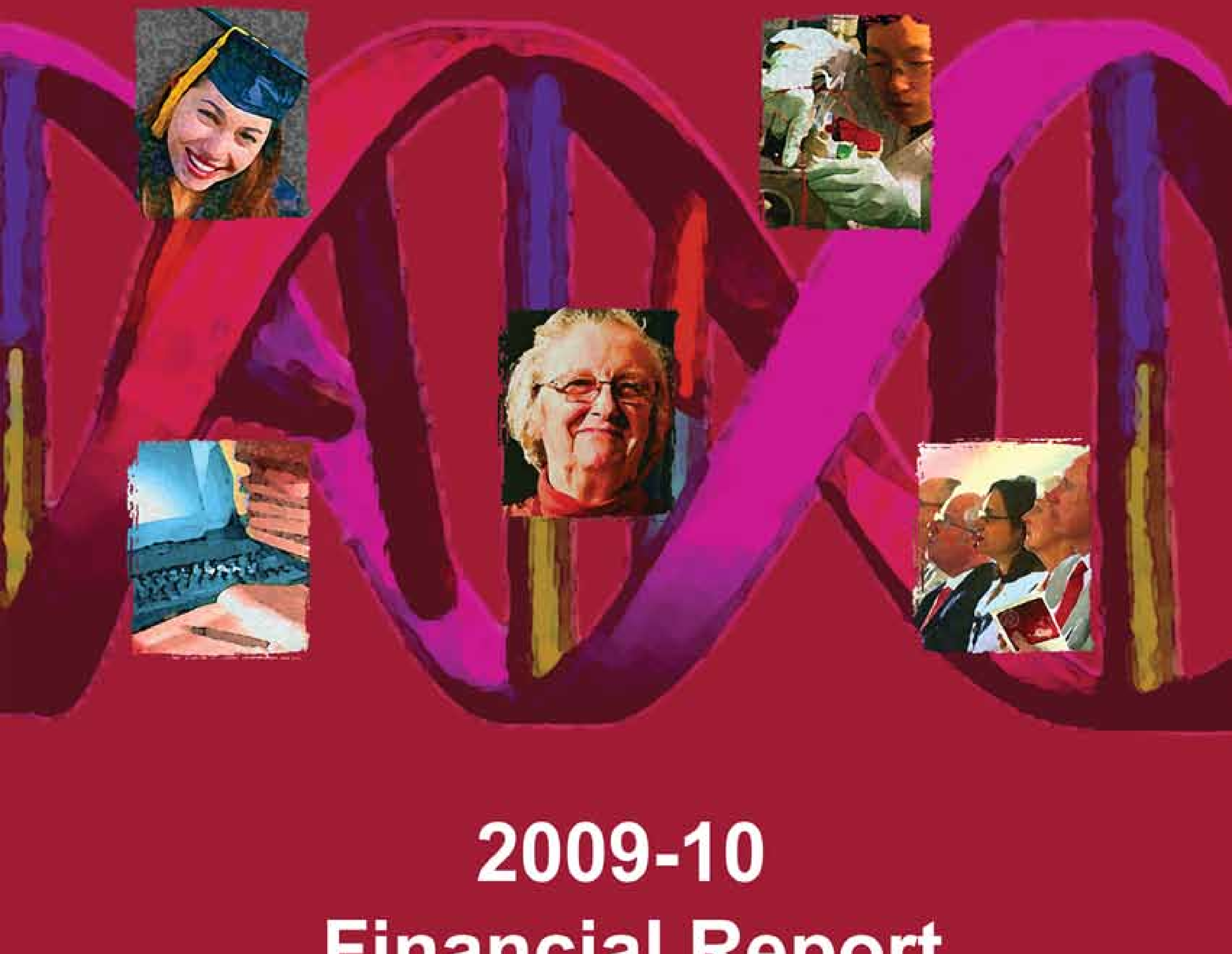
INDIANA UNIVERSITY



2009-10 Financial Report

" . . . You are no doubt aware that last year was an outstanding year for Indiana University. And this year promises to be similar.

The progress we have made over this past year—in virtually every major area of importance at the university—is extraordinary. And it is a powerful testament to our vision, values, and unwavering commitment to world-class education.

In difficult financial times and often under challenging conditions, our faculty, staff, and students have been responsible for many great achievements that have made it abundantly clear that IU is unquestionably one of this state's most successful enterprises."

—President Michael A. McRobbie,
September 2010

INDIANA UNIVERSITY

FINANCIAL REPORT 2009–10

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Message from the President

Michael A. McRobbie
President, Indiana University

The Honorable
Mitchell E. Daniels, Jr.
Governor, State of Indiana
State House, Room 206
200 West Washington Street
Indianapolis, IN 46204

Dear Governor Daniels:

On behalf of the Trustees of Indiana University, I am pleased to present to you IU's 2009-10 Financial Report.

By any measure, and despite continuing financial challenges, 2009-10 was an outstanding year for IU. Indeed, the progress we made over this past year in virtually every major area of importance at the university was extraordinary, and it is a powerful testament to our vision, values, and unwavering commitment to world-class education.

Over the course of the year, our faculty, staff, and students were responsible for many record-setting achievements that have made it abundantly clear that IU is unquestionably one of this state's most successful enterprises.

Making an Impact Through Research

Our ongoing success in attracting research funding speaks directly to this point. Using any measure of the economic impact of such research, it is undeniable that not only is IU research leading to a deeper understanding of the world and making the world a better place, it is also making a positive economic impact on our state today.

During the last fiscal year, IU received a record $603.9 million in grants and awards for research and other sponsored programs, with just over half coming from faculty in the IU School of Medicine. The new record amount surpassed the previous record mark of $525.3 million set during FY 2008 and included record totals from federal, state, and non-profit sources.

Additionally, IU faculty and staff submitted over $1 billion in research proposals and set a new record for awards, indicating that they are in the forefront in one of the most competitive environments for research funding that we have ever experienced in higher education.

Attracting Top Students

In this difficult financial environment, our highest priority has been—and will continue to be—preserving and strengthening the academic core of the university. The high quality of the university's academic programs becomes even more important during times of economic challenge when people turn to higher education to improve their skills and prepare for a difficult job market.

We have seen record enrollments across the university. Last year, IU achieved a record fall enrollment of more than 107,000 students on all of its campuses and a record

of more than 102,000 students in the spring. IU Bloomington and IUPUI experienced record fall enrollments of 42,347 and 30,383 students, respectively, and across the university, enrollment grew by 5.7 percent for Indiana residents.

We are not only attracting more students, we are also attracting more of the top students from Indiana, the nation, and the world. Last year IU saw record student quality on all campuses. The average SAT score of IU Bloomington's freshman class was a record 1203, and more than a third of IU Bloomington's first-year students ranked in the top 10 percent of their high-school class. In addition, IU Bloomington enrolled 82 National Merit Scholars last fall, an increase of 37 percent compared to the previous year, and 147 students who were high-school class valedictorians.

Last year also saw IU students selected for some of the most prestigious national and international scholarships with the award of:

- a Rhodes Scholarship
- a Truman Scholarship
- a Marshall Scholarship
- 6 Goldwater Scholarships, and
- 36 Fulbright Scholarships

Recruiting and Retaining a World-Class Faculty

Our students expect—and deserve—a world-class faculty.

Last fall, IU Distinguished Professor of Political Science Elinor Ostrom was the first woman to be awarded the Nobel Prize in economic sciences, bringing IU's total number of Nobel Laureates to eight.

The excellence of our faculty was further recognized last year when five members were inducted into four of the most prestigious national and international academies and societies: the National Academy of Sciences, the Royal Society, the American Academy of Arts and Sciences, and the American Association for the Advancement of Science.

Currently, IU's faculty includes:

- 21 members of national academies;
- 44 members of the American Association for the Advancement of Science; and
- 5 members of American Philosophical Society, the nation's oldest scientific society, founded in 1745 by Benjamin Franklin

A great faculty is essential to a great university. During the recession one of our two key priorities has been to continue hiring faculty, in spite of the painful cuts that we have had to endure elsewhere in the university. Other great universities across the country are facing even more difficult fiscal pressures, which makes this an excellent hiring market. Last year, for example, a majority of the new faculty recruited externally at IU Bloomington and IUPUI came from American Association of Universities (AAU) institutions. Many of the other faculty recruited at both campuses came from top-ranked music and medical institutions and other well-regarded schools and foreign institutions.

Making an IU Education Affordable and Accessible

As a public university, we have an essential obligation to ensure that an IU education remains accessible and affordable to all qualified Hoosier students geographically, programmatically, and financially.

Data published recently on the U.S. Department of Education's "College Navigator" website show that an IU education is a tremendous value. Resident undergraduates at IU Bloomington pay the

lowest out-of-pocket cost of attendance in the Big Ten—nearly $4,700 per year less than the average out-of-pocket cost to attend the other public Big Ten universities. This achievement saves Hoosier families an average of more than $18,000 over four years compared with residents of other Big Ten states.

This is due in part to the major increase of 150 percent in financial aid provided at IU Bloomington over the last five years, increasing in total from $28 million to a record $70 million this year, fueled in part by the campus' record-setting Matching the Promise Campaign. This campaign, which we just concluded, raised $1.144 billion, including more than $338 million for undergraduate and graduate student support, making it the most successful campaign in IU history.

Other IU campuses have seen similar developments. IUPUI, which just launched the record-setting $1.25 billion Impact IUPUI fundraising campaign, has increased campus-funded undergraduate financial aid grants by $8.4 million over four years, a compounded annual increase of 22.6 percent. Our regional campuses have increased campus-funded undergraduate financial aid grants by nearly 15 percent per year or $2.3 million over four years.

Building for the 21st Century

Strengthening the university's infrastructure has been one of our key priorities since the beginning of the recession. We have sought to take advantage of the historically low cost of construction in these difficult economic times to continue to build and renovate facilities for research and education.

Over the last three years, we have greatly accelerated the pace and priority of new construction and renovation at IU. At present across the university, we have four major buildings under construction, and another eight in planning for a total of 1.5 million square feet. All of these buildings will support new research and educational activities or student life.

The total value of all new construction and renovations in progress or planned is around $560 million. Of this total, only 30 percent is provided by the legislature, with 70 percent being provided through private sources or internal university sources.

Working Toward Greater Health for Hoosiers

IU's health science and clinical schools—including the schools of medicine, nursing, dentistry, optometry, social work, and health and rehabilitation science—collectively account for about 40 percent of IU's $2.8 billion budget, and as such they represent the largest component.

Taken as a whole, the educational, research, and clinical activities of these schools and programs are one of the major ways in which IU contributes to the social and economic development of Indiana. Indeed, more than 50 percent of Indiana's physicians, 40 percent of nurses, 90 percent of dentists, and 60 percent of optometrists are trained at IU.

Over the next few years, we will expand our efforts in the health sciences and health care. To this end, we are working to establish two new schools of public health, one at IU Bloomington and one at IUPUI. And next year, Clarian Health Partners—the largest statewide hospital system in Indiana and one of the largest in the nation with a budget of $3.75 billion—will officially become Indiana University Health. As all of the nearly 100 Clarian facilities around the state are re-named as IU Health facilities, the impact that IU has every day on the health and well being of hundreds of thousands of Hoosiers will become strikingly evident.

Strengthening Economic Engagement

In addition to our participation in historic transformation of Clarian Health Partners into IU Health, we are also helping strengthen Indiana's economy with business incubators and engagement offices from South Bend to Evansville.

Many of our economic development efforts are focused through the IU Research and Technology Corporation (IURTC), whose mission is to accelerate the transformation of the innovations and intellectual property developed by IU faculty, staff, and students into new products, services, and companies to improve Indiana's economy and our national competitiveness.

Last year was yet another very successful year in this regard with 154 invention disclosures received, a record 228 patent applications filed, 11 patents issued, and a record of more than $14 million in licensing revenues, an amount that more than doubled the previous record figure.

Expanding Our Global Presence

IU continues to increase its international engagement through globally aware education, enlarged study abroad activity, alumni activity, and expanded strategic partnerships with leading institutions of higher learning throughout the world.

Indeed, record numbers of IU students are studying abroad, and, for the first time ever, three countries from Asia—China, Japan, and Korea—are among the top ten destinations for IU students. Additionally, last year saw another record year for international students at IU, with a nearly 8% increase to a total of 6,567 international students university-wide.

The most recent *Open Doors Report* reinforces our success in expanding our global presence. The report, which is based on data collected from around 3,000 institutions of higher education nationwide, shows that, taken together, the number of students we send overseas and our international students give us a composite ranking of 11th nationally.

Conclusion

As the following 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 or contracts, and student fees, and are committed to achieving the best return on all of those investments. We also remain dedicated to fulfilling all of IU's core missions of education and research and to our engagement in the successful future of the state.

Yours sincerely,

Michael A. McRobbie
President

Message from the Vice President and Chief Financial Officer

Neil Theobald
Vice President and Chief Financial Officer, Indiana University

Greetings to President Michael McRobbie and Trustees of Indiana University:

I am pleased to present the consolidated financial report for Indiana University (IU) for the fiscal year ended June 30, 2010. State governments across the U.S continue to face financial stress on a scale not seen since the 1930s. As you might expect in such an environment, universities across the US have moved to balance budgets through furloughs and layoffs. I am pleased that Indiana University's financial strength allowed us to avoid this approach. In addition, in this austere context, I am thrilled to report that Indiana University became one of eight public universities in the country granted the highest debt rating possible—Aaa—by Moody's Investors Service.

Underlying the financial world's confidence in IU is our efficient use of the resources made available to us. This year, Kiplinger Personal Finance magazine sought to identify public colleges and universities that "deliver strong academics at affordable prices." The magazine ranked IU Bloomington 28th in the nation based on a comparison of its quality and costs with more than 500 other public institutions. In addition, at a time when unemployment in the state and nation remains near or above 10%, the IU Trustees approved a 2010-11 budget plan that implemented a $29.3 million state budget cut while avoiding layoffs and providing funding for an employee salary increase. I would like to thank our trustees—and, particularly, Finance Committee Chair Thomas Reilly—for their inspired leadership in these difficult financial times.

IU's 2010-11 budget is focused on three core strategies that we have sought to pursue over the last 3+ years:

(1) Recruiting and retaining outstanding faculty,
(2) Promoting affordability, and
(3) Continuing our on-going cost containment efforts.

IU is moving boldly to seek out and hire outstanding new faculty members, while retaining our current excellent faculty. In addition to this year's 3% average salary increase, IU is moving aggressively to establish Distinguished Professorships, fund a 5-year, $5 million renewal of the very successful New Frontiers in Arts & Humanities, and continue an aggressive building plan aimed at biomedical, life sciences, technology, and arts facilities. These investments in improving the capacity of our faculty and quality of our facilities seek to capitalize on major opportunities available to IU in the current economic downturn. IU's relative financial strength should advantage us in competing with other outstanding research universities for the most sought-after faculty. The current construction trough should allow IU to build high-priority new facilities at historically low costs.

