ANNUAL FINANCIAL REPORT

INDIANA UNIVERSITY

2017—2018

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Indiana University Annual Financial Report 2017—2018

MESSAGE FROM THE PRESIDENT

Michael A. McRobbie, President, Indiana University

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

Dear Governor Holcomb:

On behalf of the Trustees of Indiana University, I am pleased to present to you IU's 2017-18 Financial Report.

Indiana University is bustling with activity as we enthusiastically count down to the rapidly approaching 200th anniversary of the university's founding as the Indiana Seminary by the Indiana General Assembly on January 20, 1820. As IU's bicentennial approaches, we continue to make major advancements—in education, research, innovation, philanthropy and engagement in the life of our state—to prepare our university for a third century of excellence and to ensure that we continue to achieve our primary mission of educating outstanding students.

RECORD FRESHMAN CLASS, RECORD DIVERSITY

Despite considerable demographic changes across our state and nation—IU remains the leading destination of choice for Hoosier students in Indiana and continues to attract the best and brightest students from all around the nation and world. Collectively, these students are coming to our campuses for an affordable, accessible, relevant, and top-quality education and the kinds of academic experiences that will help ensure rewarding careers and a lifetime of personal and professional success.

Our enrollment this fall features the largest freshman class in IU's history, totaling nearly 16,000 new students, including record first-year classes at IU Bloomington, IUPUI, IU Kokomo and IU East.

Our freshmen are part of a total official enrollment at IU of 91,515 degree-seeking students on seven campuses. When non-degree-seeking students are counted—which includes thousands of high school students taking dual-credit courses sponsored by the university—IU serves nearly 109,000 students overall, the largest number of any college or university in the Hoosier state.

Once again demonstrating our longstanding commitment to educating Indiana's best and brightest, our undergraduate student body is comprised of more than 75 percent of in-state students. The student bodies at IU Bloomington and IUPUI include students from all 92 Indiana counties, further underscoring the fact that IU continues to educate more Hoosiers than any other university in Indiana.

Our student body also continues to reflect the increasing diversity of our state. For the second consecutive year, IU's student body contains more than 20,000 degree-seeking minority students, setting a new record for diversity at the university and now constituting nearly a quarter of IU's degree-seeking population. This represents nearly a doubling of the number of minority students at IU since 2007. It is testament to our concerted efforts to make IU accessible to all, to better represent the world our students will enter when they graduate, and to support a welcoming and inclusive environment.

Indiana University is also graduating record numbers of students.

In May 2018, a record number of more than 21,000 students received IU degrees during commencement ceremonies across our state. IU's class of 2018 represented the largest group of graduates to be produced by any institution in Indiana—in fact almost as large as the next two combined—and it was also one of its most distinguished. The class included Wells Scholars, Goldwater Scholars, and Boren Scholars.

Viewed in terms of sheer size, the class of 2018 shows again how IU is truly the state's higher education powerhouse and reflects the enormous value Hoosiers continue to place on an IU education. These graduates also serve as a powerful reminder of IU's huge impact on the health, social and cultural fabric, and economic vitality of the Hoosier state.

ENSURING THE VALUE AND AFFORDABILITY OF AN IU EDUCATION

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

Undergraduate tuition and fees at IU Bloomington are below the public doctoral university national average and increases over the past five years were significantly lower than the national average. Undergraduate tuition and fees at IU's regional campuses are nearly 17 percent lower than the national average for master's-level institutions. Tuition and fees on IU's regional campuses, which all charge the same amount, are the lowest of any public 4-year institution in the state. Given the lifetime opportunities that a higher education degree affords, including higher earnings, an IU education is a bargain and an excellent personal investment.

Of course, most students do not pay the full tuition price due to various sources of financial assistance, including university-based scholarships and grants. IU provided nearly $112 million in university-funded financial assistance to Hoosier undergraduate students during the 2016-17 academic year, primarily financed from private gifts to IU. Helping greater numbers of students pay for college and expanding IU's financial assistance programs is a primary goal of IU's fundraising efforts, including its current Bicentennial Campaign. Through July of this year, the campaign has endowed over 4,500 new student scholarships and fellowships, totaling nearly $225 million in new funds, a 35 percent increase over the previous 190 years' accumulated total prior to the campaign.

IU has also been a national leader in developing award-winning financial literacy programs that have helped reduce the amount of debt students have incurred for their education. For the five-year period ending with the 2016-17 academic year, Hoosier student debt decreased from $329 million to $248 million, a 25 percent reduction.

A DRAMATIC ACADEMIC TRANSFORMATION

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

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

To this end, IU has recently established ten new schools—as well as new academic programs in such key disciplines as architecture and intelligent systems engineering—all designed to meet the evolving needs of our students and the state—and all based on a strong liberal arts foundation that has made American higher education the best and most admired in the world.

IU ONLINE – DEGREES AND PROGRAMS THAT WORK

We have also seen extraordinary growth in our successful online initiative, which has helped IU, a pioneer in this area for many years, firmly cement its position as the state's online education powerhouse for four-year and graduate online education.

Established more than five years ago, IU Online now offers 124 degree and certificate programs and over 2,000 courses from IU's seven campuses. All programs and courses are developed and taught by IU faculty, coordinated by our faculty and academic administrators across multiple campuses, and subject to the same stringent university processes and approval procedures that our traditional academic programs go through. The result has been an authentically IU experience that is a true extension of IU's faculty and curriculum and one that builds on the best traditional classroom experiences.

A record 30,023 students—nearly a third of this year's student body—are enrolled in at least one online class, a figure that has surged dramatically in the past five years. We also have seen a considerable increase in the number of students (now totaling 8,760 and representing almost one-tenth of IU's total enrollment) taking only online courses.

These are especially noteworthy and important figures when we consider that only about a quarter of Indiana's resident population holds four-year or advanced degrees, ranking the state in the bottom quintile nationally. Twenty-two percent—or nearly 750,000 Hoosiers—have some college education but have not graduated. Our goal is to help more of them graduate, which, in turn, will rapidly increase the percentage of degree holders in the population and open pathways for them to new careers, promotions, and other economic opportunities.

STATEWIDE TRANSFORMATION IN HEALTH SCIENCES EDUCATION AND RESEARCH

Indiana University is also in the midst of a statewide transformation in the area of health sciences education.

IU recently celebrated the opening of the new Stone Family Center for Health Sciences, a 145,000 square-foot facility in downtown Evansville, which houses the IU School of Medicine regional medical education program, along with health science programs offered by the University of Southern Indiana and the University of Evansville. This partnership will help ensure that there will be an adequate number of health care workers serving the citizens of the Evansville area.

In both Indianapolis and Bloomington, we are building new Academic Health Centers to be co-located with new IU Health Hospitals. It has been said that no factor has been more important in the extraordinary advancements that have been made in medical practice in the United States in the last century than the nation's academic health centers. Academic health centers are the main places where much of the nation's education of health care professionals takes place, and where the results of basic laboratory research in the health sciences are applied, trialed, and tested in a clinical setting. These two new academic health centers will allow us to considerably increase the number of students in IU's health sciences programs, thus helping to address the acute statewide shortage of healthcare workers.

Beginning this fall, IU assumed responsibility for all health science academic programs in Fort Wayne. IU Fort Wayne's programs include the IU School of Medicine-Fort Wayne, which has trained physicians for many years in the region, as well as IU nursing, dental, and radiography programs. Enrollment is exceeding expectations, and IU is proud to be serving the needs of the Fort Wayne area by training future generations of healthcare workers.

A LEADING PUBLIC RESEARCH UNIVERSITY

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

During FY 2018, IU was awarded $604 million in extramural funding, more than all other Indiana public universities combined. This is the second-highest annual total in IU history—only slightly below the previous record.

With IU's prominence in the life sciences, research funding supports scientific investigation that can result in new discoveries that can improve Hoosier lives. Many of these discoveries can be translated into new products, services, and medical treatments with commercialization potential through the process of technology transfer, leading to new company start-ups and state economic development.

Through the Grand Challenges Program, the most ambitious program of research support in the university's history, IU is investing $300 million in major multidisciplinary research projects aimed at finding solutions to the "grand challenges" of our time—solutions that will provide major improvements in the quality of life for the citizens of the state of Indiana who have helped support IU for nearly 200 years.

The Precision Health Initiative, which was selected as the recipient of the first round of funding, is seeking to cure at least one cancer and one childhood disease, as well as finding ways to prevent one chronic illness and one neurodegenerative disease. The second project funded through our Grand Challenges Program, Prepared for Environmental Change, is helping Indiana communities track environmental change and measure their preparedness for responding to immediate challenges and long-term effects with targeted and strategic investments in agriculture, industry, infrastructure, and public health. IU is also proud to partner with the Governor's Office and the State of Indiana on "Responding to the Addictions Crisis", IU's third Grand Challenges initiative, which focuses the university's resources on addressing the grave and pervasive opioid addiction crisis.

CONCLUSION

All of this is testament to our continued and concerted efforts, as the state's flagship public university, to achieving our top priorities of:

- Providing a contemporary education of the highest quality.
- Producing more and better graduates.
- Ensuring our students are receiving training and experience in areas of importance to the state and nation.
- Keeping an IU education affordable and accessible.
- Better reflecting the rich composition of our state's citizenry.
- Building the foundation for personally and professionally rewarding lives.

This commitment to providing the highest quality education to our students—and to ensuring that the instruction they receive inspires and stimulates the imagination and to creating an engaged citizenry—has been central to our enduring strength for almost two centuries.

The progress we have made suggests how seriously we continue to take our obligation to the residents of our state and how much we value our partnerships with the people's elected representatives, who generously help fund and support our education and research missions.

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

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

Yours sincerely,

Michael A. McRobbie
President

MESSAGE FROM THE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

John A. Sejdinaj, Vice President and Chief Financial Officer, Indiana University

Dear President McRobbie and the Trustees of Indiana University:

I am pleased to present to you the Indiana University Financial Report for the fiscal year ended June 30, 2018. The financial statements have been prepared in accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) principles. The accompanying notes and the Management's Discussion and Analysis are integral parts of the financial statements.

The statements are intended to provide a summary of the flow of the economic resources of the university during the fiscal year covering the period of July 1, 2017, through June 30, 2018. The statements report the university's financial position at June 30, 2018, with comparative data from the previous fiscal year. In addition, financial results of the Indiana University Foundation are incorporated in the 2017-2018 financial report.

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

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

For the fiscal year ending June 30, 2018, the institution had an increase in net position of $112,554,000, or 3%, over prior year. This positive financial performance was achieved while focusing on affordability. Undergraduate tuition and fee rates increased in 2018 by 1.4% at the Bloomington and IUPUI core campuses and 1.9% at IU's five regional campuses. Complementing these moderate tuition increases was continued financial support for our students with $437,853,000 provided in financial assistance.

Affordability is also maintained through the continued financial support of donors and the state, combined with the fiscal stewardship of those across the university who have allowed us to continue to invest in the programs and facilities required to educate and prepare students to contribute to the state, the nation, and the world. In fiscal year 2018, state support for university operations was $576,597,000, while state support for capital projects was $46,239,000. Simultaneously, donor support brought into the university was $138,290,000.

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

On behalf of all those responsible for the fiscal stewardship of Indiana University's resources, I submit the Indiana University Financial Report for the fiscal year ending June 30, 2018.

John A. Sejdinaj
Vice President and Chief Financial Officer

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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

Report on the Financial Statements

We have audited the financial statements of the business-type activities and the discretely presented component unit of Indiana University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Indiana University Foundation, Inc. (Foundation), a component unit of the University as described in Note 1, which represents 100 percent, 100 percent, and 100 percent, respectively, of the total assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other 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 from material misstatement. The financial statements of the Foundation were audited in accordance with auditing standards generally accepted in the United States of America, but were not audited in accordance with *Government Auditing Standards.*

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

Unmodified Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in fiscal year 2018, the University adopted new accounting guidance GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the University's Proportionate Share of the Net Pension Liability for the Indiana Public Employees' Retirement Fund, Schedule of the University's Contributions for the Indiana Public Employees' Retirement Fund, Schedule of the University's Total Liability for Other Postemployment Benefit Plans Under GASB 75, and Schedule of Funding Progress for Other Postemployment Benefit Plans as Reported Under GASB 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

October 25, 2018

Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of Indiana University (the "university") for the fiscal year ended June 30, 2018, with selected comparative information for the years ended June 30, 2017 and 2016. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and accompanying footnotes, which follow this section.

Indiana University was founded in 1820 and is one of the largest state-supported universities in the United States. The university is a major multicampus public research institution, grounded in the liberal arts and sciences, and a world class leader in professional, medical, and technological education.

Indiana University's mission is to provide broad access to undergraduate and graduate education for students throughout Indiana, the United States, and the world, as well as outstanding academic and cultural programs and student services.

The university seeks to create dynamic partnerships with the state and local communities in economic, social, and cultural development and to offer leadership in creative solutions for 21st-century problems.

Indiana University strives to achieve full diversity and to maintain friendly, collegial, and humane environments with a strong commitment to academic freedom.

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

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

The Indiana University Building Corporation (IUBC) serves specific purposes on behalf of the university and is shown in a blended presentation with the university's financial statements. The sole purpose of IUBC is to assist the university in the financing and development of university facilities by owning and leasing such facilities to the university on a lease-purchase basis.

About the Financial Statements

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

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

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

Statement of Net Position

A comparison of the university's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2018, 2017, and 2016, is summarized as follows:

Condensed Statement of Net Position
(in thousands of dollars)

	June 30, 2018	*June 30, 2017*	*June 30, 2016*
Current assets	$ 567,218	$ 649,905	$ 681,215
Capital assets, net	3,278,609	3,147,159	2,984,285
Other assets	1,682,820	1,677,406	1,645,925
Total assets	**5,528,647**	**5,474,470**	**5,311,425**
Deferred outflows of resources	**117,817**	**86,345**	**67,186**
Current liabilities	385,295	388,257	416,626
Noncurrent liabilities	1,455,496	1,268,799	1,230,957
Total liabilities	**1,840,791**	**1,657,056**	**1,647,583**
Deferred inflows of resources	**23,534**	**38,220**	**19,743**
Net investment in capital assets	2,320,100	2,200,168	2,048,226
Restricted net position	286,520	230,713	246,074
Unrestricted net position	1,175,519	1,434,658	1,416,985
Total net position	**$ 3,782,139**	**$ 3,865,539**	**$ 3,711,285**

Assets

Current Assets

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

Current assets decreased $82,687,000, or 13%, and $31,310,000, or 5%, in 2018 and 2017, respectively. The decrease in 2018 is primarily attributable to a decrease of $65,028,000, or 32%, in short-term investments and secondarily due to a $15,328,000, or 10%, decrease in net accounts receivable. The objective of the university's investment policy with respect to its operating funds is to adequately provide for the liquidity needs of the university while maximizing the opportunity to increase yield on investments. The management of the university's operating funds permits flexibility while providing a consolidated basis from which to meet liquidity demands. Decisions on management of cash and shorter term holdings are based on asset prices, the economic environment, investment opportunities, and liquidity needs. In 2017, the current asset decrease reflected a payment of $32,656,000 made to the Indiana Public Employees' Retirement Fund to reduce the university's net pension liability. The variations in net accounts receivable in both 2018 and 2017 resulted from the timing of receivables realization as well as natural fluctuations in auxiliary revenue cycles.

