INDIANA UNIVERSITY FINANCIAL REPORT

for the fiscal year

2001-2002

INDIANA UNIVERSITY

June 30, 2002

Table of Contents

The Honorable Frank O'Bannon
Governor, State of Indiana
State House
Indianapolis, IN 46204

Dear Governor O'Bannon:

On behalf of the Trustees of Indiana University, I am pleased to present the 2001-2002 Financial Report.

As one of the nation's finest public research universities, Indiana University brings substantial value to the state it serves. For the past 182 years, IU has educated Indiana citizens, pushed forward the frontiers of knowledge, made essential contributions to the state's economic prosperity, and enhanced Hoosiers' quality of life. IU has historically played a pivotal role in Indiana's economic growth and well-being. As the state works to build a 21st-century, knowledge-based economy, that role grows increasingly larger.

A recent study by the National Governor's Association identified five essential elements of a 21st-century, technology-based economy. They include a highly trained workforce, intellectual capital, efficient mechanisms for the transfer of knowledge, sources of investment capital, and excellent physical infrastructure, in terms of roads, utilities, and telecommunications. While IU is not in the business of building roads, we are making significant contributions in other areas.

IU educates the Indiana's professionals. Forty-one percent of Indiana's physicians; 64 percent of the state's optometrists, 35 percent of its teachers, 75 percent of Hoosier lawyers, 20 percent of our nurses, and 90 percent of our dentists are IU graduates. With a predicted 3.7 million jobs opening up in information technology over the next five years, the opportunities for highly skilled graduates with strong critical thinking skills is difficult to overestimate. IU's School of Informatics, one of the first in the nation, provides the training and preparation today's professionals need to participate in a knowledge-based Hoosier economy. Informatics studies the technical, psychological, and social aspects of information technology and the way people work with and use information. The school offers undergraduate and master's level programs in the sophisticated application of IT, while also ensuring that students are well grounded in the arts and sciences. Informatics now has more than 1200 majors! The students flocking to this new school will be tomorrow's entrepreneurs and high tech managers. They will be educated in Indiana, and they will draw high-tech businesses to Indiana.

Last spring, IU graduated 14,500 new alumni, including our first class of Kelley Scholars and informatics majors. All of our campuses began the 2002-03 academic year with growing enrollments and many with record enrollments. Not only are we attracting more students, we have programs in place that support their success. We've seen a significant increase in retention over the last 10 years, with the largest gains at IU Southeast, where retention to the second year jumped from

55.1% in the fall of 1992 to 67.5% in fall of 2002—a 12% increase. A 5% increase is considered a remarkable accomplishment. University-wide, IU has a 77.7% retention rate and an 82% retention rate for minority students. Retention to the second year is widely accepted as the best predictor of graduation rates.

Other campuses have also achieved notable improvements in retention. IU Kokomo saw a 10.3% increase in retention to second year, going from 51.4% in 1992 to 60.7% in 2002. And we are very pleased that the efforts of the University College have helped IUPUI to increase retention from 56% in 1992 to 61% in 2002. IUPUI has recently been named an Institution of Excellence in the First College Year. It will be featured in a major upcoming book titled *Portraits of First-Year Excellence at American Colleges and Universities,* authored by noted higher education scholar John Gardner. Last year, IUPUI was among 16 campuses nationally recognized in 2000 by the Association of American Colleges and Universities (AAC&U) for visionary innovations in undergraduate education.

We can chalk this success up to fine mentoring, academic support, and freshman experience programs. Bloomington's 87% retention figures reflect the first-year programs and support services that prompted *Time* Magazine to name IUB its College of the Year among research universities last fall.

That same National Governor's Association study I mentioned earlier noted intellectual infrastructure as one of the five critical factors in building a technology-based economy. Indeed, 29 out of the nation's 30 high-technology metropolitan areas are home to a major research university. Universities serve as talent magnets that attract eminent scholars, scientists, and engineers. They attract energetic graduate students and create discoveries that lead to new products and procedures and which generate spin-off companies that encourage other businesses to relocate nearby.

IU faculty members are generating the intellectual capital that fuels 21st-century engines of economic development. Over the past decade, sponsored research at IU has more than tripled, going from $113 million in 1990 to $397 million in 2001, which was a banner year that included a major gift of $105 million from the Lilly Endowment to support the Indiana Genomics Initiative (INGEN). The Indiana Genomics Initiative provides new hope and opportunities for all Hoosiers. Unraveling the mysteries of the human genome, finding cures for disease, contributing to our quality of life, and exploring the ethical dilemmas about privacy, safety, regulation, testing, and the sanctity of life are the driving forces behind this work, which also serves as the basis for the Central Indiana Life Sciences Initiative, the broad-based economic development initiative which builds on Indiana's strength in the life sciences, pharmaceuticals, and medical devices industries.

In 2002, grants and contracts totaled $340 million. Our research record stands out as a superb performance, especially since just doubling inflation is the standard measure of excellence. The largest gains were in the School of Medicine. Grants and contracts for medical school researchers nearly quadrupled over the 1990s, going from $46 million in 1990 to $254 million in 2001. These grants funded such projects as investigations into the causes of heart attacks, stroke, arteriosclerosis, and arthritis.

At Indiana University, we recognize the need to augment state allocations with strong private fund-raising. Indiana University has rocketed to the top of the charts, becoming the number one public university in the nation in the amount of support it receives from the private sector. The ranking, compiled annually by the Council for Aid to Education, compares 2001 fiscal year results for 960 colleges and universities in the United States. IU's $300.9 million in private support comes from two sources: (1) gifts from alumni and non-alumni individuals, corporations, foundations and other organizations, and (2) research grants and contracts awarded to the university's faculty and staff by private-sector organizations. In fiscal 2001, IU received $232.7 million in gifts and $68.2 million in non-governmental research grants. IU has consistently ranked in the top 10 among public universities and in the top 20 among all colleges and universities, a testimonial to the respect and support IU's people and programs receive from the private sector. To be first in the nation among all public universities this year is an honor IU has worked hard to earn. It is an indisputable vote of confidence in the excellence of our faculty, our research, and our educational programs.

The IU Bloomington Endowment campaign moved IU from near the bottom of the Big Ten in the number of endowed chairs and professorships to first place! Endowed chairs and professorships are essential to any university's ability to attract and retain top academic talent. And the Campaign for IUPUI reached its $700 million goal twenty-two months before the campaign's formal conclusion in June 2004, with a current total of $728 million. This is the largest fund raising campaign any public institution has ever conducted in Indiana, and it will help IUPUI, which is one of the great success stories of American higher education, achieve new levels of excellence.

IU's growing reputation can serve as a magnet for top-flight faculty, staff and students. Those IU researchers who will expand the frontiers of knowledge in their fields can also spin off their innovations into the private sector, through the university's technology transfer process. Meanwhile, IU will continue to attract increasing interest from high-tech leaders who are seeking to build partnerships with higher education.

To facilitate company startups based on Indiana University research, IU's tech transfer arm, the Advanced Research and Technology Institute (ARTI) has recently acquired a building that will house the Indiana University Emerging Technologies Center (ETC). The ETC will operate as a "business incubator," providing financial support and management services and nurturing new companies through the start-up process. The ETC will be a new and important addition to the emerging corridor of 21st century research and business development from West Lafayette to Indianapolis to Bloomington. It is worth noting that during the 2000-2001 academic year, this corridor produced $510 million in research income. The Bloomington/Indianapolis corridor produced more than $312 million of that total.

And Indiana University continues to advance its leadership in the use and application of information technology. In 1996 we set the goal of becoming a national leader in absolute terms. This was a daunting challenge, but the entire Indiana University community rose to meet it. Five years later, IU is on the forefront in the area of advanced networking, high performance computing, and massive data storage. Home to one of the fastest university-based supercomputers, IU has the computing capacity necessary for data-intensive research required for advancement in many fields,

but particularly the life sciences. In December of 2002, we celebrated the first anniversary of I-Light, the fiber optic network connecting the three campuses to each other and to the national Internet2 infrastructure. The network is already enabling important new research and applications while realizing cost savings for the campuses and the state.

Indiana University also manages the network operations center for the Internet2 Abilene backbone network and the Global Network Operations Center, which supports international network links to advanced research and education networks in the Asia/Pacific, Europe, Russian, and South America. These high performance networks serve as the backbone for large-scale, distributed scientific experiments that are being conducted on a scale that was never before possible.