The stakes are considerable, and not just for IU. A thriving research

university undergirds Indiana's current economic stability and future prosperity. The discoveries, new knowledge, and understanding that will result from faculty hiring and building construction will have an influence on an almost unimaginable range of endeavors across the University for years to come, including:

- scientific discoveries that will have an enormous long-term impact on our life sciences initiative and enhance the overall quality and impact of faculty, clinicians, and staff working in mental-health fields in Indiana and beyond;
- cinematic showings that set an international standard; and
- in-depth scholarship on both global-cultural processes and foreign languages that is so essential in a time of great political and demographic change.

Our goal is to recruit and retain outstanding teachers and researchers who will ensure that IU remains fully capable of meeting the needs of our students and our state.

The second strategy focuses on continuing Indiana University's efforts to remain a tremendous value among the country's truly great universities. Data published in October 2010, on the U.S. Department of Education's "College Navigator" website, show that in-state undergraduates at IU-Bloomington pay the lowest out-of-pocket cost of attendance in the Big Ten—nearly $4,700 per year less than the average out-of-pocket cost to attend the other public Big Ten universities. This achievement saves Hoosier families an average of more than $18,000 over four years compared with residents of other Big Ten states. These efforts are not limited to our Bloomington Campus. IUPUI has increased campus-funded undergraduate financial aid grants by $8.4 million over four years, a compounded annual increase of 22.6%, while our regional campuses have increased campus-funded undergraduate financial aid grants by nearly 15% per year or $2.3 million over four years.

The last of our three strategies is a very simple one. Just as Hoosier families and Hoosier businesses are looking for new ways to limit spending and tighten their belts, IU is undertaking an external benchmarking initiative that seeks to identify at least $13 million in on-going cost savings opportunities and consolidation across our campuses. As I mentioned earlier, IU is already recognized by Kiplingers and other observers as a "Best Buy" for higher education. I commit to our students and their parents that we will continue in our efforts to recruit and retain the best and brightest students and faculty and contain costs. We will reach out to the Indiana Commission for Higher Education, the Indiana General Assembly, and the Governors' Office to develop approaches to state funding and tuition-setting that allow Hoosiers to Reach Higher and become the knowledge workers who will form the basis for Indiana's upcoming 3rd century of excellence.

While the economy has not turned around yet, and we will face continued financial pressures, I commit that IU will continue to pursue these three priorities as we seek to provide as stable a financial environment as is possible for our academic units.

I encourage you to read the financial report and I appreciate the interest you have taken in Indiana University.

Sincerely,

Neil Theobald

Neil Theobald
Vice President, Chief Financial Officer, and Professor

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

We have audited the accompanying basic financial statements of Indiana University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. The financial statements of this component unit were audited by another auditor whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana University, as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2010, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

State Board of Accounts

STATE BOARD OF ACCOUNTS

October 21, 2010

Indiana University (university) presents its audited financial statements for the fiscal year ended June 30, 2010, along with comparative data for the fiscal years ended June 30, 2009 and 2008. Three statements are described in the following discussion and analysis: The Statement of Net Assets, which presents the assets, liabilities, and net assets of the university at the end of the fiscal year; the Statement of Revenues, Expenses, and Changes in Net Assets, which reflects revenues and expenses for the fiscal year; and the Statement of Cash Flows, which provides information on cash inflows and outflows for the university by major category during the fiscal year. The university has provided analysis of major variances that occurred between fiscal years 2009 and 2010 as well as information regarding capital asset and debt administration, and an economic outlook.

Statement of Net Assets

Total assets at June 30, 2010, were $4.28 billion, an increase of $466 million over the prior fiscal year. Net capital assets comprised $2.32 billion of the $4.28 billion in assets.

Total liabilities were $1.6 billion at June 30, 2010, which was a $206.7 million increase since June 30, 2009. Noncurrent liabilities comprised 67%, or $1.08 billion, of total liabilities at June 30, 2010.

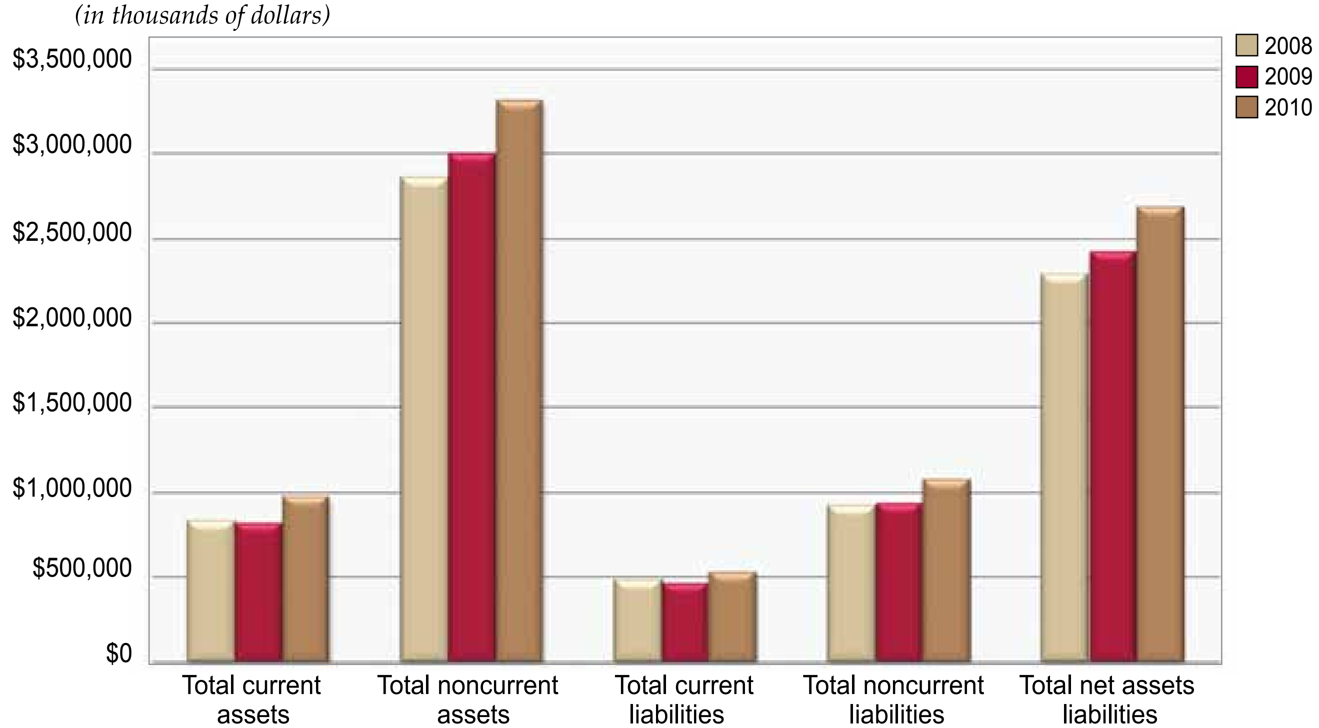
Total net assets at June 30, 2010, were $2.68 billion, a $259.3 million increase over the prior year, or a 10.7% increase in net assets. The breakout of net assets is shown below for the last three years:

Comparative Statement of Net Assets
(in thousands of dollars)

	June 30, 2010	*June 30, 2009*	*June 30, 2008*
Invested in capital assets, net of related debt	$ 1,555,422	$ 1,475,395	$ 1,336,766
Restricted net assets	175,197	157,711	211,828
Unrestricted net assets	946,248	784,455	736,896
Total net assets	**$ 2,676,867**	**$ 2,417,561**	**$ 2,285,490**

The following chart displays the composition of assets and liabilities, both current and noncurrent, and net assets at June 30, 2008, 2009, and 2010:

Comparison of Statement of Net Assets at June 30, 2008, 2009, and 2010
(in thousands of dollars)



Statement of Revenues, Expenses, and Changes in Net Assets

Comparative Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)			
	Fiscal Year Ended		
	June 30, 2010	*June 30, 2009*	*June 30, 2008*
Operating revenues	$ 1,933,283	$ 1,874,070	$ 1,722,616
Operating expenses	(2,493,131)	(2,434,854)	(2,287,359)
Total operating loss	(559,848)	(560,784)	(564,743)
Nonoperating revenues	830,682	694,456	717,332
Nonoperating expenses	(32,401)	(31,829)	(29,112)
Total other revenues	20,873	30,228	23,082
Increase in net assets	**$ 259,306**	**$ 132,071**	**$ 146,559**

Revenues

University operating revenues for fiscal year ended June 30, 2010, increased by 3.2% over the previous fiscal year. The changes in revenues are as follows:

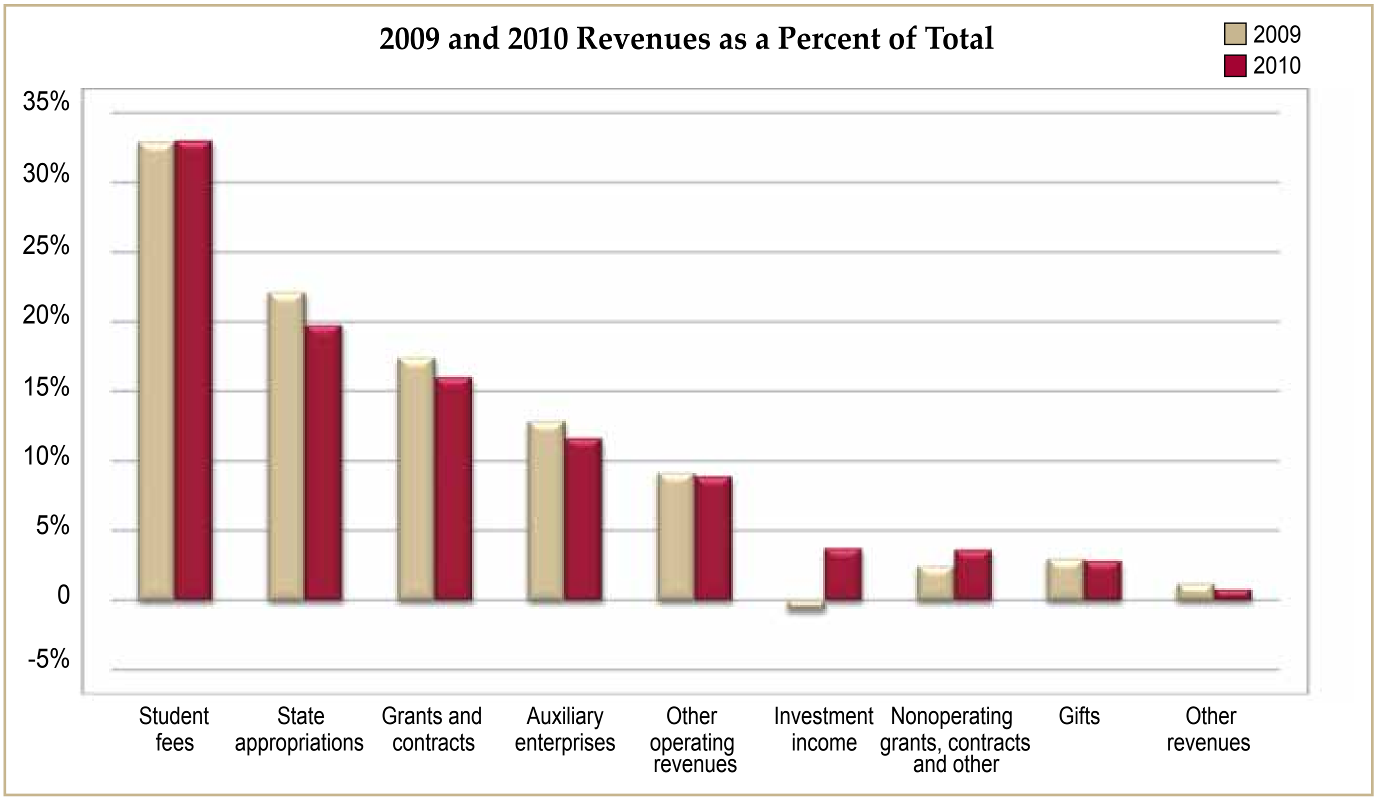
- Student fee revenues, net of scholarship allowances, were $918.3 million in 2010 compared to $852.8 million in 2009, an overall increase of 7.7%. This increase was due to a combination of increased student fee rates and enrollment growth.
- Federal grants and contracts were $318.6 million in 2010, an increase of 7.8% over the previous fiscal year. This category of revenue includes funds received from the government for financial aid as well as sponsored research, training, and other sponsored activities.
- $23.8 million in state and local grants and contracts were recognized for the fiscal year, compared to $28.9 million in 2009.
- Nongovernmental grants and contracts were $102.8 million, a decrease of $24.2 million over the previous fiscal year.
- Sales and services of educational units increased from $61.5 million to $64.5 million. This was a 4.8% increase from 2009. In 2008 sales and services were $48.9 million.
- Other operating revenue of $181.6 million was an increase of 3.5% over the previous fiscal year of $175.5 million. This includes School of Medicine revenue from private practice plans and hospital agreements. Between 2009 and 2008 other operating revenue experienced an increase of 2.5%.
- Auxiliary enterprises experienced a decrease in revenue of 2.7% or $9 million to $323.6 million. Revenue in this category in 2009 and 2008 was $332.6 million and $319.2 million, respectively.

Total nonoperating revenues increased 19.6% from $694.5 million for fiscal year ended June 30, 2009, to $830.7 million for fiscal year ended June 30, 2010, and includes the following:

- State appropriations, the largest single source of nonoperating revenue for the university, decreased from $572.6 million in 2009 to $549.8 million in 2010, a 4% decrease. In 2008, state appropriations were $558 million.
- Grants, contracts, and other awards were $99.6 million for 2010, a 57.4% increase over the previous year's revenue of $63.3 million. Revisions in the Pell loan program allowing for increased access to the progam and larger awards accounted for the majority of this increase.
- Due to the recovery in investments, investment income increased from a negative $17.6 million for fiscal year ended June 30, 2009, to a positive $103.3 million for fiscal year ended June 30, 2010. Between fiscal years 2008 and 2009, this category experienced a decrease of $48.3 million.
- Gifts increased 2.5% to $78 million, or $1.9 million more than the previous fiscal year. Gifts totaled $76.2 million in 2009 and $77.3 million in 2008.

Other revenues included capital appropriations of $3 million, a decrease of $7.2 million over the previous fiscal year; and capital gifts and grants of $17.3 million, a $2.7 million decrease over 2009. Additions to permanent endowments were a little more than half a million dollars for 2010.