Luddy Hall
School of Informatics, Computing, and Engineering; Bloomington

as major investments in equipment and information technology. Funding for capital assets consists of use of net position, capital appropriations, gifts designated for capital purposes, and debt proceeds.

New, expanded, and renovated facilities to support IU's missions of education, research, and the long-term preservation of knowledge are a central priority of the university. They are critical to recruiting and retaining the best faculty and researchers, to ensuring that IU remains competitive in research and scholarship, and to providing a high-quality living and educational environment for IU students on all campuses.

Luddy Hall became the home of the School of Informatics, Computing, and Engineering in January 2018. The 124,000 square-foot facility expands the School's capacity for teaching and research and offers a new environment for collaboration and innovation across informatics, computer science, information and library science, and intelligent systems engineering. The facility includes a 3,500 square-foot innovation center, dedicated space for existing and aspiring entrepreneurial projects, and a 1,500 square-foot fabrication lab. The $40,400,000 facility was funded by gifts and university funds.

The renovation of two buildings in Wells Quadrangle on the Bloomington campus returned these facilities from academic and administrative use to their original function as student housing, in alignment with the Bicentennial Strategic Plan Framework of Excellence "to upgrade and renovate all student residence halls on the Bloomington campus" and "the imperative to meet future needs in accordance with long-term master plans." This $33,300,000 project renovated these two buildings to house 182 beds and constructed a 200-seat dining hall,

Noncurrent Assets

Major components of noncurrent assets are endowment and operating investments and capital assets, net of accumulated depreciation. Noncurrent assets increased $136,864,000, or 3%, and $194,355,000, or 4%, in 2018 and 2017, respectively. The fair value of the university's noncurrent investments increased $9,051,000, or 1%, and $31,337,000, or 2%, in 2018 and 2017, respectively. Endowment funds are managed by the IU Foundation using a disciplined, consistent, and diversified approach according to the policies and strategic direction of the Foundation Investment Committee and the laws of the State of Indiana.

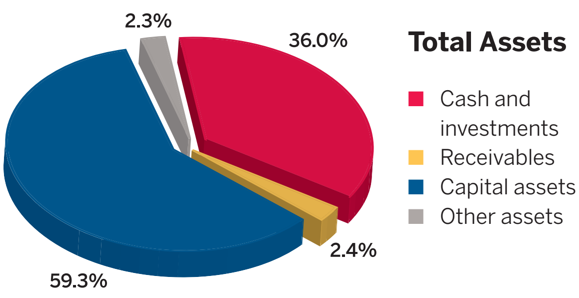
Capital Assets

The university's investment in capital assets, net of depreciation, which includes land, art and museum objects, infrastructure, equipment, and buildings, grew $131,450,000, or 4%, and $162,874,000, or 5%, in 2018 and 2017, respectively. Additions to capital assets are comprised of new construction and renovations, as well all of which opened for fall semester 2017. The renovation project was designed to foster a sense of community and learning that will grow and thrive in the historic core of the campus, which includes the Wells Quad STEM community, to promote learning outcomes and student success. The project was funded by a combination of debt and university funds.

A new state-of-the-art oral health care clinic was dedicated in March 2018. The 45,000 square-foot facility is part of a plan to ensure the Indiana University School of Dentistry is among the best in the world. The facility will make the school one of the most technologically advanced dental schools in the United States and is emblematic of the exceptional health sciences research and translational practice taking place at the IUPUI campus. The $19,500,000 cost of construction was financed by generous gifts, dental school capital funds, and auxiliary services revenue.

The following table and chart represent the composition of total assets as of June 30, 2018:

Total Assets *(in thousands of dollars)*		
Cash and investments	$ 1,988,851	36.0%
Receivables	133,858	2.4%
Capital assets	3,278,609	59.3%
Other assets	127,329	2.3%
Total assets	**$ 5,528,647**	**100.0%**



Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to a future reporting period, but do not require a further exchange of goods or services. Deferred outflows represent the consumption of net position applicable to a future reporting period and so will not be recognized as expenses or expenditures until then. Certain changes in resources related to the net pension liability (see Note 12, Retirement Plans) and the OPEB liability (see Note 13, Postemployment Benefits) are reported as deferred outflows of resources. The amounts recorded also include accumulated deferred charges on refundings of capital debt.

Liabilities

Current Liabilities

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

Current liabilities decreased $2,962,000, or 1%, and $28,369,000, or 7%, in 2018 and 2017, respectively. Accounts payable and accrued liabilities decreased $26,511,000, or 12%, and $33,624,000, or 13%, in 2018 and 2017, respectively. The decrease in 2018 is due in large part to natural fluctuations in building construction and renovation activity along with differences in accrued interest on capital debt. The decrease in 2017 relates to a payment in satisfaction of a previously accrued obligation to the state of Indiana for the university's participation in the state's Public Employee Retirement Fund. The current portion of unearned revenue increased $28,583,000, or 35%, in 2018, related to the timing of sponsored grant spending for which receipts were received in advance of related expenditures.

Noncurrent Liabilities

Noncurrent liabilities increased $186,697,000, or 15%, and $37,842,000, or 3%, in 2018 and 2017, respectively. The university adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses accounting and financial reporting for postemployment benefits other than pensions (OPEB). Accordingly, the university recorded total postemployment benefits liability of $268,543,000 at June 30, 2018 (see Note 13, Postemployment Benefits). Other long-term liabilities decreased $33,870,000, or 50%, in 2018, reflecting the reclassification of $37,304,000 formerly reported on this line to the new reporting line for the OPEB liability. Scheduled principle payments in 2018 contributed to a reduction in bonds and notes payable of $54,718,000, or 6%, while the increase in 2017 was primarily due to the issue of new debt (see Note 8, Bonds and Notes Payable). The noncurrent portion of unearned revenue increased $13,621,000, or 57%, related to the timing of sponsored grant spending for which receipts were received in advance of related expenditures.

Debt and Financing Activity

Institutional borrowing capacity is a valuable resource that is actively managed in support of the institutional mission. Bonds, notes, and capital lease obligations totaled $1,027,435,000 and $1,085,679,000 at June 30, 2018 and 2017, respectively.

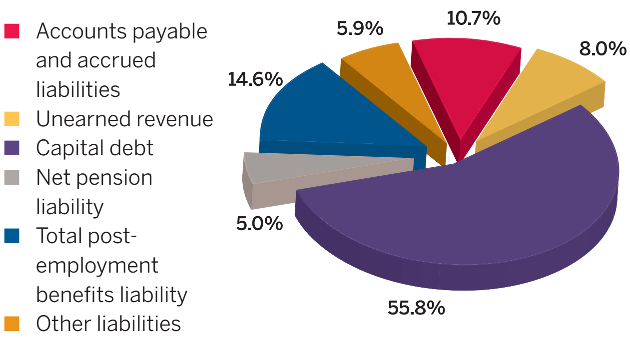
In May 2018, the university issued Indiana University Commercial Paper Notes in the amount of $20,400,000. Commercial paper notes are issued by the university from time to time to provide for the temporary financing or refinancing of costs related to certain facilities on all of the Indiana University campuses, including costs of issuance of the notes.

The university's ratings on debt obligations were last reviewed and reaffirmed in August 2018. On August 27, 2018, Moody's Investors Service rated the university's most recent student fee bonds (indicated in Note 17, Subsequent Event as they were not outstanding at June 30, 2018) and reaffirmed its underlying rating on all student fee bonds, consolidated revenue bonds, lease-purchase obligations, and certificates of participation as 'Aaa'. The university's commercial paper program carries a rating of P-1 from Moody's—reaffirmed on August 27, 2018. The university's outlook under Moody's Investors Service is stable. On August 29, 2018, S&P Global Ratings rated the university's most recent student fee bonds (described in Note 17, Subsequent Event as they were not outstanding at June 30, 2018). By referencing the May 9, 2018 credit report, S&P Global Ratings reaffirmed its long-term rating and underlying rating on all student fee bonds, consolidated revenue bonds, certificates of participation, and lease-purchase obligations issued by the university as 'AAA' and the university's commercial paper program as A-1+. The university's outlook under S&P Global Ratings is stable.

The following table and chart represent the composition of total liabilities as of June 30, 2018:

Total Liabilities *(in thousands of dollars)*		
Accounts payable and accrued liabilities	$ 197,118	10.7%
Unearned revenue	147,980	8.0%
Capital debt	1,027,435	55.8%
Net pension liability	92,066	5.0%
Total postemployment benefits liability	268,543	14.6%
Other liabilities	107,649	5.9%
Total liabilities	**$ 1,840,791**	**100.0%**

Total Liabilities



Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to a future reporting period, but do not require a further exchange of goods or services. Deferred inflows represent an acquisition of net position applicable to a future reporting period and so will not be recognized as revenue until then. The amounts recorded are related to the net pension liability (see Note 12, Retirement Plans) and the OPEB liability (see Note 13, Postemployment Benefits).

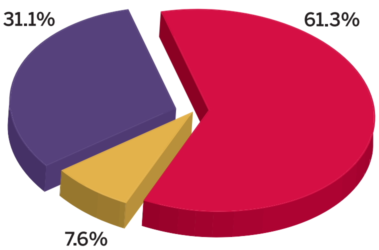
Net Position

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

- Net investment in capital assets consists of the university's investment in capital assets, such as equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and related debt.
- Restricted net position consists of amounts subject to externally imposed restrictions governing usage and is divided into two sub-categories:
    - Restricted non-expendable funds are subject to externally imposed stipulations that they be retained in perpetuity. These balances represent the corpus (historical value) of the university's permanent endowment funds.
    - Restricted expendable funds are available for expenditure by the university, but must be spent according to restrictions imposed by third parties.
- Unrestricted net position includes amounts institutionally designated or committed to support specific purposes.

The following table and chart represent the composition of net position as of June 30, 2018:

Total Net Position *(in thousands of dollars)*		
Net investment in capital assets	$ 2,320,100	61.3%
Restricted	286,520	7.6%
Unrestricted	1,175,519	31.1%
Total net position	**$ 3,782,139**	**100.0%**



The university's net investment in capital assets reflects the institutional capital investment in sustaining and enhancing the university's mission and strategic plans. The net investment in capital assets increased $119,932,000, or 5%, and $151,942,000, or 7%, in 2018 and 2017, respectively. Growth in this area is managed according to the university's long-range capital plans, along with operating units' needs to support programs and operating needs.

Restricted net position increased $55,807,000, or 24%, and decreased $15,361,000, or 6%, in 2018 and 2017, respectively. Variances in both years are largely due to fluctuations in spending of bond proceeds, which impact the capital projects component of restricted net position.

Unrestricted net position is subject to internal designations and commitments for academic and research initiatives, capital projects, and unrestricted quasi- and term endowment spending plans. Unrestricted net position represents resources available for ongoing operational needs and for funding ongoing obligations, as well as providing flexibility to support the university's mission in changing economic environments. Unrestricted net position decreased $259,139,000, or 18%, and increased $17,673,000, or 1%, in 2018 and 2017, respectively. The 2018 decline is attributable to the change in accounting principle in accordance with GASB 75, as discussed above under Noncurrent Liabilities. The impacts of the postemployment benefits liability of $268,543,000 are reflected in unrestricted net position.

Net position after the change in accounting principle increased $112,554,000, or 3%, in 2018 and $154,254,000, or 4%, in 2017. Net position at June 30, 2018, was $3,782,139,000.

Statement of Revenues, Expenses, and Changes in Net Position

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

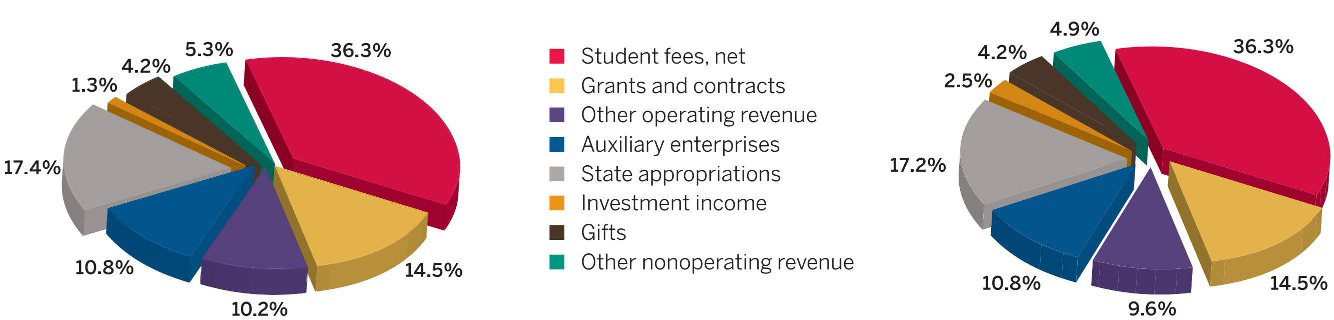
A summarized comparison of the university's revenues, expenses, and changes in net position is presented below:

Condensed Statement of Revenues, Expenses, and Changes in Net Position
(in thousands of dollars)

		Fiscal Year Ended	
	June 30, 2018	*June 30, 2017*	*June 30, 2016*
Operating revenues	$ 2,385,536	$ 2,316,022	$ 2,256,204
Operating expenses	(3,175,110)	(3,063,303)	(2,941,624)
Total operating loss	**(789,574)**	**(747,281)**	**(685,420)**
Nonoperating revenues	865,526	876,561	794,928
Nonoperating expenses	(31,679)	(33,308)	(31,668)
Income before other revenues, expenses, gains, or losses	**44,273**	**95,972**	**77,840**
Other revenues	68,281	58,282	27,816
Increase in net position	**112,554**	**154,254**	**105,656**
Net position, beginning of year	3,865,539	3,711,285	3,605,629
Adjustment per change in accounting principle	(195,954)	–	–
Net position, beginning of year, as restated	3,669,585	–	–
Net position, end of year	**$ 3,782,139**	**$ 3,865,539**	**$ 3,711,285**

The following charts represent revenues by major source for fiscal years 2018 and 2017:

Revenues 2018 **Revenues 2017**



Memorial Hall
Student housing; Bloomington

Operating revenues increased $69,514,000, or 3%, and $59,818,000, or 3%, during 2018 and 2017, respectively. The university supports its operations with diverse revenue sources, of which the largest single source is student tuition and fees. Tuition and fees, net of scholarship allowances, increased $24,007,000, or 2%, and $24,978,000, or 2%, during 2018 and 2017, respectively, and represents 36% of total revenue in 2018 and 2017. Tuition and fee revenue is affected by a combination of changes in tuition rates, enrollment, and the mix of student levels and residency. Resident undergraduate tuition and fee rates increased in 2018 by 1.4% at the Bloomington and IUPUI core campuses and 1.9% at IU's five regional campuses. The modest increases reinforce the university's commitment to student affordability. The tuition increases helped to fund student success programming—student academic success, student financial success, and the health and well-being of students. The university has invested significantly in crucial infrastructure to support the research mission across diverse areas of focus. Total operating grant and contract revenues from all sources increased 3% in 2018 and less than 1% in 2017. Other revenue, including hospital and practice plan support for School of Medicine research and other initiatives, increased $25,321,000, or 9%, in 2018.

