Indiana University

Annual Financial Report 2014–2015

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Left: IU seal on Foster Residence Center, Bloomington

On the Cover: Statue of Ernie Pyle outside Franklin Hall, future home of The Media School, Bloomington

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 2014-15 Financial Report.

On January 20, 2020, we will celebrate the bicentennial of Indiana University. For 200 years, IU will have served the people of Indiana and risen to be one of the nation's and world's finest research universities. It will be older than most universities in the United States and most universities in the rest of the world outside of Europe. The academic year in which the bicentennial falls will be a year of truly unique importance in the life of the university—a year of celebration and pride across all campuses and across the whole state, and a year to reflect on all that IU has achieved in the previous 200 years.

The bicentennial also provides us with a remarkable opportunity to launch an extensive and comprehensive range of initiatives across the whole university that will culminate in the bicentennial year so that, in that year, we can all rightly look back on the previous decade as one of the greatest, most productive, and most transformative in IU's history.

Toward that end, a number of recent university-wide planning efforts have been brought together in the *Bicentennial Strategic Plan for Indiana University*. The plan, approved by the IU Trustees last year, is an ambitious set of initiatives focused on student success and the value of an IU education; research and scholarly excellence; the university's role as an economic powerhouse in Indiana; and much more.

ENHANCING OUR COMMITMENT TO STUDENT SUCCESS

The first priority of our *Bicentennial Strategic Plan* is to enhance our commitment to student success.

IU is educating more Hoosiers than ever before—including in professional and specialized areas that are essential to Indiana's economy. We also attract talented students from around the country and the world, many of whom stay in Indiana and enter the workforce, and many of whom start new businesses.

Over the past several years, state leaders have called upon Indiana's public universities to produce more Hoosier graduates who have the skills necessary to succeed in today's global job market, and to do more to ensure that students persist to graduation and that they complete degrees on time.

Indiana University's responses to these challenges have clearly demonstrated that the university's mission is strongly aligned with that of the state. Over the last three years, IU has been responsible for the majority of the net increase in bachelor's degrees by all four-year institutions in the state, as well as the majority of the increase in degrees awarded on time.

AFFORDABILITY AND STUDENT DEBT

Recent studies consistently show that a college degree has never been more valuable, but this means little to students if they are unable to finance or to complete a degree. IU has taken a number of steps to ensure that all academically qualified students are able to participate in programs that are of high quality, are accessible, and are affordable.

For example, our *Finish in Four* completion award, established in 2013, effectively froze tuition for junior and senior students on track to graduate in four years. I am pleased to say that additional support from the General Assembly in the most recent biennium—for which we are deeply grateful—has allowed us to freeze tuition for *all* in-state undergraduate students at IU Bloomington for the next two years.

Initiatives such as these, when coupled with a threefold increase in institutional financial aid for undergraduate students over the last eight years—thanks in large part to the extraordinary generosity of our donors—have kept the average net cost of attendance at IU Bloomington *the lowest* among the 13 public universities in the Big Ten.

Of course, all of us at IU share the widespread concern about the dramatic rise in student debt nationwide. We also take seriously our responsibility to help those students who do take on debt to reduce their debt load and better understand the implications of

Michael McRobbie, *President, Indiana University*

borrowing. Through our groundbreaking comprehensive financial literacy program, we have helped IU undergraduate students lower their borrowing substantially—more than 16 percent over three years with savings of approximately $83 million.

TRANSFORMING IU'S ACADEMIC STRUCTURE

We have also made sweeping changes to a number of IU's academic programs in recent years. Since 2011, we have created, merged, or reconfigured seven schools on the Bloomington and Indianapolis campuses.

While the academic disciplines affected by these changes are far-reaching—from international studies to media-related fields to computer and information sciences—the impetus behind each of these significant changes was the same: to provide our students with the most relevant educational opportunities possible so that they are positioned for success in today's global marketplace upon their graduation.

These new schools are also making innumerable contributions to the state. Our two new schools of public health, for example, contribute to the state's economic development through the promotion of a healthier workforce and the containment of rapidly increasing employer health care costs. And our School of Global and International Studies, which takes advantage of IU's vast strengths in internationally focused fields, strengthens Indiana's workforce by producing graduates who have global cultural understanding and experience and the ability to work productively with people from different cultures and traditions.

The Indiana Commission for Higher Education also recently approved the establishment of a new program in Intelligent Systems Engineering, to be housed in the School of Informatics and Computing in Bloomington. The decision to establish such a program was informed by a report by the Battelle Technology Partnership Practice, which cited the lack of an engineering program at IU Bloomington as a limiting factor in the future economic growth of southwest-central Indiana.

This new program will greatly benefit IU Bloomington and the state of Indiana by producing new, well-trained graduates in a high-demand field, as well as through its impact on economic development in Indiana.

CATALYZING RESEARCH

Our *Bicentennial Strategic Plan* also recognizes IU's role as a national leader in research.

The benefits to the people of Indiana from having great research universities in the state are profound. University research and creative activities are associated with increased growth and incomes in their surrounding regions through students who have received their education in a research-rich environment; through new enterprises and new ideas brought into existing businesses; and through the pervasive culture of innovation they help to foster.

I am very pleased to report that, in FY2015, IU researchers received $540,654,364 in external research funding. This is the highest total of external research funding brought in by any public research university in the state during the last fiscal year and the second-highest total in IU history.

This figure confirms that IU faculty researchers are in the forefront of one of the most competitive environments for research funding that we have ever experienced in higher education.

As one of the nation's leading research universities, Indiana University has a special opportunity—and responsibility—to drive large-scale research, discovery, and innovation to help address some of the most pressing challenges facing our state, nation and world today.

Thus, as part of the *Bicentennial Strategic Plan*, IU has recently launched the most ambitious research initiative in the university's history: the Grand Challenges research program. IU will invest at least $300 million over the next five years in the program to develop transformative solutions for some of the planet's most pressing problems. These projects will address challenges that are too big to ignore—such as global water supplies; the availability of energy; infectious diseases; harnessing the power of, and protecting, big data; and climate change—by catalyzing collaborative and interdisciplinary research, as well as new partnerships with community organizations, industry and government.

With the Grand Challenges program, IU joins a small number of U.S. universities in recent years, such as Princeton, UCLA, and New York University that have committed significant funding to tackling the most pressing challenges facing the world today and in the future.

HEALTH SCIENCES RESEARCH & EDUCATION TO IMPROVE THE STATE'S AND NATION'S HEALTH

Of course, the research, clinical, and educational activities of IU's health science and clinical schools—which include the IU schools of medicine, nursing, dentistry, optometry, social work, public health, and health and rehabilitation science—are one major way IU contributes to the social and economic development of the state of Indiana.

Over 50 percent of Indiana's physicians, 40 percent of nurses, 90 percent of dentists, and 60 percent of the state's optometrists are trained at IU.

The highly ranked IU School of Medicine educates the largest student body in the U.S. The school has established a leadership position in cardiovascular genetics and many other areas, and has gained a national reputation for its groundbreaking cancer research.

IU's impact on the health of Hoosiers is amplified greatly by its close partnership with Indiana University Health, the state's largest healthcare system, serving tens of thousands of patients a year, and home to numerous nationally prominent specialty practices. IU's partnership with IU Health is vital to educating the next generation of health professionals, and to the health and wellbeing of the citizens of Indiana.

IU and IU Health announced earlier this year that we will dramatically transform the Indianapolis medical campus into a major new academic health center. IU Health will invest approximately $1 billion to consolidate its two existing downtown hospitals into one new state-of-the-art facility. A new Medical Education Building, co-located with the new hospital, will house students and faculty from the IU School of Medicine. IU will also construct a large research facility as part of the academic health center. This initiative will be a major leap forward for medical care and research in Indianapolis.

We also announced in April that the new IU Health Bloomington Hospital will be built on the IU Bloomington campus. It will also be part of a new regional academic health center that will bring to Bloomington and south-central Indiana some of the benefits and services associated with our large-scale, comprehensive academic health center here in Indianapolis. IU will build a new medical education building, which will provide much needed space for IU Bloomington's health-related programs, many of which lack dedicated and specialized classroom space, and suffer from a dearth of laboratory or clinic facilities.

This new regional academic health center will help address the state's growing shortage of medical and health science professionals by allowing us to produce more graduates in these much in-demand professions. It will also attract investment and enhance economic development for Bloomington and south-central Indiana.

A GLOBAL UNIVERSITY

Our *Bicentennial Strategic Plan* also calls on Indiana University to continue to build on a history of engagement in international activity and scholarship that goes back at least 100 years.

Global and International Studies Building, Bloomington

Among the goals of these efforts are to help better prepare our students for the world of tomorrow by expanding opportunities for study abroad, which provides what are often life-changing experiences, and by attracting more international students to IU, where they add invaluable diversity that enriches everyone's educational experience.

IU recently opened its first two international gateway offices in China and India. These facilities serve as gathering places for IU faculty, students, and alumni and serve as the university's front door in these important markets, further raising IU's profile and brand recognition.

Lieutenant Governor Sue Ellspermann's recent visit to the IU China Office underscores the fact that IU's international offices can provide a variety of resources that can be just as useful to Indiana business and government interests as they are to education and research.

This fall, we will open a gateway office in Berlin, with others to follow in areas of the world where we have strong university partnerships and large numbers of alumni.

CONCLUSION

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

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

Yours sincerely,

Michael A. McRobbie
President

MaryFrances McCourt
Senior Vice President and Chief Financial Officer

Dear President McRobbie and the Trustees of Indiana University:

I am pleased to present you with the consolidated financial report for Indiana University for the fiscal year ended June 30, 2015.

We continue to be recognized by Moody's Investor 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 on the effective governance of our senior leadership and the Board of Trustees, our attention toward strong internal controls, our ability to plan over the short- and long-term, and our continued self-assessment and drive toward operating efficiency.

Affordability and accessibility of higher education is at the forefront of national headlines and is a major part of the fabric of our conversation at Indiana University. Although there are many factors contributing to the cost of higher education; including a shift in subsidies, a decline in real household income, the standard of care expected by employers, the impact of technological change on our industry, etc., we must take ownership for our role in impacting outcomes. We are proud of our work on these issues but know we have to do more to educate students on the return on their investment in an Indiana University degree.

Indiana University has adapted to our new normal of tuition price sensitivity and a continued focus on cost containment while we invest in business analytics and decision support tools to drive our analyses related to resource reallocation for investment in our *Bicentennial Strategic Plan*.

Through our efforts, Indiana University has continued its strong financial track record and further strengthened its balance sheet. Continued efficiencies in our operation, prudent operating portfolio and debt management, investment from the state, and the continued generosity of our donors have resulted in further growth of our net assets–a critical indicator of current financial health–by $138 million, or 4%, prior to the change in accounting principle (which reduced net position by $124 million).

Highlights of fiscal year 2015 include:

- A continued focus on price sensitivity with tuition increases at historical lows and a further commitment for the next two fiscal years
  - o Fiscal year 15/16 and FY16/17 undergraduate tuition will remain flat for Bloomington resident students and all other campus' undergraduate resident student increases will average 1.65%
- Further investment in institutional aid with undergraduate resident institutional aid tripling since FY06/07 and total institutional aid doubling
- A further reduction in student debt with a three-year student debt decline of $82.5 million, or 16.2%
- A multitude of awards and recognitions for our student financial literacy programs including:
  - o 2015 Association for Financial Counseling, Planning, and Education "Outstanding Educational Program"
  - o 2015 University Business Magazine "Model of Excellence"
  - o 2015 American College Personnel Association "Outstanding Wellness Program"
  - o Acknowledgment in Kiplinger, USA Today

College, Yahoo Finance, and The Chronicle of Higher Education

- A continuation of the multi-year trend in holding down our benefits rate increases after two years of decline with the majority of our employees in high deductible plans and a heightened focus on employee wellness
- Increased impact on cost efficiency from our focus on strategic spend management
- A campus-wide Decision Support Initiative that will improve decision making at all levels of Indiana University by dramatically enhancing the availability of timely, relevant, and accurate information to support decision makers and facilitate strategic resource allocation and investment

This focus on cost containment and resource allocation will allow us to continue to invest. Our continued success and reputation will be contingent upon this ability to invest in the best and brightest faculty and staff, student academics and services, research initiatives, and technology commercialization. The *Bicentennial Strategic Plan* will provide focus and direction and the $2.5 billion goal of our Bicentennial Campaign will enable continued achievement in the centuries to come.