In summary, total revenues of the university increased $186.1 million to $2.8 billion, an overall increase of 7.2%. Comparably, 2009 total revenues increased 5.5% and the 2008 increase was 0.1%. The composition of the 2010 and 2009 revenues is displayed in the following graph:



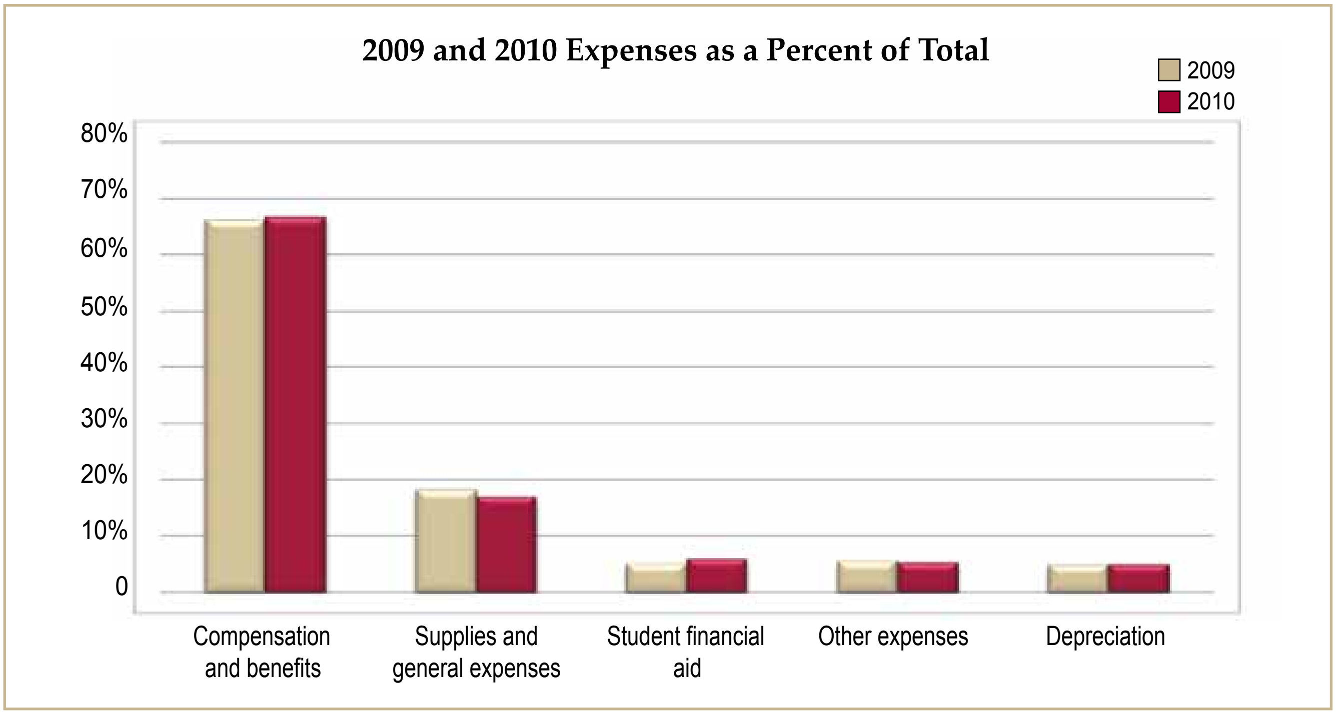
Expenses

Operating expenses were $2.49 billion for fiscal year ended June 30, 2010. This was an increase over the previous fiscal year of $58.3 million, or 2.4%. Changes in the major categories of expenses are as follows:

- Total compensation is comprised of academic and staff salaries, hourly compensation, and benefits. This category increased by 3.2%, from $1.63 billion to $1.68 billion. Benefits increased 5% over the prior year, followed by an increase of 3.4% in academic salaries and a 1.6% increase in staff salaries.
- Student financial aid increased from $125.8 million to $150.8 million. This was a 19.8% increase over the previous fiscal year. 2009 experienced a 14.8% increase over 2008.
- Energy and utilities decreased 2.2%, from $65.4 million in 2009 to $64 million in 2010. The 2009 and 2008 increases were 13.3% and 10.2%, respectively.
- Travel expenses decreased 8.6% in 2010, from $40.4 million to $36.9 million. Between 2008 and 2009 the university experienced a 2.3% increase in travel expenses.
- Supplies and general expense decreased by 4.2% in 2010, from $449.4 million to $430.7 million. The 2008 expense for this category was $428.5 million.
- Depreciation and amortization expense of $125.7 million in 2010 is $4.9 million more than in 2009.

Interest expense increased 1.8% between 2009 and 2010, from $31.8 million to $32.4 million.

The following graph displays the composition of total expenses, including operating and nonoperating by major categories:



Gifts

Major gifts are received during the year through the Indiana University Foundation, a separate not-for-profit organization, whose primary mission is to raise funds for the university. For the 2010 fiscal year a total of $17.3 million was donated for various capital projects.

Net Assets

Income before other revenues, expenses, gains, or losses was $238.4 million and $101.8 million for fiscal years ended 2010 and 2009, respectively. This represents an increase of 134.1%. Between 2008 and 2009 income before other revenues, expenses, gains, or losses decreased by 17.5%.

Net assets increased by $259.3 million over the previous fiscal year. Total net assets were $2.68 billion for fiscal year 2010, compared to net assets at June 30, 2009, of $2.42 billion. This was a 10.7% increase in net assets. Comparatively, net assets increased 5.8% between 2008 and 2009.

Statement of Cash Flows

The Statement of Cash Flows provides a means to assess the financial health of an institution by providing relevant information about the cash receipts and cash payments of an entity during a certain period. It assists in determining whether an entity has the ability to generate future net cash flows to meet its obligations as they become due, and to determine the need for external financing.

Comparative Statement of Cash Flows *(in thousands of dollars)*			
	Fiscal Year Ended		
	June 30, 2010	*June 30, 2009*	*June 30, 2008*
Net cash provided (used) by:			
Operating activities	$ (369,350)	$ (441,935)	$ (427,854)
Noncapital financing activities	729,931	722,257	698,970
Capital and related financing activities	(140,467)	(261,661)	(174,292)
Investing activities	(101,713)	(40,275)	93,896
Net increase (decrease) in cash and cash equivalents	118,401	(21,614)	190,720
Beginning cash and cash equivalents	552,892	574,506	383,786
Ending cash and cash equivalents	**$ 671,293**	**$ 552,892**	**$ 574,506**

Cash used by operating activities decreased by $72.6 million. The use of cash was impacted by a $40.4 million increase from the previous year in payments to employees and a $26 million increase in student financial aid payments. These changes in cash outlays for expenditures were offset by increases of $59.8 million from student fees, $41.2 million in grants and contracts receipts, and $42.9 million decrease in payments to suppliers.

Cash provided by noncapital financing activities increased $7.7 million. Cash in this activity was influenced by a $34.7 million decrease in collections of state appropriations. This decrease was offset by a $36.3 million increase in cash provided by nonoperating grants. Cash received from gifts and grants received for other than capital purposes increased $6.3 million in 2010.

Cash flows from capital and related financing activities increased by $121.2 million. The primary driver was an increase in the proceeds from issuance of capital debt from $73.8 million in 2009 to $180.1 million in 2010. Other cash flows affecting this category include an increase of $11.5 million in capital grants and gifts.

Cash and cash equivalents used for investing activities increased $61.4 million.

Capital Asset and Debt Administration

The university made significant investments in capital during fiscal year 2010 (see Note 5). New facilities were funded by bond issues, renewal and replacement reserves, and gifts. Some of the more significant facilities that came on-line this year are as follows:

The Indiana University Data Center, located on the Bloomington campus, was occupied in August 2009 at a total cost of $33.9 million. The facility is designed to ensure the safety and security of the

Innovation Center, IU Bloomington

university's networking, computer processing, and data storage equipment. Encompassing 82,700 gross square feet, the center serves all Indiana University campuses via I-Light, Indiana's high-speed fiber optic network. The new facility is the largest data center among higher education institutions in the state of Indiana, and among the largest regionally. With a bunkered, concrete structure designed to withstand flooding, power outages, or an F5 tornado, the Data Center will protect computers, servers, and data storage units holding more than 2.8 petabytes of information.

Multidisciplinary Science Building II, IU Bloomington

The Innovation Center, completed at a cost of $10.8 million, is home to university researchers and private start-up companies. The 40,000 square foot center houses the IU Pervasive Technology Institute and offices for the Johnson Center for Entrepreneurship and Innovation of the IU Kelley School of Business, the IU School of Informatics, and the IU Research and Technology Corporation administrators and staff. The center is considered the anchor for the new technology corridor on the Bloomington campus, and is expected to complement a range of life science and technology-based enterprises located in the area. It will provide both dry and wet-labs, as well as open space accommodating broader ranges of research and related activities.

Multidisciplinary Science Building II was completed at a cost of $55.6 million on the Bloomington campus. Occupied in August 2009, the facility provides 65,000 square feet of laboratory space for neuroscientists, biogeochemists, environmental scientists, and other researchers whose work crosses the boundaries of traditional scientific fields. The space serves multiple disciplines, with about three-quarters of the labs assigned to faculty and researchers in the College of Arts and Sciences, and the rest of the space being assigned to the School of Public and Environmental Affairs. In addition, the building is home to an instrumentation facility supported through the Indiana Metabolomics and Cytomics Initiative, an environmental scanning electronic microscope and microscopy lab, a stable isotope research facility, and the Linda and Jack Gill Center for Neuroscience. The facility was designed and built with the goal of attaining Gold LEED (Leadership in Energy and Environmental Design) status.

A new 138,000 square foot facility transforms Memorial Stadium into a horseshoe layout connecting the East and West stands of this football facility on the Bloomington campus. Costing $45.8 million, the addition adds a new seating bowl, concourse, concession stand, and outdoor club area. In addition, the multi-level facility houses the football offices, meeting/video rooms, athletic administration offices, and a 25,000 square foot state-of-the-art strength and conditioning center. The North End Zone facility is also home to the Henke Hall of Champions, an entertainment space for special events that will feature permanent museum displays celebrating great achievements in the history of IU Athletics.

Physically connected to Assembly Hall via an underground tunnel, Cook Hall was occupied in March 2010 and serves as the headquarters for the men's and women's basketball programs. The $19.9

Medical Education building, IP Fort Wayne

million facility provides the programs with a state-of-the-art venue in which to practice, train, and condition. The 67,000 square foot multilevel facility features practice courts, locker rooms, strength and conditioning areas, coaches' offices, and meeting/video rooms. Cook Hall is also home to the Pfau Shine Legacy Court, a unique museum/exhibit space that chronicles the history of Indiana basketball with photos and memorabilia that celebrate IU's championship teams and basketball traditions. The facility was named Cook Hall in recognition of the $15 million gift to the "For the Glory of Old IU" campaign made by the Cook Group Incorporated.

Several facilities that will further enhance the mission of the university are in the planning and design phase. The following have been approved by the Board of Trustees:

A new East Studio building and a Musical Arts Center (MAC) addition will be constructed for the Jacobs School of Music on the Bloomington campus. The East Studio building will be a 99,943 square foot structure, encompassing approximately 80 faculty studios, 4 associate percussions instructor studios, 15 percussion practice rooms, the Dean's Office Suite, and other administrative offices. The MAC addition will be 22,122 square feet and include two multi-purpose rehearsal rooms, a percussion rehearsal room, storage and shop space, and audio control rooms. The cost of these facilities is estimated at $44 million and will be paid with gift funds from the Lilly Foundation.

A major renovation of Briscoe Quad located on the Bloomington campus is planned for completion in July 2012. Shoemaker and Gucker Towers of the Quad, and much of the two-story center building connecting the two towers, will be completely renovated. Both towers will be upgraded to provide more private, independent housing accommodations which will be focused on two, three, and four-person suites with separate ADA compliant restrooms and mechanical, electrical, and telecommunications infrastructure in each suite. The 44 year old facility will become fully sprinklered for fire protection, and will be upgraded with a more secure card-access system. The renovation provides 307 suites and 693 beds. The estimated project cost is $46 million, and will be funded by revenue bonds.

Tulip Tree Apartments will undergo a complete renovation at an approximate cost of $32.5 million on the Bloomington campus. The interior space will be painted, carpeted and tiled, and the bathrooms and kitchens will be modernized including new finishes, fixtures, and cabinets. Work includes the upgrading of all building safety and security systems, all mechanical, electrical and building lighting systems, and all plumbing and waste systems. Windows and walls will be upgraded to meet new thermal standards and the limestone façade will be repaired, replaced, cleaned, and tuck pointed and/or caulked. The building was originally constructed in 1965 and contains 223 apartments. This project will be funded by revenue bonds.

Cyberinfrastructure complex,
IU Bloomington

On the South Bend campus, an addition to the current Raclin/Carmichael Hall, to be named Harper Hall, will be constructed with an estimated completion date of January 2011. The new structure will consist of 61,000 square feet with all levels attached to the existing building. The Cancer Center space will be allocated to research labs, lab support, and offices. The estimated cost of the project is $20 million and is funded with a $10 million State Appropriation from the 2007 General Assembly to Indiana University and $10 million from the University of Notre Dame.

A Sports Complex Parking Garage expansion is planned for the IUPUI campus. The 407,268 square foot expansion consists of an additional 1,300 parking spaces. The new garage will serve the Herron School of Art, Inlow Hall, Engineering Science and Technology - Science Building, the Natatorium, and University Library. The approximate cost is $18 million, and will be paid for with revenue bonds.

Union Street Dorms,
IU Bloomington

In December 2009, the university issued $22 million in Certificates of Participation (COPs) in capital lease purchase agreements between the university and the Indiana University Building Corporation to finance all or part of the cost of constructing and equipping the Auxiliary Library Facility-II, the Cinema-Theatre renovation, and the Health, Physical Education, and Recreation Courtyard build-out, all on the Bloomington campus.

In April 2010, the university issued Student Fee Bonds in the amount of $67.4 million to finance the acquisition, construction, and equipping of the Cyberinfrastructure Building on the Bloomington campus, Life Sciences Laboratory renovations in Jordan Hall on the Bloomington campus, VanNuys Medical Science Building lab renovations on the Indianapolis campus, and Education and Arts Building renovation on the South Bend campus.

In May 2010, the university issued Consolidated Revenue Bonds, Series 2010A and B in the amount of $88.8 million to finance the renovations of Briscoe Quad and Tulip Tree Apartments on the Bloomington campus and construction of the Gateway Garage on the Indianapolis campus.

The university's ratings on debt obligations were last reviewed and updated in May 2010. On May 11, 2010, Moody's Investors Service changed its previous underlying rating of 'Aa1' with a Stable Outlook to 'Aaa' (global scale) with a Stable Outlook on student fee bonds, student residence system, facility revenue bonds, consolidated revenue bonds, and certificates of participation. The rating by Moody's reflects a recalibration of its municipal ratings to a global scale. Moody's has stated that the recalibration does not reflect an improvement in credit quality or change in credit opinion. Instead, the recalibration aligns municipal ratings with their global scale equivalent. The existing strength of IU's credit quality merited a 'Aaa' rating when Moody's recalibrated its ratings to a global scale. On May 6, 2010, Standard & Poor's Credit Market Services (S&P), a Division of McGraw-Hill Companies, reaffirmed its previous underlying rating of 'AA' with a positive outlook on student fee bonds, student residence system, facility revenue bonds, consolidated revenue bonds, and certificates of participation.

