan (HDHP) with much lower employer premiums. Approximately 70% of employees were enrolled in an HDHP in fiscal year 2013. The university continues to realize reductions in the number of staff positions as the Indiana University School of Medicine transitions clinical activities to Indiana University Health Partners (IUHP). The shift is part of a restructuring plan to achieve efficiencies and enhance and align collaboration between the university and IUHP.

Nonoperating revenues, net of expenses, declined $38,405,000, or 4.9%, to $742,045,000 in fiscal year 2013. Fiscal year 2013 is the second year of the state's biennial budget cycle, and as such, operating appropriations are unchanged from fiscal year 2012. Fee replacement appropriations are made for the purpose of reimbursing a portion of debt service for certain academic facilities. These funds are claimed according to the university's fee replacement-supported debt service schedules, and those claims declined by $5,776,000 compared to fiscal year 2012. Investment income declined from $74,637,000 in fiscal year 2012 to $47,668,000 in fiscal year 2013 primarily due to an increase in operating portfolio unrealized losses, partially offset by an increase in endowment unrealized gains.

Capital appropriations in fiscal year 2012 reflected spending of federal fiscal stabilization funds authorized by the American Recovery and Reinvestment Act of 2009. Spending of these funds was completed in fiscal year 2012. Capital grants received during the year include funding for projects for the Kelley School of Business and for the Jacobs School of Music on the Bloomington campus.

Statement of Cash Flows

The Statement of Cash Flows provides information about the university's financial results by reporting the major sources and uses of cash during the fiscal year. The statement assists in evaluating the university's ability to generate future net cash flows to meet its obligations as they become due and aids in determining the need for external financing. The statement is divided into four sections based on major activity: operating, noncapital financing, capital and related financing, and investing. A fifth section reconciles the operating income or loss on the Statement of Revenues, Expenses, and Changes in Net 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, 2013	*June 30, 2012*	*June 30, 2011*
Net cash provided (used) by:			
Operating activities	$ (476,724)	$ (446,436)	$ (417,254)
Noncapital financing activities	723,772	750,452	763,296
Capital and related financing activities	(336,521)	(166,036)	(303,733)
Investing activities	(220,405)	(72,943)	(133,492)
Net increase (decrease) in cash and cash equivalents	(309,878)	65,037	(91,183)
Beginning cash and cash equivalents	645,147	580,110	671,293
Ending cash and cash equivalents	**$ 335,269**	**$ 645,147**	**$ 580,110**

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

Capital Asset Activity

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

The university's investment in capital assets, which include land, art and museum objects, infrastructure, equipment, and buildings, increased $162,140,000 over June 30, 2012. Additions to capital assets represent new construction, repairs and renovation, as well as major investments in equipment and information technology. Construction in progress includes academic building projects, major student residence hall improvements, and construction for research facilities.

The Rose Avenue Residence Hall, housing students beginning in August 2013, is a new 155,000 square foot complex located on the Bloomington campus. The residence hall complex consists of 450 beds comprised of a variety of room styles, including double and single occupancy units. The complex embodies the university's commitment to bring the academic life into student living environments. The residence hall offers common spaces, lounges, academic classrooms, fitness facilities, a cafe, and computer labs. The project was completed at a cost of $36,000,000.

The Bart Kaufman Baseball Field and Andy Mohr Softball Field Complex was completed in March 2013, creating important new venues for the intercollegiate baseball and softball teams. The facilities are named in honor of major gifts to Indiana University Athletics from Bart Kaufman and Andy Mohr. The complex is part of a new generation of state-of-the-art resources for student athletes, with a synthetic turf field for baseball, a natural grass field for softball, and indoor/outdoor batting cages. Enhanced fan amenities include ample parking, entry plaza, concessions areas, and spectator seating.

Bart Kaufman Field, IU Bloomington

A grant from the National Center for Research Resources of the National Institutes of Health to the School of Medicine on the Indiana University Purdue University Indianapolis campus made possible the renovation of a former research floor of the Riley Hospital for Children. The space was transformed into a state-of-the-art facility for conducting clinical research trials designed for children. The renovations were completed in the spring of 2013 at a cost of $6,100,000. The 18,650 square foot center houses laboratory space, exam rooms, bio-storage, administrative offices, and high-tech video conferencing facilities.

The major renovation of the Education and Arts Building on the South Bend campus was completed in August 2013 at a cost of $22,000,000. The building was renovated to house the School of Education, dental education, art studios, rehearsal rooms, and an art gallery and auditorium. The building design emphasizes student spaces with enhanced computer clusters, help desk, and group-work lounges. Classrooms have been updated with advanced technology and distance–education capabilities.

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 $969,233,000 and $984,456,000 at June 30, 2013, and June 30, 2012, respectively.

On October 26, 2012, the university issued Indiana University Tax Exempt Student Fee Bonds, Series V-1 and Taxable Student Fee Bonds, Series V-2 in the total par amount of $107,750,000, of which $95,875,000 were refunding bonds and $11,875,000 were new money bonds. The purpose of the issue was to provide financing for qualified energy savings projects on the Indianapolis and South Bend campuses. The proceeds of the bonds were also used to refund all or a portion of Student Fee Bonds, Series P, Q, and R, and Qualified Energy Savings Notes, Series 2005, 2007, and 2008. The refunding portion of the transaction generated future debt service savings of $8,729,000, which equated to a net present value savings of $7,961,000. The all-in true interest cost for Series V-1 was 1.98% and for Series V-2 was 1.79%.

On March 8, 2013, the university issued natural fixed rate Certificates of Participation, Series 2013A with a par amount of $22,515,000. The proceeds financed the construction of the Global and International Studies Building on the Bloomington campus and costs to issue the bonds, including underwriters' discount. The all-in true interest cost was 2.86%.

The University's ratings on debt obligations were reviewed and reaffirmed in February 2013. On February 14, 2013, Moody's Investors Service reaffirmed its underlying rating of 'Aaa' with a stable outlook on student fee bonds, student residence system bonds, facility revenue bonds, consolidated revenue bonds, and certificates of participation. On February 15, 2013, Standard & Poor's Ratings Services reaffirmed its underlying rating of 'AA+' with a stable outlook on student fee bonds, student residence system bonds, facility revenue bonds, consolidated revenue bonds, and certificates of participation.

Economic Outlook

With the state able to provide a 3.8% increase in Indiana state university operating appropriations for fiscal year 2014, the long-term trend of decreasing state funding as a percentage of total funding has been temporarily stalled. Because the state employs a performance funding formula that is administered at both the institutional and campus level, funding increases at Indiana University's campuses ranged from a high of 7.9% at IU's East campus to 0.6% at the Southeast campus. For the entire Indiana University system, operating appropriations increased by 3.6%.

The ability of the state to provide an operating funding increase was due to improved state finances and continued recovery from the 2008 "Great Recession." While state revenue growth slowed considerably from a 6.4% increase in fiscal year 2012 over fiscal year 2011 to a 2.4% increase in fiscal year 2013 over fiscal year 2012, revenues exceeded forecast by $91,000,000. Indicative of the state's recovery from the recession, total combined state reserves at the close of fiscal year 2013 were

East Studio Building, Jacobs School of Music, IU Bloomington

$1,980,000,000 or 13% of operating revenue, nearly identical to the amount of reserves at the close of fiscal year 2012.

Unfortunately, Indiana's unemployment rate remains stubbornly high, ending fiscal year 2013 with an 8.4% rate in June, slightly higher than the 8.2% rate at the beginning of the fiscal year in July 2012. Thus, unemployment remains a major concern and impediment to increased state revenue growth and overall state economic wellbeing.

For fiscal year 2014, total revenues are forecast to increase by a modest 2.5%. In addition to concerns about continued state high unemployment, national and international threats to the economy remain, perhaps at slightly lower levels than a year ago.

Student enrollment for the university is projected to remain strong during the 2013-14 academic year. Overall, the financial position of the university is favorable and management will continue to monitor state and national economic conditions as part of its critical financial decision-making process.