We take very seriously the responsibility we have in delivering on the public purpose of higher education to enhance intergenerational mobility and driving the knowledge creation and innovation that supports economic growth.

The value of a college education has never been greater. It is an exciting time to be part of higher education. We are confident in our ability to manage through both the opportunities and pressures while we remain sensitive to the national focus on affordability and maintain a strong financial position now and into the future.

Sincerely,

MaryFrances McCourt
Senior Vice President and Chief Financial Officer


The Clock Tower, Student Building, Bloomington

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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the University, as of June 30, 2015 and 2014, and the respective changes in financial position, where applicable, and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in fiscal year 2015, the University adopted new accounting guidance GASB Statement 68 *Accounting and Financial Reporting for Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was 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 Senior Vice President and Chief Financial Officer, Excerpts from the IU Foundation - Notes to Financial Statements, Trustees and Administrative Officers of Indiana University, and Additional Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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 22, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University's internal control over financial reporting and compliance.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

October 22, 2015

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, 2015 and 2014, along with comparative financial information for the fiscal year ended June 30, 2013. This discussion has been prepared by management 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 have been prepared by university management in accordance with Governmental Accounting Standards Board (GASB) principles.

The Statement of Net Position is the university's balance sheet. The statement presents the university's financial position by reporting all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of the fiscal 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 is the university's income statement. The statement presents the total revenues earned and expenses incurred by the university during the fiscal year, along with the increase or decrease in net position. This statement depicts the university's revenue streams, along with the categories of expenses supported by that revenue. Changes in net position are an indication of improvement or decline in the university's overall financial condition.

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

STATEMENT OF NET POSITION

A comparison of the university's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2015, 2014, and 2013, is summarized as follows:

Condensed Statement of Net Position			
(in thousands of dollars)	*June 30, 2015*	*June 30, 2014*	*June 30, 2013*
Current assets	$ 739,585	$ 578,031	$ 635,060
Capital assets, net	2,815,801	2,729,895	2,695,502
Other assets	1,691,873	1,717,852	1,559,666
Total assets	**5,247,259**	**5,025,778**	**4,890,228**
Deferred outflows of resources	**22,862**	**13,964**	**16,850**
Current liabilities	384,327	391,896	417,846
Noncurrent liabilities	1,268,297	1,056,658	1,099,234
Total liabilities	**1,652,624**	**1,448,554**	**1,517,080**
Deferred inflows of resources	**11,868**	**–**	**–**
Net investment in capital assets	1,924,031	1,830,756	1,779,033
Restricted net position	298,663	255,247	213,279
Unrestricted net position	1,382,935	1,505,185	1,397,686
Total net position	**$ 3,605,629**	**$ 3,591,188**	**$ 3,389,998**

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, employee benefit and retirement costs, self-liquidity requirements, and other operational needs.

In fiscal year 2015, current assets increased $161,554,000, or 28%, to $739,585,000 at June 30, 2015. This increase is primarily due to an increase of cash, cash equivalents, and short-term investments totaling $149,883,000, or 40%. The objective of the university's investment policy with respect to its operating funds is to adequately provide for the liquidity needs of the university while maximizing the opportunity to increase yield on investments. The management of the university's operating funds permits flexibility while providing a consolidated basis from which to meet liquidity demands. Decisions on management of cash and shorter-term holdings are based on asset prices, the economic environment, investment opportunities, and liquidity needs. As of June 30, 2015, invested bond proceeds held for capital projects contributed significantly to this shift to shorter-term resources. Current net accounts receivable increased $11,307,000, or 9%, to $143,222,000. The increase included $9,386,000 in state appropriation operating receivables previously withheld during fiscal year 2015 and received in July 2015. The overall increase in current assets is primarily a function of the university's operating, capital financing, and investing activities as reflected in the Statement of Cash Flows.

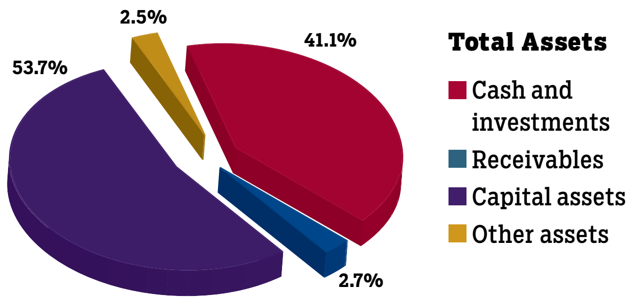
Major components of noncurrent assets are endowment and operating investments, and capital assets, net of accumulated depreciation. Noncurrent assets increased $59,927,000, or 1%, to $4,507,674,000 at June 30, 2015, compared to June 30, 2014. The market value of the university's noncurrent investment portfolio declined $26,829,000, or 2%, to $1,632,897,000 at June 30, 2015, largely due to unrealized losses on investments compared to unrealized gains in the prior year. Realized gains in the operating portfolio partially offset the overall decline.

As described in the Capital Asset section of Management's Discussion and Analysis, the university is committed to investing in physical facilities and infrastructure according to long-term master plans. These investments capitalize on the unique environment of each of the university's campuses.

Total assets increased $221,481,000, or 4%, to $5,247,259,000 as of June 30, 2015.

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

Total Assets		
(in thousands of dollars)		
Cash and investments	$ 2,155,454	41.1%
Receivables	143,222	2.7%
Capital assets	2,815,801	53.7%
Other assets	132,782	2.5%
Total assets	**$ 5,247,259**	**100.0%**



DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources represent the consumption of resources applicable to a future reporting period, but do not require a further exchange of goods or services. Deferred outflows represent the consumption of net position applicable to a future reporting period and so will not be recognized as expenses or expenditures until then. The amounts recorded result from capital debt refunding transactions, and consist of the deferred charges on refundings of debt.

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, and the current portion of long-term debt and capital lease obligations.

Current liabilities declined $7,569,000, or 2%, to $384,327,000 at June 30, 2015, primarily due to a decline in unearned revenue. Unearned revenue is comprised of receipts for which recognition of the related revenue will be recognized in future periods. The university's unearned revenue is attributable in part to the academic calendar, in which a portion of summer session student fees collected in the current fiscal year is classified as unearned until the following fiscal year when the related summer session classes are taught. In addition, funds received in advance of expenditures on sponsored projects are classified as unearned revenue. The reduction of $16,274,000 in current unearned revenue is due in large part to the timing of spending related to capital and other grants for which receipts were received in advance of related expenditures.

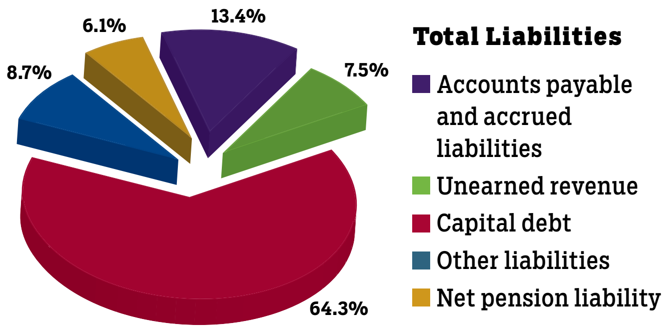
Noncurrent liabilities increased $211,639,000, or 20%, to $1,268,297,000 at June 30, 2015. The university adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requiring governments providing defined benefit plans to recognize their unfunded pension benefit obligations for the first time. Accordingly, the university recorded a net pension liability of $101,229,000 at June 30, 2015 (see Note 11, Retirement Plans). Other long-term liabilities include other postemployment benefits, as described in Note 12, Postemployment Benefits, and compensated absences.

The university's capital debt outstanding of $1,062,621,000 at June 30, 2015, and $947,519,000 at June 30, 2014, represents 64% and 65% of total liabilities at June 30, 2015 and 2014, respectively. A discussion of the university's capital financing activities appears in Note 7, Bonds and Notes Payable, and Note 8, Lease Obligations, and in the Debt and Financing activity section.

Total liabilities increased $204,070,000, or 14%, to $1,652,624,000 at June 30, 2015.

The following table and chart represent the composition of total liabilities

Total Liabilities		
(in thousands of dollars)		
Accounts payable and accrued liabilities	$ 221,205	13.4%
Unearned revenue	124,280	7.5%
Capital debt	1,062,621	64.3%
Other liabilities	143,289	8.7%
Net pension liability	101,229	6.1%
Total liabilities	**$ 1,652,624**	**100.0%**



DEFERRED INFLOWS OF RESOURCES

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

Limestone carving, Rawles Hall, Bloomington

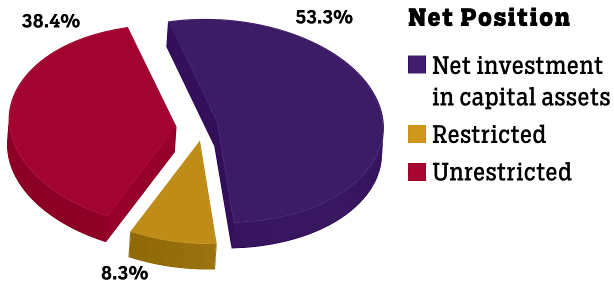
NET POSITION

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:
  - o Restricted non-expendable funds 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.
  - o 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	$ 1,924,031	53.3%
Restricted	298,663	8.3%
Unrestricted	1,382,935	38.4%
Total net position	**$ 3,605,629**	**100.0%**



The university's net investment in capital assets reflects the institutional long-term capital investment in sustaining and enhancing the university's mission and strategic plans. The net investment in capital assets increased $93,275,000, or 5%, to $1,924,031,000 at June 30, 2015. Growth in this area is managed according to the university's long-range capital plans, along with operating units' needs to support programs and operational functions.

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 declined $122,250,000, or 8%, to $1,382,935,000 at June 30, 2015. The decline is attributable to the change in accounting principle in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requiring governments providing defined benefit plans to recognize their unfunded pension benefit obligations for the first time. Accordingly, the university recorded a net pension liability of $101,229,000 at June 30, 2015, which resulted in a change in unrestricted net position. Unrestricted net position represents resources available for ongoing operational needs, funding ongoing obligations such as other postemployment benefits, as well as providing flexibility to support the university's mission in changing economic environments.

Net position before the change in accounting principle increased $138,405,000, or 4%, over beginning net position before the change in accounting principle. The change in accounting principle reduced net position by $123,964,000. Net position at June 30, 2015, was $3,605,629,000.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

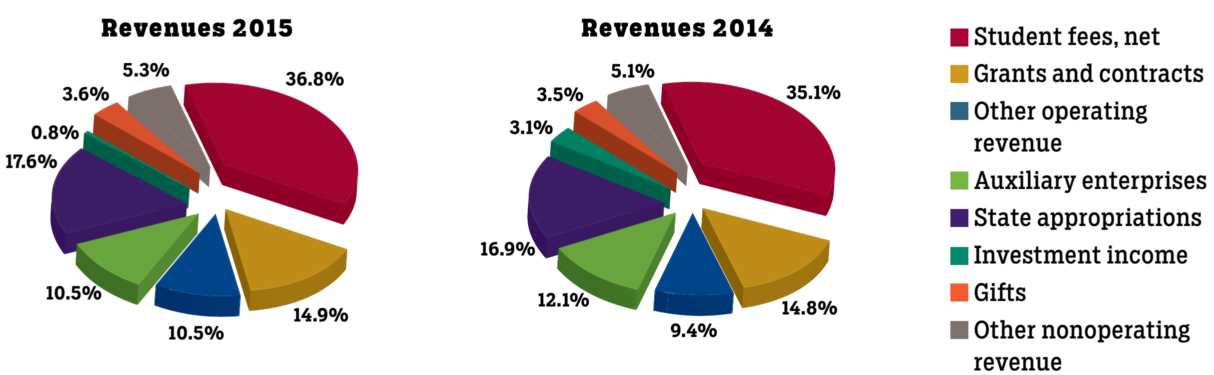
Total revenues declined $39,943,000, or 1%, to $3,036,740,000 in fiscal year 2015. Total expenses increased $22,842,000, or 1%, to $2,898,335,000 during fiscal year 2015.

