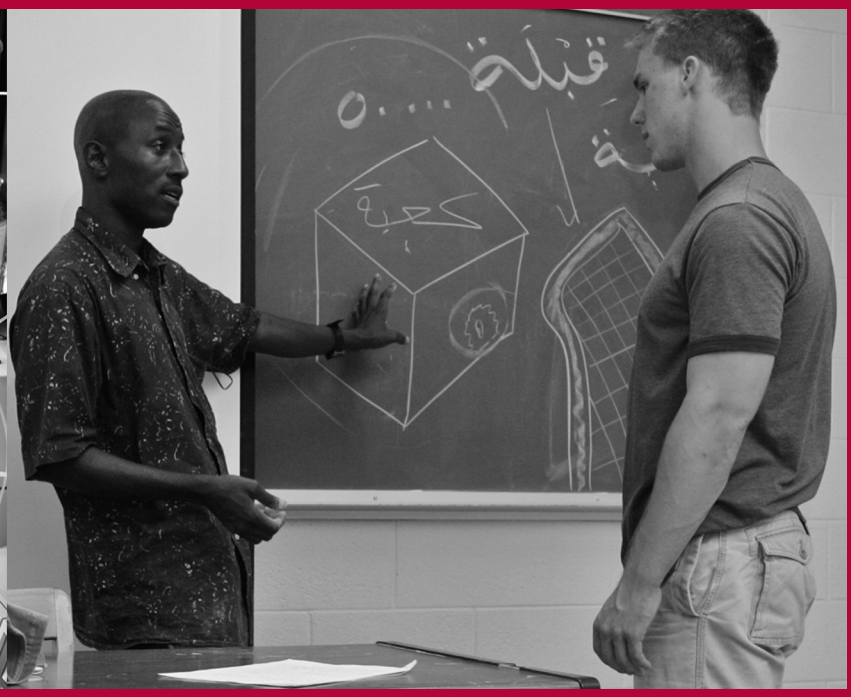
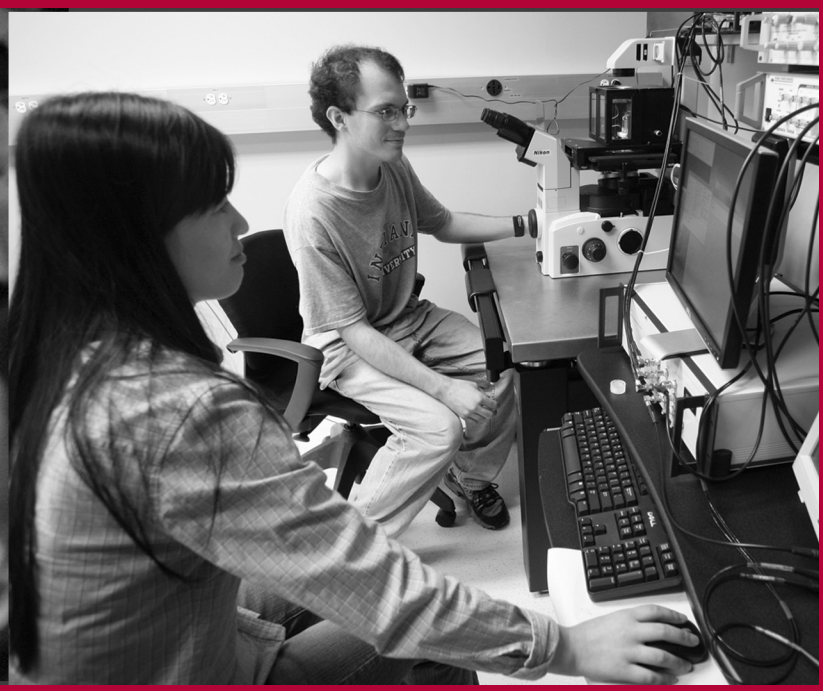
INDIANA UNIVERSITY



Financial Report 2006-07



INDIANA UNIVERSITY

Financial Report 2006–07

INDIANA UNIVERSITY

Financial Report 2006–07

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Message from the President

Michael A. McRobbie
President, Indiana University

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

Dear Governor Daniels:

On behalf of the Trustees of Indiana University, I am pleased to present to you IU's 2006-07 Financial Report.

Indiana University represents the genius of great universities—institutions that have lasted longer than just about any in human history. That genius is their ability to adapt while preserving their fundamental missions of education and research.

Widespread changes, involving many people, units, and schools are occurring on all of IU's campuses and medical centers. They will have lasting effects on the future of the university and the state of Indiana. In many areas they represent deeper changes that are affecting all of higher education. My responsibility as IU's 18th president will be to accelerate and manage the changes impacting our institution.

Additionally, the university, as a whole, has a deep-seated responsibility to the citizens of Indiana. IU now boasts more than a half million graduates. Currently, 250,000 of our alumni live and work in Indiana. They expect us to provide a great education to their children and to fully engage in the life of our state.

During the 2006-07 academic year, IU demonstrated its commitment to its fundamental missions and continued to seek new avenues for engagement with the state through economic development and community service.

The year was also characterized by a number of significant achievements made toward ensuring an IU education is not only excellent, but also accessible and affordable to all of the state's citizens. We are determined to see that Indiana's top students—regardless of their family circumstances—will always have the option of attending IU and taking advantage of all that one of the world's leading research universities can provide.

Pursuing Academic Excellence

For nearly two centuries, IU has provided high quality, accessible education to the state's citizens. More recently, the university

has been strongly committed to creating an educated workforce that supports the state's transition away from its reliance on heavy manufacturing and agriculture to a 21st century, knowledge-based economy.

Over the last 10 years, IU has conferred:

- 67 percent of the state's degrees in human services and public administration;
- 47 percent of the state's bachelor's, master's, and doctorates in education;
- 41 percent of the state's degrees in communication and information technologies; and
- 43 percent of the state's degrees in health and life sciences.

In fact, IU is the leading producer of graduates in all but one of the top ten "Hot Jobs" in Indiana.

Additionally, IU trained more than 50 percent of Indiana's physicians, 64 percent of optometrists, 40 percent of nurses, 75 percent of lawyers, and 90 percent of dentists.

We provide the educational foundation for many of this state's professional leaders.

Support for the Future

Our excellence in teaching and research is reflected in the resounding support we traditionally receive from the private sector.

In fiscal year 2007, IU received $278.5 million from grant makers and a record number of donors. This sum of gifts from donors and non-governmental research grants—or Total Voluntary Support—reached the third-highest level in IU history. The total included $171.5 million in gifts through the IU Foundation and Riley Children's Foundation and $107 million in grants.

Among the extraordinary gifts received in the last fiscal year was a contribution of $50 million from Melvin and Bren Simon of Indianapolis for the IU Cancer Center. The gift is being used to create a $25 million research fund, called the Joshua Max Simon Research Endowment, that will recruit and retain internationally accomplished researchers to the School of Medicine and support laboratory research programs at the cancer center. The other half of the gift will fund the

expansion of the cancer center's patient-care facility, a collaboration between the Indiana University School of Medicine and Clarian Health.

Another major gift came from the Lilly Endowment, which contributed $40 million to the IU Center on Philanthropy, located on the IUPUI campus, to permanently endow a portion of its operating costs. The center's mission is to increase understanding of giving and volunteering, improve professional practice, and enhance participation in philanthropy.

Through the immense generosity of a record number of donors, we are able to readily adapt to widespread changes in higher education, to build upon our world-class education and research environment, and to expand our relationships with institutions around the globe. Their support will allow us to achieve our grandest aspirations and create an even more successful future for IU.

Accessibility and Affordability

IU is strengthening its environment of excellence through its support of underrepresented students and investments in increasing diversity and equity.

Our campuses in Indianapolis and Gary are working to improve graduation rates among African American men, and IU Kokomo is encouraging students who are a few credits short of a degree to return and complete their education. Additionally, IU Bloomington has created a series of university-funded financial aid incentives designed to give the state's best and brightest high school students more reason to stay in Indiana. They are also designed to eliminate potential barriers to qualified students from low- and moderate-income families.

One of those initiatives is the 21st Century Covenant Scholarship. This scholarship supplements the state of Indiana's 21st Century Scholarship awards—which are designated toward tuition and fees—with enough funding to cover the full cost of attendance, including books, room, and board. This new "Covenant" is offering hope to disadvantaged young people, shifting their focus from financial concerns to academic achievement.

Research and Engagement

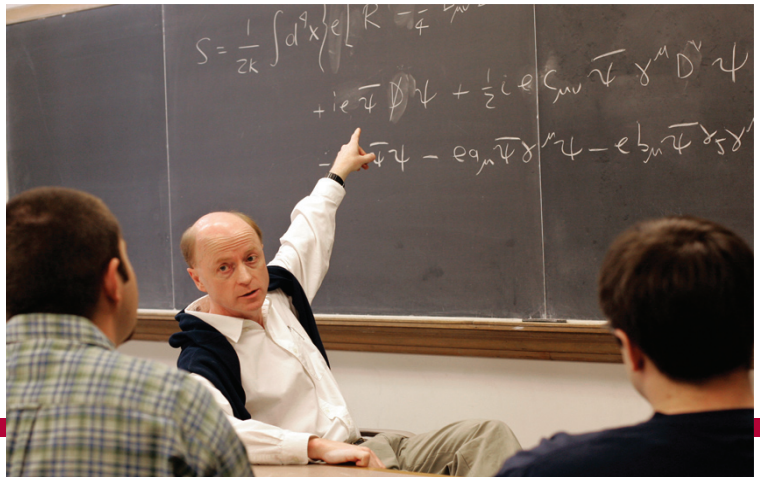
During fiscal year 2007, Indiana University faculty were awarded more than $433 million in sponsored funding in support of their research and service activities. This figure is the second highest fiscal year total in the university's history, and it marks an increase of 2.9 percent over the sponsored research totals for FY 2006. IU attracted more sponsored research in this past fiscal year than all of Indiana's other 2-year and 4-year public institutions combined.

This impressive achievement by IU's faculty comes at a time when success rates for proposals to the National Institutes of Health (NIH) and the National Science Foundation (NSF) have been steadily declining. From 2000 to 2006, success rates have dropped from one in three to one in five.

Our "Big Red" supercomputer, which we acquired last year, is supporting the work of our researchers in fields of study ranging from astronomy and physics to ethnomusicology and medical sciences. It is providing powerful and sophisticated high-performance computing facilities for IU's life scientists, while at the same time providing excellent support for computing that involves massive amounts of scientific data. Furthermore, it is enabling promising new business innovations and collaborations within Indiana.

The IU Research and Technology Corporation (IURTC) continues to stimulate growth in Indiana's technology sectors by helping companies access commercially viable technology developed by IU faculty with the ultimate goal of creating jobs and growing the state's economy. IURTC received 216 invention disclosures, issued 70 licenses, and helped form five new businesses through the Emerging Technology Center in fiscal year 2007. The faculty and staff filed a record 116 patent applications. The record number of patents is, in large part, a result of IU's increasing efforts to encourage IU faculty to develop their research work with an eye for the market.

The IURTC, as well as our new medical education centers in South Bend and Fort Wayne and



business incubators and tech parks in Kokomo, Richmond, and New Albany, demonstrate the impressive depth and breadth of IU's statewide impact.

Improving Hoosier Health

By strengthening its research programs in the life sciences, IU has increased its impact on communities across the state, not only in terms of economic development but also in concrete improvements in Hoosier health.

