# Indiana University

Annual Financial Report 2016–2017

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**Indiana University Financial Report 2016–2017**




*On the Cover: A bronze sculpture of Bloomington's famous composer and song-writer Hoagy Carmichael, performing at his grand piano outside the IU Cinema on the Bloomington campus.*

# Message from the President

The Honorable Eric J. Holcomb
Governor, State of Indiana
State House, Room 206
200 West Washington Street
Indianapolis, IN 46204

Dear Governor Holcomb:

On behalf of the Trustees of Indiana University, I am pleased to present to you IU's 2016-17 Financial Report.

In 2020, Indiana University will celebrate its 200th anniversary. Indiana University was founded on January 20, 1820, on the promise to the people of the newly established state of Indiana that the civic, cultural, social, and economic life of the state and its citizens would be expanded and enriched by an exceptional public institution of higher education.

As a public institution, IU is deeply committed to fulfilling its obligation to the people of Indiana to provide a first-rate education that is affordable, accessible, innovative, and relevant. IU is also proud to serve as one of the most powerful forces for economic development in our state.

Even as we work diligently to preserve IU's great traditions and unmatched heritage, we continue to engage in a comprehensive effort to enhance the character of our campuses, ensure that they remain magnets for the best and most deserving students, and elevate IU's ever-growing reputation as a truly world-class institution.

### AN AFFORDABLE AND CLEAR PATH TO HIGHER EDUCATION, PROVIDING THE SKILLS AND EXPERIENCE STUDENTS NEED FOR SUCCESS

Along with Indiana's other colleges and universities, IU is fully engaged in responding to the call to ensure an affordable and clear path to higher education, generate greater numbers of Hoosier graduates, and ensure they leave our schools with the skills and experiences they need to succeed in the workforce.

For Indiana to remain viable in today's ultra-competitive marketplace, it is critical that we fill our talent pipeline with highly skilled, smart, flexible, and experienced workers who will thrive in an ever-evolving economy. We need those employees to possess global cultural understanding and experience and have the ability to work productively with people from different cultures and traditions. And we need to continue working hard to keep our best and brightest in our state after they graduate.

By almost any measure, IU is fulfilling its promise to our state.

In May 2017, a record number of more than 21,000 students received IU degrees during commencement ceremonies across our state. IU's class of 2017 represented the largest group of graduates to be produced by any institution in Indiana—in fact almost as large as the next two combined—and it was also one of its most distinguished. The class included Wells Scholars, Goldwater Scholars, a Boren Scholar, and a Rhodes Scholar.

Viewed in terms of sheer size, the class of 2017 shows again how IU is truly the state's higher education powerhouse and reflects the enormous value Hoosiers continue to place on an IU education. These graduates also serve as a powerful reminder of IU's huge impact on the health, social and cultural fabric, and economic vitality of the Hoosier state.

This fall, IU's Bloomington and Indianapolis campuses welcomed their largest, brightest, and most diverse freshman classes ever. With this year's student body numbering more than 112,000—and given that 70 percent of currently enrolled degree-seeking undergraduates are in-state students—IU will be by far the largest producer of Hoosier graduates annually in Indiana for the foreseeable future.

Across the state, IU is preparing our students to meet their fullest potential, make major contributions to the economic development and quality of life in the communities in which they live and work, and find solutions to the most important problems facing our planet.

IU students are also being exposed to what it will take to meet the needs of our employers—particularly in those strategic sectors of the state's economy, such as information technology, public health, and the life sciences—sectors we know will be vital to the growth of our state. But the state of Indiana simply cannot afford to be a net exporter of talent, which is why IU has become more strategic, deliberate, and intentional in aligning its academic offerings to new and emerging areas of importance to students, as well as Indiana employers.

To this end, IU has recently established a large number of new schools and academic programs—in such key disciplines as art and design, international studies, media, philanthropy, and public health—all designed to meet the evolving needs of our students and all based on a strong liberal arts foundation that has made American higher education the best and most admired in the world. Last year, we launched a new engineering program at IU Bloomington, and in 2018 we will begin offering a master of architecture degree in the campus's new School of Art and Design that will have its primary focus on Columbus, an internationally recognized center for architecture. The architecture degree also anticipates a major state employment need. According to the Indiana Department of Workforce Development, employment of architects is projected to grow more than 20 percent through 2022.

## LEADING THE NATION IN STUDENT DEBT REDUCTION

At the same time that IU is graduating more students and producing more on-time graduates than ever, we have placed an even greater priority on ensuring that students leave IU with as little debt as possible. In recent years, the university has instituted a number of highly successful programs to keep the cost of attendance as low as possible while also educating our students on the implications of incurring debt.

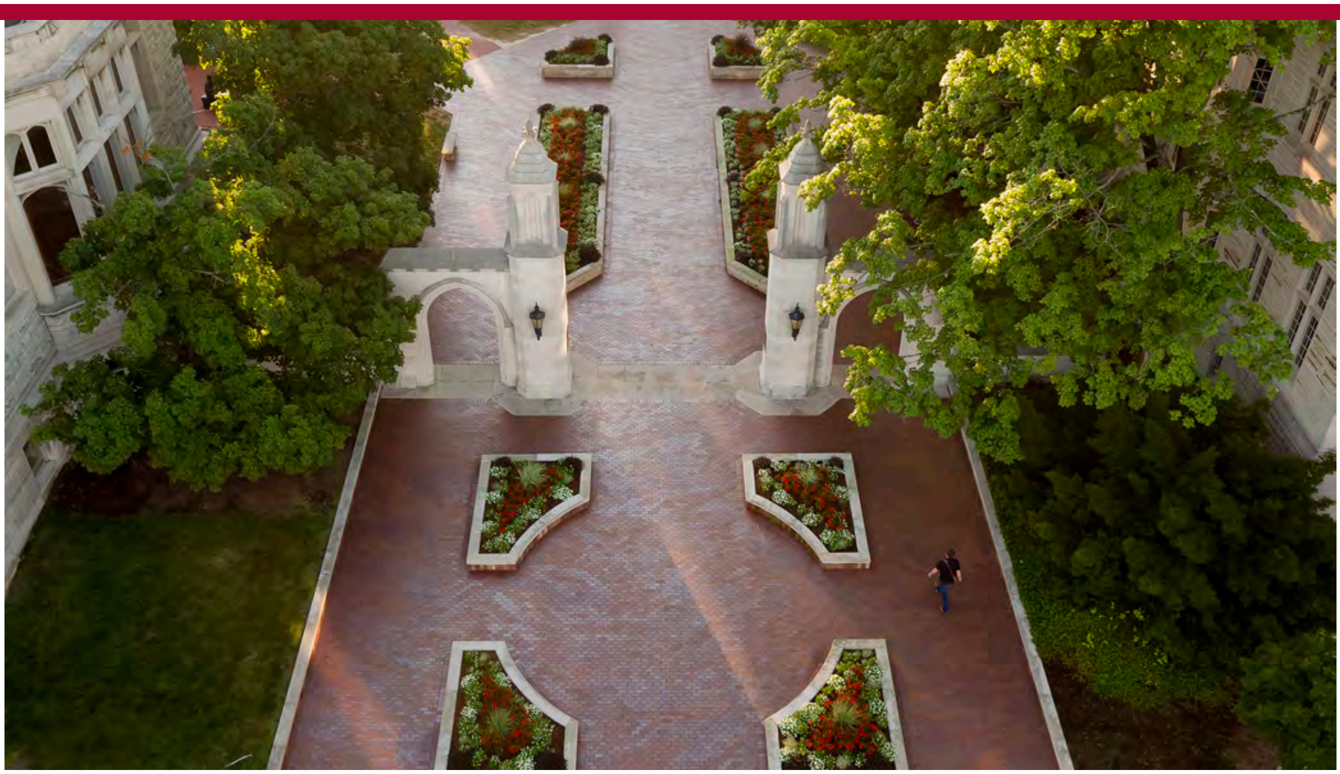
Indiana resident undergraduates attending the Bloomington campus benefitted from a tuition freeze during the last two-year tuition cycle. And students on all other campuses experienced only very modest increases during the last two years.

While we make every effort to keep tuition costs as low as possible, for some students, taking on debt is the only way to achieve their dream of a college education. Hence, we have a responsibility to help those students keep their debt load to a minimum and better understand the implications of borrowing.

Since we began IU's comprehensive financial literacy program—and adopted more vigorous policies to increase student financial assistance and promote on-time graduation—borrowing by IU students has been reduced by nearly $100 million in four years. Total student borrowing and federal loans have decreased every year since we began our efforts. Furthermore, 45 percent of our bachelor's degree recipients will graduate with no student loan debt—compared with less than 30 percent nationally—and 80 percent will graduate with a balance below the national average.

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

Initiatives such as these, when coupled with a $37 million increase in institutional gift aid for undergraduate students over the last four years across the IU campuses—a 28 percent increase made possible,



*Sample Gates, Bloomington*

in large part, by the extraordinary generosity of our donors—have kept the average net cost of an IU education low compared to our peers. These institutional aid programs address affordability and completion.

## FINDING SOLUTIONS TO THE GRAND CHALLENGES OF OUR TIME

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

As part of the *Bicentennial Strategic Plan for Indiana University,* a sweeping set of vital goals approved by the IU Board of Trustees in 2014, the university has massively expanded its commitment to direct support of IU researchers. Two years ago, we announced the most ambitious program of research support in the university's history—the Grand Challenges Program. This program proposes to invest, in the years leading up to IU's bicentennial, $300 million in three to five major multi-investigator, multidisciplinary research projects aimed at finding solutions to the "grand challenges" of our time—solutions that will provide major improvements in the quality of life for the citizens of the state of Indiana who have helped support IU for nearly 200 years.

In June 2016, I was very pleased to announce that the Precision Health Initiative was selected as the recipient of the first round of funding. Led by Principal Investigator Dr. Anantha Shekhar of the IU School of Medicine, the Precision Health Initiative will seek to cure at least one cancer and one childhood disease, as well as find ways to prevent one chronic illness and one neuro-degenerative disease.

In May 2017, we announced the second project funded through our Grand Challenges Program—Prepared for Environmental Change. This project, which is backed by a broad, bipartisan coalition of government, business, nonprofit, and community leaders, will help Indiana communities track environmental change and measure their preparedness for responding to immediate challenges and long-term effects with targeted and strategic investments in agriculture, industry, infrastructure, and public health.

IU is also working closely with communities around the state to find solutions to challenges that include poverty, lack of economic opportunity, and poor educational and health outcomes, including the growing crisis of opioid addiction that is rapidly becoming one of the nation's most severe public health problems.

## INTERNATIONAL ENGAGEMENT

At IU, we are especially proud of the leading role we continue to play in our state's and also America's international engagement.

Of all that comprises an IU education, international literacy and experience ranks at the very top. We live in increasingly challenging times, when the need to understand and engage with the broader world is at its most acute and urgent. The world in which our students will live will require more, not less, knowledge about the world.

IU's extensive international engagement efforts include:

- requiring a mandatory international component for every student as part of his or her IU education;
- doubling, over the last decade, the number of IU students who study abroad. IU Bloomington now ranks 10th in the nation—out of about 1,200 universities—in terms of the number of students who study abroad. About a third of IU Bloomington students have studied abroad by the time they graduate;
- welcoming a large and diverse international student body who now come from over 150 countries. We currently have around 9,000 international students enrolled across the entire university. IU Bloomington ranks 16th in the nation—again, out of about 1,200 universities—in terms of the number of international students enrolled;
- building strong and active partnerships (now numbering around 200) with the best foreign universities in the world;
- building on IU's formidable resources in language study (we teach over 70 foreign languages, more than any other university in the country) and in area studies, to become one of the nation's pre-eminent centers of research and scholarship in foreign and international affairs, which we are rapidly achieving through our new School of Global and International Studies;
- supporting and encouraging our faculty from all disciplines in engaging internationally; and
- growing the IU Global Gateway Network, which now includes offices in Beijing, Berlin and New Delhi, to help focus and concentrate our activities in key regions of the world.

## CONCLUSION

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

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

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

# Message from the Vice President and Chief Financial Officer

Dear President McRobbie and the
Trustees of Indiana University:

I am pleased to present to you the Indiana University Financial Report for the fiscal year ended June 30, 2017. The financial statements have been prepared in accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) principles. The accompanying notes to the financial statements and the Management's Discussion and Analysis are integral parts of the financial statements.

The statements are intended to provide a summary of the flow of the economic resources of the university during the fiscal year covering the period of July 1, 2016, through June 30, 2017. The statements report the university's financial position at June 30, 2017, with comparative data from the previous fiscal year. In addition, financial results of the Indiana University Foundation are incorporated in the 2016-2017 financial report.

The financial statements have been audited by the Indiana State Board of Accounts. Their opinion on the financial statements appears after this letter.

The Indiana University Financial Report is a consolidated report incorporating all seven campuses for which Indiana University has fiscal responsibility and also includes all auxiliary operations. The information presented in the Management's Discussion and Analysis section of the financial report includes indicators that assess Indiana University's fiscal health. Overall, these indicators show that Indiana University continues to have a strong balance sheet reflecting sound and careful fiscal management across the institution.

For the fiscal year ending June 30, 2017, the institution had an increase in net position of $154,254,000, or 4%. This positive financial performance was achieved while focusing on affordability. Undergraduate tuition and fee rate increases in 2017 and 2016 were the lowest in more than 35 years, ranging from a tuition freeze for Indiana residents on the Bloomington campus to a 1.65% increase for residents on the IUPUI campus. Regional campus' undergraduate tuition and fee rates increased an average of 1.65%. Complementing these moderate tuition increases was continued financial support for our students, with $415,787,000 provided in financial assistance.

Affordability is also maintained through the continued financial support of donors and the State, combined with the fiscal stewardship of those across the university who have allowed us to continue to invest in the programs and facilities required to educate and prepare students to contribute to the state, the nation, and the world. In fiscal 2017, state support for university operations was $558,111,000, while support for capital projects was $31,083,000. Simultaneously, donor support brought into the university was $136,468,000.