Statement of Net Position

(in thousands of dollars)	June 30, 2013	June 30, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 335,269	$ 645,147
Accounts receivable, net	132,489	116,646
Current portion of notes and pledges receivable	14,416	15,985
Inventories	11,078	11,389
Short-term investments	107,063	61,475
Other assets	34,745	37,777
Total current assets	635,060	888,419
Noncurrent assets		
Accounts receivable	10,634	10,640
Notes and pledges receivable	57,508	57,398
Investments	1,491,524	1,269,390
Capital assets, net	2,695,502	2,533,362
Total noncurrent assets	4,255,168	3,870,790
Total assets	**4,890,228**	**4,759,209**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	210,378	228,958
Unearned revenue	145,074	177,913
Current portion of capital lease obligations	1,249	1,538
Current portion of long-term debt	58,802	53,654
Total current liabilities	415,503	462,063
Noncurrent liabilities		
Capital lease obligations	1,103	1,853
Notes payable	61,315	43,449
Assets held in custody for others	76,677	76,383
Unearned revenue	36,955	35,102
Bonds payable	846,764	883,962
Other long-term liabilities	61,913	55,723
Total noncurrent liabilities	1,084,727	1,096,472
Total liabilities	**1,500,230**	**1,558,535**
Net Position		
Net investment in capital assets	1,779,033	1,694,440
Restricted for:		
Nonexpendable - endowments	27,998	26,521
Expendable		
Scholarships, research, instruction and other	136,955	100,135
Loans	19,830	15,979
Capital projects	8,249	398
Debt service	20,247	20,271
Unrestricted	1,397,686	1,342,930
Total net position	**3,389,998**	**3,200,674**
Total liabilities and net position	**$ 4,890,228**	**$ 4,759,209**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Financial Position
As of June 30, 2013

	Unrestricted		Temporarily Restricted		Permanently Restricted		
	Foundation	**Agency**	**Foundation**	**University**	**Foundation**	**University**	**Total**
Assets:							
Cash and cash equivalents	$ -	$ 8,620,065	$ 57,829	$ 78,597,965	$ -	$ -	$ 87,275,859
Collateral under securities lending agreement	1,720,220	8,828,675	180,723	15,046,901	863,456	40,294,636	66,934,611
Receivables and other assets	7,876,763	4,522,751	91,939	10,970,772	441,695	28,777,321	52,681,241
Promises to give, net	81,144	-	3,079,939	67,615,854	891,048	70,699,677	142,367,662
Investments	209,022,708	219,228,507	7,921,401	389,498,933	21,527,283	1,027,883,856	1,875,082,688
Property, plant and equipment, net	53,223,439	-	-	-	-	-	53,223,439
Total assets	$ 271,924,274	$ 241,199,998	$ 11,331,831	$ 561,730,425	$ 23,723,482	$ 1,167,655,490	$ 2,277,565,500
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	$ 3,559,892	$ 5,221,585	$ 394,456	$ 4,374,855	$ 650,723	$ 25,364,818	$ 39,566,329
Payable under securities lending agreement	1,720,220	8,828,675	180,723	15,046,901	863,456	40,294,636	66,934,611
Debt	3,785,883	-	-	-	-	58,083	3,843,966
Accrued trust obligation to life beneficiaries	461,418	-	3,105,951	6,301,006	-	26,318,100	36,186,475
Due to (from)	222,797,098	(598,508)	(274,333)	(220,116,328)	423	(1,808,352)	-
Interfund financing	(1,150,000)	-	-	1,150,000	-	-	-
Assets held for the University	-	205,620,826	-	-	-	-	205,620,826
Assets held for University affiliates	-	22,127,420	-	-	-	-	22,127,420
Total liabilities	231,174,511	241,199,998	3,406,797	(193,243,566)	1,514,602	90,227,285	374,279,627
Net assets	40,749,763	-	7,925,034	754,973,991	22,208,880	1,077,428,205	1,903,285,873
Total liabilities and net assets	$ 271,924,274	$ 241,199,998	$ 11,331,831	$ 561,730,425	$ 23,723,482	$ 1,167,655,490	$ 2,277,565,500

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

Statement of Revenues, Expenses, and Changes in Net Position

(in thousands of dollars)	*Fiscal Year Ended June 30, 2013*	*June 30, 2012*
Operating revenues		
Student fees	$ 1,255,936	$ 1,210,085
Less scholarship allowance	(211,509)	(198,207)
Federal grants and contracts	306,524	325,208
State and local grants and contracts	20,502	21,881
Nongovernmental grants and contracts	139,802	101,957
Sales and services of educational units	61,724	62,975
Other revenue	220,912	227,540
Auxiliary enterprises (net of scholarship allowance of $24,391 in 2013 and $22,411 in 2012)	352,845	314,479
Total operating revenues	**2,146,736**	**2,065,918**
Operating expenses		
Compensation and benefits	1,781,973	1,744,609
Student financial aid	159,240	163,565
Energy and utilities	70,504	71,561
Travel	47,245	47,449
Supplies and general expense	521,813	478,461
Depreciation and amortization expense	140,766	133,482
Total operating expenses	**2,721,541**	**2,639,127**
Total operating loss	**(574,805)**	**(573,209)**
Nonoperating revenues (expenses)		
State appropriations	509,598	515,421
Grants, contracts, and other	115,250	116,257
Investment income	47,668	74,637
Gifts	100,259	105,235
Interest expense	(30,730)	(31,100)
Net nonoperating revenues	**742,045**	**780,450**
Income before other revenues, expenses, gains, or losses	**167,240**	**207,241**
Capital appropriations	–	14,157
Capital gifts and grants	21,062	19,775
Additions to permanent endowments	1,022	500
Total other revenues	**22,084**	**34,432**
Increase in net position	**189,324**	**241,673**
Net position, beginning of year	**3,200,674**	**2,959,001**
Net position, end of year	**$ 3,389,998**	**$ 3,200,674**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Activities
For the year ended June 30, 2013

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	**Foundation**	**University**	**Foundation**	**University**	**Total**
Revenue and support:						
Contributions, net	$ 1,014,864	$ 356,695	$ 82,053,896	$ 403,943	$ 43,128,810	$ 126,958,208
Investment income including net gains (losses), net of outside investment management fees	6,428,326	392,289	96,186,687	1,295,855	55,607,563	159,910,720
Management/administrative fees	15,265,680	(32,757)	(12,638,810)	-	(40,660)	2,553,453
Grants	-	-	1,931,650	-	-	1,931,650
Other income	8,245,708	-	4,148,187	(1,236)	602,579	12,995,238
Development service fees from the University	4,923,219	-	-	-	-	4,923,219
Net assets released from restriction	106,324,948	(613,114)	(107,584,073)	-	1,872,239	-
Total revenue and support	142,202,745	103,113	64,097,537	1,698,562	101,170,531	309,272,488
Expenditures:						
Program expenditures	111,939,441	-	-	-	-	111,939,441
Management and general	11,083,777	12,776	2,088,005	658	(837,275)	12,347,941
Fundraising	15,738,251	-	-	-	-	15,738,251
Change in value of split interest agreement obligation to life beneficiaries	48,991	(195,895)	(721,472)	7,600	(3,097,577)	(3,958,353)
Total expenditures	138,810,460	(183,119)	1,366,533	8,258	(3,934,852)	136,067,280
Change in net assets:						
Unrestricted	3,392,285	-	-	-	-	3,392,285
Temporarily restricted	-	286,232	62,731,004	-	-	63,017,236
Permanently restricted	-	-	-	1,690,304	105,105,383	106,795,687
Total change in net assets	3,392,285	286,232	62,731,004	1,690,304	105,105,383	173,205,208
Beginning net assets	37,357,478	7,638,802	692,242,987	20,518,576	972,322,822	1,730,080,665
Ending net assets	$ 40,749,763	$ 7,925,034	$ 754,973,991	$ 22,208,880	$ 1,077,428,205	$ 1,903,285,873

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

Statement of Cash Flows

(in thousands of dollars)	*Fiscal Year Ended* *June 30, 2013*	*June 30, 2012*
Cash flows from operating activities		
Student fees	$ 1,043,398	$ 1,004,520
Grants and contracts	400,472	444,877
Sales and services of educational activities	61,251	62,548
Auxiliary enterprise charges	350,830	314,593
Other operating receipts	221,969	246,365
Payments to employees	(1,760,333)	(1,756,363)
Payments to suppliers	(639,401)	(604,822)
Student financial aid	(156,893)	(158,942)
Student loans collected	11,064	7,226
Student loans issued	(9,081)	(6,438)
Net cash used in operating activities	**(476,724)**	**(446,436)**
Cash flows from noncapital financing activities		
State appropriations	509,598	525,118
Nonoperating grants and contracts	115,250	116,257
Gifts and grants received for other than capital purposes	100,387	106,865
Direct lending receipts	600,943	615,458
Direct lending payments	(602,406)	(613,246)
Net cash provided by noncapital financing activities	**723,772**	**750,452**
Cash flows from capital and related financing activities		
Capital appropriations	–	14,157
Capital grants and gifts received	16,885	20,015
Purchase of capital assets	(303,479)	(244,954)
Proceeds from issuance of capital debt, including refunding activity	40,820	134,816
Principal payments on capital debt	(50,096)	(46,697)
Principal paid on capital leases	(1,660)	(1,664)
Interest paid on capital debt and leases	(38,991)	(41,709)
Net cash used in capital and related financing activities	**(336,521)**	**(166,036)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	2,808,571	3,150,406
Investment income	45,242	33,968
Purchase of investments	(3,074,218)	(3,257,317)
Net cash used in investing activities	**(220,405)**	**(72,943)**
Net increase (decrease) in cash and cash equivalents	**(309,878)**	**65,037**
Cash and cash equivalents, beginning of year	**645,147**	**580,110**
Cash and cash equivalents, end of year	**$ 335,269**	**$ 645,147**

See accompanying notes to the financial statements.

