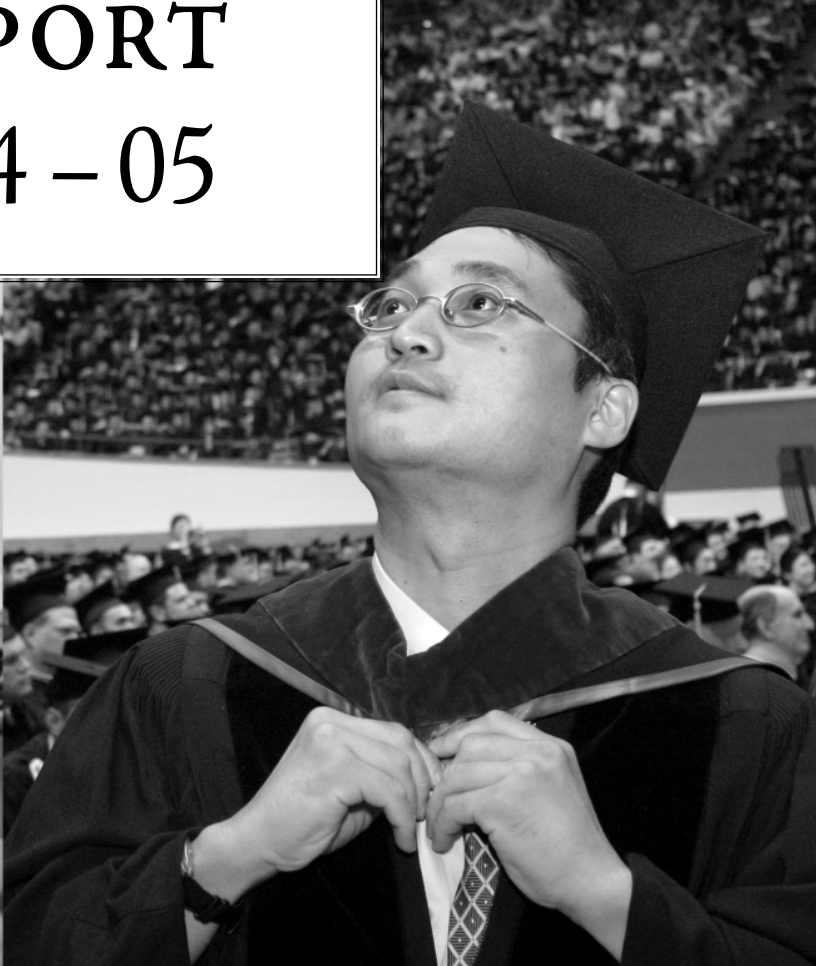


visited 12/14/2007



INDIANA UNIVERSITY
FINANCIAL
REPORT
2004 – 05



visited 12/14/2007

INDIANA UNIVERSITY



FINANCIAL
REPORT
2004 – 05

visited 12/14/2007

INDIANA UNIVERSITY

FINANCIAL REPORT 2004–05

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Adam W. Herbert
President, Indiana University

The Honorable Mitchell Daniels, Jr.
Governor, State of Indiana
State House
Indianapolis, IN 46204

Dear Governor Daniels:

On behalf of the Trustees of Indiana University, it is an honor to present the 2004-05 Financial Report.

This report describes how Indiana University is "Advancing Indiana." We do so by educating the state's citizens, improving their health and quality of life, advancing the frontiers of knowledge in a wide range of fields and producing the intellectual capital that will help build a twenty-first century knowledge-based Hoosier economy.

The 2004-05 academic year was characterized by a number of significant accomplishments and milestones. Several are particularly worthy of note.

Educational Mission

For nearly two centuries, IU's primary mission has been to provide high quality, accessible education to the state's citizens. As the state's largest university, IU enrolled 98,545 students in 2004-05.

IU adds a significant level of intellectual capital to the state by retaining outstanding Hoosier high school graduates through initiatives such as the Hoosier Presidential Scholars Program and attracting to Indiana some of the nation's best and brightest undergraduates through the Wells, Kelley and Bepko Scholars Programs. Our new Presidential Incentive Awards Scholarship Program provides expanded educational opportunity to inner-city high school students.

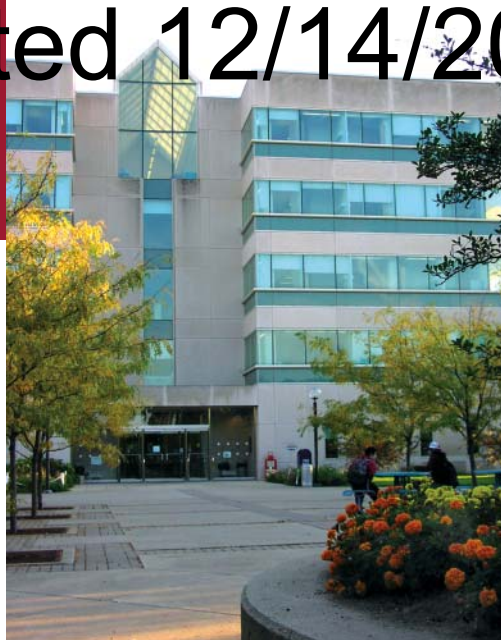
We have developed and begun to implement plans to increase admission standards on our flagship campus and simultaneously to assure that all qualified students have access to an IU education. At IUB, the mean SAT score for entering Hoosier freshmen was 1084, which was 56 points above the state average. The number of National Merit Finalists admitted to IUB as undergraduates increased by 17% in 2004-05.

In 2004-05, we initiated processes to streamline transfer of credits for both external and IU inter-campus transfer students, including the development of new articulation agreements with Ivy Tech campuses. We have facilitated

student mobility by making course-transferability and articulation information available on the Web.

Impact on Indiana

Approximately half of our 476,000 living graduates now reside in Indiana. More IU alumni live and work in Indiana than those of any other Hoosier college or university. IU graduates comprise 35 percent of Indiana's teachers, 90 percent of its dentists, 75 percent of the state's lawyers, 64 percent of its optometrists, 40 percent of its nurses, 50 percent of its practicing physicians and 25 percent of its judges.



As a public university, IU takes very seriously its obligation to train professionals in these and many other disciplines that add significant value to Indiana's economy and to Hoosier citizens' quality of life. These benefits can be seen clearly through the activities of the Indiana University School of Medicine, the state's only medical school and the second largest in the nation.

Last year, IU's two teaching hospitals—Riley Hospital for Children and Indiana University Hospital, which operates under the auspices of Clarian Health Partners—admitted 23,000 patients for treatment and conducted half a million outpatient visits. Riley ranks among the top 20 children's hospitals in the nation. As Indiana's only comprehensive

children's hospital, it offers medical care to all Hoosier children, regardless of their ability to pay. A number of groundbreaking treatments for the deadliest forms of cancer have been developed at Indiana University Hospital, which also leads the state in organ transplant services and research.

Forty-three physicians who practice at the Indiana University School of Medicine and Clarian Health Partners—comprised of Methodist, Indiana University and Riley Hospitals—recently were included in the 2004 issue of America's Top Doctors. Less than 1 percent of the hospitals in the United States have more than one doctor listed in the guide.



Advancing the Frontiers of Knowledge

During the 2004-05 fiscal year, IU faculty attracted a record \$477 million in sponsored research dollars. This is more than all of the state's other public and private, four-year and two-year colleges and universities combined.

Over the last two years, IU has generated nearly \$900 million dollars in research funding.

For the 2003-2005 biennium, IU received an appropriation of 50 percent of the newly established research support formula, which provided \$5.9M for IU to invest in its rapidly growing research programs. IU has used these funds to strengthen the research infrastructure at IUB, IUPUI and the School of Medicine. They have enabled us to purchase new equipment,

including advanced photon scanning microscopes and other specialized clinical and research equipment and to provide expanded capacity in the essential areas of research compliance and contracting. An important outcome of these investments is the honing of an ever-sharper competitive advantage when seeking external research funds.

We also continue to partner with other institutions of higher education in resource-intensive, specialized research. This strategy will increasingly result in expanded grant success, better use of resources and less duplication of efforts.

Economic Development

The Kelley School of Business estimates that IU's research expenditures funded by external grants for just this year alone are supporting approximately 8,500

jobs statewide. That is the equivalent of two new automobile manufacturing plants. Significantly, the vast majority of the jobs we generate are in the higher paying professional, scientific and technical sectors. This means that the state's investments in IU help to build the knowledge-based economy Indiana needs to succeed in the achievement of its economic growth aspirations.

IU's economic development agenda is to foster the creation of new companies growing out of basic and applied faculty research. IU faculty and staff are moving their work from the research bench to the marketplace as never before.

We are focusing on both quantity and quality. During 2004-05, IU's Research and Technology Corporation (IURTC) achieved a record 127 new

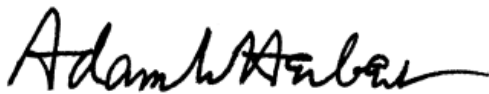


invention disclosures and executed 44 new licenses. During that period, the average IURTC license was worth about \$477,000, second in the Big Ten only to Michigan State, whose average license was worth approximately \$827,000.

Since its inception in 1997, the IURTC has reported a total of 1,117 inventions. Many of these inventions will be licensed to Indiana-based companies. They will translate into new jobs and growing businesses. In the end, we seek to align IU's vast intellectual capital and organizational resources with the state's efforts to enhance income-growth and job-creation in Indiana.

Conclusion

This financial report demonstrates that Indiana University continues to regard the funding it receives as a public trust. Whether its resources are derived from state appropriations, student fees, donor contributions, grants or contracts, IU is committed to utilizing them in ways that reflect the high expectations of those we serve.



Adam W. Herbert
President





Judith G. Palmer
*Vice President and
Chief Financial Officer,
Indiana University*

Greetings to President Adam W. Herbert and Trustees of Indiana University:

It is with pleasure that I present the Indiana University Financial Report for the fiscal year ended June 30, 2005. The financial statements have been prepared in accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) principles. The accompanying notes to the financial statements and the Management's Discussion and Analysis are integral parts of the financial statements.

The FY 2004-2005 report fulfills a new requirement set out in Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. GASB 40 requires that

investment types be disclosed along with investment custodial risk, interest rate risk and credit risk. This full disclosure can be read in Note 2 of the Notes to the Financial Statements.

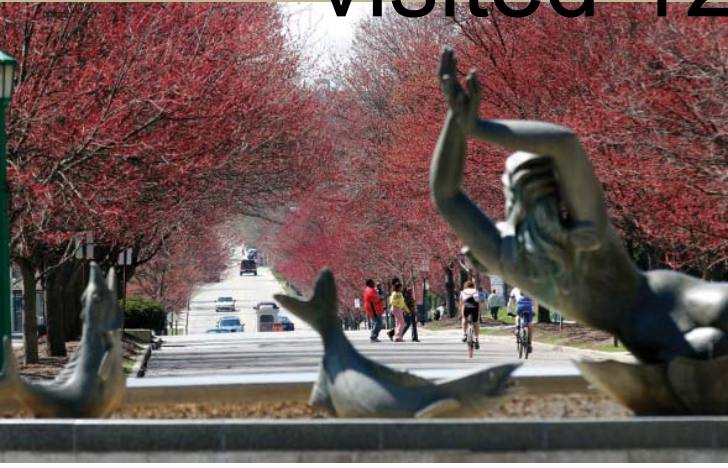
The statements are intended to provide a summary of the flow of the economic resources of the university during the fiscal year covering the period of July 1, 2004 through June 30, 2005. The statements report the university's financial position at June 30, 2005, with comparative data from the previous fiscal year. In addition, in compliance with GASB 39, financial results of the Indiana University Foundation have been incorporated in the 2004-2005 financial report for the second time as a component unit of the university.