We are grateful to the state of Indiana for giving its support to the Indiana Life Sciences Initiative, which builds upon Indiana's national leadership in the life and health sciences. Indiana has the second-highest concentration of biopharmaceutical jobs in the nation, and more than 578,000 Indiana jobs are directly or indirectly tied to the health industry. These jobs account for more than $21 billion in wages and $8 billion in federal and state taxes paid—or more than 20 percent of Indiana's tax base.

We unveiled the strategic plan for IU's life sciences future in February 2006, but the Life Sciences Initiative actually started several years before with the establishment of the Indiana Genomics project, funded generously by the Lilly Endowment in 2000. It was dramatically expanded at IU Bloomington in 2004 with the establishment of the Indiana Metabolomics and Cytomics Project (METACyt). METACyt, which was also funded by the Lilly Endowment with a generous $53 million grant, is a major multidisciplinary project that currently supports collaborative research principally from the departments of biology, chemistry, and psychological and brain sciences.

We plan to widen our life sciences initiative to more fully involve health sciences, a natural extension that includes research into preventable diseases that impact many Hoosiers. We will also give special attention to health disparities among low income and minority populations.

An even stronger life sciences economy is vital to the state's prosperity in a 21st century, global economy. It also means more and better jobs, and better public health in a state that lags in most measures of wellness.

Conclusion

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

Yours sincerely,

Michael A. McRobbie
President

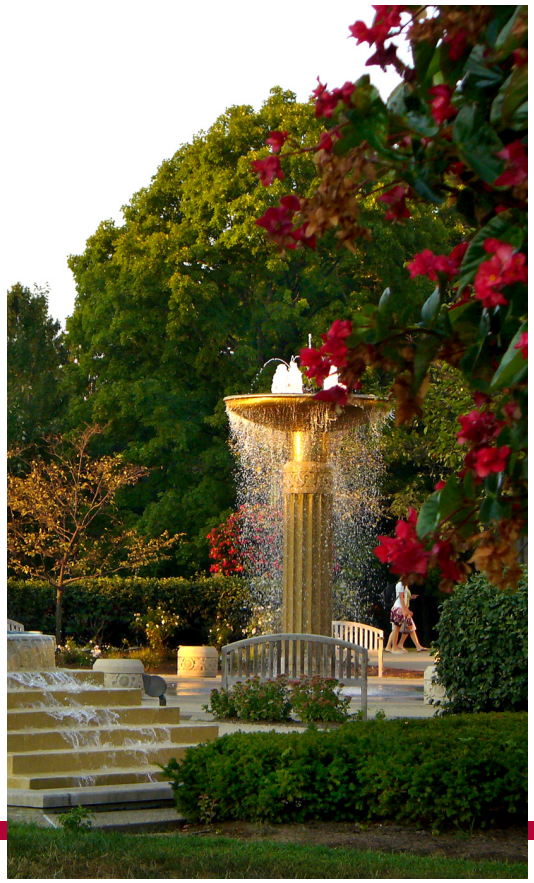
Message from the Vice President and Chief Financial Officer

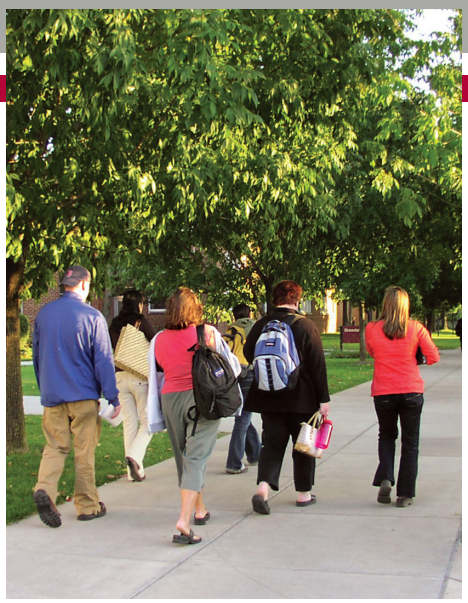
Neil Theobald
Vice President and
Chief Financial Officer,
Indiana University

Greetings to President Michael McRobbie and Trustees of Indiana University:

I am pleased to present the consolidated financial report for Indiana University for the fiscal year ended June 30, 2007. The financial statements highlight the strong fiscal health of the university and the overall growth in net assets. Increased revenues, including tuition and grants and contracts, have more than offset the rising operating expenses of the university.

The past year has been an exciting one for the university and that excitement is reflected in some of the major achievements in the finance area. In June 2007, Indiana University received its highest long-term bond rating from Moody's Investors Service, moving from an Aa2 to an Aa1. This firmly establishes the university in an elite category as one of only eight public colleges and universities in the country to achieve a rating higher than Aa2. The university has strengthened its capital finance framework through the development of new policies and guidelines, including a Capital Finance Policy with accompanying comprehensive Internal Credit Guidelines, an Internal Loan Policy, and a Derivative/Swap Policy. Finally, with the approved 2007-2009 biennial budget, Indiana University is exiting a multi-year period of stagnant levels of State Appropriations.





Under the leadership of President Michael A. McRobbie, the priorities of the Vice President and Chief Financial Officer for the upcoming fiscal year are:

- Focus on affordability of an Indiana University education with an emphasis in development of new financial aid opportunities,
- Develop a strategic facility funding plan that supports the institutions' life sciences strategic mission, while maintaining excellence in teaching facilities,
- Maintain accountability for the use of resources for administrative functions incorporated with planning for greater effectiveness and efficiency,
- Review internal businesses to validate ties to the academic mission and priorities,
- Support the creation of a detailed housing plan for the institution's core Bloomington Campus,
- Strengthen Internal Audit follow-up to incorporate expert financial consulting at the school and department level,
- Develop investment initiatives that capitalize on affiliated organization partnerships and maximize the institution's return on investments.

These initiatives will assist the university in strengthening its world class reputation, building on its already rising academic rankings.

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

Sincerely,

Neil Theobald
Vice President and Chief
Financial Officer

Indiana University (university) presents its audited financial statements for the fiscal year ended June 30, 2007 along with comparative data for the fiscal years ended June 30, 2006 and 2005. Three statements are described in the following discussion and analysis: The Statement of Net Assets, which presents the assets, liabilities, and net assets of the university at the end of the fiscal year; the Statement of Revenues, Expenses, and Changes in Net Assets, which reflects revenues and expenses for the fiscal year; and the Statement of Cash Flows, which provides information on cash inflows and outflows for the university by major category during the fiscal year. The university has provided analysis for major variances which occurred between fiscal years 2006 and 2007 as well as information regarding capital asset and debt administration, and an economic outlook.

Statement of Net Assets

Total assets at June 30, 2007 were $3.47 billion, an increase of $212.8 million over the prior fiscal year. Net capital assets comprised $1.93 billion of the $3.47 billion in assets.

Total liabilities were $1.27 billion at June 30, 2007, which was a $37.7 million increase since June 30, 2006. Noncurrent liabilities comprised 61.9%, or $788.9 million, of total liabilities at June 30, 2007.

Total net assets at June 30, 2007 were $2.19 billion, a $175.1 million increase over the prior year, or an 8.7% increase in net assets. The breakout of net assets is shown below for the last three years:

Comparative Statement of Net Assets

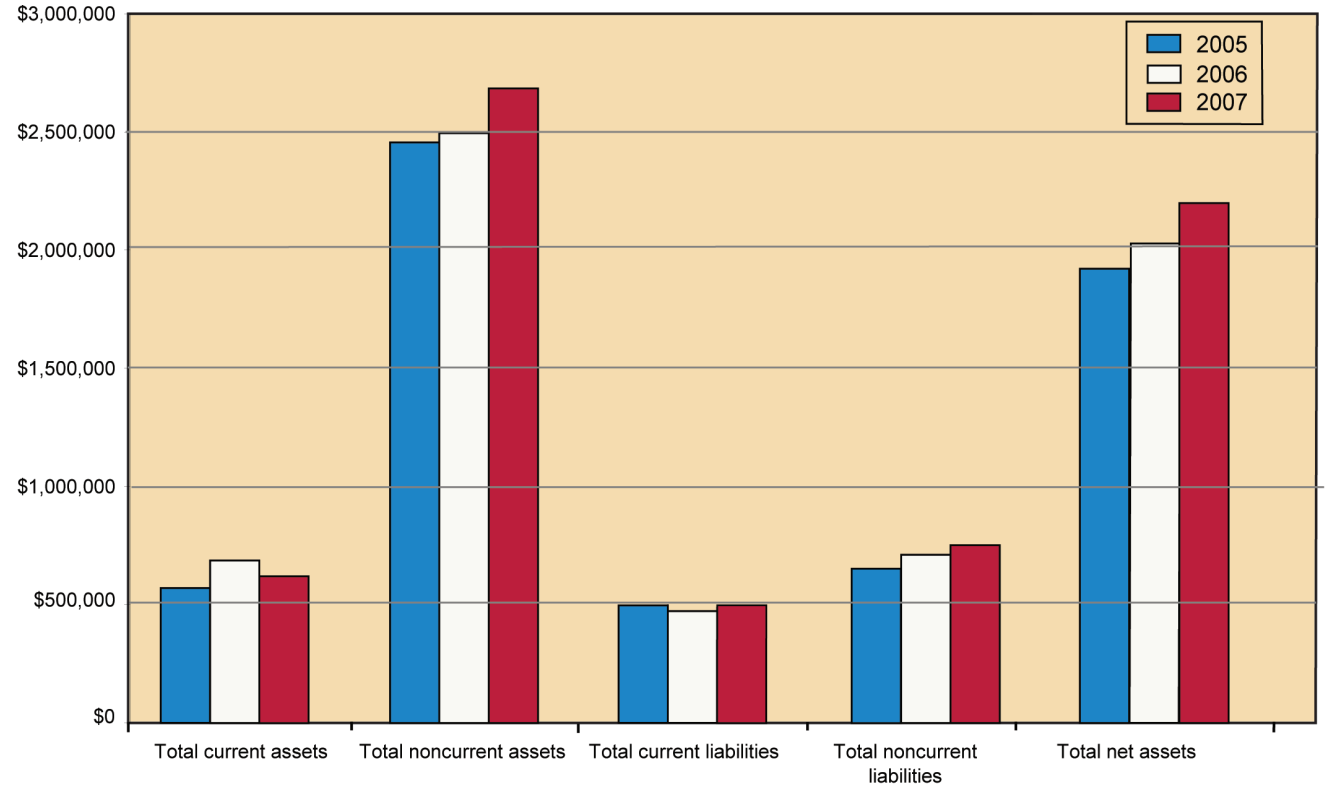
(in thousands of dollars)

	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Invested in capital, net of related debt	$1,304,656	$1,259,567	$1,205,240
Restricted net assets	223,977	191,247	169,131
Unrestricted net assets	663,995	566,671	520,294
Total net assets	**$2,192,628**	**$2,017,485**	**$1,894,665**

The following chart displays the composition of assets and liabilities, both current and noncurrent, and net assets at June 30, 2005, 2006, and 2007:

Comparison of Statement of Net Assets 2005, 2006, and 2007

(in thousands of dollars)



Statement of Revenues, Expenses, and Changes in Net Assets

Comparative Revenues, Expenses, and Changes in Net Assets

(in thousands of dollars)

	Fiscal Year Ended:		
	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Operating revenues	$1,753,670	$1,624,947	$1,546,123
Operating expenses	(2,239,107)	(2,128,006)	(2,048,464)
Total operating loss	(485,437)	(503,059)	(502,341)
Nonoperating revenues	680,607	637,338	634,367
Nonoperating expenses	(35,952)	(32,593)	(29,658)
Total other revenues	15,925	21,134	16,774
Increase in net assets	**$ 175,143**	**$ 122,820**	**$ 119,142**

Revenues

- University operating revenues for fiscal year ended June 30, 2007 increased by 7.9% over the previous fiscal year. The changes in revenues are as follows:
- Student fee revenues, net of scholarship allowances, were $692.3 million in 2007 compared to $644.5 million in 2006, an overall increase of 7.4%. This increase was due to a combination of increased student fee rates and enrollment growth. Student fees were $600.3 million in 2005.
- Federal grants and contracts were $375.8 million in 2007, an increase of 22.7% over the previous fiscal year. This category of revenue includes funds received from the government for financial aid as well as sponsored research, training, and other sponsored activities revenue.
- $10.6 million in state and local grants and contracts were received for the fiscal year, compared to $18.9 million in 2006.
- Nongovernmental grants and contracts were $93.6 million, a decrease of $19.7 million over the previous fiscal year.
- Sales and services of educational units increased from $48.2 million to $49.1 million. This was a 1.8% increase from 2006. In 2005 sales and services were $46.9 million.
- Other operating revenue of $185.9 million was an increase of 7.4% over the previous fiscal year of $173.1 million. This includes revenue to the School of Medicine from private practice plans and hospital agreements. Between 2006 and 2005 other operating revenue experienced an increase of less than 1%.
- Auxiliary enterprises experienced a second consecutive year of growth, with revenue up 8.1% or $25.9 million. Revenue in this category in 2006 and 2005 was $320.5 million and $312.1 million, respectively.