Statement of Cash Flows

(continued from previous page)

(in thousands of dollars)	*Fiscal Year Ended June 30, 2013*	*Fiscal Year Ended June 30, 2012*
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (574,805)	$ (573,209)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	140,766	133,482
Loss on disposal of capital assets	6,513	2,568
Changes in assets and liabilities:		
Accounts receivable	(14,272)	(6,642)
Inventories	311	631
Other assets	(4,633)	(4,402)
Notes receivable	1,458	(438)
Accounts payable and accrued liabilities	(18,544)	3,848
Unearned revenue	(23,320)	(1,185)
Assets held in custody for others	294	591
Other noncurrent liabilities	9,508	(1,680)
Net cash used in operating activities	**$ (476,724)**	**$ (446,436)**

See accompanying notes to the financial statements.

Indiana University Notes to the Financial Statements

June 30, 2013 and June 30, 2012

Note 1—Organization and Summary of Significant Accounting Policies

ORGANIZATION

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

BASIS OF PRESENTATION

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, liabilities, net position, revenues, expenses, changes in net position, and cash flows. All significant intra-university transactions are eliminated upon consolidation.

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, as required by GASB Statement No. 14, *The Financial Reporting Entity,* and as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus.* As additionally required by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* organizations that raise and hold economic resources for the direct benefit of the university are included in the reporting entity. The university evaluates potential component units for inclusion in the reporting entity based on these criteria.

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, according to the criteria in GASB No. 39, *Determining Whether Certain Organizations Are Component Units,* as amended by GASB 61, *The Financial Reporting Entity: Omnibus.* Accordingly, the IU Foundation's audited financial statements are presented in their original formats on separate pages.

The IU Foundation is a not-for-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features differ from GASB revenue recognition criteria and presentation features. No modifications have been made to the IU Foundation's financial information in the university's financial reporting to adjust for these differences. The IU Foundation distributed $105,726,000 and $107,057,000 to the university during fiscal years 2013 and 2012, respectively. Complete financial statements for the IU Foundation can be obtained from: Indiana University Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

BLENDED COMPONENT UNIT

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

CASH EQUIVALENTS

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

INVESTMENTS

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

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. Amounts received from contract and grant sponsors that have not yet been earned are also recorded as unearned revenue.

COMPENSATED ABSENCES

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

NET POSITION

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

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

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

REVENUES

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

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

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

NEW ACCOUNTING PRONOUNCEMENTS

GASB issued Statement No 60, *Accounting and Financial Reporting for Service Concession Arrangements,* in November 2010. This standard provides guidance on financial reporting for arrangements where a government conveys to another entity the right and related obligation to provide services through the use of infrastructure or another government asset in exchange for significant consideration from that entity. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The university has no service concession arrangements as defined by this new standard.

GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* in November 2010. This standard modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012. The amendments made under GASB 61 did not result in any reporting changes to the university's June 30, 2013, financial statements.

The university applied the requirements of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* in fiscal year 2013. This statement codifies all sources of generally accepted accounting principles for state and local governments into a single source.

Effective with the fiscal year ended June 30, 2013, the university adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* The standard introduces and defines those elements as a consumption of net assets by the university that is applicable to a future reporting period, and an acquisition of net assets by the university that is applicable to a future reporting period, respectively. The standard also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. In accordance with the standard, the university has no deferred outflows or inflows for the fiscal year ended June 30, 2013 and has modified the presentation of the Statement of Net Position accordingly.

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.

Note 2—Deposits and Investments

DEPOSITS

The combined bank balances of the university's demand deposits were $67,819,000 and $137,657,000 at June 30, 2013 and 2012, respectively. The university had balances in excess of Federal Deposit Insurance Corporation limits in the amount of $67,547,000 and $61,187,000 at June 30, 2013 and 2012, respectively. The balance in excess of FDIC limits is subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk, however the university monitors the credit rating and certain financial performance metrics of its custodial and commercial banks on a quarterly basis.

INVESTMENTS

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

At June 30, 2013 and 2012, the university had investments and deposits, including endowment funds, as shown below:

(dollar amounts presented in thousands)

	Fair Value	
Investment Type	*June 30, 2013*	*June 30, 2012*
Corporate bonds	$ 505,798	$ 469,713
Money market funds	350,906	440,312
Government bonds	234,467	172,901
External investment pools	212,546	204,238
Government mortgage- backed securities	182,407	157,230
Asset-backed securities	149,680	141,065
Fixed income funds	99,019	–
Commercial mortgage-backed	75,401	52,955
Nongovernment-backed C.M.O.s	53,671	46,316
Index-linked government bonds	30,553	26,524
Government agencies	28,892	34,154
Short-term bills and notes	25,671	13,818
Municipal/provincial bonds	8,482	12,928
Commercial paper	7,998	4,799
Government-issued commercial mortgage- backed	3,489	2,961
Mutual funds	2,976	2,238
Venture capital	2,465	2,750
Real estate	1,025	1,105
Guaranteed fixed income	–	5,708
All other	(41,590)	184,298
Total	**$ 1,933,856**	**$ 1,976,013**

Investment Custodial Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university manages custodial credit risk through the types of investments that are allowed by investment policy. The university also monitors the credit rating and certain financial performance metrics of its custodial and commercial banks. The university had $1,519,000 and $1,423,000 exposed to custodial credit risk at June 30, 2013 and 2012, respectively. The university had $20,428,000 and $10,604,000 where custodial credit risk could not be determined at June 30, 2013 and 2012, respectively. The remainder of the university's investments are not exposed to custodial credit risk and reflect either investment securities registered in the name of the university, investment securities loaned for collateral received, or other types of investments not exposed to custodial credit risk.

Interest Rate Risk

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

Reflecting Pool, IUN

Library, IUS

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

(dollar amounts presented in thousands)

Investment Type	*Fair Value June 30, 2013*	*Investment Maturities (in years) Less than 1*	*1–5*	*6–10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 505,798	$ 64,020	$ 273,807	$ 117,958	$ 50,013
Government bonds	234,467	43,381	57,311	102,399	31,376
Government mortgage-backed securities	182,407	57,904	1,815	11,810	110,878
Asset-backed securities	149,680	1,449	87,624	31,545	29,062
Commercial mortgage-backed	75,401	–	2,675	502	72,224
Nongovernment-backed C.M.O.s	53,671	4	–	3,150	50,517
Index-linked government bonds	30,553	1,748	–	2,403	26,402
Government agencies	28,892	5,149	14,154	3,178	6,411
Short-term bills and notes	25,671	25,671	–	–	–
Municipal/provincial bonds	8,482	699	3,832	123	3,828
Commercial paper	7,998	7,998	–	–	–
Government-issued commercial mortgage-backed	3,489	–	1,411	1,887	191
Other fixed income	23,274	6,170	3,169	10,086	3,849
Total investments with maturity date	**1,329,783**	**214,193**	**445,798**	**285,041**	**384,751**
Investments with undetermined maturity date					
Money market funds	350,906	350,906	–	–	–
External investment pools	212,546	212,546	–	–	–
Fixed income funds	99,019	99,019	–	–	–
Mutual funds	2,976	2,976	–	–	–
Venture capital	2,465	2,465	–	–	–
Real estate	1,025	1,025	–	–	–
All other	(64,864)	(64,864)	–	–	–
Total investments with undetermined maturity date	**604,073**	**604,073**	**–**	**–**	**–**
Total	**$ 1,933,856**	**$ 818,266**	**$ 445,798**	**$ 285,041**	**$ 384,751**

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

(dollar amounts presented in thousands)

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

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, 2013 and 2012, university investments had debt securities with associated credit ratings as shown below:

(dollar amounts presented in thousands)

Credit Quality Rating	*Fair Value June 30, 2013*	*Percentage of Total Pool*	*Fair Value June 30, 2012*	*Percentage of Total Pool*
AAA	$ 296,587	15.34%	$ 271,937	13.76%
AA	522,507	27.02%	447,172	22.63%
A	174,998	9.05%	162,315	8.21%
BBB	219,757	11.36%	202,314	10.24%
BB	99,318	5.14%	81,791	4.14%
B	47,881	2.48%	41,044	2.08%
CCC	19,961	1.03%	12,127	0.61%
CC	6,154	0.32%	3,971	0.20%
C	343	0.02%	–	–
D	1,039	0.05%	2,164	0.11%
Not Rated	545,311	28.19%	751,178	38.02%
Total	**$ 1,933,856**	**100.00%**	**$ 1,976,013**	**100.00%**

Concentration of Credit Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a government's investments and deposits. The university's policy for controlling exposure to foreign currency risk is to constrain investments in non-U.S. dollar denominated debt to 25% of an individual manager's portfolio, or as specified in each manager's guidelines. Minimal foreign currency exposure could occur if one of the university's investment managers purchases non-U.S. dollar holdings and does not hedge the currency. As of June 30, 2013, and June 30, 2012, unrealized losses on foreign currency translation amounted to $97,000 and $974,000, respectively.