The Pervasive Technology Labs, funded with a $30M grant from the Lilly Endowment, are engaged in technology transfer and commercialization of innovations produced in the labs, and are establishing joint research and development partnerships with industry. I am pleased to tell you that we have almost fully established these Labs. Five are now in place, one funded completely externally. A total of about 60 people are already employed in the labs, many of whom have come from out of state, and they have attracted an additional $3M per year in new grants. Over the last five years, IU's IT initiatives have generated more than $300 million in grants, savings, and new funding. The cumulative effect is a leadership role in IT for the University and outstanding facilities for teaching and research.

As I review the Indiana University's accomplishments in the past year, I must also compliment you and Lt. Governor Kernan on your Energize Indiana Plan that sets out a vision for Indiana's economic future. Indiana University is fully committed to partnering with business and government to create a New Economy in Indiana. Our research efforts serve as the catalyst for creating new jobs, starting new businesses, and creating the highly skilled labor force that will attract 21st-century businesses to Indiana. IU brings value to the state in a number of important ways.

As the following financial report illustrates, we treat the funds we receive as a public trust. Students and donors invest their money and their dreams in our university. The state invests tax dollars. We guarantee the best return on all those investments. We remain dedicated to fulfilling all three of IU's missions with an unshakeable commitment to excellence and to the well being of the state of Indiana.

Sincerely,

Myles Brand
President

Financial Report

Greetings to President Myles Brand and Trustees of Indiana University:

It is with pleasure that I present the Indiana University Financial Report for the fiscal year ended June 30, 2002. The financial statements have been prepared in accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) principles. During fiscal year 2002, the university adopted GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis, as amended by GASB State 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities. The University has elected to restate its financial statements for the fiscal year ending June 30, 2001 in accordance with these standards. The accompanying notes to the financial statements are an integral part 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, 2001 through June 30, 2002, and the University's financial position at June 30, 2002, with comparative data from the previous fiscal year (as restated).

The financial statements have been audited by the Indiana State Board of Accounts. Their opinion on the financial statements appears immediately following the "Notes to the Financial Statements, 2001 and 2002."

This has been a difficult economic period for the State and its citizens, and for many state-supported operations, including higher education. The nationwide economic slowdown hit hard at the state's manufacturing-based economy. Higher education has been a full partner in sharing the pain of the resulting budget shortfalls. During the 2001-2003 biennium, Indiana University is suffering the loss of more than $100 million in state funding that was either cut or postponed. The University took the steps necessary to manage these losses during the current fiscal year.

While Indiana University fully accepts its responsibility to bear a fair share of cuts in economically troubled times, the university also seeks to focus on other, more positive, partnerships. Higher education, through its collaborations with the private sector and with local, state and federal government, is instrumental to the effort to build a stronger, more diverse economy in Indiana.

The current economic cycle cannot be undone, however–through accessible, top-quality higher education and cutting-edge university research–the university can help create an economy that is more resilient in tough times and more profitable in good ones. Reflecting Indiana University's continuing commitment to enhancing excellence and supporting economic development in the state, research and public service expenditures grew by 12.5% during the reporting period represented in this financial report. Over the past decade, annual sponsored research has tripled, with the School of Medicine showing

the strongest increases. Indiana University is leading the way toward growth in the life sciences industries, as well as information technology.

Indiana University continues to maintain a strong overall financial position.

Indiana University's total net assets grew by $78.4 million for the fiscal year ending June 30, 2002, representing a 5% increase over the prior fiscal year. Notwithstanding decreases in non-operating revenue (which includes state appropriations under the GASB guidelines), overall revenue for the institution increased by $17 million or nearly 1%. Operating expenses grew by 5.5% with most of this increase attributable to increases in faculty and staff compensation, the largest component of the university's total expense. Special cost containment efforts are reflected in travel and supplies and general expense categories for the year. For additional information and details, I call your attention to the Management Discussion and Analysis section of this report.

On behalf of all those responsible for the fiscal stewardship of Indiana University's resources, I respectfully submit the Indiana University Financial Report for the fiscal year ending June 30, 2002.

Sincerely,

Judith G. Palmer
Vice President and Chief Financial Officer

Indiana University
Management's Discussion and Analysis

Indiana University presents its audited financial statements for the year ending June 30, 2002, along with comparative data for June 30, 2001. Three statements are described in the following discussion and analysis: The Statement of Net Assets, which presents the assets, liabilities and net assets of the institution as of the end of the fiscal year; the Statement of Revenues, Expenses and Changes in Net Assets, which reflects revenues and expenses recognized during the fiscal year; and the Statement of Cash Flows, which provides information on all of the cash inflows and outflows for the institution by major category during the fiscal year. Analysis will be provided for major variances from Fiscal Year End 2001 to 2002, including review of capital asset activity and related debt.

Statement of Net Assets

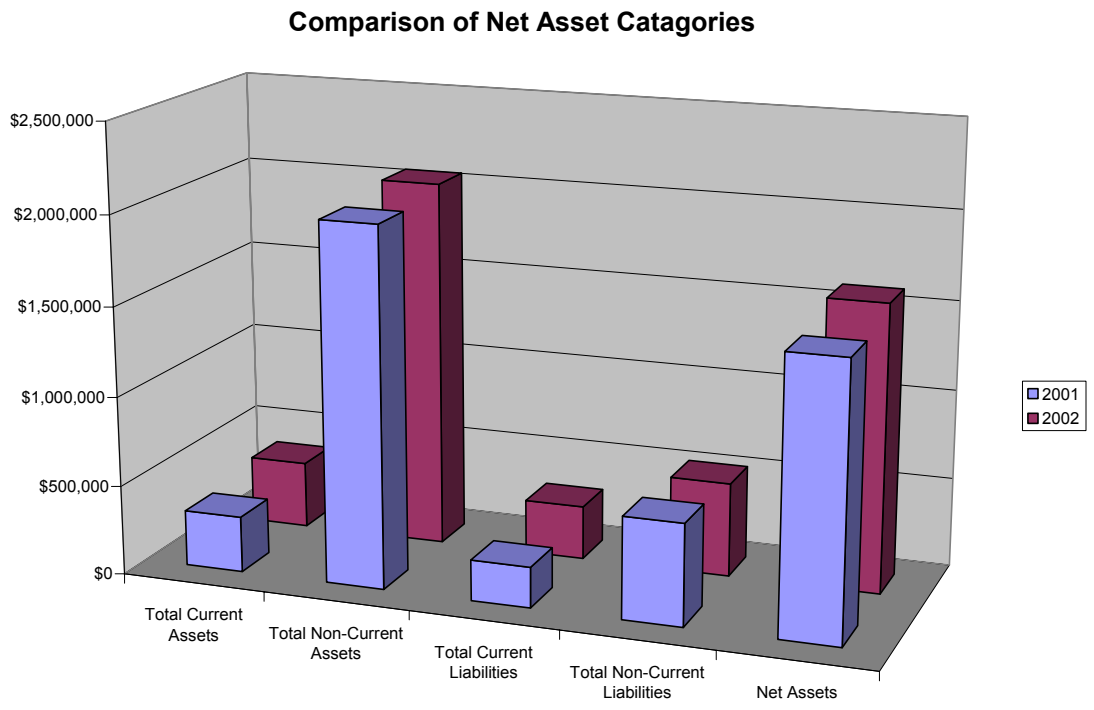
Total assets at June 30, 2002 were $2.4 billion, an increase of $110.7 million. Capital net assets comprised $1.6 billion of the $2.4 billion in assets.

Total liabilities were $826.8 million at June 30, 2002 compared to $794.5 million from the prior year. Long-term liabilities comprised 64% or $526 million of the liabilities at June 30, 2002.