Indiana University is one of seven public universities that hold an Aaa long-term credit rating from Moody's Investor Services, as well as an AAA rating from Standard and Poor's. These ratings reflect not only IU's strong financial performance and focus on high standards and fiscal management, but also the effective governance of senior leadership and the Board of Trustees, the quality of our academic programs, our ability to plan for the future, and our continued focus on efficiency and affordability.

On behalf of all those responsible for the fiscal stewardship of Indiana University's resources, I submit the Indiana University Financial Report for the fiscal year ending June 30, 2017.

John A. Sejdinaj
Vice President and Chief Financial Officer

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

# INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

## Report on the Financial Statements

We have audited the financial statements of the business-type activities and the discretely presented component unit of Indiana University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Message from the President, Message from the Vice President and Chief Financial Officer, Trustees and Administrative Officers of Indiana University, and Additional Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

INDEPENDENT AUDITOR'S REPORT
(Continued)

reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

October 25, 2017

## INTRODUCTION

The following discussion and analysis provides an overview of the consolidated financial position and activities of Indiana University (the "university") for the fiscal year ended June 30, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and accompanying 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 in accordance with Governmental Accounting Standards Board (GASB) principles.

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, along with the university's financial statements.

*Bloomington campus*

The Indiana University Building Corporation (IUBC) serves specific purposes on behalf of the university and is shown in a blended presentation with the university's financial statements. 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.

## ABOUT THE FINANCIAL STATEMENTS

The **Statement of Net Position** is the university's balance sheet. The statement presents the university's financial position by reporting all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of the fiscal year, with comparative information for the prior fiscal year. Net position is the residual value of the university's assets and deferred outflows of resources, after liabilities and deferred inflows of resources are deducted, and is one indicator of the financial condition of the university.

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

The **Statement of Cash Flows** provides additional information about the university's financial results by presenting detailed information about cash inflows and outflows during the year, with comparative information for the prior fiscal 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 and to meet obligations as they come due.

## 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, 2017, 2016, and 2015, is summarized as follows:

| **Condensed Statement Of Net Position** | | | |
|---|---|---|---|
| *(in thousands of dollars)* | *June 30, 2017* | *June 30, 2016* | *June 30, 2015* |
| Current assets | $ 649,905 | $ 681,215 | $ 739,585 |
| Capital assets, net | 3,147,159 | 2,984,285 | 2,815,801 |
| Other assets | 1,677,406 | 1,645,925 | 1,691,873 |
| **Total assets** | **5,474,470** | **5,311,425** | **5,247,259** |
| **Deferred outflows of resources** | **86,345** | **67,186** | **41,280** |
| Current liabilities | 388,257 | 416,626 | 384,327 |
| Noncurrent liabilities | 1,268,799 | 1,230,957 | 1,268,297 |
| **Total liabilities** | **1,657,056** | **1,647,583** | **1,652,624** |
| **Deferred inflows of resources** | **38,220** | **19,743** | **30,286** |
| Net investment in capital assets | 2,200,168 | 2,048,226 | 1,924,031 |
| Restricted net position | 230,713 | 246,074 | 298,663 |
| Unrestricted net position | 1,434,658 | 1,416,985 | 1,382,935 |
| **Total net position** | **$ 3,865,539** | **$ 3,711,285** | **$ 3,605,629** |

## ASSETS

### *Current Assets*

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

Current assets decreased $31,310,000, or 5%, and $58,370,000, or 8%, in 2017 and 2016, respectively. The decrease in 2017 is primarily attributable to a decrease of $51,263,000, or 18%, in cash and cash equivalents, due in large part to a payment of $32,656,000 made to the Indiana Public Employees' Retirement Fund to reduce the university's net pension liability (see Note 12, Retirement Plans). The change in 2016 reflects the use of cash and cash equivalents related to spending of invested bond proceeds on capital projects, in contrast to the net investment of bond proceeds in 2015. Net accounts receivable increased $22,600,000, or 18%, and decreased $16,636,000, or 12%, in 2017 and 2016, respectively. The increase in 2017 resulted from natural fluctuations in student tuition and auxiliary revenue cycles, along with the timing of the receipt of gifts. The decrease in 2016 was primarily due to a state operating appropriation receivable of $9,386,000 at June 30, 2015, which was received in July 2015.

### *Noncurrent Assets*

Major components of noncurrent assets are endowment and operating investments and capital assets, net of accumulated depreciation. Noncurrent assets increased $194,355,000, or 4%, and $122,536,000, or 3%, in 2017 and 2016, respectively. The fair value of the university's noncurrent investments increased $31,337,000, or 2%, and decreased $45,301,000, or 3%, in 2017 and 2016, respectively. The increase in 2017 was a result of market value changes during the year in the university's operating and endowment investments. The decrease in 2016 was largely due to tactical asset reallocation to short-term investments and cash equivalents as of June 30, 2016.

The objective of the university's investment policy with respect to its operating funds is to adequately provide for the daily liquidity needs of the university while maximizing the opportunity to generate yield on investments. Endowment funds are managed by the IU Foundation using a disciplined, consistent, and diversified approach according to the policies and strategic direction of the Foundation Investment Committee and the laws of the State of Indiana.

### *Capital Assets*

The university's investment in capital assets, net of depreciation, which includes land, art and museum objects, infrastructure, equipment, and buildings, grew $162,874,000, or 5%, and $168,484,000, or 6%, in 2017 and 2016, respectively. Additions to capital assets are comprised of new construction and renovations, as well as major investments in equipment and information technology. Construction in progress, which totaled $228,213,000 at June 30, 2017, and $224,336,000 at June 30, 2016, includes academic and administrative building projects, student residence hall improvements, and construction of research facilities.

In accordance with the university's master plan and *Bicentennial Strategic Plan,* the university is committed to building for excellence to ensure that the university has the new and renovated physical facilities and infrastructure to excel, "while recognizing the importance of historical stewardship, an environment that reflects IU's values, and the imperative to meet future needs." Use of these facilities provides faculty, staff, and students with new learning and research spaces, while encouraging efficient management and reuse of existing space.

Key projects placed in service during 2017 include the following:

The Paul H. O'Neill Graduate Center is now housed in an addition to the School of Public and Environmental Affairs (SPEA) on the Bloomington campus. The $14,700,000 addition was partially funded by generous gifts. The 34,000-square-foot facility now houses SPEA's top-ranked graduate programs with added classroom and office space, including collaboration spaces supported by new technology; lounges for graduate students, undergraduates, faculty and staff; a spectacular stairway featuring three floors of windows; limestone accent walls; a 2,300-square-foot student commons; and floor to ceiling views of the Herman B Wells Library and the arboretum.

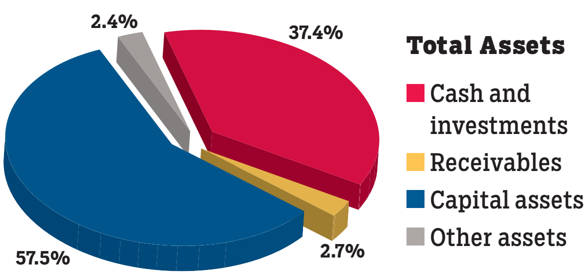
For more than 40 years, Assembly Hall in Bloomington has been the site of IU men's and women's basketball games, commencement ceremonies, concerts, and speeches by presidents and world leaders. A $43,580,000 renovation project, made possible through a gift from Cindy Simon Skjodt, was completed in October 2016, in time for the start of the facility's 46th basketball season. The renovations preserve one of the greatest home-court advantages in college basketball and also modernize the historic facility. The renamed Simon Skjodt Assembly Hall is more accessible and offers an improved game experience for student athletes, fans, staff, and students. The renovations also include the creation of the Mark Cuban Center for Sports Media and Technology, which will give IU's media and technology students an opportunity to use cutting-edge technology and equipment to produce high quality videos and other content for IU Athletics.

North Hall, completed on the Indiana University-Purdue University at Indianapolis (IUPUI) campus in August of 2016 at a cost of $47,100,000, is the first traditional residence hall constructed at IUPUI since the campus was founded in 1969. The residence hall was designed to promote student interaction through the creation of welcoming common spaces, including a grand lobby and microlounges, throughout each residential floor. The 172,000-square-foot building provides housing for 700 students. The building also features a computer lab, a game room, a fitness area, a laundry facility, a large programming area, and two classrooms.

The Student Events and Activities Center on the IU East campus promotes student success and opportunities for engagement and leadership through a comprehensive offering of programs in health and wellness, physical education, athletics, student activities, and special events. The $4,800,000 cost of the building was funded in part through IU East campus' largest ever gift from an alumnus.

The following table and chart represent the composition of total assets as of June 30, 2017:

| **Total Assets** | | |
|---|---|---|
| *(in thousands of dollars)* | | |
| Cash and investments | $ 2,048,299 | 37.4% |
| Receivables | 149,186 | 2.7% |
| Capital assets | 3,147,159 | 57.5% |
| Other assets | 129,826 | 2.4% |
| **Total assets** | **$ 5,474,470** | **100.0%** |




## DEFERRED OUTFLOWS OF RESOURCES

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

## LIABILITIES

### *Current Liabilities*

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

Current liabilities decreased $28,369,000, or 7%, and increased $32,299,000, or 8%, in 2017 and 2016, respectively. Accounts payable and accrued liabilities decreased $33,624,000, or 13%, in 2017. In April 2013, the university implemented a "freeze" of its PERF participation under which non-exempt employees hired on or after July 1, 2013, would enroll in a defined contribution plan instead of the PERF defined benefit plan. Subsequently, the Indiana General Assembly passed a law, which retroactively imposed a new funding obligation for employers who had previously made the decision to freeze PERF participation. The university recorded this obligation at June 30, 2016, and made payment to satisfy this obligation in August 2016, resulting in a decrease in current accounts payable as of June 30, 2017 (see Note 12, Retirement Plans).

### *Noncurrent Liabilities*

Noncurrent liabilities increased $37,842,000, or 3%, and decreased $37,340,000, or 3%, in 2017 and 2016, respectively. Other noncurrent liabilities include other postemployment benefits (as described in Note 13, Postemployment Benefits) and compensated absences. Compensated absences are comprised of employee vacation and sick leave and fluctuate as employees earn and use those leave balances. In 2015, the university adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* requiring governments providing defined benefit plans to recognize their unfunded pension benefit obligations for the first time. In accordance with the statement, the university recorded a net pension liability of $95,689,000 and $98,279,000 at June 30, 2017 and 2016, respectively (see Note 12, Retirement Plans).

## DEBT AND FINANCING ACTIVITY

Institutional borrowing capacity is a valuable resource that is actively managed in support of the institutional mission. Bonds, notes, and capital lease obligations totaled $1,085,679,000 and $1,027,324,000 at June 30, 2017 and 2016, respectively.

On August 4, 2016, the university issued fixed rate Student Fee Bonds, Series X (Series X) with a par amount of $71,710,000. Series X new money proceeds were used to finance the Old Crescent Renovation Phase II project for the renovation of Kirkwood Hall, Swain Hall, and Ernie Pyle Hall on the Bloomington campus. Series X proceeds were additionally used to current refund a portion of Student Fee Bonds, Series R and advance refund a portion of Student Fee Bonds, Series U. Bond proceeds were also used to pay costs to issue the bonds, including underwriters' discount. At issuance, the all-in true interest cost for Series X was 2.26%. The Series X refunding bonds produced a net present value savings of $2,270,000, which was 7.54% of refunded par bonds.

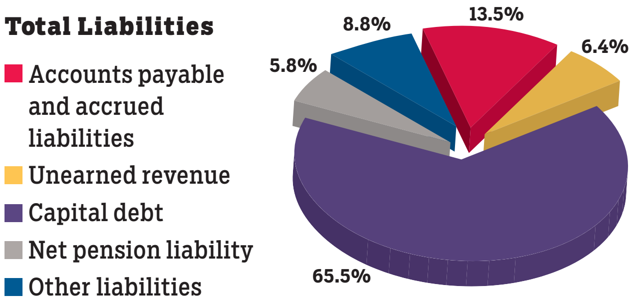
On March 8, 2017, the university issued fixed rate Lease-Purchase Obligations, Series 2017A with a par amount of $74,575,000 as new money bonds. The proceeds financed the Memorial Stadium Excellence Academy and Related Stadium Renovations project and the Eskenazi Museum of Art Renovations project on the Bloomington campus. Bond proceeds were also used to pay capitalized interest and costs to issue the bonds, including underwriters' discount. The true interest cost for LPO Series 2017A was 3.71%.

The university's ratings on debt obligations were last reviewed and reaffirmed in February 2017. On February 7, 2017, S&P Global Ratings rated the university's most recent lease-purchase obligations and reaffirmed its long-term rating and underlying rating on all student fee bonds, consolidated revenue bonds, certificates of participation, and lease-purchase obligations issued by the university as 'AAA' with a stable outlook. On February 7, 2017, Moody's Investors Service rated the university's most recent lease-purchase obligations and reaffirmed its underlying rating on all student fee bonds, consolidated revenue bonds, lease-purchase obligations, and certificates of participation as 'Aaa' with a stable outlook.

The following table and chart represent the composition of total liabilities as of June 30, 2017:

| **Total Liabilities** | | |
|---|---|---|
| *(in thousands of dollars)* | | |
| Accounts payable and accrued liabilities | $ 223,629 | 13.5% |
| Unearned revenue | 105,776 | 6.4% |
| Capital debt | 1,085,679 | 65.5% |
| Net pension liability | 95,689 | 5.8% |
| Other liabilities | 146,283 | 8.8% |
| **Total liabilities** | **$ 1,657,056** | **100.0%** |

**Total Liabilities**




## DEFERRED INFLOWS OF RESOURCES

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

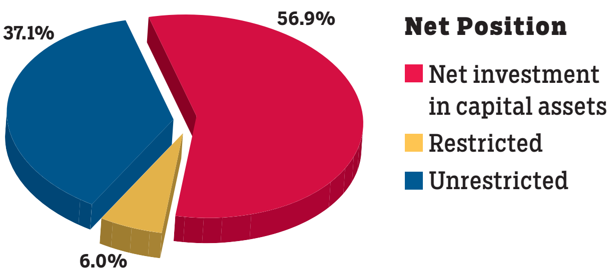
## NET POSITION

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

- Net investment in capital assets consists of the university's investment in capital assets, such as equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and related debt.
- Restricted net position consists of amounts subject to externally imposed restrictions governing usage and is divided into two subcategories:
  - o Restricted non-expendable funds are subject to externally imposed stipulations that they be retained in perpetuity. These balances represent the corpus (historical value) of the university's permanent endowment funds.
  - 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 as of June 30, 2017:

| **Total Net Position** | | |
|---|---|---|
| *(in thousands of dollars)* | | |
| Net investment in capital assets | $ 2,200,168 | 56.9% |
| Restricted | 230,713 | 6.0% |
| Unrestricted | 1,434,658 | 37.1% |
| **Total net position** | **$ 3,865,539** | **100.0%** |




The university's net investment in capital assets reflects the institutional capital investment in sustaining and enhancing the university's mission and strategic plans. The net investment in capital assets increased $151,942,000, or 7%, and $124,195,000, or 6%, in 2017 and 2016, respectively. Growth in this area is managed according to the university's long-range capital plans, along with operating units' needs to support programs and operating needs.