Operating expenses increased $111,807,000, or 4%, and $121,679,000, or 4%, in 2018 and 2017, respectively. Compensation and benefits, at 65% of total operating expenses, represents the largest single university expense. The university's strategic plan makes a clear statement of commitment to "recruit and retain an outstanding, diverse, and inclusive faculty from researchers, scholars, teachers, and creative artists worldwide who are recognized as among the very best in their fields." Compensation and benefits expense increased $64,923,000, or 3%, and $60,571,000, or 3%, in 2018 and 2017, respectively. The change in 2018 reflects, in part, a net OPEB expense reduction of $15,257,000. University benefit plans play an important role in attracting and retaining employees and the university has implemented initiatives in recent years to control costs without compromising the competitiveness of the benefit package. The university's High Deductible Health Plan (HDHP) lowers employer premiums while providing employees with greater control over healthcare spending. Approximately 93% of employees were enrolled in a HDHP in 2018. While overall health care costs have increased, the university's cost per employee continues to be below market benchmarks, largely due to efforts to control pharmacy costs. A transition to a new pharmacy provider is expected to provide even greater savings going forward. The university's *Bicentennial Strategic Plan* articulates a commitment to access and affordability for students. Representative of the *Bicentennial Strategic Plan* commitment to ensure that an IU education remain "financially accessible for all qualified students," the combination of student financial aid expense and scholarship allowances increased $22,066,000, or 5%, and totaled $437,853,000 in 2018. Energy and utilities expense was essentially flat when comparing 2018 to 2017, with a decrease of $730,000, or 1%, compared to an increase of $2,656,000, or 4%, in 2017. In 2017, a combination of rate increases, a warmer cooling season, and new buildings contributed to overall increased utility costs, while the university continued to benefit from energy efficiency measures and strategies to stabilize rate fluctuations. Supplies and general expense increased $37,262,000, or 6%, and $52,281,000, or 9%, in 2018 and 2017, respectively. In addition to payment timing differences, the increase in 2018 was spread across auxiliary, academic, and capital facilities functions. The increase in 2017 was due in large part to contractual services on sponsored grants.

Nonoperating revenues, net of interest expense, decreased $9,406,000, or 1%, and increased $79,993,000, or 10%, in 2018 and 2017, respectively. State operating appropriations are comprised of appropriations to support the primary general educational mission of the university and student fee replacement appropriations for the purpose of reimbursing a portion of the university's debt service for certain academic facilities. The state of Indiana appropriates operating funds to the state's colleges and universities on a performance-based funding model focused on key student success measures. Non-capital state appropriations totaled $576,597,000 in 2018 and $558,111,000 in 2017, and is the university's second largest revenue source, after tuition and fees. Investment income decreased $38,790,000, or 47%, and increased $49,858,000, or 153%, in 2018 and 2017, respectively, largely due to a combination of realized and unrealized losses in 2018 and realized and unrealized gains in 2017.

The university recognized $46,239,000 and $31,083,000 in capital appropriations for repairs, renovations, and improvements across all campuses in 2018 and 2017, respectively. Revenue recognized as capital appropriations and capital gifts and grants fluctuates as funding is brought in to the university according to the needs of the schools and campuses.

Statement of Cash Flows

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

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

Comparative Statement of Cash Flows
(in thousands of dollars)

		Fiscal Year Ended	
	June 30, 2018	*June 30, 2017*	*June 30, 2016*
Net cash provided (used) by:			
Operating activities	$ (616,202)	$ (651,135)	$ (518,997)
Noncapital financing activities	821,232	795,174	770,852
Capital and related financing activities	(308,597)	(247,955)	(371,354)
Investing activities	100,096	52,653	117,200
Net increase (decrease) in cash and cash equivalents	**(3,471)**	**(51,263)**	**(2,299)**
Beginning cash and cash equivalents	227,459	278,722	281,021
Ending cash and cash equivalents	**$ 223,988**	**$ 227,459**	**$ 278,722**

The university's cash and cash equivalents decreased $3,471,000 and $51,263,000 in 2018 and 2017, respectively. Net cash flows from operating activities consists primarily of tuition and fees, grants and contracts, and auxiliary enterprise receipts. Payments to employees represent the largest use of cash for operations. Significant sources of cash provided by noncapital financing activities, as defined by GASB, including state appropriations, federal Pell grants, and private noncapital gifts are used to fund operating activities. Fluctuations in capital and related financing activities reflect decisions made relative to the university's capital and financing plans. Cash flows from investing activities include the effects of shifts between cash equivalents and longer-term investments.

Economic Outlook

For the second year in a row, 2018 state general fund revenues exceeded both forecast as well as prior year-to-date levels. Forecasted state revenues for 2018 were $158,600,000, or 1.0%, above forecast and $297,300,000, or 1.9%, above 2017 collections. Sales tax collections, the largest single state tax revenue source, grew at a modest rate of 2.3% over 2017, while individual income tax collections grew at a strong rate of 7.0% over 2017. Rounding out the state's "Big 3" tax revenues, corporate income tax collections declined 32.5% from 2017, largely due to increased refund claims as well as an administrative decision by the Indiana Department of Revenue to re-categorize non-resident partnership withholdings under individual income tax instead of corporate income tax. Corporate income taxes made up only 4.2% of all state tax sources in 2018. It is important to note that state tax revenues in 2018 were impacted modestly by individual and business income tax cuts enacted by the General Assembly in recent years. These tax cuts are being phased-in over several years and considering even their modest impact, supports the conclusion that 2018 was a good tax collection year for the state. Despite some drawdown of state reserves, primarily for one-time spending on K-12 education and Department of Child Services, the state's overall fiscal standing remains strong with total reserve balances totaling $1,785,500,000 at June 30, 2018, or 11.3% of state operating revenues.

For 2019, total state revenues were forecast in December 2017 to increase by $548,900,000, or 3.6%, over 2018 revenues. However, because actual revenue collections in 2018 were above forecast, revenue growth of $290,300,000, or 2.6%, is required to achieve the 2019 revenue forecast level.

Indiana's unemployment rate was 3.4% at the beginning of fiscal year 2019 (in July 2018) and 3.3% at the end of the fiscal year in June 2018. Indiana's rate compared favorably to the national unemployment rate of 4.0% in June 2018. In conclusion, both Indiana and the national economies are expanding, albeit in an environment in which much economic uncertainty continues to exist.

Goodbody Hall
Student housing; Bloomington

STATEMENT OF NET POSITION

(in thousands of dollars)	June 30, 2018	June 30, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 223,988	$ 227,459
Accounts receivable, net	133,858	149,186
Current portion of notes and pledges receivable	13,672	14,703
Inventories	10,172	9,675
Short-term investments	136,879	201,907
Other assets	48,649	46,975
Total current assets	567,218	649,905
Noncurrent assets		
Notes and pledges receivable	54,836	58,473
Investments	1,627,984	1,618,933
Capital assets, net	3,278,609	3,147,159
Total noncurrent assets	4,961,429	4,824,565
Total assets	**5,528,647**	**5,474,470**
Deferred outflows of resources	**117,817**	**86,345**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	197,118	223,629
Unearned revenue	110,592	82,009
Current portion of capital lease obligations	2,468	1,286
Current portion of long-term debt	75,117	81,333
Total current liabilities	385,295	388,257
Noncurrent liabilities		
Capital lease obligations	3,725	2,217
Notes payable	201,618	188,020
Assets held in custody for others	74,043	78,807
Unearned revenue	37,388	23,767
Bonds payable	744,507	812,823
Net pension liability	92,066	95,689
Postemployment benefits liability (total)	268,543	–
Other long-term liabilities	33,606	67,476
Total noncurrent liabilities	1,455,496	1,268,799
Total liabilities	**1,840,791**	**1,657,056**
Deferred inflows of resources	**23,534**	**38,220**
Net Position		
Net investment in capital assets	2,320,100	2,200,168
Restricted for:		
Nonexpendable - endowments	60,213	59,075
Expendable		
Scholarships, research, instruction, and other	130,308	120,751
Loans	19,159	18,720
Capital projects	59,969	15,226
Debt service	16,871	16,941
Unrestricted	1,175,519	1,434,658
Total net position	**$ 3,782,139**	**$ 3,865,539**

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

Indiana University Foundation

Statements of Financial Position
June 30, 2018 and 2017
(In thousands)

		2018		2017
Assets				
Cash and cash equivalents	$	65,047	$	98,367
Collateral under securities lending agreement		90,182		98,059
Receivables and other assets		23,165		22,438
Due from brokers		31,157		60,381
Promises to give, net		228,242		176,233
Investments		2,558,430		2,347,969
Property, plant, and equipment, net		62,246		57,932
Total assets	$	3,058,469	$	2,861,379
Liabilities and Net Assets				
Liabilities:				
Accounts payable and other	$	8,828	$	7,755
Due to brokers		59,019		87,751
Collateral under securities lending agreement		90,182		98,059
Split interest agreement obligations		38,754		34,766
Assets held for the University		238,529		230,266
Assets held for University affiliates		42,257		39,937
Total liabilities		477,569		498,534
Net assets:				
Unrestricted		84,897		65,679
Temporarily restricted		910,011		890,671
Permanently restricted		1,585,992		1,406,495
Total net assets		2,580,900		2,362,845
Total liabilities and net assets	$	3,058,469	$	2,861,379

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(in thousands of dollars)

	Fiscal Year Ended June 30, 2018	June 30, 2017
Operating revenues		
Tuition and fees	$ 1,487,951	$ 1,452,395
Less scholarship allowance	(283,150)	(271,601)
Federal grants and contracts	328,545	320,054
State and local grants and contracts	20,886	19,088
Nongovernmental grants and contracts	132,693	130,447
Sales and services of educational units	39,244	39,422
Other revenue	299,324	274,003
Auxiliary enterprises (net of scholarship allowance of $39,775 in 2018 and $35,689 in 2017)	360,043	352,214
Total operating revenues	**2,385,536**	**2,316,022**
Operating expenses		
Compensation and benefits	2,074,590	2,009,667
Student financial aid	154,703	144,186
Energy and utilities	75,391	76,121
Travel	57,214	59,967
Supplies and general expense	655,071	617,809
Depreciation and amortization expense	158,141	155,553
Total operating expenses	**3,175,110**	**3,063,303**
Total operating loss	**(789,574)**	**(747,281)**
Nonoperating revenues (expenses)		
State appropriations	576,597	558,111
Grants and contracts	107,028	99,581
Investment income	43,611	82,401
Gifts	138,290	136,468
Interest expense	(31,679)	(33,308)
Net nonoperating revenues	**833,847**	**843,253**
Income before other revenues, expenses, gains, or losses	**44,273**	**95,972**
Capital appropriations	46,239	31,083
Capital gifts and grants	21,817	23,173
Additions to permanent endowments	225	4,026
Total other revenues	**68,281**	**58,282**
Increase in net position	**112,554**	**154,254**
Net position, beginning of year	3,865,539	3,711,285
Adjustment per change in accounting principle	(195,954)	–
Net position, beginning of year, as restated	3,669,585	–
Net position, end of year	**$ 3,782,139**	**$ 3,865,539**

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

Indiana University Foundation

Statement of Activities
Year Ended June 30, 2018
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and other revenue:				
Contributions	$ 6,931	$ 92,854	$ 140,774	$ 240,559
Investment income, net	16,278	112,979	45,667	174,924
Management/administrative fees	20,665	(17,463)	(33)	3,169
Grants	-	50,686	-	50,686
Other income	11,876	2,742	1,245	15,863
Development service fees from the University	4,416	-	-	4,416
Change in value of split interest agreements	(367)	(1,153)	1,231	(289)
Net assets released from restrictions	230,692	(221,305)	(9,387)	-
Total support and other revenue	290,491	19,340	179,497	489,328
Expenses:				
Grants and aid to the University	226,562	-	-	226,562
Management and general	23,192	-	-	23,192
Fundraising	21,519	-	-	21,519
Total expenses	271,273	-	-	271,273
Change in net assets	19,218	19,340	179,497	218,055
Net assets, beginning of year	65,679	890,671	1,406,495	2,362,845
Net assets, end of year	$ 84,897	$ 910,011	$ 1,585,992	$ 2,580,900

See notes to financial statements.

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	Fiscal Year Ended June 30, 2018	June 30, 2017
Cash Flows from Operating Activities		
Student fees	$ 1,204,253	$ 1,175,160
Grants and contracts	521,971	459,837
Sales and services of educational activities	40,541	39,522
Auxiliary enterprise charges	370,044	350,424
Other operating receipts	294,056	270,950
Payments to employees	(2,086,817)	(2,027,110)
Payments to suppliers	(810,172)	(776,351)
Student financial aid	(155,891)	(145,056)
Student loans collected	13,464	12,266
Student loans issued	(7,651)	(10,777)
Net cash used in operating activities	**(616,202)**	**(651,135)**
Cash Flows from Noncapital Financing Activities		
State appropriations	576,597	554,752
Nonoperating grants and contracts	107,028	99,581
Gifts and grants received for other than capital purposes	137,133	140,896
Direct lending receipts	473,150	518,823
Direct lending payments	(472,676)	(518,878)
Net cash provided by noncapital financing activities	**821,232**	**795,174**
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	46,239	31,083
Capital grants and gifts received	41,039	21,925
Purchase of capital assets	(294,598)	(319,393)
Proceeds from issuance of capital debt, including refunding activity	20,400	134,977
Principal payments on capital debt	(71,526)	(65,864)
Principal paid on capital leases	(2,375)	(1,886)
Interest paid on capital debt and leases	(47,776)	(48,797)
Net cash used in capital and related financing activities	**(308,597)**	**(247,955)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	8,311,497	8,493,813
Investment income	55,095	46,970
Purchase of Investments	(8,266,496)	(8,488,130)
Net cash provided by investing activities	**100,096**	**52,653**
Net decrease in cash and cash equivalents	**(3,471)**	**(51,263)**
Cash and cash equivalents, beginning of year	227,459	278,722
Cash and cash equivalents, end of year	**$ 223,988**	**$ 227,459**

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

Reconciliation of operating loss to net cash used in operating activities:

(in thousands of dollars)

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Operating loss	$ (789,574)	$ (747,281)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	158,141	155,553
Loss on disposal of capital assets	2,266	3,242
Changes in assets and liabilities:		
Accounts receivable	8,539	(15,438)
Inventories	(496)	(695)
Other assets	(1,674)	2,188
Notes receivable	4,669	244
Accounts payable and accrued liabilities	(22,195)	(37,384)
Unearned revenue	42,204	(6,255)
Assets held in custody for others	(4,765)	(898)
Net pension liability and related deferreds	4,057	706
Postemploymnet benefits liability (total)	(2,117)	–
Other noncurrent liabilities	(15,257)	(5,117)
Net cash used in operating activities	**$ (616,202)**	**$ (651,135)**

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

Note 1—Organization and Summary of Significant Accounting Policies

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

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

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

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

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

REPORTING ENTITY: The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 80, *Blending Requirements for Certain Component Units*, as well as additional requirements of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, provide criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for these organizations. Based on these criteria, the financial report includes the university and its blended and discretely presented component units.