Total net assets at June 30, 2002 were $1.6 billion, a $78.4 million increase over the prior year, or a 5% increase in net assets. The breakout of net assets is shown below:

Capital Assets net of related debt	$ 1,057,120
Restricted net assets	298,941
Unrestricted net assets	244,800
Total net assets	$ 1,600,860

The composition of current and non-current assets and liabilities and net assets is displayed below for both the June 30, 2001 and 2002 fiscal year ends:



Statement of Revenues, Expenses and Changes in Net Assets

Revenues

Operating revenues at Indiana University for the June 30, 2002 fiscal year increased by 8% over the previous fiscal year. Most components of revenues increased:

- Student fee revenues, after scholarship allowances, were $438.8 million in 2002 compared to $391.4 million in 2001, an overall increase of 12%. This increase was due to both an increase in student fee rates and enrollment growth.
- Federal grants and contracts increased 17% over the previous fiscal year. This category of revenue includes funds received from the government for financial aid as well as sponsored research revenue.
- $31.4 million in state and local grants and contracts were received for the fiscal year, an increase of $3.4 million over the previous year.
- Non-governmental grants and contracts increased by 25%, or $18.9 million. This category is expected to see large increases in the next 3 years as a $105 million grant received from the Lilly Foundation is spent and the related revenue is recognized.
- Sales and services of educational units increased from $48.2 million to $53.6 million. This was an 11% increase over 2001.
- Other revenue of $150 million was a decrease of 5.7% over the previous fiscal year of $159 million. Other revenue includes private practice income and revenue to the School of Medicine for various hospital agreements.

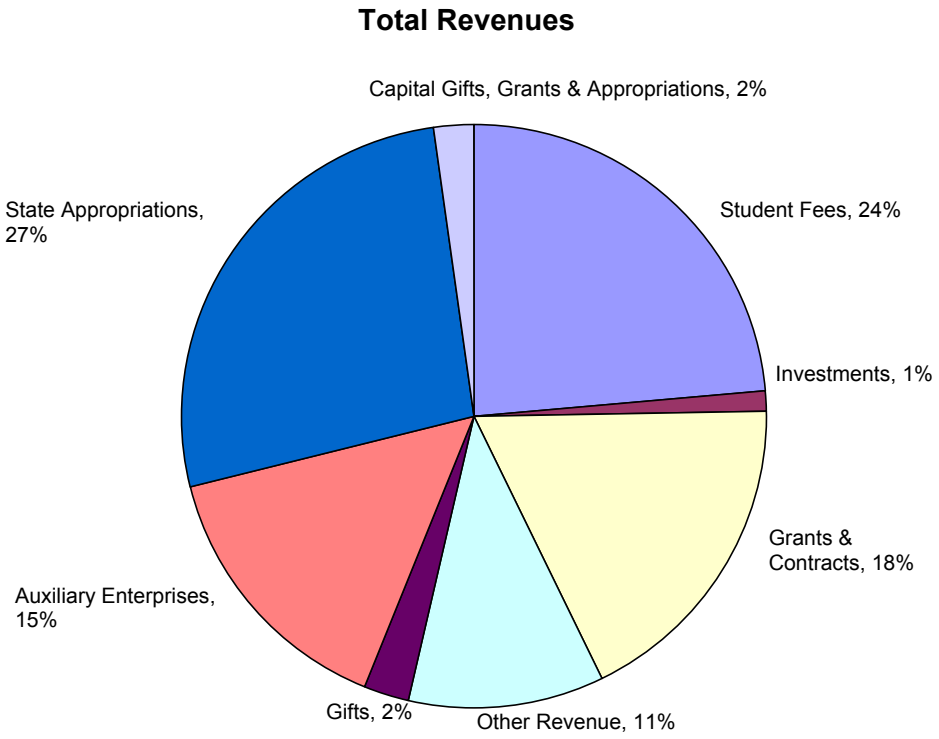
- Auxiliary enterprises also had a decrease in revenue of 1.3%, from $283.4 million to $279.8 million.

Total non-operating revenues were down 5.2% from June 30, 2001, from $596.8 million to $565.8 million:

- State appropriations, the largest single source of revenue at the university, decreased from $510.1 million to $502 million, or 1.6%.
- Investment revenue saw a major decrease of 60.2%, from $51.7 million at June 30, 2001 to $20.5 million at June 30, 2002. This was a result of both a decrease in investment returns and a decrease in the principal invested.
- Gift revenues were the only non-operating revenue that increased for the fiscal year, from $35 million to $43.2 million, an increase of 23.5%.

Other revenues included capital appropriations of $10.8 million which decreased 82%, capital gifts and grants of $29.3 million which had an increase of 18% and additions to permanent endowments of $974 thousand which were down from $1.7 million last year.

In summary, total revenues of the institution increased by $17 million, from $1.851 billion to $1.868 billion, an overall increase of 1%. The compositions of these revenues are displayed in this graph:



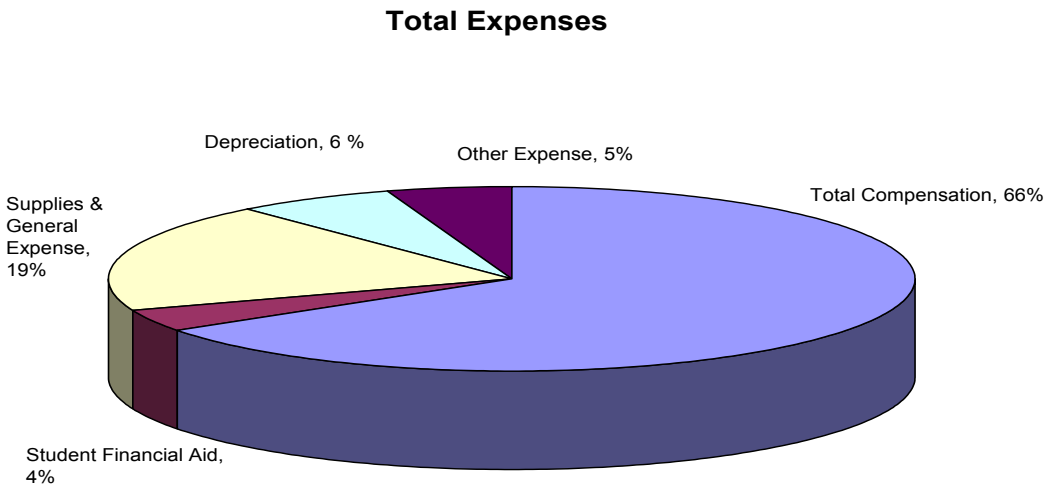
Expenses

Operating Expenses were $1.76 billion for the 2002 fiscal year. This was an increase over the previous fiscal year of $92 million, or 5.5%. Changes in the major categories of expense were:

- Total compensation comprises academic and staff salaries, hourly compensation, and benefits. This category increased by 7.7% for the fiscal year, from $1.09 billion to $1.17 billion.
- Student financial aid not classified as a scholarship allowance increased from $58.3 million to $67.1 million. This 15% increase in financial aid demonstrates a continued effort to increase financial aid for students.
- Energy and utilities had a slight increase of 2%, from $37.7 million in 2001 to $38.5 million in 2002.
- Travel expenses were tightly managed by the institution in 2002 due to non-operating revenue constraints. This expense increased by less than one-half of one percent in 2002, from $26.3 million to $26.4 million.
- Supplies and general expense was another category of expenses that received cut backs. This category decreased by a third of a percent over 2001, from $347.4 million to $346.3 million.
- Depreciation Expense also saw a decrease since 2001. Current depreciation expense of $112.1 million is $415 thousand less than 2001. This is indicative of a decrease in the spending of funds for capital equipment and buildings.

Non-operating expenses are represented solely by interest expense. This amount decreased by 12%, from $27.7 million in 2001 to $24.4 million in 2002.

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



Capital, Major Gifts, and Extraordinary Items

On the Statement of Revenues, Expenses, and Changes in Net Assets the net income before capital appropriations, capital gifts and grants, and endowments was $37.4 million. This was a decrease of $26.5 million from the prior year excess of $63.8 million.

Major gifts were received during the year through the Indiana University Foundation, a separate not-for-profit organization whose primary mission is to raise funds for Indiana University. Major capital projects that benefited from the Foundation's fundraising efforts included the Graduate School of Business facility at $12.9 million, Neal-Marshall Education Center and Theatre at $3.8 million, and the School of Medicine's Research Institute II building at $5 million.

The university did not have any special and extraordinary items in 2002.

Net Assets

Net assets increased by $78.4 million over the previous fiscal year. Although a decrease occurred in non-operating revenue, overall increases in operating revenues offset these decreases, while cost containment in travel and supplies and general expense assisted in keeping the increase in operating expenses to a minimum. In addition, the university set aside $10.3 million to offset future known decreases in state appropriations. Ending net assets were $1.6 billion, compared to ending net assets in 2001 of $1.52 billion. This was a 5% increase in net assets.