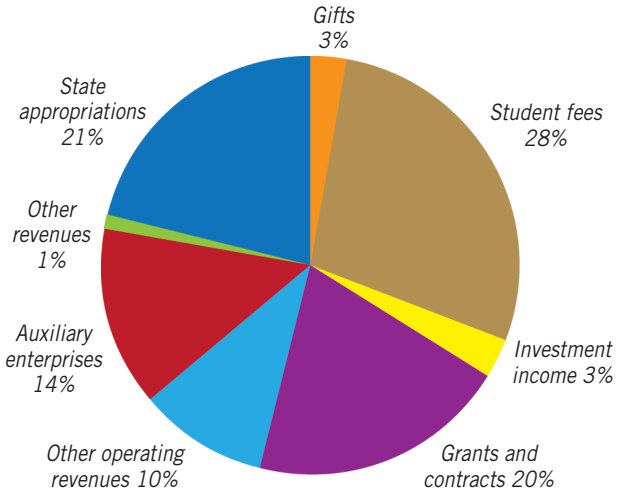
Total nonoperating revenues increased 6.8% from $637.3 million for fiscal year ended June 30, 2006 to $680.6 million for fiscal year ended June 30, 2007 and includes the following:

- State appropriations, the largest single source of nonoperating revenue for the university, decreased for the second year in a row from $528.6 million in 2006 to $527.7 million in 2007. In 2005 state appropriations were $530.6 million.
- Investment income increased 80.1%, from $47.5 million for fiscal year ended June 30, 2006 to $85.5 million for fiscal year ended June 30, 2007. Between fiscal years 2005 and 2006, this category experienced an increase of 1.5%.
- Gifts increased 10% to $67.4 million, or $6.1 million over the previous fiscal year. Gifts totaled $61.3 million in 2006 and $57.1 million in 2005.

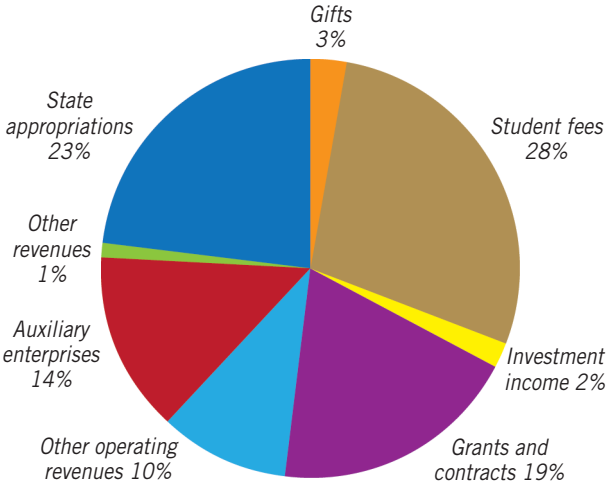
Other revenues included capital appropriations of $10.5 million, an increase of $8 million over the previous fiscal year; capital gifts and grants of $3.3 million; and additions to permanent endowments of $2.1 million.

In summary, total revenues of the university increased $166.8 million to $2.45 billion, an overall increase of 7.3%. Comparably, 2006 total revenues increased 3.9% and the 2005 increase was 4.1%. The composition of the 2007 and 2006 revenues is displayed in the following graphs:

Total Revenues 2007



Total Revenues 2006



Expenses

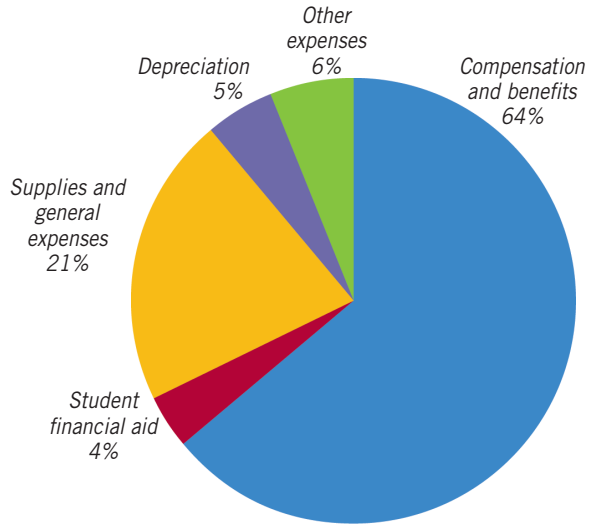
Operating expenses were $2.24 billion for fiscal year ended June 30, 2007. This was an increase over the previous fiscal year of $111.1 million, or 5.2%. Changes in the major categories of expenses are as follows:

- Total compensation is comprised of academic and staff salaries, hourly compensation, and benefits. This category increased by 5.5% for the fiscal year, from $1.38 billion to $1.46 billion. Staff salaries influenced the increase in this category with a 7.9% increase over the prior year, closely followed by a benefit expense increase of 6.6%. Fiscal year ended June 30, 2005 had $1.33 billion in total compensation and benefits.
- Student financial aid increased from $93.4 million to $98.1 million. This was a 5% increase over the previous fiscal year. 2006 experienced an 8.4% increase over 2005.
- Energy and utilities increased 4.1%, from $50.3 million in 2006 to $52.4 million in 2007. This increase was the lowest in energy and utilities experienced in the last three fiscal years. The 2006 and 2005 increases were 13.5% and 7.8%, respectively.
- Travel expenses increased 8.6% in 2007, from $33.4 million to $36.2 million. Between 2005 and 2006 the university experienced an 8.1% increase in travel expenses.
- Supplies and general expense increased by 5.1% in 2007, from $461.3 million to $484.7 million. The 2005 expense for this category was $449.4 million.
- Depreciation expense of $111.9 million in 2007 is $2.6 million more than in 2006.

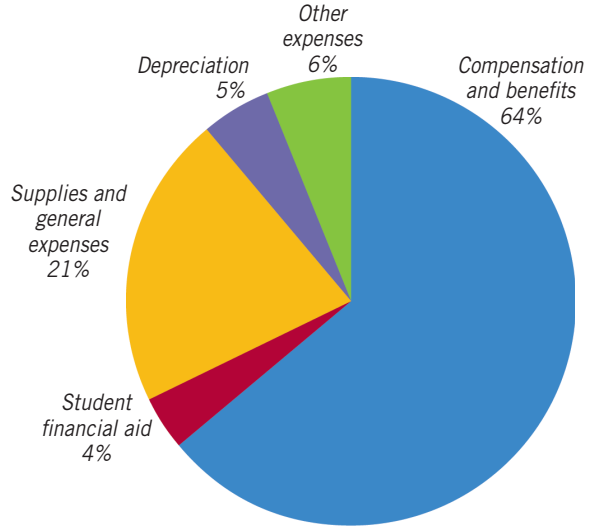
Nonoperating expense, interest expense, increased 10.3% between 2006 and 2007, from $32.6 million to $36 million.

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

Total Expenses 2007



Total Expenses 2006



Gifts

Major gifts are received during the year through the Indiana University Foundation (IU Foundation), a separate not-for-profit organization whose primary mission is to raise funds for the university. No significant capital contributions were brought into the university for the 2007 fiscal year.

Net Assets

Income before other revenues, expenses, gains, or losses was $159.2 million and $101.7 million for fiscal years ended 2007 and 2006, respectively. This represents an increase of 56.6%. Between 2005 and 2006 this amount decreased by 0.7%.

Net assets increased by $175.1 million over the previous fiscal year. Total net assets were $2.19 billion for fiscal year 2007, compared to net assets at June 30, 2006 of $2.02 billion. This was an 8.7% increase in net assets. Comparatively, net assets increased 6.9% between 2005 and 2006.

Statement of Cash Flows

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

Cash Flows for the Period

(in thousands of dollars)

	Fiscal Year Ended:		
	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Net cash provided (used) by:			
Operating activities	($385,619)	($409,784)	($329,305)
Noncapital financing activities	615,061	588,661	588,561
Capital and related financing activities	(194,322)	(101,763)	(145,675)
Investing activities	(128,010)	75,513	(10,761)
Net increase (decrease) in cash	(92,890)	152,627	102,820
Beginning cash and cash equivalents	476,676	324,049	221,229
Ending cash and cash equivalents	$383,786	$476,676	$324,049

Cash used by operating activities decreased by $24.2 million. The use of cash was impacted by a $60.5 million increase from the previous year in payments to employees and a $29.4 million increase in payments to suppliers. These increases in cash outlays were offset by increases of $53.3 million from student fees, $29.5 million in contract and grant receipts, $18.3 million in sales and services of educational activities, and $23.8 million in auxiliary enterprise receipts.

Noncapital financing activities increased $26.4 million. State appropriations comprised the largest portion of the increase with a $14.8 million increase over the previous fiscal year. This increase occurred after level cash flows from state appropriations in 2005 and 2006. Gifts and grants received for other than capital purposes increased from $60.4 million in 2006 to $71.4 million in 2007.

Cash flows from capital and related financing activities decreased by $92.6 million. Several drivers of this decrease included a decrease in the proceeds from issuance of capital debt from $141 million in 2006 to $85 million in 2007. Cash outlays affecting this category included an increase in the purchase of capital assets between 2006 and 2007 of $48.1 million and a decrease in principal paid on capital leases of $25.8 million.

Investing activities cash flows decreased $203.5 million, reflecting a movement from cash and cash equivalents to noncurrent investments.