Cook Hall,
IU Bloomington

Economic Outlook

The State of Indiana provides approximately 20% of Indiana University's total financial resources during a fiscal year. Due to the lingering effects of the national recession, fiscal year 2010 proved to be a very challenging year for the state and for Indiana University. In particular, persistent state unemployment hovering around 10% has significantly reduced state revenues. As a result, the state revenue forecast update, announced in December 2009, reduced forecast revenues for the biennium by a total of $1.8 billion from the May 2009 forecast upon which the enacted state biennial budget was based. Because of the extreme projected revenue shortfall, the state reduced state spending significantly, including a $150 million reduction in biennial higher education funding.

For fiscal year 2010, total revenues exceeded the December 2009 forecast by $110 million. However, fiscal year 2010 revenues were nearly 6% lower than prior year collections. Illustrating the relationship between high unemployment and state revenues, income tax collections were down by more than 10% compared to the prior year while sales tax revenues were down nearly 4% from fiscal year 2009. Looking ahead to fiscal year 2011, 5.3% revenue growth over the prior year collections will be required to achieve the revenue forecast. This relatively high growth rate is related to the economic forecast produced in conjunction with the December 2009 revenue forecast update, which anticipates improving economic conditions. Whether this forecast can be achieved will indeed be dependent on improved economic performance and increased employment.

North End Zone,
IU Bloomington

Student enrollment for the university is projected to remain strong during the 2009-10 academic year. Overall, the financial position of the university is favorable and management will continue to monitor state and national economic conditions as part of its critical financial decision making process.

The university is not aware of any additional facts, decisions, or conditions that are expected to have significant effect on the financial position or results of operations during the next fiscal year beyond those unforeseen variations having a global effect on virtually all types of business operations.

Statement of Net Assets

(in thousands of dollars)	June 30, 2010	June 30, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 671,293	$ 552,892
Accounts receivable, net	111,087	107,947
Current portion of notes and pledges receivable	14,199	13,295
Inventories	13,021	11,724
Short-term investments	46,735	43,601
Securities lending assets	81,219	63,600
Other assets	34,265	27,686
Total current assets	971,819	820,745
Noncurrent assets		
Accounts receivable	13,445	14,772
Notes and pledges receivable	63,173	66,770
Investments	915,008	714,836
Capital assets, net	2,316,762	2,197,123
Total noncurrent assets	3,308,388	2,993,501
Total assets	**4,280,207**	**3,814,246**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	231,074	205,363
Deferred revenue	151,319	139,630
Current portion of capital lease obligations	1,149	1,242
Current portion of long-term debt	60,848	51,172
Securities lending liabilities	81,219	63,600
Total current liabilities	525,609	461,007
Noncurrent liabilities		
Capital lease obligations	2,600	2,730
Notes payable	31,168	11,457
Assets held in custody or others	74,334	67,958
Deferred revenue	62,874	40,097
Bonds payable	848,205	749,181
Other long-term liabilities	58,550	64,255
Total noncurrent liabilities	1,077,731	935,678
Total liabilities	**1,603,340**	**1,396,685**
Net assets		
Invested in capital assets, net of related debt	1,555,422	1,475,395
Restricted for:		
Nonexpendable - endowments	19,399	19,088
Expendable		
Scholarships, research, instruction and other	114,316	92,627
Loans	25,067	24,239
Capital projects	10,115	16,595
Debt service	6,300	5,162
Unrestricted	946,248	784,455
Total net assets	**2,676,867**	**2,417,561**
Total liabilities and net assets	**$ 4,280,207**	**$ 3,814,246**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Financial Position
As of June 30, 2010

	Unrestricted		Temporarily Restricted		Permanently Restricted		
	Foundation	Agency	Foundation	University	Foundation	University	Total
Assets:							
Cash and equivalents	$ -	$ 10,009,374	$ -	$ 143,522,952	$ -	$ -	$ 153,532,326
Collateral under securities lending agreement	1,959,139	8,437,798	213,757	15,283,630	983,468	39,758,517	66,636,309
Receivables and other assets	6,106,114	242,261	10,503	2,644,127	29,196	7,551,146	16,583,347
Promises to give, net	45,976	-	2,601,283	83,027,320	888,153	74,504,064	161,066,796
Investments	43,223,119	162,435,067	7,667,087	308,937,376	19,285,740	782,480,103	1,324,028,492
Property, plant and equipment, net	45,713,684	-	-	-	-	-	45,713,684
Total assets	$ 97,048,032	$ 181,124,500	$ 10,492,630	$ 553,415,405	$ 21,186,557	$ 904,293,830	$ 1,767,560,954
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	$ 3,933,853	$ 240,215	$ 10,871	$ 1,665,117	$ 156,992	$ 1,310,023	$ 7,317,071
Payable under securities lending agreement	1,959,139	8,437,798	213,757	15,283,630	983,468	39,758,517	66,636,309
Debt	3,300,000	-	-	-	-	58,083	3,358,083
Accrued trust obligation to life beneficiaries	329,595	-	3,370,978	5,767,543	449,686	21,617,858	31,535,660
Due to (from)	68,180,154	-	104,246	(86,336,233)	399,683	17,652,150	-
Interfund financing	(3,800,000)	-	-	3,800,000	-	-	-
Assets held for the University	-	158,154,846	-	-	-	-	158,154,846
Assets held for University affiliates	-	14,291,641	-	-	-	-	14,291,641
Total liabilities	73,902,741	181,124,500	3,699,852	(59,819,943)	1,989,829	80,396,631	281,293,610
Net assets	23,145,291	-	6,792,778	613,235,348	19,196,728	823,897,199	1,486,267,344
Total liabilities and net assets	$ 97,048,032	$ 181,124,500	$ 10,492,630	$ 553,415,405	$ 21,186,557	$ 904,293,830	$ 1,767,560,954

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

Statement of Revenues, Expenses, and Changes in Net Assets

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2010	*June 30, 2009*
Operating revenues		
Student fees	$ 1,088,373	$ 985,888
Less scholarship allowance	(170,091)	(133,054)
Federal grants and contracts	318,646	295,737
State and local grants and contracts	23,830	28,860
Nongovernmental grants and contracts	102,839	127,049
Sales and services of educational units	64,475	61,498
Other revenue	181,640	175,506
Auxiliary enterprises (net of scholarship allowance of $18,750 in 2010 and $15,850 in 2009)	323,571	332,586
Total operating revenues	**1,933,283**	**1,874,070**
Operating expenses		
Compensation and benefits	1,684,964	1,632,926
Student financial aid	150,779	125,830
Energy and utilities	64,031	65,447
Travel	36,930	40,397
Supplies and general expense	430,712	449,435
Depreciation and amortization expense	125,715	120,819
Total operating expenses	**2,493,131**	**2,434,854**
Total operating loss	**(559,848)**	**(560,784)**
Nonoperating revenues (expenses)		
State appropriations	549,755	572,578
Grants, contracts, and other	99,613	63,304
Investment income	103,265	(17,607)
Gifts	78,049	76,181
Interest expense	(32,401)	(31,829)
Net nonoperating revenues	**798,281**	**662,627**
Income before other revenues, expenses, gains, or losses	**238,433**	**101,843**
Capital appropriations	3,005	10,248
Capital gifts and grants	17,323	19,980
Additions to permanent endowments	545	-
Total other revenues	**20,873**	**30,228**
Increase in net assets	**259,306**	**132,071**
Net assets, beginning of year	**2,417,561**	**2,285,490**
Net assets, end of year	**$ 2,676,867**	**$ 2,417,561**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Activities
For the year ended June 30, 2010

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	Foundation	University	Foundation	University	Total
Revenue and support:						
Contributions, net	$ 1,525,398	$ 264,714	$ 99,131,829	$ 4,091	$ 72,627,631	$ 173,553,663
Investment income including net gains (losses), net of outside investment management fees	6,173,688	415,231	84,652,206	917,548	23,599,933	115,758,606
Management/administrative fees	15,523,567	(40,091)	(12,535,093)	-	(577,601)	2,370,782
Grants	-	-	43,175,000	-	-	43,175,000
Other income	6,656,992	18,450	5,530,178	237	1,004,525	13,210,382
Development service fees from the University	4,923,219	-	-	-	-	4,923,219
Net assets released from restriction	145,751,323	(717,770)	(150,311,623)	-	5,278,070	-
Total revenue and support	180,554,187	(59,466)	69,642,497	921,876	101,932,558	352,991,652
Expenditures:						
Program expenditures	154,198,860	4,084	-	-	131,528	154,334,472
Management and general	10,860,711	10,499	4,607,121	98	3,855,316	19,333,745
Fund raising	14,108,410	-	-	-	-	14,108,410
Change in value of split interest agreement obligation to life beneficiaries	(356,348)	(290,887)	(437,049)	104,036	(1,954,138)	(2,934,386)
Total expenditures	178,811,633	(276,304)	4,170,072	104,134	2,032,706	184,842,241
Change in net assets:						
Unrestricted	1,742,554	-	-	-	-	1,742,554
Temporarily restricted	-	216,838	65,472,425	-	-	65,689,263
Permanently restricted	-	-	-	817,742	99,899,852	100,717,594
Total change in net assets	1,742,554	216,838	65,472,425	817,742	99,899,852	168,149,411
Beginning net assets	21,402,737	6,575,940	547,762,923	18,378,986	723,997,347	1,318,117,933
Ending net assets	$ 23,145,291	$ 6,792,778	$ 613,235,348	$ 19,196,728	$ 823,897,199	$ 1,486,267,344

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

Statement of Cash Flows

(in thousands of dollars)	*Fiscal Year Ended* *June 30, 2010*	*June 30, 2009*
Cash flows from operating activities		
Student fees	$ 917,302	$ 857,522
Grants and contracts	470,505	429,288
Sales and services of educational activities	63,915	66,624
Auxiliary enterprise charges	331,501	329,765
Other operating receipts	184,325	183,746
Payments to employees	(1,661,635)	(1,621,284)
Payments to suppliers	(523,649)	(566,558)
Student financial aid	(154,558)	(128,528)
Student loans collected	8,231	15,563
Student loans issued	(5,287)	(8,073)
Net cash used in operating activities	**(369,350)**	**(441,935)**
Cash flows from noncapital financing activities		
State appropriations	549,755	584,501
Nonoperating grants and contracts	99,613	63,304
Gifts and grants received for other than capital purposes	80,592	74,276
Direct lending receipts	584,784	512,207
Direct lending payments	(584,813)	(512,031)
Net cash provided by noncapital financing activities	**729,931**	**722,257**
Cash flows from capital and related financing activities		
Capital appropriations	3,005	10,248
Capital grants and gifts received	18,456	6,922
Purchase of capital assets	(244,778)	(254,898)
Proceeds from issuance of capital debt, including refunding activity	180,073	73,766
Principal payments on capital debt, including refunding activity	(49,909)	(50,075)
Principal paid on capital leases	(1,464)	(1,906)
Interest paid on capital debt and leases	(45,850)	(45,718)
Net cash used in capital and related financing activities	**(140,467)**	**(261,661)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	2,633,797	1,500,824
Investment income	72,718	27,114
Purchase of Investments	(2,808,228)	(1,568,213)
Net cash used by investing activities	**(101,713)**	**(40,275)**
Net increase (decrease) in cash and cash equivalents	**118,401**	**(21,614)**
Cash and cash equivalents, beginning of year	**552,892**	**574,506**
Cash and cash equivalents, end of year	**$ 671,293**	**$ 552,892**

See accompanying notes to the financial statements.

(continued from previous page)

(in thousands of dollars)	*Fiscal Year Ended*	
	June 30, 2010	*June 30, 2009*
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (559,848)	$ (560,784)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	125,715	120,819
Loss on disposal of capital assets	4,487	4,175
Changes in assets and liabilities:		
Accounts receivable	(7,091)	(72)
Inventories	(1,297)	(2,223)
Other assets	(6,579)	(5,947)
Notes receivable	2,722	6,251
Accounts payable and accrued liabilities	25,249	(9,303)
Deferred revenue	34,466	(7,071)
Assets held in custody for others	6,376	1,381
Other noncurrent liabilities	6,450	10,839
Net cash used in operating activities	**$ (369,350)**	**$ (441,935)**

See accompanying notes to the financial statements.

Note 1—Organization and Summary of Significant Accounting Policies

ORGANIZATION: Indiana University (university) is a state-supported institution that is fiscally responsible for operations and has students enrolled on seven campuses. Campuses are located in Bloomington, Indianapolis (IUPUI), Richmond (East), Kokomo, Gary (Northwest), South Bend, and New Albany (Southeast). The financial statements include the individual schools, colleges, and departments as part of the comprehensive reporting entity. The university was established by state legislative act, under Indiana Code Section IC 20-12-23, in 1838, changing the name of its predecessor, Indiana College, to Indiana University. The university's governing body, the Trustees of Indiana University (trustees), is comprised of nine members charged by the Indiana General Assembly with policy and decision-making authority to carry out the programs and missions of the university. Six of the members are appointed by the Governor of Indiana, and three are elected by university alumni. The university is classified as exempt from federal income tax under sections 501(c)(3) and 115(a) of the Internal Revenue Code. Certain revenues of the university may be subject to federal income tax as unrelated business income, as defined in section 513 of the Internal Revenue Code.

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

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

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

The IU Foundation is a not-for-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different 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 $145,704 and $109,090 to the university during fiscal years 2010 and 2009, respectively. Complete financial statements for the IU Foundation can be obtained from: Indiana University Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

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

BASIS OF ACCOUNTING: The accompanying financial statements have been prepared by the university operating as a special-purpose government entity engaged in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, these financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Eliminations have been made to minimize the "double-counting" of internal activities.

The university has the option to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure, except for those that conflict with or contradict GASB pronouncements. The university has elected not to apply FASB pronouncements issued after the applicable date.

During fiscal year 2010, the university implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement addresses capitalization of identifiable intangible assets and provides guidance on amortization of intangible assets.

During fiscal year 2010, the university implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments, and requires derivative instruments to be reported at fair value.

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

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

NOTES AND PLEDGES RECEIVABLE: Notes receivable consists primarily of student loans. A pledge receivable is recorded at the time the pledge is measurable, probable of collection, and all applicable eligibility requirements have been met.

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

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

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

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

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

- *Restricted net assets—nonexpendable:* Nonexpendable restricted net assets are subject to externally imposed stipulations that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income, which may be either expended or added to principal. Such assets include permanent endowment funds.
- *Restricted net assets—expendable:* Restricted expendable net assets are resources the university is legally obligated to spend in accordance with externally imposed restrictions.
- *Unrestricted net assets:* Unrestricted net assets are not subject to externally imposed restrictions and are 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 decision whether to apply restricted or unrestricted resources first is a management matter, and the decision is made based on the relevant facts and circumstances.