Statement of Cash Flows

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

Cash Flows for the Period (in thousands)

	June 30, 2002	June 30, 2001
Net cash provided (used) by:		
Operating activities	($318,019)	($395,126)
Noncapital financing activities	503,982	544,157
Capital and related financing activities	(232,274)	(137,631)
Investing activities	87,824	31,161
Net increase in cash	41,513	42,561
Beginning cash and cash equivalent balances	130,811	88,250
Ending cash and cash equivalent balances	$172,324	$130,811

Cash used by operating activities decreased $77.1 million. This decrease in the use of cash was impacted by a $46.3 million increase in tuition and fees and a $60.5 million increase in research grants and contracts.

Noncapital financing activities decreased $40 million. The primary component of this decrease was the result of a $38.4 million state appropriation for operations normally received by the university in June, which could not be claimed until July 15, 2002.

Cash flows from capital and related debt decreased by $94.6 million. The primary driver of this decrease was a decrease in state appropriations for capital projects from the prior year of $60.7 million, from $71.5 million in fiscal year 2000-2001 to $10.8 million in 2001-2002.

Cash flows from investing activities saw an increase of $56.6 million, impacted primarily from proceeds from the sales and maturities of investments.

Cash flow for the 2002-2003 fiscal year will be affected by a continued withholding of state appropriations used for capital projects, although twelve full months of operating state appropriations are expected for the year. In addition, the university does have plans to receive bond proceeds during the fiscal year. No other substantial changes in cash flow are expected.

Capital Asset and Debt Administration

The institution made significant investments in capital during the 2001-2002 fiscal year. Although no new debt was issued, new facilities were funded by bond issues from prior years, state appropriations, and gifts. The more significant facilities that came on line this year were:

- The Theatre and Neal-Marshall Education Center was completed on the Bloomington Campus at a cost of $37.2 million. The new facility will house the Department of Theatre and Drama and the Neal-Marshall Education Center, home for Afro-American Studies.
- The Kelley Graduate School of Business is a $31 million facility on the Bloomington Campus, connected to the current School of Business. The facility will provide space for offices, classrooms, special instruction facilities, student support space for MBA, AMBA, and MPA students, and Executive Education. The new building is designed to enhance the use of advanced technology for instruction and research and to be adaptable to future technology changes.
- Myers Hall, located on the Bloomington campus and originally completed in 1937, has undergone its second major renovation since original construction. The project, which cost over $16.5 million, changed the use of existing space to increase the versatility of teaching laboratory areas, shift office space to increase research areas, and create a tri-level stack area for a medical library. The renovation also improves the infrastructure of the building to bring it into health and safety code compliance, including changes for improved accessibility.
- The South Bend Campus Student Activities Center was constructed at a cost of $15 million. The facility will provide a place where students can participate in the full college experience and enjoy activities outside of regular classes. It will include recreational facilities and student government and organization offices and meeting rooms.
- At the IUPUI campus, a $13.5 million dollar renovation of the Medical Sciences Building has been completed. This facility was originally constructed in 1914.
- The IUPUI Blackford Street Parking Garage was brought on line at a cost of $9.6 million dollars. The five-level facility will accommodate approximately 1,120 vehicles. The project included a pedestrian bridge connecting the garage to the Science Engineering Technology Building.
- A four story addition to the existing Psychology building on the Bloomington campus was completed at a cost of $6.6 million. The addition will house laboratories doing research in child development, human subjects, and biology and behavior. It will also house two teaching laboratories.

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

- The Bloomington campus is planning a facility that will provide remote compact storage for between 2.5 and 3 million volumes from the Main Library, as well as materials from Archives and the Lilly Library and twenty other campus libraries. The Auxiliary Library Facility has a projected cost of $10 million.

- At IUPUI, a Classroom/Academic Building and Communications Technology is to house general purpose classrooms, the New Media program, and University Information Technology Services. The estimated cost is $16.2 million.
- The Center for Medical Education/Professional Education Building at the Northwest campus is estimated to cost $24.9 million. The building will house laboratories, offices, and some clinical space for programs in Allied health, Nursing, and Medical Education. There will also be general purpose classrooms and the facility will house the Schools of Business and Public and Environmental Affairs.

The university's rating on debt obligations was last reviewed and updated in the spring of 2001. Moody's Investors Service provided a rating of 'Aa2' on April 25, 2001. Standard & Poor's rating of 'AA' was provided on May 9, 2001.

Economic Outlook

The State of Indiana revenues are significantly down and tax revenue projections are not meeting expectations. The State of Indiana does provide approximately 27% of the total resources for the university during a fiscal year. The State of Indiana's 2001-03 Appropriation Act, HEA 1001, was enacted by the 2001 (regular session) General Assembly and approved by the Governor, which gave authority to the state Budget Agency to distribute eleven-twelfths of the budgeted amount for the 2001-2002 fiscal year state appropriation for all higher education institutions in the State of Indiana. The state Budget Agency postponed the June distribution until the 2002-2003 fiscal year. For Indiana University, this amount was $38.4 million in cash that was not received for such twelfth payment. A receivable was recorded and revenue recognized for the $38.4 million.

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

Overall, the financial position of the University continues to be strong. The academic 2002-03 year brings increased enrollments for all seven campuses.

Indiana University
Statement of Net Assets

	Year Ended June 30, 2002	Year Ended June 30, 2001 *restated*
	(in thousands of dollars)	
Assets		
Current assets		
Cash and cash equivalents	$172,324	$130,811
Accounts receivable	115,062	93,372
Current portion of notes receivable	11,537	12,354
Inventories	15,979	16,699
Short-term investments	10,342	22,026
Securities and lending assets	38,512	28,177
Other assets	9,015	8,652
Total current assets	**372,771**	**312,091**
Non-current assets		
Notes receivable	60,934	59,489
Investments	408,462	451,014
Capital assets, net	1,585,547	1,494,397
Total non-current assets	**2,054,943**	**2,004,900**
Total assets	**$2,427,714**	**$2,316,991**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$190,133	$126,501
Deferred revenue	31,460	30,272
Current portion of long-term debt	40,745	42,522
Securities and lending liabilities	38,512	28,177
Total current liabilities	**300,850**	**227,472**
Non-current liabilities		
Capital lease obligations	2,423	2,523
Assets held in custody for others	35,473	34,000
Bonds payable	477,609	516,530
Other long-term liabilities	10,499	14,061
Total non-current liabilities	**526,004**	**567,114**
Total liabilities	**$826,854**	**$794,586**
Net Assets		
Invested in capital assets, net of related debt	1,057,120	933,785
Restricted for:		
Nonexpendable - Endowments	37,821	42,888
Expendable		
Scholarships, research, instruction and other	163,364	168,662
Loans	17,920	17,791
Capital projects	52,813	96,859
Debt service	27,022	26,377
Unrestricted	244,800	236,043
Total net assets	**1,600,860**	**1,522,405**
Total liabilities and net assets	**$2,427,714**	**$2,316,991**

Indiana University
Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30, 2002	Year Ended June 30, 2001 *restated*
	(in thousands of dollars)	
Operating revenues		
Student fees	$501,575	$448,232
Less scholarship allowance	(62,777)	(56,797)
Federal grants and contracts	213,234	182,107
State and local grants and contracts	31,372	27,998
Nongovernmental grants and contracts	94,357	75,431
Sales and services of educational units	53,696	48,272
Other revenue	150,093	159,229
Auxiliary enterprises (net of scholarship allowance of $8,264 in 2002 and $8,063 in 2001)	279,830	283,405
Total operating revenues	**1,261,380**	**1,167,877**
Operating expenses		
Total compensation and benefits	1,174,936	1,090,882
Student financial aid	67,076	58,292
Energy and utilities	38,519	37,754
Travel	26,439	26,316
Supplies and general expense	346,347	347,448
Depreciation expense	112,147	112,562
Total operating expenses	**1,765,464**	**1,673,254**
Operating loss	**(504,084)**	**(505,377)**
Non-operating revenues (expenses)		
State appropriations	502,004	510,140
Investments	20,556	51,706
Gifts	43,245	35,019
Interest expense	(24,359)	(27,675)
Net non-operating revenues	**541,446**	**569,190**
Income before other revenues, expenses, gains, or losses	**37,362**	**63,813**
Capital appropriations	10,796	59,949
Capital gifts and grants	29,323	24,870
Additions to permanent endowments	974	1,726
Total other revenues	**41,093**	**86,545**
Increase in net assets	**78,455**	**150,358**
Beginning net assets June 30, as restated	1,522,405	1,372,047
Ending net assets June 30	**$1,600,860**	**$1,522,405**