Health Information and Translational Science buildings, IUPUI

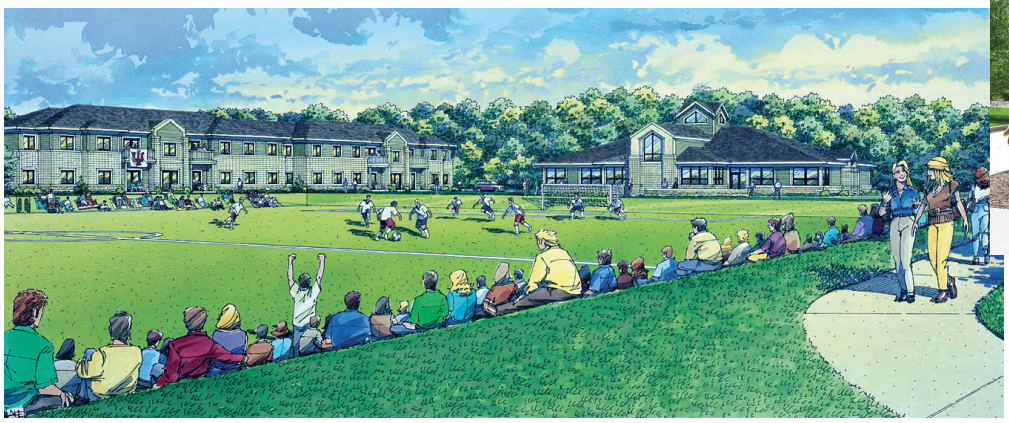
Several items will impact cash flows in fiscal year 2008. Tuition increases averaged close to 7.2% for all seven campuses. The university plans to issue approximately $250 million of bonds during fiscal year 2008, of which $140 million will be used to refund tax exempt commercial paper that is outstanding as of June 30, 2007.

Campus Center construction, IUPUI

Capital Asset and Debt Administration

The university made significant investments in capital during fiscal year 2007 (see Note 7). New facilities were funded by bond and commercial paper issues, renewal and replacement reserves, and gifts. The more significant facilities that came on-line this year are as follows:

- The Health Information and Translational Science Buildings on the IUPUI campus opened in December 2006. The facility covers 168,402 gross square feet at a total cost of $37.4 million. Housed in the facility will be the Regenstrief Institute for Health Care Research, IU Center for Bioethics, Bowen Research Center, IUSM Department of Public Health, Bioinformatics and Biostatistics. Additional features include a computing intensive environment for academic research and data analysis, teleconferencing facilities, an auditorium for 200 people, seminar rooms, and other assembly areas to conduct meetings and workshops for researchers from across the country and around the world.
- The Service Building for the Bloomington Physical Plant opened in February 2007. This facility houses the University Architect's Office, Bloomington Physical



Above: Pedestrian bridge which will connect student housing to IUSB campus.

Left: Proposed student housing, IU South Bend

Plant, Bureau of Facilities Programming, Department of Facilities, and some offices of the Vice President for Administration. The building cost $8.6 million dollars and occupies 78,252 gross square feet.

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

- Construction has begun on a new Campus Center on the IUPUI campus. The estimated project cost is $50 million. Major tenants of the facility include the Food Court, Bookstore, a 1000-person Multi-purpose Room, a Theater, Student Life and Diversity Programs, Enrollment Center, retail functions, and an array of student lounges and meeting spaces. The project encompasses 250,000 gross square feet and the estimated completion of the project is October 2007.
- During the 2006-07 fiscal year, a new student housing complex for the South Bend campus was approved. The facility will provide approximately 400 beds in different apartment configurations. The current project is estimated to cost $17.9 million, and will be financed primarily with revenue bonds. The project is estimated to be completed during the 2008-09 school year.
- The Southeast campus also received approval to construct a student housing facility. Seven lodge-style buildings will accommodate approximately 400 beds in two-bedroom and four-bedroom units organized around a large common space. The project is estimated to cost $20.1 million and will be financed with revenue bonds. The expected completion date is August 2008.
- A new Fort Wayne Center for Medical Education located on the Indiana University-Purdue University Fort Wayne campus was approved. The facility will include approximately 24,700 assignable square feet and will be a part of the statewide program to upgrade the Centers for Medical Education and locate them in modern facilities. The center will contain state of the art classrooms, student computer facilities, teaching laboratories, a gross anatomy lab, and four patient exam rooms. Space will be provided for shared research equipment such as instrumentation labs, tissue culture facilities, cold rooms and an incubator room for microbiology research. The facility is expected to cost $14 million and will be funded by the State of Indiana through the issuance of bonds.

Proposed student housing, IU Southeast

- The Research III building will be located on the IUPUI campus. The building will contain approximately 254,000 gross square feet. The primary purpose of this facility is to house scientific discovery that can lead to innovative and life-saving therapies, especially in cancer treatment. The building is designed to promote collaboration among principal investigators and faculty researchers in multiple disciplines and to increase appli-

cation of basic research in patient care, now called translational research. Programs located in this facility will include cancer, neuroscience, and immunobiology. The building will incorporate research laboratories and laboratory support areas including instrumentation rooms, tissue culture rooms, and specialized testing rooms. The building will include a BSL3 Research Lab Suite, Vector Production Suite and a Cell Repository/DNA Serum Bank. The building will also support administrative space with an auditorium and shared conferencing facilities. The facility is estimated to cost $83.3 million with an estimated occupancy date of January 2009.

Research III construction, IUPUI

- A $55 million athletic facilities project was approved in September 2006. The facilities will be financed through a combination of revenue bonds and fundraising. The plan includes four facilities:
  - The Memorial Stadium North End Zone project has a targeted completion date of December 2008. The facility will house a state-of-the-art development area used for more than 600 Indiana student athletes. In addition, coaches' offices and meeting space for the football program, a Hall of Champions spotlighting successful IU student athletes and teams, and administrative offices will be a part of the plan.
  - The Indiana Basketball Development Center will serve as the daily headquarters for the men's and women's basketball programs, featuring practice courts, locker rooms, coaches' offices and meeting rooms for each team, as well as a training room and strength development area. The targeted completion date is February 2009.
  - The Student Development and Compliance unit at Indiana University will relocate as a part of the facilities plan, moving from a modest 2,500 square foot space in Assembly Hall to a spacious and renovated 18,000 square foot area located on the east side of Memorial Stadium. The targeted completion date is in the spring of 2009. Classrooms, private tutoring space, study areas, computer labs and staff offices will all be housed in the Academic Center for Excellence.
  - A Baseball and Softball Complex that is slated for completion in March of 2009. Both stadiums will feature a state-of-the-art playing surface, press box, indoor batting cages, and bullpens. Likewise, the baseball and softball projects will include new locker rooms and offices adjacent to the stadiums.

In June 2007, the university issued University Tax-Exempt Commercial Paper Notes in the amount of $85 million. 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 credit rating on bond debt obligations was last reviewed and updated in 2007. Moody's Investors Service upgraded the general credit rating of the university from Aa2 with a favorable outlook to Aa1 on June 19, 2007. Moody's indicated that the upgrade was "based on continued strengthening of the university's financial position with consistently favorable operating performance and cash flows, continued growth in financial resources, as well as the financial strengthening of the State of Indiana." Standard & Poor's Credit Market Services reaffirmed a rating of 'AA' on June 20, 2007. The university's tax-exempt commercial paper notes carry ratings of P-1 from Moody's dated June 19, 2007 and A-1+ from Standard & Poor's dated June 20, 2007, and F1+ from Fitch Ratings dated December 8, 2005.

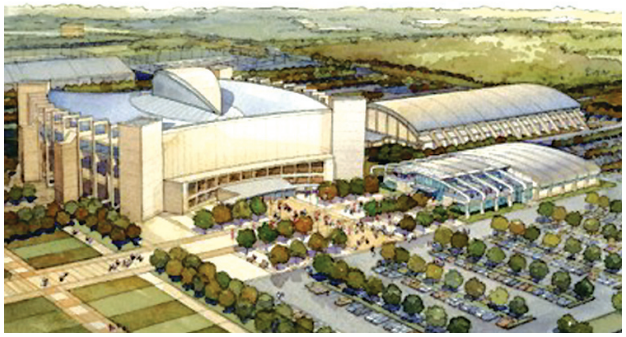
Economic Outlook

The State of Indiana provides approximately 25% of Indiana University's total financial resources during a fiscal year. The state continued its fiscal recovery during FY 2007. Actual revenue collections exceeded forecast by nearly $300 million, or 2.4%. Due to spending constraints during the recently completed fiscal year and higher revenues than projected, revenues exceeded ongoing spending by nearly $500 million.

The State of Indiana's 2001–03 Appropriation Act, HEA 1001, enacted by the 2001 Indiana (regular session) General Assembly and signed into law by the governor, gave authority to the State Budget Agency to distribute eleven-twelfths of the budgeted amount for the 2002 fiscal year state appropriation for all higher education institutions in the State of Indiana. Additional language to this act allowed this deferral to be carried forward to fiscal years 2003 and 2004. The State Budget Agency exercised the postponement of a payment in fiscal years 2003 and 2004. Biennial budgets enacted in 2003 and 2005 and approved by the governor also included language permitting the deferral of state appropriations to be carried forward through FY 2007. For Indiana University, this amount was $38.4 million in cash that was not received for the twelfth payment. Further action was taken by the general assembly in an amendment to HEA1134 in 2006 to reduce the accrued payment delay balance for state educational institutions and to appropriate this same amount for each school for use for general repair and rehabilitation. Under the act, the amount appropriated shall be treated as reducing any claim that the total system of the state educational institution has to one-twelfth (1/12) of the amount previously budgeted for the state educational institutions. The amount of the appropriation for Indiana University was $15.7 million and was used for repair and rehabilitation. The fiscal year biennial budget bill enacted during the 2007 legislative session, HEA 1001, will provide for distribution of the remaining state funds deferred in fiscal year 2002.

Overall, the financial position of the university continues to be strong. Student enrollment for the university is projected to remain strong during the 2006-07 academic year.

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



Athletic facilities projects, IU Bloomington. Above left, Assembly Hall; above right, Memorial Stadium

Indiana University Statement of Net Assets

(in thousands of dollars)

	June 30, 2007	*June 30, 2006*
Assets		
Current assets		
Cash and cash equivalents	$ 383,786	$ 476,676
Accounts receivable, net	130,870	125,351
Current portion of notes and pledges receivable	10,881	9,734
Inventories	15,659	17,069
Short-term investments	20,506	16,126
Securities lending assets	97,985	93,549
Other assets	20,935	13,893
Total current assets	680,622	752,398
Noncurrent assets		
Accounts receivable	2,426	24,147
Notes and pledges receivable	71,515	69,655
Investments	778,704	568,052
Capital assets, net	1,933,451	1,839,660
Total noncurrent assets	2,786,096	2,501,514
Total assets	**3,466,718**	**3,253,912**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	197,143	169,536
Deferred revenue	147,391	167,887
Current portion of capital lease obligations	1,570	1,526
Current portion of long-term debt	41,067	37,224
Securities lending liabilities	97,985	93,549
Total current liabilities	485,156	469,722
Noncurrent liabilities		
Capital lease obligations	9,942	10,781
Notes payable	141,290	56,449
Assets held in custody for others	65,923	65,889
Deferred revenue	24,778	44,071
Bonds payable	534,898	578,391
Other long-term liabilities	12,103	11,124
Total noncurrent liabilities	788,934	766,705
Total liabilities	**1,274,090**	**1,236,427**
Net assets		
Invested in capital assets, net of related debt	1,304,656	1,259,567
Restricted for:		
Nonexpendable - endowments	73,025	64,991
Expendable		
Scholarships, research, instruction and other	91,866	67,490
Loans	22,357	20,221
Capital projects	13,247	15,175
Debt service	23,482	23,370
Unrestricted	663,995	566,671
Total net assets	**2,192,628**	**2,017,485**
Total liabilities and net assets	**$3,466,718**	**$3,253,912**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Financial Position
As of June 30, 2007