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

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

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

Note 2—Deposits and Investments

DEPOSITS

The combined bank balances of the university's demand deposits were $6,920 and $11,885 at June 30, 2010 and 2009, respectively. The university had balances in excess of Federal Deposit Insurance Corporation limits in the amount of $6,170 and $10,833 at June 30, 2010 and 2009, respectively. These balances, deposited in approved financial institutions and in excess of the limits of coverage by federal deposit insurance, were covered by the Public Deposit Insurance Fund, created to protect the public funds of the State of Indiana and its political subdivisions. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk.

INVESTMENTS

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

At June 30, 2010 and 2009, the university had investments and deposits, including endowment funds, as shown below:

Investment Type	Fair Value June 30, 2010	Fair Value June 30, 2009
Money market funds	$ 702,168	$ 678,516
Corporate bonds	310,373	198,951
External investment pools	163,132	120,020
Government bonds	151,569	35,219
Government mortgage-backed securities	99,403	135,655
Asset-backed securities	82,448	36,152
Commercial mortgage-backed	52,811	31,530
Government agencies	47,722	38,731
Nongovernment backed C.M.O.s	25,257	37,028
Short-term bills and notes	10,643	20,921
Guaranteed fixed income	9,353	12,772
Municipal/provincial bonds	7,576	7,823
Commercial paper	6,095	500
Real estate	3,165	3,165
Venture capital	3,023	2,852
Index-linked government bonds	1,358	7,262
Mutual funds	1,132	1,835
All other	(44,192)	(57,603)
Total	**$1,633,036**	**$1,311,329**

INVESTMENT CUSTODIAL RISK

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

INTEREST RATE RISK

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

(dollar amounts presented in thousands)

The university had investments with the following maturities at June 30, 2010:

	Fair Value	*Investment Maturities (in years)*			
Investment Type	*June 30, 2010*	*Less than 1*	*1–5*	*6–10*	*More than 10*
Investments with maturity date					
Corporate bonds	$ 310,373	$ 35,012	$ 132,651	$ 83,053	$ 59,657
Government Bonds	151,569	2,482	57,106	65,183	26,798
Government mortgage backed securities	99,403	8,575	1,827	18,818	70,183
Asset backed securities	82,448	4,598	55,219	13,396	9,235
Commercial mortgage–backed	52,811	–	765	1,292	50,754
Government agencies	47,722	1,651	41,567	3,003	1,501
Non–government backed C.M.O.s	25,257	–	1,524	821	22,912
Short–term bills and notes	10,643	10,643	–	–	–
Guaranteed fixed income	9,353	504	8,849	–	–
Municipal/provincial bonds	7,576	1,012	4,279	359	1,926
Commercial paper	6,095	6,095	–	–	–
Index–linked government bonds	1,358	–	–	–	1,358
Other fixed income	3,819	41	3,018	(89)	849
Total investments with maturity date	**808,427**	**70,613**	**306,805**	**185,836**	**245,173**
Investments with undetermined maturity date					
Money market funds	702,168	702,168	–	–	–
External investment pools	163,132	163,132	–	–	–
Real estate	3,165	3,165	–	–	–
Venture capital	3,023	3,023	–	–	–
Mutual funds	1,132	1,132	–	–	–
All other	(48,011)	(48,011)	–	–	–
Total investments with undetermined maturity date	**824,609**	**824,609**	**–**	**–**	**–**
Total	**$ 1,633,036**	**$ 895,222**	**$ 306,805**	**$ 185,836**	**$ 245,173**

The university had investments with the following maturities at June 30, 2009:

Investment Type	Fair Value June 30, 2009	Investment Maturities (in years) Less than 1	1–5	6–10	More than 10
Investments with maturity date					
Corporate bonds	$ 198,951	$ 17,540	$ 73,872	$ 72,372	$ 35,167
Government mortgage–backed securities	135,655	46,262	7,155	2,678	79,560
Government agencies	38,731	4,252	31,042	3,396	41
Nongovernment backed C.M.O.s	37,028	455	107	1,610	34,856
Asset–backed securities	36,152	2,013	22,013	3,154	8,972
Government bonds	35,219	–	19,000	10,323	5,896
Commercial mortgage–backed	31,530	–	706	237	30,587
Short–term bills and notes	20,921	20,921	–	–	–
Guaranteed fixed income	12,772	–	12,772	–	–
Municipal/provincial bonds	7,823	1,012	841	366	5,604
Index–linked government bonds	7,262	788	–	2,005	4,469
Commercial paper	500	500	–	–	–
Other fixed income	428	(49)	612	–	(135)
Total investments with maturity date	**562,972**	**93,694**	**168,120**	**96,141**	**205,017**
Investments with undetermined maturity date					
Money market funds	679,016	679,016	–	–	–
External investment pools	120,020	120,020	–	–	–
Real estate	3,165	3,165	–	–	–
Venture capital	2,852	2,852	–	–	–
Mutual funds	1,835	1,835	–	–	–
All other	(58,531)	(58,531)	–	–	–
Total investments with undetermined maturity date	**748,357**	**748,357**	**–**	**–**	**–**
Total	**$ 1,311,329**	**$ 842,051**	**$ 168,120**	**$ 96,141**	**$ 205,017**

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.

(dollar amounts presented in thousands)

At June 30, 2010 and 2009, university investments had debt securities with associated credit ratings as shown below:

Credit Quality Rating	Fair Value June 30, 2010	Percentage of Total Pool	Fair Value June 30, 2009	Percentage of Total Pool
AAA	$ 582,193	35.65%	$ 511,543	39.01%
AA	46,763	2.86%	27,312	2.08%
A	124,023	7.59%	68,298	5.21%
BBB	114,622	7.02%	97,050	7.40%
BB	44,574	2.73%	20,507	1.56%
B	19,362	1.19%	5,430	0.41%
CCC	7,707	0.47%	8,893	0.68%
Not Rated	693,792	42.49%	572,296	43.65%
Total	**$ 1,633,036**	**100.00%**	**$ 1,311,329**	**100.00%**

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

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

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a government's investments and deposits. The university's policy for controlling exposure to foreign currency risk is to constrain investments in non-U.S. dollar denominated debt to 25% of an individual manager's portfolio, or as specified in each manager's guidelines. Minimal foreign currency exposure could occur if one of the university's investment managers purchases non-U.S. dollar holdings and does not hedge the currency. As of June 30, 2010, and June 30, 2009, the university's investments were not exposed to foreign currency risk.

Endowments

Endowment funds are managed pursuant to an Investment Agency Agreement between the Trustees of Indiana University (trustees) and the IU Foundation, which delegates investment management responsibilities to the IU Foundation. Indiana Code 30-2-12, *Uniform Management of Institutional Funds,* sets forth the provisions governing the investment of endowment assets and the expenditure of endowment fund appreciation. The code requires that the trustees and their agents act in good faith and with the care a prudent person acting in a like position would use under similar circumstances, with respect to the investment of endowment assets. The code also sets forth provisions governing the expenditure of endowment fund appreciation, under which the trustees may authorize expenditure, consistent with donor intent. The trustees may, at their discretion, direct all or a portion of the university's endowment funds to other investments, exclusive of the IU Foundation's investment funds. The spending policy of the trustees is to distribute 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.

Endowment funds have a perpetual investment horizon, and as appropriate, may be invested in asset classes with longer term risk/return characteristics, including, but not limited to stocks, bonds, real estate, private placements, and alternative investments. The Indiana University Endowments (endowments) are managed pursuant to an Investment Agency Agreement between the trustees and the IU Foundation dated November 14, 2005, which delegated investment management responsibilities to the IU Foundation, subject to the university's management agreement with the IU Foundation. Endowment assets may be invested in pooled funds or in direct investments, or a combination of the two. Assets will typically be diversified among high quality stocks and bonds. Additional asset classes, such as absolute return, private equity, and real asset investments, may be included when it is reasonable to expect these investments will either increase return or reduce risk, or both. Participation in the pooled investments is achieved by owning units of the Pooled Long-Term Fund and considered an external investment pool to the university. At June 30, 2010, all endowments held with the IU Foundation were invested in pooled funds.

Interest Rate Risk

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund is invested in securities that typically mature within one year and the fixed income allocation includes securities with a duration benchmark index of +/- 1.5 years.

Credit Risk

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

Concentration of Credit Risk

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

DERIVATIVES

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

Derivatives are entered into for at least four reasons:

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

All of the university's derivatives are held for investment purposes. The fair value of derivatives held by the university was ($749) and the value of the assets was $452 at June 30, 2010.

Interest Rate Risk and Credit Risk

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

Note 3—Securities Lending

State statutes and policy of the Trustees of Indiana University permit the university to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The university's custodial bank manages the securities lending program and receives cash, U.S. government securities, or irrevocable letters of credit as collateral. Noncash collateral cannot be pledged or sold unless the borrower defaults. Cash collateral is invested in a short-term investment pool. Cash collateral may also be invested separately in "term loans," in which case the investment term matches the loan term. Maintenance margins for same currency U.S. equity and fixed income securities and international fixed income securities are 101.5%. Maintenance margins for different or cross currency U.S. and international equity and fixed income securities are 104.5%. Security loans can be terminated on demand by either the university or the borrowers. Cash received as securities lending collateral was $81,219 and $63,600 at June 30, 2010 and 2009, respectively, and is recorded as an asset and corresponding liability on the university's Statement of Net Assets. The university had securities involved in loans with fair value of $79,383 and

(dollar amounts presented in thousands)

$62,113 at June 30, 2010 and 2009, respectively. Credit risk is calculated as the aggregate of the lender's exposure to individual borrowers or on individual loans. Although collateralized, the university would bear risk if the cash collateral is impaired. The university recorded an unrealized loss due to collateral impairment of $1,012 during fiscal year 2009. During fiscal year 2010, the collateral impairment was eliminated without realization of a loss.

Note 4—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2010 and 2009:

	June 30, 2010	*June 30, 2009*
Student accounts	$ 35,985	$ 35,471
Auxiliary enterprises and other operating activities	51,910	47,285
Federal, state, and other grants and contracts	21,083	23,207
Capital appropriations and gifts	4,242	4,041
Other	7,343	7,668
Current accounts receivable, gross	**120,563**	**117,672**
Less allowance for uncollectible accounts	(9,476)	(9,725)
Current accounts receivable, net	**111,087**	**107,947**
Auxiliary enterprises and other operating activities	13,445	14,772
Noncurrent accounts receivable	**$ 13,445**	**$ 14,772**

Note 5—Capital Assets

Fiscal year ended June 30, 2010

	Balance June 30, 2009	Additions	Transfers	Retirements	Balance June 30, 2010
Assets not being depreciated:					
Land	$ 53,057	$ 126	$ –	$ –	$ 53,183
Art & museum objects	73,672	543	–	–	74,215
Construction in progress	224,840	130,988	(186,643)	1,030	168,155
Total capital assets not being depreciated	351,569	131,657	(186,643)	1,030	295,553
Other capital assets:					
Infrastructure	149,790	3,284	2,169	–	155,243
Land improvements	26,648	3,438	182	–	30,268
Equipment	366,912	30,809	17,348	16,269	398,800
Library books	207,621	23,430	–	19,335	211,716
Buildings	2,670,587	57,361	166,944	949	2,893,943
Total other capital assets	3,421,558	118,322	186,643	36,553	3,689,970
Less accumulated depreciation for:					
Infrastructure	118,344	4,025	–	–	122,369
Land improvements	7,940	1,529	–	–	9,469
Equipment	254,842	34,020	–	13,197	275,665
Library books	97,820	20,896	–	19,335	99,381
Buildings	1,097,058	65,245	–	426	1,161,877
Total accumulated depreciation, other capital assets	1,576,004	125,715	–	32,958	1,668,761
Capital assets, net	**$ 2,197,123**	**$ 124,264**	**$ –**	**$ 4,625**	**$ 2,316,762**

(dollar amounts presented in thousands)

Fiscal year ended June 30, 2009

	Balance June 30, 2008	Additions	Transfers	Retirements	Balance June 30, 2009
Assets not being depreciated:					
Land	$ 52,962	$ 95	$ –	$ –	$ 53,057
Art & museum objects	72,597	1,075	–	–	73,672
Construction in progress	226,497	163,048	(163,777)	928	224,840
Total capital assets not being depreciated	352,056	164,218	(163,777)	928	351,569
Other capital assets:					
Infrastructure	143,508	3,088	3,194	–	149,790
Land improvements	24,017	1,579	1,052	–	26,648
Equipment	342,261	34,969	12,024	22,342	366,912
Library books	197,458	25,108	–	14,945	207,621
Buildings	2,483,775	44,682	147,507	5,377	2,670,587
Total other capital assets	3,191,019	109,426	163,777	42,664	3,421,558
Less accumulated depreciation for:					
Infrastructure	114,362	3,982	–	–	118,344
Land improvements	6,552	1,388	–	–	7,940
Equipment	241,519	34,111	–	20,788	254,842
Library books	92,680	20,085	–	14,945	97,820
Buildings	1,039,758	61,253	–	3,953	1,097,058
Total accumulated depreciation, other capital assets	1,494,871	120,819	–	39,686	1,576,004
Capital assets, net	**$ 2,048,204**	**$ 152,825**	**$ –**	**$ 3,906**	**$ 2,197,123**

Note 6—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2010 and 2009:

	June 30, 2010	June 30, 2009
Accrued payroll	$ 24,414	$ 20,612
Accrual for compensated absences	42,608	34,155
Interest payable	24,746	24,284
Vendor and other payables	139,306	126,312
Total accounts payable and accrued liabilities	**$ 231,074**	**$ 205,363**

Note 7—Noncurrent Liabilities

Noncurrent liability activity for the fiscal years ended June 30, 2010 and 2009 is summarized as follows:

Fiscal year ended June 30, 2010

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Current
Bonds payable	$ 799,424	$ 158,617	$ 50,817	$ 907,224	$ 59,019
Notes payable	12,386	21,965	1,354	32,997	1,829
Capital lease obligations	3,972	1,241	1,464	3,749	1,149
Total bonds, notes, and capital leases payable	815,782	181,823	53,635	943,970	61,997
Other liabilities					
Deferred revenue	179,727	34,466	–	214,193	151,319
Assets held in custody for others	68,486	6,398	–	74,884	550
Compensated absences	54,281	30,921	21,179	64,023	42,608
Other	44,128	5,246	12,239	37,135	–
Total other liabilities	346,622	77,031	33,418	390,235	194,477
Total noncurrent liabilities	**$ 1,162,404**	**$ 258,854**	**$ 87,053**	**$ 1,334,205**	**$ 256,474**

Fiscal year ended June 30, 2009

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Current
Bonds payable	$ 776,590	$ 74,275	$ 51,441	$ 799,424	$ 50,243
Notes payable	4,546	8,510	670	12,386	929
Capital lease obligations	10,582	3,806	10,416	3,972	1,242
Total bonds, notes, and capital leases payable	791,718	86,591	62,527	815,782	52,414
Other liabilities					
Deferred revenue	186,798	1,561	8,632	179,727	139,630
Assets held in custody for others	67,027	1,459	–	68,486	528
Compensated absences	50,368	24,361	20,448	54,281	34,154
Other	49,820	4,900	10,592	44,128	–
Total other liabilities	354,013	32,281	39,672	346,622	174,312
Total noncurrent liabilities	**$ 1,145,731**	**$ 118,872**	**$ 102,199**	**$ 1,162,404**	**$ 226,726**

Note 8 — Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds, notes, and other forms of indebtedness for the purpose of financing construction of facilities that include academic and administrative facilities, research facilities on the Bloomington and Indianapolis campuses, athletic facilities, parking facilities, student housing, student union buildings, and energy savings projects. The outstanding bond and note indebtedness at June 30, 2010 and 2009, were $940,221 and $811,810, respectively. This indebtedness included principal outstanding at June 30, 2010 and 2009, for bonds issued under Indiana Code (I.C.) 21-34-6 (Student Fee Debt) of $507,317 and $479,861, respectively. These bonds had an additional accreted value of outstanding capital appreciation bonds associated with them of $37,113 and $48,293, respectively. The outstanding bond issues include serial, term, and capital appreciation bonds with maturities extending to June 1, 2038.