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

The IU Foundation is a not-for-profit organization that reports under FASB standards, including FASB Statement Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features differ from GASB revenue recognition criteria and presentation features. No modifications have been made to the IU Foundation's financial information in the university's financial reporting to adjust for these differences. The IU Foundation distributed $221,140,000 and $162,974,000 to the university during fiscal years 2018 and 2017, respectively. Complete financial statements for the IU Foundation can be obtained from: Indiana University Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

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

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

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

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

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

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

DEFERRED OUTFLOWS OF RESOURCES: In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources represent the consumption of resources that are applicable to a future reporting period, but do not require a further exchange of goods or services. The university's total deferred outflows of resources were $117,817,000 and $86,345,000 as of fiscal years 2018 and 2017, respectively. Deferred outflows for the university were as follows:

(dollar amounts presented in thousands)

	Fiscal Year	
Deferred Outflows of Resources Related to:	*2018*	*2017*
Accumulated deferred charges on refundings of capital debt	$ 19,171	$ 22,048
Net pension liability under GASB No. 68, *Accounting and Financial Reporting for Pensions*	43,371	64,297
Total OPEB liability under GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	55,275	–
Total deferred outflows of resources	**$ 117,817**	**$ 86,345**

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

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

DEFERRED INFLOWS OF RESOURCES: In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources represent the acquisition of resources that are applicable to a future reporting period, but do not require a further exchange of goods or services. The university's total deferred outflows of resources were $23,534,000 and $38,220,000 as of fiscal years 2018 and 2017, respectively. Deferred inflows for the university were as follows:

(dollar amounts presented in thousands)

	Fiscal Year	
Deferred Inflows of Resources Related to:	*2018*	*2017*
Net pension liability under GASB No. 68, *Accounting and Financial Reporting for Pensions*	$ 18,801	$ 38,220
Total OPEB liability under GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	4,733	–
Total deferred inflows of resources	**$ 23,534**	**$ 38,220**

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

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

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

REVENUES AND EXPENSES: University revenues and expenses are classified as either operating or nonoperating as follows:

- *Operating revenues:* Operating revenues result from exchange transactions, such as student tuition and fees (net of scholarship discounts and allowances), government and other grants and contracts, and sales and services of auxiliary enterprises (net of scholarship discounts and allowances).
- *Operating expenses:* Operating expenses are incurred to support exchange transactions resulting in operating revenue. Examples include compensation and benefits, student financial aid, and supplies and general expense.
- *Non-operating revenues and expenses:* Non-operating revenues and expenses include those derived from non-exchange transactions such as gifts, certain federal and state grants, and interest expense. Non-operating revenues include significant revenue sources that are relied upon for operations, such as state appropriations, federal Pell grants, and investment income.

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

NEW ACCOUNTING PRONOUNCEMENTS: Adoption of New Standard – The GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments providing postemployment benefits other than pensions (OPEB) to recognize their unfunded actuarial accrued liability on the balance sheet and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI) for material items. The university reported a $195,954,000 change in accounting principle adjustment to unrestricted net position as of July 1, 2017. Amounts as of June 30, 2017, have not been restated to reflect the impact of GASB 75 because the information is not available to calculate the impact on OPEB expense for the fiscal year ending June 30, 2017.

RECLASSIFICATIONS: Certain reclassifications have been made to certain notes for comparative purposes.

Note 2—Deposits and Investments

CUSTODIAL CREDIT RISK – DEPOSITS: The combined bank balances of the university's demand deposits were $78,676,000 and $15,526,000 with balances subject to custodial credit risk in the amount of $7,265,000 and $4,083,000 at June 30, 2018 and 2017, respectively. Of this amount, $5,091,000 and $2,613,000 was uninsured and uncollateralized and $2,174,000 and $1,470,000 was uninsured and collateralized with securities held by the pledging financial institution at June 30, 2018 and 2017, respectively. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk, however the university monitors the credit rating and certain financial performance metrics of its custodial and commercial banks on a quarterly basis.

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

At June 30, 2018 and 2017, the university had deposits and investments, including endowment funds, as shown below:

(dollar amounts presented in thousands)

	June 30, 2018	*June 30, 2017*
Cash and cash equivalents	$ 223,988	$ 227,459
Short-term investments	136,879	201,907
Investments	1,627,984	1,618,933
Total deposits and investments	**$ 1,988,851**	**$ 2,048,299**

CUSTODIAL CREDIT RISK – INVESTMENTS: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The university manages custodial credit risk through the types of investments that are allowed by investment policy. The university also monitors the credit rating and certain financial performance metrics of its custodial and commercial banks. The university had $2,290,000 and $4,190,000 exposed to custodial credit risk at June 30, 2018 and 2017, respectively. The university had $39,143,000 and $36,473,000 where custodial credit risk could not be determined at June 30, 2018 and 2017, respectively. The remainder of the university's investments is not exposed to custodial credit risk and reflects either investment securities registered in the name of the university, investment securities loaned for collateral received, or other types of investments not exposed to custodial credit risk.

Sample Gates
Bloomington

INTEREST RATE RISK: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a deposit or investment. The university's policy for controlling its exposure to fair value losses arising from increasing interest rates is to constrain average portfolio duration within ranges of a target portfolio duration set for each portfolio of operating fund investments. The portfolios may seek to enhance returns by attempting to time movements of interest rates within the allowable ranges. The university invests in asset-backed securities, collateralized mortgage obligations, mortgage pass through securities, interest rate swaps, and swaptions that are highly sensitive to interest rate changes.

The university had fixed-rate debt securities with the following maturities at June 30, 2018:

(dollar amounts presented in thousands)

	Fair Value	*Maturities (in years)*			
Deposit and Investment Type	*June 30, 2018*	*Less than 1*	*1–5*	*6-10*	*More than 10*
Corporate bonds	$ 384,165	$ 65,102	$ 244,467	$ 41,662	$ 32,934
Government bonds	299,808	55,270	129,357	63,396	51,785
Asset-backed securities	258,870	916	127,026	22,624	108,304
Government issued asset-backed securities	132,282	2,052	18,324	12,673	99,233
Other fixed income funds	172,706	116,525	18,867	14,958	22,356
Total	**1,247,831**	**$ 239,865**	**$ 538,041**	**$ 155,313**	**$ 314,612**
Deposits and investments not subject to interest rate risk:					
External investment pools	246,439				
Money market funds	195,244				
U.S. equities	176,189				
International equities	71,358				
All other	51,790				
Total deposits and investments	**$ 1,988,851**				

The university had fixed-rate debt securities with the following maturities at June 30, 2017:

(dollar amounts presented in thousands)

Deposit and Investment Type	*Fair Value June 30, 2017*	*Maturities (in years) Less than 1*	*1–5*	*6-10*	*More than 10*
Corporate bonds	$ 488,325	$ 101,309	$ 291,092	$ 56,332	$ 39,592
Government bonds	425,901	67,776	200,821	90,602	66,702
Asset-backed securities	285,155	2,502	134,692	32,945	115,016
Government issued asset-backed securities	141,945	886	29,420	12,685	98,954
Other fixed income funds	201,718	168,874	13,070	19,774	–
Total	**1,543,044**	**$ 341,347**	**$ 669,095**	**$ 212,338**	**$ 320,264**
Deposits and investments not subject to interest rate risk:					
Money market funds	244,922				
External investment pools	238,758				
All other	21,575				
Total deposits and investments	**$ 2,048,299**				

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

CREDIT RISK: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The weighted average credit quality of each portfolio of university operating funds investments must be at least 'AA-/Aa3' for Defensive Managers, 'A/A2' for Core Plus Managers, or as specified in each manager's guidelines.

The credit ratings for the university's deposits and investments subject to credit risk as of June 30, 2018 are shown below:

(dollar amounts presented in thousands)

Investment Type	*Fair Value*	*AAA*	*AA*	*A*	*BBB*	*BB*	*Below BB*	*Not Rated*
Corporate bonds	$ 384,165	$ 3,144	$ 21,447	$ 138,567	$ 140,567	$ 51,203	$ 16,419	$ 12,818
Government bonds	299,808	4,731	233,756	28,658	6,238	12,012	10,769	3,644
Asset-backed securities	258,870	168,709	15,062	9,514	11,097	6,113	14,862	33,513
Gov't issued asset-backed securities	132,282	546	3,971	–	1,769	–	125,996	–
Other fixed income funds	172,706	–	–	–	2,178	12,403	10,657	147,468
Money market funds	195,244	192,622	–	–	–	–	–	2,622
External investment pools	246,439	–	–	–	–	–	–	246,439
Total	**1,689,514**	**$ 369,752**	**$ 274,236**	**$ 176,739**	**$ 161,849**	**$ 81,731**	**$ 178,703**	**$ 446,504**
Percentage subject to credit risk		**21.89%**	**16.23%**	**10.46%**	**9.58%**	**4.84%**	**10.58%**	**26.42%**
Not subject to credit risk	299,337							
Total deposits and investments	**$ 1,988,851**							

The credit ratings for the university's deposits and investments subject to credit risk as of June 30, 2017 are shown below:

(dollar amounts presented in thousands)

Investment Type	*Fair Value*	*AAA*	*AA*	*A*	*BBB*	*BB*	*Below BB*	*Not Rated*
Corporate bonds	$ 488,325	$ 4,501	$ 32,868	$ 169,887	$ 188,496	$ 52,573	$ 30,836	$ 9,164
Government bonds	425,901	25,374	333,931	27,095	6,645	7,015	20,572	5,269
Asset-backed securities	285,155	184,737	19,209	12,725	11,508	4,918	18,209	33,849
Gov't issued asset-backed securities	141,945	2,453	4,773	–	1,952	398	132,275	94
Other fixed income funds	201,718	–	–	–	760	12,596	12,743	175,619
Money market funds	244,922	243,010	–	–	–	–	–	1,912
External investment pools	238,758	–	–	–	–	–	–	238,758
Total	**2,026,724**	**$ 460,075**	**$ 390,781**	**$ 209,707**	**$ 209,361**	**$ 77,500**	**$ 214,635**	**$ 464,665**
Percentage subject to credit risk		**22.70%**	**19.28%**	**10.35%**	**10.33%**	**3.82%**	**10.59%**	**22.93%**
Not subject to credit risk	21,575							
Total deposits and investments	**$2,048,299**							

CONCENTRATION OF CREDIT RISK: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The university's investment policy requires that deposits and investments are to be diversified to the extent that the securities of any single issuer shall be limited to 3.5% of the market value in a particular manager's portfolio. The individual issuer limit does not apply to securities within a broadly-diversified passively managed index fund designed to represent a broad market or U.S. Government and U.S. governmental agency securities.

FOREIGN CURRENCY RISK: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a government's deposits and investments. The university's policy for controlling exposure to foreign currency risk is to constrain deposits and investments in non-U.S. dollar denominated debt to 25% of an individual manager's portfolio or as specified in each manager's guidelines. Minimal foreign currency exposure could occur if one of the university's investment managers purchases non-U.S. dollar holdings and does not hedge the currency. At June 30, 2018 and 2017, the university had immaterial amounts of deposits and investments exposed to foreign currency risk.

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

Tobias Pavilion Overlooking Conrad Prebys Amphitheater
In front of Bryan House; Bloomington

restricted endowments that are available for expenditure are $40,534,000 and $34,898,000 as of June 30, 2018 and 2017, respectively. These amounts are reported as expendable restricted for scholarships, research, instruction, and other in net position.

Endowment funds have a perpetual investment horizon and, as appropriate, may be invested in asset classes better suited to IU Foundation's longer time horizon, including but not limited to: stocks, bonds, real estate, private placements, and alternative investments. Endowment assets may be invested in commingled funds, direct investments, or a combination of the two. Assets will typically be diversified among high quality stocks and bonds. Additional asset classes such as absolute return, private equity, and real asset investments, may be included when it is reasonable to expect these investments will either increase return, reduce risk, or both. Participation in the pooled investments is achieved by owning units of the Pooled Long-Term Fund and considered an external investment pool to the university. The external investment pool is not registered with the Securities and Exchange Commission and does not have regulatory oversight. The Investment Committee of the IU Foundation Board of Directors provides direct oversight of the pool. At June 30, 2018, all endowments held with the IU Foundation were invested in pooled funds. The fair value of the university's position in the pool is the same as the value of the pool shares. The Pooled Long-Term portfolio is diversified based on manager selection, investment style, geography, and asset type to avoid any disproportionate risk related to any one industry or security.

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

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

Note 3—Fair Value Measurements

The university categorizes its fair value measurements within the fair value hierarchy as established by GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. The university had the following recurring fair value measurements as of June 30, 2018:

(dollar amounts presented in thousands)

		Fair Value Measurements Using		
	June 30, 2018	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Investments by fair value level:				
Debt securities				
Corporate bonds	$ 384,165	$ –	$ 383,662	$ 503
Collateralized obligations and mortgage-backed securities	391,152	–	386,424	4,728
Government bonds	272,846	–	272,828	18
Inflation index linked notes	21,412	–	21,412	–
Bank loans	33,825	–	33,825	–
Commingled funds	22,356	18,134	–	4,222
Municipal and provincial bonds	6,399	–	6,399	–
Total debt securities	**1,132,155**	**18,134**	**1,104,550**	**9,471**
Equity securities	246,953	246,953	–	–
External investment pool	246,439	–	–	246,439
Real estate	6,269	–	–	6,269
All other	15,761	418	15,343	–
Total investments by fair value level	**1,647,577**	**$ 265,505**	**$ 1,119,893**	**$ 262,179**
Investments measured at the net asset value (NAV):				
Commingled bond fund	116,525			
Venture capital	761			
Total investments measured at the NAV	**117,286**			
Total investments measured at fair value	**$ 1,764,863**			

The university had the following recurring fair value measurements as of June 30, 2017:

(dollar amounts presented in thousands)

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

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

Debt securities classified in level 1 at June 30, 2018 and 2017, are valued using prices quoted in active markets for those securities.