	Unrestricted		Temporarily Restricted		Permanently Restricted		
Assets:	**Foundation**	**Agency**	**Foundation**	**University**	**Foundation**	**University**	**Total**
Cash and cash equivalents	$ -	$ 8,348,134	$ -	$ 94,025,523	$ -	$ -	$ 102,373,657
Collateral under securities lending agreement	8,626,040	26,335,148	451,341	89,422,213	2,535,223	68,831,162	196,201,127
Receivables and other assets	6,355,769	286,021	11,609	2,518,565	39,402	6,994,422	16,205,788
Net investment in direct financing leases	9,281,389	-	-	-	-	-	9,281,389
Promises to give, net	1,478,462	-	2,176,963	53,780,905	1,068,245	74,429,524	132,934,099
Investments	71,167,477	217,273,064	5,175,043	745,610,995	20,916,371	565,791,332	1,625,934,282
Property, plant and equipment, net	45,389,887	-	-	-	-	-	45,389,887
Total assets	$ 142,299,024	$ 252,242,367	$ 7,814,956	$ 985,358,201	$ 24,559,241	$ 716,046,440	$ 2,128,320,229
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	$ 3,911,147	$ 2,504,155	$ 29,774	$ 5,602,171	$ 325,451	$ 10,704,072	$ 23,076,770
Payable under securities lending agreement	8,626,040	26,335,148	451,341	89,422,213	2,535,223	68,831,162	196,201,127
Debt	21,804,686	-	-	-	-	58,083	21,862,769
Accrued trust obligation to life beneficiaries	3,621	-	3,246,639	6,746,010	455,948	20,768,584	31,220,802
Due to (from)	54,582,771	-	68,221	(55,048,541)	3,698	393,851	-
Interfund financing	(8,381,531)	-	-	8,381,531	-	-	-
Assets held for the University	-	206,239,716	-	-	-	-	206,239,716
Assets held for University affiliates	-	17,163,348	-	-	-	-	17,163,348
Total liabilities	80,546,734	252,242,367	3,795,975	55,103,384	3,320,320	100,755,752	495,764,532
Net assets	61,752,290	-	4,018,981	930,254,817	21,238,921	615,290,688	1,632,555,697
Total liabilities and net assets	$ 142,299,024	$ 252,242,367	$ 7,814,956	$ 985,358,201	$ 24,559,241	$ 716,046,440	$ 2,128,320,229

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

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

(in thousands of dollars)

	Fiscal Year Ended	
	June 30, 2007	*June 30, 2006*
Operating revenues		
Student fees	$ 790,284	$ 730,113
Less scholarship allowance	(98,006)	(85,566)
Federal grants and contracts	375,774	306,219
State and local grants and contracts	10,569	18,945
Nongovernmental grants and contracts	93,636	113,378
Sales and services of educational units	49,108	48,226
Other revenue	185,890	173,112
Auxiliary enterprises (net of scholarship allowance of $12,245 in 2007 and $11,237 in 2006)	346,415	320,520
Total operating revenues	**1,753,670**	**1,624,947**
Operating expenses		
Compensation and benefits	1,455,869	1,380,420
Student financial aid	98,061	93,401
Energy and utilities	52,409	50,334
Travel	36,231	33,373
Supplies and general expense	484,677	461,254
Depreciation and amortization expense	111,860	109,224
Total operating expenses	**2,239,107**	**2,128,006**
Total operating loss	**(485,437)**	**(503,059)**
Nonoperating revenues (expenses)		
State appropriations	527,747	528,615
Investment income	85,462	47,452
Gifts	67,398	61,271
Interest expense	(35,952)	(32,593)
Net nonoperating revenues	**644,655**	**604,745**
Income before other revenues, expenses, gains, or losses	**159,218**	**101,686**
Capital appropriations	10,467	2,471
Capital gifts and grants	3,311	17,008
Additions to permanent endowments	2,147	1,655
Total other revenues	**15,925**	**21,134**
Increase in net assets	**175,143**	**122,820**
Net assets, beginning of year	**2,017,485**	**1,894,665**
Net assets, end of year	**$2,192,628**	**$2,017,485**

See accompanying notes to the financial statements.

Indiana University Foundation
Statement of Activities
Year Ended June 30, 2007

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	Foundation	University	Foundation	University	Total
Revenue and support:						
Contributions, net	$ 2,533,029	$ 300,603	$ 80,074,882	$ 410,215	$ 104,500,862	$ 187,819,591
Investment income including net gains (losses), net of outside investment management fees	20,492,528	-	220,655,555	49,515	(51,228)	241,146,370
Management/administrative fees	16,575,058	-	(12,081,067)	-	(2,086,963)	2,407,028
Grants	-	-	4,020,832	-	-	4,020,832
Other income	11,014,750	-	3,787,657	12	2,174,386	16,976,805
Development service fees from the University	4,640,607	-	-	-	-	4,640,607
Net assets released from restriction	87,064,102	-	(87,305,000)	-	240,898	-
Total revenue and support	142,320,074	300,603	209,152,859	459,742	104,777,955	457,011,233
Expenditures:						
Program expenditures	95,105,730	-	-	-	25,576	95,131,306
Management and general	11,799,476	10,248	1,859,496	20	(133,615)	13,535,625
Fund raising	15,919,874	-	-	-	-	15,919,874
Change in value of split interest agreement obligation to life beneficiaries	(34,500)	(546,400)	(1,130,279)	(40,674)	(4,085,581)	(5,837,434)
Total expenditures	122,790,580	(536,152)	729,217	(40,654)	(4,193,620)	118,749,371
Change in net assets:						
Unrestricted	19,529,494	-	-	-	-	19,529,494
Temporarily restricted	-	836,755	208,423,642	-	-	209,260,397
Permanently restricted	-	-	-	500,396	108,971,575	109,471,971
Total change in net assets	19,529,494	836,755	208,423,642	500,396	108,971,575	338,261,862
Beginning net assets	42,222,796	3,182,226	721,831,175	20,738,525	506,319,113	1,294,293,835
Ending net assets	$ 61,752,290	$ 4,018,981	$ 930,254,817	$ 21,238,921	$ 615,290,688	$ 1,632,555,697

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

Indiana University
Statement of Cash Flows

(in thousands of dollars)

	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2006
Cash flows from operating activities		
Student fees	$ 699,134	$ 645,823
Grants and contracts	435,828	406,362
Sales and services of educational activities	63,634	45,295
Auxiliary enterprise charges	346,335	322,550
Other operating receipts	166,716	170,669
Payments to employees	(1,442,928)	(1,382,434)
Payments to suppliers	(552,234)	(522,835)
Student financial aid	(98,850)	(94,313)
Student loans collected	12,376	16,367
Student loans issued	(15,630)	(17,268)
Net cash used in operating activities	**(385,619)**	**(409,784)**
Cash flows from noncapital financing activities		
State appropriations	543,414	528,615
Gifts and grants received for other than capital purposes	71,362	60,444
Direct lending receipts	413,093	391,208
Direct lending payments	(412,808)	(391,606)
Net cash provided by noncapital financing activities	**615,061**	**588,661**
Cash flows from capital and related financing activities		
Capital appropriations	10,467	10,467
Capital grants and gifts received	2,208	12,446
Purchase of capital assets	(216,797)	(168,651)
Proceeds from issuance of capital debt, including refunding activity	85,000	141,044
Principal payments on capital debt, including refunding activity	(39,219)	(35,081)
Principal paid on capital leases	(2,158)	(27,914)
Interest paid on capital debt and leases	(33,823)	(34,074)
Net cash used in capital and related financing activities	**(194,322)**	**(101,763)**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	44,766	49,761
Investment income	44,025	29,630
Purchase of investments	(216,801)	(3,878)
Net cash provided (used) by investing activities	**(128,010)**	**75,513**
Net increase (decrease) in cash and cash equivalents	**(92,890)**	**152,627**
Cash and cash equivalents, beginning of year	476,676	324,049
Cash and cash equivalents, end of year	**$ 383,786**	**$ 476,676**

See accompanying notes to the financial statements.

(Continued from previous page)

Reconciliation of operating loss to net cash used in operating activities:
(in thousands of dollars)

	Fiscal Year Ended	
	June 30, 2007	*June 30, 2006*
Operating loss	$ (485,437)	$ (503,059)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	111,860	109,224
Loss on disposal of capital assets	15,053	6,138
Changes in assets and liabilities:		
Accounts receivable	(4,583)	(8,102)
Inventories	1,410	255
Other assets	(7,042)	(1,666)
Notes receivable	(2,706)	(1,747)
Accounts payable and accrued liabilities	24,912	14,202
Deferred revenue	(39,789)	(27,487)
Assets held in custody for others	(276)	490
Other noncurrent liabilities	979	1,968
Net cash used in operating activities	**$ (385,619)**	**$ (409,784)**

See accompanying notes to the financial statements.

Note 1—Summary of Significant Accounting Policies

ORGANIZATION: Indiana University (university) is a state-supported institution that is fiscally responsible for operations and has students enrolled on seven campuses. Campuses are located in Bloomington, Indianapolis (IUPUI), Richmond (East), Kokomo, Gary (Northwest), South Bend, and New Albany (Southeast). The financial statements include the individual schools, colleges, and departments as part of the comprehensive reporting entity. The university was established by state legislative act, under Indiana Code Section IC 20-12-23, in 1838, changing the name of its predecessor, Indiana College, to Indiana University. The university's governing body, the Trustees of Indiana University, is comprised of nine members charged by the Indiana General Assembly with policy and decision-making authority to carry out the programs and missions of the university. Six of the members are appointed by the Governor of Indiana, and three are elected by university alumni. The university is classified as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. Certain revenues of the university may be subject to federal income tax as unrelated business income, as defined in section 513 of the Internal Revenue Code. Note 15 describes an organization related to the university, the nature of the relationship, and pertinent financial information of the organization.

FINANCIAL STATEMENT PRESENTATION: As a component unit of the state, the university presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities.* GASB No. 35 allows public colleges and universities to report as a business-type activity under GASB No. 34 which requires a comprehensive, entity-wide presentation of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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

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

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

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

The IU Foundation is a not-for-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.*

As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the IU Foundation's financial information in the university's financial reporting to adjust for these differences. The IU Foundation distributed $87,133,383 and $79,220,046 to the university during fiscal years 2007 and 2006, respectively. Complete financial statements for the IU Foundation can be obtained from: Indiana University Foundation, Attn: Controller, PO Box 500, Bloomington, IN 47402.

CASH EQUIVALENTS: The university considers all highly liquid investments with maturities of three months or less to be cash equivalents. The university invests operating cash in investments with varying maturities. Investment maturities are evaluated as of the financial statement date for purposes of liquidity classification.

INVESTMENTS: Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Unrealized gains and losses are reported as investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

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

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

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

COMPENSATED ABSENCES: Liabilities for compensated absences are recorded for vacation leave based on actual earned amounts for eligible employees who qualify for termination payments. Liabilities for sick leave are recorded for employees who are eligible for and have earned termination payments for accumulated sick days upon termination or retirement. Beginning in fiscal year 2007, the calculation of the salary related payments subject to this accrual include the employer's share of Social Security and Medicare taxes and the employer's contributions to pension plans.

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

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

When an expense is incurred for which both restricted and unrestricted resources are available, the decision whether to apply restricted or unrestricted resources is a management matter, and the decision is made based on the relevant facts and circumstances.