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, 2015	*June 30, 2014*	*June 30, 2013*
Operating revenues	$ 2,207,604	$ 2,195,241	$ 2,146,736
Operating expenses	(2,863,815)	(2,838,946)	(2,721,541)
Total operating loss	(656,211)	(643,705)	(574,805)
Nonoperating revenues	781,232	836,077	772,775
Nonoperating expenses	(34,520)	(36,547)	(30,730)
Income before other revenues, expenses, gains, or losses	90,501	155,825	167,240
Other revenues	47,904	45,365	22,084
Increase in net position	**138,405**	**201,190**	**189,324**
Net position, beginning of year	3,591,188	3,389,998	3,200,674
Adjustment per change in accounting principle	(123,964)	–	–
Net position, beginning of year, as restated	3,467,224	–	–
Net position, end of year	**$ 3,605,629**	**$ 3,591,188**	**$ 3,389,998**

The following charts represent revenues by major source for fiscal years 2015 and 2014:



Total operating revenues increased $12,363,000, or 1%, to $2,207,604,000 during fiscal year 2015. The university supports its operations with diverse revenue sources, of which the largest single source is student tuition and fees. Tuition and fees, net of scholarship allowances, increased $39,429,000, or 4%, to $1,118,959,000 over the prior fiscal year and represents 37% of total revenue. Tuition and fee revenue fluctuates according to a combination of changes in tuition rates, enrollment, and the mix of student levels and residency. Undergraduate tuition and fee rate increases in 2015 ranged from a tuition freeze for Indiana residents on the Bloomington campus to 1.65% for residents on the IUPUI campus. Regional campus undergraduate tuition and fee rate increases increased an average of 1.65%. Holding tuition rate increases down is representative of extensive tuition control efforts by the university. Significant achievements in research and creative activity across multiple disciplines continues to be a strong focus of the university, with total operating grant and contract revenue of $451,471,000 during fiscal year 2015. The university has invested significantly in crucial infrastructure to support the research taking place across diverse areas of focus. Federal, state and local grant and contract revenue increased $4,687,000, or 2%. Nongovernmental grants and contracts revenue declined $9,690,000, or 7%, due to a combination of natural variability in the awarding of foundation and not-for-profit agency grants, along with revenue recognition timing as grant revenue is recognized for financial reporting as spending takes place.

Total operating expenses increased $24,869,000, or 1%, to $2,863,815,000 during fiscal year 2015. The combined total of student financial aid expense and scholarship allowances, including those related to auxiliary revenue, increased $16,850,000, or 4%. The university's strategy to promote student affordability in both the short- and long-term includes a focus on increased access to financial aid in conjunction with financial literacy programs. Compensation and benefits, at 66% of total operating expenses, represent the largest single university expense. Compensation and benefits expense increased $26,817,000, or 1%, over the prior year, to $1,877,249,000. Fringe benefit cost increases were primarily due to increases in health insurance expenses. Health and dental claims increased 5% due to the higher cost of services, and prescription claims increased 8% as more expensive prescription drugs are available. While overall costs have increased, the university's cost per employee is at or below market benchmarks. University benefit plans are an important element in attracting and retaining employees to support the university's missions. Specific initiatives have been implemented to control benefit program expenses. Notably, the university has implemented a High Deductible Health Plan (HDHP) with lower employer premiums while providing employees with greater control over healthcare spending. Approximately 83% of employees

Northside Hall, South Bend

were enrolled in an HDHP in 2015. The increase in energy and utilities costs was held to only $723,000, or 1%, over the prior year. Energy savings measures were offset by increased electricity and steam rates.

Nonoperating revenues, net of interest expense, declined $52,818,000, or 7%, to $746,712,000 in 2015. State operating appropriations increased a total of $15,604,000, or 3%, compared to fiscal year 2014. The State enacted an operating appropriation increase of $16,512,000, or 4%, for the 2013-15 biennium, with the entire increase for the biennium appropriated for fiscal year 2014. In June 2014, the Governor of Indiana directed the State Budget Agency to withhold a 2% reserve on operating appropriations of all Indiana state universities' fiscal year appropriations. The reserve was in response to state revenue shortfalls in fiscal year 2014. Because of its stronger than anticipated revenue growth and continued strong operating reserves, the State Budget Agency distributed the 2% amounts previously withheld for fiscal year 2015. This amounted to an additional $9,385,000 in operating appropriations received over fiscal year 2014 amounts. Student fee replacement appropriations are made for the purpose of reimbursing a portion of debt service for certain academic facilities. These funds are claimed according to the university's fee replacement-supported debt service schedules, and were not subject to the 2% reduction. Amounts received for student fee replacement for fiscal year 2015 exceeded fiscal year 2014 amounts by $6,054,000. Investment income declined $71,866,000, or 75%, in fiscal year 2015 to $23,694,000 primarily due to unrealized losses in 2015, compared to overall unrealized gains in 2014. The unrealized losses were partially offset by realized gains. Interest expense declined $2,027,000, or 6%, over 2014 due to natural fluctuations in debt service requirements.

The university recognized $26,794,000 in capital appropriations for repair and renovations on all campuses in 2015. Capital gifts and grants received during the year include funding for work on the Kelley School of Business Phase II and Undergraduate Facility.

STATEMENT OF CASH FLOWS

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

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

Comparative Statement of Cash Flows

(in thousands of dollars)		*Fiscal Year Ended*	
	June 30, 2015	*June 30, 2014*	*June 30, 2013*
Net cash provided (used) by:			
Operating activities	$ (533,968)	$ (532,911)	$ (476,724)
Noncapital financing activities	748,874	741,973	723,772
Capital and related financing activities	(115,494)	(206,182)	(336,521)
Investing activities	(21,798)	(24,195)	(220,405)
Net increase (decrease) in cash and cash equivalents	77,614	(21,315)	(309,878)
Beginning cash and cash equivalents	313,954	335,269	645,147
Ending cash and cash equivalents	**$ 391,568**	**$ 313,954**	**$ 335,269**

The university's cash and cash equivalents increased $77,614,000 in 2015. Net cash flows from operating activities consists primarily of student fees, grants and contracts, and auxiliary enterprise receipts. Payments to employees represent the largest use of cash for operations. Cash used in operations in fiscal year 2015 increased $1,057,000, less than 1%, compared to fiscal year 2014. Significant sources of cash provided by noncapital financing activities, as defined by GASB, including state appropriations, federal Pell grants, and private noncapital gifts are used to fund operating activities. Fluctuations in capital and related financing activities reflect decisions made relative to the university's capital and financing plans. Net cash used in capital and related financial activities declined $90,688,000, or 44%, to $115,494,000, primarily related to debt issuance and refinancing activity in 2015. Cash flows from investing activities include the effects of shifts between cash equivalents and longer-term investments.

CAPITAL ASSET ACTIVITY

The university's investment in capital assets, net of depreciation, which include land, art and museum objects, infrastructure, equipment, and buildings, grew $85,906,000, or 3%, to $2,815,801,000 at June 30, 2015. Additions to capital assets are comprised of new construction, renewal and renovations, as well as major investments in equipment and information technology. Construction in progress includes academic and administrative building projects, student residence hall improvements, and construction of research facilities.

The university's *Bicentennial Strategic Plan* outlines ten broad *Principles of Excellence*, around which the plan is structured, and includes a set of four priority "areas that form part of the crucial framework that is vital to academic excellence." These comprise the *Framework of Excellence*, of which the second component is "Building for Excellence." This priority focuses on ensuring "that IU has the new and renovated physical facilities and infrastructure that are 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 Global and International Studies Building on the Bloomington campus opened for fall semester 2015, bringing together the university's highly-ranked language, area studies, and international studies programs into a state-of-the-art facility that will provide an interdisciplinary academic home for the new School of Global and International Studies. The 165,000 square foot structure features a three-story enclosed atrium connecting two limestone-clad wings, which will serve as event and function space. More than thirty classrooms and collaborative spaces are included, as well as a one hundred-fifty seat lecture hall. Also included are three hundred-fifty offices for faculty and staff. The building's design allows daylight to flow through the entire building, making use of artificial light unnecessary in most spaces. The $49,000,000 facility is under review for LEED Gold certification.

Phase I of the Kelley School of Business Undergraduate Building, the Hodge Hall renovation and expansion, was completed in July 2014 at a cost of $31,000,000. The four-story expansion added nearly 90,000 square feet to the existing undergraduate facility, including 16 classrooms. The facility will house the Indiana Business Research Center, a behavioral research lab, a sales and business communications lab, and a stock trading room with state-of-the-art resources. The renovated space enhances the student experience with student collaboration space and a student commons area designed to inspire gathering and collaboration. The renovation will enable technology-mediated global team learning–real time interaction with other students, business leaders, and companies around the world. The project is being reviewed for LEED Gold certification. LEED certification recognizes high standards of energy-conscious and environmentally-sustainable design and construction. Phase II, renovation of the original building that opened in 1966, is scheduled for completion in 2017.

University Hall opened in June 2015 on the IUPUI campus, providing the first permanent home for the world's first school of philanthropy, the Lilly Family School of Philanthropy, bringing people and programs together under one roof to enhance the synergy and engagement among students, faculty, and staff. The facility will also provide critically needed

Hodge Hall, Bloomington

additional space for the Indiana University School of Social Work, creating new and different types of space to enhance students' academic experience. In addition, the building will house various administrative offices serving the university community. The 100,000 square foot facility was completed at a cost of $22,000,000, and is under review for LEED Silver certification.

Renovation of the Northside Hall, Administration Building, and Riverside Hall on the South Bend campus is underway with state funding at a projected cost of $5,990,000. This renovation is part of a set of projects to address the deferred maintenance needs of the university's regional campuses. These projects involve replacing and repairing building envelopes, campus systems, and building systems, along with building code updates for accessibility and campus safety.

DEBT AND FINANCING ACTIVITY

Institutional borrowing capacity is a valuable resource that is actively managed in support of the institutional mission. Bonds, notes, and capital lease obligations totaled $1,062,621,000 and $947,519,000 at June 30, 2015 and 2014, respectively.

On January 14, 2015, the university issued fixed rate Student Fee Bonds, Series W-1 (Green Bonds) and Series W-2 with par amounts of $58,960,000 as new money bonds and $62,765,000 as refunding bonds, respectively. The Green Bonds were the first to be issued by a Big Ten institution and the second among public universities. The proceeds were used to finance the renovation of Franklin Hall on the Bloomington campus and the construction of the Arts and Sciences Building on the Northwest campus and included the costs to issue the bonds, including underwriter's discount. The Green Bonds highlight the university's leadership in sustainability and its commitment to environmentally responsible building methods. The Series W-2 proceeds were used to refund a portion of Student Fee Bonds Series R and S and included the costs to issue the bonds, including underwriter's discount. The Series W-2 refunding bonds generated future debt service savings of $6,499,000, which equated to a net present value savings of $5,268,000. The true interest cost was 2.97% and 2.57% for Series W-1 and Series W-2, respectively.

On April 1, 2015, the university issued fixed rate Consolidated Revenue Bonds, Series 2015A with a par amount of $146,960,000, which included new money bonds of $60,755,000 and refunding bonds of $86,205,000. The proceeds financed the renovation of Read Hall, Phase II on the Bloomington campus and the construction of North Hall on the Indianapolis campus (both for student housing) and included capitalized interest and costs to issue the bonds, including underwriters' discount. The proceeds of the bonds also partially refunded Consolidated Revenue Bonds, Series 2008A and Consol-

University Hall, IUPUI

idated Revenue Bonds, Series 2009A. The refunding portion of the transaction generated future debt service savings of $6,910,000, which equated to a net present value savings of $5,946,000. The true interest cost for the bonds was 2.81%.

On May 13, 2015, the university issued fixed rate Lease Purchase Obligations, Series 2015A with a par amount of $31,025,000 as new money bonds. The proceeds financed the renovation of Assembly Hall on the Bloomington campus and included capitalized interest and costs to issue the bonds, including underwriters' discount. The true interest cost for the Obligations was 3.10%.