The financial statements have been audited by the Indiana State Board of Accounts. Their opinion on the financial statements appears following the *Notes to the Financial Statements*.



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

visited 12/14/2007



sound and careful fiscal management across the institution. The institution had an increase in the net assets of \$119.1 million or a 6.7% increase for the fiscal year ending June 30, 2005. This represents positive financial performance, especially considering the difficult economic situation which confronted Hoosier citizens and the State of Indiana, including public higher education institutions.

In keeping with the institution's commitment to excellence in financial management, the university continues to implement best practices in numerous areas of its operations. One

example was the implementation of an internal control policy that underscores the institution's commitment to internal controls. This new policy was implemented in conjunction with internal control training that approximately 200 fiscal officers participated in on all of Indiana University's seven campuses. In addition to these specific training sessions related to internal controls, the Office of the Vice President and Chief Financial Officer continues to sponsor the Fiscal Officer Development Series, which has trained over 125 fiscal officers across all campuses over the last 5 years. This series was put in

place at Indiana University to provide current, new and prospective fiscal officers with a "tool kit" for success.

On behalf of all those responsible for the fiscal stewardship of Indiana University's resources, I respectfully submit the Indiana University Financial Report for the fiscal year ending June 30, 2005.

Sincerely,

Judith G. Palmer
Vice President and
Chief Financial Officer



INDIANA UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Indiana University (university) presents its audited financial statements for the fiscal year ending June 30, 2005 along with comparative data for the fiscal year ending June 30, 2004. 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 as of 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. Analysis will be provided for major variances from fiscal years 2004 to 2005. Information regarding capital asset and debt administration, as well as an economic outlook, are also provided.

STATEMENT OF NET ASSETS

Total assets at June 30, 2005 were \$3 billion, an increase of \$244.5 million over the prior fiscal year end. Net capital assets comprised \$1.8 billion of the \$3 billion in assets.

Total liabilities were \$1.2 billion at June 30, 2005, compared to \$1 billion the prior year. Non-current liabilities comprised 58%, or \$668.1 million of total liabilities at June 30, 2005.

Total net assets at June 30, 2005 were \$1.89 billion, a \$119.1 million increase over the prior year, or a 6.7% increase in net assets. The break-out of net assets is shown below:

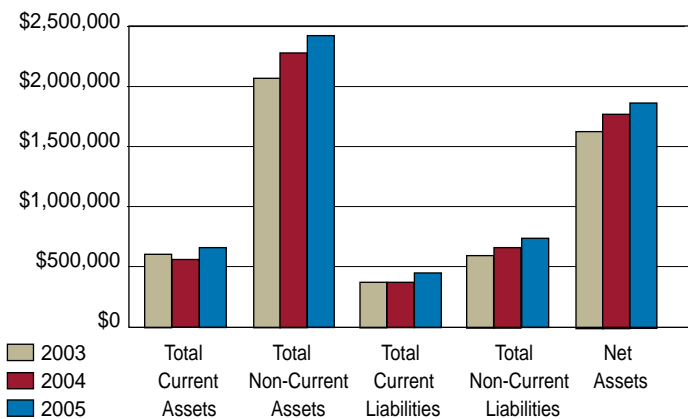
(in thousands of dollars)

Capital assets, net of related debt	\$1,205,240
Restricted net assets	169,131
Unrestricted net assets	520,294
Total net assets	<u>\$1,894,665</u>

The composition of current and non-current assets and liabilities, and net assets is displayed below for the fiscal years ending June 30, 2003, 2004, and 2005:

Comparison of Statement of Net Assets, 2003, 2004, AND 2005

(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)

	June 30, 2005	June 30, 2004	June 30, 2003
Operating revenues	\$1,546,123	\$1,494,120	\$1,374,237
Operating expenses	2,048,464	1,971,837	1,866,816
Total operating loss	(502,341)	(477,717)	(492,579)
Non-operating revenues	634,367	597,847	593,991
Non-operating expenses	(29,658)	(23,521)	(25,031)
Total other revenues	16,774	17,859	45,376
Change in accounting policy—capitalization	—	—	(61,562)
Increase in net assets	<u>\$119,142</u>	<u>\$114,468</u>	<u>\$60,195</u>

Revenues

University operating revenues for the fiscal year ending June 30, 2005 increased by 3.5% over the previous fiscal year. The changes in revenues are as follows:

- Student fee revenues, net of scholarship allowances, were \$600.3 million in 2005 compared to \$558.5 million in 2004, an overall increase of 7.5%. This increase was due to a combination of increased student fee rates and enrollment growth.
- Federal grants and contracts increased 1.5% over the previous fiscal year. This category of revenue includes funds received from the government for financial aid as well as sponsored research revenue.
- \$38.6 million in state and local grants and contracts were received for the fiscal year, an increase of \$9.6 million, or 32.9% from the previous year.
- Non-governmental grants and contracts decreased by 2.3%.
- Sales and services of educational units decreased from \$54.3 million to \$46.9 million. This was a 13.8% decrease from 2004.
- Other operating revenue of \$171.8 million was an increase of 6.6% over the previous fiscal year of \$161.2 million. This includes revenue to the School of Medicine from private practice plans and hospital agreements.
- Auxiliary enterprises also had a decrease in revenue of 1.1%, from \$315.6 million to \$312.1 million.

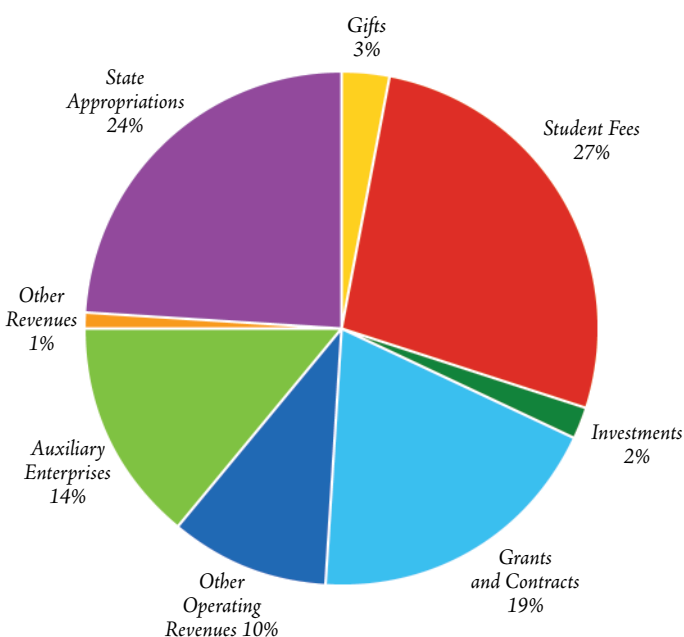
Total non-operating revenues increased 6.1% during the fiscal year ending June 30, 2005, from \$597.8 million to \$634.4 million and include the following:

- State appropriations, the largest single source of non-operating revenue for the university, increased from \$516.5 million to \$530.6 million, or 2.7%.
- Investment revenue increased 55.1%, from \$30.1 million for fiscal year June 30, 2004, to \$46.7 million for fiscal year June 30, 2005.
- Gift revenues increased by 11.4%, or \$5.8 million over the previous fiscal year.

Other revenues included capital appropriations of \$2.6 million; capital gifts and grants of \$12.6 million, which was a \$2 million increase from 2004; and additions to permanent endowments of \$1.5 million.

In summary, total revenues for the university increased by \$87.4 million to \$2.2 billion, an overall increase of 4.1%. The composition of these revenues is displayed in this graph:

Total Revenues



Expenses

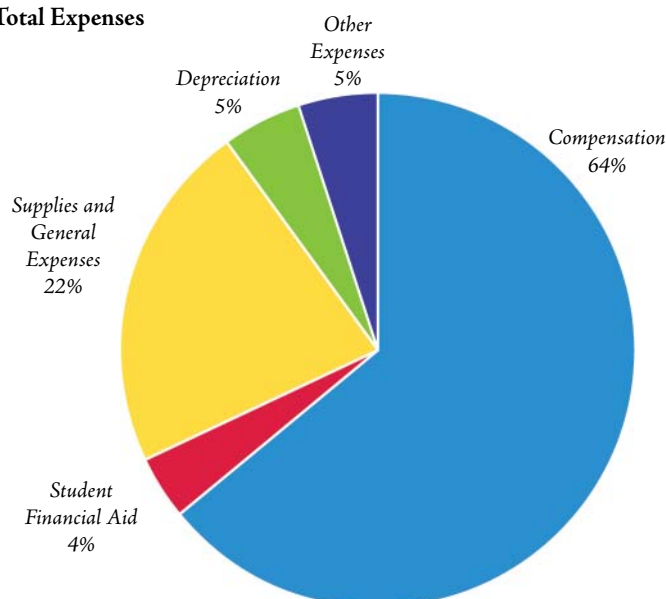
Operating expenses were \$2 billion for the fiscal year ending June 30, 2005. This was an increase over the previous fiscal year of \$76.6 million, or 3.9%. Changes in the major categories of expense are as follows:

- Total compensation is comprised of academic and staff salaries, hourly compensation, and benefits. Compensation and benefits increased by 3.8% for the fiscal year, from \$1.28 billion to \$1.33 billion. Academic salaries are a major component of this category and increased 5% over the prior year.
- Student financial aid expense increased from \$85.3 million to \$86.2 million. This was a 1.1% increase over the previous fiscal year.
- Energy and utilities had an increase of 7.7%, from \$41.1 million in 2004 to \$44.3 million in 2005.
- Travel expenses increased 2% in 2005, from \$30.3 million to \$30.9 million.
- Supplies and general expense increased by 3.8% in 2005, from \$432.8 million to \$449.4 million.
- Depreciation expense of \$104.7 million is \$6.2 million more than in 2004.

Non-operating expense (interest expense) increased by 26% from \$23.5 million in 2004 to \$29.7 million in 2005.

The composition of total expenses, including operating and non-operating, are displayed below by major categories:

Total Expenses



Gifts

Major gifts were received during the year through the Indiana University Foundation (IU Foundation), a separate not-for-profit organization whose primary mission is to raise funds for the university. Major capital projects that benefited from the foundation's fundraising efforts included \$6.3 million for the Eskenazi Hall renovations for the Herron School of Art and Design, and \$1 million for Armstrong Stadium, the site of the soccer field located on the Bloomington campus.

Net Assets

Income before other revenues, expenses, gains, or losses is \$102.4 million and \$96.7 million for fiscal year 2005 and 2004, respectively. This represents an increase of 6%.

Net assets increased by \$119.1 million over the previous fiscal year. Total net assets were \$1.89 billion at June 30, 2005, compared to net assets at June 30, 2004 of \$1.78 billion. This was a 6.7% increase in net assets.

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 the user 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.