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

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

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

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

Note 2—Deposits and Investments

DEPOSITS

The combined bank balances of the university's demand deposits were $7,043,600 and $9,900,349 at June 30, 2007 and 2006, respectively. The university had balances in excess of Federal Deposit Insurance Corporation limits in the amount of $6,409,374 and $9,618,095 at June 30, 2007 and 2006, respectively. These balances, deposited in approved financial institutions and in excess of the limits of coverage by federal deposit insurance were covered by the Public Deposit Insurance Fund, created to protect the public funds of the State of Indiana and its political subdivisions. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university does not have a formal deposit policy for custodial credit risk.

INVESTMENTS

The Trustees of Indiana University (trustees) have acknowledged responsibility as a fiduciary body for the invested assets of the university. Indiana Code 30-4-3.-3 *Indiana Prudent Investor Act* requires the trustees to act "as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust." The code also requires that management decisions be made "in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the trust." The trustees have the responsibility to assure the assets are prudently invested in a manner consistent with the university's investment policy. The trustees have delegated the day-to-day responsibilities for overseeing the investment program to the Office of the Treasurer.

Endowments

Endowment funds typically have a very long investment horizon, and as appropriate, may be invested in asset classes with longer term risk/return characteristics, including, but not limited to stocks, bonds, real estate, private placements and alternative investments. The Indiana University Endowments (endowments) are managed pursuant to an Investment Agency Agreement between the trustees and the IU Foundation dated November 14, 2005, which delegated investment management responsibilities to the IU Foundation, subject to the university's investment policy. The trustees may, at their discretion, direct all or a portion of the endowment funds to other investments, exclusive of the IU Foundation's investment funds. Endowment assets may be invested in pooled funds or in direct investments, or a combination of the two. Assets will typically be diversified among high quality stocks and bonds. Additional asset classes may be included when

it is reasonable to expect the additional asset class will either increase return or reduce risk, or both. Participation in the pooled investments is achieved by owning units of the Pooled Long-Term Fund and is considered an external investment pool to the university. At June 30, 2007, all endowments held with the IU Foundation were invested in pooled funds.

At June 30, 2007 and 2006, the university had investments and deposits, including endowment funds, as shown below:

(in thousands of dollars)

Investment Type	*Fair Value June 30, 2007*	*Fair Value June 30, 2006*
Money market funds	$ 441,772	$ 483,147
External investment pools	210,819	170,818
Government mortgage-backed securities	180,669	83,130
Corporate bonds	116,564	124,040
Nongovernment backed C.M.O.s	76,354	14,379
Asset backed securities	72,612	71,895
Government bonds	57,437	66,675
Commercial mortgage-backed	42,198	25,333
Government agencies	29,612	16,470
Unit Trust Bonds	7,067	-
Municipal/provincial bonds	6,566	2,993
Index linked government bonds	5,847	3,779
Government issued commercial mortgage-backed	3,007	4,370
Real estate	2,295	2,295
Venture capital	2,174	1,191
Mutual funds	1,591	1,733
All other	(73,588)	(11,394)
Total	**$1,182,996**	**$1,060,854**

INVESTMENT CUSTODIAL RISK

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

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The university's policy for controlling its exposure to fair value losses arising from increasing interest rates is to constrain average portfolio duration within ranges of a target portfolio duration set for each portfolio of operating fund investments. The portfolios may seek to enhance returns by attempting to time movements of interest rates within the allowable ranges. The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund is invested in securities that typically mature within one year and the fixed income allocation includes securities with a duration benchmark index of +/- 1.5 years.

The university had investments with the following maturities at June 30, 2007:

(in thousands of dollars)

Investment Type	*Fair Value*	*Investment Maturities (in years)*			
	June 30, 2007	*Less than 1*	*1-5*	*6-10*	*More than 10*
Investments with a maturity date					
Government mortgage-backed securities	$ 180,669	$ 213	$ 3,305	$ 6,491	$ 170,660
Corporate bonds	116,564	12,041	51,667	26,634	26,222
Nongovernment backed C.M.O.s	76,354	541	1,248	1,007	73,558
Asset backed securities	72,612	2,502	31,695	6,618	31,797
Government bonds	57,437	2,266	30,244	12,262	12,665
Commercial mortgage-backed	42,198	-	746	1,266	40,186
Government agencies	29,612	6,797	18,251	4,445	119
Unit trust bonds	7,067	-	-	-	7,067
Municipal/provincial bonds	6,566	-	976	988	4,602
Index linked government bonds	5,847	-	217	2,284	3,346
Government issued commercial mortgage-backed	3,007	-	3,007	-	-
	597,933	24,360	141,356	61,995	370,222
Investments with an undetermined maturity date					
Money market funds	441,772	441,772	-	-	-
External investment pools	210,819	210,819	-	-	-
Real estate	2,295	2,295	-	-	-
Venture capital	2,174	2,174	-	-	-
Mutual funds	1,591	1,591	-	-	-
All other	(73,588)	(73,588)	-	-	-
	585,063	585,063	-	-	-
Total	**$1,182,996**	**$609,423**	**$141,356**	**$61,995**	**$370,222**

The university had investments with the following maturities at June 30, 2006:

(in thousands of dollars)

Investment Type	*Fair Value*	*Investment Maturities (in years)*			
	June 30, 2006	*Less than 1*	*1-5*	*6-10*	*More than 10*
Investments with a maturity date					
Corporate bonds	$ 124,040	$ 12,177	$ 82,395	$ 23,177	$ 6,291
Government mortgage-backed securities	83,130	425	4,449	37,195	41,061
Asset backed securities	71,894	1,538	47,115	13,346	9,895
Government bonds	66,675	562	37,075	26,607	2,431
Commercial mortgage-backed	25,333	-	1,068	-	24,265
Government agencies	16,470	1,495	9,406	3,440	2,129
Nongovernment backed C.M.O.s	14,379	-	758	287	13,334
Government issued commercial mortgage-backed	4,370	-	2,486	1,884	-
Index linked government bonds	3,779	-	-	2,052	1,727
Municipal/provincial bonds	2,993	1,993	1,000	-	-
	413,063	18,190	185,752	107,988	101,133
Investments with an undetermined maturity date					
Money market funds	483,147	483,147	-	-	-
External investment pools	170,818	170,818	-	-	-
Real estate	2,295	2,295	-	-	-
Mutual funds	1,734	1,734	-	-	-
Venture capital	1,191	1,191	-	-	-
All other	(11,394)	(11,394)	-	-	-
	647,791	647,791	-	-	-
Total	**$1,060,854**	**$665,981**	**$185,752**	**$107,988**	**$101,133**

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.

Endowments

The IU Foundation's investment policy stipulates that the Pooled Short-Term Fund commercial paper must be rated A1/P1 and that the average quality of the Pooled Fixed Income Fund will be maintained at "A" or better, except for high-yield. The minimum quality at the time of purchase will be Baa/BBB or equivalent by at least one of the major rating services. For high-yield securities, the weighted average credit quality of the portfolio should be BBB- or better at all times. All securities in the Pooled Fixed Income Fund must be rated at the time of purchase at least B- by Standard & Poor's or B3 by Moody's Investors Service.

At June 30, 2007 and 2006, university investments had debt securities with associated credit ratings as shown below:

(in thousands of dollars)

Credit Quality Rating	*Fair Value June 30, 2007*	*Percentage of Total Pool*	*Fair Value June 30, 2006*	*Percentage of Total Pool*
AAA	$ 462,627	39.10%	$ 285,498	26.91%
AA	26,624	2.25%	22,782	2.15%
A	25,687	2.17%	55,746	5.26%
BBB	41,832	3.54%	40,563	3.82%
BB	13,683	1.16%	3,149	0.30%
B	8,946	0.76%	3,316	0.31%
CCC	1,276	0.11%	301	0.03%
Not Rated	602,321	50.91%	649,499	61.22%
Total	**$1,182,996**	**100.00%**	**$1,060,854**	**100.00%**

CONCENTRATION OF CREDIT RISK

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

The university's investment policy requires that investments are to be diversified to the extent that the securities of any single issuer shall be limited to 5% of the market value in a particular manager's portfolio. U.S. Government and U.S. governmental agency securities are exempt from this policy requirement.

Endowments

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

FOREIGN CURRENCY RISK

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

Note 3—Securities Lending

State statutes and policy of the Trustees of Indiana University permit the university to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The university's custodial bank manages the securities lending program and receives cash, U.S. government securities, or irrevocable letters of credit as collateral. Noncash collateral cannot be pledged or sold unless the borrower defaults. Cash collateral is invested in a short-term investment pool. Cash collateral may also be invested separately in "term loans," in which case the investment term matches the loan term. These loans can be terminated on demand by either lender or borrower. U.S. securities are lent versus collateral valued at 102% of the fair value of the securities

plus any accrued interest. Marking to market is performed every business day and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the university will equal at least the fair value plus accrued interest of the borrowed securities. All security loans can be terminated on demand by either the university or the borrowers. The short-term noncash collateral investment pool had a fair value of $6,908,171 and $2,193,455 at June 30, 2007 and 2006, respectively. Cash received as securities lending collateral was $97,984,937 and $93,548,981 at June 30, 2007 and 2006, respectively, and is recorded as an asset and corresponding liability on the university's Statement of Net Assets. At June 30, 2007 and 2006, the university had no aggregate credit risk exposure in this program.

Note 4—Accounts Receivable

Accounts receivable consisted of the following at June 30, 2007 and 2006:

(in thousands of dollars)	*June 30, 2007*	*June 30, 2006*
Student accounts	$ 36,623	$ 37,873
Auxiliary enterprises and other operating activities	48,352	53,729
State appropriations	24,096	15,667
Federal, state and other grants and contracts	25,121	17,021
Capital appropriations and gifts	374	5,550
Other	5,256	5,389
Current accounts receivable, gross	**139,822**	**135,229**
Less allowance for uncollectible accounts	(8,952)	(9,878)
Current accounts receivable, net	**130,870**	**125,351**
State appropriations	-	24,147
Auxiliary enterprises and other operating activities	2,426	-
Noncurrent accounts receivable	**$ 2,426**	**$ 24,147**

Note 5—Notes and Pledges Receivable

Notes and pledges receivable consisted of the following at June 30, 2007 and 2006:

(in thousands of dollars)	*June 30, 2007*	*June 30, 2006*
Operating receivable	$ -	$ 47
Student loans receivable	73,776	71,023
Pledges receivable, net	8,618	8,319
Total notes and pledges receivable	**$82,394**	**$79,389**

During fiscal year 2003, the university entered into a lease purchase agreement with the IU Foundation to finance a portion of the cost of construction and equipping of the Biotechnology Research and Training Center maintained and operated by the university on the IUPUI campus (also see Note 11). Private funds held by the IU Foundation, solely for the use of the university, were used for related construction costs of $15,176,741. The IU Foundation transferred rights to the facility to the university through an unconditional promise to give the university use of the facility over a 20 year period. The university currently occupies and maintains the facility. This promise to give is reflected at net present value of $8,618,316, as a pledge receivable of the university.

Note 6—Endowment Funds

Endowment funds are managed pursuant to an Investment Agency Agreement between the Trustees of Indiana University (trustees) and the IU Foundation which delegates investment management responsibilities to the IU Foundation, subject to the university's investment policy. The trustees may, at their discretion, direct all or a portion of the university's endowment funds to other investments, exclusive of the IU Foundation's investment funds. The spending policy is to distribute 5% of the 12 quarter rolling average of pooled fund values. Indiana Code 30-2-12-8, *Uniform Management of Institutional Funds*, sets forth the provisions governing the expenditure of endowment fund appreciation, under which the trustees may authorize expenditure, consistent with donor intent, of net appreciation in the fair value of the endowment fund assets over historic dollar value.