On December 5, 2014, in Moody's most recent full report on the university, it rated the university's most recent student fee bonds and reaffirmed its underlying rating on student fee bonds, consolidated revenue bonds, lease purchase obligations, and certificates of participation as 'Aaa' with a stable outlook. Moody's rated and reaffirmed the university's most recent consolidated revenue bonds in February 2015, and most recent lease purchase obligations in April 2015. On April 24, 2015, Standard & Poor's Ratings Services rated the university's lease purchase obligations and reaffirmed its underlying rating on student fee bonds, consolidated revenue bonds, and certificates of participation as 'AA+' with a stable outlook.

ECONOMIC OUTLOOK

After experiencing a slight decline, (0.4%), in overall year-over-year state revenue in fiscal year 2014, fiscal year 2015 state revenues were $496,000,000, or 3%, above fiscal year 2014. Total state tax revenues exceeded forecast by $274,000,000, or 2%. Sales tax collections, the largest single state tax revenue source, was 0.4% below forecast, but grew at a modest rate of 4% over 2014, while individual income tax collections exceeded forecast by 4% and grew at a very strong 7% above fiscal year 2014. Rounding out the state's "Big 3" tax revenues, corporate income tax collections strongly exceeded forecast for the second straight year by 12% and were 4% above fiscal year 2014 revenues. Despite the positive revenue collection performance, it is notable that state tax revenues in fiscal year 2015 were impacted modestly by income tax cuts enacted by the General Assembly in recent years. These tax cuts are being phased-in and will result in a 5% cut by January 1, 2017 (from 3.4% to 3.23%). For fiscal year 2016, total state revenues are forecasted to increase by $346,000,000, or 2%, over previously projected 2015 revenues. However, because actual revenue collections in 2015 were $274,000,000 above forecast, revenue growth of only $72,000,000, or 0.5%, is needed to achieve the fiscal year 2016 revenue forecast level. The state's overall fiscal standing remains strong with total reserve balances exceeding $2,140,000,000 at June 30, 2015, more than 14% of state operating revenues.

Because of its stronger than anticipated revenue growth and continued strong operating reserves, the State Budget Agency distributed all of appropriated operating funds, including 2% originally withheld from fiscal year 2015 operating appropriations due to concerns over state revenue performance.

Indiana's unemployment rate continued its strong improvement during fiscal year 2015, dropping from 5.8% in July 2014 to 4.8% in June 2015. It is presumed that strong individual income tax revenue collections during 2015 coincide with lower unemployment—although sales tax growth, also related to employment—was comparatively modest. With lower unemployment, there is hope that the forecast state revenue growth rate might be achieved in fiscal year 2016, further improving Indiana's fiscal standing. However, while evidence indicates that both Indiana and the national economies are expanding at a moderate pace, much uncertainty continues, including concerns about international economic growth.

Fountain outside Jacobs School of Music, Bloomington

Statement of Net Position

(in thousands of dollars)	*June 30, 2015*	*June 30, 2014*
ASSETS		
Current assets		
Cash and cash equivalents	$ 391,568	$ 313,954
Accounts receivable, net	143,222	131,915
Current portion of notes and pledges receivable	14,660	15,215
Inventories	9,558	10,917
Short-term investments	130,989	58,720
Other assets	49,588	47,310
Total current assets	739,585	578,031
Noncurrent assets		
Notes and pledges receivable	58,976	58,126
Investments	1,632,897	1,659,726
Capital assets, net	2,815,801	2,729,895
Total noncurrent assets	4,507,674	4,447,747
Total assets	**5,247,259**	**5,025,778**
Deferred outflows of resources	**22,862**	**13,964**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	221,205	218,611
Unearned revenue	91,777	108,051
Current portion of capital lease obligations	940	783
Current portion of long-term debt	70,405	64,451
Total current liabilities	384,327	391,896
Noncurrent liabilities		
Capital lease obligations	1,895	930
Notes payable	107,050	79,560
Assets held in custody for others	79,208	77,710
Unearned revenue	32,503	39,069
Bonds payable	882,331	801,795
Other long-term liabilities	64,081	57,594
Net pension liability	101,229	–
Total noncurrent liabilities	1,268,297	1,056,658
Total liabilities	**1,652,624**	**1,448,554**
Deferred inflows of resources	**11,868**	**–**
NET POSITION		
Net investment in capital assets	1,924,031	1,830,756
Restricted for:		
Nonexpendable - endowments	52,893	45,268
Expendable		
Scholarships, research, instruction and other	146,919	144,160
Loans	19,994	19,604
Capital projects	52,551	26,051
Debt service	26,306	20,164
Unrestricted	1,382,935	1,505,185
Total net position	**$ 3,605,629**	**$ 3,591,188**

See accompanying notes to the financial statements.

INDIANA UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014
(In thousands of dollars)

	2015	2014
ASSETS		
CASH AND CASH EQUIVALENTS	$ 87,396	$ 102,714
CASH COLLATERAL UNDER SECURITIES LENDING AGREEMENT	95,016	98,766
RECEIVABLES AND OTHER ASSETS	52,799	36,973
PROMISES TO GIVE - NET	154,819	159,539
INVESTMENTS	2,190,545	2,147,618
PROPERTY, PLANT, AND EQUIPMENT - NET	44,452	50,894
TOTAL ASSETS	$ 2,625,027	$ 2,596,504
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and other	$ 37,198	$ 25,725
Payable under securities lending agreement	95,016	98,766
Debt	53	2,990
Accrued trust obligation to life beneficiaries	35,384	36,441
Assets held for the University	232,308	243,118
Assets held for University affiliates	39,092	24,290
Total liabilities	439,051	431,330
NET ASSETS:		
Unrestricted net assets	54,614	51,363
Temporarily restricted net assets	839,191	841,110
Permanently restricted net assets	1,292,171	1,272,701
Total net assets	2,185,976	2,165,174
TOTAL LIABILITIES AND NET ASSETS	$ 2,625,027	$ 2,596,504

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

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2015	*June 30, 2014*
OPERATING REVENUES		
Student fees	$ 1,357,804	$ 1,303,046
Less scholarship allowance	(238,845)	(223,516)
Federal grants and contracts	293,846	290,301
State and local grants and contracts	21,104	19,962
Nongovernmental grants and contracts	136,521	146,211
Sales and services of educational units	39,397	65,374
Other revenue	279,096	222,871
Auxiliary enterprises (net of scholarship allowance of $30,086 in 2015 and $27,612 in 2014)	318,681	370,992
Total operating revenues	**2,207,604**	**2,195,241**
OPERATING EXPENSES		
Compensation and benefits	1,877,249	1,850,432
Student financial aid	151,579	152,532
Energy and utilities	78,084	77,361
Travel	52,945	48,840
Supplies and general expense	557,070	564,623
Depreciation and amortization expense	146,888	145,158
Total operating expenses	**2,863,815**	**2,838,946**
Total operating loss	**(656,211)**	**(643,705)**
NONOPERATING REVENUE (EXPENSES)		
State appropriations	535,021	519,417
Grants, contracts, and other	113,373	112,795
Investment income	23,694	95,560
Gifts	109,144	108,305
Interest expense	(34,520)	(36,547)
Net nonoperating revenues	**746,712**	**799,530**
Income before other revenues, expenses, gains, or losses	**90,501**	**155,825**
Capital appropriations	26,794	25,876
Capital gifts and grants	20,870	19,102
Additions to permanent endowments	240	387
Total other revenues	**47,904**	**45,365**
Increase in net position	**138,405**	**201,190**
Net position, beginning of year	**3,591,188**	**3,389,998**
Adjustment per change in accounting principle	(123,964)	–
Net position, beginning of year, as restated	**3,467,224**	**–**
Net position, end of year	**$ 3,605,629**	**$ 3,591,188**

See accompanying notes to the financial statements.

INDIANA UNIVERSITY FOUNDATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(In thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:				
Contributions — net	$ 3,085	$ 74,711	$ 46,181	$ 123,977
Investment income — net	6,790	73,198	(26,946)	53,042
Management/administrative fees	17,330	(14,614)	(38)	2,678
Grants	-	10,784	-	10,784
Other income	10,528	6,127	1,349	18,004
Development service fees from the University	4,923	-	-	4,923
Net assets released from restriction	150,079	(150,488)	409	-
Total revenue and support	192,735	(282)	20,955	213,408
EXPENDITURES:				
Program expenditures	156,755	-	-	156,755
Management and general	11,432	1,334	956	13,722
Fundraising	21,241	-	-	21,241
Change in value of split interest agreement obligation	56	303	529	888
Total expenditures	189,484	1,637	1,485	192,606
Total change in net assets	3,251	(1,919)	19,470	20,802
BEGINNING NET ASSETS	51,363	841,110	1,272,701	2,165,174
ENDING NET ASSETS	$ 54,614	$ 839,191	$ 1,292,171	$ 2,185,976

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2015	*June 30, 2014*
CASH FLOWS FROM OPERATING ACTIVITIES		
Student fees	$ 1,118,299	$ 1,074,775
Grants and contracts	443,412	425,305
Sales and services of educational activities	38,731	65,225
Auxiliary enterprise charges	318,090	369,968
Other operating receipts	287,649	229,652
Payments to employees	(1,903,833)	(1,845,793)
Payments to suppliers	(686,639)	(694,943)
Student financial aid	(150,639)	(156,749)
Student loans collected	11,996	10,111
Student loans issued	(11,034)	(10,462)
Net cash used in operating activities	**(533,968)**	**(532,911)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	525,421	519,417
Nonoperating grants and contracts	113,374	112,795
Gifts and grants received for other than capital purposes	109,060	109,866
Direct lending receipts	553,208	556,085
Direct lending payments	(552,189)	(556,190)
Net cash provided by noncapital financing activities	**748,874**	**741,973**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	26,794	25,876
Capital grants and gifts received	22,158	16,558
Purchase of capital assets	(231,211)	(172,532)
Proceeds from issuance of capital debt, including refunding activity	184,238	20,375
Principal payments on capital debt	(59,104)	(55,430)
Principal paid on capital leases	(1,268)	(1,390)
Interest paid on capital debt and leases	(57,101)	(39,639)
Net cash used in capital and related financing activities	**(115,494)**	**(206,182)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	4,484,685	2,851,564
Investment income	41,347	44,129
Purchase of Investments	(4,547,830)	(2,919,888)
Net cash used in investing activities	**(21,798)**	**(24,195)**
Net increase (decrease) in cash and cash equivalents	**77,614**	**(21,315)**
Cash and cash equivalents, beginning of year	313,954	335,269
Cash and cash equivalents, end of year	**$ 391,568**	**$ 313,954**

See accompanying notes to the financial statements.

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2015	*June 30, 2014*
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (656,211)	$ (643,705)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	146,888	145,158
Loss on disposal of capital assets	2,157	6,903
Changes in assets and liabilities:		
Accounts receivable	(4,988)	725
Inventories	1,359	162
Other assets	(2,278)	(12,565)
Notes receivable	(296)	(1,416)
Accounts payable and accrued liabilities	2,781	9,258
Unearned revenue	(22,839)	(34,910)
Assets held in custody for others	1,499	1,033
Other noncurrent liabilities	8,827	(3,554)
Net pension liability and related deferreds	(10,867)	–
Net cash used in operating activities	**$ (533,968)**	**$ (532,911)**

See accompanying notes to the financial statements.

June 30, 2015 and June 30, 2014

Note 1—Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

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

The IU Foundation is a not-for-profit organization that reports under FASB standards, including FASB Statement Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features differ from GASB revenue recognition criteria and presentation features. No modifications have been made to the IU Foundation's financial information in the university's financial reporting to adjust for these differences. The IU Foundation distributed $151,053,000 and $140,665,000 to the university during fiscal years 2015 and 2014, respectively. Complete financial statements for the IU Foundation can be obtained from: Indiana University Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

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

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

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

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

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

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

DEFERRED OUTFLOWS OF RESOURCES:
In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources represent the consumption of resources that are applicable to a future reporting period, but do not require a further exchange of goods or services. The university's de-

ferred outflows of resources relate to the accumulated deferred charges on refundings of capital debt.

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

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

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

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).
- *Non-operating revenues:* Non-operating revenues include those derived from non-exchange transactions such as gifts and certain federal and state grants. Non-operating revenues include significant revenue sources that are relied upon for operations, such as state appropriations, federal Pell grants and investment income.