At June 30, 2013 and 2012, the university had investments exposed to foreign currency risk stated in U.S. Dollar equivalents as shown below:

(dollar amounts presented in thousands)

Currency	*2013*	*2012*
Mexican peso	$13,018	$11,071
Malaysian ringgit	2,623	1,961
Philippine peso	1,890	900
Chilean peso	1,203	–
All other	(10,435)	(5,206)
Total	**$ 8,299**	**$ 8,726**

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

ENDOWMENTS

Endowment funds are managed pursuant to an Investment Agency Agreement between the Trustees of Indiana University (trustees) and the IU Foundation, which delegates investment management responsibilities to the IU Foundation. Indiana Code 30-2-12, *Uniform Management of Institutional Funds,* sets forth the provisions governing the investment of endowment assets and the expenditure of endowment fund appreciation. The code requires that the trustees and their agents act in good faith and with the care a prudent person acting in a like position would use under similar circumstances, with respect to the investment of endowment assets. The code also sets forth provisions governing the expenditure of endowment fund appreciation, under which the trustees may authorize expenditure, consistent with donor intent. The trustees may, at their discretion, direct all or a portion of the university's endowment funds to other investments, exclusive of the IU Foundation's investment funds. The spending policy of the trustees is to distribute 4.834% of the twelve quarter rolling average of pooled fund values. This rate will be reduced at the rate of 0.083% per year over the next four years resulting in a 4.5% distribution rate in fiscal year 2016-2017. Funds held by endowments managed by the IU Foundation are used to acquire pooled shares.

Endowment funds have a perpetual investment horizon and, as appropriate, may be invested in asset classes with longer term risk/return characteristics, including, but not limited to stocks, bonds, real estate, private placements, and alternative investments. The Indiana University Endowments (endowments) are managed pursuant to an Investment Agency Agreement between the trustees and the IU Foundation dated November 14, 2005, which delegated investment management responsibilities to the IU Foundation, subject to the university's management agreement with the IU Foundation. Endowment assets may be invested in pooled funds or in direct investments, or a combination of the two. Assets will typically be diversified among high quality stocks and bonds. Additional asset classes, such as absolute return, private equity, and real asset investments, may be included when it is reasonable to expect these investments will either increase return or reduce risk, or both. Participation in the pooled investments is achieved by owning units of the Pooled Long-Term Fund and considered an external investment pool to the university. At June 30, 2013, all endowments held with the IU Foundation were invested in pooled funds. The Pooled Long-Term portfolio is diversified based on manager selection, investment style, and asset type to avoid any disproportionate risk related to any one industry or security.

Pooled Short Term Fund (PSTF)

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

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

DERIVATIVES

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

Derivatives are entered into for at least four reasons:

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

The university holds derivative instruments, such as futures, forwards, options, and swaps in its portfolio for investment purposes only. The fair value of derivatives held by the university was $1,124,000 and ($113,000) at June 30, 2013 and 2012, respectively. The notional market value was $78,804,000 and ($51,587,000) at June 30, 2013 and 2012, respectively. The change in fair value was ($270,000) and $544,000 in fiscal years 2013 and 2012, respectively.

Credit Risk, Interest Rate Risk and Foreign Currency Risk

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

Note 3—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2013 and 2012:

(dollar amounts presented in thousands)

	June 30, 2013	*June 30, 2012*
Student accounts	$ 37,174	$ 36,193
Auxiliary enterprises and other operating activities	74,958	57,870
State appropriations	–	–
Federal, state, and other grants and contracts	16,881	21,771
Capital appropriations and gifts	2,241	327
Other	10,103	10,447
Current accounts receivable, gross	**141,357**	**126,608**
Less allowance for uncollectible accounts	(8,868)	(9,962)
Current accounts receivable, net	**$ 132,489**	**$ 116,646**
Noncurrent accounts receivable	**$ 10,634**	**$ 10,640**

Note 4—Capital Assets

Fiscal year ended June 30, 2013

(dollar amounts presented in thousands)

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

Fiscal year ended June 30, 2012

(dollar amounts presented in thousands)

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

Note 5—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2013 and 2012:

(dollar amounts presented in thousands)

	June 30, 2013	June 30, 2012
Accrued payroll	$ 21,876	$ 27,140
Accrual for compensated absences	41,536	44,471
Interest payable	12,937	12,973
Vendor and other payables	134,029	144,374
Total accounts payable and accrued liabilities	**$ 210,378**	**$ 228,958**

Note 6—Other Liabilities

Noncurrent liability activity for the fiscal years ended June 30, 2013 and 2012 is summarized as follows:

Fiscal year ended June 30, 2013

(dollar amounts presented in thousands)

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Current
Bonds, notes, and capital leases payable	$ 984,456	$ 41,381	$ 56,604	$ 969,233	$ 60,051
Other liabilities:					
Unearned revenue	213,015	–	30,986	182,029	145,074
Assets held in custody for others	76,784	417	–	77,201	524
Compensated absences	64,142	20,986	17,812	67,316	41,537
Other	36,053	3,442	3,361	36,134	–
Total other liabilities	389,994	24,845	52,159	362,680	187,135
Total noncurrent liabilities	**$1,374,450**	**$ 66,226**	**$ 108,763**	**$ 1,331,913**	**$ 247,186**

Fiscal year ended June 30, 2012

(dollar amounts presented in thousands)

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Current
Bonds, notes, and capital leases payable	$ 899,340	$ 136,532	$ 51,416	$ 984,456	$ 55,193
Other liabilities:					
Unearned revenue	214,200	–	1,185	213,015	177,913
Assets held in custody for others	76,308	476	–	76,784	401
Compensated absences	65,789	16,035	17,682	64,142	44,471
Other	36,110	3,201	3,258	36,053	–
Total other liabilities	392,407	19,712	22,125	389,994	222,785
Total noncurrent liabilities	**$ 1,291,747**	**$ 156,244**	**$ 73,541**	**$ 1,374,450**	**$ 277,978**

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

Note 7 — Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds, notes, and other forms of indebtedness for the purpose of financing construction of facilities that include academic and administrative facilities, research facilities on the Bloomington and Indianapolis campuses, athletic facilities, parking facilities, student housing, student union buildings, and energy savings projects. At June 30, 2013 and 2012, the university had serial bonds, term bonds, and capital appreciation bonds outstanding with maturities that extend to June 1, 2038. The university has both tax-exempt and taxable bonds outstanding.

The total outstanding bonds and notes payable at June 30, 2013 and 2012, was $966,881,000 and $981,065,000, respectively. This indebtedness included principal outstanding at June 30, 2013 and 2012, for bonds issued under Indiana Code (IC) 21-34-6 (Student Fee debt) of $448,520,000 and $463,056,000, respectively, and for bonds issued under IC 21-35-3 (Revenue debt) of $410,895,000 and $428,840,000, respectively. Total bonds and notes payable at June 30, 2013 and 2012, include an additional accreted value of outstanding Student Fee bonds issued as capital appreciation bonds of $13,936,000 and $17,017,000, respectively. The calculation of total bonds and notes payable at June 30, 2013 and 2012, includes the addition of bond premium outstanding of $60,476,000 and $52,786,000, respectively, and the subtraction of deferred charges of $16,850,000 and $9,536,000, respectively. As of June 30, 2013, debt service payments to maturity total $1,337,285,000, of which $508,053,000 is from bonds eligible for fee replacement appropriations.

On a biennial basis, the Indiana General Assembly authorizes a specific state appropriation to the university for the purpose of reimbursing a portion of the debt service payments on bonds issued under IC 21-34-6 for certain academic facilities. Such academic facilities include classrooms, libraries, laboratories, and other academic support facilities as designated by the Indiana General Assembly. These specific state appropriations are referred to as "fee replacement" appropriations, and are received from the State of Indiana on a semi-annual basis. This appropriation is renewed and supplemented on a biennial basis because state statutes prohibit a sitting General Assembly from binding subsequent General Assemblies with respect to future appropriation of funds. The State of Indiana has fully funded all fee replacement obligations established by prior General Assemblies since the State began authorizing fee replacement appropriations over 40 years ago. The outstanding principal balances which are eligible for fee replacement appropriations, as of June 30, 2013 and 2012, are $386,207,000 and $411,423,000, respectively.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CABs). A CAB is a long-term municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity. At maturity, the investor receives both the initial principal amount and the total investment return. CABs typically are sold at a deeply discounted price and are distinct from traditional zero coupon bonds because the investment return is considered to be in the form of compounded interest rather than accreted original issue discount. Total debt service payments to maturity, as of June 30, 2013 and 2012, include CAB payments of $22,305,000 and $28,690,000, respectively, of which $3,525,000 and $6,150,000 are eligible for fee replacement appropriations, respectively.