(dollar amounts presented in thousands)

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 I.C. 21-34-6 for certain academic facilities. Such academic facilities can include classrooms, libraries, laboratories, utility infrastructure, and other academic facilities as designated by the Indiana General Assembly. These specific state appropriations are referred to as "fee replacement" appropriations, and are received from the State of Indiana on a semi-annual basis. This appropriation is renewed and modified on a biennial basis because the Constitution of the State of Indiana prohibits a sitting General Assembly from binding subsequent General Assemblies as to the continuation of any appropriated funds. The State of Indiana has fully funded all fee replacement obligations established by prior General Assemblies since the State began authorizing fee replacement appropriations more than 35 years ago. The outstanding principal balances which are eligible for fee replacement appropriations, as of June 30, 2010 and 2009, are $447,043 and $426,623, respectively. As of June 30, 2010, of the $1,397,316 total debt service payments to maturity, $644,665 is for bonds eligible for fee replacement appropriations.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CABs). A CAB is a long-term municipal security, on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment representing both the initial principal amount and the total investment return. A CAB pays no current interest, but accretes in value from the date of issuance to the date of maturity. At maturity, the original par amount plus all of the accreted interest is payable. Total debt service payments to maturity, as of June 30, 2010, include $69,320 of CABs payments, of which $43,020 is eligible for fee replacement appropriations. Total debt service payments to maturity, as of June 30, 2009, include $91,670 of CABs payments, of which $65,370 is eligible for fee replacement appropriations.

Indiana Code 21-32-2 (Temporary Borrowing) permits the use of debt in the form of temporary borrowing in anticipation of future long-term borrowing for capital projects, when such long-term borrowing is authorized under other sections of the Indiana Code. The university has used tax-exempt commercial paper (TECP) programs to provide interim financing for certain capital projects and may continue to do so in the future. No TECP is outstanding as of June 30, 2010.

As of June 30, 2010 and 2009, outstanding indebtedness from bonds and notes consisted of the following:

Bonding Authority	*Interest Rates*	*Final Maturity Year Ended*	*Principal Outstanding At June 30, 2010*	*Principal Outstanding At June 30, 2009*
Indiana Code 21-34-6 (Bonds: Student Fee Debt)	1.00 to 6.40%	2033	$ 507,317	$ 479,861
Indiana Code 21-35-3 (Bonds: Revenue Debt)	2.00 to 5.80%	2038	373,595	293,390
Indiana Code 21-34-10-7 (Notes: Energy Savings Debt)	3.64 to 4.49%	2018	3,637	4,101
Indiana Code 21-33-3-5 (Notes: Certificates of Participation)	2.00 to 5.95%	2030	29,360	8,285
Subtotal bonds and notes payable			913,909	785,637
Add unamortized bond premium			30,622	30,992
Less deferred charges			(4,310)	(4,819)
Total bonds and notes payable			**$ 940,221**	**$ 811,810**

As of June 30, 2010, the university does not have any variable rate bonds or notes outstanding. Principal and interest requirements to maturity for bonds and notes are as follows:

Fiscal Year Ended June 30	Bond Principal	Note Principal	Total Principal	Bond Interest	Note Interest	Total Interest	Total Debt Service Payments
2011	$ 56,893	$ 1,829	$ 58,722	$ 56,193	$ 1,495	$ 57,688	$ 116,410
2012	44,287	1,894	46,181	48,043	1,434	49,477	95,658
2013	44,535	1,960	46,495	41,599	1,369	42,968	89,463
2014	46,755	2,017	48,772	39,655	1,304	40,959	89,731
2015	50,129	2,091	52,220	35,793	1,232	37,025	89,245
2016-2020	254,812	9,346	264,158	136,828	4,934	141,762	405,920
2021-2025	197,670	7,905	205,575	72,210	2,745	74,955	280,530
2026-2030	138,575	5,955	144,530	29,552	857	30,409	174,939
2031-2035	40,650	–	40,650	7,494	–	7,494	48,144
2036-2038	6,605	–	6,605	671	–	671	7,276
Total	**$ 880,911**	**$ 32,997**	**$ 913,908**	**$ 468,038**	**$ 15,370**	**$ 483,408**	**$ 1,397,316**

In prior years, the university has defeased several bond issues either with cash or by issuing new debt. United States Treasury obligations or federal agency securities have been purchased in amounts sufficient to pay principal and interest payments when due, through the maturity or call dates of the defeased bonds. These securities have been deposited in irrevocable trusts as required to defease the bonds. Neither the defeased bonds nor the related trusts are reflected on the university's books. At June 30, 2010, Building Facilities Fee Bonds, Series M, defeased by the university on October 1, 1985, have principal outstanding of $1,910, with a final maturity of July 1, 2010. On June 20, 2006, the university partially defeased Student Fee Bonds, Series N, which as of June 30, 2010, have principal outstanding of $6,795, with a call date of August 1, 2011.

In February 2009, the United States Congress enacted the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act allows certain tax advantages to state and local governmental entities when such entities issue qualifying taxable obligations, referred to as Build America Bonds (BABs). Issuers of BABs are eligible to receive subsidy payments from the U.S. Treasury equal to 35 percent of the corresponding interest payable on the related BABs. Although BABs are taxable bonds, the Recovery Act requires BABs to comply with tax-exempt bond regulations. The Recovery Act places additional requirements on BABs that include restrictions on the use of proceeds and on the amount of premium in the issue price. As of this writing, BABs legislation applies to qualifying bonds issued after February 17, 2009, and before January 1, 2011. The BABs provisions in the Recovery Act will expire as of January 1, 2011, unless Congress extends the provisions. The obligation of the U.S. Treasury to make subsidy payments on BABs will remain in effect through the final maturity date of BABs that are issued prior to the expiration of the program.

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. The sole purpose of this entity is to assist the university in the financing and development of university facilities by owning and leasing such facilities to the university on a lease purchase basis. The IUBC Certificates of Participation are listed in the outstanding indebtedness table under I.C. 21-33-3-5 and are classified as notes payable.

(dollar amounts presented in thousands)

On December 17, 2009, certificates of participation (COPs) in capital lease-purchase agreements between the university and IUBC were issued as COPs, Series 2009A (Tax Exempt) and Series 2009B (Taxable BABs - Direct Pay Option), with par amounts of $3,545 and $18,420, respectively. The purpose of these issues was to provide financing for the construction of the Auxiliary Library Facility II, the Cinema-Theatre/Drama renovation, and the Health, Physical Education, and Recreation Courtyard Build-Out, all on the Bloomington campus. The true interest cost for the 2009A bonds is 1.94%. The true interests cost for the 2009B bonds is 5.33% (gross) and 3.52% (net of BABs federal interest subsidy of 35%). The federal interest subsidy on COPs, Series 2009B is $4,289 over the term of the COPs. The federal interest subsidy received as of June 30, 2010, was $145.

On April 20, 2010, the university issued Student Fee Bonds, Series T-1 (Tax-Exempt) and T-2 (Taxable BABS - Direct Pay Option) with par amounts of $16,010 and $51,390, respectively. The purpose of these issues was to provide financing for the construction of the Cyberinfrastructure Building and the Life Sciences Laboratory renovations - Jordan Hall, both on the Bloomington campus; the VanNuys Medical Science Building Laboratory renovations on the Indianapolis campus; and the Education and Arts Building renovation on the South Bend campus. The true interest cost for the Series T-1 bonds is 1.86%. The true interest cost for the Series T-2 bonds is 5.61% (gross) and 3.68% (net of BABs federal interest subsidy of 35%). The federal interest subsidy on Student Fee Bonds, Series T-2 is $13,368 over the term of the bonds. No federal interest subsidy was received for these bonds as of June 30, 2010.

On May 27, 2010, the university issued Consolidated Revenue Bonds, Series 2010A (Tax-Exempt) and Series 2010B (Taxable BABs - Direct Pay Option) with par amounts of $10,620 and $78,195, respectively. The purpose of these issues was to provide financing for the Briscoe Quad renovation and the Tulip Tree Apartments renovation on the Bloomington campus, and construction of the Gateway Garage (formerly California Street Garage) on the Indianapolis campus. The true interest cost for the 2010A bonds is 1.47%. The true interest cost for the 2010B bonds is 5.26% (gross) and 3.45% (net of BABs federal interest subsidy of 35%). The federal interest subsidy on Consolidated Revenue Bonds, Series 2010B is $22,563 over the term of the bonds. No federal interest subsidy was received for these bonds as of June 30, 2010.

The total federal interest subsidy scheduled to be received over the life of the BABs debt is $40,220.

Note 9—Lease Obligations

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

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

	Capital	*Operating*
2011	$ 1,342	$ 13,827
2012	1,231	9,631
2013	1,013	6,670
2014	463	5,882
2015	105	5,350
2016-2020	–	18,138
2021-2025	–	8,634
2026-2030	–	1,455
2031-2035	–	324
2036	–	65
Total future minimum payments	4,154	**$ 69,976**
Less: interest	(405)	
Present value of future principal outstanding	**$ 3,749**	

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 $242 and $1,564 for health professions and nursing loan programs for fiscal years ended June 30, 2010 and 2009, respectively.

Liabilities at June 30, 2010 and 2009, for loan programs were as follows:

	June 30, 2010	June 30, 2009
Current portion of assets held in custody for others	$ 550	$ 527
Noncurrent liabilities:		
Federal share of interest	37,407	32,239
Perkins loans	19,375	20,202
Health professions loans	16,346	14,932
Nursing loans	1,206	585
Total noncurrent portion of assets held in custody for others	74,334	67,958
Total assets held in custody for others	**$ 74,884**	**$ 68,485**

Note 11—Risk Management

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

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 20% of the paid self-funded claims during the fiscal year, and totals $33,099 and $30,020 at June 30, 2010 and 2009, respectively. In addition, a potential claims fluctuation liability of $9,876 has been recorded at June 30, 2010 and 2009.

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

Note 12—Retirement Plans

The university provided retirement plan coverage to 18,690 and 18,649 active employees, as of June 30, 2010 and 2009, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

Indiana Public Employees' Retirement Fund

The university contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. PERF administers the multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. All support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment participate in the PERF plan. There were 6,892 and 7,027 active university employees covered by this retirement plan as of June 30, 2010 and 2009, respectively. State statutes authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. The annuity savings account consists of contributions set by state statute at three percent of compensation plus the earnings credited to members' accounts. The university has elected to make the contributions on behalf of the members. PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Suite 700, 143 West Market Street, Indianapolis, IN 46204, by calling 1-888-526-1687, or reviewing the Annual Report online at www.in.gov/perf.

(dollar amounts presented in thousands)

Contributions made by the university totaled $20,551 and $20,346 for fiscal years ended June 30, 2010 and 2009, respectively. This represented a 6.5% and 6.3% university pension benefit contribution for fiscal years ended June 30, 2010 and 2009, respectively, and a 3% university contribution for the annuity savings account provisions each year.

PERF Funding Policy and Annual Pension Cost

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

The employer contributions required by the funding policy at actuarial determined rates are sufficient to fund the pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities. The amortization method and period are level dollar closed over 30 years. The actuarial cost method is entry age normal cost. The employer required contribution is determined using an asset smoothing method. The actuarial valuation date is July 1, 2008.

Actuarial assumptions include: 1) an investment rate of return of 7.25%, 2) projected salary increases of 4%, and 3) a 1.5% cost of living increase granted in each future year, applying to current and future retirees.

	Fiscal Year[1] Ended June 30, 2009	*Fiscal Year Ended June 30, 2008*
Annual required contribution	$ 13,330	$ 11,962
Interest on net pension obligation	(290)	(231)
Adjustment to annual required contribution	330	264
Annual pension cost	13,370	11,995
Contributions made	(13,681)	(12,794)
Increase/(decrease) in net pension obligation	(311)	(799)
Net pension obligation, beginning of year	(3,996)	(3,197)
Net pension obligation, end of year	**$ (4,307)**	**$ (3,996)**

[1]*Actuarial data for 2010 not available at the time of this report.*

Fiscal Year Ended	*Annual Pension Cost (APC)[2]*	*Percentage of APC Net Pension Contributed*	*Net Pension Obligation*
June 30, 2007	$ 12,335	88%	$ (3,197)
June 30, 2008	11,995	107%	(3,996)
June 30, 2009	13,370	102%	(4,307)

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

Academic and Professional Staff Employees

Appointed academic and professional staff employees with at least 50% FTE are covered by the IU Retirement Plan. This is a defined contribution plan under IRC 403(b) with four contribution levels. The university contributed $65,418 during fiscal year ended June 30, 2010, and $70,676 during fiscal year ended June 30, 2009, to TIAA-CREF for the IU Retirement Plan. The university contributed $21,203 during fiscal year ended June 30, 2010, and $20,188, during fiscal year ended June 30, 2009, to Fidelity Investments for the IU Retirement Plan. Under this plan, 8,810 and 8,693 employees directed university contributions to TIAA-CREF as of June 30, 2010 and 2009, respectively. In addition, 3,635 and 3,492 employees directed university contributions to Fidelity Investments as of June 30, 2010 and 2009, respectively.

In addition to the above, the university provides early retirement benefits to appointed academic and professional staff employees Grade 16 and above. There were 1,215 and 1,242 active employees on June 30, 2010 and 2009, 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 $2,661 and $2,698 to IUSERP during fiscal years ended June 30, 2010 and 2009, respectively. The same class of employees hired prior to January 1, 1989, is covered by the 18/20 Retirement Plan, a combination of IRC Section 457(f) and Section 403(b) provisions. The 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, 2010, the university made total payments of $32,928 to 394 individuals receiving 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2009, the university made total payments of $34,183 to 399 individuals receiving 18/20 Retirement Plan payments.