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

NEW ACCOUNTING PRONOUNCEMENTS:
Adoption of New Standard – The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI) for material items. In accordance with the statement, the university has reported a $123,964,000 change in accounting principle adjustment to Unrestricted Net Position as of July 1, 2014. June 30, 2014, amounts have not been restated to reflect the impact of GASB 68 because the information is not available to calculate the impact on pension expense for the fiscal year ending June 30, 2014.

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

Reclassifications have been made in the current period to the Statement of Revenues, Expenses and Change in Net Position between sales and services of educational units and other revenue to more accurately reflect medical clinic support and reimbursements.

Note 2—Deposits and Investments

DEPOSITS: The combined bank balances of the university's demand deposits were $52,555,000 and $71,868,000 at June 30, 2015 and 2014, respectively. The university had balances subject to custodial risk in the amount of $6,429,000 and $71,617,000 at June 30, 2015 and 2014, respectively. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk, however the university monitors the credit rating and certain financial performance metrics of its custodial and commercial banks on a quarterly basis.

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, 2015 and 2014, the university had investments and deposits, including endowment funds, as shown below:

(dollar amounts presented in thousands)

	Fair Value	
	June 30, 2015	*June 30, 2014*
Cash and cash equivalents	$ 391,568	$ 313,954
Short term investments	130,989	58,720
Investments	1,632,897	1,659,726
Total	**$ 2,155,454**	**$ 2,032,400**

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 $1,281,000 and $1,961,000 exposed to custodial credit risk at June 30, 2015 and 2014, respectively. The university had $21,053,000 and $16,782,000 where custodial credit risk could not be determined at June 30, 2015 and 2014, respectively. The remainder of the university's investments is not exposed to custodial credit risk and reflects either investment securities registered in the name of the university, investment securities loaned for collateral received, or other types of investments not exposed to custodial credit risk.

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

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

(dollar amounts presented in thousands)

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

The university had investments with the following maturities at June 30, 2014:

(dollar amounts presented in thousands)

Investment Type	*Fair Value June 30, 2014*	*Investment Maturities (in years)* *Less than 1*	*1-5*	*6-10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 509,509	$ 47,419	$ 311,002	$ 102,040	$ 49,048
Asset-backed securities	369,385	280	125,007	38,319	205,779
Government bonds	324,760	16,954	134,090	130,071	43,645
Government issued asset-backed securities	113,516	1	5,945	14,866	92,704
Other fixed income	44,020	(6,392)	27,982	15,662	6,768
Total investments with maturity date	**1,361,190**	**58,262**	**604,026**	**300,958**	**397,944**
Investments with undetermined maturity date					
External investment pools	251,018	251,018	–	–	–
Money market funds	234,676	234,676	–	–	–
Fixed income funds	100,244	100,244	–	–	–
All other	85,272	85,272	–	–	–
Total investments with undetermined maturity date	**671,210**	**671,210**	**–**	**–**	**–**
Total	**$ 2,032,400**	**$ 729,472**	**$ 604,026**	**$ 300,958**	**$ 397,944**

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, 2015 and 2014, university investments had debt securities with associated credit ratings as shown below:

(dollar amounts presented in thousands)

Credit Quality Rating	*Fair Value June 30, 2015*	*Percentage of Total Pool*	*Fair Value June 30, 2014*	*Percentage of Total Pool*
AAA	$ 248,615	11.53%	$ 269,118	13.24%
AA	401,442	18.62%	460,409	22.65%
A	239,866	11.13%	191,327	9.42%
BBB	275,152	12.77%	265,082	13.04%
BB	97,368	4.52%	91,120	4.48%
Below BB	108,933	5.05%	94,741	4.66%
Not Rated	784,078	36.38%	660,603	32.51%
Total	**$ 2,155,454**	**100.00%**	**$ 2,032,400**	**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.

At June 30, 2015 and 2014, the university had investments exposed to foreign currency risk stated in U.S. Dollar equivalents as shown below:

(dollar amounts presented in thousands)

Currency	*June 30, 2015*	*June 30, 2014*
Mexican peso	$ 14,953	$ 11,686
Brazilian real	4,374	7,350
Polish zloty	4,158	(888)
Indian rupee	3,881	853
All other	(23,573)	(10,061)
Total	**$ 3,793**	**$ 8,940**

The negative values 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 dated November 14, 2005, which delegates investment management responsibilities to the IU Foundation. Indiana Code 30-2-12, *Uniform Management of Institutional Funds*, sets forth the provisions governing the investment of endowment assets and the expenditure of endowment fund appreciation. The code requires that the trustees and their agents act in good faith and with the care a prudent person acting in a like position would use under similar circumstances, with respect to the investment of endowment assets. The code also sets forth provisions governing the expenditure of endowment fund appreciation, under which the trustees may authorize expenditure, consistent with donor intent. The trustees may, at their discretion, direct all or a portion of the university's endowment funds to other investments, exclusive of the IU Foundation's investment funds. The spending policy of the trustees is to distribute 4.67% of the twelve quarter rolling average of pooled fund values. This rate will be reduced evenly over the next two 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 better suited to IU Foundation's longer time horizon, including, but not limited to stocks, bonds, real estate, private placements, and alternative investments. Endowment assets may be invested in pooled funds 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, 2015, 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 with the exception of U.S. Treasuries and Agencies, or accounts collateralized by Treasuries or Agencies. In addition, individual funds or managers, such as money market funds and short term bond funds, are not to exceed $50,000,000 or 15% of the portfolio.

Note 3—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2015 and 2014:

(dollar amounts presented in thousands)

	June 30, 2015	*June 30, 2014*
Student accounts	$ 43,648	$ 43,378
Auxiliary enterprises and other operating activities	71,016	64,357
State appropriations	9,600	–
Federal, state, and other grants and contracts	19,009	22,262
Capital appropriations and gifts	–	3,652
Other	9,214	8,843
Current accounts receivable, gross	**152,487**	**142,492**
Less allowance for uncollectible accounts	(9,265)	(10,577)
Current accounts receivable, net	**$ 143,222**	**$ 131,915**

Hutton Honors College, Bloomington

Note 4—Capital Assets

Fiscal year ended June 30, 2015
(dollar amounts presented in thousands)

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

Fiscal year ended June 30, 2014
(dollar amounts presented in thousands)

	Balance June 30, 2013	*Additions*	*Transfers*	*Retirements*	*Balance June 30, 2014*
Assets not being depreciated:					
Land	$ 65,979	$ 2,362	$ –	$ –	$ 68,341
Art & museum objects	79,636	539	–	–	80,175
Construction in progress	209,355	50,700	(172,878)	71	87,106
Total capital assets not being depreciated	354,970	53,601	(172,878)	71	235,622
Other capital assets:					
Infrastructure	172,758	7,999	4,097	–	184,854
Intangibles	10,334	159	1,098	–	11,591
Land improvements	48,416	5,023	3,757	–	57,196
Equipment	427,188	20,817	3,959	16,417	435,547
Library books	222,143	15,548	–	19,891	217,800
Buildings	3,389,420	83,561	159,967	8,181	3,624,767
Total other capital assets	4,270,259	133,107	172,878	44,489	4,531,755
Less accumulated depreciation for:					
Infrastructure	133,327	3,320	–	–	136,647
Intangibles	2,318	2,051	–	–	4,369
Land improvements	15,577	2,838	–	–	18,415
Equipment	298,934	33,572	–	14,926	317,580
Library books	111,696	21,996	–	19,891	113,801
Buildings	1,367,875	81,381	–	2,586	1,446,670
Total accumulated depreciation, other capital assets	1,929,727	145,158	–	37,403	2,037,482
Capital assets, net	**$ 2,695,502**	**$ 41,550**	**$ –**	**$ 7,157**	**$ 2,729,895**

Indiana University Health Proton Therapy Center and the IU Cyclotron ceased operations on December 5, 2014, which resulted in an asset impairment, expensed in the amount of $4,615,000 through supplies and general expense. In March 2015, the university entered into a contractual agreement to decommission the facility. The university recorded a related liability of $2,867,000 for the pollution remediation obligation as of June 30, 2015.

Note 5—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2015 and 2014:

(dollar amounts presented in thousands)

	June 30, 2015	*June 30, 2014*
Accrued payroll	$ 25,562	$ 24,984
Accrual for compensated absences	44,916	47,705
Interest payable	11,726	11,913
Vendor and other payables	139,001	134,009
Total accounts payable and accrued liabilities	**$ 221,205**	**$ 218,611**

Note 6—Other Liabilities

Other liability activity for the fiscal years ended June 30, 2015 and 2014, is summarized as follows:

Fiscal year ended June 30, 2015
(dollar amounts presented in thousands)

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

Fiscal year ended June 30, 2014
(dollar amounts presented in thousands)

	Balance June 30, 2013	*Additions*	*Reductions*	*Balance June 30, 2014*	*Current*
Bonds, notes, and capital leases payable	$ 986,083	$ 47,153	$ 85,717	$ 947,519	$ 65,234
Other liabilities:					
Unearned revenue	182,029	–	34,909	147,120	108,051
Assets held in custody for others	77,201	1,026	–	78,227	517
Compensated absences	67,316	17,131	18,023	66,424	47,705
Other	36,134	5,160	2,419	38,875	–
Total	362,680	23,317	55,351	330,646	156,273
Total other liabilities	**$ 1,348,763**	**$ 70,470**	**$ 141,068**	**$ 1,278,165**	**$ 221,507**

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, 2015 and 2014, the university had serial bonds, term bonds, and capital appreciation bonds outstanding with maturities that extend to June 1, 2042. The university has both tax-exempt and taxable bonds outstanding.

The total outstanding bonds and notes payable at June 30, 2015 and 2014, were $1,059,786,000 and $945,806,000, respectively. This indebtedness included principal outstanding at June 30, 2015 and 2014, for bonds issued under Indiana Code (IC) 21-34-6 as student fee debt ("Student Fee Bonds") of $431,651,000 and $414,690,000, respectively, and under IC 21-35-3 as consolidated revenue bonds of

$426,605,000 and $391,820,000, respectively. This indebtedness also included principal outstanding at June 30, 2015 and 2014, for notes issued under IC 21-33-3-5 as lease purchase obligations (LPOs) or certificates of participation (COPs), collectively "Obligations", of $110,585,000 and $82,360,000, respectively. Total bonds and notes payable at June 30, 2015 and 2014, have an additional accreted value of outstanding Student Fee Bonds issued as capital appreciation bonds of $8,236,000 and $10,435,000, respectively, which is not in the principal or face value. The calculation of total bonds and notes payable at June 30, 2015 and 2014, includes the addition of bond premium outstanding of $90,944,000 and $56,936,000, respectively. As of June 30, 2015, debt service payments to maturity total $1,389,850,000, of which $496,119,000 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, 2015 and 2014, are $380,217,000 and $356,993,000, respectively.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CABs). A CAB is a long-term municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity. At maturity, the investor receives both the initial principal amount and the total investment return. CABs are typically sold at a deeply discounted price and are distinct from traditional zero coupon bonds because the investment return is considered to be in the form of compounded interest rather than accreted original issue discount. Total debt service payments to maturity, as of June 30, 2015 and 2014, include CAB payments of $11,940,000 and $15,925,000, respectively, of which $675,000 and $900,000 are eligible for fee replacement appropriations, respectively.