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

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

As of June 30, 2013 and 2012, outstanding indebtedness from bonds and notes is summarized as follows:

(dollar amounts presented in thousands)

Bonding Authority	*Interest Rates*	*Final Maturity Year Ended*	*Principal Outstanding At June 30, 2013*	*Principal Outstanding At June 30, 2012*
Indiana Code 21-34-6 (Bonds: Student Fee Bonds)	0.30 to 6.40%	2033	$ 448,520	$ 463,056
Indiana Code 21-35-3 (Bonds: Consolidated Revenue Bonds)	2.00 to 5.64%	2038	410,895	428,840
Indiana Code 21-34-10-7 (Bonds: Energy Savings Student Fee Bonds)	–	–	–	2,649
Indiana Code 21-33-3-5 (Notes: Certificates of Participation)	2.00 to 5.95%	2037	63,840	43,270
Subtotal bonds and notes payable			923,255	937,815
Add unamortized bond premium			60,476	52,786
Less deferred charges			(16,850)	(9,536)
Total bonds and notes payable			**$ 966,881**	**$ 981,065**

As of June 30, 2013, the university does not have any variable rate bonds, notes, or commercial paper outstanding. The principal and interest requirements to maturity for bonds and notes payable are as follows:

(dollar amounts presented in thousands)

Fiscal Year Ended June 30	*Bond Principal*	*Note Principal*	*Total Principal*	*Bond Interest*	*Note Interest*	*Total Interest*	*Total Debt Service Payments*
2014	$ 52,905	$ 2,525	$ 55,430	$ 43,384	$ 2,797	$ 46,181	$ 101,611
2015	56,303	2,800	59,103	39,377	2,522	41,899	101,002
2016	56,217	2,855	59,072	37,157	2,447	39,604	98,676
2017	58,564	2,940	61,504	34,932	2,357	37,289	98,793
2018	60,261	3,025	63,286	32,529	2,243	34,772	98,058
2019 - 2023	246,980	16,420	263,400	112,042	9,283	121,325	384,725
2024 - 2028	200,015	16,270	216,285	60,525	5,558	66,083	282,368
2029 - 2033	95,290	13,610	108,900	20,488	1,979	22,467	131,367
2034 - 2038	32,880	3,395	36,275	4,124	286	4,410	40,685
Total	**$ 859,415**	**$ 63,840**	**$ 923,255**	**$ 384,558**	**$ 29,472**	**$ 414,030**	**$1,337,285**

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

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

As of June 30, 2013, the previously defeased bonds held in escrow have the following amounts of principal outstanding:

(dollar amounts presented in thousands)

Defeased Bonds (Refunded)	*Principal Outstanding*	*Call Date*
Student Fee Bonds, Series O	$ 41,710	8/1/2013
Student Fee Bonds, Series P	71,215	8/1/2014
Student Fee Bonds, Series Q	20,270	8/1/2016
Student Fee Bonds, Series R	15,780	8/1/2016
Facility Revenue Bonds, Series 2004	9,705	11/15/2014
Student Residence System Bonds, Series 2004B	16,400	11/1/2014
Total Defeased Bonds	**$ 175,080**	

In February 2009, the United States Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA allowed certain tax advantages to state and local governmental entities when such entities issued qualifying taxable obligations, referred to as Build America Bonds (BABs). While the BAB provisions in ARRA expired as of January 1, 2011, the obligation of the U.S. Treasury to make subsidy payments on BABs will remain in effect through the final maturity date of BABs. Although issuers of BABs were eligible to receive subsidy payments from the U.S. Treasury equal to 35 percent of the corresponding interest payable on the related BABs, subsidies that paid after February 28, 2013, were cut by 8.7% due to the federal sequestration. Total federal interest subsidies that were originally scheduled to be received over the life of the BABs debt outstanding as of June 30, 2013, were $32,354,000. However, through June 30, 2013, BABs subsidies for Consolidated Revenue Bonds, Series 2010B and the Certificates of Participation, Series 2009B were reduced by $73,000. Subsequent to the financial reporting date, the BABs subsidy for Student Fee Bonds, Series T-2 was reduced by $42,000. BABs subsidies paid between October 1, 2013, and September 30, 2014, are scheduled to be reduced by 7.2% due to the federal sequestration. For fiscal year ending June 30, 2014, the total expected subsidy reductions due to the sequestration is $197,000, which is subject to changes enacted by Congress at subsequent dates.

On October 26, 2012, the university issued natural fixed rate Student Fee Bonds, Series V-1 (Tax-Exempt) and Series V-2 (Taxable) with par amounts of $60,265,000 and $47,485,000, respectively. This included refunding bonds of $48,390,000 and $47,485,000, respectively, and new money bonds of $11,875,000 and $0, respectively. The Series V-1 proceeds were used to refund a portion of Student Fee Bonds Series P, Q, and R; finance qualified energy savings projects on the Indianapolis and South Bend campuses; and refund Qualified Energy Savings Notes, Series 2005, 2007, and 2008. The Series V-2 proceeds were used to refund a portion of Student Fee Bonds Series P. Bond proceeds were also used to pay costs to issue the bonds, including underwriters' discount. At issuance, the all-in true interest cost for Series V-1 was 1.98% and for Series V-2 was 1.79%. The refunding bonds produced a net present value savings of $4,320,000 and $3,641,000, respectively, which was 8.31% and 8.45% of refunded par bonds, respectively.

On March 8, 2013, the university issued natural fixed rate Certificates of Participation, Series 2013A with a par amount of $22,515,000. The proceeds financed the construction of the Global and International Studies Building on the Bloomington campus and costs to issue the bonds, including underwriters' discount. At issuance, the true interest cost for the certificates was 2.86%.

Note 8—Lease Obligations

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

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

(dollar amounts presented in thousands)

	Capital	*Operating*
2014	$ 1,341	$ 14,962
2015	650	9,459
2016	343	8,533
2017	136	5,121
2018	34	2,933
2019-2023	–	12,110
2024-2028	–	2,969
2029	–	13
Total future minimum payments	2,504	**$ 56,100**
Less: interest	(152)	
Total principal payments outstanding	**$ 2,352**	

Note 9—Federal Obligations Under Student Loan Programs

Campus based student loans are funded by new allocations received from the federal government, as well as principal and interest collected from previous student loan recipients. The federal government advanced $144,000 and $214,000 for health professions and nursing loan programs for fiscal years ended June 30, 2013 and 2012, respectively.

Liabilities at June 30, 2013 and 2012, for loan programs were as follows:

(dollar amounts presented in thousands)

	June 30, 2013	*June 30, 2012*
Current portion of assets held in custody for others	$ 524	$ 401
Noncurrent liabilities:		
Federal share of interest	41,740	40,286
Perkins loans	17,028	17,942
Health professions loans	15,938	16,204
Nursing loans	1,971	1,951
Total noncurrent portion of assets held in custody for others	76,677	76,383
Total assets held in custody for others	**$ 77,201**	**$ 76,784**

Note 10—Risk Management

The university is exposed to various risks of loss, including torts, theft, damage or destruction of assets, errors or omissions, job-related illnesses or injuries to employees, and health care claims on behalf of 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 of any workers' compensation claim. Workers' compensation claims above $850,000 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 coverage through commercial insurances.

The university has four health care plans for full-time appointed employees, one of which is also available to retirees not eligible for Medicare. All of the employee plans are self-funded. The university records a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans. This liability is estimated to be no more than 15% of the paid self-funded claims during the fiscal year, and totals $25,133,000 and $26,990,000 at June 30, 2013 and 2012, respectively. In addition, a potential claims fluctuation liability of $9,876,000 has been recorded at June 30, 2013 and 2012.

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

Note 11—Retirement Plans

The university provided retirement plan coverage to 18,494 and 18,441 active employees, as of June 30, 2013 and 2012, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

Indiana Public Employees' Retirement Fund

The university contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. Indiana Public Retirement System (INPRS) administers the multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. All support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment participate in the PERF plan. There were 6,267 and 6,352 active university employees covered by this retirement plan as of June 30, 2013 and 2012, respectively. State statutes authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. The annuity savings account consists of contributions set by state statute at three percent of compensation plus the earnings credited to members' accounts. The university has elected to make the contributions on behalf of the members. PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Public Employees Retirement Fund, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 1-888-526-1687, or by reviewing the Annual Report online at www.in.gov/inprs/annualreports.htm.