Funds held by endowments, managed by the IU Foundation, 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, 2007, all endowments held with the IU Foundation were invested in pooled funds. Fair value of the Indiana University Consolidated Fund totaled $159,707,961 and $134,104,348 at June 30, 2007 and 2006, respectively. Additional pooled funds totaled $44,451,426 and $29,942,171 at fair value at June 30, 2007 and 2006, respectively. The university holds investments in the Indiana Future Fund I, LLC, a coalition of institutional investors investing in regional and national venture capital funds to encourage direct investment in Indiana life sciences initiatives, which is administered by Credit Suisse Securities (USA), LLC. The investment in the Indiana Future Fund I, LLC totaled $2,173,772 and $1,190,670 at fair value at June 30, 2007 and 2006, respectively.

Additional endowment funds include the endowment fund for Riley Hospital for Children which is managed as an investment pool by the Riley Children's Foundation. The funds are invested in accordance with the Riley Children's Foundation investment policy. These funds are used to acquire pooled shares. The value of the pooled shares is determined each quarter on the basis of the total market value of the pooled investments and the number of pooled shares outstanding. Income is distributed pro rata to each participating fund according to the number of shares it holds. The funds totaled $6,659,158 and $5,580,871 at fair value at June 30, 2007 and 2006, respectively. The State of Indiana holds an endowment fund valued at $785,242 on behalf of the university. Income from this endowment is received and distributed on a yearly basis. Real estate held as endowments for investment purposes at June 30, 2007 and 2006, totaled $2,295,000 and $2,295,000, respectively, at fair value.

In addition, the university shares the income from a trust held by a major bank with Purdue University and the Indianapolis Center for Advanced Research. The fair value of the principal of this trust was $35,280,348 and $34,487,026 at June 30, 2007 and 2006, respectively. The trust principal is not included on the university's financial statements.

Note 7—Capital Assets

Fiscal year ended June 30, 2007

(in thousands of dollars)

	Balance June 30, 2006	*Additions*	*Transfers*	*Retirements*	*Balance June 30, 2007*
Assets not being depreciated:					
Land	$ 47,453	$ 1,792	$ (82)	$ –	$ 49,163
Art & museum objects	65,599	269	–	–	65,868
Construction in progress	133,691	121,039	(37,914)	68	216,748
Total capital assets not being depreciated	246,743	123,100	(37,996)	68	331,779
Other capital assets:					
Infrastructure	134,810	5,699	546	–	141,055
Land improvements	18,203	2,373	282	–	20,858
Equipment	376,152	39,638	2,371	43,545	374,616
Library books	182,004	22,431	--	15,599	188,836
Buildings	2,253,649	27,381	34,797	7,179	2,308,648
Total other capital assets	2,964,818	97,522	37,996	66,323	3,034,013
Less accumulated depreciation:					
Infrastructure	107,078	3,571	–	–	110,649
Land improvements	4,558	995	–	–	5,553
Equipment	227,186	33,815	–	30,710	230,291
Library books	85,485	18,398	–	15,599	88,284
Buildings	947,594	55,081	–	5,111	997,564
Total accumulated depreciation, other capital assets	1,371,901	111,860	–	51,420	1,432,341
Capital assets, net	**$1,839,660**	**$108,762**	**$ –**	**$14,971**	**$1,933,451**

(Continued from previous page)

Fiscal year ended June 30, 2006

(in thousands of dollars)

	Balance June 30, 2005	*Additions*	*Transfers*	*Retirements*	*Balance June 30, 2006*
Assets not being depreciated:					
Land	$ 46,913	$ 540	$ –	$ –	$ 47,453
Art & museum objects	58,913	6,686	–	–	65,599
Construction in progress	108,442	81,905	(56,653)	3	133,691
Total capital assets not being depreciated	214,268	89,131	(56,653)	3	246,743
Other capital assets:					
Infrastructure	132,844	1,532	434	–	134,810
Land improvements	17,301	574	328	–	18,203
Equipment	328,795	43,161	15,440	11,244	376,152
Library books	172,925	22,087	–	13,008	182,004
Buildings	2,196,004	29,038	40,451	11,844	2,253,649
Total other capital assets	2,847,869	96,392	56,653	36,096	2,964,818
Less accumulated depreciation:					
Infrastructure	103,636	3,442	–	–	107,078
Land improvements	3,632	926	–	–	4,558
Equipment	204,360	33,130	–	10,304	227,186
Library books	80,810	17,683	–	13,008	85,485
Buildings	900,138	54,043	–	6,587	947,594
Total accumulated depreciation, other capital assets	1,292,576	109,224	–	29,899	1,371,901
Capital assets, net	**$1,769,561**	**$ 76,299**	**$ –**	**$ 6,200**	**$1,839,660**

Note 8—Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2007 and 2006:

(in thousands of dollars)

	June 30, 2007	*June 30, 2006*
Accrued payroll	$ 17,310	$ 15,561
Accrual for compensated absences	37,317	30,537
Interest payable	18,648	15,929
Vendor and other payables	123,867	107,509
Total accounts payable and accrued liabilities	**$197,142**	**$169,536**

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

Note 9—Noncurrent Liabilities

Noncurrent liability activity for the fiscal years ended June 30, 2007 and 2006 is summarized as follows:

Fiscal year ended June 30, 2007

(in thousands of dollars)

	Balance June 30, 2006	*Additions*	*Reductions*	*Balance June 30, 2007*	*Current*
Bonds payable	$ 615,462	$ –	$ 39,656	$ 575,806	$ 40,908
Notes payable	56,602	85,000	153	141,449	159
Capital lease obligations	12,307	1,376	2,171	11,512	1,570
Total bonds, notes, and capital leases payable	684,371	86,376	41,980	728,767	42,637
Other liabilities					
Deferred revenue	211,958	–	39,789	172,169	147,391
Assets held in custody for others	65,889	516	–	66,405	482
Compensated absences	40,616	27,711	19,648	48,679	37,316
Other	1,045	–	305	740	–
Total other liabilities	319,508	28,227	59,742	287,993	185,189
Total noncurrent liabilities	**$1,003,879**	**$114,603**	**$101,722**	**$1,016,760**	**$227,826**

Fiscal year ended June 30, 2006

(in thousands of dollars)

	Balance June 30, 2005	*Additions*	*Reductions*	*Balance June 30, 2006*	*Current*
Bonds payable	$ 564,409	$ 86,044	$ 34,991	$ 615,462	$ 37,071
Notes payable	1,750	55,000	148	56,602	153
Capital lease obligations	32,819	7,395	27,907	12,307	1,526
Total bonds, notes, and capital leases payable	598,978	148,439	63,046	684,371	38,750
Other liabilities					
Deferred revenue	239,444	–	27,486	211,958	167,887
Assets held in custody for others	65,399	490	–	65,889	–
Compensated absences	38,838	20,437	18,659	40,616	30,537
Other	1,246	–	201	1,045	–
Total other liabilities	344,927	20,927	46,346	319,508	198,424
Total noncurrent liabilities	**$ 943,905**	**$169,366**	**$109,392**	**$1,003,879**	**$237,174**

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

Note 10—Bonds and Notes Payable

The university is authorized by acts of the Indiana General Assembly to issue bonds and notes for the purposes of financing construction of facilities that include academic and administrative facilities, athletic facilities, halls of music, health service facilities, research on the Bloomington and Indianapolis campuses, parking facilities, student housing, student union buildings, and energy savings projects. The outstanding bond and note indebtedness at June 30, 2007 and 2006 are $717,254,858 and $672,063,935, respectively. This includes principal outstanding at June 30, 2007 and 2006 for bonds issued under Indiana Code 20-12-6 of $468,433,682 and $500,979,485, respectively, which have an additional $62,789,875 and $68,079,189, respectively, in accreted value of outstanding capital appreciation bonds associated with them. The outstanding bond issues include both serial and term bonds with maturities extending to August 1, 2031.

A specific appropriation is received from the State of Indiana for the purpose of reimbursing the university for a portion of the debt service payments that are incurred on bonds issued under Indiana Code 20-12-6 for certain academic and student facilities. These funds, referred to as "fee replacement" appropriations, are received from the State of Indiana on a semi-annual basis.

Indiana Code 20-12-9.5 permits the use of debt in the form of temporary borrowing in anticipation of future long-term borrowing for capital projects, when such long-term borrowing is authorized under other sections of the Indiana Code. On June 26, 2007, the university issued Tax-Exempt Commercial Paper Notes (TECP), Series 2007A, as interim financing for certain approved facilities on various campuses. As of June 30, 2007, such funds have been used to partially finance the new athletics facilities on the Bloomington campus; the Multi-Disciplinary Science Building, Phase II on the Bloomington campus; the Research Institute III on the IUPUI campus; and student housing on the South Bend and Southeast campuses. TECP are notes payable that will be refinanced with some form of permanent financing at a future date. 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 June 1, 2017. A Standby Liquidity Support Agreement with JPMorgan Chase Bank, National Association, is in place for TECP Series 2007A. The liquidity support agreement is for a term of 364 days and has a stated expiration date of June 19, 2008. The liquidity support agreement is renewable and is based on an available commitment amount from the bank in excess of the maximum amount of principal and interest that may be outstanding.

As of June 30, 2007 and 2006, outstanding indebtedness from bonds and notes are shown in the following table:

(in thousands of dollars)

Bonding Authority	*Interest Rates*	*Final Maturity-Years Ended June 30*	*Principal Outstanding At June 30, 2007*	*Principal Outstanding At June 30, 2006*
Indiana Code 20-12-6 (21-34-6 *)	3.00 to 7.25%	2032	$468,434	$500,980
Indiana Code 20-12-7 (21-35-2 *)	6.25 to 6.60%	2009	815	1,190
Indiana Code 20-12-8 (21-35-3 *)	3.70 to 5.80%	2030	97,179	103,324
Indiana Code 20-12-9.5 (21-32-2 *)	3.74 to 3.75%	2017	140,000	55,000
Indiana Code 20-12-6-17 (21-34-10-7 *)	3.64%	2015	1,449	1,602
Subtotal bonds and notes payable			707,877	662,096
Add unamortized bond premium			15,181	16,245
Less deferred charges			(5,803)	(6,277)
Total bonds and notes payable			**$717,255**	**$672,064**

** Recodified Indiana Code number, effective July 1, 2007*

As of June 30, 2007, the university has three series of variable or floating rate bonds outstanding. The Student Residence System Bonds, Series 1998, were issued in June of 1998 to finance the renovation of the Willkie Quadrangle on the Bloomington campus. The Facility Revenue Bonds, Series 2000, were issued in December of 2000 to finance the construction of parking facilities on various campuses. The Student Residence System Bonds, Series 2004A, were issued as floating rate bonds in conjunction with the Series 2004B fixed rate bonds, both of which were issued in June of 2004 to finance the Campus Apartments on the Riverwalk on the IUPUI campus. They are included in the previous table in the category titled Indiana Code 20-12-8. The variable interest rates are determined by the remarketing agents, based on prevailing market conditions. The variable interest is calculated on the basis of a 365 or 366-day year, for the actual number of days elapsed.

Fiscal years ended June 30, 2013–2017 reflect that TECP, Series 2005 and TECP, Series 2007A were issued with 10-year final maturities of December 1, 2015 and June 1, 2017, respectively. The university expects to provide long-term financing for these capital projects and repay the commercial paper through the issuance of bonds that will be payable from student fees, facility revenues or other sources of available funds. The permanent financing is anticipated to be for a term of 20 years or longer.