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

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

(dollar amounts presented in thousands)

Bonding Authority	*Interest Rates*	*Final Maturity Year Ended*	*Principal Outstanding At June 30, 2015*	*Principal Outstanding At June 30, 2014*
Indiana Code 21-34-6 (Bonds: Student Fee Bonds)	0.69 to 6.40%	2035	$ 431,651	$ 414,690
Indiana Code 21-35-3 (Bonds: Consolidated Revenue Bonds)	1.50 to 5.64%	2042	426,605	391,820
Indiana Code 21-33-3-5 (Notes: Obligations - Lease Purchase Obligations and Certificates of Participation)	2.00 to 5.95%	2037	110,585	82,360
Subtotal bonds and notes payable			968,841	888,870
Add unamortized bond premium			90,945	56,936
Total bonds and notes payable			**$ 1,059,786**	**$ 945,806**

As of June 30, 2015, 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*
2016	$ 58,451	$ 3,535	$ 61,986	$ 42,085	$ 4,879	$ 46,964	$ 108,950
2017	60,999	4,205	65,204	39,517	4,700	44,217	109,421
2018	63,781	4,965	68,746	37,014	4,542	41,556	110,302
2019	57,945	5,150	63,095	31,227	4,343	35,570	98,665
2020	53,425	5,330	58,755	28,931	4,145	33,076	91,831
2021 - 2025	238,045	28,265	266,310	110,037	16,912	126,949	393,259
2026 - 2030	194,325	31,925	226,250	55,326	9,681	65,007	291,257
2031 - 2035	95,955	25,695	121,650	19,875	3,170	23,045	144,695
2036 - 2040	30,240	1,515	31,755	4,255	63	4,318	36,073
2041 - 2042	5,090	-	5,090	307	-	307	5,397
Total	**$ 858,256**	**$ 110,585**	**$ 968,841**	**$ 368,574**	**$ 52,435**	**$ 421,009**	**$ 1,389,850**

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

In prior years, the university has defeased several bond issues 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 within principal outstanding, total debt service, or the university's liabilities.

As of June 30, 2015, the previously defeased bonds held in escrow have the following amounts of principal redeemed:

(dollar amounts presented in thousands)

Defeased Bonds (Refunded)	*Principal Redeemed*	*Call Date*
Student Fee Bonds, Series Q	$ 20,270	8/1/2016
Student Fee Bonds, Series R	33,570	8/1/2016
Student Fee Bonds, Series S	50,165	8/1/2018
Consolidated Revenue Bonds, Series 2008A	64,870	6/1/2018
Consolidated Revenue Bonds, Series 2009A	27,810	6/1/2019
Total Defeased Bonds	**$ 196,685**	

In February 2009, the United States Congress enacted the *American Recovery and Reinvestment Act of 2009* (ARRA). ARRA allowed certain tax advantages to state and local governmental entities when such entities issued qualifying taxable obligations, referred to as Build America Bonds (BABs). While the BAB provisions in ARRA expired as of January 1, 2011, the obligation of the U.S. Treasury to make subsidy payments on BABs will remain in effect through the final maturity date of BABs. Although issuers of BABs were eligible to receive subsidy payments from the U.S. Treasury equal to 35% of the corresponding interest payable on the related BABs, subsidies paid after February 28, 2013, were cut due to the federal sequestration. Through June 30, 2015, BABs subsidies for Student Fee Bonds, Series T-2; Consolidated Revenue Bonds, Series 2010B; and Certificates of Participation, Series 2009B combined were reduced by $462,000, which was less than $200,000 per fiscal year. Total federal interest subsidies as scheduled at issuance to be received over the life of the BABs debt outstanding as of June 30, 2015, were $27,082,000. BABs subsidies paid between October 1, 2015, and September 30, 2016, are scheduled to be reduced by 6.80% due to the federal sequestration, as compared to 7.30% in the most recent prior cut. For fiscal year ending June 30, 2016, the total expected subsidy reductions due to the sequestration is $179,000, which is subject to changes enacted by Congress at subsequent dates.

On January 14, 2015, the university issued fixed rate Student Fee Bonds, Series W-1 (Green Bonds) and Series W-2 with par amounts of $58,960,000 as new money bonds and $62,765,000 as refunding bonds, respectively. The purpose of issuing Series W-1 as Green Bonds was to allow investors to invest in projects which the university identified as promoting environmental sustainability on the university's campuses. The Series W-1 was new money and its proceeds were used to finance the renovation of Franklin Hall on the Bloomington campus and the construction of the Arts and Sciences Building on the Northwest campus. The Series W-2 proceeds were used to refund a portion of Student Fee Bonds Series R and S. Bond proceeds from both series were also used to pay costs to issue the bonds, including underwriters' discount. At issuance, the true interest cost for Series W-1 was 2.97% and for Series W-2 was 2.57%. The Series W-2 refunding bonds produced a net present value savings of $5,268,000, which was 7.75% of refunded par bonds.

On April 1, 2015, the university issued fixed rate Consolidated Revenue Bonds, Series 2015A with a par amount of $146,960,000, which included new money bonds of $60,755,000 and refunding bonds of $86,205,000. The purpose of the issue was to provide financing for the renovation of Read Hall, Phase II on the Bloomington campus and the construction of North Hall (previously referred to as Campus Housing Expansion) on the Indianapolis campus. The proceeds were also used to pay capitalized interest and costs to issue the bonds, including underwriters' discount. The proceeds also partially refunded Consolidated Revenue Bonds, Series 2008A and Consolidated Revenue Bonds, Series 2009A. The true interest cost for the bonds is 2.81%. The refunding portion of the transaction generated a net present value savings of $5,946,000, which was 6.42% of refunded par bonds.

On May 13, 2015, the university issued fixed rate Lease Purchase Obligations, Series 2015A with a par amount of $31,025,000 as new money bonds. The proceeds financed the renovation of Assembly Hall on the Bloomington campus and included capitalized interest and costs to issue the bonds, including underwriters' discount. The true interest cost for the Obligations was 3.10%.

Note 8—Lease Obligations

The university has acquired equipment under various lease-purchase contracts and other capital lease agreements. The cost of equipment held under capital leases totaled $5,494,000 and $3,791,000 as of June 30, 2015 and 2014. Accumulated amortization of leased equipment totaled $2,167,000 and $1,699,000 at June 30, 2015 and 2014, respectively.

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

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

(dollar amounts presented in thousands)

	Capital	*Operating*
2016	$ 1,065	$ 13,045
2017	911	6,176
2018	594	4,448
2019	408	4,042
2020	125	3,180
2021-2025	—	10,793
2026-2030	—	667
Total future minimum payments	3,103	$ 42,351
Less: interest	(268)	
Total principal payments outstanding	**$ 2,835**	

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 $1,225,000 and $396,000 for health professions and nursing loan programs for fiscal years ended June 30, 2015 and 2014, respectively.

Liabilities at June 30, 2015 and 2014, for loan programs were as follows:

(dollar amounts presented in thousands)

	June 30, 2015	*June 30,2014*
Current portion of assets held in custody for others	$ 639	$ 517
Noncurrent liabilities:		
Federal share of interest	44,750	43,177
Perkins loans	15,906	16,712
Health professions loans	16,582	15,834
Nursing loans	1,970	1,987
Total noncurrent portion of assets held in custody for others	79,208	77,710
Total assets held in custody for others	**$ 79,847**	**$ 78,227**

The Federal Perkins Loan program expired on September 30, 2015. Barring any subsequent renewal of the program, Perkins federal funds will be required to be repaid over successive future periods.

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

The university has four health care plans for full-time appointed employees, one of which is also available to retirees not eligible for Medicare. All of the employee plans are self-funded. The university records a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans. This liability is estimated to be no more than 15% of the paid self-funded claims during the fiscal year, and totals $28,637,000 and $25,969,000 at June 30, 2015 and 2014, respectively. In addition, a potential claims fluctuation liability of $9,876,000 has been recorded at June 30, 2015 and 2014.

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

The university also provides health care plans for international students, graduate assistants, fellowship recipients, and medical residents. These plans consist of fully insured and self-funded plans, along with a stop/loss provision. The university has recorded a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans in the amount of $2,614,000 at June 30, 2015 and 2014. Funding for the medical residents plan is provided by direct charge to the School of Medicine and the other plans are funded by direct charges to the associated schools and/or departments.

Note 11—Retirement Plans

The university provided retirement plan coverage to 18,382 and 18,691 active employees, as of June 30, 2015 and 2014, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

RETIREMENT AND SAVINGS PLAN: All Support and Service employees with at least a 50% full-time equivalent (FTE) appointment and Temporary with Retirement employees scheduled to work at least 1,000 hours or more in a calendar year hired on or after July 1, 2013, participate in the Retirement and Savings Plan. This is a defined contribution plan under IRC 401(a). The university contributed $1,749,000 during fiscal year ended June 30, 2015, and $621,000 during fiscal year ended June 30, 2014, to TIAA-CREF for the plan. The university contributed $342,000 during fiscal year ended June 30, 2015, and $132,000 during fiscal year ended June 30, 2014, to Fidelity Investments for the plan. Under this plan, 1,266 and 719 employees directed university contributions to TIAA-CREF as of June 30, 2015 and 2014, respectively. In addition, 240 and 130 employees directed university contributions to Fidelity Investments as of June 30, 2015 and 2014, respectively.

ACADEMIC AND PROFESSIONAL STAFF EMPLOYEES: Appointed academic and professional staff employees with at least 50% FTE are covered by the IU Retirement Plan. This is a defined contribution plan under IRC 403(b). The university contributed $59,627,000 during fiscal year ended June 30, 2015, and $60,129,000 during fiscal year ended June 30, 2014, to TIAA-CREF for the IU Retirement Plan. The university contributed $34,502,000 during fiscal year ended June 30, 2015, and $31,042,000, during fiscal year ended June 30, 2014, to Fidelity Investments for the IU Retirement Plan. Under this plan, 7,245 and 7,569 employees directed university contributions to TIAA-CREF as of June 30, 2015 and 2014, respectively. In addition, 6,188 and 5,791 employees directed university contributions to Fidelity Investments as of June 30, 2015 and 2014, 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 935 and 1,011 active employees on June 30, 2015 and 2014, respectively, covered by the IU Supplemental Early Retirement Plan (IUSERP), a defined contribution plan in compliance with IRC 401(a), with participant accounts at TIAA-CREF and Fidelity Investments. The university contributed $1,796,000 and $2,045,000 to IUSERP during fiscal years ended June 30, 2015 and 2014, 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, 2015, the university made total payments of $30,269,000 to 295 individuals receiving IU 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2014, the university made total payments of $31,039,000 to 348 individuals receiving IU 18/20 Retirement Plan payments.

IU REPLACEMENT RETIREMENT PLAN FUNDING POLICY AND ANNUAL PENSION COST: The university has established an early retirement plan for eligible employees to accommodate IRS requirements and as authorized by the Trustees 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 participants' lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. As of June 30, 2015 and 2014, 84 and 87 employees, respectively, were eligible to participate. University contributions related to this plan totaled $1,134,000 and $1,130,000, for fiscal years ended June 30, 2015 and 2014, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution. As of June 30, 2015 and 2014, the net pension liability was $4,719,000 and $4,542,000, respectively.

INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND: The university contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. Indiana Public Retirement System (INPRS) administers the cost-sharing, multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. Support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment hired prior to July 1, 2013, participate in the PERF plan. There were 4,238 and 5,238 active university employees covered by this retirement plan as of June 30, 2015 and 2014, respectively. State statutes authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. Contributions to PERF are determined by INPRS Board of Trustees in accordance with IC 5-10,2-2-11 and are based on actuarial investigation and valuation. Per IC 5-10.2-4-4, key elements of the pension formula include years of PERF creditable service multiplied by average annual compensation multiplied by 1.1%, resulting in an annual lifetime benefit. Cost of living adjustments (COLA) for members in pay status are not guaranteed by statute, but may be granted by the Indiana General Assembly on an ad hoc basis. Refunds of employee contributions are included in total benefit payments. Participants must have at least ten years of PERF creditable service to have a vested right to the pension benefit. The annuity savings account consists of contributions set by state statute at three percent of compensation plus the earnings credited to members' accounts. Participants are 100% vested from inception in the annuity savings account. The university has elected to make the contributions for the annuity savings account on behalf of the members. INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The financial report and corresponding fiduciary net position is prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations. Investments of the pension plan are valued as follows: Pooled and non-pooled investments are reported at fair value. Short-term investments are reported at cost. Fixed income and equity securities are valued based on published market prices, quotations from national security exchanges, or modeling techniques that approximate a fair value for securities that are not traded on a national exchange. Alternative investments are valued based on quoted market prices or using estimates of fair value in the absence of readily determinable public market values. Derivative instruments are marked to market daily. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 1-888-526-1687, or by reviewing the Annual Report online at www.in.gov/inprs/annualreports.htm.

Required and actual contributions made by the university totaled $21,503,000 and $28,077,000 for fiscal years ended June 30, 2015 and 2014, respectively. This represented an 11.2% university pension benefit contribution for fiscal years ended June 30, 2015 and 2014, and a 3% university contribution for the annuity savings account provisions each year.