Cash Flows for the Period

(in thousands of dollars)

	June 30, 2005	June 30, 2004	June 30, 2003
Net cash provided (used) by:			
Operating activities	(\$329,305)	(\$370,905)	(\$296,150)
Noncapital financing activities	588,561	572,555	560,048
Capital and related financing activities	(145,675)	(260,805)	(86,005)
Investing activities	(10,761)	(81,116)	11,283
Net increase (decrease) in cash	102,820	(140,271)	189,176
Beginning cash and cash equivalent balances	221,229	361,500	172,324
Ending cash and cash equivalent balances	<u>\$324,049</u>	<u>\$221,229</u>	<u>\$361,500</u>

Cash used by operating activities decreased by \$41.6 million from 2004 to 2005. The use of cash was impacted by an \$18.1 million increase from the previous year in payments to employees, a \$16.3 million increase in payments to suppliers, and a \$7.4 million increase in payments for financial aid. These increases in cash outlay were offset by a \$70.2 million increase in inflows from student fees and an \$11.7 million increase in other operating receipts.

Noncapital financing activities increased \$16 million from the prior fiscal year. This was only a 2.8% increase in these activities for the year. The largest dollar increase in this section was in state appropriations at \$13.4 million which make up the largest portion of noncapital financing and had a 2.6% increase over the prior fiscal year. Gifts and grants received for capital purposes increased 4.2%.

Cash flows from capital and related debt increased by \$115.1 million. The primary drivers of this increase were cash flows from capital debt financing activity and a decrease of \$58 million in the cash used to purchase capital assets.

Investing activities cash flow saw an increase of \$70.4 million, impacted primarily by a change in concentration of investments from non-current to cash equivalents.

Cash flows for fiscal year 2006 will be affected by increased tuition rates, which were kept at 4.9% for all seven campuses. The university plans to issue bonds during the fiscal year 2006 for approximately \$50 million. The university also has plans to issue approximately \$31 million in commercial paper.



Informatics and Communications Technology Complex, IUPUI



Eskenazi Hall, IUPUI

CAPITAL ASSET AND DEBT ADMINISTRATION

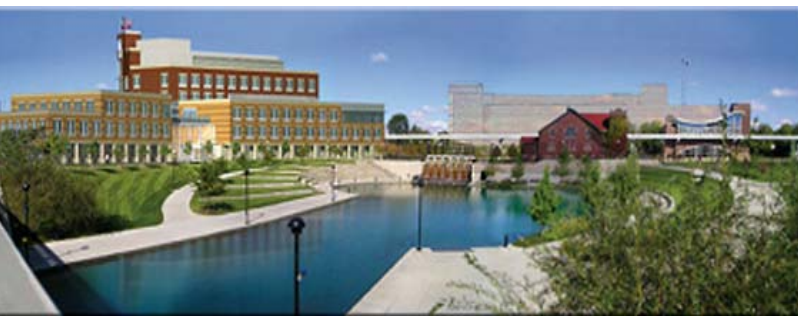
The university made significant investments in capital during fiscal year 2005 (see Note 7). New facilities were funded by bond issues, renewal and replacement reserves, and gifts. The more significant facilities that came on line this year are as follows:

- ♦ Campus View Phase II on the Bloomington campus was completed during the fiscal year. This project renovated a total of 161 apartments. All electrical, mechanical and plumbing systems were upgraded or replaced. The fire alarm and sprinkler systems started in phase I were extended to all of the facility. This renovation project covered 166,000 gross square feet and cost \$12 million.
- ♦ The Informatics and Communications Technology Complex located on the IUPUI campus was occupied in August 2004. This facility houses general purpose classrooms, the New Media program, and University Information Technology Services. The facility has over 188,790 net square feet and cost \$42.4 million.
- ♦ Eskenazi Hall opened in May 2005 at the IUPUI campus. This facility formerly housed the Law School and was renovated for Herron School of Art and Design. The new facility provides art studios, classrooms, an auditorium, a gallery, faculty and administrative offices, and a library as well as exterior landscaped courts for the display of sculpture. The facility has over 107,000 gross square feet and cost \$11.4 million.



Library, IU Southeast

- A new library on the Southeast campus was occupied in January 2005. Space for the library's collections and student study areas consumes the largest portion of the building. Other portions of the new library serve areas critical to its mission, including the processing of library materials, administrative offices and the campus archive. In addition, the library houses the Institute of Learning and Teaching Excellence. The new facility has over 74,000 gross square feet and cost \$14.8 million.



Research III building, IUPUI

- The Barnhill Drive Parking Garage was completed during the fiscal year at a cost of \$12.8 million. It is located on the IUPUI campus and has 1,300 spaces on five levels.

Several facilities are being planned and designed that will further enhance the mission of the institution:

- Design is now underway for a 420,000 gross square foot, 783-bed student housing and teaching complex. This facility is a replacement of Ashton Hall on the Bloomington campus. The new complex will consist of nine apartment buildings and a six-story mixed use commons. The commons building will have lecture halls, conference rooms, housing administration offices, a DVD rental shop, a convenience store and, on the top floors, apartments, lounges and study rooms. An estimated project cost has not been established. The estimated completion date is July 2007.
- The Research III building, on the IUPUI campus, is planned for occupancy beginning December 2008. Comprising approximately 254,000 gross square feet, the primary purpose of the facility is to house scientific discovery that can lead to innovative and life saving therapies, especially in cancer treatment. Programs located in the facility include cancer, neuroscience and immunobiology. The building will incorporate research laboratories and laboratory support areas including instrumentation rooms, tissue culture rooms and specialized testing rooms. An estimated project cost has not been established.

- Renovation of the University Center on the Southeast campus is part of the overall New Library/Chiller Plant/University Center Renovation project previously approved by the state and funded at \$20.4 million as one project. The new library and chiller plant upgrade was completed in January 2005. The campus will be extending the scope of the renovation project to expand the footprint of the building by 3,500 square feet by adding a two floor bump out for additional student dining and conference space. This expansion is projected to cost \$1.8 million and is fully funded through the campus from auxiliary reserves and the capital improvement reserves. When completed, the renovation project will add a substantial amount of additional student spaces, cluster student enrollment offices to improve services, and double the size of existing dining facilities. Additionally, HVAC systems will be upgraded with more energy efficient systems and various exterior improvements to the roof and building exterior are planned.

The university's rating on debt obligations was last reviewed and updated in fall 2004. Moody's Investors Service reaffirmed a rating of 'Aa2' on November 30, 2004. Standard & Poor's rating of 'AA' was also reaffirmed on November 30, 2004.



ECONOMIC OUTLOOK

The State of Indiana provides approximately 25% of the total resources for the university during a fiscal year. During fiscal year 2005, the state's fiscal condition improved significantly as revenues exceeded forecast by nearly \$150 million. Year to year revenue growth totaled 7.7%, the strongest baseline revenue growth since the 2001 recession.

The State of Indiana's 2001–03 Appropriation Act, HEA 1001, enacted by the 2001 (regular session) General Assembly and signed into law by the governor, gave authority to the State Budget Agency to distribute eleven-twelfths of the budgeted amount for the 2002 fiscal year state appropriation for all higher education institutions in the State of Indiana. Additional language in this Act allowed this deferral to be carried forward to fiscal years 2003 and 2004. The State Budget Agency exercised the postponement of a payment in fiscal years 2003 and 2004. Biennial budgets enacted in 2003 and 2005 and approved by the Governor also included language permitting the deferral of state appropriations to be carried forward through fiscal year 2007. For Indiana University, this amount was \$39.8 million in cash that was not received for the twelfth payment.

The university is not aware of any additional state economic decisions or conditions that are expected to have a significant effect on the financial position or results of operations during the next fiscal year.

Overall, the financial position of the university continues to be strong. The 2005-06 academic year brings a slight decrease in credit hour enrollments for the East, Northwest and Southeast campuses. All of the remaining campuses realized increased or sustained credit hour enrollments.



INDIANA UNIVERSITY

STATEMENT OF NET ASSETS

(in thousands of dollars)

	Year Ended	
	June 30, 2005	June 30, 2004
ASSETS		
Current assets		
Cash and cash equivalents	\$324,049	\$221,229
Accounts receivable	112,440	134,145
Current portion of notes and pledges receivable	11,984	12,198
Inventories	17,324	15,748
Short-term investments	26,878	17,684
Securities lending assets	87,701	87,923
Other assets	12,228	8,281
Total current assets	<u>592,604</u>	<u>497,208</u>
Non-current assets		
Accounts receivable	39,813	—
Notes and pledges receivable	65,494	66,807
Investments	584,227	536,024
Capital assets, net	<u>1,769,561</u>	<u>1,707,161</u>
Total non-current assets	<u>2,459,095</u>	<u>2,309,992</u>
Total assets	<u>\$3,051,699</u>	<u>\$2,807,200</u>
LIABILITIES		
Current liabilities		
Accounts payable		
and accrued liabilities	\$185,614	\$172,620
Deferred revenue	180,467	87,531
Current portion of capital lease obligations	1,778	2,190
Current portion of long-term debt	33,410	42,965
Securities lending liabilities	<u>87,701</u>	<u>87,923</u>
Total current liabilities	<u>488,970</u>	<u>393,229</u>
Non-current liabilities		
Capital lease obligations	31,041	11,757
Notes payable	1,602	—
Assets held in custody		
for others	36,141	35,171
Deferred revenue	58,977	72,000
Bonds payable	531,147	507,922
Other long-term liabilities	<u>9,156</u>	<u>11,598</u>
Total non-current liabilities	<u>668,064</u>	<u>638,448</u>
Total liabilities	<u>1,157,034</u>	<u>1,031,677</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,205,240	1,168,783
Restricted for:		
Nonexpendable—endowments	59,977	56,973
Expendable		
Scholarships, research, instruction and other	61,035	53,106
Loans	18,560	17,940
Capital projects	4,435	9,476
Debt service	25,124	19,179
Unrestricted	<u>520,294</u>	<u>450,066</u>
Total net assets	<u>1,894,665</u>	<u>1,775,523</u>
Total liabilities and net assets	<u>\$3,051,699</u>	<u>\$2,807,200</u>

See accompanying notes to the financial statements

Indiana University Foundation
Statement of Financial Position
As of June 30, 2005

Assets:	Unrestricted		Temporarily Restricted		Permanently Restricted		Total
	Foundation	Agency	Foundation	University	Foundation	University	
Cash and cash equivalents	\$ -	\$ 2,145,095	\$ -	\$ 72,016,159	\$ -	\$ -	\$ 74,161,254
Collateral under securities lending agreement	8,502,258	26,485,753	546,508	52,164,935	3,808,877	101,825,796	193,334,127
Receivables and other assets	4,927,567	317,139	13,014	3,016,411	48,133	5,077,534	13,399,798
Net investment in direct financing leases	31,208,315	-	-	-	-	-	31,208,315
Promises to give, net	25,103	-	-	29,364,050	1,491,857	27,805,455	58,686,465
Investments	49,606,196	159,119,429	3,277,002	499,438,873	20,153,571	435,509,235	1,167,104,306
Property, plant and equipment, net	46,339,752	-	-	-	-	-	46,339,752
Total assets	<u>\$ 140,609,191</u>	<u>\$ 188,067,416</u>	<u>\$ 3,836,524</u>	<u>\$ 656,000,428</u>	<u>\$ 25,502,438</u>	<u>\$ 570,218,020</u>	<u>\$ 1,584,234,017</u>
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	\$ 4,568,845	\$ 248,587	\$ 1,736	\$ 1,971,533	\$ 34,559	\$ 1,531,819	\$ 8,357,079
Payable under securities lending agreement	8,502,258	26,485,753	546,508	52,164,935	3,808,877	101,825,796	193,334,127
Debt	49,540,111	-	-	-	-	58,083	49,598,194
Accrued trust obligation to life beneficiaries	122,847	-	2,118,980	6,361,124	459,324	18,931,658	27,993,933
Due to (from)	54,506,820	-	54,129	(55,317,178)	10,801	745,428	-
Interfund financing	(14,884,866)	-	-	14,884,866	-	-	-
Assets held for the University	-	150,848,744	-	-	-	-	150,848,744
Assets held for University affiliates	-	10,484,332	-	-	-	-	10,484,332
Total liabilities	<u>102,356,015</u>	<u>188,067,416</u>	<u>2,721,353</u>	<u>20,065,280</u>	<u>4,313,561</u>	<u>123,092,784</u>	<u>440,616,409</u>
Net assets	<u>38,253,176</u>	<u>-</u>	<u>1,115,171</u>	<u>635,935,148</u>	<u>21,188,877</u>	<u>447,125,236</u>	<u>1,143,617,608</u>
Total liabilities and net assets	<u>\$ 140,609,191</u>	<u>\$ 188,067,416</u>	<u>\$ 3,836,524</u>	<u>\$ 656,000,428</u>	<u>\$ 25,502,438</u>	<u>\$ 570,218,020</u>	<u>\$ 1,584,234,017</u>