The fair value of debt securities at June 30, 2018 and 2017, are determined primarily based on level 2 inputs. The university estimates the fair value of these investments using observable market-based inputs. Observable inputs are those that market participants would use in pricing the asset based on market data obtained from independent sources such as quoted market prices, reported sales of similar securities, and reference data.

The fair value of debt securities at level 3 at June 30, 2018 and 2017, are determined using extrapolated data, proprietary models, indicative quotes, or similar techniques taking into account the characteristics of the asset.

The fair value of equity securities at level 1 at June 30, 2018, are valued using prices quoted in active markets for those securities.

The fair value of external investment pools at June 30, 2018 and 2017, are determined primarily based on level 3 inputs. A monthly valuation assigned to the shares of the pool is used to determine the fair value of the investment pools. A significant portion of the investment pool, $237,481,000 and $229,152,000 respectively at June 30, 2018 and 2017, was held at the IU Foundation. The fair value hierarchy of the foundation's investments can be found in Note 18, Excerpts from Indiana University Foundation Notes to Financial Statements.

The university holds several parcels of real estate for investment purposes. The fair values of these properties are based on appraisals received in June 2016. Since new appraisals were not received for this fiscal year, real estate is classified as level 3 at June 30, 2018 and 2017.

The fair value of all other investments at June 30, 2018 and 2017, are determined primarily based on level 2 inputs. The university estimates the fair value of these investments using observable market-based inputs.

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

The university holds shares or interests in a venture capital investment company where the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment company as a practical expedient. The company invests in venture capital firms with the objective that 60% of these are in Indiana and 60% are in the life sciences field. The unfunded commitment was $4,000 as of June 30, 2018 and 2017. This investment cannot be redeemed until the sixteenth anniversary of the first closing date, which occurs in 2019.

Note 4—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2018 and 2017:

(dollar amounts presented in thousands)

	June 30, 2018	*June 30, 2017*
Student accounts	$ 49,506	$ 48,814
Auxiliary enterprises and other operating activities	62,767	72,165
Federal, state, and other grants and contracts	19,588	20,472
Capital appropriations and gifts	2,451	10,113
Other	8,584	7,712
Current accounts receivable, gross	**142,896**	**159,276**
Less allowance for uncollectible accounts	(9,038)	(10,090)
Current accounts receivable, net	**$ 133,858**	**$ 149,186**

Note 5—Capital Assets

Fiscal year ended June 30, 2018

(dollar amounts presented in thousands)

	Balance June 30, 2017	Additions	Transfers	Retirements	Balance June 30, 2018
Assets not being depreciated:					
Land	$ 80,524	$ 2,536	$ –	$ –	$ 83,060
Art & museum objects	93,928	7,205	–	–	101,133
Construction in progress	228,213	128,134	(161,155)	119	195,073
Total capital assets not being depreciated	**402,665**	**137,875**	**(161,155)**	**119**	**379,266**
Other capital assets:					
Infrastructure	238,810	6,175	3,382	–	248,367
Intangibles	12,329	513	–	–	12,842
Land improvements	83,723	1,556	106	–	85,385
Equipment	461,971	33,472	4,847	27,320	472,970
Library books	186,732	6,561	–	23,441	169,852
Buildings	4,100,948	107,247	152,820	4,441	4,356,574
Total other capital assets	**5,084,513**	**155,524**	**161,155**	**55,202**	**5,345,990**
Less accumulated depreciation for:					
Infrastructure	159,404	5,388	–	–	164,792
Intangibles	9,223	1,649	–	–	10,872
Land improvements	29,529	4,300	–	–	33,829
Equipment	334,411	32,791	–	25,244	341,958
Library books	110,470	17,826	–	23,441	104,855
Buildings	1,696,982	96,187	–	2,828	1,790,341
Total accumulated depreciation, other capital assets	**2,340,019**	**158,141**	**–**	**51,513**	**2,446,647**
Capital assets, net	**$ 3,147,159**	**$ 135,258**	**$ –**	**$ 3,808**	**$ 3,278,609**

Fiscal year ended June 30, 2017

(dollar amounts presented in thousands)

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

The university incurred interest costs of $46,815,000 and $46,178,000 in fiscal years ending June 30, 2018 and 2017, respectively. Of this amount, $4,851,000 and $4,709,000 was capitalized during the construction of capital assets in fiscal years ending June 30, 2018 and 2017, respectively.

Note 6—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2018 and 2017:

(dollar amounts presented in thousands)

	June 30, 2018	*June 30, 2017*
Accrued payroll	$ 17,453	$ 16,417
Accrual for compensated absences	43,480	46,826
Interest payable	7,778	12,095
Vendor and other payables	128,407	148,291
Total accounts payable and accrued liabilities	**$ 197,118**	**$ 223,629**

Note 7—Other Liabilities

Other liability activity for the fiscal years ended June 30, 2018 and 2017, is summarized as follows:

Fiscal year ended June 30, 2018

(dollar amounts presented in thousands)

	Balance June 30, 2017	*Additions*	*Reductions*	*Balance June 30, 2018*	*Current*
Bonds, notes, and capital leases payable:					
Bonds payable	$ 887,559	$ –	$ 74,737	$ 812,822	$ 68,315
Notes payable	194,617	20,400	6,597	208,420	6,802
Capital leases payable	3,503	5,014	2,324	6,193	2,468
Total bonds, notes, and capital leases payable	**1,085,679**	**25,414**	**83,658**	**1,027,435**	**77,585**
Other liabilities:					
Unearned revenue	105,776	42,204	–	147,980	110,592
Assets held in custody for others	82,689	–	7,394	75,295	1,252
Compensated absences	75,606	17,494	16,818	76,282	43,480
Net pension liability	95,689	–	3,623	92,066	–
Total postemployment benefits liability	–	268,543	–	268,543	–
Other	38,696	34	37,926	804	–
Total other liabilities	**$ 1,484,135**	**$ 353,689**	**$ 149,419**	**$ 1,688,405**	**$ 232,909**

Fiscal year ended June 30, 2017

(dollar amounts presented in thousands)

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

Note 8—Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds, notes, and other forms of indebtedness for the purpose of financing construction of facilities that include academic and administrative facilities, research facilities on the Bloomington and Indianapolis campuses, athletic facilities, parking facilities, student housing, health service facilities, student union buildings, and energy savings projects. At June 30, 2018 and 2017, the university had serial bonds and term bonds with maturities that extend to June 1, 2044. At June 30, 2017, the university had capital appreciation bonds outstanding. The university has both tax-exempt and taxable bonds outstanding.

The total outstanding bonds and notes payable at June 30, 2018 and 2017, were $1,021,242,000 and $1,082,176,000, respectively. This indebtedness included principal outstanding at June 30, 2018 and 2017, for bonds issued under Indiana Code (IC) 21-34-6 as student fee debt (Student Fee Bonds) of $348,060,000 and $392,121,000, respectively, and under IC 21-35-3 as consolidated revenue bonds (CRBs) of $389,810,000 and $411,680,000, respectively. This indebtedness also included principal outstanding at June 30, 2018 and 2017, for notes issued under IC 21-33-3-5 as lease-purchase obligations (LPOs) or certificates of participation (COPs), collectively "Obligations", of $171,825,000 and $177,420,000, respectively and under IC 21-32-2 (Temporary Borrowing), commercial paper of $20,400,000 and $0, respectively. Total bonds and notes payable at June 30, 2017 had an additional accreted value of outstanding Student Fee Bonds issued as capital appreciation bonds of $3,031,000, which was not in the principal or face value. The calculation of total bonds and notes payable at June 30, 2018 and 2017, includes the addition of bond premium outstanding of $91,147,000 and $100,955,000, respectively. As of June 30, 2018 and 2017, debt service payments to maturity total $1,300,158,000 and $1,393,645,000 of which $396,441,000 and $450,563,000, respectively, are from bonds eligible for fee replacement appropriations.

On a biennial basis, the Indiana General Assembly authorizes a specific state appropriation to the university for the purpose of reimbursing a portion of the debt service payments on bonds issued under IC 21-34-6 for certain academic facilities. Such academic facilities include classrooms, libraries, laboratories, and other academic support facilities as designated by the Indiana General Assembly. These specific state appropriations are referred to as "fee replacement" appropriations and are received from the State of Indiana on a semi-annual basis. This appropriation is renewed and supplemented on a biennial basis because state statutes prohibit a sitting General Assembly from binding subsequent General Assemblies with respect to future appropriation of funds. In over 45 years of making fee replacement appropriations, the State has never failed to fully fund or otherwise provide for a fee replacement obligation established by a prior General Assembly. The outstanding principal balances that are eligible for fee replacement appropriations as of June 30, 2018 and 2017, are $310,500,000 and $349,967,000, respectively.

In addition to serial and term bonds, the university has issued capital appreciation bonds (CAB). A CAB is a long-term municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity. At maturity, the investor receives both the initial principal amount and the total investment return. CABs are typically sold at a deeply discounted price and are distinct from traditional zero coupon bonds because the investment return is considered to be in the form of compounded interest rather than accreted original issue discount. Total debt service payments to maturity as of June 30, 2017 include CAB payments of $3,980,000, of which $225,000 are eligible for fee replacement appropriations. There were no CABs outstanding as of June 30, 2018.

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

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

Indiana Code 21-32-2 permits the use of debt in the form of temporary borrowing in anticipation of future long-term borrowing for capital projects when such long-term borrowing is authorized under other sections of the Indiana Code. The university has a commercial paper program to provide interim financing for certain capital projects and may continue to do so in the future. The university may issue tax-exempt and/or taxable commercial paper. As of June 30, 2018, the university has commercial paper outstanding, which is considered notes for reporting purposes. As of June 30, 2018, the university has no variable rate bonds outstanding.

As of June 30, 2018 and 2017, outstanding indebtedness from bonds and notes consist of the following:

(dollar amounts presented in thousands)

Series	*New Money Projects at Issuance (acquire, construct, renovate or equip)*	*Issue Date*	*Original Issuance*	*Interest Rate %*	*Final Maturity Date*	*Principal O/S June 30, 2017*	*Principal O/S June 30, 2018*	*Current Principal O/S June 30, 2018*
IC 21-34-6 (Bonds: Student Fee Bonds):								
I	Cyclotron, IMU Ph. I & II, Recreational Sports	8/13/92	$ 45,215		8/1/17	$ 826	$ –	$ –
O	Informatics and Communications Technology Complex, Dunes Medical Ed. Prof. Bldg., IUS Library and University Center South and refunding of Student Fee Bonds Series K and M	3/6/03	111,490		8/1/17	7,075	–	–
S	Central Heating Plant, Data Center, Multidisciplinary Science Bldg. II, Medical Education FW and refunding of Tax Exempt Commercial Paper Series 2005A and 2007A	2/21/08	88,345	3.75	8/1/18	8,220	4,205	4,205
T-2	Cyberinfrastructure Bldg., Jordan Hall Lab Renov., VanNuys Medical Science Bldg. Lab Renovations, Education & Arts	4/20/10	51,390	4.51-6.14	8/1/29	48,440	45,405	3,125
U	Neuroscience Research Bldg, South Bend Land Acquisition and refunding of Student Fee Bonds Series N, O, and P	7/26/11	94,460	3.20-5.00	8/1/22	54,645	45,380	9,745

Series	*New Money Projects at Issuance (acquire, construct, renovate or equip)*	*Issue Date*	*Original Issuance*	*Interest Rate %*	*Final Maturity Date*	*Principal O/S June 30, 2017*	*Principal O/S June 30, 2018*	*Current Principal O/S June 30, 2018*
V-1	IUPUI and IUSB Energy Savings Projects and refunding of Student Fee Bonds Series P, Q & R and Qualified Energy Savings Notes 2005, 2007 and 2008	10/26/12	$ 60,265	5.00	8/1/26	$ 52,480	$ 47,370	$ 5,100
V-2	Refunding of Student Fee Bonds Series P	10/26/12	47,485	1.61-2.23	8/1/20	30,785	27,210	10,960
W-1	Franklin Hall, Arts & Sciences	1/14/15	58,960	2.00-5.00	8/1/34	55,175	53,110	2,165
W-2	Refunding of Student Fee Bonds Series R and S	1/14/15	62,765	4.00-5.00	8/1/32	62,765	62,765	–
X	Crescent II (Kirkwood, Maxwell, Owen) and refunding of Student Fee Bonds Series R and U	8/4/16	71,710	1.25-5.00	8/1/35	71,710	62,615	4,305
	Subtotal Student Fee Bonds					**392,121**	**348,060**	**39,605**
	Add unamortized bond premium					40,234	35,570	4,315
	Total Student Fee Bonds					**432,355**	**383,630**	**43,920**
IC 21-35-3 (Bonds: CRBs):								
2008A	New Athletics Facilities (Memorial Stadium North End Zone and Cook Basketball Practice), Walther Hall, IUSB Housing, IUS Housing and refunding of Facility Revenue Bonds Series 2000, Student Residence System Bonds Series 1998 and 2004A, and Tax Exempt Commercial Paper Series 2005A and 2007A	2/7/08	182,755		6/1/18	8,725	–	–
2009A	Ashton Housing, University Tower Food Ct., Parking Lot	4/2/09	69,090	5.00	6/1/19	6,880	3,525	3,525
2010B	Briscoe Quad, Tulip Tree Apts, Gateway Garage	5/27/10	92,080	4.21-5.64	6/1/35	69,225	66,095	3,215
2011A	Riverwalk Garage	3/10/11	16,040	3.00-5.00	6/1/30	6,790	6,065	750