Contributions made by the university totaled $25,785,000 and $23,972,000 for fiscal years ended June 30, 2013 and 2012, respectively. This represented a 9.7% and 8.6% university pension benefit contribution for fiscal years ended June 30, 2013 and 2012, respectively, and a 3% university contribution for the annuity savings account provisions each year.

PERF Funding Policy and Annual Pension Cost

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

The employer contributions required by the funding policy at actuarial determined rates are sufficient to fund the pension benefits when they become due. The amortization method and period are level dollar closed over 30 years. The actuarial cost method is entry age normal cost. The employer required contribution is determined using an asset smoothing method. The actuarial valuation date is June 30, 2012.

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

(dollar amounts presented in thousands)

	Fiscal Year Ended	
	June 30, 2012[1]	*June 30, 2011*
Annual required contribution	$ 22,735	$ 21,855
Interest on net pension obligation	246	(251)
Adjustment to annual required contribution	(284)	289
Annual pension cost	22,697	21,893
Contributions made	(17,757)	(14,790)
Increase/(decrease) in net pension obligation	4,940	7,103
Net pension obligation, beginning of year	3,522	(3,581)
Net pension obligation, end of year	**$ 8,462**	**$ 3,522**

[1]*Actuarial data for 2013 was not available at the time of this report.*

(dollar amounts presented in thousands)

Fiscal Year Ended	Annual Pension Cost (APC)[2]	Percentage of APC Net Pension Contributed	Net Pension Obligation
June 30, 2010	14,742	95%	(3,581)
June 30, 2011	21,893	68%	3,522
June 30, 2012	22,697	78%	8,462

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

Academic and Professional Staff Employees

Appointed academic and professional staff employees with at least 50% FTE are covered by the IU Retirement Plan. This is a defined contribution plan under IRC 403(b) with four contribution levels. The university contributed $61,118,000 during fiscal year ended June 30, 2013, and $62,833,000 during fiscal year ended June 30, 2012, to TIAA-CREF for the IU Retirement Plan. The university contributed $28,669,000 during fiscal year ended June 30, 2013, and $26,854,000, during fiscal year ended June 30, 2012, to Fidelity Investments for the IU Retirement Plan. Under this plan, 7,743 and 8,081 employees directed university contributions to TIAA-CREF as of June 30, 2013 and 2012, respectively. In addition, 5,185 and 4,711 employees directed university contributions to Fidelity Investments as of June 30, 2013 and 2012, respectively.

In addition to the above, the university provides early retirement benefits to full-time appointed academic and professional staff employees who were in positions Grade 16 and above on or before June 30, 1999. There were 1,057 and 1,093 active employees on June 30, 2013 and 2012, respectively, covered by the IU Supplemental Early Retirement Plan (IUSERP), a defined contribution plan in compliance with IRC 401(a), with participant accounts at TIAA-CREF and Fidelity Investments. The university contributed $2,553,000 and $2,336,000 to IUSERP during fiscal years ended June 30, 2013 and 2012, 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, 2013, the university made total payments of $32,027,000 to 361 individuals receiving IU 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2012, the university made total payments of $33,601,000 to 405 individuals receiving IU 18/20 Retirement Plan payments.

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

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

IU Replacement Retirement Plan Funding Policy and Annual Pension Cost

The university has established an early retirement plan for eligible employees to accommodate IRS requirements and as authorized by the Trustees of Indiana University. This plan is called the IU Replacement Retirement Plan. It is a single-employer plan and is qualified under IRC Section 401(a), with normal benefits payable for the participant's lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. As of June 30, 2013 and 2012, 95 and 96 employees, respectively, were eligible to participate. University contributions related to this plan totaled $1,611,000 and $1,571,000, for fiscal years ended June 30, 2013 and 2012, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution.

The following schedule shows the funding policy contributions for the fiscal years indicated for the IU Replacement Retirement Plan as provided by the actuarial valuation report prepared as of July 1, 2012, for the fiscal year ended June 30, 2013, prepared as of July 1, 2011, for the fiscal year ended June 30, 2012, and prepared as of July 1, 2010, for the fiscal year ended June 30, 2011:

(dollar amounts presented in thousands)

	Fiscal Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Cost of benefits earned during the year	$ 796	$ 811	$ 808
Amortization of unfunded actuarial accrued liabilities	716	664	767
Interest	98	96	102
Funding policy contribution	**$ 1,610**	**$ 1,571**	**$ 1,677**

The funded status of the IU Replacement Retirement Plan as provided by the actuarial valuation reports for fiscal years ended June 30, 2013, 2012, and 2011, are as follows:

(dollar amounts presented in thousands)

Actuarial Valuation Date	*July 1, 2012*	*July 1, 2011*	*July 1, 2010*
Actuarial accrued liability (AAL)	$ 23,818	$ 23,034	$ 21,497
Less actuarial valuation of plan assets	(14,838)	(14,558)	(11,541)
Unfunded actuarial liability	8,980	8,476	9,956
Actuarial value of assets as a percentage of AAL (funded ratio)	62.3%	63.2%	53.7%
Annual covered payroll	$ 8,445	$ 8,679	$ 8,643
Ratio of unfunded actuarial liability to annual covered payroll	106.3%	97.7%	115.2%

Actuarial assumptions include a 6.5% asset rate of return and future salary increases of 3% for the fiscal years ended June 30, 2013 and 2012. Liabilities are based on the projected unit credit method. The actuarial value of assets is equal to the fair market value on the valuation date adjusted for employer contributions receivable. Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of future events including future employment and mortality, and are based on the substantive plan provisions.

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

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

Note 12 – Postemployment Benefits

Plan Description

The university provides certain postemployment benefits for retired employees. The IU 18/20 Plan, Medical, and Life Insurance benefits are presented for financial statement purposes as a consolidated plan (the Plan) under the requirements for reporting Other Postemployment Benefit Plans (OPEB) required by GASB Statement No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The Plan is a single-employer defined benefit plan administered by Indiana University. The 18/20 Plan provides interim benefits to full-time appointed academic and professional staff employees who meet the following eligibility requirements: 18 years of participation in the IU Retirement Plan 15% level, at least 20 years of continuous full-time university service, and at least 64 years of age. This group of employees is eligible to receive monthly payments based on a hypothetical monthly annuity amount at age 70, up to the amount of terminal base salary, calculated as the average budgeted base salary for the five 12-month periods immediately preceding retirement. The 18/20 Plan was adopted by the Trustees of Indiana University (trustees). The university provides medical care coverage to individuals with retiree status and their eligible dependents. The cost of the coverage is borne fully by the individual. However, retiree medical care coverage is implicitly more expensive than active-employee coverage, which creates an implicit rate subsidy. The university provides retiree life insurance benefits in the amount of $6,000 to terminated employees with retiree status. The health and life insurance plans have been established and may be amended under the authority of the trustees. The Plan does not issue a stand-alone financial report. Reflected in this note are benefits related to an early retirement incentive plan, approved by executive management in fiscal year 2011, which includes 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 $2,018,000 and $1,330,000 in premiums in the fiscal years ended June 30, 2013 and 2012, respectively. The university contributed $51,608,000 and $53,851,000 to the consolidated OPEB Plan in fiscal years ended June 30, 2013 and 2012, respectively.

Annual OPEB Cost and Net OPEB Obligation

The university's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of twenty-five years.

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

(dollar amounts presented in thousands)

	Fiscal Year Ended	
	June 30, 2013	*June 30, 2012*
Annual OPEB cost	$ 54,714	$ 57,052
Less employer contributions	(51,608)	(53,851)
Increase in OPEB obligation	3,106	3,201
Net OPEB obligation, beginning of year	22,758	19,557
Net OPEB obligation, end of year	$ 25,864	$ 22,758
Percentage of annual OPEB cost contributed	**94.32%**	**94.39%**

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, 2012	–	$ 390,227	$ 390,227	0.0%	$ 1,013,726	38.5%
July 1, 2011	–	414,985	414,985	0.0%	984,200	42.2%

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

Actuarial Methods and Assumptions

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

The projected unit credit cost method was used in the June 30, 2013, actuarial valuation. The actuarial assumptions include a 4.5% investment rate of return, which is a blended rate of (1) the expected long-term investment returns on plan assets and (2) the university's investments which is calculated based on the funded level of the Plan at June 30, 2013; and an annual healthcare cost trend rate that ranges from 9.5% in fiscal year 2014 to 5.0% in fiscal year 2022. The rate includes a 3% inflation assumption. The Unfunded

Actuarial Accrued Liability is being amortized over 25 years using level dollar amounts on an open group basis.