The accompanying notes are an integral part of these financial statements

visited 12/14/2007

INDIANA UNIVERSITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

(in thousands of dollars)

Year Ended

June 30, 2005

June 30, 2004

OPERATING REVENUES

Student fees	\$680,045	\$634,181
Less scholarship allowance	(79,785)	(75,710)
Federal grants and contracts	258,911	255,183
State and local grants and contracts	38,645	29,084
Nongovernmental grants and contracts	117,524	120,275
Sales and services of educational units	46,854	54,338
Other revenue	171,819	161,217
Auxiliary enterprises (net of scholarship allowance of \$10,451 in 2005 and \$9,534 in 2004)	312,110	315,552
Total operating revenues	1,546,123	1,494,120

OPERATING EXPENSES

Total compensation and benefits	1,332,963	1,283,808
Student financial aid	86,195	85,274
Energy and utilities	44,295	41,125
Travel	30,903	30,299
Supplies and general expense	449,408	432,791
Depreciation and amortization expense	104,700	98,540
Total operating expenses	2,048,464	1,971,837

Total operating loss

(502,341) (477,717)

NON-OPERATING REVENUES (EXPENSES)

State appropriations	530,565	516,469
Investments	46,730	30,123
Gifts	57,072	51,255
Interest expense	(29,658)	(23,521)
Net non-operating revenues	604,709	574,326

Income before other revenues, expenses, gains, or losses

102,368 96,609

Capital appropriations	2,617	2,617
Capital gifts and grants	12,614	10,530
Additions to permanent endowments	1,543	4,712
Total other revenues	16,774	17,859

Increase in net assets

119,142 114,468

Net assets, beginning of year

1,775,523 1,661,055

Net assets, end of year

\$1,894,665 \$1,775,523

See accompanying notes to the financial statements

Indiana University Foundation

Statement of Activities

As of June 30, 2005

Revenue and support:

	Unrestricted	Temporarily Restricted		Permanently Restricted		Total
		Foundation	University	Foundation	University	
Contributions, net	\$ 1,193,807	\$ 487,812	\$ 50,681,189	\$ 9,000	\$ 28,752,180	\$ 81,123,988
Investment income including net gains (losses), net of outside investment management fees	11,028,597	-	75,390,696	183,192	(473,870)	86,128,615
Management/administrative fees	10,226,481	-	(9,101,434)	-	-	1,125,047
Grants	-	-	78,515,500	-	-	78,515,500
Other income	8,530,832	-	5,390,032	23	528,096	14,448,983
Development service fees from the University	4,374,217	-	-	-	-	4,374,217
Net assets released from restriction	155,337,430	(2,665,371)	(152,672,059)	-	-	-
Reclassification of donor intent	35,430	-	(6,371,197)	(2,167)	6,337,934	-
Total revenue and support	190,726,794	(2,177,559)	41,832,727	190,048	35,144,340	265,716,350

Expenditures:

Program expenditures	160,829,210	-	-	-	-	160,829,210
Management and general	9,389,876	-	-	-	-	9,389,876
Fund raising	11,882,903	-	-	-	-	11,882,903
Change in value of split interest agreement obligation to life beneficiaries	(32,938)	(510,587)	(309,009)	(54,821)	(1,534,454)	(2,441,809)
Total expenditures	182,069,051	(510,587)	(309,009)	(54,821)	(1,534,454)	179,660,180

Change in net assets:

Unrestricted	8,657,743	-	-	-	-	8,657,743
Temporarily restricted	-	(1,666,972)	42,141,736	-	-	40,474,764
Permanently restricted	-	-	-	244,869	36,678,794	36,923,663
Total change in net assets	8,657,743	(1,666,972)	42,141,736	244,869	36,678,794	86,056,170
Beginning net assets	29,595,433	2,782,143	593,793,412	20,944,008	410,446,442	1,057,561,438
Ending net assets	\$ 38,253,176	\$ 1,115,171	\$ 635,935,148	\$ 21,188,877	\$ 447,125,236	\$ 1,143,617,608

INDIANA UNIVERSITY STATEMENT OF CASH FLOWS

(in thousands of dollars)

	Year Ended	
	June 30, 2005	June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Student fees	\$625,665	\$555,512
Grants and contracts	460,623	454,637
Sales and services of educational activities	45,147	54,424
Auxiliary enterprise charges	314,426	309,804
Other operating receipts	171,641	159,926
Payments to employees	(1,334,359)	(1,316,246)
Payments to suppliers	(526,061)	(509,727)
Student aid	(88,111)	(80,717)
Student loans collected	15,196	14,791
Student loans issued	(13,472)	(13,309)
Net cash used in operating activities	(329,305)	(370,905)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	529,401	515,976
Gifts and grants received for other than capital purposes	57,538	55,214
Direct lending receipts	194,364	190,618
Direct lending payments	(192,742)	(189,253)
Net cash provided by noncapital financing activities	588,561	572,555
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	2,617	2,475
Capital grants and gifts received	4,887	5,825
Purchase of capital assets	(144,840)	(202,827)
Proceeds from issuance of capital debt, including refunding activity	60,651	41,701
Principal payments on capital debt, including refunding activity	(45,805)	(80,940)
Principal paid on capital leases	(2,676)	(3,125)
Interest paid on capital debt and leases	(20,509)	(23,914)
Net cash used in capital and related financing activities	(145,675)	(260,805)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	15,843	3,444
Investment income	20,375	8,768
Purchase of Investments	(46,979)	(93,328)
Net cash used by investing activities	(10,761)	(81,116)
Net increase (decrease) in cash and cash equivalents	102,820	(140,271)
Cash and cash equivalents, beginning of year	221,229	361,500
Cash and cash equivalents, end of year	\$324,049	\$221,229

See accompanying notes to the financial statements

INDIANA UNIVERSITY STATEMENT OF CASH FLOWS

Continued from previous page

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

(in thousands of dollars)

	<i>Year Ended</i>	
	<i>June 30, 2005</i>	<i>June 30, 2004</i>
Operating loss	(\$502,341)	(\$477,717)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization expense	104,700	98,540
Loss on disposal of capital assets	3,084	4,048
Changes in assets and liabilities		
Accounts receivable	(11,967)	(11,001)
Inventories	(1,576)	84
Other assets	(3,947)	(45)
Notes receivable	1,653	583
Accounts payable and accrued liabilities	2,702	(42,505)
Deferred revenue	79,913	52,729
Assets held in custody for others	970	(45)
Other long term liabilities	(2,496)	4,424
Net cash used in operating activities	<u>(\$329,305)</u>	<u>(\$370,905)</u>

See accompanying notes to the financial statements

INDIANA UNIVERSITY NOTES TO THE FINANCIAL STATEMENTS June 30, 2005 and June 30, 2004

Note 1—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 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 authority to carry out the programs and missions of the university. Six of the members are appointed by the Governor of Indiana, and three are elected by university alumni. The university is classified as exempt from federal income tax under section 501(c)(3) 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. Note 15 describes an organization related to the university, the nature of the relationship and pertinent financial information of the organization.

FINANCIAL STATEMENT PRESENTATION: Beginning with the fiscal year ended June 30, 2002, the university was required to adopt Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. GASB No. 35 allows public colleges and universities to report as a business type activity under GASB No. 34 which requires a comprehensive, entity-wide presentation of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. This presentation replaces the fund group statements previously required under GASB standards.

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. Interfund receivables and

payables have been eliminated in the Statement of Net Assets. Eliminations have been made in the Statement of Revenues, Expenses, and Changes in Net Assets to remove the "doubling-up" effect of internal service fund activity.

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 policy of the university is to apply FASB Standards according to specific review of appropriateness to individual situations and transactions.

Reporting Entity: According to GASB Statement No. 14, *The Financial 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. In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB No. 39 amends Statement 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. Organizations that are legally separate, tax-exempt entities and meet all of the following criteria should be discretely presented as component units:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. [The ability to "otherwise access" a component unit's economic resources does not necessarily imply control over the component unit or its resources; GASB No. 39 references other factors in making this determination, such as the governmental unit historically receiving a majority of the economic resources provided by the component unit.]
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The provisions of Statement No. 39 are effective for financial statements for periods beginning after June 15, 2003. 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 (above), 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 Reporting for 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. During the fiscal year ended June 30, 2005, IU Foundation distributed \$152,704,165 for the university. Complete financial statements for the IU Foundation can be obtained from: IU Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

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. Investment maturities are evaluated as of the financial statement date for purposes of liquidity classification.

INVESTMENTS: Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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 consist 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 at the date of acquisition or at fair market value at the date of the gift for contributed assets. The university capitalizes equipment with a cost of \$5,000 or more and a useful life in excess of one year. Capital assets also include land improvements and infrastructure costing in excess of \$75,000. Buildings and building renovations that increase the useful life of the

building and with a cost of the lesser of \$75,000 or twenty percent of the acquisition cost of the existing building are capitalized. 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:* Expendable restricted 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 associated with 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 non-operating as follows:

- *Operating revenues:* Operating revenues result from exchange transactions, such as student tuition and fees (net of scholarship discounts and allowances), government and other grants and contracts, and sales and services of auxiliary enterprises (net of scholarship discounts and allowances).
- *Non-operating revenues:* Non-operating revenues include those deriving from non-exchange transactions such as gifts. Other non-operating 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 net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are 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

At June 30, 2005, the combined bank balances of the university's demand deposits are \$22,023,796. The bank balances are insured for \$324,366 by the Federal Deposit Insurance Corporation. The remaining balances of \$21,699,430 are 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 30-4-3.5 *Indiana Uniform Prudent Investor Act* requires the trustees to act "as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust." The code also requires that management decisions be made "in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the trust." 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.

ENDOWMENTS

Endowment funds typically have a very long 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 September 29, 1989 which delegated investment management responsibilities to the IU Foundation, subject to the university's investment policy. The trustees may, at their discretion direct all or a portion of the endowment funds to other investments, exclusive of the IU Foundation's investment funds. 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 may be included when it is reasonable to expect the additional asset class 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, 2005 all endowments held with the IU Foundation were invested in pooled funds.