Restricted net position decreased $15,361,000, or 6%, and $52,589,000, or 18%, in 2017 and 2016, respectively. Variances in both years are largely due to fluctuations in spending of bond proceeds.

Unrestricted net position is subject to internal designations and commitments for academic and research initiatives, capital projects, and unrestricted quasi- and term endowment spending plans. Unrestricted net position increased $17,673,000, or 1%, and $34,050,000, or 2%, in 2017 and 2016, respectively. Unrestricted net position represents resources available for ongoing operational needs and for funding ongoing obligations, as well as providing flexibility to support the university's mission in changing economic environments.

Total net position increased $154,254,000, or 4%, and $105,656,000, or 3%, in 2017 and 2016, respectively. Net position at June 30, 2017, was $3,865,539,000.

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

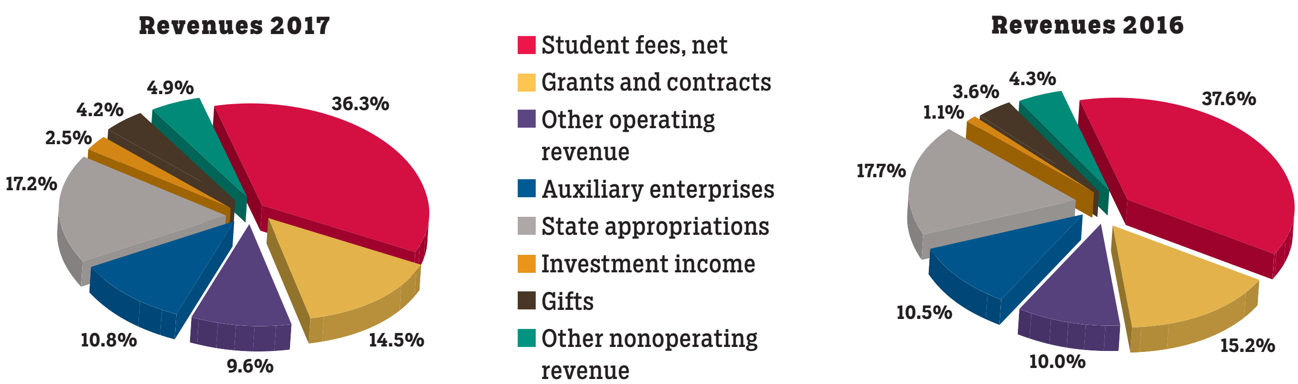
Revenues and expenses are classified as either operating or nonoperating, in accordance with GASB principles for classification into these categories. Trends in the relationship between operating revenues and expenses are important indicators of financial condition. Generally, operating revenues are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

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

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

| *(in thousands of dollars)* | | *Fiscal Year Ended* | |
|---|---|---|---|
| | *June 30, 2017* | *June 30, 2016* | *June 30, 2015* |
| Operating revenues | $ 2,316,022 | $ 2,256,204 | $ 2,207,604 |
| Operating expenses | (3,063,303) | (2,941,624) | (2,863,815) |
| Total operating loss | (747,281) | (685,420) | (656,211) |
| Nonoperating revenues | 876,561 | 794,928 | 781,232 |
| Nonoperating expenses | (33,308) | (31,668) | (34,520) |
| Income before other revenues, expenses, gains, or losses | 95,972 | 77,840 | 90,501 |
| Other revenues | 58,282 | 27,816 | 47,904 |
| **Increase in net position** | **154,254** | **105,656** | **138,405** |
| Net position, beginning of year | 3,711,285 | 3,605,629 | 3,591,188 |
| Adjustment per change in accounting principle | – | – | (123,964) |
| Net position, beginning of year, as restated | – | – | 3,467,224 |
| **Net position, end of year** | **$ 3,865,539** | **$ 3,711,285** | **$ 3,605,629** |

The following charts represent revenues by major source for fiscal years 2017 and 2016:



*School of Public and Environmental Affairs, Bloomington*

Operating revenues increased $59,818,000, or 3%, and $48,600,000, or 2%, during 2017 and 2016, respectively. The university supports its operations with diverse revenue sources, of which the largest single source is student tuition and fees. Tuition and fees, net of scholarship allowances, increased $24,978,000, or 2%, and $36,857,000, or 3%, during 2017 and 2016, respectively and represents 36% of total revenue in 2017. Tuition and fee revenue is effected by a combination of changes in tuition rates, enrollment, and the mix of student levels and residency. The university's *Bicentennial Strategic Plan* articulates a commitment to access and affordability for students. Representative of this commitment, undergraduate tuition and fee rate increases in 2017 and 2016 were the lowest in more than 35 years and ranged from a tuition freeze for Indiana residents on the Bloomington campus to 1.65% for residents on the IUPUI campus. Regional campus undergraduate tuition and fee rate increases increased an average of 1.65%. The university receives revenue for sponsored programs from various government and nongovernmental agencies, a significant portion of which is related to federal research. Federal operating grant and contract revenue increased $21,833,000, or 7%, and $4,375,000, or 1%, in 2017 and 2016, respectively. Total operating grant and contract revenues from all sources remained relatively flat in 2017, at less than a 1% increase, and increased 4% in 2016.

Operating expenses increased $121,679,000, or 4%, and $77,809,000, or 3%, in 2017 and 2016, respectively. Compensation and benefits, at 66% of total operating expenses, represent the largest single university expense. The university's strategic plan makes a clear statement of commitment to "recruit and retain an outstanding, diverse and inclusive faculty from researchers, scholars, teachers, and creative artists worldwide who are recognized as among the very best in their fields." Compensation and benefits expense increased $60,571,000, or 3%, and $71,847,000, or 4%, in 2017 and 2016, respectively. University benefit plans play an important role in attracting and retaining employees and the university has implemented initiatives in recent years to control costs without compromising the competitiveness of the benefit package. The university's High Deductible Health Plan (HDHP) lowers employer premiums while providing employees with greater control over healthcare spending. Approximately 95% of employees were enrolled in a HDHP in 2017. While overall health care costs have increased, the university's cost per employee is at or below market benchmarks. The combination of student financial aid expense and scholarship allowances increased $21,673,000, or 6%, and totaled $415,787,000 in 2017. The

2017 increase of $4,971,000 in travel expenses is primarily attributable to the auxiliary enterprises, research, and instruction functions. Energy and utilities expense increased $2,656,000, or 4%, in 2017. A combination of rate increases, a warmer cooling season, and new buildings contributed to overall increased utility costs, while the university continued to benefit from energy efficiency measures and strategies to stabilize rate fluctuations. During 2016, energy and utilities expense decreased $4,619,000, or 6%. Factors contributing to the decline in 2016 included favorable natural gas pricing, as well as electricity savings attributed to increased energy efficiency in central chilled water management, as well as a reduction in electric loads with conversions to LED lighting.

Nonoperating revenues, net of interest expense, increased $79,993,000, or 10%, and $16,548,000, or 2%, in 2017 and 2016, respectively. State operating appropriations are comprised of appropriations to support the primary general educational mission of the university and student fee replacement appropriations for the purpose of reimbursing a portion of the university's debt service for certain academic facilities. The state of Indiana appropriates operating funds to the state's colleges and universities on a performance-based funding model focused on key student success measures. Non-capital state appropriations totaled $558,111,000 in 2017, and is the university's second largest revenue source, after tuition and fees. Investment income increased $49,858,000, or 153%, in 2017, largely driven by a combination of realized and unrealized gains. Investment income increased $8,849,000, or 37%, to $32,543,000 in 2016, primarily due to unrealized gains compared to unrealized losses in 2015. Unrealized gains in 2016 were partially offset by realized losses. Gift revenue increased $24,389,000, or 22%, as various academic departments leveraged IU Foundation endowments to support scholarships and fellowships.

The university recognized $54,256,000 and $27,814,000 in 2017 and 2016, respectively, in capital appropriations and capital gifts and grants for repairs, renovations, and improvements across all campuses. Revenue recognized as capital appropriations and capital gifts and grants fluctuates as funding is brought in to the university according to the needs of the schools and campuses.

## STATEMENT OF CASH FLOWS

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

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

**Comparative Statement of Cash Flows**

| *(in thousands of dollars)* | | *Fiscal Year Ended* | |
|---|---|---|---|
| | *June 30, 2017* | *June 30, 2016* | *June 30, 2015* |
| Net cash provided (used) by: | | | |
| Operating activities | $ (651,135) | $ (518,997) | $ (533,968) |
| Noncapital financing activities | 795,174 | 770,852 | 748,874 |
| Capital and related financing activities | (247,955) | (371,354) | (115,494) |
| Investing activities | 52,653 | 117,200 | (119,267) |
| **Net increase (decrease) in cash and cash equivalents** | **(51,263)** | **(2,299)** | **(19,855)** |
| Beginning cash and cash equivalents | 278,722 | 281,021 | 300,876 |
| **Ending cash and cash equivalents** | **$ 227,459** | **$ 278,722** | **$ 281,021** |

The university's cash and cash equivalents decreased $51,263,000 and $2,299,000 in 2017 and 2016, respectively. Net cash flows from operating activities consists primarily of student fees, grants and contracts, and auxiliary enterprise receipts. Payments to employees represent the largest use of cash for operations. Significant sources of cash provided by noncapital financing activities, as defined by GASB, including state appropriations, federal Pell grants, and private noncapital gifts, are used to fund operating activities. Fluctuations in capital and related financing activities reflect decisions made relative to the university's capital and financing plans. Cash flows from investing activities include the effects of shifts between cash equivalents and longer-term investments.

In 2017, the university reclassified certain cash and cash equivalents as short-term investments. This retrospective reclassification reflects cash and cash equivalents at original maturities of 90 days or less in order to better align our reporting with the characteristics of short-term highly liquid investments.

## ECONOMIC OUTLOOK

After experiencing a year-over-year revenue decline of 0.5% in 2016, 2017 forecasted state revenues rebounded and were $106,800,000, or 0.7%, above forecast and $454,300,000, or 3.1%, above 2016 collections. Sales tax collections, the largest single state tax revenue source, grew at a relatively strong rate of 3.7% over 2016, while individual income tax collections grew at a strong rate of 4.2% over 2016. Rounding out the state's "Big 3" tax revenues, corporate income tax collections declined by 0.5% from 2016, but exceeded forecast. It is important to note that state tax revenues in 2017 were impacted modestly by individual and business income tax cuts enacted by the General Assembly in recent years. These tax cuts are being phased-in over several years and considering even their modest impact, supports the conclusion that 2017 was a good tax collection year for the state. Despite some drawdown of state reserves, primarily for one-time spending on streets and roads, the state's overall fiscal standing remains strong with total reserve balances totaling $1,777,100,000 at June 30, 2017, or 11.5%, of state operating revenues.

For 2018, total state revenues were forecast in April 2017 to increase by $420,900,000, or 2.8%, over 2017 revenues. However, because actual revenue collections in 2017 were above forecast, revenue growth of $314,100,000, or 2.1%, is required to achieve the 2018 revenue forecast level. Barring unexpected economic events, this forecast level should be achievable.

*Move-In Day at Memorial Hall, Bloomington*

Indiana's unemployment rate was 4.5% at the beginning of fiscal year 2017 in July 2016 and ended the fiscal year in June 2017 at a preliminary rate of 3.0%. Indiana's rate compared favorably to the national unemployment rate of 4.4% in June 2017.

In conclusion, both Indiana and the national economies are expanding, albeit in an environment in which much economic uncertainty exists.