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS: Indiana Public Employees' Retirement Fund. At June 30, 2015, the University reported a liability of $101,229,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, which used update procedures to roll forward the estimated liability to June 30, 2014. The university's proportion of the net pension liability was based on wages reported by the university relative to the collective wages of the plan. This basis measures the proportionate relationship of an employer to all employers, and is consistent with the manner in which contributions to the pension plan are determined. At June 30, 2014, the university's proportion was 3.85% a decrease of 0.38 percentage points from its proportion measured as of June 30, 2013, which was 4.23%.

Pension expense of the university as of June 30, 2015 and 2014, was $10,636,000 and $28,077,000, respectively. At June 30, 2015, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(dollar amounts presented in thousands)

	PERF	
	Deferred Outflows of Resources	*Deferred Inflows of Resources*
Differences between expected and actual experience	$ –	$ 454
Changes of assumptions	–	–
Net difference between projected and actual earnings on pension plan investments	–	19,673
Changes in proportion and differences between university contributions and proportionate share of contributions	788	10,158
University contributions subsequent to the measurement date	17,629	–
Total	**$ 18,417**	**$ 30,285**

Deferred outflows of resources in the amount of $17,629,000 related to pensions resulting from university contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(dollar amounts presented in thousands)

Fiscal Year Ended June 30	*PERF*
2016	$ (7,725)
2017	(7,725)
2018	(7,725)
2019	(6,322)
2020	–
Thereafter	–

Actuarial Assumptions. The total pension liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2013, and rolled forward. It was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PERF
Cost of living	1.0%
Inflation	3.0% average
Future salary increases	0.25% to 1.5%
Investment rate of return	6.75%, net of pension plan investment expense

Mortality rates were based on the 2013 IRS Static Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2005, through June 30, 2010. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

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

	PERF	
	Target Allocation	*Long-Term Expected Real Rate of Return*
Public Equity	22.5%	6.0%
Private Equity	10.0%	7.7%
Fixed Income – Ex Inflation-Linked[1]	22.0%	2.1%
Fixed Income – Inflation-Linked	10.0%	0.5%
Commodities	8.0%	2.5%
Real Estate	7.5%	3.9%
Absolute Return	10.0%	1.8%
Risk Parity	10.0%	4.3%
Total	**100%**	

[1] *Includes Cash & Cash Equivalents*

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

Sensitivity of the university's proportionate share of the PERF net pension liability. The following table presents the university's proportionate share of the PERF net pension liability using the discount rate of 6.75%, as well as what the university's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (see table on page 47):

(dollar amounts presented in thousands)

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability	$ 162,506	$ 101,229	$ 49,310

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

PAYABLE TO THE PENSION PLAN: At June 30, 2015, the university reported a payable of $1,281,000 for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2015.

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

FUNDING POLICY: The contribution requirements of plan members and the university are established and may be amended by the trustees. The university contribution to the 18/20 Plan and retiree life insurance is based on pay-as-you-go financing requirements. Plan members do not make contributions. The medical plans are self-funded and each plan's premiums are updated annually based on actual claims. Retirees receiving medical benefits paid $2,024,000 and $2,503,000 in premiums in the fiscal years ended June 30, 2015 and 2014, respectively. The university contributed $51,266,000 and $51,780,000 to the consolidated OPEB Plan in fiscal years ended June 30, 2015 and 2014, 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 (page 48) shows the university's annual OPEB cost for the year, the amount actually contributed to the plan, and the university's net OPEB obligation as provided by the actuarial results for the fiscal years ended June 30, 2015 and 2014, respectively:

(dollar amounts presented in thousands)

	Fiscal Year Ended *June 30, 2015*	*June 30, 2014*
Annual OPEB cost	$ 55,156	$ 55,623
Less employer contributions	(51,266)	(51,780)
Increase in OPEB obligation	3,890	3,843
Net OPEB obligation, beginning of year	29,707	25,864
Net OPEB obligation, end of year	**$ 33,597**	**$ 29,707**
Percentage of annual OPEB cost contributed	**92.95%**	**93.09%**

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 AAL (UAAL) (b)-(a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as Percentage of Covered Payroll ((b-a) / c)*
July 1, 2014	–	$ 336,524	$ 336,524	0.0%	$ 1,073,719	31.3%
July 1, 2013	–	364,137	364,137	0.0%	1,042,446	34.9%

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

ACTUARIAL METHODS AND ASSUMPTIONS:
Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the university and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing 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, 2015, 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, 2015; and an annual healthcare cost trend rate that ranges from 8.5% in fiscal year 2016 to 5.0% in fiscal year 2023. The rate includes a 3% inflation assumption. The Unfunded Actuarial Accrued Liability is being amortized over 25 years using level dollar amounts on an open group basis.

Note 13—Termination Benefits

In fiscal year 2014, the university offered an Early Retirement Incentive Plan (ERIP).

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

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

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

Retirement Date	*Number of ERIP participants*
December 31, 2013	108
May 31, 2014	212
Total	**320**

In fiscal year 2014, the university recognized the expense for the income replacement payments for all employees participating in the ERIP. The actuarial accrued liability associated with other post-employment benefits was increased by $6,134,000 for health reimbursement account contributions.

In fiscal year 2015, the actuarial accrued liability associated with other post-employment benefits was increased by $5,297,000 for health reimbursement account contributions.

Note 14—Related Organization

The university is a major beneficiary of the Riley Children's Foundation, of which a majority of the board of directors is appointed by, or serve by virtue of position with, Indiana University. Riley Children's Foundation net assets were $351,210,000 and $349,556,000 at June 30, 2015 and 2014, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Main entry of Southeast Library

Note 15—Functional Expenses

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

Fiscal year ended June 30, 2015
(dollar amounts presented in thousands)

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

Fiscal year ended June 30, 2014
(dollar amounts presented in thousands)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 886,362	$ 905	$ 123,391	$ 13,443	$ —	$ 18,581	$ 1,042,682
Research	148,309	51	79,577	2,686	—	5,799	236,422
Public service	76,680	327	53,166	2,515	—	4,050	136,738
Academic support	290,806	50	82,879	3,079	—	8,222	385,036
Student services	69,026	13	29,282	1,723	—	2,262	102,306
Institutional support	92,446	70	32,401	50	—	1,436	126,403
Physical plant	93,482	72,204	62,864	4	—	320	228,874
Scholarships & fellowships	11,688	—	1,331	123,277	—	112	136,408
Auxiliary enterprises	181,633	3,741	99,732	5,755	—	8,058	298,919
Depreciation	—	—	—	—	145,158	—	145,158
Total operating expenses	**$ 1,850,432**	**$ 77,361**	**$ 564,623**	**$ 152,532**	**$ 145,158**	**$ 48,840**	**$ 2,838,946**

Note 16—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, 2015	*June 30, 2014*	*June 30, 2015*	*June 30, 2014*
Assets				
Current assets	$ 36,586	$ 32,086	$ 175,878	$ 100,352
Capital assets, net	85,210	87,469	207,286	206,368
Total assets	**121,796**	**119,555**	**383,164**	**306,720**
Deferred outflows of resources	**912**	**679**	**2,030**	**1,777**
Liabilities				
Current liabilities	5,508	6,890	9,144	7,302
Noncurrent liabilities	44,633	48,205	163,790	102,866
Total liabilities	**50,141**	**55,095**	**172,934**	**110,168**
Net position				
Net investment in capital assets	37,838	34,754	98,234	100,337
Unrestricted	34,729	30,385	114,026	97,992
Total net position	**$ 72,567**	**$ 65,139**	**$ 212,260**	**$ 198,329**

Gargoyle on the roof of Maxwell Hall, Bloomington

(dollar amounts presented in thousands)

Condensed Statement of Revenues, Expenses, and Changes in Net Position	*Parking Operations*		*Housing Operations*	
	June 30, 2015	*June 30, 2014*	*June 30, 2015*	*June 30, 2014*
Operating revenues	$ 28,410	$ 25,451	$ 78,407	$ 74,477
Depreciation expense	(4,059)	(4,042)	(6,463)	(6,340)
Other operating expenses	(13,016)	(13,481)	(48,105)	(48,354)
Net operating income	**11,335**	**7,928**	**23,839**	**19,783**
Nonoperating revenues (expenses)				
Grants, contracts, and other revenues	176	176	1,085	1,086
Interest expense	(1,966)	(2,165)	(4,853)	(5,044)
Net nonoperating revenues (expenses)	**(1,790)**	**(1,989)**	**(3,768)**	**(3,958)**
Net transfers	(2,117)	(1,235)	(6,140)	(17,521)
Increase (decrease) in net position	**7,428**	**4,704**	**13,931**	**(1,696)**
Net position				
Net position, beginning of year	65,139	60,435	198,329	200,025
Net position, end of year	**$ 72,567**	**$ 65,139**	**$ 212,260**	**$ 198,329**

(dollar amounts presented in thousands)

Condensed Statement of Cash Flows	*Parking Operations*		*Housing Operations*	
	June 30, 2015	*June 30, 2014*	*June 30, 2015*	*June 30, 2014*
Operating activities	$ 15,128	$ 12,818	$ 31,224	$ 26,240
Noncapital financing activities	176	177	1,085	1,086
Capital and related financing activities	(11,253)	(10,187)	43,297	(19,559)
Net increase (decrease) in cash	**4,051**	**2,808**	**75,606**	**7,767**
Beginning cash and cash equivalent balances	30,957	28,149	98,943	91,176
Ending cash and cash equivalent balances	**$ 35,008**	**$ 30,957**	**$ 174,549**	**$ 98,943**

Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $0 at June 30, 2015. Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $3,440,000 at June 30, 2014, with remaining terms of 5 months. Revenues of the activities are sufficient to meet the principal and interest requirements for the debt.

Note 17—Commitments and Loss Contingencies

The university had outstanding commitments for capital construction projects of $238,257,000 and $137,775,000 at June 30, 2015 and 2014, respectively.

Based on information available at the financial report date, it is reasonably possible that the university will be obligated to repay funds received under a sponsored award under which the university served as the "prime recipient." The amount of the repayment obligation is not known as of the financial report date. The current version of the sponsored award audit report, described by the audit firm as "final draft," indicates that the university will have an obligation of up to $31,000,000 in connection with questioned costs of subgrantees in an external audit. Final determination of the questioned costs, and therefore, the university's repayment obligation is not known as of the financial report date. The final amount may be reduced during the audit resolution process which occurs once the sponsored award audit report is final. As of the financial report date it is also not known to what extent IU's repayment will be reimbursed in whole or part by the subgrantees that incurred the questioned costs.

Note 18—Subsequent Event

The university contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision (See Note 11, Retirement Plans). The university's support, technical, and service employees with at least 50% full-time equivalent employment hired prior to July 1, 2013, participate in the PERF plan. Support, technical, and service employees with at least 50% full-time equivalent employment hired July 1, 2013, and after participate in the university's Retirement and Savings Plan. Effective July 1, 2015, the Indiana Code was amended concerning pensions. The legislation imposes a requirement on employers that stopped enrolling new employees in the fund to make a payment in an amount necessary to fund the employer's share of the unfunded liability attributable to the earned benefit of the employer's PERF covered employees. The university's liability for this payment is fully included in the net pension liability recorded in the university's financial statements for fiscal year 2015 (See Note 11, Retirement Plans).

Hunt Hall, Kokomo

INDIANA UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
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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, Riley Children's Foundation, the Indiana University Research & Technology Corporation, Indiana University Health, the Indiana University Alumni Association, and certain medical practice plans), herein referred to as the "University."