At June 30, 2005, the university had investments and deposits, including endowment funds, as shown below:

(in thousands of dollars)

<i>Investment Type</i>	<i>Fair Value</i>
Money market funds	\$349,934
External investment pools	156,162
Corporate bonds	145,493
Asset backed securities	84,992
Government mortgage backed securities	60,718
Government bonds	59,319
Government agencies	26,587
Commercial mortgage-backed	19,136
Non-government backed C.M.O.s	8,814
Index linked government bonds	5,571
Municipal/provincial bonds	5,090
All other	4,694
Real estate	4,570
Government issued commercial mortgage-backed	1,637
Mutual funds	1,566
Venture capital	697
Index linked corporate bonds	174
Total	\$935,154

INVESTMENT CUSTODIAL RISK

The custodial credit risk for investments is the risk that, in the event of the failure of the counter party 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 rising interest rates is to constrain average portfolio duration relative to targets set for each portfolio of operating funds investments. The portfolios will not seek to enhance returns by attempting to time movements of interest rates. 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.

The university had the following investments and maturities at June 30, 2005:

(in thousands of dollars)

<i>Investment Type</i>	<i>Fair Value</i>	<i>Investment Maturities (in years)</i>			
		<i>Less than 1</i>	<i>1-5</i>	<i>6-10</i>	<i>More than 10</i>
Investments with maturity date					
Corporate bonds	\$145,493	\$12,508	\$116,228	\$14,987	\$1,770
Asset backed securities	84,992	834	63,817	14,154	6,187
Government mortgage backed securities	60,718	3,352	7,044	22,716	27,606
Government bonds	59,319	5,998	37,255	13,464	2,602
Government agencies	26,587	7,942	14,880	3,695	70
Commercial mortgage backed	19,136	—	2,023	—	17,113
Non-government backed C.M.O.s	8,814	—	1,402	—	7,412
Index linked government bonds	5,571	—	1,944	2,237	1,390
Municipal/provincial bonds	5,090	2,029	2,061	—	1,000
Government issued commercial mortgage backed	1,637	—	1,637	—	—
Index linked corporate bonds	174	—	—	174	—
	\$417,531	\$32,663	\$248,291	\$71,427	\$65,150
Investments with Undetermined Maturity Date					
Money market funds	\$349,934	\$349,934	—	—	—
External investment pools	156,162	156,162	—	—	—
All other	4,694	4,694	—	—	—
Real estate	4,570	4,570	—	—	—
Mutual funds	1,566	1,566	—	—	—
Venture capital	697	697	—	—	—
	\$517,623	\$517,623	—	—	—
Total	\$935,154	\$550,286	\$248,291	\$71,427	\$65,150

CREDIT RISK

Credit risk is the risk that an issuer or other counter party 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" or as specified in each manager's guidelines.

ENDOWMENTS

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 Pooled Fixed Income Fund will be maintained at "A" or better, except for high-yield. The minimum quality at the time of purchase will be Baa/BBB or equivalent by at least one of the major rating services. For high-yield securities, the weighted average credit quality of the portfolio should be BBB- or better at all times. All securities in the Pooled Fixed Income Fund must be rated at the time of purchase at least B- by Standard & Poor's or B3 by Moody's.

At June 30, 2005 the university investments had debt securities and associated credit ratings as shown below:

(in thousands of dollars)

Credit Quality Rating	Fair Value	% of Total Pool
AAA	\$271,014	29%
AA	28,864	3%
A	66,337	7%
BBB	42,074	4%
BB	8,801	1%
Not Rated	518,064	56%
Total	\$935,154	100%

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 10% 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.

ENDOWMENTS

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund limit commercial paper, Certificates of Deposit, Bankers' Acceptances, and Repurchase Agreements to \$10 million per issuer and money market funds to \$20 million per fund. The Pooled Equity Fund/Equity Trust Investment Pool portfolio cost is limited to no more than 10% investment in the equity securities of any one issuer and no purchase shall cause ownership of 5% or more of any one issue. No more than 25% of the Pooled Equity Fund/Equity Trust Investment Pool portfolio market value may be invested in any one industry. For the Pooled Fixed Income Fund/Bond Trust Investment Pool, excluding U.S. Treasuries and Agencies, no more than 5% of the portfolio market value may be invested in any one issue or issuer. No more than 25% of this portfolio market value may be invested in any one industry.

FOREIGN CURRENCY RISK

The university's investments are not exposed to foreign currency risk.

Note 3—Securities Lending

State statutes and the trustees' policy 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. Non-cash 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. These loans can be terminated on demand by either lender or borrower. U.S. securities are lent versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the university will equal at least the fair value plus accrued interest of the borrowed securities. All security loans can be terminated on demand by either the university or the borrowers. The short-term non-cash collateral investment pool had a fair value of \$7.383 million and \$17.535 million at June 30, 2005 and 2004, respectively. Cash received as securities lending collateral was \$87.701 million and \$87.923 million at June 30, 2005 and 2004, respectively and is recorded as an asset and corresponding liability on the university's Statement of Net Assets. At June 30, 2005, the university has no credit risk exposure in this program.

Note 4—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2005 and 2004:

(in thousands of dollars)

	June 30, 2005	June 30, 2004
Student accounts	\$33,343	\$25,869
Auxiliary enterprises and other operating activities	44,334	40,375
State appropriations	—	38,416
Federal, state and other grants and contracts	12,266	13,036
Capital appropriations and gifts	18,505	13,747
Other	3,992	2,702
Net accounts receivable (current)	\$112,440	\$134,145
State appropriations	\$39,813	—
Accounts receivable (non-current)	\$39,813	—

Note 5— Notes and Pledges Receivable

Notes and pledges receivable consisted of the following at June 30, 2005 and 2004:

(in thousands of dollars)

	June 30, 2005	June 30, 2004
Operating receivable	\$62	\$78
Student loans receivable	69,386	71,023
Pledges receivable, net	8,030	7,904
Total notes and pledges receivable	\$77,478	\$79,005

During fiscal year 2003, the university entered into a lease purchase agreement with the IU Foundation to finance a portion of the cost of construction and equipping of the Biotechnology Research and Training Center maintained and operated by the university on the IUPUI campus (also see Note 11). Private funds held by the IU Foundation, solely for the use of the university, were used for related construction costs of \$15,176,741. The IU Foundation transferred rights to the facility to the university through an unconditional promise to give the university use of the facility over a 20 year period. The university currently occupies and maintains the facility. This promise to give is reflected at net present value of \$8,029,767, as a pledge receivable of the university.

Note 6 — Endowment Funds

Endowment funds are managed pursuant to an Investment Agency Agreement between the trustees and the IU Foundation which delegates investment management responsibilities to the IU Foundation, subject to the university's investment policy. 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. Funds held by endowments are used to acquire pooled shares. The value of the pooled shares is determined each quarter on the basis of the total market value of pooled investments and the number of pooled shares outstanding. Income from pooled funds is distributed pro rata to each participating fund according to the number of pooled shares it holds. At June 30, 2005 all endowments held with the IU Foundation were invested in pooled funds.

Fair value of the Indiana University Consolidated Fund totaled \$121,720,191 and \$117,782,413 at June 30, 2005 and 2004, respectively. Additional pooled funds totaled \$27,360,141 and \$11,541,494 at fair value at June 30, 2005 and 2004, respectively. The university holds investments in the Indiana Future Fund I, LLC, a coalition of institutional investors investing in regional and national venture capital funds to encourage direct investment in Indiana life sciences initiatives, which is administered by Credit Suisse First Boston. The investment in the Indiana Future Fund I, LLC totaled \$696,613 and \$172,050 at fair value at June 30, 2005 and 2004, respectively.

Additional endowment funds include the endowment fund for Riley Hospital for Children which is managed as an investment pool by the Riley Children's Foundation. The funds are invested in accordance with the Riley Children's Foundation investment policy. These funds are used to acquire pooled shares. The value of the pooled shares is determined each quarter on the basis of the total market value of the pooled investments and the number of pooled shares outstanding. Income is distributed pro rata to each participating fund according to the number of shares it holds. The funds totaled \$6,385,101 and \$6,258,214 at fair value at June 30, 2005 and 2004, respectively. The State of Indiana holds an endowment fund valued at \$785,242 on behalf of the university. Income from this endowment is received and distributed on a yearly basis. Real estate held as endowments at June 30, 2005 totaled \$4,570,000 at fair value.

In addition, the university shares the income from a trust held by a major bank with Purdue University and the Indianapolis Center for Advanced Research. The fair value of the principal of this trust was \$34,175,389 and \$33,140,049 at June 30, 2005 and 2004, respectively. The trust principal is not included on the university's financial statements.

Note 7 — Capital Assets

(in thousands of dollars)

	Balance June 30, 2004	Additions	Transfers	Retirements	Balance June 30, 2005
Assets not being depreciated					
Land	\$46,429	\$484	\$ —	\$ —	\$46,913
Art & museum objects	58,209	707	—	3	58,913
Construction in progress	167,256	77,150	(135,839)	125	108,442
Total capital assets not being depreciated	<u>\$271,894</u>	<u>\$78,341</u>	<u>(\$135,839)</u>	<u>\$128</u>	<u>\$214,268</u>
Other capital assets					
Infrastructure	133,719	898	(1,773)	—	132,844
Land improvements	11,480	2,340	3,481	—	17,301
Equipment	306,949	23,931	16,877	18,962	328,795
Library books	166,571	20,498	—	14,144	172,925
Buildings	2,037,660	44,240	117,254	3,150	2,196,004
Total other capital assets	<u>\$2,656,379</u>	<u>\$ 91,907</u>	<u>\$135,839</u>	<u>\$36,256</u>	<u>\$2,847,869</u>
Less accumulated depreciation for					
Infrastructure	101,473	2,163	—	—	103,636
Land improvements	1,724	1,908	—	—	3,632
Equipment	191,362	30,272	—	17,274	204,360
Library books	77,965	16,989	—	14,144	80,810
Buildings	848,588	53,340	—	1,790	900,138
Total accumulated depreciation other capital assets	<u>\$1,221,112</u>	<u>\$104,672</u>	<u>\$ —</u>	<u>\$33,208</u>	<u>\$1,292,576</u>
Capital assets, net	<u>\$1,707,161</u>	<u>\$65,576</u>	<u>\$ —</u>	<u>\$3,176</u>	<u>\$1,769,561</u>

Note 8—Accounts Payable

Accounts payable consisted of the following at June 30, 2005 and 2004:

(in thousands of dollars)

	June 30, 2005	June 30, 2004
Accrued payroll	\$23,287	\$25,053
Accrual for compensated absences	30,928	28,140
Interest payable	16,547	7,823
Held for student loans	27,194	27,200
Vendor and other payables	<u>87,658</u>	<u>84,404</u>
Total accounts payable and accrued liabilities	<u>\$185,614</u>	<u>\$172,620</u>

Note 9—Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 is summarized as follows:

(in thousands of dollars):

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Current
Bonds payable	\$550,887	\$121,665	\$108,143	\$564,409	\$33,262
Notes payable	—	1,750	—	1,750	148
Capital lease obligations	13,947	21,582	2,710	32,819	1,778
Total bonds, notes, and capital leases payable	<u>\$564,834</u>	<u>\$144,997</u>	<u>\$110,853</u>	<u>\$598,978</u>	<u>\$35,188</u>
Other liabilities					
Deferred revenue	\$159,531	\$92,936	\$13,023	\$239,444	\$180,467
Assets held in custody for others	35,171	970	—	36,141	—
Compensated absences	38,469	28,837	28,468	38,838	30,928
Other	1,269	—	23	1,246	—
Total long-term liabilities	<u>\$799,274</u>	<u>\$267,740</u>	<u>\$152,367</u>	<u>\$914,647</u>	<u>\$246,583</u>

Note 10 — Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing construction of facilities for academic pursuits, administration, athletics, halls of music, medical research, parking, student housing, student union buildings, and energy savings projects. The outstanding long-term bond and note indebtedness at June 30, 2005 was \$566,158,652. Further, the principal outstanding, as of June 30, 2005, for bonds issued under Indiana Code 20-12-6 of \$445,780,548, has an additional \$71,486,885 in accreted value of outstanding capital appreciation bonds associated with it.