Indiana University

Statement of Cash Flows

	Year Ended June 30, 2002	Year Ended June 30, 2001
	(in thousands of dollars)	
Cash Flows from Operating Activities		
Student fees	$438,147	$391,753
Grants and contracts	343,034	282,520
Sales and services of educational activities	53,696	48,272
Auxiliary enterprise charges	280,844	280,431
Other operating receipts	157,187	136,102
Payments to employees	(1,127,635)	(1,084,975)
Payments to suppliers	(395,589)	(388,757)
Student aid	(67,076)	(58,292)
Student loans collected	12,354	10,399
Student loans issued	(12,981)	(12,579)
Net cash used in operating activities	**(318,019)**	**(395,126)**
Cash Flows from Noncapital Financing Activities		
State appropriations	463,570	510,140
Gifts and grants received for other than capital purposes	40,530	34,059
Direct lending receipts	135,438	120,590
Direct lending payments	(135,556)	(120,632)
Net cash provided by noncapital financing activities	**503,982**	**544,157**
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	10,796	71,540
Capital grants and gifts received	34,904	7,473
Purchase of capital assets	(212,679)	(197,096)
Proceeds from issuance of capital debt, including refunding activity	0	146,718
Principal payments on capital debt, including refunding activity	(39,280)	(133,002)
Principal paid on capital leases	(3,961)	(3,435)
Interest paid on capital debt and leases	(22,054)	(29,829)
Net cash used in capital and related financing activities	**(232,274)**	**(137,631)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	59,243	6,778
Investment income	36,018	35,318
Purchase of Investments	(7,437)	(10,935)
Net cash provided by investing activities	**87,824**	**31,161**
Net increase in cash and cash equivalents	41,513	42,561
Cash and cash equivalents, beginning of year	130,811	88,250
Cash and cash equivalents, end of year	**$172,324**	**$130,811**
Reconciliation of operating loss to net cash used in operating activities:		
Operating Loss	$(504,084)	$(505,377)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	112,147	112,562
Loss on disposal of capital assets	4,295	5,570
Changes in assets and liabilities:		
Accounts Receivable	9,940	(12,939)
Prepaid expenses and other assets	(6,070)	(2,595)
Inventories	750	1,546
Accounts payable	7,008	8,933
Deferred revenue	979	3,446
Other liabilities	57,016	(6,272)
Net cash used in operating activities	**$(318,019)**	**$(395,126)**

INDIANA UNIVERSITY

Notes to the Financial Statements (dollars in thousands)
June 30, 2001 and 2002

Note 1 – Summary of Significant Accounting Policies

Organization**:** Indiana University (the University) is a state-supported institution that is fiscally responsible for operations and students enrolled on seven campuses. Campuses are located in Bloomington, Indianapolis, Richmond, Kokomo, Gary, South Bend and New Albany. The financial statements include the individual schools, colleges and departments as a part of the comprehensive reporting entity. The University is classified as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. Certain revenues of the University may be subject to federal income tax as unrelated business income as defined in section 513 of the Internal Revenue Code.

Financial Statement Presentation**:** Beginning with the fiscal year ended June 30, 2002, the University is required to adopt Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements--and Management's Discussion and Analysis—for Public Colleges and Universities.* GASB No. 35 allows for public colleges and universities to report as a business type activity under GASB 34 which requires a comprehensive, entity-wide presentation of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. This presentation replaces the fund group statements previously required under GASB standards. The University has elected to restate its financial statements for the fiscal year ending June 30, 2001 in accordance with the new financial statement format.

Basis of Accounting: The accompanying financial statements have been prepared by the University as a special-purpose government entity engaged in business type activities. For purposes of financial reporting, GASB Statement No. 35 defines business type activities as those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, these financial statements have been presented using the economic resources measurement focus and on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange transactions are recognized when the exchange takes place. Eliminations have been made to minimize the "double-counting" of internal activities. Interfund receivables and payables have been eliminated in the Statement of Net Assets. Eliminations have been made in the Statement of Revenues, Expenses and Net Assets to remove the "doubling-up" effect of internal service fund activity.

The University has the option to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure except for those that conflict with or contradict GASB pronouncements. The policy of the University is to apply FASB Standards according to specific review of appropriateness to individual situations and transactions.

Cash Equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Investments maturities are evaluated as of the financial statement date for purposes of liquidity classification.

Investments: Investments are carried at fair market value as of the balance sheet date. Unrealized gains and losses are reported as investment income in the statement of revenues, expenses, and changes in net assets.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or at fair market value at the date of the gift for contributed assets. Capital assets include moveable equipment with a unit cost of $5,000 or more and an estimated useful life of more than one year. Infrastructure, land, land improvements, and buildings purchased by or donated to the University are capitalized, as well as building renovations that increase or enhance the useful life of the building. Art and museum objects purchased by or donated to the University are capitalized. Depreciation is recorded on capitalized assets using the straight-line method over the estimated useful lives of the respective assets, generally five to forty years. Useful lives for all capital assets are established using a combination of the American Hospital Association guidelines, Internal Revenue Service guidelines and actual university experience. Land and capitalized art and museum collections are not depreciated.

Deferred Revenue: Deferred revenue is recorded for amounts received for student tuition and fees and for certain auxiliary goods and services prior to year-end, but which relate to the subsequent fiscal year. Cash advances received on contracts and grants where funding is provided prior to spending (in excess of amounts earned), are also recorded as deferred revenue.

Compensated Absences: Liabilities for compensated absences have been recorded for vacation leave based on actual earned amounts for eligible employees that qualify for termination payments. Liabilities for sick leave have been recorded for those employees who have earned and are eligible for termination payments for accumulated sick days on termination or retirement.

Net Assets: GASB Statement No. 34 requires that resources be classified for financial reporting in the following net asset categories:

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

- Restricted net assets – expendable: Restricted expendable net assets are those resources that the University is legally or contractually obligated to spend in accordance with externally imposed restrictions.

- Restricted net assets – nonexpendable: Nonexpendable restricted net assets are endowment funds that 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.

- Unrestricted net assets: Unrestricted net assets are not subject to externally imposed restrictions and are used primarily for meeting expenses for academic and general operations of the University.

When an expense is incurred for which both restricted and unrestricted resources are available, the decision whether to apply restricted or unrestricted resources first is a management matter, and the decision is made on a case-by-case basis.

Revenues: The University has defined revenues as reported on the statement of revenues, expenses, and changes in net assets according to GASB No. 34 and No. 35 as follows:

- Operating revenues: Operating revenues result from exchange transactions, such as student tuition and fees (net of scholarship discounts and allowances), government and other grants and contracts, and sales and services of auxiliary enterprises (net of scholarship discounts and allowances).

- Non-operating revenues: Non-operating revenues include those that derive from non-exchange transactions such as gifts. Other revenues classified as non-operating revenues by GASB No. 34 include significant revenue sources that are relied upon for operations, such as state appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fees, and other student revenues are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amounts paid by students and/or third parties making payments on behalf of students.

Accounting Changes: The changes in accounting principles required by the University's adoption of GASB No. 34 and No. 35, specifically the recording of summer session tuition and fees revenue between fiscal years rather than the fiscal year in which the term was predominately conducted, resulted in a restatement and an increase in net assets at July 1, 2000 of $4,007,577 for the cumulative effect of these changes on years prior to fiscal year 2000.

Note 2 – Restatement of Net Assets

Net Assets at July 1, 2000 are changed as a result of the following restatements: In recognition of full accrual accounting, interest receivable of $435,218 was recorded to increase net assets. Similarly, interest payable of $8,020,888 was recorded to decrease net assets at July l, 2000. An adjustment to auxiliary accounts receivable of $1,355,000 and the recognition of unrealized losses of $3,921,968 also resulted in decreases to Net Assets.

Note 3 – Cash and Cash Equivalents, Investments, and Securities Lending

Three external portfolio managers, under the oversight of university staff, are currently managing the investing of operating cash. The portfolio managers include Merganser Capital Management Corporation, Reams Asset Management Company, and Western Asset Management Company. The primary money market fund utilized for investing the University's most liquid operating cash pool is the Common fund, which is organized as a bank common trust fund. Money market funds provided by the University's custodial bank and primary depository banks are also used for investing cash on deposit on an overnight basis. These funds are also under the oversight of university staff. The investment of operating cash is in accordance with the policies set forth by the Trustees of Indiana University, under the authority granted to establish and carry out written policies for the investment of such funds by

State statute (IC 20-12-1-2). GASB 31 requires all investment income, whether realized or unrealized, to be recognized as revenue in the financial statements. University financial policy II-9 defines the policy for authorizing and spending investment income.