Note 13—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 $314,401,000 and $288,901,000 at June 30, 2013 and 2012, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Note 14—Functional Expenses

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

Fiscal year ended June 30, 2013

(dollar amounts presented in thousands)

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

Fiscal year ended June 30, 2012

(dollar amounts presented in thousands)

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

Note 15—Segment Information

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

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

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

(dollar amounts presented in thousands)

Condensed Statement of Net Position	*Parking Operations*		*Housing Operations*	
	June 30, 2013	*June 30, 2012*	*June 30, 2013*	*June 30, 2012*
Assets				
Current assets	$ 29,558	$ 27,228	$ 92,695	$ 82,018
Capital assets, net	90,816	92,927	221,499	215,325
Total assets	**120,374**	**120,155**	**314,194**	**297,343**
Liabilities				
Current liabilities	6,921	7,022	7,717	8,928
Noncurrent liabilities	53,018	58,764	106,452	111,553
Total liabilities	**59,939**	**65,786**	**114,169**	**120,481**
Net position				
Net investment in capital assets	32,841	30,095	110,544	101,007
Unrestricted	27,594	24,274	89,481	75,855
Total net position	**60,435**	**54,369**	**200,025**	**176,862**
Total liabilities and net position	**$ 120,374**	**$ 120,155**	**$ 314,194**	**$ 297,343**

(dollar amounts presented in thousands)

Condensed Statement of Revenues, Expenses, and Changes in Net Position	*Parking Operations*		*Housing Operations*	
	Fiscal Year Ended		*Fiscal Year Ended*	
	June 30, 2013	*June 30, 2012*	*June 30, 2013*	*June 30, 2012*
Operating revenues	$ 25,326	$ 24,887	$ 73,702	$ 69,243
Depreciation expense	(3,985)	(3,722)	(6,151)	(4,795)
Other operating expenses	(12,734)	(13,078)	(46,446)	(43,455)
Net operating income	**8,607**	**8,087**	**21,105**	**20,993**
Nonoperating revenues (expenses)				
Grants, contracts, and other revenues	182	190	1,119	1,170
Interest expense	(2,429)	(2,009)	(5,457)	(1,597)
Net nonoperating revenues (expenses)	**(2,247)**	**(1,819)**	**(4,338)**	**(427)**
Other revenues				
Capital gifts and grants	250	–	–	–
Net other revenues	**250**	**–**	**–**	**–**
Net transfers	**(544)**	**(1,039)**	**6,396**	**3,091**
Increase in net position	**6,066**	**5,229**	**23,163**	**23,657**
Net position				
Net position, beginning of year	54,369	49,140	176,862	153,205
Net position, end of year	**$ 60,435**	**$ 54,369**	**$ 200,025**	**$ 176,862**

(dollar amounts presented in thousands)

Condensed Statement of Cash Flows	*Parking Operations*		*Housing Operations*	
	Fiscal Year Ended		*Fiscal Year Ended*	
	June 30, 2013	*June 30, 2012*	*June 30, 2013*	*June 30, 2012*
Operating activities	$ 11,905	$ 12,605	$ 25,342	$ 23,740
Noncapital financing activities	182	190	1,119	1,170
Capital and related financing activities	(10,009)	(24,895)	(16,081)	(55,420)
Net increase (decrease) in cash	**2,078**	**(12,100)**	**10,380**	**(30,510)**
Beginning cash and cash equivalent balances	26,071	38,171	80,796	111,306
Ending cash and cash equivalent balances	**$ 28,149**	**$ 26,071**	**$ 91,176**	**$ 80,796**

Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $7,180,000 at June 30, 2013, with remaining terms of 1 year. Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $10,625,000 at June 30, 2012, with remaining terms of 2 years. Revenues of the activities are sufficient to meet the principal and interest requirements for the debt.

Note 16—Commitments and Loss Contingencies

Construction Projects

The university had outstanding commitments for capital construction projects of $58,580,000 and $145,603,000 at June 30, 2013 and 2012, respectively.

Note 17—Subsequent Event

In fiscal year 2014, executive management authorized the university to offer certain employees an Early Retirement Incentive Plan (ERIP), intended to attain specific institutional objectives, including the following:

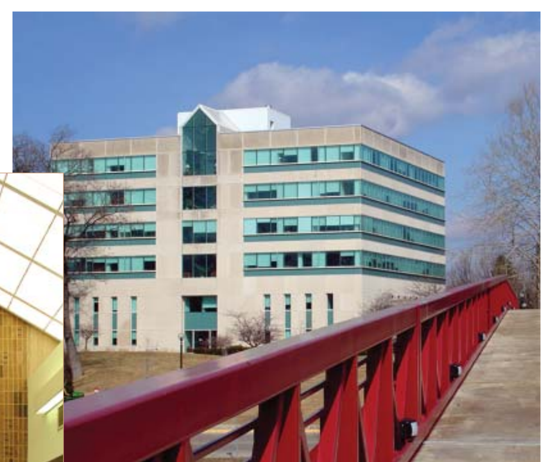
- Reduce salary/wage and benefit expenses
- Redirect positions to focus on higher priorities
- Avoid or minimize future involuntary reductions in personnel

Separation dates under the ERIP will be on December 31, 2013, and May 31, 2014. Separation agreements will be finalized by November 4, 2013, for employees separating on December 31, 2013, and by March 31, 2014, for employees separating on May 31, 2014.

The ERIP provides benefits not normally provided to separating employees, including an income replacement payment and contributions to a health reimbursement account.

Milt and Jean Cole Family Wellness Center, IU Kokomo

Library, IU East



Schurz Hall, IU South Bend

Required Supplementary Information

Schedule of Funding Progress for IU Replacement Retirement Plan:

(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
7/1/2012	$ 14,838	$ 23,818	$ 8,980	62.3%	$ 8,445	106.3%
7/1/2011	14,558	23,034	8,476	63.2%	8,679	97.7%
7/1/2010	11,541	21,497	9,956	53.7%	8,643	115.2%

Schedule of Funding Progress for Other Postemployment Benefit Plans:

(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
7/1/2012	–	$ 390,227	$ 390,227	0.0%	$ 1,013,726	38.5%
7/1/2011	–	414,985	414,985	0.0%	984,200	42.2%
7/1/2010	–	441,968	441,968	0.0%	959,198	46.1%

Schedule of Funding Progress for Public Employees' Retirement Fund:

(dollar amounts presented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
6/30/2012	$ 175,411	$ 370,470	$ 195,059	47.3%	$ 211,519	92.2%
6/30/2011	214,453	379,812	165,359	56.5%	215,496	76.7%
6/30/2010	215,702	320,269	104,567	67.4%	214,529	48.7%

Note 1 - Organization and Operations

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

The mission of the Foundation is to inspire donors to invest in Indiana University's power to transform lives and better the state, nation and world. The Foundation was originally incorporated in 1936 and is empowered to perform a wide range of services and conduct a variety of activities that support the University as it carries out its missions of teaching, research, and public service. The Foundation conducts general and special purpose 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 4 - Investments

A summary of total investment income, including net gains (losses) net of outside management fees for the year ended June 30, 2013 and 2012 consist of the following:

		2013		2012
Dividend, interest and other investment income	$	9,767,463	$	9,920,514
Net realized and unrealized gains (losses) on investments		155,663,461		(21,571,091)
Outside investment management fees		(5,520,204)		(4,710,704)
Total investment income, including net gains (losses), net of outside investment management fees	$	159,910,720	$	(16,361,281)

The Foundation's investments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. The following tables present information about the Foundation's investments by security type measured at fair value as of June 30, 2013 and 2012:

	2013			
	Level 1	Level 2	Level 3	Total
Domestic equities	$ 313,476,486	$ 68,537,378	$ 551,958	$ 382,565,822
International equities	294,411,857	-0-	-0-	294,411,857
Domestic fixed income	95,603,310	146,760,433	2,767,929	245,131,672
International fixed income	(5)	58,037,270	-0-	58,037,265
Cash equivalents	21,825,278	-0-	-0-	21,825,278
Alternative investments:				
Hedged equity funds	-0-	-0-	114,708,557	114,708,557
Absolute return funds	-0-	-0-	254,714,708	254,714,708
Venture capital funds	-0-	-0-	100,496,948	100,496,948
Buyout funds	-0-	-0-	129,125,068	129,125,068
Distressed/special situation funds	-0-	-0-	58,625,785	58,625,785
Real estate funds	-0-	-0-	95,125,996	95,125,996
Natural resource funds	-0-	-0-	79,754,823	79,754,823
Public inflation hedge	-0-	19,738,891	-0-	19,738,891
Direct commercial real estate	-0-	-0-	20,129,763	20,129,763
Mortgage securities	-0-	-0-	690,255	690,255
Total	$ 725,316,926	$ 293,073,972	$ 856,691,790	$ 1,875,082,688

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

There were no significant transfers between levels 1 and 2 for the years ended June 30, 2013 and 2012. Transfers into Level 3 for the year ended June 30, 2013 of $187,852,124, were the result of a change in categorization from Level 2 to Level 3 for those funds valued using NAV per share (or its equivalent) based on redemption liquidity restrictions. Changes in Level 3 assets measured at fair value as of and for the years ended June 30, 2013 and 2012 follow.