The bond issues include both serial and term bonds with maturities extending to November 1, 2029. A specific appropriation is received from the State of Indiana for the purpose of reimbursing the university for a portion of the debt service payments that are incurred on bonds issued under Indiana Code 20-12-6 for certain academic and student facilities. These funds, referred to as “fee replacement” appropriations, are received from the State of Indiana on a semi-annual basis.

Indiana Code 20-12-9.5 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. Under this authority, the university has maintained a tax-exempt commercial paper program (TECP) to provide for certain interim project financing needs. No TECP is outstanding as of June 30, 2005; however, the university intends to continue to utilize the TECP program in the future.

As of June 30, 2005, outstanding indebtedness from bonds and notes consisted of the following:

(in thousands of dollars)

Bonding Authority	Interest Rates	Final Maturity	Principal Outstanding
Indiana Code 20-12-6 Acts of 1965 - Academic Facilities	2.00 to 7.25%	2026	\$445,781
Indiana Code 20-12-7 Acts of 1929 - Student Union Buildings, Halls of Music, and Athletic Facilities	6.25 to 6.60%	2009	1,540
Indiana Code 20-12-8 Acts of 1927 - Housing, Parking, and Hospital Facilities	2.23 to 6.00%	2029	108,944
Indiana Code 20-12-6-17 Qualified Energy Savings	3.64%	2015	<u>1,750</u>
Subtotal bonds and notes payable			\$558,015
Add unamortized bond premium			11,023
Less deferred charges			<u>(2,879)</u>
Total bonds and notes payable			<u>\$ 566,159</u>

As of June 30, 2005, the university has three series of variable or floating rate bonds outstanding. The Student Residence System Bonds, Series 1998, were issued in June of 1998 to finance the renovation of the Willkie Quadrangle. The Facility Revenue Bonds, Series 2000, were issued in December of 2000 to finance the construction of parking facilities. The Student Residence System Bonds, Series 2004A, were issued as floating rate bonds in conjunction with the Series 2004B fixed rate bonds, which were issued in June of 2004. Series 2004A and 2004B were used to finance the Campus Apartments on the Riverwalk.

They are included above in the category titled Indiana Code 20-12-8 Acts of 1927 - Housing, Parking, and Hospital Facilities. The variable interest rates are determined by the remarketing agents, based on prevailing market conditions. While in variable rate mode, interest on these series is calculated on the basis of a 365 or 366-day year, for the actual number of days elapsed.

Principal and Interest requirements to maturity for bonds and notes are as follows:

(in thousands of dollars)

<i>Fiscal Year End June 30</i>	<i>Bond Principal</i>	<i>Note Principal</i>	<i>Total Principal</i>	<i>Bond Interest</i>	<i>Note Interest</i>	<i>Total Interest</i>	<i>Total Payment</i>
2006	\$32,817	\$148	\$32,965	\$35,682	\$63	\$35,745	\$68,710
2007	36,481	153	36,634	34,794	57	34,851	71,485
2008	37,493	159	37,652	33,810	51	33,861	71,513
2009	39,319	165	39,484	32,296	46	32,342	71,826
2010	37,935	171	38,106	32,850	40	32,890	70,996
2011-2015	140,966	954	141,920	104,617	99	104,716	246,636
2016-2020	150,139	—	150,139	43,918	—	43,918	194,057
2021-2025	51,280	—	51,280	9,367	—	9,367	60,647
2026-2030	29,835	—	29,835	3,190	—	3,190	33,025
Total	\$556,265	\$1,750	\$558,015	\$330,524	\$356	\$330,880	\$888,895

Effective June 18, 2004, the university purchased an interest rate cap for the Indiana University Floating Rate Student Residence System Bonds, Series 2004A to limit the university's interest rate exposure to a maximum of 5.00% through the cap termination date of July 1, 2007. The university paid the counter party a fixed payment of \$57,000 and will receive monthly payments should the Bond Market Association Municipal Swap Index (BMA) exceed 5.0% for a defined period of time. The fair value of this cap is \$1,747, as of June 30, 2005. The cap has a notional amount which was equal to the associated principal outstanding of \$20,775,000 as of June 30, 2005 and declines based on the projected principal outstanding. The cap agreement includes standard termination events, such as failure to pay and bankruptcy. It also incorporates a provision whereby the counter party must have a rating of 'A' or better from Moody's Investors Service and S&P. The counter party may assign the cap to another party or obtain a guaranty from another institution with the same or greater rating or post collateral equal to the market value of the transaction, after obtaining the prior written consent of the university.

On July 28, 2004, the university issued Facility Revenue Bonds, Series 2004, in the par amount of \$24,310,000 to provide permanent financing for the Barnhill Street Garage on the IUPUI campus. The

proceeds of the bonds also partially refunded Facility Revenue Bonds, Series 1994 A. The true interest cost for the bonds is 4.32%. The refunding portion of the transaction generated debt service savings of \$2,622,743, with a net present value savings of \$1,469,517.

On December 14, 2004, the university issued Indiana University Student Fee Bonds, Series P, with a par amount of \$93,920,000. The purpose of the issue was to partially finance Simon Hall, a multi-disciplinary science building on the Bloomington campus and the Medical Information Sciences Building on the IUPUI campus. The proceeds of the bonds also partially refunded the Indiana University Student Fee Bonds, Series J, Series K and Series M. The true interest cost for the entire bond issue is 4.42%. The refunding portion of the transaction generated debt service savings of \$3,483,114, with a net present value savings of \$3,394,356.

On December 30, 2004, the IU Foundation acquired University Place Hotel on the IUPUI campus, in the amount of \$17,750,000. The purchase was financed by a line of credit loan. The line of credit loan is authorized up to \$31,000,000, which includes an amount to finance substantial renovations and improvements estimated at \$13,250,000. Concurrent with this transaction, the university entered into a lease

purchase agreement with the IU Foundation on December 31, 2004. The agreement terminates on December 31, 2005 with an option to extend for an additional twenty-five years until December 31, 2030. Net lease payments made by the university are equal to actual debt service costs incurred by the IU Foundation and associated financing fees. Interest is due and payable monthly and principal is due at maturity. The interest rate is equal to 1-month LIBOR (London Inter Bank Offer Rate) plus fourteen hundredths of one percent (0.14%), with the initial interest rate at closing of 2.56%. The university intends to acquire University Place Hotel from the IU Foundation, and plans to finance the acquisition with temporary borrowing, bonds, or certificates of participation, subject to all of the appropriate trustee and state-level approvals.

On February 28, 2005, the university issued a tax-exempt energy savings note in the amount of \$1,750,000 to finance the Indiana University Northwest Energy Savings Project. The true interest cost for the note is 3.64% and the term of the note is 10-years. The note is structured to be junior or subordinate to student fee bonds. The total repayment obligation over the term of the loan is not expected to exceed the estimated energy savings generated from the project; with annual energy savings projected to be approximately \$229,990 per year and annual debt service of approximately \$211,000 per year.

In prior years, the university has defeased the following 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 maturity, and have been deposited in irrevocable trusts with trustees. Neither the defeased bonds nor the related trusts are reflected on the university's books. As of June 30, 2005, Building Facilities Fee Bonds, Series I-M, defeased by the university on October 1, 1985, have principal outstanding of \$11,910,000, with a final maturity of July 1, 2010. On March 6, 2003, the university defeased Student Fee Bonds, Series K, which as of June 30, 2005, have principal outstanding of \$40,480,000, with a final maturity of August 1, 2005. As of June 30, 2005, Student Fee Bonds, Series J, Series K, and Series M, which were partially defeased on December 14, 2004, have principal outstanding of \$36,440,000, with a final maturity of August 1, 2009.

Note 11—Lease Obligations

The university leases certain facilities. Most of the facility leases include renewal options and some provide for escalation of rent based on changes in operating cost. Some leases are in substance lease-purchases and as such are recorded as capital lease obligations. Indiana Code 20-12-5.5 permits the use of debt in the form of long-term capital lease-purchase agreements. The schedule below includes a lease-purchase agreement between the IU Foundation and the university which was securitized and sold as Certificates of Participation, Series 2003A, in April of 2003 in the amount of \$10,830,000. The true interest cost for the entire certificate issue was 4.50%. The proceeds of the Series 2003A Certificates were used to finance a portion of the cost of construction and equipping of the Biotechnology Research and Training Center (BRTC) on the IUPUI campus, and capitalized interest thereon.

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

(in thousands of dollars)

	Capital	Operating
2006	\$2,329	\$11,406
2007	1,800	6,966
2008	1,328	5,164
2009	1,254	2,360
2010	856	1,775
2011-2015	4,248	7,733
2016-2020	4,231	6,869
2021-2025	2,106	4,730
2026-2030	19,689	176
Total future minimum payments	\$37,841	\$47,179
Less: interest	(5,022)	
Present value of future principal outstanding	<u>\$32,819</u>	

Note 12—Federal Obligations Under Student Loan Programs

Student loans are funded principally from allocations received from the federal government under the Carl D. Perkins (Perkins), Health Professions, and Nursing Loan programs. The collections, including interest from these programs, are lent to students. One-tenth of the original funding for these programs was contributed by the university. The institutional match for new federal funding is currently one-third.

During the fiscal year, the federal government advanced \$315,015 for the Perkins Loan Program and \$1,113,942 for Health Professions and Nursing Loan programs. Liabilities at June 30, 2005 for loan programs were as follows:

(in thousands of dollars)

Federal share of interest	
Collections on federal capital contribution student loans	\$27,194
Federal student loan advances	
Perkins loans	\$22,161
Health professions loans	12,937
Nursing loans	1,043
	<u>36,141</u>
Total	<u>\$63,335</u>

Note 13 —Risk Management

The university is exposed to various risks of loss: 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-insured for buildings and building contents for the first \$100,000 with an additional \$900,000 covered by OCIC per occurrence. The university is self-insured for comprehensive general liability and automobile liability for the first \$100,000 with an additional \$900,000 covered by OCIC and has supplementary commercial liability umbrella policies. The university has a malpractice and professional liability policy in the amount of \$250,000 for each claim and \$750,000 annually in aggregate provided by OCIC. The university is self-insured for the first \$750,000 of any worker's compensation claim. Excess commercial coverage for up to \$1 million

is in place for employer's liability claims. Worker's compensation claims above \$750,000 are subject to statutory limits.

The university has four health care plans for full-time appointed employees, two of which are also available to retirees not eligible for Medicare, and two health care plans for retirees 65 and above. Three of the employee plans and one of the retiree plans are self-funded. For the fiscal year ending June 30, 2005, the university's contributions to these health care plans totaled \$96,460,134. For the same period, employees, Consolidated Omnibus Budget Reconciliation Act (COBRA) participants and retirees (excluding one plan for retirees 65 and above) made contributions totaling \$14,983,456.

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 25% of the paid self-funded claims during the fiscal year ending June 30, 2005, and totals \$20,359,478 at June 30, 2005. In addition, a potential claims fluctuation liability of \$8,143,791 has also been recorded.

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 organization 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 14 —Retirement Plans

As of June 30, 2005, the university provided retirement plan coverage to 17,444 active employees, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required for employees.