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

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

4. INVESTMENTS

A summary of total investment income for the years ended June 30, 2015 and 2014 is as follows (dollar amounts presented in thousands):

	2015	2014
Dividend, interest and other investment income	$ 6,632	$ 8,772
Net realized and unrealized gains (losses) on investments	51,287	255,266
Outside investment management fees	(4,877)	(4,778)
Total investment income, including net gains (losses) — net of outside investment management fees	$ 53,042	$ 259,260

INDIANA UNIVERSITY FOUNDATION

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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, 2015 and 2014 (dollar amounts presented in thousands):

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Domestic equities	$ 391,784	$ 154,717	$ 490	$ 546,991
International equities	279,049	-	-	279,049
Domestic fixed income	16,640	251,355	4,201	272,196
International fixed income	2,825	47,179	-	50,004
Cash equivalents	22,828	-	-	22,828
Alternative investments:				
Hedged equity funds	-	-	135,109	135,109
Absolute return funds	-	-	291,201	291,201
Venture capital funds	-	-	170,977	170,977
Buyout funds	-	-	126,997	126,997
Distressed/special situation funds	-	-	35,462	35,462
Real estate funds	-	-	76,376	76,376
Alternative fixed income	-	-	39,354	39,354
Natural resource funds	-	-	90,861	90,861
Public inflation hedge	-	31,786	-	31,786
Direct commercial real estate	-	-	20,694	20,694
Mortgage securities	-	-	660	660
Total	$ 713,126	$ 485,037	$ 992,382	$ 2,190,545

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Domestic equities	$ 352,023	$ 135,812	$ 483	$ 488,318
International equities	281,654	52,891	-	334,545
Domestic fixed income	67,312	218,465	2,113	287,890
International fixed income	-	39,407	-	39,407
Cash equivalents	33,122	-	-	33,122
Alternative investments:				
Hedged equity funds	-	-	120,316	120,316
Absolute return funds	-	-	277,944	277,944
Venture capital funds	-	-	122,883	122,883
Buyout funds	-	-	131,693	131,693
Distressed/special situation funds	-	-	42,562	42,562
Real estate funds	-	-	95,181	95,181
Alternative fixed income	-	-	15,704	15,704
Natural resource funds	-	-	99,465	99,465
Public inflation hedge	-	40,027	-	40,027
Direct commercial real estate	-	-	17,878	17,878
Mortgage securities	-	-	683	683
Total	$ 734,111	$ 486,602	$ 926,905	$ 2,147,618

INDIANA UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
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There were no significant transfers between Levels 1 and 2 for the years ended June 30, 2015 and 2014. Changes in Level 3 assets measured at fair value as of and for the years ended June 30, 2015 and 2014 follow (dollar amounts presented in thousands):

	2015	2014
Beginning balance	$ 926,905	$ 856,692
Realized and unrealized gains	63,825	117,519
Purchases	154,392	82,479
Sales	(152,740)	(129,785)
Ending balance	$ 992,382	$ 926,905

Included in the Statements of Financial Position and Statements of Activities is the fair value of derivative instruments and the related net gain (loss) as of and for the years ended June 30, 2015 and 2014. The gross and net credit risk associated with the related counterparties on these open derivative positions is insignificant. The market risk is directly linked with exchange rates or market interest rates as the underlying securities bear a fixed rate of interest.

The Foundation held gross derivative assets and liabilities that net to $1,042 and $665, recognizing a gain of $3,499 and $9,502 as of and for the years ended June 30, 2015 and 2014.

The Foundation's alternative investments include investments in: (1) private equity such as venture capital and leveraged buyouts and other private capital funds; (2) absolute return/hedged equity strategies; (3) fixed income funds; and (4) 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, 2015 and 2014 follows (dollar amounts presented in thousands):

	2015		2014		
	Fair Value	Unfunded Commitments	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedged equity funds [(a)]	$135,109	$ -	$120,316	monthly, quarterly, semi-annually, annually	30–90 days
Absolute return funds [(b)]	291,201	572	277,944	monthly, quarterly, semi-annually, annually	33–95 days
Venture capital funds [(c)]	170,977	62,436	122,883		
Buyout funds [(d)]	126,997	110,946	131,693		
Distressed/special situation funds [(e)]	35,462	21,490	42,562		
Real estate funds [(f)]	76,376	82,191	95,181		
Alternative fixed income [(g)]	39,354	23,482	15,704		
Natural resources funds [(h)]	90,861	75,594	99,465		
Public inflation hedge [(i)]	31,786	—	40,027	monthly	10 days
Total	$998,123	$376,711	$945,775		

(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, 2015, 52.3% of the total Marketable Alternative Investments (Hedged equity funds and Absolute return funds) could be redeemed in 0-6 months, an additional 20.7% could be redeemed between 7-12 months, another 22.2% could be redeemed between 13-24 months, and 1.9% could be redeemed between 25-36 months. The remaining 2.9% 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 Initial Public Offering (IPO). The typical life of a partnership is 10 years but is subject to extensions. 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, 2015.

(d) This category includes private equity funds that invest across sectors primarily in the United States, but also internationally. The nature of investments in this category is that money is distributed as underlying companies are recapitalized or exited via acquisition or IPO. The typical life of a partnership is 10 years but is subject to extensions. 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, 2015.

(e) This category includes funds that are focused on distressed or secondary investments. The typical life of a partnership is 10 years but is subject to extensions. 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, 2015.

(f) This category includes funds that invest primarily in U.S. commercial real estate, but also includes real estate funds focused on Europe and Asia. The real estate exposure can include both publicly traded Real Estate Investment Trust funds and private partnerships. The typical life of a partnership is 10 years but is subject to extensions. 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, 2015.

(g) This category includes funds focused primarily on direct lending across the corporate and real estate sectors. The investments are structured to provide a steady stream of income to the Foundation based on floating interest rate loans. The typical life of a partnership is 5 years but is subject to extensions. 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, 2015.

(h) This category includes funds that are focused on direct energy, mining and minerals, and timber. The typical life of a partnership is 10 years but is subject to extensions. Certain funds in this category will provide an income stream as the underlying commodity is harvested/sold. 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, 2015.

(i) 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.

INDIANA UNIVERSITY FOUNDATION
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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, 2015 and 2014 are as follows (dollar amounts presented in thousands):

	2015	
	Temporarily Restricted	**Permanently Restricted**
Foundation operations	$ 9,434	$25,164
University programs:		
Awards	5,806	9,601
Capital and capital improvements	110,701	2,565
Fellowships/lectureships	23,075	97,946
General endowments	280,401	288,851
Medical practice plans	35,002	-
Operations	75,497	4,392
Professorships/chairs	120,439	335,316
Research	37,225	66,773
Scholarships	141,611	461,563
Total	$ 839,191	$ 1,292,171

	2014	
	Temporarily Restricted	**Permanently Restricted**
Foundation operations	$ 9,247	$25,512
University programs:		
Awards	7,327	9,542
Capital and capital improvements	116,697	2,515
Fellowships/lectureships	22,744	99,260
General endowments	273,850	283,792
Medical practice plans	40,092	-
Operations	74,692	5,456
Professorships/chairs	124,508	328,107
Research	34,908	59,183
Scholarships	137,045	459,334
Total	$ 841,110	$ 1,272,701

10. PROGRAM EXPENDITURES

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, the Student Foundation, air services, 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, 2015 and 2014, a summary of these expenditures follows (dollar amounts presented in thousands):

	2015		
		Unrestricted	
	Foundation	University (a)	Total
Program expenditures:			
Foundation programs:			
Real estate	$ 3,265	$ -	$ 3,265
Student Foundation	471	-	471
Air services	1,249	-	1,249
Women's programs	129	-	129
Miscellaneous	17	-	17
	5,131	-	5,131
Grants and aid to the University - operating support:			
University support	568	28,702	29,270
Student scholarship and financial aid	3	45,743	45,746
Faculty support	-	23,475	23,475
Faculty research	-	8,232	8,232
	571	106,152	106,723
Endowment and capital additions for the University – land, building and equipment purchases	-	44,901	44,901
Total program expenditures	$ 5,702	$ 151,053	$ 156,755

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	2014		
		Unrestricted	
	Foundation	University (a)	Total
Program expenditures:			
Foundation programs:			
Real estate	$ 1,901	$ -	$ 1,901
Student Foundation	531	-	531
Air services	1,266	-	1,266
Women's programs	48	-	48
Miscellaneous	21	-	21
	3,767	-	3,767
Grants and aid to the University - operating support:			
University support	560	30,459	31,019
Student scholarship and financial aid	6	40,444	40,450
Faculty support	-	25,321	25,321
Faculty research	-	13,575	13,575
	566	109,799	110,365
Endowment and capital additions for the University – land, building and equipment purchases	-	30,866	30,866
Total program expenditures	$ 4,333	$ 140,665	$ 144,998

(a) 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 Statements of Activities as net assets released from restriction.

Schedule of the university's Proportionate Share of the Net Pension Liability for the Indiana Public Employees' Retirement Fund (last 10 years[1]):

(dollar amounts presented in thousands)

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

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

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

(dollar amounts presented in thousands)

	Fiscal Year 2015
Contractually required contribution	$ 21,339
Contributions in relations to the contractually required contribution	$ (21,339)
Contribution deficiency	–
University's covered-employee payroll	$ 157,743
Contributions as a percentage of covered-employee payroll	13.5%

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

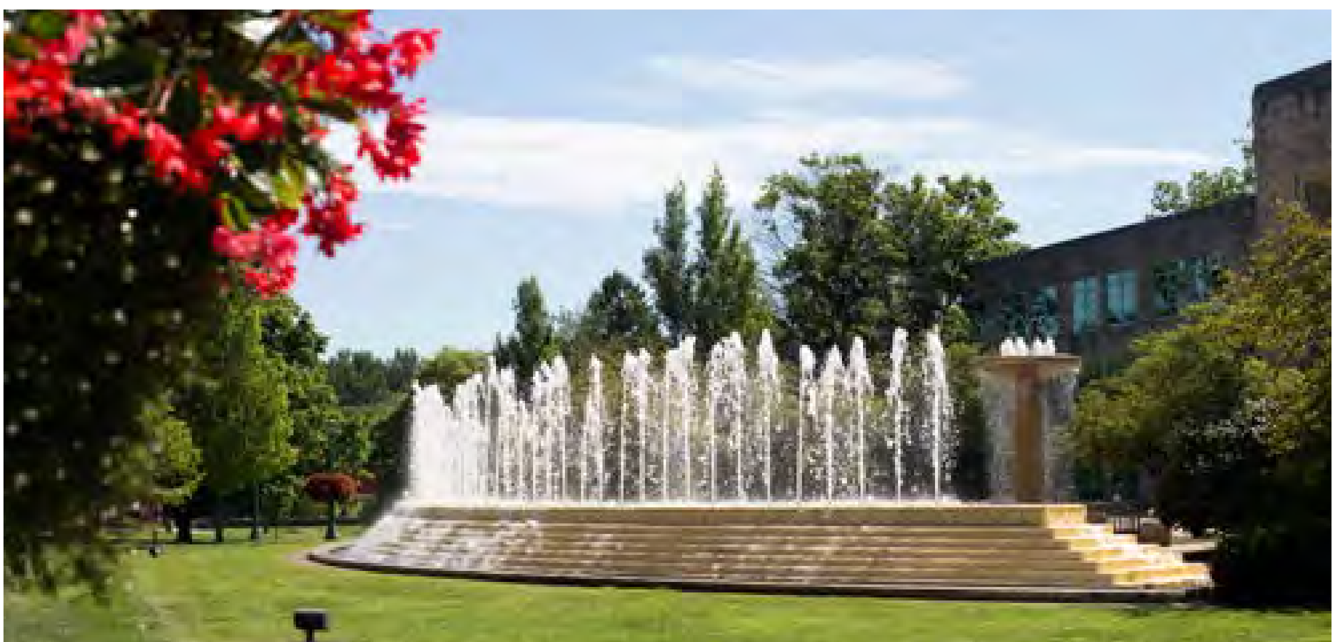
[1] *GASB Statement No. 68 requires disclosure of a 10-year schedule. The financial statement information was not available for years prior to those presented. Additional years will be included in future reports as data becomes available.*

Schedule of Funding Progress for Other Postemployment Benefit Plans:

(dollar amounts presented in thousands)

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded AAL (UAAL) (b)-(a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as Percentage of Covered Payroll ((b-a) / c)*
July 1, 2014	–	$ 336,524	$ 336,524	0.0%	$ 1,073,719	31.3%
July 1, 2013	–	364,137	364,137	0.0%	1,042,446	34.9%
July 1, 2012	–	390,227	390,227	0.0%	1,013,726	38.5%

Fountain in front of Simon Building, Bloomington



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Incoming Freshman enjoy the light show at the Art Museum, Bloomington

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