# Statement of Net Position

| *(in thousands of dollars)* | *June 30, 2017* | *June 30, 2016* |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 227,459 | $ 278,722 |
| Accounts receivable, net | 149,186 | 126,586 |
| Current portion of notes and pledges receivable | 14,703 | 15,091 |
| Inventories | 9,675 | 8,980 |
| Short-term investments | 201,907 | 202,672 |
| Other assets | 46,975 | 49,164 |
| Total current assets | 649,905 | 681,215 |
| **Noncurrent assets** | | |
| Notes and pledges receivable | 58,473 | 58,329 |
| Investments | 1,618,933 | 1,587,596 |
| Capital assets, net | 3,147,159 | 2,984,285 |
| Total noncurrent assets | 4,824,565 | 4,630,210 |
| **Total assets** | **5,474,470** | **5,311,425** |
| **Deferred outflows of resources** | **86,345** | **67,186** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 223,629 | 257,253 |
| Unearned revenue | 82,009 | 83,440 |
| Current portion of capital lease obligations | 1,286 | 1,044 |
| Current portion of long-term debt | 81,333 | 74,889 |
| Total current liabilities | 388,257 | 416,626 |
| **Noncurrent liabilities** | | |
| Capital lease obligations | 2,217 | 2,373 |
| Notes payable | 188,020 | 111,310 |
| Assets held in custody for others | 78,807 | 79,705 |
| Unearned revenue | 23,767 | 28,591 |
| Bonds payable | 812,823 | 837,708 |
| Other long-term liabilities | 67,476 | 72,991 |
| Net pension liability | 95,689 | 98,279 |
| Total noncurrent liabilities | 1,268,799 | 1,230,957 |
| **Total liabilities** | **1,657,056** | **1,647,583** |
| **Deferred inflows of resources** | **38,220** | **19,743** |
| **NET POSITION** | | |
| Net investment in capital assets | 2,200,168 | 2,048,226 |
| Restricted for: | | |
| Nonexpendable - endowments | 59,075 | 54,406 |
| Expendable | | |
| Scholarships, research, instruction, and other | 120,751 | 123,899 |
| Loans | 18,720 | 19,396 |
| Capital projects | 15,226 | 27,037 |
| Debt service | 16,941 | 21,336 |
| Unrestricted | 1,434,658 | 1,416,985 |
| **Total net position** | **$ 3,865,539** | **$ 3,711,285** |

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

**Indiana University Foundation**

**Statements of Financial Position**
**June 30, 2017 and 2016**
**(In thousands)**

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 98,367 | $ 65,214 |
| Collateral under securities lending agreement | 98,059 | 99,083 |
| Receivables and other assets | 22,438 | 21,978 |
| Due from brokers | 60,381 | 74,628 |
| Promises to give, net | 176,233 | 196,358 |
| Investments | 2,347,969 | 2,099,995 |
| Property, plant, and equipment, net | 57,932 | 43,900 |
| **Total assets** | $ 2,861,379 | $ 2,601,156 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and other | $ 7,755 | $ 8,957 |
| Due to brokers | 87,751 | 86,577 |
| Collateral under securities lending agreement | 98,059 | 99,083 |
| Split interest agreement obligations | 34,766 | 33,172 |
| Assets held for the University | 230,266 | 209,925 |
| Assets held for University affiliates | 39,937 | 38,194 |
| **Total liabilities** | 498,534 | 475,908 |
| Net assets: | | |
| Unrestricted | 65,679 | 50,762 |
| Temporarily restricted | 890,671 | 831,736 |
| Permanently restricted | 1,406,495 | 1,242,750 |
| **Total net assets** | 2,362,845 | 2,125,248 |
| **Total liabilities and net assets** | $ 2,861,379 | $ 2,601,156 |

See notes to financial statement

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

| *(in thousands of dollars)* | *Fiscal Year Ended June 30, 2017* | *June 30, 2016* |
|---|---|---|
| **OPERATING REVENUES** | | |
| Student fees | $ 1,452,395 | $ 1,402,098 |
| Less scholarship allowance | (271,601) | (246,282) |
| Federal grants and contracts | 320,054 | 298,221 |
| State and local grants and contracts | 19,088 | 24,437 |
| Nongovernmental grants and contracts | 130,447 | 145,893 |
| Sales and services of educational units | 39,422 | 41,358 |
| Other revenue | 274,003 | 266,032 |
| Auxiliary enterprises (net of scholarship allowance of $35,689 in 2017 and $32,023 in 2016) | 352,214 | 324,447 |
| **Total operating revenues** | **2,316,022** | **2,256,204** |
| **OPERATING EXPENSES** | | |
| Compensation and benefits | 2,009,667 | 1,949,096 |
| Student financial aid | 144,186 | 147,832 |
| Energy and utilities | 76,121 | 73,465 |
| Travel | 59,967 | 54,996 |
| Supplies and general expense | 617,809 | 565,528 |
| Depreciation and amortization expense | 155,553 | 150,707 |
| **Total operating expenses** | **3,063,303** | **2,941,624** |
| **Total operating loss** | **(747,281)** | **(685,420)** |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 558,111 | 545,330 |
| Grants and contracts | 99,581 | 104,976 |
| Investment income | 82,401 | 32,543 |
| Gifts | 136,468 | 112,079 |
| Interest expense | (33,308) | (31,668) |
| **Net nonoperating revenues** | **843,253** | **763,260** |
| **Income before other revenues, expenses, gains, or losses** | **95,972** | **77,840** |
| Capital appropriations | 31,083 | 14,844 |
| Capital gifts and grants | 23,173 | 12,970 |
| Additions to permanent endowments | 4,026 | 2 |
| **Total other revenues** | **58,282** | **27,816** |
| **Increase in net position** | **154,254** | **105,656** |
| Net position, beginning of year | 3,711,285 | 3,605,629 |
| **Net position, end of year** | **$ 3,865,539** | **$ 3,711,285** |

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

**Indiana University Foundation**

**Statement of Activities**
**Year Ended June 30, 2017**
**(In thousands)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Support and other revenue: | | | | |
| Contributions | $ 2,139 | $ 109,081 | $ 80,892 | $ 192,112 |
| Investment income, net | 17,748 | 123,098 | 85,071 | 225,917 |
| Management/administrative fees | 19,866 | (16,691) | (30) | 3,145 |
| Grants | - | 956 | - | 956 |
| Other income | 10,920 | 2,999 | 691 | 14,610 |
| Development service fees from the University | 4,730 | - | - | 4,730 |
| Change in value of split interest agreements | 88 | 720 | 3,322 | 4,130 |
| Net assets released from restrictions | 167,429 | (161,228) | (6,201) | - |
| **Total support and other revenue** | 222,920 | 58,935 | 163,745 | 445,600 |
| Expenses: | | | | |
| Grants and aid to the University | 167,574 | - | - | 167,574 |
| Management and general | 19,428 | - | - | 19,428 |
| Fundraising | 21,001 | - | - | 21,001 |
| **Total expenses** | 208,003 | - | - | 208,003 |
| **Change in net assets** | 14,917 | 58,935 | 163,745 | 237,597 |
| Net assets, beginning of year | 50,762 | 831,736 | 1,242,750 | 2,125,248 |
| Net assets, end of year | $ 65,679 | $ 890,671 | $ 1,406,495 | $ 2,362,845 |

See notes to financial statements.

| (in thousands of dollars) | Fiscal Year Ended June 30, 2017 | Fiscal Year Ended June 30, 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Student fees | $ 1,175,160 | $ 1,160,481 |
| Grants and contracts | 459,837 | 449,814 |
| Sales and services of educational activities | 39,522 | 42,670 |
| Auxiliary enterprise charges | 350,424 | 326,954 |
| Other operating receipts | 270,950 | 264,015 |
| Payments to employees | (2,027,110) | (1,945,497) |
| Payments to suppliers | (776,351) | (671,415) |
| Student financial aid | (145,056) | (147,475) |
| Student loans collected | 12,266 | 11,716 |
| Student loans issued | (10,777) | (10,260) |
| **Net cash used in operating activities** | **(651,135)** | **(518,997)** |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | 554,752 | 554,930 |
| Nonoperating grants and contracts | 99,581 | 104,976 |
| Gifts and grants received for other than capital purposes | 140,896 | 111,897 |
| Direct lending receipts | 518,823 | 532,963 |
| Direct lending payments | (518,878) | (533,914) |
| **Net cash provided by noncapital financing activities** | **795,174** | **770,852** |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Capital appropriations | 31,083 | 14,844 |
| Capital grants and gifts received | 21,925 | 6,211 |
| Purchase of capital assets | (319,393) | (304,465) |
| Proceeds from issuance of capital debt, including refunding activity | 134,977 | 30,595 |
| Principal payments on capital debt | (65,864) | (61,987) |
| Principal paid on capital leases | (1,886) | (9,330) |
| Interest paid on capital debt and leases | (48,797) | (47,222) |
| **Net cash used in capital and related financing activities** | **(247,955)** | **(371,354)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | 8,493,813 | 5,637,759 |
| Investment income | 46,970 | 46,348 |
| Purchase of Investments | (8,488,130) | (5,566,907) |
| **Net cash provided by investing activities** | **52,653** | **117,200** |
| **Net decrease in cash and cash equivalents** | **(51,263)** | **(2,299)** |
| Cash and cash equivalents, beginning of year | 278,722 | 281,021 |
| **Cash and cash equivalents, end of year** | **$ 227,459** | **$ 278,722** |

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

| *(in thousands of dollars)* | *Fiscal Year Ended* | |
|---|---|---|
| | *June 30, 2017* | *June 30, 2016* |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES** | | |
| Operating loss | $ (747,281) | $ (685,420) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | 155,553 | 150,707 |
| Loss on disposal of capital assets | 3,242 | 8,567 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (15,438) | 8,485 |
| Inventories | (695) | 578 |
| Other assets | 2,188 | 424 |
| Notes receivable | 244 | 217 |
| Accounts payable and accrued liabilities | (37,384) | 6,783 |
| Unearned revenue | (6,255) | (12,249) |
| Assets held in custody for others | (898) | 496 |
| Other noncurrent liabilities | 706 | 8,126 |
| Net pension liability and related deferreds | (5,117) | (5,711) |
| **Net cash used in operating activities** | **$ (651,135)** | **$ (518,997)** |

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

## Note 1—Organization and Summary of Significant Accounting Policies

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

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

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

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

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

**REPORTING ENTITY:** The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. GASB Statement No. 14, *The Financial Reporting Entity,* 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 $162,974,000 and $136,856,000 to the university during fiscal years 2017 and 2016, 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 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 original maturities of 90 days or less that bear little or no market risk. Restricted cash and cash equivalents includes unspent bond proceeds restricted for capital expenditures.

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

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

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

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

**DEFERRED OUTFLOWS OF RESOURCES:** In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources represent the consumption of resources that are applicable to a future reporting period, but do not require a further exchange of goods or services. The university's total deferred outflows of resources were $86,345,000 and $67,186,000 as of fiscal years 2017 and 2016, respectively. The portion of deferred outflows of resources related to the accumulated deferred charges on refundings of capital debt was $22,048,000 and $23,893,000 in fiscal years 2017 and 2016, respectively. The portion of deferred outflows of resources related to the university's net pension liability under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* (GASB 68) was $64,297,000 and $43,293,000 in fiscal years 2017 and 2016, respectively.

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

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

**DEFERRED INFLOWS OF RESOURCES:** In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources represent the acquisition of resources that are applicable to a future reporting period, but do not require a further exchange of goods or services. Deferred inflows of resources related to the university's net pension liability under GASB 68 were $38,220,000 and $19,743,000 in fiscal years 2017 and 2016, respectively.

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

- *Net investment in capital assets:* This component of net position includes capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction, or improvement of those assets.

- *Restricted—nonexpendable:* Assets included in the nonexpendable restricted net position category are subject to externally imposed stip ulations 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 AND EXPENSES:** University revenues and expenses 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).

- *Operating expenses:* Operating expenses are incurred to support exchange transactions resulting in operating revenue. Examples include compensation and benefits, student financial aid, and supplies and general expense.

- *Non-operating revenues and expenses:* Non-operating revenues and expenses include those derived from non-exchange transactions such as gifts, certain federal and state grants, and interest expense. 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.

**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.

In 2017, the university reclassified certain cash and cash equivalents as short-term investments. This retrospective reclassification reflects cash and cash equivalents at original maturities of 90 days or less in order to better align our reporting with the characteristics of short-term highly liquid investments. This reclassification had no corresponding effect on either the university's net position or total current assets.

The effect of the reclassification from cash and cash equivalents to short-term investments in fiscal years 2016, 2015, and 2014 is shown below:

*(dollar amounts presented in thousands)*

| | | *Fiscal Year* | |
|---|---|---|---|
| | *2016* | *2015* | *2014* |
| Cash and cash equivalents, as reclassified | $ 278,722 | $ 281,021 | $ 300,876 |
| Cash and cash equivalents, as originally stated | 345,207 | 391,568 | 313,954 |
| Reclassification of cash and cash equivalents | $ (66,485) | $ (110,547) | $ (13,078) |

*(dollar amounts presented in thousands)*

| | | *Fiscal Year* | |
|---|---|---|---|
| | *2016* | *2015* | *2014* |
| Short-term investments, as reclassified | $ 202,672 | $ 241,536 | $ 71,798 |
| Short-term investments, as originally stated | 136,187 | 130,989 | 58,720 |
| Reclassification of short-term investments | $ 66,485 | $ 110,547 | $ 13,078 |

## Note 2—Deposits and Investments

**CUSTODIAL CREDIT RISK – DEPOSITS:** The combined bank balances of the university's demand deposits were $15,526,000 and $95,351,000 with balances subject to custodial credit risk in the amount of $4,083,000 and $35,167,000 at June 30, 2017 and 2016, respectively. Of this amount, $2,613,000 and $736,000 was uninsured and uncollateralized and $1,470,000 and $34,431,000 was uninsured and collateralized with securities held by the pledging financial institution at June 30, 2017 and 2016, respectively. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk, however the university monitors the credit rating and certain financial performance metrics of its custodial and commercial banks on a quarterly basis.

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

At June 30, 2017 and 2016, the university had deposits and investments, including endowment funds, as shown below:

*(dollar amounts presented in thousands)*

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Cash and cash equivalents | $ 227,459 | $ 278,722 |
| Short-term investments | 201,907 | 202,672 |
| Investments | 1,618,933 | 1,587,596 |
| **Total** | **$ 2,048,299** | **$ 2,068,990** |

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

**CUSTODIAL CREDIT RISK – INVESTMENTS:** 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 $4,190,000 and $1,606,000 exposed to custodial credit risk at June 30, 2017 and 2016, respectively. The university had $36,473,000 and $14,483,000 where custodial credit risk could not be determined at June 30, 2017 and 2016, 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 a deposit or investment. The university's policy for controlling its exposure to fair value losses arising from increasing interest rates is to constrain average portfolio duration within ranges of a target portfolio duration set for each portfolio of operating fund investments. The portfolios may seek to enhance returns by attempting to time movements of interest rates within the allowable ranges.