		2013		**2012**
Beginning balance	$	557,230,475	$	562,292,724
Realized and unrealized gains (losses)		90,311,970		12,124,593
Purchases		126,893,978		99,083,787
Sales		(105,596,757)		(111,925,455)
Transfers in		187,852,124		138,000
Transfers out		-0-		(4,483,174)
Ending balance	$	856,691,790	$	557,230,475

Included in the underlying US Government and agency debt instruments are futures and forwards that are considered derivative financial instruments. The carrying values of these derivative financial instruments are adjusted to net fair market value. Open positions as of June 30, 2013 and 2012 are summarized as follows:

	2013		2012	
	Notional Par	**Net Fair Market Value Asset (Liability)**	**Notional Par**	**Net Fair Market Value Asset (Liability)**
Futures:				
10 yr US	$ (1,100,000)	$ 32,055	$ 400,000	$ 4,375
Euro-Oat EUX 10 yr	(200,000)	5,253	-0-	-0-
Forwards:				
US Government Agencies	$ 10,900,000	$ (181,113)	$ 15,900,000	$ 34,399

The gross and net credit risk associated with the related counterparties on these open futures and forwards positions is insignificant. The market risk for these futures and forwards is directly linked with exchange rates or market interest rates as the underlying securities bear a fixed rate of interest. The futures instruments required $977,000 and $712,000 in cash, as of June 30, 2013 and 2012, respectively. The related net gains generated were $1,022,231 and $569,791for the years ended June 30, 2013 and 2012, respectively.

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

	2013		2012		
	Fair Value	**Unfunded Commitments**	**Fair Value**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Hedged equity funds (a)	$ 114,708,557	$ -0-	$ 75,785,776	monthly, quarterly, semi-annually, annually	30-90 days
Absolute return funds (b)	254,714,708	4,491,054	223,450,603	monthly, quarterly, semi-annually, annually	33-95 days
Venture capital funds (c)	100,496,948	44,146,127	93,238,444		
Buyout funds (d)	129,125,068	68,548,217	113,709,268		
Distressed/special situation funds (e)	58,625,785	31,149,963	55,972,168		
Real estate funds (f)	95,125,996	45,414,767	80,563,458		
Natural resources funds (g)	79,754,823	56,274,223	78,748,874		
Public Inflation Hedge (h)	19,738,891	-0-	20,842,156	monthly	10 days
Total	$ 852,290,776	$ 250,024,351	$ 742,310,747		

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

(b) This category includes investments in hedge funds that invest opportunistically across various strategies including long/short equity, fixed income, distressed credit, merger arbitrage, convertible arbitrage, etc. The fair values of the investments in this category are based on the net asset value per share of the investment. As of June 30, 2013, 51% of the total Marketable Alternative Investments (hedged equity and absolute return) could be redeemed in 0-6 months, an additional 21% could be redeemed between 7-12 months, another 21% could be redeemed between 13-24 months, and 2% could be redeemed between 25-36 months. The remaining 5% is designated as illiquid investments.

(c) This category includes funds which invest primarily in early-stage companies in the technology and life science sectors. The nature of investments in this category is that money is distributed as underlying companies are exited via acquisition or IPO. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

(d) This category includes private equity funds that invest across sectors primarily in the United States, but also Asia and Europe. The nature of investments in this category is that money is distributed as underlying companies are recapitalized or exited via acquisition or IPO. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

(e) This category includes funds that are focused on distressed, mezzanine, or secondary investments, primarily in the United States. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

(f) This category includes funds that invest primarily in U.S. commercial real estate, but also include real estate funds focused on Europe and Asia. The real estate exposure can include both publicly traded REIT funds and private partnerships. Publicly traded REIT funds have daily liquidity. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

(g) This category includes funds that are focused on direct energy and timber. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. Certain funds in this category will provide an income stream as the underlying commodity is harvested/sold. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

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

Note 8 – Restricted Net Assets

The income generated from restricted net assets is used in accordance with the donors' time or purpose restrictions. Foundation and University permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor imposed restrictions as of June 30, 2013 and 2012 are as follows:

2013

	Temporarily Restricted		Permanently Restricted	
	Foundation	**University**	**Foundation**	**University**
Foundation operations	$ 7,925,034	$ -0-	$ 22,208,880	$ -0-
University Programs:				
Awards	-0-	6,742,085	-0-	8,315,792
Capital and capital improvements	-0-	74,316,436	-0-	2,260,981
Fellowships/lectureships	-0-	21,256,305	-0-	84,120,885
General endowments	-0-	259,306,348	-0-	246,326,034
Medical practice plans	-0-	33,025,572	-0-	-0-
Operations	-0-	82,291,782	-0-	4,040,385
Professorships/chairs	-0-	116,175,867	-0-	290,236,341
Research	-0-	31,636,917	-0-	50,252,828
Scholarships	-0-	130,222,679	-0-	391,874,959
Total	$ 7,925,034	$ 754,973,991	$ 22,208,880	$ 1,077,428,205

2012

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

Note 10 - Contingencies and Commitments

The Foundation has borrowed $222,797,098 and $125,016,119 of restricted cash and cash equivalents as displayed in its Foundation Unrestricted, Foundation Temporarily Restricted, and Permanently Restricted assets as of June 30, 2013 and 2012, respectively, and has reported this interfund borrowing as "due to (from)" on the Statement of Financial Position. The Foundation assumes all risk associated with the composition of assets related to the Foundation's reinvestment of the temporarily restricted University monies. These borrowings were used to (1) acquire property, plant and equipment for the benefit of the University, (2) purchase investment securities, and (3) support on-going Foundation operations. Repayment of the borrowings is primarily dependent on the Foundation's ability to (1) generate future appreciation and income from investment securities, (2) receive future revenue from existing property leases arrangements with the University and (3) receive future unrestricted gifts. Management has currently developed initiatives to reduce such borrowings in the future and maintain an appropriate composition of assets to comply with all donor restrictions.

Interfund financing of $1,150,000 and $1,900,000 as of June 30, 2013 and 2012, respectively, represents amounts financed by the Foundation unrestricted net assets to the agency and temporarily restricted University net assets. The carrying value of interfund financing approximates fair market value, as the borrowing rates currently available to the Foundation are similar to the terms on remaining maturities. Interest rates are from 4.0% to 4.95% as of June 30, 2013 and June 30, 2012.

Note 11 - Program Expenditures

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, air services, Student Foundation, cultural center, women's programs and other miscellaneous programs. These University related program expenditures primarily support "Grants and aid to the University" and "Endowment and capital additions for the University." For the years ended June 30, 2013 and 2012, a summary of these expenditures follows:

	2013		
	Unrestricted		
Program expenditures:	**Foundation**	**University***	**Total**
Foundation programs:			
Real estate	$ 2,876,779	$ -0-	$ 2,876,779
Student Foundation	546,133	-0-	546,133
Air Services	736,034	-0-	736,034
Women's programs	151,499	-0-	151,499
Miscellaneous	17,097	-0-	17,097
	4,327,542	-0-	4,327,542
Grants and aid to the University:			
Operating support:			
University support	1,771,397	29,877,286	31,648,683
Student scholarship and financial aid	5,627	36,738,927	36,744,554
Faculty support	108,772	15,022,682	15,131,454
Faculty research	-0-	8,202,888	8,202,888
	1,885,796	89,841,783	91,727,579
Endowment and capital additions for the University:			
Land, building and equipment purchases	207	15,884,113	15,884,320
Total program expenditures	$ 6,213,545	$ 105,725,896	$ 111,939,441

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

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

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for fiscal year ended June 30, 2013

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Walter J. Branson, Interim Chancellor, Indiana University-Purdue University Fort Wayne (July 1, 2012 –August 31, 2012)
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Larry Richards, Interim Chancellor, Indiana University East (Richmond), (June 2012 to July 1, 2013)
Susan Sciame-Giesecke, Interim Chancellor, Indiana University Kokomo (since September 19, 2012)

Other Officers and Senior Leaders

J Thomas Forbes, Executive Director, IU Alumni Association
Daniel C. Smith, President, IU Foundation (since October 1, 2012)
Eugene R. Tempel, President, IU Foundation (until September 30, 2012)

Additional copies of this report may be obtained from:

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Bloomington, IN 47405-7000
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http://www.iub.edu/athletic/

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

Acknowledgements

The following members of Financial Management Services prepared the *2012-2013 Financial Report* and the included financial statements:

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

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

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

Photos courtesy of Office of University Communications and Financial Management Services