Investments are recorded at fair market value. They are held in the form of pooled funds, trust accounts, separately owned securities (that cannot be pooled for legal or practical reasons) and demand deposit accounts.

The University's investments are categorized below to give an indication of the level of risk assumed by the University at year-end. Category I includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category II includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. At June 30, 2002 the University did not have any assets in Category II. Category III includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the University's name:

(in thousands of dollars)	June 30, 2002	June 30, 2001	Change
Investments—Category I			
Corporate Bonds			
Not on Securities Loan	$ 103,698	$ 162,220	($ 58,522)
On securities loan for securities or letter of credit collateral	2,011	105	1,906
Miscellaneous Bonds			
Not on Securities Loan	148,050	141,956	6,094
Commercial Paper			
Not on Securities Loan	1,099	10,981	(9,882)
Treasury Notes			
Not on Securities Loan	329	8,927	(8,598)
On securities loan for securities or letter of credit collateral	0	1,234	(1,234)
Federal Agencies			
Not on Securities Loan	4,609	7,072	(2,463)
On securities loan for securities or letter of credit collateral	927	632	295
Investments-Category III			
Securities Lending Short-term Non-cash Collateral Investment Pool	3,013	2,044	969
Subtotal	263,736	335,171	(71,435)
Investments—Not Categorized:			
Investments held by broker-dealers under securities loans with cash collateral			
Corporate Bonds	12,088	10,650	1,438
U.S. Government and Agency Securities	36,067	27,606	8,461
Securities Lending Short-term Cash Collateral Investment Pool	38,512	28,177	10,335
Short-term Investments	182,021	115,877	66,144
Total	$ 532,424	$ 517,481	$ 14,943

State Statutes and Board of Trustees policy permit the University to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The University's custodial bank manages the securities lending program and receives cash, U.S. government securities, or irrevocable letters of credit as collateral. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Cash collateral is invested in a short-term investment pool. Cash collateral may also be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. Securities collateralized by U.S. government securities and irrevocable letters of credit that are on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the University will at least equal the market value plus accrued interest of the borrowed securities. At year-end, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. All security loans can be terminated on demand by either the University or the borrowers. Cash received as securities lending collateral as of June 30, 2002 was $38,512,150.

Note 4 – Accounts Receivable

Accounts receivable consisted of the following at June 30, 2002 and June 30, 2001 (in thousands of dollars):

	June 30, 2002	June 30, 2001
Student accounts	$ 18,337	$ 14,397
Auxiliary enterprises and other operating activities	33,188	43,760
State appropriations	38,345	0
Federal, state and other grants and contracts	13,773	17,844
Capital gifts and appropriations	11,419	17,371
Net accounts receivable	$ 115,062	$ 93,372

Note 5 – Endowment Funds

The pooled funds are currently managed for the University by the Indiana University Foundation. The funds are invested in accordance with the investment policy for the Consolidated Endowment Fund of the Board of Trustees of Indiana University. The funds of an endowment, a fund functioning as an endowment, or an agency fund are used to acquire pooled shares. The value of the pooled shares is determined each quarter on the basis of the total market value of pooled investments and the number of pooled shares outstanding. Income from pooled funds is distributed pro rata to each participating fund according to the number of pooled shares it holds. At June 30, 2002, pooled shares were invested in pooled long-term and pooled short-term funds with a mix of 69% equities and 31% fixed investments.

Pooled funds at cost were $103,524,504 and had a market value at June 30, 2002 of $98,698,679.

Trust accounts for Riley Hospital are administered by two major banks. These accounts include securities that cost $5,174,206 with the same market value at June 30, 2002.

Separately owned securities had a book value of $18,322,197 with a market value of $17,201,845. Real estate investments amounted to $842,475 at cost.

In addition to the above, Indiana University shares with Purdue University and the Indianapolis Center for Advanced Research, the income from a trust held by a major bank. The market value of the principal of this trust at June 30, 2002 was $31,702,249. The trust principal is not included on the University's financial statements.

INDIANA UNIVERSITY

Note 6 – Capital Assets (in thousands of dollars)

	Year Ended June 30, 2002			
	Balance June 30, 2001	Additions	Retirements	Balance June 30, 2002
Assets not being depreciated				
Land	$ 46,301	$ 83	$	$ 46,384
Art & museum objects	52,860	275		53,135
Construction in progress - fabricated equipment	5,540	4,776		10,316
Construction in progress - buildings		30,039		30,039
Total capital assets not being depreciated	$ 104,701	$ 35,173	$ 0	$ 139,874
Other capital assets				
Infrastructure	125,365	7,172		132,537
Land improvements	3,531	2,157		5,688
Equipment	458,137	56,595	25,134	489,598
Library books	105,735	19,387		125,122
Buildings	1,818,188	86,651	3,240	1,901,599
Leasehold improvements	1,465	935		2,400
Total other capital assets	$ 2,512,421	$ 172,897	$ 28,374	$ 2,656,944
Less accumulated depreciation for				
Infrastructure	87,520	4,694		92,214
Land improvements		466		466
Equipment	292,247	47,780	21,924	318,103
Library books	35,645	11,553		47,198
Buildings	707,228	48,205	2,299	753,134
Leasehold improvements	85	71		156
Total accumulated depreciation other capital assets	$ 1,122,725	$ 112,769	$ 24,223	$ 1,211,271
Capital assets, net	$ 1,494,397	$ 95,301	$ 4,151	$ 1,585,547

Note 7 – Accounts Payable

Accounts payable consisted of the following at June 30, 2002 and June 30, 2001 (in thousands of dollars):

	June 30, 2002	June 30, 2001
Accrued payroll	$ 66,236	$ 15,868
Accrual for compensated absences	28,375	35,362
Interest payable	8,823	6,914
Held for student loans	25,891	25,511
Vendor and other payables	60,808	42,846
Total accounts payable and accrued liabilities	$ 190,133	$ 126,501

Note 8 – Short-Term Liabilities

Indiana Code Section 20-12-9.5 permits the use of debt in the form of temporary borrowing in anticipation of future long-term borrowing for capital projects, when such long-term borrowing is authorized under other sections of the Indiana Code. As of June 30, 2002 there is no such temporary borrowing, commercial paper, or short-term notes outstanding.

Note 9 – Long-Term Liabilities

Long-term liability activity includes current and non-current portions of debt. For the year ended June 30, 2002, long-term liabilities were as follows (in thousands of dollars):

	Balance June 30, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Bonds payable	$554,135		$39,280	$514,855	$37,246
Capital lease obligations	5,341	3,308	2,831	5,818	3,499
Total bonds and capital leases	559,476	3,308	42,111	520,673	40,745
Other liabilities					
Assets held in custody for others	34,000	1,473		35,473	
Other	42,437	2,166	5,729	38,874	28,374
Total long-term liabilities	$635,913	$6,947	$47,840	$595,020	$69,119

Compensated absences typically have been liquidated from the general and auxiliary enterprise funds.

Note 10 – Bonds and Notes Payable

Indiana University is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, and academic facilities. The outstanding long-term bond and note indebtedness at June 30, 2002, was $514,854,548. The amount outstanding as of June 30, 2002 for Acts of 1965 is $489,996,433, including the accreted value of outstanding capital appreciation bonds.

The issues are serial and term bonds and notes payable with maturities extending to August 1, 2020. For the fiscal year 2001-2002, a separate fee replacement appropriation was received from the State of Indiana. The appropriation represented the amount required to make principal and interest payments for financing certain academic and student facilities.

BONDING AUTHORITY (in thousand of dollars)	INTEREST RATES	FINAL MATURITY	AMOUNT OUTSTANDING JUNE 30, 2002
Acts of 1927 of the Indiana General Assembly-Housing, Parking, and Hospital Facilities	1.28 to 6.00%	2020	$ 70,539
Acts of 1929 of the Indiana General Assembly-Student Union Building, Halls of Music, and Athletic Facilities	4.00 to 6.60%	2009	2,800
Acts of 1965 of the Indiana General Assembly-Academic Facilities	3.85 to 7.25%	2020	441,516
			$ 514,855

The University has two series of variable rate bonds. One was issued in June of 1998 to finance the renovation of the Willkie Quadrangle. The other was issued in December of 2000 to finance the construction of parking facilities. Both are shown above in the category titled Acts of 1927 of the Indiana General Assembly-Housing, Parking, and Hospital Facilities. The variable interest rate is determined by the remarketing agent, based on prevailing market conditions, as the lowest rate of interest at which the bonds will have a market value equal to the principal amount of the series plus accrued and unpaid interest. The interest rate may not exceed the maximum annual rate (the lesser of 10% or the interest rate as to which interest coverage is provided in the Liquidity Facility). While in variable rate mode, IU debt is calculated on the basis of a 365 or 366-day year, for the actual number of days elapsed.