The university had deposits and investments with the following maturities at June 30, 2017:

*(dollar amounts presented in thousands)*

| | Fair Value | Maturities (in years) | | | |
|---|---|---|---|---|---|
| *Deposit and Investment Type* | *June 30, 2017* | *Less than 1* | *1–5* | *6-10* | *More than 10* |
| *Deposits and investments with maturity date* | | | | | |
| Corporate bonds | $ 631,855 | $ 247,563 | $ 288,368 | $ 56,332 | $ 39,592 |
| Asset-backed securities | 285,155 | 2,502 | 134,692 | 32,945 | 115,016 |
| Government bonds | 401,174 | 58,546 | 188,531 | 88,951 | 65,146 |
| Government issued asset-backed securities | 107,788 | 886 | 29,420 | 12,684 | 64,798 |
| Fixed income funds | 22,375 | 22,375 | – | – | – |
| Other fixed income | 24,693 | 13,632 | 5,616 | 4,602 | 843 |
| **Total deposits and investments with maturity date** | **1,473,040** | **345,504** | **646,627** | **195,514** | **285,395** |
| *Deposits and investments with undetermined maturity date* | | | | | |
| External investment pools | 238,758 | 238,758 | – | – | – |
| Money market funds | 294,586 | 294,586 | – | – | – |
| Government issued asset-backed securities | 34,157 | 34,157 | – | – | – |
| All other | 7,758 | 7,758 | – | – | – |
| **Total deposits and investments with undetermined maturity date** | **575,259** | **575,259** | – | – | – |
| **Total** | **$ 2,048,299** | **$ 920,763** | **$ 646,627** | **$ 195,514** | **$ 285,395** |

*North Hall, Indianapolis*

The university had deposits and investments with the following maturities at June 30, 2016:

*(dollar amounts presented in thousands)*

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

**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, 2017 and 2016, university deposits and investments had debt securities with associated credit ratings as shown below:

*(dollar amounts presented in thousands)*

| *Credit Quality Rating* | *Fair Value June 30, 2017* | *Percentage of Total Pool* | *Fair Value June 30, 2016* | *Percentage of Total Pool* |
|---|---|---|---|---|
| AAA | $ 255,482 | 12.47% | $ 258,108 | 12.48% |
| AA | 390,781 | 19.08% | 355,068 | 17.16% |
| A | 209,707 | 10.24% | 221,722 | 10.72% |
| BBB | 209,361 | 10.22% | 234,695 | 11.34% |
| BB | 77,500 | 3.79% | 106,563 | 5.15% |
| Below BB | 250,774 | 12.24% | 248,229 | 12.00% |
| Not rated | 654,694 | 31.96% | 644,605 | 31.15% |
| **Total** | **$ 2,048,299** | **100.00%** | **$ 2,068,990** | **100.00%** |

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

**FOREIGN CURRENCY RISK:** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a government's deposits and investments. The university's policy for controlling exposure to foreign currency risk is to constrain deposits and investments in non-U.S. dollar denominated debt to 25% of an individual manager's portfolio or as specified in each manager's guidelines. Minimal foreign currency exposure could occur if one of the university's investment managers purchases non-U.S. dollar holdings and does not hedge the currency. At June 30, 2017 and 2016, the university had immaterial amounts of deposits and investments exposed to foreign currency risk.

**ENDOWMENTS:** Endowment funds are managed pursuant to an Investment Agency Agreement between the Trustees of Indiana University ("trustees") and the IU Foundation dated November 14, 2005, which delegates investment management responsibilities to the IU Foundation. Indiana Code 30-2-12, *Uniform Management of Institutional Funds,* sets forth the provisions governing the investment of endowment assets and the expenditure of endowment fund appreciation. The code requires that the trustees and their agents act in good faith and with the care a prudent person acting in a like position would use under similar circumstances, with respect to the investment of endowment assets. The code also sets forth provisions governing the expenditure of endowment fund appreciation, under which the trustees may authorize expenditure, consistent with donor intent. The trustees may, at their discretion, direct all or a portion of the university's endowment funds to other deposits or investments, exclusive of the IU Foundation's investment funds. The spending policy of the trustees is to distribute 4.5% of the twelve quarter rolling average of pooled fund values. Funds held by endowments managed by the IU Foundation are used to acquire pooled shares. The amounts of net appreciation on investments of donor-restricted endowments that are available for expenditure are $34,898,000 and $27,742,000 as of June 30, 2017 and 2016, respectively. These amounts are reported as expendable restricted for scholarships, research, instruction, and other in net position.

Endowment funds have a perpetual investment horizon and, as appropriate, may be invested in asset classes better suited to IU Foundation's longer time horizon, including but not limited to: stocks, bonds, real estate, private placements, and alternative investments. Endowment assets may be invested in pooled funds, direct investments, or a combination of the two. Assets will typically be diversified among high quality stocks and bonds. Additional asset classes such as absolute return, private equity, and real asset investments, may be included when it is reasonable to expect these investments will either increase return, reduce risk, or both. Participation in the pooled investments is achieved by owning units of the Pooled Long-Term Fund and considered an external investment pool to the university. At June 30, 2017, all endowments held with the IU Foundation were invested in pooled funds. The Pooled Long-Term portfolio is diversified based on manager selection, investment style, and asset type to avoid any disproportionate risk related to any one industry or security.

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

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

## Note 3—Fair Value Measurements

The university categorizes its fair value measurements within the fair value hierarchy as established by GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. The university had the following recurring fair value measurements as of June 30, 2017:

*(dollar amounts presented in thousands)*

| | | *Fair Value Measurements Using* | | |
|---|---|---|---|---|
| | *June 30, 2017* | *Quoted Prices in Active Markets for Identical Assets (Level I)* | *Significant Other Observable Inputs (Level 2)* | *Significant Unobservable Inputs (Level 3)* |
| *Investments by fair value level:* | | | | |
| Debt securities | | | | |
| Corporate bonds | $ 488,325 | $ – | $ 485,322 | $ 3,003 |
| Collateralized obligations and mortgage-backed securities | 428,007 | – | 426,658 | 1,349 |
| Government bonds | 388,494 | – | 388,335 | 159 |
| Inflation index linked notes | 44,730 | – | 44,730 | – |
| Bank loans | 32,844 | – | 32,844 | – |
| Commingled funds | 22,375 | 22,375 | – | – |
| Municipal and provincial bonds | 9,224 | – | 9,224 | – |
| **Total debt securities** | **1,413,999** | **22,375** | **1,387,113** | **4,511** |
| External investment pool | 238,758 | – | – | 238,758 |
| Real estate | 6,269 | – | – | 6,269 |
| All other | 14,202 | 8 | 14,191 | 3 |
| **Total investments by fair value level** | **1,673,228** | **$ 22,383** | **$ 1,401,304** | **$ 249,541** |
| *Investments measured at the net asset value (NAV):* | | | | |
| Commingled bond fund | 146,499 | | | |
| Venture capital | 1,113 | | | |
| **Total investments measured at the NAV** | **147,612** | | | |
| **Total investments measured at fair value** | **$ 1,820,840** | | | |

The university had the following recurring fair value measurements as of June 30, 2016:

*(dollar amounts presented in thousands)*

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | June 30, 2016 | Quoted Prices in Active Markets for Identical Assets (Level I) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| *Investments by fair value level:* | | | | |
| Debt securities | | | | |
| Corporate bonds | $ 564,265 | $ – | $ 562,228 | $ 2,037 |
| Collateralized obligations and mortgage-backed securities | 487,166 | – | 481,161 | 6,005 |
| Government bonds | 301,138 | – | 298,104 | 3,034 |
| Inflation index linked notes | 48,321 | – | 48,321 | – |
| Commingled funds | 37,159 | 37,159 | – | – |
| Municipal and provincial bonds | 11,336 | – | 11,336 | – |
| Bank loans | 9,195 | – | 9,195 | – |
| **Total debt securities** | **1,458,580** | **37,159** | **1,410,345** | **11,076** |
| External investment pool | 218,309 | – | – | 218,309 |
| Real estate | 2,245 | – | 2,245 | – |
| All other | 6,227 | 204 | 6,023 | – |
| **Total investments by fair value level** | **1,685,361** | **$ 37,363** | **$ 1,418,613** | **$ 229,385** |
| *Investments measured at the net asset value (NAV):* | | | | |
| Commingled bond fund | 103,303 | | | |
| Venture capital | 1,604 | | | |
| **Total investments measured at the NAV** | **104,907** | | | |
| **Total investments measured at fair value** | **$ 1,790,268** | | | |

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

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

Debt securities classified in level 1 at June 30, 2017 and 2016, are valued using prices quoted in active markets for those securities.

The fair value of debt securities at June 30, 2017 and 2016, was determined primarily based on level 2 inputs. The university estimates the fair value of these investments using observable market-based inputs. Observable inputs are those that market participants would use in pricing the asset based on market data obtained from independent sources such as quoted market prices, reported sales of similar securities, and reference data.

The fair value of debt securities at level 3 as of June 30, 2017 and 2016, was determined using extrapolated data, proprietary models, indicative quotes, or similar techniques taking into account the characteristics of the asset.

The fair value of external investment pools at June 30, 2017 and 2016, was determined primarily based on level 3 inputs. A monthly valuation assigned to the shares of the pool is used to determine the fair value of the investment pools. A significant portion of the investment pool, $229,152,000 and $208,808,000 respectively at June 30, 2017 and 2016, was held at the IU Foundation. The fair value hierarchy of the foundation's investments can be found in Note 17, Excerpts from Indiana University Foundation Notes to Financial Statements.

The university holds several parcels of real estate for investment purposes. The fair values of these properties are based on appraisals received in June 2016. Since new appraisals were not received for this fiscal year, the level was reduced from a level 2 at June 30, 2016, to a level 3 at June 30, 2017.

The fair value of all other investments at June 30, 2017 and 2016, was determined primarily based on level 2 inputs. The university estimates the fair value of these investments using observable market-based inputs.

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

The university holds shares or interests in a venture capital investment company where the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment company as a practical expedient. The company invests in venture capital firms with the objective that 60% of these are in Indiana and 60% are in the life sciences field. The unfunded commitment was $4,000 and $70,000 as of June 30, 2017 and 2016, respectively. This investment cannot be redeemed until the sixteenth anniversary of the first closing date, which occurs in 2019.

## Note 4—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2017 and 2016:

*(dollar amounts presented in thousands)*

| | *June 30, 2017* | *June 30, 2016* |
|---|---|---|
| Student accounts | $ 48,814 | $ 44,337 |
| Auxiliary enterprises and other operating activities | 72,165 | 59,686 |
| Federal, state, and other grants and contracts | 20,472 | 21,417 |
| Capital appropriations and gifts | 10,113 | 1,723 |
| Other | 7,712 | 8,940 |
| **Current accounts receivable, gross** | **159,276** | **136,103** |
| Less allowance for uncollectible accounts | (10,090) | (9,517) |
| **Current accounts receivable, net** | **$ 149,186** | **$ 126,586** |

## Note 5—Capital Assets

Fiscal year ended June 30, 2017

*(dollar amounts presented in thousands)*

| | *Balance June 30, 2016* | *Additions* | *Transfers* | *Retirements* | *Balance June 30, 2017* |
|---|---|---|---|---|---|
| Assets not being depreciated: | | | | | |
| Land | $ 77,409 | $ 4,581 | $ – | $ 1,466 | $ 80,524 |
| Art & museum objects | 89,238 | 4,741 | – | 51 | 93,928 |
| Construction in progress | 224,336 | 149,017 | (145,138) | 2 | 228,213 |
| Total capital assets not being depreciated | 390,983 | 158,339 | (145,138) | 1,519 | 402,665 |
| Other capital assets: | | | | | |
| Infrastructure | 225,690 | 9,741 | 3,379 | – | 238,810 |
| Intangibles | 12,329 | – | – | – | 12,329 |
| Land improvements | 74,662 | 7,186 | 1,977 | 102 | 83,723 |
| Equipment | 435,492 | 38,836 | 8,375 | 20,732 | 461,971 |
| Library books | 201,386 | 7,502 | – | 22,156 | 186,732 |
| Buildings | 3,870,066 | 99,889 | 131,407 | 414 | 4,100,948 |
| Total other capital assets | 4,819,625 | 163,154 | 145,138 | 43,404 | 5,084,513 |
| Less accumulated depreciation for: | | | | | |
| Infrastructure | 154,373 | 5,031 | – | – | 159,404 |
| Intangibles | 7,617 | 1,606 | – | – | 9,223 |
| Land improvements | 25,430 | 4,111 | – | 12 | 29,529 |
| Equipment | 319,095 | 34,814 | – | 19,498 | 334,411 |
| Library books | 113,216 | 19,402 | – | 22,148 | 110,470 |
| Buildings | 1,606,592 | 90,589 | – | 199 | 1,696,982 |
| Total accumulated depreciation, other capital assets | 2,226,323 | 155,553 | – | 41,857 | 2,340,019 |
| **Capital assets, net** | **$ 2,984,285** | **$ 165,940** | **$ –** | **$ 3,066** | **$ 3,147,159** |

*Gymnasium inside Student Events & Activity Center, Richmond*

Fiscal year ended June 30, 2016
*(dollar amounts presented in thousands)*

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

## Note 6—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2017 and 2016:
*(dollar amounts presented in thousands)*

| | *June 30, 2017* | *June 30, 2016* |
|---|---|---|
| Accrued payroll | $ 16,417 | $ 29,139 |
| Accrual for compensated absences | 46,826 | 43,231 |
| Interest payable | 12,095 | 8,334 |
| Vendor and other payables | 148,291 | 176,549 |
| **Total accounts payable and accrued liabilities** | **$ 223,629** | **$ 257,253** |

## Note 7—Other Liabilities

Other liability activity for the fiscal years ended June 30, 2017 and 2016, is summarized as follows:

Fiscal year ended June 30, 2017
*(dollar amounts presented in thousands)*

| | *Balance June 30, 2016* | *Additions* | *Reductions* | *Balance June 30, 2017* | *Current* |
|---|---|---|---|---|---|
| Bonds, notes, and capital leases payable: | | | | | |
| Bonds payable | $ 907,838 | $ 52,781 | $ 73,060 | $ 887,559 | $ 74,736 |
| Notes payable | 116,069 | 83,502 | 4,954 | 194,617 | 6,597 |
| Capital leases payable | 3,417 | 1,545 | 1,459 | 3,503 | 1,286 |
| Total bonds, notes, and capital leases payable | 1,027,324 | 137,828 | 79,473 | 1,085,679 | 82,619 |
| Other liabilities: | | | | | |
| Unearned revenue | 112,031 | – | 6,255 | 105,776 | 82,009 |
| Assets held in custody for others | 80,201 | 2,488 | – | 82,689 | 3,882 |
| Compensated absences | 72,045 | 21,417 | 17,856 | 75,606 | 46,826 |
| Other | 44,177 | 739 | 6,220 | 38,696 | – |
| Net pension liability | 98,279 | – | 2,590 | 95,689 | – |
| Total | 406,733 | 24,644 | 32,921 | 398,456 | 132,717 |
| **Total other liabilities** | **$ 1,434,057** | **$ 162,472** | **$ 112,394** | **$ 1,484,135** | **$ 215,336** |

Fiscal year ended June 30, 2016
*(dollar amounts presented in thousands)*

| | *Balance June 30, 2015* | *Additions* | *Reductions* | *Balance June 30, 2016* | *Current* |
|---|---|---|---|---|---|
| Bonds, notes, and capital leases payable: | | | | | |
| Bonds payable | $ 939,627 | $ 34,737 | $ 66,526 | $ 907,838 | $ 70,130 |
| Notes payable | 120,158 | – | 4,089 | 116,069 | 4,759 |
| Capital leases payable | 2,836 | 1,739 | 1,158 | 3,417 | 1,044 |
| Total bonds, notes, and capital leases payable | 1,062,621 | 36,476 | 71,773 | 1,027,324 | 75,933 |
| Other liabilities: | | | | | |
| Unearned revenue | 124,280 | – | 12,249 | 112,031 | 83,440 |
| Assets held in custody for others | 79,847 | 354 | – | 80,201 | 496 |
| Compensated absences | 68,572 | 20,358 | 16,885 | 72,045 | 43,231 |
| Other | 40,425 | 5,070 | 1,318 | 44,177 | – |
| Net pension liability | 101,229 | 33,336 | 36,286 | 98,279 | – |
| Total | 414,353 | 59,118 | 66,738 | 406,733 | 127,167 |
| **Total other liabilities** | **$ 1,476,974** | **$ 95,594** | **$ 138,511** | **$ 1,434,057** | **$ 203,100** |

## Note 8—Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds, notes, and other forms of indebtedness for the purpose of financing construction of facilities that include academic and administrative facilities, research facilities on the Bloomington and Indianapolis campuses, athletic facilities, parking facilities, student housing, health service facilities, student union buildings, and energy savings projects. At June 30, 2017 and 2016, the university had serial bonds, term bonds, and capital appreciation bonds outstanding with maturities that extend to June 1, 2044. The university has both tax-exempt and taxable bonds outstanding.