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 is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All support, technical and service employees with at least a 50% full-time equivalent (FTE) appointment are eligible to participate in the PERF plan. At June 30, 2005, there were 6,954 active university employees covered by this retirement plan. State statutes (IC 5-10.2 and 5-10.3) authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation,

plus the interest credited to the member's account. The university has elected to make the contributions on behalf of the member. 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. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204 or by calling (317) 233-4162.

The university's accrued liability is equal to the percentage for the entire State of Indiana. The contributions actually made by the university for fiscal year 2005 totaled \$13,598,684. This amount represents the 3.8% contribution by the university for pension benefits and a 3% contribution by the university for the annuity savings account provisions.

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 actuarial information represents the period ending June 30, 2004. 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 period is level dollar open over 30 years. The actuarial funding method is entry age normal cost. The employer required contribution is determined using a four year smooth market valuation method.

Actuarial assumptions include an investment rate of return of 7.25% and the required contribution levels are determined under the assumption that a two percent cost of living increase will be granted in each future year, applying not only to then current retirees, but also to employees who have yet to retire.

The following schedules show the funding progress, net pension obligation and trend information for PERF:

	<i>June 30, 2004¹</i>
Annual required contribution	\$ 7,007,018
Interest on net pension obligation	(154,240)
Adjustment to annual required contribution	<u>175,768</u>
Annual pension cost	7,028,546
Contributions made	<u>(11,234,182)</u>
Decrease in net pension obligation	(4,205,636)
Net pension obligation, beginning of year	<u>(2,127,444)</u>
Net pension obligation, end of year	<u>(\$6,333,080)</u>

¹ Actuarial data for 2005 not available at the time of this report.

<i>Year Ending</i>	<i>Annual Pension Cost (APC)²</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation</i>
06-30-02	\$9,085,858	102%	(\$1,923,966)
06-30-03	9,704,671	102%	(2,127,444)
06-30-04	7,028,546	160%	(6,333,080)

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. During fiscal year 2005, the university contributed \$65,221,083 to TIAA-CREF and \$12,631,905 to Fidelity Investments for the IU Retirement Plan. On June 30, 2005, 8,362 employees were directing university contributions under this plan to TIAA-CREF and 2,336 to Fidelity Investments.

In addition to the above, the university provides early retirement benefits to Appointed Academic and Professional Staff employees Grade 16 and above. On June 30, 2005, there were 1,512 active employees 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. During fiscal year 2005, the university contributed \$2,839,427 to IUSERP. The same class of employees hired prior to January 1, 1989, are covered by the 18/20 Retirement Plan, a combination of IRC 457(f) and 403(b) provisions. The 18/20 Retirement Plan allows this group of employees to retire as early as age 64, assuming at least 18 years of participation in the IU Retirement Plan and at least 20 years of continuous university service. During fiscal year 2005, the university made total payments of \$27,296,397 to 367 individuals receiving 18/20 Retirement Plan payments. In accordance with GASB guidelines, the university has no future unfunded liability related to these early retirement plans.

The university has established an early retirement plan for approximately 112 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. For fiscal year 2005, university contributions related to this plan totaled \$1,984,805 and there were no employee contributions.

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. That 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. That 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's annual pension cost for the current year and related information for the plan, as provided by the actuary, is provided below.

The actuarial cost method used to calculate liabilities is the projected accrued benefit actuarial cost method with a normal cost determined for participants who have not yet attained the assumed full retirement age. Under the asset valuation method used, the actuarial value of assets is equal to the fair value on the valuation date adjusted for employer contributions receivable.

Actuarial assumptions include a 7% asset rate of return and future salary increases at 4% compounded annually.

The following schedule shows the funding policy contributions for the plan years indicated for the IU Replacement Retirement Plan:

	June 30, 2004	June 30, 2005
Cost of benefits earned during the year	\$937,609	\$896,866
Amortization of unfunded actuarial accrued liabilities	964,959	958,092
Interest	133,180	129,847
Annual required contribution	\$2,035,748	\$1,984,805

The university provides term life insurance benefits to former employees with retiree status. Retiree status is based on age and service at termination date. This benefit is underwritten through an insurance company. During fiscal year 2005, the university contributed \$508,434 to this coverage.

Note 15—Related Organizations

The university is a beneficiary of the Riley Children's Foundation (formerly James Whitcomb Riley Memorial Association). In 1922 the association presented the James Whitcomb Riley Hospital for Children to Indiana University. On May 2, 1996, the James Whitcomb Riley Hospital for Children separated from Indiana University and is now part of Clarian Health Partners, Inc. The university has been a major beneficiary of this foundation. Riley Children's Foundation net assets were \$183,895,315 and \$178,501,605 at June 30, 2005 and 2004, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Note 16 — Functional Expenses

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

Year Ended June 30, 2005

(in thousands of dollars)

Functional Classification	Natural Classification						Total
	Compensation & Benefits	Utilities	Supplies & Expenses	Scholarships & Fellowships	Depreciation	Travel	
Instruction	\$590,561	\$46	\$69,296	\$7,374	\$ —	\$7,647	\$674,924
Research	147,250	666	73,454	3,830	—	8,028	233,228
Public service	83,632	266	47,913	3,940	—	3,560	139,311
Academic support	127,153	32	54,971	566	—	3,325	186,047
Student services	47,366	3	16,163	245	—	1,250	65,027
Institutional support	130,574	130	22,422	142	—	2,396	155,664
Physical plant	44,653	41,237	39,989	—	—	121	126,000
Scholarships & fellowships	7,503	—	233	65,885	—	99	73,720
Auxiliary enterprises	154,271	1,915	124,967	4,213	—	4,477	289,843
Depreciation	—	—	—	—	104,700	—	104,700
Total operating expenses	\$1,332,963	\$44,295	\$449,408	\$86,195	\$104,700	\$30,903	\$2,048,464

Year Ended June 30, 2004

(in thousands of dollars)

Functional Classification	Natural Classification						Total
	Compensation & Benefits	Utilities	Supplies & Expenses	Scholarships & Fellowships	Depreciation	Travel	
Instruction	\$570,225	\$39	\$65,241	\$6,724	\$ —	\$7,293	\$649,522
Research	143,043	448	68,051	3,679	—	7,504	222,725
Public service	78,303	264	44,066	3,166	—	3,710	129,509
Academic support	128,798	17	56,001	564	—	3,381	188,761
Student services	45,239	3	15,696	158	—	1,190	62,286
Institutional support	127,357	130	13,864	127	—	2,346	143,824
Physical plant	43,855	38,826	36,766	—	—	113	119,560
Scholarships & fellowships	8,697	—	2,097	66,746	—	97	77,637
Auxiliary enterprises	138,291	1,398	131,009	4,110	—	4,665	279,473
Depreciation	—	—	—	—	98,540	—	98,540
Total operating expenses	\$1,283,808	\$41,125	\$432,791	\$85,274	\$98,540	\$30,299	\$1,971,837

Certain reclassifications have been made to functional classifications for fiscal year 2004. These reclassifications have been made for comparative purposes and do not constitute a restatement of prior periods.

Note 17—Segment Information

The university issues revenue bonds to finance certain auxiliary enterprise activities. The primary source of repayment of these bonds is net income of certain parking and student residence facilities.

Parking 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. Condensed financial information for parking operations is as follows:

(in thousands of dollars)

	June 30, 2005	June 30, 2004
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	\$17,541	\$6,120
Capital assets (book value)	65,561	59,629
Total assets	83,102	65,749
Liabilities		
Current liabilities	4,771	3,699
Long-term liabilities	47,427	38,105
Total liabilities	52,198	41,804
Net Assets		
Invested in capital assets, net of related debt	14,839	19,105
Unrestricted	16,065	4,840
Total net assets	\$30,904	\$23,945
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	\$16,467	\$16,504
Depreciation expense	(4,017)	(2,463)
Other operating expenses	(7,822)	(6,856)
Net operating income	4,628	7,185
Non-operating revenues		
Interest income	2	1
Interest expense	(1,897)	(1,840)
Change in net assets	2,733	5,346
Net assets		
Net assets--beginning of year	23,945	17,736
Net transfers	4,226	863
Net assets end of year	\$30,904	\$23,945
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$6,887	\$6,706
Capital and related financing activities	9,528	(4,972)
Investing activities	(5,117)	(11,296)
Net increase (decrease) in cash	11,298	(9,562)
Beginning cash and cash equivalent balances	4,924	14,486
Ending cash and cash equivalent balances	\$16,222	\$4,924

Housing Operations

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. Condensed financial information for housing operations is as follows:

(in thousands of dollars)

	June 30, 2005	June 30, 2004*
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	\$15,734	\$12,974
Capital assets (book value)	124,905	122,106
Total assets	140,639	135,080
Liabilities		
Current liabilities	1,875	1,849
Long-term liabilities	60,970	63,085
Total liabilities	62,845	64,934
Net Assets		
Invested in capital assets, net of related debt	65,005	60,305
Unrestricted	12,789	9,841
Total net assets	\$77,794	\$70,146
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	\$44,286	\$41,160
Depreciation expense	(5,731)	(3,897)
Other operating expenses	(29,956)	(26,231)
Net operating income	8,599	11,032
Non-operating revenues		
Interest income	16	—
Interest expense	(1,663)	(303)
Change in net assets	6,952	10,729
Net assets		
Net assets – beginning of year	70,146	64,119
Net transfers	696	(4,702)
Net assets end of year	\$77,794	\$70,146
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$12,381	\$10,976
Capital and related financing activities	7,356	3,401
Investing activities	(17,286)	(21,493)
Net increase (decrease) in cash	2,451	(7,116)
Beginning cash and cash equivalent balances	11,925	19,041
Ending cash and cash equivalent balances	\$14,376	\$11,925

* Fiscal year ending June 30, 2004 condensed financial information has been restated to reflect the inclusion of additional auxiliary organizations.

Note 18—Commitments and Contingencies

At June 30, 2005, the university was party to an agreement in which it agreed to transfer ownership of certain equipment constructed by the university to Midwest Proton Radiotherapy Institute, LLC (MPRI). The full amount of the capitalized costs of construction of the equipment and related factors will exceed the purchase terms by an amount estimated not to exceed \$11.4 million. The transfer of the equipment will facilitate activities that will further the university's research and teaching mission. In addition, the university expects to

realize operating revenue through agreements with the purchasing party and has plans to apply this revenue to the construction costs incurred. This transaction will be reflected in the university's financial statements when all terms of the agreement have been satisfied and are completed. Completion is expected to occur during fiscal year 2006. In addition, Indiana University Research and Technology Corporation, a component unit of the university, is party to an agreement granting MPRI the use of certain other assets constructed by the university.