TIAA-CREF issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Teachers Insurance and Annuity Association/College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017-3206.

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

IU Replacement Retirement Plan Funding Policy and Annual Pension Cost

The university has established an early retirement plan for eligible employees to accommodate IRS requirements and as authorized by the Trustees of Indiana University. This plan is called the IU Replacement Retirement Plan. It is a single-employer plan and is qualified under IRC Section 401(a), with normal benefits payable for the participant's lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. As of June 30, 2010 and 2009, 98 employees were eligible to participate. University contributions related to this plan totaled $1,479 and $997, for fiscal years ended June 30, 2010 and 2009, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution.

The following schedule shows the funding policy contributions for the fiscal years indicated for the IU Replacement Retirement Plan as provided by the actuarial valuation report prepared as of July 1, 2009, for the fiscal year ended June 30, 2010, prepared as of July 1, 2008, for the fiscal year ended June 30, 2009, and prepared as of July 1, 2007, for the fiscal year ended June 30, 2008.

	Fiscal Year Ended June 30, 2010	*Fiscal Year Ended June 30, 2009*	*Fiscal Year Ended June 30, 2008*
Cost of benefits earned during the year	$ 659	$ 696	$ 698
Amortization of unfunded actuarial accrued liabilities	710	473	170
Interest	110	94	69
Funding policy contribution	**$ 1 ,479**	**$ 1,263**	**$ 937**

The funded status of the IU Replacement Retirement Plan as provided by the actuarial valuation reports for fiscal years ended June 30, 2010, 2009, and 2008 are as follows:

Actuarial Valuation Date	*July 1, 2009*	*July 1, 2008*	*July 1, 2007*
Actuarial accrued liability (AAL)	$ 17,713	$ 16,750	$ 13,322
Actuarial valuation of plan assets	9,422	11,159	11,293
Unfunded actuarial liability	8,291	5,591	2,029
Actuarial value of assets as a percentage of (AAL) (funded ratio)	53.2%	66.6%	84.8%
Annual covered payroll	$ 8,446	$ 8,612	$ 8,933
Ratio of unfunded actuarial liability to annual covered payroll	98.2%	64.9%	22.7%

Actuarial assumptions include an 8% asset rate of return and future salary increases of 3% for the fiscal year ended June 30, 2010, and an 8% asset rate of return and future salary increases of 3% compounded annually for the fiscal year ended June 30, 2009. Liabilities are based on the projected unit credit method. The actuarial value of assets is equal to the fair value on the valuation date adjusted for employer contributions receivable. Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of future events including future employment and mortality, and are based on the substantive plan provisions.

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

TIAA-CREF issues an annual financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the Teachers Insurance and Annuity Association/College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017-3206.

Note 13—Postemployment Benefits

Plan Description

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

Funding Policy

The contribution requirements of plan members and the university are established and may be amended by the trustees. The university contribution to the 18/20 Plan and retiree life insurance is based on pay-as-you-go financing requirements. Plan members do not make contributions. The medical plans are self-funded and each plan's premiums are updated annually based on actual claims. Retirees receiving medical benefits paid $1,066 and $968 in premiums in the fiscal years ended June 30, 2010 and 2009, respectively. The university contributed and $52,613 and $47,262 to the consolidated OPEB Plan in fiscal years ended June 30, 2010 and 2009, respectively.

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the university's annual OPEB cost for the year, the amount actually contributed to the plan, and the university's net OPEB obligation as provided by the actuarial results for the fiscal year ended June 30, 2010:

	Fiscal Year Ended June 30, 2010	*Fiscal Year Ended June 30, 2009*
Annual required contribution (ARC)/Annual OPEB cost	$ 57,859	$ 52,164
Less Employer contributions	52,613	47,262
Increase in OPEB obligation	5,246	4,902
Net OPEB obligation, beginning of year	8,657	3,755
Net OPEB obligation, end of year	$ 13,903	$ 8,657
Percentage of annual OPEB cost contributed	**90.93%**	**90.60%**

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the Plan was unfunded. The schedule of funding progress is below:

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, 2009	–	$ 443,276	$ 443,276	0.0%	$ 967,369	45.8%
July 1, 2008	–	488,523	488,523	0.0%	868,809	56.2%

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

Actuarial Methods and Assumptions

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

(dollar amounts presented in thousands)

The projected unit credit cost method was used in the June 30, 2010 actuarial valuation. The actuarial assumptions include a 4.5 percent 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, 2010; and an annual healthcare cost trend rate that ranges from 10 percent in fiscal year 2010 to 5 percent in fiscal year 2020. The rate includes a 3 percent inflation assumption. The Unfunded Acturial 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, or serve by virtue of position with, Indiana University. Riley Children's Foundation net assets were $240,011 and $209,453 at June 30, 2010 and 2009, 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, 2010

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 780,546	$ 320	$ 101,417	$ 12,943	$ –	$ 13,921	$ 909,147
Research	152,063	19	71,210	2,978	–	5,603	231,873
Public service	85,801	430	51,474	3,522	–	3,576	144,803
Academic support	193,857	28	39,669	2,971	–	4,445	240,970
Student services	75,254	13	28,055	1,479	–	1,315	106,116
Institutional support	119,194	453	1,405	1,704	–	1,696	124,452
Physical plant	73,487	59,370	52,191	4	–	128	185,180
Scholarships & fellowships	9,940	–	535	120,065	–	19	130,559
Auxiliary enterprises	194,822	3,398	84,756	5,113	–	6,227	294,316
Depreciation	–	–	–	–	125,715	–	125,715
Total operating expenses	**$ 1,684,964**	**$ 64,031**	**$ 430,712**	**$ 150,779**	**$ 125,715**	**$ 36,930**	**$ 2,493,131**

Fiscal year ended June 30, 2009

Functional Classification	Compensation & Benefits	Utilities	Supplies & Expenses	Scholarships & Fellowships	Depreciation	Travel	Total
	Natural Classification						
Instruction	$ 766,419	$ 200	$ 94,695	$ 15,751	$ –	$ 15,679	$ 892,744
Research	146,480	14	70,344	4,333	–	5,278	226,449
Public service	85,306	384	60,744	5,083	–	4,557	156,074
Academic support	183,982	25	39,155	2,276	–	4,544	229,982
Student services	72,710	14	19,598	1,655	–	1,519	95,496
Institutional support	103,350	446	10,737	989	–	2,181	117,703
Physical plant	72,202	61,249	58,360	2	–	248	192,061
Scholarships & fellowships	8,926	–	567	88,931	–	99	98,523
Auxiliary enterprises	193,551	3,115	95,235	6,810	–	6,292	305,003
Depreciation	–	–	–	–	120,819	–	120,819
Total operating expenses	**$ 1,632,926**	**$ 65,447**	**$ 449,435**	**$ 125,830**	**$ 120,819**	**$ 40,397**	**$ 2,434,854**

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

Note 16—Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more bonds are outstanding, with a revenue stream pledged in support of the debt. The university issues revenue bonds to finance certain auxiliary enterprise activities. The primary source of repayment of these bonds is net income from certain parking and housing operations.

Revenue bonds have been issued to finance certain auxiliary parking enterprise activities on the Bloomington, IUPUI, Kokomo, and South Bend campuses. These auxiliary entities provide parking services to students, staff, faculty, and the general public.

Revenue bonds have been issued to finance certain auxiliary housing activities on the Bloomington and IUPUI campuses. These auxiliary entities provide housing primarily to students.

(dollar amounts presented in thousands)

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

Condensed Statement of Net Assets	Parking Operations		Housing Operations	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Assets				
Current Assets	$ 28,082	$ 20,671	$ 135,885	$ 50,255
Capital assets, net	74,705	69,201	127,261	127,236
Total assets	**102,787**	**89,872**	**263,146**	**177,491**
Liabilities				
Current liabilities	5,544	4,617	6,578	6,019
Long-term liabilities	52,571	43,163	121,112	49,698
Due to other funds	–	–	–	451
Total liabilities	**58,115**	**47,780**	**127,690**	**56,168**
Net Assets				
Invested in capital assets, net of related debt	23,918	22,753	73,989	75,794
Unrestricted	20,754	19,339	61,467	45,529
Total net assets	**44,672**	**42,092**	**135,456**	**121,323**
Total Liabilities and Net Assets	**$ 102,787**	**$ 89,872**	**$ 263,146**	**$ 177,491**

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Parking Operations		Housing Operations	
	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
Operating revenues	$ 19,727	$ 18,468	$ 62,749	$ 58,289
Depreciation expense	(3,121)	(3,083)	(4,625)	(5,119)
Other operating expenses	(11,285)	(11,645)	(41,869)	(39,526)
Net operating income	5,321	3,740	16,255	13,644
Nonoperating revenues (expenses)				
Investment income	–	1	–	–
Interest expense	(1,986)	(2,405)	(2,184)	(2,558)
Increase in net assets	**3,335**	**1,336**	**14,071**	**11,086**
Net Assets				
Net assets, beginning of year	42,092	40,799	121,323	110,841
Net transfers	(755)	(43)	62	(604)
Net Assets, end of year	**$ 44,672**	**$ 42,092**	**$ 135,456**	**$ 121,323**

Condensed Statement of Cash Flows	Parking Operations Fiscal Year Ended June 30, 2010	Parking Operations Fiscal Year Ended June 30, 2009	Housing Operations Fiscal Year Ended June 30, 2010	Housing Operations Fiscal Year Ended June 30, 2009
Net cash provided (used) by:				
Operating activities	$ 8,770	$ 6,474	$ 18,904	$ 17,562
Capital and related financing activities	(1,296)	(7,375)	66,892	(11,806)
Investing activities	–	1	–	–
Net increase (decrease) in cash	7,474	(900)	85,796	5,756
Beginning cash and cash equivalent balances	19,361	20,261	49,239	43,483
Ending cash and cash equivalent balances	**$ 26,835**	**$ 19,361**	**$ 135,035**	**$ 49,239**

Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $43,015 at June 30, 2010, with remaining terms of less than one year to 19 years. Total revenue-backed debt for capital financing of parking and housing auxiliary activities was outstanding in the amount of $45,925 at June 30, 2009, with remaining terms of 1 to 20 years. Revenues of the activities are sufficient to meet the principal and interest requirements for the debt.

Note 17—Commitments and Loss Contingencies

Construction Projects

The university had outstanding commitments for capital construction projects of $138,611 and $129,702 at June 30, 2010 and 2009, respectively.

(dollar amounts presented in thousands)

Required Supplementary Information

Schedule of Funding Progress for IU Replacement Retirement Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
7/1/2009	$ 9,422	$ 17,713	$ 8,291	53.2%	$ 8,446	98.2%
7/1/2008	11,159	16,750	5,591	66.6%	8,612	64.9%
7/1/2007	11,293	13,322	2,029	84.8%	8,933	22.7%

Schedule of Funding Progress for Other Postemployment Benefit Plans:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a) / c)
7/1/2009	–	$ 443,276	$ 443,276	0.0%	$ 967,369	45.8%
7/1/2008	–	488,523	488,523	0.0%	868,809	56.2%
7/1/2007	–	475,118	475,118	0.0%	858,452	55.3%

Indiana University Foundation
Notes to the Financial Statements
June 30, 2010 and 2009

Note 1 - Organization and Operations

The Indiana University Foundation, Inc. (the "Foundation") is a not-for-profit corporation organized under the laws of the State of Indiana. The corporate purposes of the Foundation are to raise, receive, hold, invest and administer property and to make expenditures to or for the benefit of Indiana University, including its regional campuses and associated entities (such as the Purdue University schools housed at the Indiana University-Purdue University Indianapolis campus, the Indiana University Building Corporation (IUBC), Riley Children's Foundation, the Indiana University Research & Technology Corporation, the Clarian Health Partners, Inc., the Indiana University Alumni Association, and certain medical practice plans), herein referred to as 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 fund raising programs, receives and acknowledges gifts for the benefit of the University, administers those gifts to ensure that they are used as specified by the donor, invests those gifts, serves as trustee for certain types of planned gift arrangements, and provides other services for the benefit of the University as requested from time to time.

Note 4 - Investments

Investments are stated at fair value and are recorded on the trade date. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The hedge funds, limited partnerships and real asset funds, for which quoted market prices are not available, are carried at estimated fair market values as provided by the external general partners or investment managers and/or audited financial statements of the fund or partnership. Such values may be based on a variety of estimates and assumptions requiring varying degrees of judgment and may be subject to volatile market conditions and the possibility that their value could substantially change in the near term and/or be materially different than the values reported in the statements of financial position. Management of the Foundation believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Realized gains and losses on sales of investments are determined on the specific identification basis. Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, the Foundation uses valuation techniques that place greater reliance on observable inputs. In measuring fair value, the Foundation may make adjustments for risks and uncertainties if a market participant would include such an adjustment in its pricing. A summary of total investment income, including net gains (losses) net of outside management fees for the year ended June 30, 2010 and 2009 consist of the following:

	2010	2009
Dividend, interest and other investment income	$ 24,018,151	$ 10,454,480
Net realized and unrealized gains (losses) on investments	95,447,882	(303,279,529)
Outside investment management fees	(3,707,427)	(3,363,187)
Total investment income, including net gains (losses), net of outside investment management fees	$ 115,758,606	$ (296,188,236)

Indiana University Foundation
Notes to the Financial Statements
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The Foundation's investment assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. The following tables present information about the Foundation's investments by security type measured at fair value as of June 30, 2010 and 2009:

2010

	Level 1	Level 2	Level 3	Total
Domestic equities	$ 296,451,410	$ 38,445,082	$ 487,851	$ 335,384,343
International equities	242,497,910	-0-	-0-	242,497,910
Domestic fixed income	30,627,429	81,168,081	-0-	111,795,510
International fixed income	(1,336)	11,386,548	-0-	11,385,212
Cash equivalents	14,297,954	-0-	-0-	14,297,954
Alternative investments:				
Hedged equity funds	-0-	66,746,585	30,103,413	96,849,998
Absolute return funds	-0-	14,087,066	157,874,534	171,961,600
Venture capital	-0-	-0-	76,116,188	76,116,188
Buyouts	-0-	-0-	77,691,278	77,691,278
Distressed/special situations	-0-	-0-	38,749,724	38,749,724
Real estate	6,572,553	-0-	44,159,787	50,732,340
Natural resources	-0-	15,261,272	63,814,125	79,075,397
Commercial real estate	-0-	-0-	16,749,571	16,749,571
Mortgage securities	-0-	-0-	741,467	741,467
Total	$ 590,445,920	$ 227,094,634	$ 506,487,938	$ 1,324,028,492