The total outstanding bonds and notes payable at June 30, 2017 and 2016, were $1,082,176,000 and $1,023,907,000, respectively. This indebtedness included principal outstanding at June 30, 2017 and 2016, for bonds issued under Indiana Code (IC) 21-34-6 as student fee debt ("Student Fee Bonds") of $392,121,000 and $391,995,000, respectively and under IC 21-35-3 as consolidated revenue bonds of $411,680,000 and $431,860,000, respectively. This indebtedness also included principal outstanding at June 30, 2017 and 2016, for notes issued under IC 21-33-3-5 as lease-purchase obligations (LPOs) or certificates of participation (COPs), collectively "Obligations", of $177,420,000 and $107,050,000, respectively. Total bonds and notes payable at June 30, 2017 and 2016, have an additional accreted value of outstanding Student Fee Bonds issued as capital appreciation bonds of $3,031,000 and $5,773,000, respectively, which is not in the principal or face value. The calculation of total bonds and notes payable at June 30, 2017 and 2016, includes the addition of bond premium outstanding of $100,955,000 and $93,002,000, respectively. As of June 30, 2017 and 2016, debt service payments to maturity total $1,393,645,000 and $1,314,339,000, respectively, of which $502,880,000 and $444,494,000, respectively, is from bonds eligible for fee replacement appropriations.

On a biennial basis, the Indiana General Assembly authorizes a specific state appropriation to the university for the purpose of reimbursing a portion of the debt service payments on bonds issued under IC 21-34-6 for certain academic facilities. Such academic facilities include classrooms, libraries, laboratories, and other academic support facilities as designated by the Indiana General Assembly. These specific state appropriations are referred to as "fee replacement" appropriations and are received from the State of Indiana on a semi-annual basis. This appropriation is renewed and supplemented on a biennial basis because state statutes prohibit a sitting General Assembly from binding subsequent General Assemblies with respect to future appropriation of funds. In the 45 years of making fee replacement appropriations, the State has never failed to fully fund or otherwise provide for a fee replacement obligation established by a prior General Assembly. The outstanding principal balances which are eligible for fee replacement appropriations as of June 30, 2017 and 2016, are $386,750,000 and $345,139,000, respectively.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CAB). 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, 2017 and 2016, include CAB payments of $3,980,000 and $7,960,000, respectively, of which $225,000 and $450,000 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, health service facilities, and athletic revenues; and secondly, from other legally available funds of the university.

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

*(dollar amounts presented in thousands)*

| *Bonding Authority* | *Interest Rates* | *Final Maturity Year Ended* | *Principal Outstanding June 30, 2017* | *Principal Outstanding June 30, 2016* |
|---|---|---|---|---|
| Indiana Code 21-34-6 (Bonds: Student Fee Bonds) | 1.25 to 6.40% | 2036 | $ 392,121 | $ 391,995 |
| Indiana Code 21-35-3 (Bonds: Consolidated Revenue Bonds) | 1.50 to 5.64% | 2042 | 411,680 | 431,860 |
| Indiana Code 21-33-3-5 (Notes: Obligations – Lease Purchase Obligations and Certificates of Participation) | 2.00 to 5.95% | 2044 | 177,420 | 107,050 |
| Subtotal bonds and notes payable | | | 981,221 | 930,905 |
| Add unamortized bond premium | | | 100,955 | 93,002 |
| **Total bonds and notes payable** | | | **$ 1,082,176** | **$ 1,023,907** |

As of June 30, 2017, the university did not have any variable rate bonds, notes, or commercial paper outstanding. The principal and interest requirements to maturity for bonds and notes payable are as follows:

*(dollar amounts presented in thousands)*

| *Fiscal Year Ended June 30* | *Bond Principal* | *Note Principal* | *Total Principal* | *Bond Interest* | *Note Interest* | *Total Interest* | *Total Debt Service Payments* |
|---|---|---|---|---|---|---|---|
| 2018 | $ 65,931 | $ 5,595 | $ 71,526 | $ 38,890 | $ 7,950 | $ 46,840 | $ 118,366 |
| 2019 | 60,155 | 5,800 | 65,955 | 33,141 | 7,732 | 40,873 | 106,828 |
| 2020 | 55,795 | 7,075 | 62,870 | 30,796 | 7,515 | 38,311 | 101,181 |
| 2021 | 57,200 | 7,365 | 64,565 | 28,346 | 7,208 | 35,554 | 100,119 |
| 2022 | 49,140 | 7,670 | 56,810 | 25,960 | 6,883 | 32,843 | 89,653 |
| 2023 - 2027 | 241,720 | 39,905 | 281,625 | 94,505 | 29,106 | 123,611 | 405,236 |
| 2028 - 2032 | 162,935 | 45,000 | 207,935 | 42,641 | 18,909 | 61,550 | 269,485 |
| 2033 - 2037 | 87,165 | 32,115 | 119,280 | 15,007 | 9,973 | 24,980 | 144,260 |
| 2038 - 2042 | 23,760 | 20,815 | 44,575 | 2,658 | 4,744 | 7,402 | 51,977 |
| 2043 - 2047 | - | 6,080 | 6,080 | - | 460 | 460 | 6,540 |
| **Total** | **$ 803,801** | **$ 177,420** | **$ 981,221** | **$ 311,944** | **$100,480** | **$ 412,424** | **$1,393,645** |

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

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

As of June 30, 2017, 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 S | $ 50,165 | 8/1/2018 |
| Student Fee Bonds, Series U | 19,705 | 8/1/2021 |
| Consolidated Revenue Bonds, Series 2008A | 113,360 | 6/1/2018 |
| Consolidated Revenue Bonds, Series 2009A | 42,965 | 6/1/2019 |
| Consolidated Revenue Bonds, Series 2011A | 5,375 | 6/1/2020 |
| **Total defeased bonds** | **$ 231,570** | |

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, 2017, BABs subsidies for Student Fee Bonds, Series T-2; Consolidated Revenue Bonds, Series 2010B; and Certificates of Participation, Series 2009B combined were reduced by $814,000, which was less than $200,000 per fiscal year that has been effected. Total federal interest subsidies as scheduled at issuance to be received over the life of the BABs debt outstanding as of June 30, 2017, were $21,968,000. BABs subsidies paid between October 1, 2017, and September 30, 2018, are scheduled to be reduced by 6.60% due to the federal sequestration, as compared to 6.90% in the prior year. For fiscal year ending June 30, 2018, the total expected subsidy reductions due to the sequestration is $162,000, which is subject to changes enacted by Congress at subsequent dates.

On August 4, 2016, the university issued fixed rate Student Fee Bonds, Series X (Series X) with a par amount of $71,710,000. Series X new money proceeds were used to finance the Old Crescent Renovation Phase II project for the renovation of Kirkwood Hall, Swain Hall, and Ernie Pyle Hall on the Bloomington campus. Series X proceeds were additionally used to current refund a portion of Student Fee Bonds Series R and advance refund a portion of Student Fee Bonds Series U. Bond proceeds were also used to pay costs to issue the bonds, including underwriters' discount. At issuance, the all-in true interest cost for Series X was 2.26%. The Series X refunding bonds produced a net present value savings of $2,270,000, which was 7.54% of refunded par bonds.

On March 8, 2017, the university issued fixed rate Lease-Purchase Obligations, Series 2017A with a par amount of $74,575,000 as new money bonds. The proceeds financed the Memorial Stadium Excellence Academy and Related Stadium Renovations project and the Eskenazi Museum of Art Renovations project on the Bloomington campus. Bond proceeds were also used to pay capitalized interest and costs to issue the bonds, including underwriters' discount. The true interest cost for LPO Series 2017A was 3.71%.

## Note 9—Lease Obligations

The university has acquired equipment under various lease-purchase contracts and other capital lease agreements. The cost of equipment held under capital leases totaled $6,069,000 and $5,751,000 as of June 30, 2017 and 2016, respectively. Accumulated amortization of leased equipment totaled $2,757,000 and $2,098,000 at June 30, 2017 and 2016, respectively.

The university entered into agreements for the right to use certain infrastructure assets for a given period of time. The cost of the leased infrastructure assets totaled $8,568,000 and $8,100,000 with accumulated depreciation of $703,000 and $217,000 as of June 30, 2017 and 2016, 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* |
|---|---|---|
| 2018 | $ 1,418 | $ 14,668 |
| 2019 | 1,248 | 8,364 |
| 2020 | 728 | 7,069 |
| 2021 | 336 | 6,758 |
| 2022 | 24 | 4,587 |
| 2023-2027 | – | 6,753 |
| 2028-2030 | – | 79 |
| Total future minimum payments | 3,754 | $ 48,278 |
| Less: interest | (251) | |
| **Total principal payments outstanding** | **$ 3,503** | |

## Note 10—Federal Obligations Under Student Loan Programs

Campus based student loans are funded by new allocations received from the federal government, as well as principal and interest collected from previous student loan recipients. The federal government advanced $2,066,000 and $127,000 for health professions and nursing loan programs for fiscal years ended June 30, 2017 and 2016, respectively.

Liabilities at June 30, 2017 and 2016, for loan programs were as follows:

*(dollar amounts presented in thousands)*

| | *June 30, 2017* | *June 30, 2016* |
|---|---|---|
| Current portion of assets held in custody for others | $ 3,882 | $ 496 |
| Noncurrent liabilities: | | |
| Federal share of interest | 47,623 | 46,164 |
| Perkins loans | 11,483 | 15,450 |
| Health professions loans | 17,142 | 16,006 |
| Nursing loans | 2,559 | 2,085 |
| Total noncurrent portion of assets held in custody for others | 78,807 | 79,705 |
| **Total assets held in custody for others** | **$ 82,689** | **$ 80,201** |

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

## Note 11—Risk Management

The university is exposed to various risks of loss, including torts, theft, damage or destruction of assets, errors or omissions, job-related illnesses or injuries to employees, and health care claims on behalf of students, employees, and their dependents. The university manages these risks through a combination of risk retention and commercial insurance, including coverage from internally maintained funds, as well as from a wholly-owned captive insurance company, Old Crescent Insurance Company (OCIC). The university is self-funded for damage to buildings and building contents for the first $100,000 per occurrence with an additional $400,000 per occurrence covered by OCIC, with commercial excess property coverage above this amount. The university is self-funded for comprehensive general liability and automobile liability for the first $100,000 per occurrence with an additional $900,000 per occurrence covered by OCIC and with supplementary commercial liability umbrella policies. The university has a malpractice and professional liability policy in the amount of $400,000 for each claim and $1,200,000 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 amount of settlements has not exceeded insurance coverage in any of the past three fiscal years.

The university has three health care plans for full-time appointed employees, one of which is also available to retirees not eligible for Medicare. All of the employee plans are self-funded. The university records a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans. This liability is estimated to be no more than 12.5% of the paid self-funded claims during the fiscal year, and totals $25,150,000 and $29,866,000 at June 30, 2017 and 2016, respectively. In addition, a potential claims fluctuation liability of $9,876,000 has been recorded at June 30, 2017 and 2016.

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

*(dollar amounts presented in thousands)*

| *Fiscal Year* | *Beginning Balance* | *Claims Incurred* | *Claims Paid* | *Ending Balance* |
|---|---|---|---|---|
| 2017 | $ 29,866 | $ 205,733 | $ 210,449 | $ 25,150 |
| 2016 | 28,637 | 212,588 | 211,359 | 29,866 |

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 $1,656,000 and $2,614,000 at June 30, 2017 and 2016, respectively. These plans are funded by direct charges to the associated schools and/or departments.