Series	New Money Projects at Issuance (acquire, construct, renovate or equip)	Issue Date	Original Issuance	Interest Rate %	Final Maturity Date	Principal O/S June 30, 2017	Principal O/S June 30, 2018	Current Principal O/S June 30, 2018
2012A	Eigenmann, Forest Dining Hall, Forest, Read Dining, Spruce Hall, Teter, Wright Place, Science Engineering Lab Bldg., Housing Infrastructure and refunding of Facility Revenue Bonds Series 2004A and Student Residence System Bonds Series 2004B	1/25/12	$ 94,490	5.00	6/1/37	$ 81,575	$ 77,765	$ 3,945
2015A	Read Residence. Hall Renov. Ph. II, North Hall, and refunding of Facility Revenue Bonds Series 2000 and Consolidated Revenue Bonds (CRB) Series 2008A and 2009A	4/1/15	146,960	3.00-5.00	6/1/42	146,075	144,620	8,425
2016A	Wells Quad Renov and refunding of CRB 2008A, CRB 2009A, and CRB 2011A	4/5/16	93,070	2.75-5.00	6/1/41	92,410	91,740	690
Subtotal Consolidated Revenue Bonds						**411,680**	**389,810**	**20,550**
Add unamortized bond premium						43,524	39,382	3,845
Total Consolidated Revenue Bonds						**455,204**	**429,192**	**24,395**
Subtotal bonds						**803,801**	**737,870**	**60,155**
Add unamortized bond premium						83,758	74,952	8,160
Total bonds						**887,559**	**812,822**	**68,315**
IC 21-33-3-5 (Notes: COPs):								
2009B	Auxiliary Library Facility II and HPER Courtyard, Cinema/Theatre	12/17/09	18,420	4.45-5.95	12/1/29	15,050	14,035	1,045
2012A	Andy Mohr Field (Softball)/ Bart Kaufman Field (Baseball) and refunding of COPs Series 2003A	2/9/12	23,750	2.50-4.13	12/1/36	18,100	16,950	1,200
2013A	Global & International Student Bldg	3/8/13	22,515	3.00-5.00	6/1/33	19,570	18,710	895
IC 21-33-3-5 (Notes: LPOs):								
2014A	University Hall	2/13/14	21,045	4.00-5.00	6/1/35	19,665	18,945	745
2015A	Assembly Hall Renovation	5/13/15	31,025	3.13-5.00	6/1/34	30,460	29,240	1,265

Series	New Money Projects at Issuance (acquire, construct, renovate or equip)	Issue Date	Original Issuance	Interest Rate %	Final Maturity Date	Principal O/S June 30, 2017	Principal O/S June 30, 2018	Current Principal O/S June 30, 2018
2017A	Eskenazi Museum of Art, Memorial Stadium Excellence Academy/Stadium Renovation	3/8/17	$ 74,575	2.00-5.00	6/1/44	$ 74,575	$ 73,945	$ 650
Subtotal Obligations						**177,420**	**171,825**	**5,800**
Add unamortized bond premium						17,197	16,195	1,002
Total Obligations						**194,617**	**188,020**	**6,802**
IC 21-32-2 (Notes: Commercial Paper):								
2018A	11th St. Garage/Office Bldg. (& Fine Arts Annex), Wilkinson Hall	5/22/18	20,400	1.48	8/20/18	–	20,400	–
Total commercial paper						**–**	**20,400**	**–**
Subtotal Notes						**177,420**	**192,225**	**5,800**
Add unamortized bond premium						17,197	16,195	1,002
Total Notes						**194,617**	**208,420**	**6,802**
Subtotal bonds and notes payable						**981,221**	**930,095**	**65,955**
Add unamortized bond premium						100,955	91,147	9,162
Total bonds and notes payable						**$ 1,082,176**	**$ 1,021,242**	**$ 75,117**

The principal and interest requirements to maturity for bonds and notes payable are as follows:

(dollar amounts presented in thousands)

Fiscal Year Ended June 30	Bond Principal	Note Principal	Total Principal	Bond Interest	Note Interest	Total Interest	Total Debt Service Payments
2019	$ 60,155	$ 5,800	$ 65,955	$ 33,141	$ 8,035	$ 41,176	$ 107,131
2020	55,795	7,075	62,870	30,796	7,817	38,613	101,483
2021	57,200	7,365	64,565	28,346	7,510	35,856	100,421
2022	49,140	7,670	56,810	25,960	7,185	33,145	89,955
2023	51,270	7,535	58,805	23,583	6,877	30,460	89,265
2024 - 2028	232,520	41,430	273,950	82,771	28,640	111,411	385,361
2029 - 2033	143,400	65,710	209,110	35,609	18,467	54,076	263,186
2034 - 2038	71,540	26,515	98,055	11,225	8,619	19,844	117,899
2039 - 2043	16,850	20,010	36,860	1,623	3,703	5,326	42,186
2044 - 2048	–	3,115	3,115	–	156	156	3,271
Total	**$ 737,870**	**$ 192,225**	**$ 930,095**	**$ 273,054**	**$ 97,009**	**$ 370,063**	**$ 1,300,158**

Bond and note interest shown above are reported gross of (before) any federal interest subsidy as scheduled at issuance to be received on taxable Build America Bonds. Additionally, fiscal years ended June 30, 2029–2033 reflect that Commercial Paper, Series 2018A was issued on May 22, 2018, with a 15-year final maturity. The university expects that capital projects temporarily financed with commercial paper would be long-term financed through the issuance of CRBs, Obligations, or certain Student Fee Bonds which are not eligible for fee replacement for terms of 20 years or longer.

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

As of June 30, 2018, the previously defeased bonds held in escrow have the following amounts of principal redeemed:

(dollar amounts presented in thousands)

Defeased Bonds (Refunded)	*Principal Redeemed*	*Call Date*
Student Fee Bonds, Series S	$ 50,165	8/1/2018
Student Fee Bonds, Series U	19,705	8/1/2021
Consolidated Revenue Bonds, Series 2009A	42,965	6/1/2019
Consolidated Revenue Bonds, Series 2011A	5,375	6/1/2020
Total defeased bonds	**$ 118,210**	

In February 2009, the United States Congress enacted the *American Recovery and Reinvestment Act of 2009* (ARRA). ARRA allowed certain tax advantages to state and local governmental entities when such entities issued qualifying taxable obligations, referred to as Build America Bonds (BABs). While the BAB provisions in ARRA expired as of January 1, 2011, the obligation of the U.S. Treasury to make subsidy payments on BABs will remain in effect through the final maturity date of BABs. Although issuers of BABs were eligible to receive subsidy payments from the U.S. Treasury equal to 35% of the corresponding interest payable on the related BABs, subsidies paid after February 28, 2013, were cut due to the federal sequestration. Through June 30, 2018, BABs subsidies for Student Fee Bonds, Series T-2; Consolidated Revenue Bonds, Series 2010B; and Certificates of Participation, Series 2009B combined were reduced by $976,000, which was less than $200,000 per fiscal year that has been effected.

Total federal interest subsidies as scheduled at issuance to be received over the life of the BABs debt outstanding as of June 30, 2018, are $19,540,000. BABs subsidies paid between October 1, 2018, and September 30, 2019, are scheduled to be reduced by 6.20% due to the federal sequestration, as compared to 6.60% in the prior year. For fiscal year ending June 30, 2019, the total expected subsidy reductions due to the sequestration is $144,000, which is subject to changes enacted by Congress at subsequent dates.

On May 22, 2018, the university issued Commercial Paper Notes, Series 2018A as interim financing for certain approved facilities on the various campuses. As of June 30, 2018, such funds have been used to partially finance the Wilkinson Hall project (formerly Volleyball/Wrestling Indoor Arena) and the Parking Garage/Office Building project that includes the Fine Arts Annex (both on the Bloomington campus) and related cost of issuance. The interest rate and term of the notes are subject to market conditions on the maturity date of the notes. The number of days to maturity may not exceed 270 days, with the final maturity of the notes being May 1, 2033. Commercial paper is backed by the university's self-liquidity.

Note 9—Lease Obligations

The university has acquired equipment under various lease-purchase contracts and other capital lease agreements. The cost of equipment held under capital leases totaled $10,596,000 and $6,069,000 as of June 30, 2018 and 2017, respectively. Accumulated amortization of leased equipment totaled $4,537,000 and $2,757,000 at June 30, 2018 and 2017, respectively.

The university entered into agreements for the right to use certain infrastructure assets for a given period of time. The cost of the leased infrastructure assets totaled $8,640,000 and $8,568,000 with accumulated depreciation of $1,195,000 and $703,000 as of June 30, 2018 and 2017, respectively.

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

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

(dollar amounts presented in thousands)

	Capital	*Operating*
2019	$ 2,592	$ 14,942
2020	2,007	7,524
2021	1,462	7,165
2022	337	5,239
2023	10	3,227
2024-2028	–	4,099
2029-2033	–	14
Total future minimum payments	6,408	$ 42,210
Less: interest	(215)	
Total principal payments outstanding	**$ 6,193**	

Note 10—Federal Obligations Under Student Loan Programs

Campus based student loans are funded by new allocations received from the federal government, as well as principal and interest collected from previous student loan recipients. The federal government advanced $342,000 and $2,066,000 for health professions and nursing loan programs for fiscal years ended June 30, 2018 and 2017, respectively.

Liabilities at June 30, 2018 and 2017, for loan programs were as follows:

(dollar amounts presented in thousands)

	June 30, 2018	*June 30, 2017*
Current portion of assets held in custody for others	$ 1,252	$ 3,882
Noncurrent liabilities:		
Federal share of interest	48,922	47,623
Perkins loans	8,490	11,483
Health professions loans	13,734	17,142
Nursing loans	2,897	2,559
Total noncurrent portion of assets held in custody for others	74,043	78,807
Total assets held in custody for others	**$ 75,295**	**$ 82,689**

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

Note 11—Risk Management

The university is exposed to various risks of loss, including torts, theft, damage or destruction of assets, errors or omissions, job-related illnesses or injuries to employees, and health care claims on behalf of students, employees, and their dependents. The university manages these risks through a combination of risk retention and commercial insurance, including coverage from internally maintained funds, as well as from a wholly-owned captive insurance company, Old Crescent Insurance Company (OCIC). The university is self-funded for damage to buildings and building contents for the first $100,000 per occurrence with an additional $400,000 per occurrence covered by OCIC, with commercial excess property coverage above this amount. The university is self-funded for comprehensive general liability and automobile liability for the first $100,000 per occurrence with an additional $900,000 per occurrence covered by OCIC and with supplementary commercial liability umbrella policies. The university has a malpractice and professional liability policy in the amount of $400,000 for each claim and $1,200,000 annually in aggregate provided by OCIC. The university is self-funded for the first $850,000 for each Workers' Compensation claim and $125,000 in the aggregate for all claims in excess of $850,000 for each claim. Workers' Compensation claims above these amounts are covered by commercial insurance and are subject to statutory limits. The university is self-funded for the first $850,000 for employer liability claims with an additional $1,000,000 in coverage through commercial insurances. The amount of settlements has not exceeded insurance coverage in any of the past three fiscal years.

The university has three health care plans for full-time appointed employees, one of which is also available to retirees not eligible for Medicare. All of the employee plans are self-funded. The university records a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans. This liability is estimated to be no more than 12.5% of the paid self-funded claims during the fiscal year and totals $27,344,000 and $25,150,000 at June 30, 2018 and 2017, respectively. In addition, a potential claims fluctuation liability of $9,876,000 has been recorded at June 30, 2018 and 2017.

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

(dollar amounts presented in thousands)

Fiscal Year	*Beginning Balance*	*Claims Incurred*	*Claims Paid*	*Ending Balance*
2018	$ 25,150	$ 235,388	$ 233,194	$ 27,344
2017	29,866	205,733	210,449	25,150

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

The university also provides health care plans for international students, graduate assistants, fellowship recipients, and medical residents. These plans consist of fully insured and self-funded plans, along with a stop/loss provision. The university has recorded a liability for incurred but unpaid claims for university-sponsored, self-funded health care plans in the amount of $1,652,000 and $1,656,000 at June 30, 2018 and 2017, respectively. These plans are funded by direct charges to the associated schools and/or departments.

Note 12—Retirement Plans

The university provided retirement plan coverage to 19,517 and 19,220 active employees as of June 30, 2018 and 2017, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

RETIREMENT AND SAVINGS PLAN

All support and service employees with at least a 50% full-time equivalent (FTE) appointment and temporary with retirement employees scheduled to work at least 1,000 hours or more in a calendar year hired on or after July 1, 2013, participate in the Retirement and Savings Plan. This is a defined contribution plan under IRC 401(a). The university contributed $4,271,000 during fiscal year ended June 30, 2018, and $3,759,000 during fiscal year ended June 30, 2017, to TIAA-CREF for the plan. The university contributed $965,000 during fiscal year ended June 30, 2018, and $740,000 during fiscal year ended June 30, 2017, to Fidelity Investments for the plan. Under this plan, 2,212 and 1,995 employees directed university contributions to TIAA-CREF as of June 30, 2018 and 2017, respectively. In addition, 506 and 424 directed university contributions to Fidelity Investments as of June 30, 2018 and 2017, respectively.

ACADEMIC AND PROFESSIONAL STAFF EMPLOYEES

Appointed academic and professional staff employees with at least 50% FTE are covered by the IU Retirement Plan. This is a defined contribution plan under IRC 403(b). The university contributed $59,328,000 during fiscal year ended June 30, 2018, and $59,540,000 during fiscal year ended June 30, 2017, to TIAA-CREF for the IU Retirement Plan. The university contributed $48,693,000 during fiscal year ended June 30, 2018, and $44,973,000 during fiscal year ended June 30, 2017, to Fidelity Investments for the IU Retirement Plan. Under this plan, 7,026 and 7,137 employees directed university contributions to TIAA-CREF as of June 30, 2018 and 2017, respectively. In addition, 7,799 and 7,265 employees directed university contributions to Fidelity Investments as of June 30, 2018 and 2017, respectively.

In addition to the above, the university provides early retirement benefits to full-time appointed academic and professional staff employees who were in positions Grade 16 and above on or before June 30, 1999. There were 796 and 856 active employees on June 30, 2018 and 2017, respectively, covered by the IU Supplemental Early Retirement Plan (IUSERP), a defined contribution plan in compliance with IRC 401(a), with participant accounts at TIAA-CREF and Fidelity Investments. The university contributed $2,164,000 and $2,277,000 to IUSERP during fiscal years ended June 30, 2018 and 2017, respectively. The same class of employees covered by the IU Retirement Plan 15% Level of Contributions on or before July 14, 1988, is covered by the IU 18/20 Retirement Plan. This plan is a combination of IRC Section 403(b) and Section 457(f) and can be found in Note 13, Postemployment Benefits. The IU 18/20 Retirement Plan allows this group of employees to retire as early as age 64, provided the individual has at least 18 years of participation in the IU Retirement Plan and at least 20 years of continuous university service.

IU REPLACEMENT RETIREMENT PLAN FUNDING POLICY AND ANNUAL PENSION COST

The university has established an early retirement plan for eligible employees to accommodate IRS requirements and as authorized by the trustees. This plan is called the IU Replacement Retirement Plan. It is a single-employer plan and is qualified under IRC Section 401(a), with normal benefits payable for the participants' lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. There were 76 and 78 employees eligible to participate as of June 30, 2018 and 2017, respectively. University contributions related to this plan totaled $1,004,000 and $1,192,000 for fiscal years ended June 30, 2018 and 2017, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution. As of June 30, 2018 and 2017, the net pension liability was $4,879,000 and $6,656,000, respectively.

INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND

The university contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. Indiana Public Retirement System (INPRS) administers the cost-sharing, multiple-employer public employee retirement plans, which provide retirement benefits to plan members and beneficiaries. Support, technical, and service employees with at least a 50% FTE appointment hired prior to July 1, 2013, participate in the PERF plan. There were 2,885 and 3,280 active university employees covered by this retirement plan as of June 30, 2018 and 2017, respectively. State statutes authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. Contributions to PERF are determined by INPRS Board of Trustees in accordance with IC 5-10.2-2-11 and are based on actuarial investigation and valuation. Per IC 5-10.2-4-4, key elements of the pension formula include years of PERF creditable service multiplied by average annual compensation multiplied by 1.1%, resulting in an annual lifetime benefit. Cost of living adjustments for members in pay status are not guaranteed by statute, but may be granted by the Indiana General Assembly on an ad hoc basis. Refunds of employee contributions are included in total benefit payments. Participants must have at least ten years of PERF creditable service to have a vested right to the pension benefit. The annuity savings account consists of contributions set by state statute at 3.0% of compensation plus the earnings credited to members' accounts. Participants are 100% vested from inception in the annuity savings account. The university has elected to make the contributions to the annuity savings account on behalf of the members. INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The financial report and corresponding fiduciary net position is prepared using the accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations. Investments of the pension plan are valued as follows: Pooled and non-pooled investments are reported at fair value. Short-term investments are reported at cost. Fixed income and equity securities are valued based on published market prices, quotations from national security exchanges, or using modeling techniques that approximate a fair value for securities that are not traded on a national exchange. Alternative investments are valued based on quoted market prices or using estimates of fair value in the absence of readily determinable public market values. Derivative instruments are marked to market daily. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling 1-844-464-6777, or by reviewing the Annual Report online at www.in.gov/inprs/annualreports.htm.

Required and actual contributions made by the university totaled $16,403,000 and $18,802,000 for fiscal years ended June 30, 2018 and 2017, respectively. This represented an 11.2% university pension benefit contribution for fiscal years ended June 30, 2018 and 2017, and a 3.0% university contribution for the annuity savings account provisions each year.

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

Indiana Public Employees' Retirement Fund. At June 30, 2018, the University reported a liability of $92,066,000 for its proportionate share of the net pension liability, as compared to $95,689,000 for the year ended June 30, 2017. The June 30, 2018, net pension liability of $92,066,000 at the measurement date was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, which used update procedures to roll forward the estimated liability to June 30, 2017. The university's proportion of the net pension liability was based on wages reported by the university relative to the collective wages of the plan. This basis measures the proportionate relationship of an employer to all employers and is consistent with the manner in which contributions to the pension plan are determined. At June 30, 2017, the university's proportion was 2.06%, a decrease of .05 percentage points from its proportion measured as of June 30, 2016, which was 2.11%. Pension expense of the university as of June 30, 2018 and 2017, was $14,285,000 and $12,913,000, respectively.

At June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(dollar amounts presented in thousands)

PERF		
	Deferred Outflows of Resources	*Deferred Inflows of Resources*
Differences between expected and actual experience	$ 1,748	$ 71
Changes of assumptions	1,478	–
Net difference between projected and actual earnings on pension plan investments	9,947	–
Changes in proportion and differences between university contributions and proportionate share of contributions	16,867	18,730
University contributions subsequent to the measurement date	13,331	–
Total	**$ 43,371**	**$ 18,801**

Deferred outflows of resources in the amount of $13,331,000 related to pensions resulting from university contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

At June 30, 2017, the university reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(dollar amounts presented in thousands)

PERF		
	Deferred Outflows of Resources	*Deferred Inflows of Resources*
Differences between expected and actual experience	$ 2,144	$ 177
Changes of assumptions	4,222	–
Net difference between projected and actual earnings on pension plan investments	15,662	–
Changes in proportion and differences between university contributions and proportionate share of contributions	27,564	38,043
University contributions subsequent to the measurement date	14,705	–
Total	**$ 64,297**	**$ 38,220**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(dollar amounts presented in thousands)

Fiscal Year Ending June 30	*PERF*
2018	$ 2,793
2019	6,821
2020	2,121
2021	(495)
2022	–
Thereafter	–

Actuarial Assumptions. The total pension liability as of June 30, 2017, and June 30, 2016, based on the results of actuarial valuation dates of June 30, 2016, and June 30, 2015, and rolled forward, respectively, were determined using the following actuarial assumptions, which were applied to all periods included in the measurement:

	PERF	
	Measurement Date as of June 30, 2017	*Measurement Date as of June 30, 2016*
Cost of living	1.0%	1.0%
Inflation	2.25%, average	2.25%, average
Future salary increases	2.50% to 4.25%	2.50% to 4.25%
Investment rate of return	6.75%, net of pension plan investment expense	6.75%, net of pension plan investment expense
Mortality rates	Based on RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Tables and Disability Mortality Tables for disabled members	Based on RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Tables

The actuarial assumptions used in the valuations of June 30, 2017, were adopted by the Indiana Public Retirement System Board pursuant to the experience studies completed in April 2015, which reflected the experience period from July 1, 2010, through June 30, 2014. The valuations of June 30, 2017, incorporate member census data as of June 30, 2016, adjusted for certain activity during fiscal year 2017. Standard actuarial techniques were used to roll forward valuation results over one year.

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

	PERF			
	Measurement Date as of June 30, 2017		*Measurement Date as of June 30, 2016*	
	Target Allocation	*Long-Term Expected Real Rate of Return*	*Target Allocation*	*Long-Term Expected Real Rate of Return*
Public equity	22.0%	4.9%	22.0%	5.7%
Private equity	14.0%	5.7%	10.0%	6.2%
Fixed income – ex inflation-linked[1]	20.0%	2.3%	24.0%	2.7%
Fixed income – inflation-linked	7.0%	0.6%	7.0%	0.7%
Commodities	8.0%	2.2%	8.0%	2.0%
Real estate	7.0%	3.7%	7.0%	2.7%
Absolute return	10.0%	3.9%	10.0%	4.0%
Risk parity	12.0%	5.1%	12.0%	5.0%
Total	**100.0%**		**100.0%**	

[1] *Includes cash & cash equivalents*

Discount rate. The discount rate used to measure the total pension liability was 6.75% for PERF at June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

(dollar amounts presented in thousands)

	PERF		
Sensitivity of Net Pension Liability	*1% Decrease (5.75%)*	*Current Discount Rate (6.75%)*	*1% Increase (7.75%)*
June 30, 2018	$ 134,275	$ 92,066	$ 56,979
June 30, 2017	137,432	95,689	60,994

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

PAYABLE TO THE PENSION PLAN

The university reported a payable of $1,192,000 at June 30, 2018, and $579,000 at June 30, 2017, for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2018 and 2017, respectively.

Note 13—Postemployment Benefits

PLAN DESCRIPTION

The university provides postemployment benefits for certain retired employees. The IU 18/20 Plan, medical, and life insurance benefits are presented for financial statement purposes as a consolidated plan (the "Plan") under the requirements for reporting Other Postemployment Benefit Plans (OPEB) required by GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). For comparative purposes, the disclosures for fiscal year ending June 30, 2017 under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) are presented at the end of this note.

The Plan is a single-employer defined benefit plan administered by Indiana University. The 18/20 Plan provides interim benefits to full-time appointed academic and professional staff employees who meet the following eligibility requirements: covered by the IU Retirement Plan 15% level on or before July 14, 1988, and has 18 years of participation in the IU Retirement Plan 15% level, at least 20 years of continuous full-time university service, and at least 64 years of age. This group of employees is eligible to receive monthly payments based on a hypothetical monthly annuity amount at age 70, up to the amount of terminal base salary, calculated as the average budgeted base salary for the five 12-month periods immediately preceding retirement. The 18/20 Plan was adopted by the Trustees of Indiana University ("trustees") and is closed to new entrants.

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

FUNDING POLICY

The contribution requirements of plan members and the university are established and may be amended by the trustees. The university contribution to the 18/20 Plan and retiree life insurance is based on pay-as-you-go financing requirements. Plan members do not make contributions. The medical plans are self-funded and each plan's premiums are updated annually based on actual claims. Retirees receiving medical benefits paid $826,000 in premiums in the fiscal year ended June 30, 2018. The university contributed $37,188,000 to the consolidated OPEB Plan in fiscal year ended June 30, 2018. The university does not maintain a separate legal trust to house assets used to fund postemployment benefits.

As of the June 30, 2018 measurement date, the number of plan participants consisted of the following:

	18/20 Plan	*Retiree Health Insurance*	*Retiree Life Insurance*
Active employees	166	17,437	18,754
Inactive employees receiving benefits	233	487	5,734
Total	**399**	**17,924**	**24,488**

OPEB LIABILITY, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At June 30, 2018, the university reported $268,543,000 for its total OPEB liability and $21,931,000 for its total OPEB expense. The total OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018.

Changes in the total reported liability for postemployment benefits obligations and total OPEB expense for the year ended June 30, 2018, are summarized as follows:

(dollar amounts presented in thousands)

	18/20 Plan	*Retiree Health Insurance*	*Retiree Life Insurance*	*Total*
Total OPEB liability, beginning of year	$ 156,905	$ 40,456	$ 35,897	$ 233,258
Service cost	3,442	3,111	1,095	7,648
Interest	5,169	1,494	1,301	7,964
Changes in assumptions	(790)	3,498	(909)	1,799
Differences between expected and actual experience	(3,625)	58,618	69	55,062
Benefit payments	(32,188)	(3,714)	(1,286)	(37,188)
Total OPEB liability, end of year	**$ 128,913**	**$ 103,463**	**$ 36,167**	**$ 268,543**
OPEB expense	**$ 8,121**	**$ 11,507**	**$ 2,303**	**$ 21,931**

There were significant changes in assumptions and differences between expected and actual experience during fiscal year 2018. The discount rate changed from 3.58% as of July 1, 2017 to 3.87% as of June 30, 2018. There was a change in cost methods from Projected Unit Credit with linear proration to decrement to Entry Age Normal Level percent of Salary. The medical plan available to retirees has been changed from the PPO $900 Deductible plan (which is no longer offered) to the Anthem PPO HDHP plan. The mortality table has been updated from SOA RPH-2015 Total Dataset Mortality Table fully generational using Scale MP-2015 to SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017. The health care trend rates have been reset to an initial rate of 9.0% decreasing by 0.5% annually to an ultimate rate of 5.0% which resulted in an increase in liabilities. The university has not had a recent experience study. The actuarial assumptions for non-18/20 Plans have not been updated since the 2006 valuation.

At June 30, 2018, the university reported deferred outflows and inflows of resources related to OPEB from the following sources:

(dollar amounts presented in thousands)

	Deferred Outflows of Resources	*Deferred Inflows of Resources*
Changes in Assumptions:		
18/20 Plan	$ –	$ 703
Retiree health insurance	3,109	–
Retiree life insurance	–	808
Differences between expected and actual experience:		
18/20 Plan	–	3,222
Retiree health insurance	52,105	–
Retiree life insurance	61	–
Total	**$ 55,275**	**$ 4,733**

These amounts will be recognized in OPEB expense as follows:

(dollar amounts presented in thousands)

	18/20 Plan	*Retiree Health Insurance*	*Retiree Life Insurance*	*Total*
2019	$ (491)	$ 6,902	$ (93)	$ 6,318
2020	(491)	6,902	(93)	6,318
2021	(491)	6,902	(93)	6,318
2022	(491)	6,902	(93)	6,318
2023	(491)	6,902	(93)	6,318
Thereafter	(1,472)	20,705	(280)	18,953

Actuarial Assumptions. The total OPEB liability as of June 30, 2018, is based on the results of an actuarial valuation date as of June 30, 2018, with no adjustments to get to the June 30, 2018 measurement date. Significant actuarial methods and assumptions used to calculate the university's total OPEB liability were:

	Measurement Date as of June 30, 2018
Payroll growth (medical/life plan)	3.0%
Payroll growth (18/20 plan)	2.5%
Inflation	3.0%
Health care cost trend rates	9.0% for fiscal year 2019 to 5.0% for fiscal year 2027 and later years
Mortality rates	Based on RPH-2017 Total Data Set Mortality Table fully generational using Scale MP-2017
Actuarial cost method	Entry Age Normal Level % of Salary

Discount rate. The discount rate used in valuing OPEB liabilities as of June 30, 2018, was 3.87% and 3.58% as of July 1, 2017. The discount rate must be based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The Bond Buyer Go 20 index was used for the current discount rate.

Sensitivity of total OPEB liability to the discount rate. The following table presents the June 30, 2018, total OPEB liability using the discount rate of 3.87% as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

(dollar amounts presented in thousands)

Sensitivity of Total OPEB Liability	*1% Decrease (2.87%)*	*Current Discount Rate (3.87%)*	*1% Increase (4.87%)*
18/20 plan	$ 131,328	$ 128,913	$ 126,456
Retiree health insurance	112,520	103,463	95,165
Retiree life insurance	42,410	36,167	31,232
Total	**$ 286,258**	**$ 268,543**	**$ 252,853**

Sensitivity of total OPEB liability to the health care trend rate. The following table presents the June 30, 2018, total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a health care trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

(dollar amounts presented in thousands)

Sensitivity of Total OPEB Liability	*1% Decrease (8% decreasing to 4%)*	*Current Trend (9% decreasing to 5%)*	*1% Increase (10% decreasing to 6%)*
Retiree health insurance	$ 92,104	$ 103,463	$ 116,891

The 18/20 and retiree life insurance plans are not included above as they do not have a health care component.

FUNDED STATUS AND FUNDING PROGRESS FOR FISCAL YEAR ENDED JUNE 30, 2017, UNDER GASB 45

Retirees receiving medical benefits paid $1,532,000 in premiums in the fiscal year ended June 30, 2017. The university contributed $40,370,000 to the consolidated OPEB Plan in fiscal year ended June 30, 2017.

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

(dollar amounts presented in thousands)

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

ACTUARIAL METHODS AND ASSUMPTIONS FOR FISCAL YEAR ENDED JUNE 30, 2017, UNDER GASB 45

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

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

ANNUAL OPEB COST AND NET OPEB OBLIGATION FOR FISCAL YEAR ENDED JUNE 30, 2017, UNDER GASB 45

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

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

(dollar amounts presented in thousands)

	Fiscal Year Ended June 30, 2017
Annual OPEB cost	$ 41,109
Less employer contributions	(40,370)
Increase in OPEB obligation	**739**
Net OPEB obligation, beginning of year	36,565
Net OPEB obligation, end of year	**$ 37,304**
Percentage of annual OPEB cost contributed	**98.20%**

Note 14—Related Organization

The university is a major beneficiary of the Riley Children's Endowment of which a majority of the board of directors is appointed by, or serve by virtue of position with, Indiana University. Riley Children's Endowment's net assets were $375,433,000 and $359,741,000 at June 30, 2018 and 2017, respectively, and are not included in the financial statements of the university.