Indiana University Foundation
Notes to the Financial Statements
June 30, 2005 and 2004

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, Riley Children's Foundation, the Indiana University Research & Technology Corporation formerly known as Advanced Research & Technology Institute, Inc., the Clarian Health Partners, Inc. (an entity which includes the organizations formerly known as University Hospital and the Riley Hospital for Children), 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 intended for endowment purposes, 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

Fair market value for a publicly traded security is based on the closing price for equity securities and the closing bid price for debt securities. Fair market value for non-publicly traded securities is computed based on the price earnings ratio, dividend discount model, or price to book analysis appropriately discounted due to illiquidity. Investments in alternative investments are carried at estimated fair value provided by the management of the respective alternative investment. A summary of investments as of June 30, 2005 and 2004 follows:

	Unrestricted			Temporarily Restricted		Permanently Restricted	
	Foundation		Agency	Foundation	University	Foundation	University
	\$	\$	\$	\$	\$	\$	\$
Institutional co-mingled funds	17,532,507	57,088,734		398,591	178,210,030	6,889,301	143,085,777
Common, preferred and international stocks	16,701,188	54,664,429		1,900,191	182,334,088	7,060,741	147,670,247
Alternative investments	4,930,728	15,560,028		108,641	29,521,810	2,163,148	57,600,607
Real estate	109,038	344,126		2,402	2,935,951	47,836	2,755,755
Mortgage securities	-0-	-0-		-0-	5,000	-0-	814,210
US Government and agency debt instruments	3,368,950	10,980,836		104,647	35,444,607	1,332,727	27,696,571
Corporate, municipal, and international bonds	4,339,188	14,199,243		555,508	48,992,001	1,851,788	39,086,246
Cash equivalents	2,585,737	6,155,480		206,139	21,591,882	792,769	16,484,967
Commercial paper	38,860	126,553		883	403,504	15,261	314,855
Total investments	\$ 49,606,196	\$ 159,119,429	\$	\$ 3,277,002	\$ 499,438,873	\$ 20,153,571	\$ 435,509,235

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Indiana University Foundation
Notes to the Financial Statements
June 30, 2005 and 2004

	2004					
	Unrestricted		Temporarily Restricted		Permanently Restricted	
	Foundation	Agency	Foundation	University	Foundation	University
Institutional co-mingled funds	\$ 14,083,056	\$ 43,770,706	\$ 34,537	\$ 143,842,842	\$ 6,139,582	\$ 116,007,347
Common, preferred and international stocks	17,473,142	55,024,913	3,352,208	193,490,934	8,184,067	159,173,210
Alternative investments	3,170,102	8,977,575	7,084	18,632,590	1,389,753	34,251,789
Real estate	112,964	328,403	259	4,666,620	50,838	2,944,395
Mortgage securities	-0-	-0-	-0-	6,800	-0-	843,647
US Government and agency debt instruments	1,461,768	4,577,954	197,916	16,036,250	667,944	12,841,255
Corporate, municipal, and international bonds	3,725,017	11,928,003	1,004,089	45,198,968	1,806,804	38,686,548
Cash equivalents	2,089,279	4,347,192	251,903	22,170,459	645,387	12,270,387
Commercial paper	3,080,205	9,575,134	7,547	32,058,378	1,341,762	25,210,797
Total investments	\$ 45,195,533	\$ 138,529,880	\$ 4,855,543	\$ 476,103,841	\$ 20,226,137	\$ 402,229,375

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, 2005 and 2004 are summarized as follows:

	2005		2004	
	Notional Par	Net Fair Market Asset (Liability)	Notional Par	Net Fair Market Asset (Liability)
Futures:				
US Treasury Notes and Bonds	\$ (700,000)	\$ (381,649)	\$ 39,400,000	\$ (63,844)
90 Day LIBOR	-0-	-0-	18,000,000	2,033,812
Eurodollars	173,000,000	(234,900)	74,000,000	(124,800)
EURIBOR	-0-	-0-	27,041,598	374,010
Forwards:				
US Government Agencies	\$ 9,600,000	\$ (14,058)	\$ 2,600,000	\$ 30,264

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 \$358,650 and \$1,195,150 in cash, and \$477,113 and \$1,226,979 of US Treasury Bills as collateral in a margin maintenance account as of June 30, 2005 and 2004, respectively. The net gains (losses) generated were \$(545,741) and \$1,571,127 for the years ended June 30, 2005 and 2004, respectively.

Investment income including net gains (losses), net of outside investment management fees, for the years ended June 30, 2005 and 2004 consists of the following:

	2005			
	Unrestricted	Temporarily Restricted		Permanently Restricted
		Foundation	University	Foundation University
Dividend, interest and other investment income	\$ 3,119,963	\$ -0-	\$ 9,606,621	\$ -0- \$ 1,060
Net realized and unrealized gains (losses) on investments	8,184,418	-0-	68,924,578	183,192 (474,930)
Outside investment management fees	(275,784)	-0-	(3,140,503)	-0- -0-
Total investment income, including net gains (losses), net of outside investment management fees	\$ 11,028,597	\$ -0-	\$ 75,390,696	\$ 183,192 \$ (473,870)

	2004			
	Unrestricted	Temporarily Restricted		Permanently Restricted
		Foundation	University	Foundation University
Dividend, interest and other investment income	\$ 2,110,577	\$ -0-	\$ 8,673,271	\$ -0- \$ 332
Net realized and unrealized gains (losses) on investments	23,651,292	-0-	117,518,467	70,671 65,065
Outside investment management fees	(288,876)	-0-	(3,718,840)	-0- -0-
Total investment income, including net gains (losses), net of outside investment management fees	\$ 25,472,993	\$ -0-	\$ 122,472,898	\$ 70,671 \$ 65,397

Investment securities, in general are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the Statement of Financial Position and in the Statement of Activities.

Note 7 - 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 restrictions as of June 30, 2005 and 2004 are as follows:

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Note 9 - Contingencies and Commitments

As described in Note 2 - Summary of Significant Accounting Policies, the Foundation assumes all risk associated with certain permanent endowment assets and the market and interest rate changes related to the Foundation's investment of these monies. For specific endowments where the market value has declined below the original gift corpus, the Foundation reports a decrease in its unrestricted net assets through a reduction in its investment in securities. This amount totals \$4,201,543 and \$6,307,649 as of June 30, 2005 and 2004, respectively. Subsequent recovery of investment market value has reduced previously accrued deficits with unrestricted amounts reinstated of \$2,106,106 and \$13,540,299, respectively for the years ended June 30, 2005 and 2004.

The Foundation has borrowed \$55,317,178 and \$54,455,369 of temporarily restricted University cash and cash equivalents as of June 30, 2005 and 2004, 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. However, further investment market value declines and reduced unrestricted giving could require additional borrowings to sustain the Foundation operations in the near term.

Interfund financing of \$14,884,866 and \$15,769,562 as of June 30, 2005 and 2004, 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 variable ranging from 4.56% to 5.75% and 2.85% to 4.00% as of June 30, 2005 and 2004, respectively.

During fiscal 2005, the Foundation contracted to provide the University with internal financing up to \$2,730,835, for the purchase and installation of the Assembly Hall scoreboard. As of June 30, 2005, the Foundation has expended \$684,626, resulting in an outstanding commitment of \$2,046,209.

During fiscal 2005, the Foundation acquired, with a commitment to renovate, the University Place Hotel located at 850 West Michigan Street, Indianapolis, Indiana in an amount estimated not to exceed \$31 million, subject to certain conditions including, but not limited to, the University securing appropriate state approvals. As of June 30, 2005, the Foundation has expended \$21,068,628 for acquisition and renovation costs, resulting in a related outstanding commitment of \$9,931,372.

The Foundation's other 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. The Foundation's asset allocation policy allocates up to 28% in these types of investments. As of June 30, 2005 and 2004, the Foundation has entered into agreements with unfunded commitments of \$68.3 million and \$40.6 million, respectively. These commitments are expected to be fulfilled over the next three to five years.

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Note 10 - 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, 2005 and 2004, a summary of these expenditures follows:

Program expenditures:	2005		
	Foundation	Unrestricted University*	Total
Foundation programs:			
Real estate	\$ 3,192,024	\$ -0-	\$ 3,192,024
Air transportation services	1,401,293	-0-	1,401,293
Student Foundation	463,759	-0-	463,759
Cultural center	141,753	-0-	141,753
Women's programs	49,691	-0-	49,691
Miscellaneous	62,399	-0-	62,399
	<u>5,310,919</u>	<u>-0-</u>	<u>5,310,919</u>
Grants and aid to the University:			
Operating support:			
University support	2,595,041	33,229,302	35,824,343
Student scholarship and financial aid	65,795	21,328,526	21,394,321
Faculty support	18,218	6,481,658	6,499,876
Faculty research	-0-	81,521,387	81,521,387
	<u>2,679,054</u>	<u>142,560,873</u>	<u>145,239,927</u>
Endowment and capital additions:			
Land, building and equipment purchases	134,572	9,518,870	9,653,442
Library and art acquisitions	500	624,422	624,922
	<u>135,072</u>	<u>10,143,292</u>	<u>10,278,364</u>
Total program expenditures	<u>\$ 8,125,045</u>	<u>\$ 152,704,165</u>	<u>\$ 160,829,210</u>

Indiana University Foundation
Notes to the Financial Statements
June 30, 2005 and 2004

Program expenditures:	2004		
	Foundation	Unrestricted University*	Total
Foundation programs:			
Real estate	\$ 1,309,768	\$ -0-	\$ 1,309,768
Air transportation services	2,254,437	-0-	2,254,437
Student Foundation	440,431	-0-	440,431
Cultural center	107,637	-0-	107,637
Women's programs	40,075	-0-	40,075
Miscellaneous	34,658	-0-	34,658
	4,187,006	-0-	4,187,006
Grants and aid to the University:			
Operating support:			
University support	1,366,424	93,967,584	95,334,008
Student scholarship and financial aid	52,000	21,015,544	21,067,544
Faculty support	-0-	7,065,569	7,065,569
Faculty research	-0-	15,622,234	15,622,234
	1,418,424	137,670,931	139,089,355
Endowment and capital additions:			
Land, building and equipment purchases	1,672	10,306,475	10,308,147
Library and art acquisitions	-0-	957,273	957,273
	1,672	11,263,748	11,265,420
Total program expenditures	\$ 5,607,102	\$ 148,934,679	\$ 154,541,781

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

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Note 11 - Related Party Transactions

In addition to amounts and transactions disclosed in the preceding notes and financial statements, the following is a summary of related party transactions between the Foundation and the University. These transactions have been summarized below by financial statement classification as reported in the Statement of Activities.

Revenue and Support:

Included in unrestricted other income is direct support from the University for certain fundraising efforts as well as income from its program operations. For the years ended June 30, 2005 and 2004, respectively, the University reimbursed the Foundation for its direct support of the IUPUI Comprehensive Campaign and the Matching the Promise Campaign general fund raising efforts in the amount of \$505,297 and \$1,164,362. As a part of the Foundation program operations, the Foundation received support from the University for the years ended June 30, 2005 and 2004, respectively, as follows: \$2,040,664 and \$2,228,660 of rental income for the lease of certain real estate; \$1,054,703 and \$865,683 for Telefund service fees related to its telephone fund raising operations; \$1,036,182 and \$1,095,914 for air transportation services; and \$1,125,047 and \$1,755,649 for management/administrative fees.

Program Expenditures:

The Foundation operates a program to acquire on behalf of, lease to, and/or grant real estate to the University. Included in university support are the net book values of properties granted to the University totaling \$962,026 for the year ended June 30, 2005. In addition, program costs include maintenance and repair, utilities, insurance and taxes. Income received by the Foundation related to these operations is recorded in other income.



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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

We have audited the accompanying basic financial statements of Indiana University, a component unit of the State of Indiana, as of and for the years ended June 30, 2005 and 2004. 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 audit. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit 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, 2005 and 2004, 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 27, 2005, on our consideration of Indiana University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

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.

October 27, 2005

STATE BOARD OF ACCOUNTS

A handwritten signature in blue ink, appearing to read "S. J. Faint", written over the printed name "STATE BOARD OF ACCOUNTS".

The Trustees of Indiana University

for fiscal year ending June 30, 2005

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for fiscal year ending June 30, 2005

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Additional copies of this report may be obtained from:

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Bryan Hall 204
Indiana University
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For additional information:

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