## Note 12—Retirement Plans

The university provided retirement plan coverage to 19,220 and 18,929 active employees as of June 30, 2017 and 2016, 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 $3,759,000 during fiscal year ended June 30, 2017, and $2,567,000 during fiscal year ended June 30, 2016, to TIAA-CREF for the plan. The university contributed $740,000 during fiscal year ended June 30, 2017, and $444,000 during fiscal year ended June 30, 2016, to Fidelity Investments for the plan. Under this plan, 1,995 and 1,759 employees directed university contributions to TIAA-CREF as of June 30, 2017 and 2016, respectively. In addition, 424 and 317 directed university contributions to Fidelity Investments as of June 30, 2017 and 2016, 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 $59,540,000 during fiscal year ended June 30, 2017, and $59,803,000 during fiscal year ended June 30, 2016, to TIAA-CREF for the IU Retirement Plan. The university contributed $44,973,000 during fiscal year ended June 30, 2017, and $39,408,000 during fiscal year ended June 30, 2016, to Fidelity Investments for the IU Retirement Plan. Under this plan, 7,137 and 7,194 employees directed university contributions to TIAA-CREF as of June 30, 2017 and 2016, respectively. In addition, 7,265 and 6,786 employees directed university contributions to Fidelity Investments as of June 30, 2017 and 2016, 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 856 and 901 active employees on June 30, 2017 and 2016, respectively, covered by the IU Supplemental Early Retirement Plan (IUSERP), a defined contribution plan in compliance with IRC 401(a), with participant accounts at TIAA-CREF and Fidelity Investments. The university contributed $2,277,000 and $1,951,000 to IUSERP during fiscal years ended June 30, 2017 and 2016, 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, 2017, the university made total payments of $24,630,000 to 250 individuals receiving IU 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2016, the university made total payments of $27,507,000 to 285 individuals receiving IU 18/20 Retirement Plan payments.

**IU REPLACEMENT RETIREMENT PLAN FUNDING POLICY AND ANNUAL PENSION COST**

The university has established an early retirement plan for eligible employees to accommodate IRS requirements and as authorized by the trustees. This plan is called the IU Replacement Retirement Plan. It is a single-employer plan and is qualified under IRC Section 401(a), with normal benefits payable for the participants' lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. There were 78 and 79 employees eligible to participate as of June 30, 2017 and 2016, respectively. University contributions related to this plan totaled $1,192,000 and $1,061,000 for fiscal years ended June 30, 2017 and 2016, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution. As of June 30, 2017 and 2016, the net pension liability was $6,656,000 and $4,829,000, 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% FTE appointment hired prior to July 1, 2013, participate in the PERF plan. There were 3,280 and 3,715 active university employees covered by this retirement plan as of June 30, 2017 and 2016, respectively. State statutes authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. Contributions to PERF are determined by INPRS Board of Trustees in accordance with IC 5-10.2-2-11 and are based on actuarial investigation and valuation. Per IC 5-10.2-4-4, key elements of the pension formula include years of PERF creditable service multiplied by average annual compensation multiplied by 1.1%, resulting in an annual lifetime benefit. Cost of living adjustments for members in pay status are not guaranteed by statute, but may be granted by the Indiana General Assembly on an ad hoc basis. Refunds of employee contributions are included in total benefit payments. Participants must have at least ten years of PERF creditable service to have a vested right to the pension benefit. The annuity savings account consists of contributions set by state statute at 3.0% of compensation plus the earnings credited to members' accounts. Participants are 100% vested from inception in the annuity savings account. The university has elected to make the contributions to 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 using modeling techniques that approximate a fair value for securities that are not traded on a national exchange. Alternative investments are valued based on quoted market prices or using estimates of fair value in the absence of readily determinable public market values. Derivative instruments are marked to market daily. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204; by calling 1-888-286-3544; or by reviewing the Annual Report online at www.in.gov/inprs/annualreports.htm.

Required and actual contributions made by the university totaled $18,802,000 and $19,712,000 for fiscal years ended June 30, 2017 and 2016, respectively. This represented an 11.2% university pension benefit contribution for fiscal years ended June 30, 2017 and 2016, and a 3.0% university contribution for the annuity savings account provisions each year.

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

Indiana Public Employees' Retirement Fund. At June 30, 2017, the university reported a liability of $95,689,000 for its proportionate share of the net pension liability, as compared to $98,279,000 for the year ended June 30, 2016. The June 30, 2017, net pension liability of $95,689,000 at the measurement date was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, which used update procedures to roll forward the estimated liability to June 30, 2016. 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, 2016, the university's proportion was 2.11%, a decrease of 1.19 percentage points from its proportion measured as of June 30, 2015, which was 3.30%. Effective July 1, 2015, Indiana Code 5-10.2-2-21 was amended concerning pensions. The legislation imposed a requirement on employers that stopped enrolling new employees in the fund to make a payment in an amount necessary to fund the employer's share of the unfunded liability attributable to the earned benefit of the employer's PERF covered employees. At June 30, 2016, the university's net pension liability of $134,565,000 at the measurement date was reduced by $36,286,000 to $98,279,000, which reflects the obligation related to Indiana Code 5-10.2-2-21. A payment of $3,630,000 was made during the 2016 fiscal year, with the remaining balance of $32,656,000, paid in fiscal year 2017, reducing accounts payable. Pension expense of the university as of June 30, 2017 and 2016, was $12,913,000 and $17,689,000, respectively.

At June 30, 2017, 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 | $ 2,144 | $ 177 |
| Changes of assumptions | 4,222 | – |
| Net difference between projected and actual earnings on pension plan investments | 15,662 | – |
| Changes in proportion and differences between university contributions and proportionate share of contributions | 27,564 | 38,043 |
| University contributions subsequent to the measurement date | 14,705 | – |
| **Total** | **$ 64,297** | **$ 38,220** |

Deferred outflows of resources in the amount of $14,705,000 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, 2018.

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

*(dollar amounts presented in thousands)*

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

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, 2017* | *PERF* |
|---|---|
| 2017 | $ (461) |
| 2018 | (2,158) |
| 2019 | (6,206) |
| 2020 | (2,547) |
| 2021 | – |
| Thereafter | – |

*Actuarial Assumptions*. The total pension liability as of June 30, 2016, and June 30, 2015, based on the results of actuarial valuation dates of June 30, 2015, and June 30, 2014, and rolled forward, respectively, were determined using the following actuarial assumptions, which were applied to all periods included in the measurement:

| | *PERF* | |
|---|---|---|
| | *Measurement Date as of June 30, 2016* | *Measurement Date as of June 30, 2015* |
| Cost of living | 1.0% | 1.0% |
| Inflation | 2.25%, average | 2.25%, average |
| Future salary increases | 0.25% to 2.0% | 0.25% to 2.0% |
| Investment rate of return | 6.75%, net of pension plan investment expense | 6.75%, net of pension plan investment expense |
| Mortality rates | Based on RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Tables | Based on RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Tables |

The actuarial assumptions used in the valuations of June 30, 2016, were adopted by the Indiana Public Retirement System Board pursuant to the experience studies completed in April 2015, which reflected the experience period from July 1, 2010, through June 30, 2014. The valuations of June 30, 2016, incorporate member census data as of June 30, 2015, adjusted for certain activity during fiscal year 2016. Standard actuarial techniques were used to roll forward valuation results over one year.

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

| | *PERF* | | | |
|---|---|---|---|---|
| | *Measurement Date as of June 30, 2016* | | *Measurement Date as of June 30, 2015* | |
| | *Target Allocation* | *Long-Term Expected Real Rate of Return* | *Target Allocation* | *Long-Term Expected Real Rate of Return* |
| Public equity | 22.0% | 5.7% | 22.5% | 5.3% |
| Private equity | 10.0% | 6.2% | 10.0% | 5.6% |
| Fixed income – ex inflation-linked[1] | 24.0% | 2.7% | 22.0% | 2.1% |
| Fixed income – inflation-linked | 7.0% | 0.7% | 10.0% | 0.7% |
| Commodities | 8.0% | 2.0% | 8.0% | 2.0% |
| Real estate | 7.0% | 2.7% | 7.5% | 3.0% |
| Absolute return | 10.0% | 4.0% | 10.0% | 3.9% |
| Risk parity | 12.0% | 5.0% | 10.0% | 5.0% |
| **Total** | **100.0%** | | **100.0%** | |

[1] *Includes cash & cash equivalents*

*Discount rate*. The discount rate used to measure the total pension liability was 6.75% for PERF at June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

*(dollar amounts presented in thousands)*

| | *PERF* | | |
|---|---|---|---|
| *Sensitivity of Net Pension Liability* | *1% Decrease (5.75%)* | *Current Discount Rate (6.75%)* | *1% Increase (7.75%)* |
| June 30, 2017 | $ 137,432 | $ 95,689 | $ 60,994 |
| June 30, 2016 | 198,496 | 134,565 | 81,492 |

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

**PAYABLE TO THE PENSION PLAN**

The university reported a payable of $579,000 at June 30, 2017, and $1,339,000 at June 30, 2016, for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2017 and 2016, respectively.

## Note 13—Postemployment Benefits

**PLAN DESCRIPTION**

The university provides certain postemployment benefits for retired employees. The IU 18/20 Plan, Medical, and Life Insurance benefits are presented for financial statement purposes as a consolidated plan (the "Plan") under the requirements for reporting Other Postemployment Benefit Plans (OPEB) required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The Plan is a single-employer defined benefit plan administered by Indiana University. The 18/20 Plan provides interim benefits to full-time appointed academic and professional staff employees who meet the following eligibility requirements: 18 years of participation in the IU Retirement Plan 15% level, at least 20 years of continuous full-time university service, and at least 64 years of age. This group of employees is eligible to receive monthly payments based on a hypothetical monthly annuity amount at age 70, up to the amount of terminal base salary, calculated as the average budgeted base salary for the five 12-month periods immediately preceding retirement. The 18/20 Plan was adopted by the Trustees of Indiana University ("trustees"). The university provides medical care coverage to individuals with retiree status and their eligible dependents. The cost of the coverage is borne fully by the individual. However, retiree medical care coverage is implicitly more expensive than active-employee coverage, which creates an implicit rate subsidy. The university provides retiree life insurance benefits in the amount of $6,000 to terminated employees with retiree status. The health and life insurance plans have been established and may be amended under the authority of the trustees.

The Plan does not issue a stand-alone financial report. Reflected in this note are benefits related to early retirement incentive plans, approved by executive management in fiscal year 2011 and 2014, which include five years of annual contributions to a health reimbursement account.

**FUNDING POLICY**

The contribution requirements of plan members and the university are established and may be amended by the trustees. The university contribution to the 18/20 Plan and retiree life insurance is based on pay-as-you-go financing requirements. Plan members do not make contributions. The medical plans are self-funded and each plan's premiums are updated annually based on actual claims. Retirees receiving medical benefits paid $1,532,000 and $2,301,000 in premiums in the fiscal years ended June 30, 2017 and 2016, respectively. The university contributed $40,370,000 and $48,546,000 to the consolidated OPEB Plan in fiscal years ended June 30, 2017 and 2016, 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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of twenty-five years.

The following table shows the university's annual OPEB cost for the year, the amount actually contributed to the plan, and the university's net OPEB obligation as provided by the actuarial results for the fiscal years ended June 30, 2017 and 2016, respectively:

*(dollar amounts presented in thousands)*

| | *Fiscal Year Ended* | |
|---|---|---|
| | *June 30, 2017* | *June 30, 2016* |
| Annual OPEB cost | $ 41,109 | $ 51,514 |
| Less employer contributions | (40,370) | (48,546) |
| Increase in OPEB obligation | 739 | 2,968 |
| Net OPEB obligation, beginning of year | 36,565 | 33,597 |
| **Net OPEB obligation, end of year** | **$ 37,304** | **$ 36,565** |
| **Percentage of annual OPEB cost contributed** | **98.20%** | **94.24%** |

**FUNDED STATUS AND FUNDING PROGRESS**

The funding progress of the plan as of the most recent and preceding valuation date are as follows:

*(dollar amounts presented in thousands)*

| *Actuarial Valuation Date* | *Actuarial Value of Assets (a)* | *Actuarial Accrued Liability (AAL) (b)* | *Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)* | *Funded Ratio (a/b)* | *Covered Payroll (c)* | *UAAL as Percentage of Covered Payroll ((b-a) / c)* |
|---|---|---|---|---|---|---|
| July 1, 2016 | – | $ 244,371 | $ 244,371 | 0.0% | $ 1,169,353 | 20.9% |
| July 1, 2015 | – | 294,446 | 294,446 | 0.0% | 1,135,294 | 25.9% |

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.

*Cindy's Song, sculpture in front of East Studio Building, Jacobs School of Music, Bloomington*

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

The projected unit credit cost method was used in the actuarial valuation of June 30, 2016. The actuarial assumptions include a 4.5% investment rate of return, which is a blended rate of (1) the expected long-term investment returns on plan assets and (2) the university's investments which is calculated based on the funded level of the Plan at June 30, 2017; and an annual healthcare cost trend rate that ranges from 8.5% in fiscal year 2018 to 5.0% in fiscal year 2025. The rate includes a 3.0% inflation assumption. The Unfunded Actuarial Accrued Liability is being amortized over 25 years using level dollar amounts on an open group basis.

## Note 14—Related Organization

The university is a major beneficiary of the Riley Children's Foundation of which a majority of the board of directors is appointed by, or serve by virtue of position with, Indiana University. Riley Children's Foundation net assets were $359,741,000 and $337,715,000 at June 30, 2017 and 2016, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

## Note 15—Functional Expenses

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

Fiscal year ended June 30, 2017
*(dollar amounts presented in thousands)*

| | *Natural Classification* | | | | | | |
|---|---|---|---|---|---|---|---|
| *Functional Classification* | *Compensation & Benefits* | *Utilities* | *Supplies & Expenses* | *Scholarships & Fellowships* | *Depreciation* | *Travel* | *Total* |
| Instruction | $ 969,262 | $ 708 | $ 123,881 | $ 14,721 | $ – | $ 22,795 | $ 1,131,367 |
| Research | 159,534 | 7 | 100,984 | 2,378 | – | 6,672 | 269,575 |
| Public service | 75,766 | 387 | 63,265 | 2,314 | – | 4,177 | 145,909 |
| Academic support | 323,742 | 32 | 122,043 | 2,378 | – | 8,992 | 457,187 |
| Student services | 86,769 | 18 | 26,202 | 1,658 | – | 3,192 | 117,839 |
| Institutional support | 86,325 | 54 | 42,134 | 9 | – | 1,677 | 130,199 |
| Physical plant | 94,183 | 71,311 | 68,096 | 25 | – | 456 | 234,071 |
| Scholarships & fellowships | 13,613 | – | 1,174 | 114,753 | – | 106 | 129,646 |
| Auxiliary enterprises | 200,473 | 3,604 | 70,030 | 5,950 | – | 11,900 | 291,957 |
| Depreciation | – | – | – | – | 155,553 | – | 155,553 |
| **Total operating expenses** | **$ 2,009,667** | **$ 76,121** | **$ 617,809** | **$ 144,186** | **$ 155,553** | **$ 59,967** | **$ 3,063,303** |

Fiscal year ended June 30, 2016
*(dollar amounts presented in thousands)*

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

## Note 16—Commitments and Loss Contingencies

The university had outstanding commitments for capital construction projects of $165,843,000 and $153,195,000 at June 30, 2017 and 2016, respectively.