The University did not have any notes payable at June 30, 2002.

Principal and Interest requirements to maturity for bonds are as follows (in thousands of dollars):

	Bond Principal	Bond Interest	Total Payment
2003	$ 37,246	$ 22,054	$ 59,300
2004	38,779	20,191	58,970
2005	40,904	18,148	59,052
2006	31,542	27,981	59,523
2007	31,781	27,760	59,541
2008-2012	150,397	122,571	272,968
2013-2017	98,887	48,150	147,037
2018-2022	85,319	9,047	94,366
Total	$ 514,855	$ 295,902	$ 810,757

In prior years, the University has defeased the following bond issues either with cash or by issuing new debt. United States Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books.

Defeasance Date	Description of Bonds	Final Maturity Date	Principal Amount Outstanding June 30, 2002
October 1, 1985	Building Facilities Fee Bonds, Series G-M	2010	$ 22,645
March 2, 1998	Dormitory Revenue Bonds, Series 1964	2003	408

Note 11 – Lease Obligations

The University leases certain facilities. Most of the facility leases include renewal options and some provide for escalation of rent based on changes in operating cost. Some leases for equipment are in substance lease-purchases and as such are recorded as capital lease obligations. Future minimum payments of all significant leases with initial or remaining terms of one year or more at June 30 are as follows (in thousands of dollars):

	Capital	Operating
2003	$3,699	$7,321
2004	1,609	6,841
2005	643	5,675
2006	53	5,218
2007	49	3,670
2008-2012	83	11,256
2013-2017		7,787
2018-2022		7,329
2023-2027		1,145
Total future minimum payments	$6,136	$56,242
Less: amounts representing interest	(318)	
Present value of future minimum lease payments	$5,818	

Note 12 – Federal Obligations under Student Loan Programs

Student Loans are funded principally from allocations received from the Federal Government under the Carl D. Perkins National Loan Program, Health Professions Loan, and Nursing Loan Programs. The collections, including interest from these programs, are loaned to students. One-tenth of the original funding for these programs was contributed by the University. The institutional match for new federal Perkins funding is currently one-third.

During the fiscal year, the Federal Government advanced $239,699 for the Carl D. Perkins National Loan Program, and $2,028,310 for Health Professions and Nursing Loan Programs. Liabilities at year end for loan programs were as follows (in thousands of dollars):

FEDERAL SHARE OF INTEREST		
Collections on		
Federal Capital Contribution Student Loans		$ 25,891
FEDERAL STUDENT LOAN ADVANCES		
Carl D. Perkins National Loan	$ 23,719	
Health Professions Loans	10,998	
Nursing Loan	755	35,472
TOTAL		$ 61,363

Note 13 – Risk Management

The University is exposed to various risks of loss: torts, theft, damage, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The University handles these risks of loss through combinations of risk retention and commercial insurance. For buildings and contents the University is self-insured for the first $500,000 per occurrence. For comprehensive general and automobile liabilities the University is self-insured for the first $1 million, and in addition, has excess liability umbrella policies. The University has a commercial malpractice and professional liability policy in the amount of $250,000 for each claim and $750,000 annually in aggregate. The University is self-insured for the first $400,000 of any worker's compensation claim. Excess commercial coverage for up to $1 million exists for Employer's Liability claims and worker's compensation claims above $400,000 have statutory limits.

The University has a total of eight health care plans for full-time appointed employees and three health care plans for retirees. Four employee plans and one retiree plan are self-funded. For the fiscal year 2001-2002, which ended on June 30, 2002, the University made payments related to these health care plans totaling $60,361,344. For the same period, employees and retirees made additional payments totaling $13,815,347.

For university-sponsored self-funded health care plans, there is a liability for incurred but unpaid claims. This liability is estimated to be no more than 25% of the paid self-funded claims during fiscal year 2001-2002, which equals $12,370,694.

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

Note 14 – Retirement Plans

Effective June 30, 2002, the University provides retirement plan coverage to 16,548 active employees, in addition to contributing to Social Security for all non-student employees.

The University contributes to the Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. The Public Employees' Retirement Fund (PERF) is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All nonexempt employees with at least a 50% FTE appointment are eligible to participate in the PERF plan. On June 30, 2002, there were 7,167 active university employees covered by this retirement plan. State statutes (IC 5-10.2 and 5-10.3) give the University authority to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The University has elected to make the contributions on behalf of the member.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204 or by calling (317) 233-4162.

FUNDING POLICY AND ANNUAL PENSION COST

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

The annual required contribution to PERF for Indiana University was $9,315,425 for the fiscal year. This amount is equal to the same percent of accrued liability as the entire State of Indiana. The contributions actually made by the University were $14,829,634. This amount is representative of a 5.0% contribution by the University for pension benefits and 3% contribution by the University for the annuity savings account provisions.

The actuarial cost method used was the entry age method. The amortization method used was the level percentage of projected payroll method, using a remaining amortization period of 40 years. The asset valuation method used was a 4 year smoothed market approach.

Actuarial assumptions included were a 7.25% investment rate of return, a 5% projection for future salary increases which was comprised of a 4% attribution for inflation and a 1% attribution for Merit/Seniority, and a 2% cost of living adjustment.

The following schedules show the funding progress, net pension obligation and trend information for PERF (in thousands of dollars):

	June 30, 2001
Annual Required Contribution	$ 8,303,711
Interest on Net Pension Obligation	(63,103)
Adjustment to Annual Required Contribution	68,222
Annual Pension Cost	8,308,830
Contributions Made	(9,116,107)
Decrease in Net Pension Obligation	(807,277)
Net Pension Obligation, Beginning of Year	(870,389)
Net Pension Obligation, End of Year	$(1,677,666)

The June 30, 2002 information concerning the PERF funding and obligation were not available from the actuary at the time of this report.

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-99	8,799,305	121%	2,711,432
06-30-00	7,643,511	147%	(870,389)
06-30-01	8,308,830	109%	(1,677,666)

Appointed Academic and Professional Staff, with at least 50% FTE, are covered by the IU Retirement Plan. This is a defined contribution plan under IRC 403 (b) with three contribution levels. During the fiscal year ending June 30, 2002, Indiana University contributed $54,948,543 to TIAA-CREF and $7,735,634 to Fidelity Investments for the IU Retirement Plan. On June 30, 2002, 7,770 employees were directing university contributions to TIAA-CREF and 1,611 to Fidelity Investments.

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

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

In addition to the above, the University provides early retirement benefits to Appointed Academic and Professional Staff Grade 16 and above. On June 30, 2002, there were 1,754 active employees covered by IUSERP (IU Supplemental Early Retirement Plan); a defined contribution in compliance with IRC 401(a), with participant accounts at TIAA-CREF and Fidelity. During the fiscal year ended June 30, 2002, the University contributed $2,997,080 to IUSERP. The same class of employees hired prior to January 1,

1989, are covered by the 18/20 Retirement Plan, a combination of IRC 457 and 403 (b) provisions. The 18/20 Retirement Plan allows the class of faculty and administrators to retire as early as age 64, assuming 18 years of participation in the plan and 20 years of continuous university service. During fiscal year 2001-2002, the University contributed $25,921,400 for payments to 324 individuals receiving 18/20 Retirement Plan payments. In accordance with GASB guidelines, the University has no future unfunded liability related to these early retirement plans.

The University provides term life insurance benefits for former employees with Retiree status. (Retiree status is based on age and service at termination.) This benefit is underwritten through an insurance company. During fiscal year 2001-2002, the University contributed $578,609 to this coverage.

Note 15 – Related Organizations

The Indiana University Foundation is an independent corporation formed for the exclusive purpose of obtaining and disbursing funds for the sole benefit of the University. At June 30, 2002, the stated value of the net assets of the Foundation was approximately $964.7 million. These assets are not included in the financial statements of the University.