Note 15—Functional Expenses

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

Fiscal year ended June 30, 2018

(dollar amounts presented in thousands)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 973,326	$ 640	$ 127,438	$ 22,760	$ –	$ 21,494	$ 1,145,658
Research	171,778	7	108,513	2,483	–	5,870	288,651
Public service	75,609	367	58,549	2,784	–	4,107	141,416
Academic support	349,962	54	123,500	3,298	–	9,014	485,828
Student services	95,912	15	26,150	2,309	–	3,465	127,851
Institutional support	87,836	63	39,578	12	–	1,797	129,286
Physical plant	96,802	70,525	79,123	43	–	534	247,027
Scholarships & fellowships	17,414	–	1,752	114,792	–	105	134,063
Auxiliary enterprises	205,951	3,720	90,468	6,222	–	10,828	317,189
Depreciation	–	–	–	–	158,141	–	158,141
Total operating expenses	**$ 2,074,590**	**$ 75,391**	**$ 655,071**	**$ 154,703**	**$ 158,141**	**$ 57,214**	**$ 3,175,110**

Campus Gateway
Bloomington

Fiscal year ended June 30, 2017

(dollar amounts presented in thousands)

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

Note 16—Commitments and Loss Contingencies

The university had outstanding commitments for capital construction projects of $138,229,000 and $165,843,000 at June 30, 2018 and 2017, respectively.

Wood Fountain
Indianapolis

Note 17—Subsequent Event

On October 3, 2018, the university issued fixed rate new money Student Fee Bonds Series Y with a par amount of $69,470,000. The purpose of the issue was to provide financing for the Old Crescent Renovation Phase III project, which includes the renovation of Ballantine Hall and the Geological Sciences/Geological Survey building, both of which are on the Bloomington Campus. The proceeds were also used to pay costs to issue the bonds, including underwriters' discount. The all-in true interest cost for the bonds was 3.35%. Refer to Note 8, Bonds and Notes Payable for more information on long-term and short-term debt.

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 1. Organization and Operations and Significant Accounting Policies

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 assets and to make expenditures to or for the benefit of Indiana University, including its regional campuses and associated entities (such as the Purdue University schools housed at the Indiana University-Purdue University Indianapolis campus, the Indiana University Building Corporation, Riley Children's Foundation, the Indiana University Research & Technology Corporation, Indiana University Health, the Indiana University Alumni Association, and certain medical practice plans), herein referred to as the University.

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

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

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 3. Fair Value Measurement and Investments

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

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

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

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

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

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

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

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation’s accounting policies regarding the recognition of transfers between levels of the fair value hierarchy. During the fiscal years ended June 30, 2018 and 2017, no such transfers were made.

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

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 3. Fair Value Measurement and Investments (Continued)

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

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

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

Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments, and differences could be material.

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

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

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

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 3. Fair Value Measurement and Investments (Continued)

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2018:

	Quoted Prices for Identical Assets in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valued Using Net Asset Value **	Total
Assets:					
Investments:					
Domestic equities	$ 534,125	$ 10,918	$ -	$ 73,384	$ 618,427
International equities	305,543	-	-	137,511	443,054
Domestic fixed income	114,552	151,050	-	61,094	326,696
International fixed income	12,001	14,107	-	5,569	31,677
Real estate	8,369	-	24,109	-	32,478
Cash equivalents	26,933	1,800	-	-	28,733
Alternative investments:					
Hedged equity funds	-	-	-	83,263	83,263
Absolute return funds	-	-	-	339,546	339,546
Venture capital	-	-	-	174,310	174,310
Buyouts	-	-	-	148,523	148,523
Distressed / special situations	-	-	-	38,293	38,293
Real estate	-	-	-	113,522	113,522
Alternative fixed income	-	-	-	46,867	46,867
Natural resources	-	-	-	133,041	133,041
	$ 1,001,523	$ 177,875	$ 24,109	$ 1,354,923	$ 2,558,430
Liabilities:					
Split interest agreement obligations	$ -	$ -	$ 38,754	$ -	$ 38,754

INDIANA UNIVERSITY FOUNDATION

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 3. Fair Value Measurement and Investments (Continued)

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

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

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

As of June 30, 2018 and 2017, the Foundation had approximately $609,631 and $493,971, respectively, of unfunded capital commitments to various alternative investments, which have no specific capital call dates and such capital calls are at the discretion of the alternative investment fund managers. Management believes most of the commitments will be called in the next one to five years.

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 3. Fair Value Measurement and Investments (Continued)

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investments in financial instruments in which at least one significant unobservable input is used in the valuation model. The tables below present a reconciliation of activity for the Level 3 financial instruments as of June 30, 2018 and 2017:

	2018	2017
Beginning balance (real estate)	$ 19,005	$ 25,452
Realized and unrealized gains (losses)	(1,659)	(7,496)
Purchases	7,984	3,105
Sales and settlements	(1,221)	(2,056)
	$ 24,109	$ 19,005

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

	2018	2017
Beginning balance	$ 34,766	$ 33,172
Liability portion of charitable gifts received	1,840	3,247
Payments to annuitants	(4,312)	(3,949)
Change in the present value of split interest obligations	6,460	2,296
	$ 38,754	$ 34,766

The table below presents the Foundation's ability to redeem investments valued at net asset value or its equivalent as of June 30, 2018 and 2017, and includes the underlying investment entities' redemption frequency and redemption notice period. The tables also include a summary of the significant categories of such investments measured at net asset value, their attributes and investment strategies as of June 30, 2018 and 2017:

Investment Category and Strategy	2018 Fair Value	2018 Unfunded Commitments	2017 Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic equities[(a)]	$ 73,384	$ -	$ 109,336	quarterly, annually	30-60 days
International equities[(b)]	137,511	-	108,929	weekly, monthly	7-30 days
Domestic fixed income[(c)]	61,094	-	87,642	monthly, bimonthly, quarterly	30-45 days
International fixed income[(d)]	5,569	-	7,427	monthly, bimonthly, quarterly	30-45 days
Hedge equity funds[(e)]	83,263	-	83,204	monthly, quarterly, **** semi-annually, annually	3-95 days
Absolute return funds[(f)]	339,546	-	323,463	monthly, quarterly, **** semi-annually, annually	3-95 days
Venture capital funds[(g)]	174,310	72,360	152,858	Long-term commitment ***	none
Buyout funds[(h)]	148,523	218,475	105,413	Long-term commitment ***	none
Distressed/special situation funds[(i)]	38,293	91,059	33,451	Long-term commitment ***	none
Real estate funds[(j)]	113,522	78,483	78,534	Long-term commitment ***	none
Alternative fixed income[(k)]	46,867	15,507	52,685	Long-term commitment ***	none
Natural resources funds[(l)]	133,041	133,747	116,562	Long-term commitment ***	none
	$ 1,354,923	$ 609,631	$ 1,259,504		

INDIANA UNIVERSITY FOUNDATION

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 3. Fair Value Measurement and Investments (Continued)

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

**** As of June 30, 2018, 43 percent of the total Marketable Alternative Investments (Hedged equity funds and Absolute return funds) could be redeemed in 0-6 months, an additional 26 percent could be redeemed between 7-12 months, another 19 percent could be redeemed between 13-24 months, and 6 percent could be redeemed between 25-36 months. The remaining 6 percent is designated as illiquid investments.

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

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

[c] This category includes investments that are primarily in both long-term and short-term fixed income securities located in the United States. Management of the investments has the ability to make individual short positions; however, the overall fund position is net long. There were no restricted investments as of June 30, 2018.

[d] This category includes investments that are primarily in both long-term and short-term fixed income securities located in economies outside of the United States. Management of the investments has the ability to make individual short positions; however, the overall fund position is net long. There were no restricted investments as of June 30, 2018.

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

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

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

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

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

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

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

[l] This category includes investments that are focused on private energy, mining and minerals, and timber. The typical life of a partnership is 10 years but is subject to extensions. Certain funds in this category may provide an income stream as the underlying commodity is harvested/sold.

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 3. Fair Value Measurement and Investments (Continued)

In instances in which an underlying investment fund has invested in securities that have less liquidity, such investments may be held in a "side pocket." Generally side pockets are illiquid with no active market. The fair value of the Foundation's investment in underlying funds which are designated as side pocketed was $12,247 and $11,617 as of June 30, 2018 and 2017, respectively.

The following table summarizes the qualitative information about certain of the Foundation's Level 3 inputs as of June 30, 2018 and 2017:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges
Real estate investments, 2018	$ 24,109	Market approach	Comparable transactions	N/A
Real estate investments, 2017	$ 19,005	Market approach	Comparable transactions	N/A

A summary of total investment income for the years ended June 30, 2018 and 2017, is as follows:

	2018	2017
Dividend, interest, and other investment income	$ 27,142	$ 20,916
Net realized and unrealized gains on investments	161,457	214,233
Outside investment management fees	(13,675)	(9,232)
	$ 174,924	$ 225,917

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 8. Restricted Net Assets

The income generated from restricted net assets is used in accordance with the donors' time and/or purpose restrictions. Foundation operations' and University programs' permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor-imposed restrictions as of June 30, 2018 and 2017, are as follows:

	2018		2017	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Foundation operations	$ 4,508	$ 26,042	$ 8,712	$ 24,911
University programs:				
Awards	6,254	28,754	6,138	17,302
Capital and capital improvements	133,564	3,257	134,676	2,495
Fellowships / lectureships	26,823	110,034	25,700	102,108
General endowments	306,906	317,627	295,526	299,067
Medical practice plans	34,565	-	33,662	-
Operations	70,953	8,902	70,412	5,907
Professorships / chairs	112,963	466,742	108,367	398,391
Research	44,801	61,481	45,541	58,973
Scholarships	168,674	563,153	161,937	497,341
	$ 910,011	$ 1,585,992	$ 890,671	$ 1,406,495

Indiana University Foundation

Notes to Financial Statements
(In thousands)

Note 10. Grants and Aid to the University

Program expenditures include support for Foundation and University programs. For the years ended June 30, 2018 and 2017, a summary of these expenditures is as follows:

	2018	2017
Program expenditures:		
Foundation programs:		
Real estate	$ 3,755	$ 3,059
Student foundation	523	565
Air services	881	867
Women's programs	189	16
Miscellaneous	74	93
Total Foundation programs	5,422	4,600
Grants and aid to the University:		
Grants and aid - operating support:		
University support	52,108	31,440
Student scholarship and financial aid	52,025	48,306
Faculty support	32,314	35,578
Faculty research	43,531	6,991
	179,978	122,315
Grants - endowment, capital, land, building and equipment purchases	41,162	40,659
Total University grants and aid	221,140	162,974
	$ 226,562	$ 167,574

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

(dollar amounts presented in thousands)

	Measurement Date as of June 30, 2017	*Measurement Date as of June 30, 2016*	*Measurement Date as of June 30, 2015*	*Measurement Date as of June 30, 2014*
University's proportion of the net pension liability	2.06%	2.11%	3.30%	3.85%
University's proportionate share of the net pension liability	$ 92,066	$ 95,689	$ 134,565	$ 101,229
University's covered-employee payroll	$ 128,504	$ 139,508	$ 156,848	$ 185,019
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.64%	68.59%	85.79%	54.71%
Plan fiduciary net position as a percentage of the total pension liability	76.60%	75.30%	77.30%	84.30%

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

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

(dollar amounts presented in thousands)

	Fiscal Year 2018	*Fiscal Year 2017*	*Fiscal Year 2016*	*Fiscal Year 2015*
Contractually required contribution	$ 13,978	$ 13,980	$ 15,637	$ 17,484
Contributions in relations to the contractually required contribution	$ (13,978)	$ (13,980)	$ (15,637)	$ (17,484)
Contribution deficiency	–	–	–	–
University's covered-employee payroll	$ 124,694	$ 128,504	$ 139,508	$ 156,848
Contributions as a percentage of covered-employee payroll	11.21%	10.88%	11.21%	11.15%

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

Changes of Benefit Terms: None

Changes in Assumptions: For active and inactive vested members, the INPRS Board approved a $400 salary load to be added to approximate the impact on average monthly earnings of unused sick leave accumulated at termination of employment. For disabled members, the mortality assumption is updated from the RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality tables to the RP-2014 (with MP-2014 improvement removed) Disability Mortality tables.

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

Schedule of the University's Total Liability for Other Postemployment Benefit Plans (last 10 years [1]) Under GASB 75:

(dollar amounts presented in thousands)

	18/20 Plan	*Retiree Health Insurance*	*Retiree Life Insurance*	*Total*
Service cost	$ 3,442	$ 3,111	$ 1,095	$ 7,648
Interest	5,169	1,494	1,301	7,964
Changes in assumptions	(790)	3,498	(909)	1,799
Differences between expected and actual experience	(3,625)	58,618	69	55,062
Benefit payments	(32,188)	(3,714)	(1,286)	(37,188)
Net change in total OPEB liability	**$ (27,992)**	**$ 63,007**	**$ 270**	**$ 35,285**
Total OPEB liability, beginning of year	$ 156,905	$ 40,456	$ 35,897	$ 233,258
Total OPEB liability, end of year	**$ 128,913**	**$ 103,463**	**$ 36,167**	**$ 268,543**
Covered employee payroll	$ 23,729	$ 1,211,908	$ 1,211,908	
Total liability as a percentage of covered employee payroll	543.3%	8.5%	3.0%	

Notes to RSI under GASB 75:

Changes of Benefit Terms: There were no changes of benefit terms for the plan year ended June 30, 2018; however, the medical plan available to retirees has been changed from the PPO $900 Deductible plan (which is no longer offered) to the Anthem PPO HDHP plan.

Changes in Assumptions: The discount rate was 3.87% as of June 30, 2018, and 3.58% as of July 1, 2017. The actuarial cost method was updated from Projected Unit Credit with linear proration to decrement to Entry Age Normal Level % of Salary. The mortality table has been updated from SOA RPH-2015 Total Dataset Mortality Table fully generational using Scale MP-2015 to SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017. The health care trend rates have been reset to an initial rate of 9.0% decreasing by 0.5% annually to an ultimate rate of 5.0%.

[1] GASB Statement No. 75 requires disclosure of a 10-year schedule. The financial statement information was not available for years prior to 2018. Additional years will be included in future reports as data becomes available.

Schedule of Funding Progress for Other Postemployment Benefit Plans as Reported Under GASB 45:

(dollar amounts presented in thousands)

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

Notes to RSI under GASB 45:

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

The Trustees of Indiana University

for fiscal year ended June 30, 2018

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for fiscal year ended June 30, 2018

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Amatria, by artist and architect Philip Beesley
Interactive sculpture in the atrium of Luddy Hall; Bloomington

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