## Note 17— Excerpts from Indiana University Foundation Notes to Financial Statements

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

### Note 1. Organization and Operations and Significant Accounting Policies

The Indiana University Foundation, Inc. (Foundation) is a not-for-profit corporation organized under the laws of the state of Indiana. The corporate purposes of the Foundation are to raise, receive, hold, invest and administer assets 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.

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

### Note 3. Fair Value Measurement and Investments

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

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

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

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

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

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

**Note 3. Fair Value Measurement and Investments (Continued)**

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values might be materially higher or lower than the values that would have been used had a readily available market for the securities existed. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for securities categorized in Level 3.

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

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policies regarding the recognition of transfers between levels of the fair value hierarchy. During the fiscal years ended June 30, 2017 and 2016, no such transfers were made.

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

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

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

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

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

**Note 3. Fair Value Measurement and Investments (Continued)**

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

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

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

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

| | Quoted Prices for Identical Assets in Active Markets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Valued Using Net Asset Value ** | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Investments: | | | | | |
| Domestic equities | $ 449,509 | $ 11,472 | $ - | $ 109,336 | $ 570,317 |
| International equities | 290,887 | - | - | 108,929 | 399,816 |
| Domestic fixed income | 108,425 | 145,616 | - | 87,642 | 341,683 |
| International fixed income | 3,649 | 15,280 | - | 7,427 | 26,356 |
| Real estate | - | - | 19,005 | - | 19,005 |
| Cash equivalents | 41,995 | 2,627 | - | - | 44,622 |
| Alternative investments: | | | | | |
| Hedged equity funds | - | - | - | 83,204 | 83,204 |
| Absolute return funds | - | - | - | 323,463 | 323,463 |
| Venture capital | - | - | - | 152,858 | 152,858 |
| Buyouts | - | - | - | 105,413 | 105,413 |
| Distressed / special situations | - | - | - | 33,451 | 33,451 |
| Real estate | - | - | - | 78,534 | 78,534 |
| Alternative fixed income | - | - | - | 52,685 | 52,685 |
| Natural resources | - | - | - | 116,562 | 116,562 |
| | $ 894,465 | $ 174,995 | $ 19,005 | $ 1,259,504 | $ 2,347,969 |
| Liabilities: | | | | | |
| Split interest agreement obligations | $ - | $ - | $ 34,766 | $ - | $ 34,766 |

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

**Note 3. Fair Value Measurement and Investments (Continued)**

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

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

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

As of June 30, 2017 and June 30, 2016 the Foundation had approximately $493,971 and $408,965, respectively, of unfunded capital commitments to various alternative investments, which have no specific capital call dates and such capital calls are at the discretion of the alternative investment fund managers. Management believes most of the commitments will be called sometime in the next one to five years.

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

**Note 3. Fair Value Measurement and Investments (Continued)**

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investments in financial instruments in which at least one significant unobservable input is used in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments as of June 30, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Beginning balance (real estate) | $ 25,452 | $ 21,842 |
| Realized and unrealized gains (losses) | (7,496) | 774 |
| Purchases | 3,105 | 4,295 |
| Sales and settlements | (2,056) | (1,459) |
| | $ 19,005 | $ 25,452 |

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

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | $ 33,172 | $ 35,384 |
| Liability portion of charitable gifts received | 3,247 | 1,984 |
| Payments to annuitants | (3,949) | (3,950) |
| Change in the present value of split interest obligations | 2,296 | (246) |
| | $ 34,766 | $ 33,172 |

The table below presents the Foundation's ability to redeem investments valued at net asset value or its equivalent as of June 30, 2017 and 2016, and includes the underlying investment entities' redemption frequency and redemption notice period. The tables also include a summary of the significant categories of such investments measured at net asset value, their attributes and investment strategies as of June 30, 2017 and 2016:

| Investment Category and Strategy | 2017 Fair Value | 2016 Fair Value | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Domestic equities[(a)] | $ 109,336 | $ 122,813 | quarterly, annually | 30-60 days |
| International equities[(b)] | 108,929 | 57,266 | weekly, monthly | 7-30 days |
| Domestic fixed income[(c)] | 87,642 | 78,988 | monthly, bimonthly, quarterly | 30-45 days |
| International fixed income[(d)] | 7,427 | 10,780 | monthly, bimonthly, quarterly | 30-45 days |
| Hedge equity funds[(e)] | 83,204 | 98,493 | monthly, quarterly, **** semi-annually, annually | 3-95 days |
| Absolute return funds[(f)] | 323,463 | 253,399 | monthly, quarterly, **** semi-annually, annually | 3-95 days |
| Venture capital funds[(g)] | 152,858 | 141,908 | Long-term commitment *** | none |
| Buyout funds[(h)] | 105,413 | 112,539 | Long-term commitment *** | none |
| Distressed/special situation funds[(i)] | 33,451 | 39,457 | Long-term commitment *** | none |
| Real estate funds[(j)] | 78,534 | 75,914 | Long-term commitment *** | none |
| Alternative fixed income[(k)] | 52,685 | 44,811 | Long-term commitment *** | none |
| Natural resources funds[(l)] | 116,562 | 102,245 | Long-term commitment *** | none |
| Public inflation hedge[(m)] | - | 29,622 | monthly | 10 days |
| | $ 1,259,504 | $ 1,168,235 | | |

INDIANA UNIVERSITY FOUNDATION

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

**Note 3. Fair Value Measurement and Investments (Continued)**

*** The nature of this investment class is that distributions are received through liquidations of the underlying assets of the underlying investment fund and expected to occur over the remaining life (ranging from one to ten years). These underlying funds generally hold investments that are illiquid in the short term but are expected to be liquid over the long run. Distributions from these underlying funds are at the discretion of the underlying fund manager.

**** As of June 30, 2017, 53% of the total Marketable Alternative Investments (Hedged equity funds and Absolute return funds) could be redeemed in 0-6 months, an additional 25% could be redeemed between 7-12 months, another 15% could be redeemed between 13-24 months, and 4% could be redeemed between 25-36 months. The remaining 3% is designated as illiquid investments.

(a) This category includes investments held in mutual funds, exchange-traded funds, public equities, partnerships, and limited liability companies located in the United States.

(b) This category includes investments held in mutual funds, exchange-traded funds, partnerships, and limited liability companies located in economies outside of the United States.

(c) This category includes investments that are primarily in both long and short term fixed income securities located in the United States. Management of the investments has the ability to make individual short positions however the overall fund position is net long. There were no restricted investments as of June 30, 2017.

(d) This category includes investments that are primarily in both long and short term fixed income securities located in economies outside of the United States. Management of the investments has the ability to make individual short positions however the overall fund position is net long. There were no restricted investments as of June 30, 2017.

(e) This category includes investments in hedge funds that invest globally in both long and short common stocks across all market capitalizations. Management of the hedge funds may opportunistically shift investments across sectors, geographies, and net market exposures.

(f) This category includes investments in hedge funds that invest opportunistically across various strategies including long/short equity, fixed income, distressed credit, merger arbitrage, convertible arbitrage, etc.

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

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

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

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

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

(l) This category includes investments that are focused on private 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 may provide an income stream as the underlying commodity is harvested/sold.

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

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

**Note 3. Fair Value Measurement and Investments (Continued)**

In instances in which an underlying investment fund has invested in securities that have less liquidity, such investments may be held in a “side pocket”. Generally side pockets are illiquid with no active market. The fair value of the Foundation’s investment in underlying funds which are designated as side pocketed were $11,617 and $8,574 as of June 30, 2017 and 2016, respectively.

The following table summarizes the qualitative information about certain of the Foundation’s Level 3 inputs as of June 30, 2017 and 2016:

| | Fair Value | Valuation Techniques | Unobservable Inputs | Ranges |
|---|---|---|---|---|
| Real estate investments, 2017 | $ 19,005 | Market approach | Comparable transactions | N/A |
| Real estate investments, 2016 | $ 25,452 | Market approach | Comparable transactions | N/A |

A summary of total investment income (loss) for the years ended June 30, 2017 and 2016, is as follows:

| | 2017 | 2016 |
|---|---|---|
| Dividend, interest, and other investment income | $ 20,916 | $ 14,098 |
| Net realized and unrealized gains (losses) on investments | 214,233 | (92,480) |
| Outside investment management fees | (9,232) | (4,375) |
| | $ 225,917 | $ (82,757) |

## Note 17— Excerpts from Indiana University Foundation Notes to Financial Statements

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

**Note 8. Restricted Net Assets**

The income generated from restricted net assets is used in accordance with the donors' time and/or purpose restrictions. Foundation operations and University programs permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor imposed restrictions as of June 30, 2017 and 2016, are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Temporarily Restricted | Permanently Restricted |
| Foundation operations | $ 8,712 | $ 24,911 | $ 8,478 | $ 23,085 |
| University programs: | | | | |
| Awards | 6,138 | 17,302 | 5,721 | 16,005 |
| Capital and capital improvements | 134,676 | 2,495 | 135,923 | 2,320 |
| Fellowships / lectureships | 25,700 | 102,108 | 24,366 | 90,084 |
| General endowments | 295,526 | 299,067 | 261,362 | 273,892 |
| Medical practice plans | 33,662 | - | 32,532 | - |
| Operations | 70,412 | 5,907 | 75,218 | 4,992 |
| Professorships / chairs | 108,367 | 398,391 | 100,710 | 331,979 |
| Research | 45,541 | 58,973 | 41,931 | 52,777 |
| Scholarships | 161,937 | 497,341 | 145,495 | 447,616 |
| | $ 890,671 | $ 1,406,495 | $ 831,736 | $ 1,242,750 |

## Note 17— Excerpts from Indiana University Foundation Notes to Financial Statements

**Indiana University Foundation**

**Notes to Financial Statements**
**(In thousands)**

**Note 10. Grants and Aid to the University**

Program expenditures include support for Foundation and University programs. For the years ended June 30, 2017 and 2016, a summary of these expenditures is as follows:

| | 2017 | 2016 |
|---|---|---|
| Program expenditures | | |
| Foundation programs | | |
| Real estate | $ 3,059 | $ 1,885 |
| Student foundation | 565 | 485 |
| Air services | 867 | 908 |
| Women's programs | 16 | 21 |
| Miscellaneous | 93 | 18 |
| Total Foundation programs | 4,600 | 3,317 |
| Grants and aid to the University | | |
| Grants and aid - operating support | | |
| University support | 31,440 | 32,437 |
| Student scholarship and financial aid | 48,306 | 44,247 |
| Faculty support | 35,578 | 27,407 |
| Faculty research | 6,991 | 8,859 |
| | 122,315 | 112,950 |
| Grants - endowment, capital, land, building and equipment purchases | 40,659 | 23,906 |
| Total University grants and aid | 162,974 | 136,856 |
| | $ 167,574 | $ 140,173 |

**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, 2016* | *Measurement Date as of June 30, 2015* | *Measurement Date as of June 30, 2014* |
|---|---|---|---|
| University's proportion of the net pension liability | 2.11% | 3.30% | 3.85% |
| University's proportionate share of the net pension liability | $ 95,689 | $134,565 | $101,229 |
| University's covered-employee payroll | $101,047 | $158,252 | $188,067 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 94.70% | 85.03% | 53.82% |
| Plan fiduciary net position as a percentage of the total pension liability | 75.30% | 77.30% | 84.30% |

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

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

*(dollar amounts presented in thousands)*

| | *Fiscal Year 2017* | *Fiscal Year 2016* | *Fiscal Year 2015* |
|---|---|---|---|
| Contractually required contribution | $ 18,030 | $ 19,769 | $ 21,339 |
| Contributions in relations to the contractually required contribution | $ (18,030) | $ (19,769) | $ (21,339) |
| Contribution deficiency | – | – | – |
| University's covered-employee payroll | $129,027 | $139,962 | $157,743 |
| Contributions as a percentage of covered-employee payroll | 13.97% | 14.12% | 13.53% |

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

*Changes of Benefit Terms.* None

*Changes of Assumptions.* None

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

**Schedule of Funding Progress for Other Postemployment Benefit Plans:**

*(dollar amounts presented in thousands)*

| *Actuarial Valuation Date* | *Actuarial Value of Assets (a)* | *Actuarial Accrued Liability (AAL) (b)* | *Unfunded AAL (UAAL) (b - a)* | *Funded Ratio (a/b)* | *Covered Payroll (c)* | *UAAL as Percentage of Covered Payroll ((b-a) / c)* |
|---|---|---|---|---|---|---|
| July 1, 2016* | – | $ 244,371 | $ 244,371 | 0.0% | $ 1,169,353 | 20.9% |
| July 1, 2015 | – | 294,446 | 294,446 | 0.0% | 1,135,294 | 25.9% |
| July 1, 2014 | – | 336,524 | 336,524 | 0.0% | 1,073,719 | 31.3% |

*Adjustments have been made to the Actuarial Accrued Liability, normal cost, and expected benefit payments for actual provision and premium changes from 2015/16 to 2016/17, which caused a significant decrease in the university's liabilities. Effective January 1, 2017, the university restricted access to retiree health plan benefits exclusively to the PPO HDHP plan. Retirees are required to enroll in this plan immediately after becoming retired or after their COBRA eligibility ends.

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Office of the Vice President and
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Bryan Hall 212
107 S. Indiana Avenue
Indiana University Bloomington, IN 47405-7000
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**General Information**
Vice President for Public Affairs and
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Bryan Hall 300
107 S. Indiana Avenue
Bloomington, IN 47405-1211
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Associate Vice President and University Controller
Financial Management Services
Poplars 519
400 E. 7th Street
Indiana University
Bloomington, IN 47405-3085
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Bloomington, IN 47408
http://iuhoosiers.com

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