2009

	Level 1	Level 2	Level 3	Total
Common, preferred and international stocks	$ 480,852,733	$ 32,396,212	$ 556,871	$ 513,805,816
Fixed income	101,813,983	12,150,178	348,883	114,313,044
Cash equivalents	5,593,037	8,199,938	11,428,952	25,221,927
Alternative investments	4,745,440	78,140,221	421,759,988	504,645,649
Commercial real estate	-0-	-0-	12,649,271	12,649,271
Mortgage securities	-0-	-0-	736,049	736,049
Total	$ 593,005,193	$ 130,886,549	$ 447,480,014	$ 1,171,371,756

Indiana University Foundation
Notes to the Financial Statements
June 30, 2010 and 2009

The following table presents additional information about Level 3 assets and liabilities measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Foundation has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs. Changes in Level 3 assets measured at fair value as of and for the years ended June 30, 2010 and 2009 follow:

	2010	2009
Beginning balance	$ 447,480,014	$ 451,532,429
Realized and unrealized gains (losses)	33,400,411	(94,819,895)
Purchases, sales and settlements	28,997,416	91,027,625
Net transfers in and/or out of Level 3	(3,389,903)	(260,145)
Ending balance	$ 506,487,938	$ 447,480,014

Included in the underlying US Government and agency debt instruments are futures, forwards, and option contracts that are considered derivative financial instruments. The carrying values of these derivative financial instruments are adjusted to net fair market value as determined by the Foundation's investment manager. Significant open positions as of June 30, 2010 and 2009 are summarized as follows:

	2010		2009	
	Notional Par	Net Fair Market Value Asset (Liability)	Notional Par	Net Fair Market Value Asset (Liability)
Futures:				
Eurodollars	$ 82,000,000	$ 694,350	$ 102,000,000	$ 480,500
90 Day Libor	-0-	-0-	2,500,000	590,743
Euribor	15,000,000	(523,796)	-0-	-0-
10 yr Euro	500,000	4,820	-0-	-0-
EURO-BOBL	-0-	-0-	3,000,000	(49,015)
Midcap Mini	37	(169,360)	-0-	-0-
Russell 2000 Mini	46	(170,200)	-0-	-0-
S&P 500 E-Mini	159	(420,555)	-0-	-0-
Forwards:				
US Government Agencies	$ 300,000	$ 18,922	$ 3,500,000	$ (24,336)

The gross and net credit risk associated with the related counterparties on these open futures and forwards positions is insignificant. The market risk for these futures and forwards is directly linked with exchange rates or market interest rates as the underlying securities bear a fixed rate of interest. The futures instruments required $1,256,969 and $2,826,735 in cash, as of June 30, 2010 and 2009, respectively. The related net gains generated were $5,525,318 and $1,130,791 for the years ended June 30, 2010 and 2009, respectively.

The Foundation's alternative investments include investments in: (1) private equity such as venture capital and leveraged buyout funds; and (2) absolute return and inflation hedge strategies, including opportunistic real estate and natural resources. These investments are valued at NAV per share or its equivalent. The Foundation's asset allocation policy allocates up to 50% in these types of investments. Following is a summary of the Level 2 and 3 alternative investments categorized by major security type, with a description of the investment managers' strategies, and the nature of any restrictions to redeem the investment value as of June 30, 2010:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedged equity funds (a)	$ 96,849,998	$ -0-	monthly, quarterly, semi-annually, annually	45-100 days
Absolute return funds (b)	171,961,600	1,900,000	monthly, quarterly, semi-annually, annually	45-90 days
Venture capital (c)	76,116,188	46,000,000		
Buyouts (d)	77,691,278	71,900,000		
Distressed/special situations (e)	38,749,724	36,300,000		
Real estate (f)	44,159,787	46,500,000		
Natural resources (g)	79,075,397	27,100,000		
Total	$ $584,603,972	$ $229,700,000		

(a) This category includes investments in hedge funds that invest globally in both long and short common stocks across all market capitalizations. Management of the hedge funds may opportunistically shift investments across sectors, geographies, and net market exposures. The fair values of the investments in this category are based on the net asset value per share of the investment. Investments representing approximately 10% of the value of investments in this category cannot currently be redeemed because redemptions are not allowed the first three years after initial investment. The remaining restriction period for these investments was 30 months as of June 30, 2010.

(b) This category includes investments in hedge funds that invest opportunistically across various strategies including long/short equity, fixed income, distressed credit, merger arbitrage, convertible arbitrage, etc. The fair values of the investments in this category are based on the net asset value per share of the investment. Investments representing approximately 8% of the value of investments in this category cannot currently be redeemed because redemptions are not allowed the first year after initial investment. The remaining restriction period for these investments ranged from five to eight months as of June 30, 2010.

(c) This category includes several funds which invest primarily in early-stage companies in the technology and life science sectors. The underlying investments in these funds are fully restricted until liquidated by the manager. The nature of investments in this category is that money is distributed as the fund's underlying companies are exited via acquisition or IPO. Funds are typically structured to be fully liquidated after 10 years, but may be extended. The 6/30/2010 percentage of fair value by vintage year is as follows: 1999 (5.7%), 2000 (5.2%), 2001(10.1%), 2002 (1.6%), 2003 (11.3%), 2004 (16.0%), 2005 (8.5%), 2006 (16.2%), 2007 (11%), 2008 (13%), 2009 (0.6%), 2010 (0.8%). It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of IUF's ownership interest as of June 30, 2010.

(d) This category includes private equity funds that invest in established, revenue-producing companies across sectors primarily in the United States, but also Asia and Europe. The underlying investments in these funds are fully restricted until liquidated by the manager. The nature of investments in this category is that money is distributed as the fund's underlying companies are recapitalized or exited via acquisition or IPO. Funds are typically structured to be fully liquidated after 10 years, but may be extended. The 6/30/2010 percentage of fair value by vintage year is as follows: 2001 (2.5%), 2004 (9.3%), 2005 (20.8%), 2006 (38.4%), 2007 (23.5%), 2008 (3.7%), 2009 (1.0%), 2010 (0.8%). It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of IUF's ownership interest as of June 30, 2010.

(e) This category includes several funds that are focused on distressed, mezzanine, or secondary investments, primarily in the United States. The underlying investments in these funds are fully restricted until liquidated by the manager. The nature of investments in this category is that money is distributed when income from the underlying fund investments is received or when a position in liquidated. Funds are typically structured to be fully liquidated after 10 years, but may be extended. The 6/30/2010 percentage of fair value by vintage year is as follows: 2005 (6.8%), 2007 (49.1%), 2008 (43.6%), 2009 (0.2%), 2010 (0.3%). It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of IUF's ownership interest as of June 30, 2010.

(f) This category includes several funds that invest primarily in U.S. commercial real estate, but also include real estate funds focused on Europe and Asia. The underlying investments in these funds are fully restricted until liquidated by the manager. The nature of investments in this category is that money is distributed when income from the underlying fund investments is received or when a position in liquidated. Funds are typically structured to be fully liquidated after 10 years, but may be extended. The 6/30/2010 percentage of fair value by vintage year is as follows: 2001 (5.6%), 2005 (27.5%), 2006 (27.6%), 2007 (15.9%), 2008 (17.3%), 2009 (6.1%) It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of IUF's ownership interest as of June 30, 2010.

(g) This category includes several funds that are focused on direct energy and timber. The underlying investments in these funds are fully restricted until liquidated by the manager. The nature of investments in this category is that money is distributed when income from an underlying fund investment is received or when a position in liquidated. Funds are typically structured to be fully liquidated after 10 years, but may be extended. The 6/30/2010 percentage of fair value by vintage year is as follows: 2005 (6.4%), 2006 (51.3%), 2007 (28.3%), 2008 (7.1%), 2009 (6.9%). It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of IUF's ownership interest as of June 30, 2010.

Note 8 – Restricted Net Assets

The income generated from restricted net assets is used in accordance with the donors' time or purpose restrictions. Foundation and University permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor imposed restrictions as of June 30, 2010 and 2009 are as follows:

2010

	Temporarily Restricted		Permanently Restricted	
	Foundation	University	Foundation	University
Foundation operations	$ 6,792,778	$ -0-	$ 19,196,728	$ -0-
University Programs:				
Awards	-0-	6,020,632	-0-	6,675,687
Capital and capital improvements	-0-	81,603,584	-0-	1,970,202
Fellowships/lectureships	-0-	18,775,364	-0-	66,728,954
General endowments	-0-	201,482,175	-0-	188,424,560
Medical practice plans	-0-	27,599,363	-0-	-0-
Operations	-0-	63,524,470	-0-	3,058,373
Professorships/chairs	-0-	93,338,195	-0-	223,223,211
Research	-0-	24,426,121	-0-	26,381,724
Scholarships	-0-	96,465,444	-0-	307,434,488
Total	$ 6,792,778	$ 613,235,348	$ 19,196,728	$ 823,897,199

2009

	Temporarily Restricted		Permanently Restricted	
	Foundation	University	Foundation	University
Foundation operations	$ 6,575,940	$ -0-	$ 18,378,986	$ -0-
University Programs:				
Awards	-0-	5,626,346	-0-	6,324,928
Capital and capital improvements	-0-	60,715,486	-0-	1,841,655
Fellowships/lectureships	-0-	16,915,308	-0-	61,965,866
General endowments	-0-	198,965,747	-0-	153,182,837
Medical practice plans	-0-	26,644,775	-0-	-0-
Operations	-0-	52,904,793	-0-	2,708,477
Professorships/chairs	-0-	80,013,268	-0-	199,357,174
Research	-0-	20,043,267	-0-	20,335,482
Scholarships	-0-	85,933,933	-0-	278,280,927
Total	$ 6,575,940	$ 547,762,923	$ 18,378,986	$ 723,997,347

Indiana University Foundation
Notes to the Financial Statements
June 30, 2010 and 2009

Note 10 - Contingencies and Commitments

The Foundation has borrowed $68,684,083 and $62,420,949 of restricted cash and cash equivalents as displayed in its Foundation Unrestricted, Foundation Temporarily Restricted, and Permanently Restricted assets as of June 30, 2010 and 2009, respectively, and has reported this interfund borrowing as "due to (from)" on the Statement of Financial Position. The Foundation assumes all risk associated with the composition of assets related to the Foundation's reinvestment of the temporarily restricted University monies. These borrowings were used to (1) acquire property, plant and equipment for the benefit of the University, (2) purchase investment securities, and (3) support on-going Foundation operations. Repayment of the borrowings is primarily dependent on the Foundation's ability to (1) generate future appreciation and income from investment securities, (2) receive future revenue from existing property leases arrangements with the University and (3) receive future unrestricted gifts. Management has currently developed initiatives to reduce such borrowings in the future and maintain an appropriate composition of assets to comply with all donor restrictions.

Interfund financing of $3,800,000 and $5,400,000 as of June 30, 2010 and 2009, respectively, represents amounts financed by the Foundation unrestricted net assets to the agency and temporarily restricted University net assets. The carrying value of interfund financing approximates fair market value, as the borrowing rates currently available to the Foundation are similar to the terms on remaining maturities. Interest rates are from 4.0% to 6.0% as of June 30, 2010 and from 5.1% to 6.0% as of June 30, 2009.

Note 11 - Program Expenditures

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, air transportation services, Student Foundation, cultural center, women's programs and other miscellaneous programs. These University related program expenditures primarily support "Grants and aid to the University" and "Endowment and capital additions." For the years ended June 30, 2010 and 2009, a summary of these expenditures follows:

	2010		
		Unrestricted	
Program expenditures:	**Foundation**	**University***	**Total**
Foundation programs:			
Real estate	$ 4,052,917	$ -0-	$ 4,052,917
Student Foundation	516,477	-0-	516,477
Cultural center	159,047	-0-	159,047
Air Services	550,137	-0-	550,137
Women's programs	16,853	-0-	16,853
Miscellaneous	699	-0-	699
	5,296,130	-0-	5,296,130
Grants and aid to the University:			
Operating support:			
University support	1,995,797	33,875,388	35,871,185
Student scholarship and financial aid	53,482	31,294,232	31,347,714
Faculty support	1,027,433	11,376,973	12,404,406
Faculty research	-0-	47,370,601	47,370,601
	3,076,712	123,917,194	126,993,906

Indiana University Foundation
Notes to the Financial Statements
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	Foundation	Unrestricted University*	Total
Endowment and capital additions:			
Land, building and equipment purchases	122,293	21,151,225	21,273,518
Library and art acquisitions	-0-	635,306	635,306
	122,293	21,786,531	21,908,824
Total program expenditures	$ 8,495,135	$ 145,703,725	$ 154,198,860

Program expenditures:	**Foundation**	**2009 Unrestricted University***	**Total**
Foundation programs:			
Real estate	$ 7,907,942	$ -0-	$ 7,907,942
Student Foundation	485,300	-0-	485,300
Cultural center	180,474	-0-	180,474
Air Services	108,615	-0-	108,615
Women's programs	43,916	-0-	43,916
Miscellaneous	4,967	-0-	4,967
	8,731,214	-0-	8,731,214
Grants and aid to the University:			
Operating support:			
University support	2,162,254	30,431,424	32,593,678
Student scholarship and financial aid	98,887	27,714,355	27,813,242
Faculty support	3,335,046	34,210,851	37,545,897
Faculty research	-0-	6,837,617	6,837,617
	5,596,187	99,194,247	104,790,434
Endowment and capital additions:			
Land, building and equipment purchases	41,288	9,338,522	9,379,810
Library and art acquisitions	1,800	556,884	558,684
	43,088	9,895,406	9,938,494
Total program expenditures	$ 14,370,489	$ 109,089,653	$ 123,460,142

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

Trustees and Administrative Officers of Indiana University

The Trustees of Indiana University

for fiscal year ended June 30, 2010

Administrative Officers

for fiscal year ended June 30, 2010

Additional Information

Additional copies of this report may be obtained from:

Office of the Vice President and Chief Financial Officer
Bryan Hall 204
Indiana University
Bloomington, IN 47405-7000
http://www.indiana.edu/~vpcfo/
To print a PDF file of this report, go to http://www.indiana.edu/~vpcfo/reports/index.shtml

For additional information:

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Bloomington, IN 47405-3085
http://www.fms.iu.edu/

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Vice Provost for Enrollment Management
Office of Admissions
300 N. Jordan Ave.
Indiana University
Bloomington, IN 47405-1106
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Bloomington, IN 47402-0500
http://iufoundation.iu.edu/

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601 E. Kirkwood Avenue, Franklin Hall 116
Bloomington, IN 47405
http://www.research.indiana.edu/leadership/index.html

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

Alumni
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Kathleen T. McNeely, Associate Vice President and Executive Director, Financial Management Services
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William Overman, Manager of External Financial Reporting
Melody Amato, External Reporting and Compliance
Aaron Pritchett, External Reporting and Compliance

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Sterling George, Director of Operations and Systems Administration
Jennifer George, Director of Accounts Receivable, Auxiliary Accounting, Capital Assets, and Student Loan Administration
Rhonda Inman, Manager, Auxiliary Accounting
Phyllis Taylor, Senior Communications Specialist

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

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






If you want to go quickly, go alone.
If you want to go far, go together.
– African proverb