The University is also a beneficiary of the James Whitcomb Riley Memorial Association. In 1922 the association presented the James Whitcomb Riley Hospital for Children to Indiana University. On May 2, 1996, the James Whitcomb Riley Hospital for Children separated from Indiana University and is part of Clarian Health Partners Inc. at June 30, 2002. Over the years the University has been the major beneficiary of the association. Association net assets of $159 million at June 30, 2002 are not included in the financial statements of the University.

The Advanced Research and Technology Institute (ARTI) is an independent not for profit corporation formed on January 1, 1997, to serve IU in developing new applications for technologies and services that originate within the University community. ARTI was formed, in part, by consolidating the former IU functions of the Technology Transfer Office and the Licensing and Trademarks Office. These offices, together with the office of Corporate Relations, will provide new opportunities for faculty and students to partner and collaborate with the corporate sector. The ARTI technology transfer office handles the intellectual property protection and promotion of new inventions and research capabilities, and oversees the licensing of patents, copyrights, and trademarks between the University and corporations. The Office of Corporate Relations is the point of contact for IU faculty and businesses. The Licensing and Trademarks Office oversees the use of the Indiana University name and its marks, logos, insignias, seals, designs, and symbols. At June 30, 2002, the stated value of the net assets of ARTI was $2,616,395. ARTI assets are not included in the financial statements of the University.

Note 16 – Functional Expenses (in thousands of dollars)

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

Year Ended June 30, 2002

	Natural Classification						
Functional Classification	Compen-sation & Benefits	Utilities	Supplies & Expenses	Scholarships	Depreciation	Travel	Total
Instructional	$ 499,797	$ 43	$ 33,955	$ 9,087	$	$ 6,122	$ 549,004
Research	114,382	521	33,950	5,410		5,992	160,255
Public Service	73,353	28	32,160	6,448		3,601	115,590
Academic Support	105,604	221	33,379	905		2,845	142,954
Student Services	38,026	2	7,721	210		981	46,940
Institutional Support	116,795	1,589	101,748	537		2,129	222,798
Physical Plant	39,926	35,301	23,607			119	98,953
Scholarships & Fellowships	6,795		52	37,562		100	44,509
Auxiliary Enterprises	180,258	814	79,775	6,917		4,550	272,314
Depreciation					112,147		112,147
Total Operating Expenses	$ 1,174,936	$ 38,519	$ 346,347	$ 67,076	$ 112,147	$ 26,439	$ 1,765,464

INDIANA UNIVERSITY

Year Ended June 30, 2001

	Natural Classification						
Functional Classification	Compen-sation & Benefits	Utilities	Supplies & Expenses	Scholarships	Depreciation	Travel	Total
Instructional	$ 472,302	$ 69	$ 33,177	$ 7,626	$	$ 5,914	$ 519,088
Research	100,496	370	29,586	3,914		5,947	140,313
Public Services	65,379	50	30,625	5,120		3,742	104,916
Academic Support	98,568	23	45,564	604		3,019	147,778
Student Services	35,423	3	7,668	68		934	44,096
Institutional Support	114,642	534	93,251	1,026		2,384	211,837
Physical Plant	38,954	35,813	31,731			168	106,666
Scholarships & Fellowships	6,654		112	33,350		80	40,196
Auxiliary Enterprises	158,464	892	75,734	6,584		4,128	245,802
Depreciation					112,562		112,562
Total Operating Expenses	$ 1,090,882	$ 37,754	$ 347,448	$ 58,292	$ 112,562	$ 26,316	$ 1,673,254

Note 17 -- Segment Information (in thousands of dollars)

Parking Operations exist on all seven campuses at Indiana University. Parking spaces and services are provided by these auxiliary entities to students, staff, faculty and the general public and are located on properties owned by Indiana University. The Bloomington, Indianapolis, Kokomo and South Bend campuses have Parking Revenue Bonds which classify them as a segment. The condensed financial statements for these four parking operations are as follows:

	June 30, 2002	June 30, 2001
Condensed Statement of Net Assets		
Assets		
Current assets	$12,233	$10,067
Capital assets (book value)	47,506	33,526
Total Assets	59,739	43,593
Liabilities		
Current liabilities	3,271	352
Long-term liabilities	44,128	32,028
Total liabilities	47,399	32,380
Net Assets		
Invested in capital assets, net of related debt	2,391	1,569
Unrestricted	9,949	9,644
Total net assets	$12,340	$11,213

INDIANA UNIVERSITY

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues	$ 14,108	$ 13,498
Depreciation expense	(2,398)	(1,206)
Other operating expenses	(6,903)	(5,128)
Net operating income	4,807	7,164
Non-operating revenues		
Interest income	5	12
Interest expense	(2,260)	(2,041)
Change in net assets	2,552	5,135
Net Assets		
Net assets--beginning of year	11,213	2,050
Net transfers	(1,198)	(1,302)
Adjustments	(227)	5,330
Net assets end of year	$ 12,340	$ 11,213

Condensed Statement of Cash Flows

Net cash provided (used) by:		
Operating activities	$ 6,238	$ 5,987
Capital and related financing activities	(3,374)	(2,427)
Investing activities	(797)	(357)
Net increase in cash	2,067	3,203
Beginning cash and cash equivalent balances	9,504	6,301
Ending cash and cash equivalent balances	$ 11,571	$ 9,504

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

We have audited the accompanying basic financial statements of Indiana University, a component unit of the State of Indiana, as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Indiana University, as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2002, on our consideration of Indiana University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The **report** is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit. That report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

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

STATE BOARD OF ACCOUNTS

October 24, 2002

TRUSTEES AND OFFICERS

The Trustees of Indiana University as of June 30, 2002:

Frederick F. Eichhorn Jr., Gary, Interim President
Stephen A. Backer, Carmel
Cora Smith Breckenridge, Elkhart
Stephen L. Ferguson, Bloomington
James T. Morris, Indianapolis
Peter L. Obremskey, Lebanon
Sue H. Talbot, Bloomington
Patrick A. Shoulders, Evansville
Sacha I. Willsey, Bloomington

Steven A. Miller, Treasurer
Robin Roy Gress, Secretary
Dorothy J. Frapwell, Assistant Secretary

Administrative Officers as of June 30, 2001:

Myles Brand
President of the University

Thomas Ehrlich
President Emeritus of the University

John W. Ryan
President Emeritus of the University

Sharon S. Brehm
Vice President for Academic Affairs, Indiana University, and Chancellor, Bloomington

Gerald L. Bepko
Vice President for Long-Range Planning, Indiana University, and Chancellor, Indiana University-Purdue University Indianapolis

J. Terry Clapacs
Vice President and Chief Administrative Officer

Michael A. McRobbie
Vice President for Information Technology and Chief Information Officer

Administrative Officers Continued:

Charlie Nelms
Vice President for Student Development and Diversity and Vice Chancellor for Acadamic Support and Diversity Bloomington

Judith G. Palmer
Vice President and Chief Financial Officer

William Stephan
Vice President for Public Affairs and Government Relations

George E. Walker
Vice President for Research and Dean of the Graduate School

Steven A. Miller
Treasurer of the University

David J. Fulton
Chancellor, Indiana University East (Richmond)

Michael A. Wartell
Chancellor, Indiana University-Purdue University Fort Wayne

Ruth Person
Chancellor, Indiana University Kokomo

Bruce W. Bergland
Chancellor, Indiana University Northwest (Gary)

Kenneth L. Perrin
Chancellor, Indiana University South Bend

F. C. Richardson
Chancellor, Indiana University Southeast (New Albany)

Additional copies of this report may be obtained from:

Office of the Vice President and Chief Financial Officer
Bryan Hall 204
Indiana University
Bloomington, IN 47405-7000

For additional information:

General Information
Office of Public Affairs and Government Relations
Bryan Hall 300
Indiana University
Bloomington, IN 47405-1211

Financial Report (Detailed)
Assistant Vice President
Financial Management Services
Poplars 519
Bloomington, IN 47405-3085

Admissions
Vice President for Academic Affairs
Bryan Hall 100
Indiana University
Bloomington, IN 47405-7700

Gifts
Indiana University Foundation
Showalter House
P.O. Box 500
Bloomington, IN 47402-0500

Grants
Office of the Vice President for Research
Bryan Hall 104
Indiana University
Bloomington, IN 47405-1202

Athletics
Athletics Publicity Office
Assembly Hall
1001 East 17th Street
Indiana University
Bloomington, IN 47405-1101

Alumni
Alumni Association
1000 East 17th Street
Indiana University
Bloomington, IN 47408