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

(in thousands of dollars)

Fiscal Year Ended June 30	*Bond Principal*	*Note Principal*	*Total Principal*	*Bond Interest*	*Note Interest*	*Total Interest*	*Total Payment*
2008	$ 39,763	$ 159	$ 39,922	$ 37,945	$ 5,296	$ 43,241	$ 83,163
2009	42,044	165	42,209	36,327	5,290	41,617	83,826
2010	40,715	171	40,886	36,813	5,284	42,097	82,983
2011	40,871	177	41,048	35,680	5,277	40,957	82,005
2012	28,009	184	28,193	27,458	5,271	32,729	60,922
2013-2017	151,017	140,593	291,610	90,402	22,456	112,858	404,468
2018-2022	142,044	-	142,044	36,326	-	36,326	178,370
2023-2027	52,735	-	52,735	11,476	-	11,476	64,211
2028-2032	29,230	-	29,230	2,661	-	2,661	31,891
Total	**$566,428**	**$141,449**	**$707,877**	**$315,088**	**$48,874**	**$363,962**	**$1,071,839**

Effective June 18, 2004, the university purchased an interest rate cap for the Indiana University Floating Rate Student Residence System Bonds, Series 2004A to limit the university's interest rate exposure to a maximum of 5.00% through the cap termination date of July 1, 2007. The university paid the counterparty a fixed payment of $57,000 in exchange for the right to receive monthly payments in the event that the Bond Market Association Municipal Swap Index (BMA) exceeds 5.00% for a defined period of time. The fair value of this cap was $0 and $51 at June 30, 2007 and 2006, respectively. The cap had notional amounts of $20,175,000 and $20,500,000 at June 30, 2007 and 2006, respectively, which declined based on the projected principal outstanding. The cap agreement includes standard termination events, such as failure to pay and bankruptcy. It also incorporates a provision whereby the counterparty must have a rating of 'A' or better from Moody's Investors Service and Standard & Poor's Credit Market Services. The agreement provides the counterparty with the right to assign the cap to another party; obtain a guaranty from another institution with the same or greater rating; or post collateral equal to the market value of the transaction, after obtaining the prior written consent of the university.

In prior years, the university has defeased the following bond issues either with cash or by issuing new debt. United States Treasury obligations or federal agency securities have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trusts with trustees. Neither the defeased bonds nor the related trusts are reflected on the university's books. At June 30, 2007, Building Facilities Fee Bonds, Series M, defeased by the university on October 1, 1985, have principal outstanding of $6,720,000, with a final maturity of July 1, 2010. As of June 30, 2007, Student Fee Bonds, Series M, which were partially defeased on December 14, 2004, have principal outstanding of $10,420,000, with a final maturity of August 1, 2009. On June 20, 2006, the university partially defeased Student Fee Bonds, Series L, Series M, and Series N, which as of June 30, 2007, have principal outstanding of $50,360,000, with a final maturity of August 1, 2011.

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

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

(in thousands of dollars)

	Capital	*Operating*
2008	$2,096	$11,076
2009	1,675	6,375
2010	1,169	5,581
2011	975	5,326
2012	858	3,528
2013-2017	4,241	9,823
2018-2022	4,223	8,416
2023-2027	421	3,726
2028-2032	-	52
Total future minimum payments	15,658	$53,903
Less: interest	(4,146)	
Present value of future principal outstanding	**$11,512**	

Note 12—Federal Obligations Under Student Loan Programs

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 $536,569 and $3,308,640 for health professions and nursing loan programs for fiscal years ended June 30, 2007 and 2006, respectively.

Liabilities at June 30, 2007 and 2006 for loan programs were as follows:

(in thousands of dollars)

	June 30, 2007	*June 30, 2006*
Federal share of interest	$30,395	$29,258
Perkins loans	20,939	21,370
Health professions loans	13,855	14,345
Nursing loans	734	916
Assets held in custody for others	**$65,923**	**$65,889**

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

Note 13—Risk Management

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

The university has four health care plans for full-time appointed employees, two of which are also available to retirees not eligible for Medicare. Three 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 25% of the paid self-funded claims during the fiscal years ending June 30, 2007 and 2006, and totals $24,691,208 and $21,656,576 at June 30, 2007 and 2006, respectively. In addition, a potential claims fluctuation liability at June 30, 2007 and 2006 of $9,876,483 and $8,622,630, respectively, has also been recorded.

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

Note 14—Retirement Plans

The university provided retirement plan coverage to 17,799 and 17,530 active employees, as of June 30, 2007 and 2006, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

Indiana Public Employees' Retirement Fund

The university contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan with an annuity savings account provision. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All support, technical and service employees with at least a 50% full-time equivalent (FTE) appointment participate in the PERF plan. There were 6,916 and 6,913 active university employees covered by this retirement plan as of June 30, 2007 and 2006, respectively. State statutes (IC 5-10.2 and 5-10.3) authorize the university to contribute to the plan and govern most requirements of the system. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of a 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, Suite 700, 143 West Market Street, Indianapolis, IN 46204 or by calling (317) 233-4162.

Contributions made by the university totaled $17,623,256 and $15,626,947, for fiscal years ended June 30, 2007 and 2006, respectively. This represented a 5.5% and 4.5% university pension benefit contribution for fiscal years ended June 30, 2007 and 2006, respectively, and a 3% university contribution for the annuity savings account provisions each year.

Perf Funding Policy and Annual Pension Cost

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

The actuarial information represents the periods ended June 30, 2006 and 2005. The employer contributions required by the funding policy at actuarial determined rates are sufficient to fund the pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities. The amortization period is level dollar closed over 30 years. The actuarial funding method is entry age normal cost. The employer required contribution is determined using an asset smoothing method.

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

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

	Fiscal Year[1] Ended June 30, 2006	*Fiscal Year Ended June 30, 2005*
Annual required contribution	$ 10,292,548	$ 8,199,297
Interest on net pension obligation	(411,395)	(459,148)
Adjustment to annual required contribution	468,817	523,235
Annual pension cost	10,349,970	8,263,384
Contributions made	(9,398,859)	(7,604,720)
Increase in net pension obligation	951,111	658,664
Net pension obligation, beginning of year	(5,674,416)	(6,333,080)
Net pension obligation, end of year	**$ (4,723,305)**	**$ (5,674,416)**

[1]*Actuarial data for 2007 not available at the time of this report.*

Fiscal Year Ended	*Annual Pension Cost (APC)[2]*	*Percentage of APC Contributed*	*Net Pension Obligation*
June 30, 2004	$ 7,028,546	160%	$(6,333,080)
June 30, 2005	8,263,384	92%	(5,674,416)
June 30, 2006	10,349,970	91%	(4,723,305)

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

Academic and Professional Staff Employees

Appointed academic and professional staff employees, with at least 50% FTE are covered by the IU Retirement Plan. This is a defined contribution plan under IRC 403(b) with four contribution levels. The university contributed $67,175,099 during fiscal year ended June 30, 2007 and $65,722,920 during fiscal year ended June 30, 2006 to TIAA-CREF for the IU Retirement Plan. The university contributed $15,301,540 during fiscal year ended June 30, 2007 and $13,824,681 during fiscal year ended June 30, 2006 to Fidelity Investments for the IU Retirement Plan. Under this plan, 8,484 and 8,348 employees were directing university contributions to TIAA-CREF as of June 30, 2007 and 2006, respectively. In addition, 2,785 and 2,569 employees were directing university contributions to Fidelity Investments as of June 30, 2007 and 2006, respectively.

In addition to the above, the university provides early retirement benefits to appointed academic and professional staff employees Grade 16 and above. There were 1,367 and 1,427 active employees on June 30, 2007 and 2006, 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 $2,993,961 and $2,795,273 to IUSERP during fiscal years ended June 30, 2007 and 2006, respectively. The same class of employees hired prior to January 1, 1989, are covered by the 18/20 Retirement Plan, a combination of IRC 457(f) and 403(b) provisions. The 18/20 Retirement Plan allows this group of employees to retire as early as age 64, assuming at least 18 years of participation in the IU Retirement Plan and

at least 20 years of continuous university service. During the fiscal year ended June 30, 2007, the university made total payments of $31,683,164 to 409 individuals receiving 18/20 Retirement Plan payments. During the fiscal year ended June 30, 2006, the university made total payments of $29,585,217 to 383 individuals receiving 18/20 Retirement Plan payments.

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

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

IU Replacement Retirement Plan Funding Policy and Annual Pension Cost

The university has established an early retirement plan for eligible employees to accommodate IRS requirements, and as authorized by the Trustees of Indiana University. This plan is called the IU Replacement Retirement Plan. It is a single-employer plan and is qualified under IRC Section 401(a), with normal benefits payable for the participant's lifetime. Trust and recordkeeping activities are outsourced to the TIAA-CREF Trust Company. As of June 30, 2007 and 2006, 99 and 102 employees, respectively, were eligible to participate. University contributions related to this plan totaled $1,831,680 and $1,768,622 for fiscal years ended June 30, 2007 and 2006, respectively, with no employee contributions. These amounts represent 100% of the funding policy contribution.

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

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

The following schedule shows the funding policy contributions for the fiscal years indicated for the IU Replacement Retirement Plan as provided by the actuarial valuation dated March 9, 2006.

	Fiscal Year Ended June 30, 2007	*Fiscal Year Ended June 30, 2006*	*Fiscal Year Ended June 30, 2005*
Cost of benefits earned during the year	$ 984,562	$ 926,091	$ 896,866
Amortization of unfunded actuarial accrued liabilities	727,288	726,827	958,092
Interest	119,830	115,704	129,847
Funding policy contribution	**$1,831,680**	**$1,768,622**	**$1,984,805**

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.

The university provides term life insurance benefits to former employees with retiree status. Retiree status is based on age and service at termination date. This benefit is underwritten through an insurance company. During fiscal years ended June 30, 2007 and 2006, the university contributed $645,864 and $533,146, respectively, to this coverage.

Note 15—Related Organizations

The university is a beneficiary of the Riley Children's Foundation. In 1922 this foundation presented the James Whitcomb Riley Hospital for Children to Indiana University. On May 2, 1996, the James Whitcomb Riley Hospital for Children separated from Indiana University and is now part of Clarian Health Partners, Inc. The university has been a major beneficiary of this foundation. Riley Children's Foundation net assets were $288,376,150 and $176,715,895 at June 30, 2007 and 2006, respectively. Riley Children's Foundation net assets are not included in the financial statements of the university.

Note 16—Functional Expenses

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

Fiscal year ended June 30, 2007

(in thousands of dollars)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 668,215	$ 94	$ 84,411	$ 9,584	$ –	$12,906	$ 775,210
Research	130,941	35	63,357	3,112	–	5,267	202,712
Public service	80,129	340	59,982	5,345	–	4,337	150,133
Academic support	142,688	31	43,117	1,241	–	4,298	191,375
Student services	52,091	5	13,426	541	–	1,206	67,269
Institutional support	159,357	161	50,604	559	–	2,926	213,607
Physical plant	47,487	49,047	33,812	–	–	134	130,480
Scholarships & fellowships	8,617	–	438	73,098	–	96	82,249
Auxiliary enterprises	166,344	2,696	135,530	4,581	–	5,061	314,212
Depreciation	–	–	–	–	111,860	–	111,860
Total operating expenses	**$1,455,869**	**$52,409**	**$484,677**	**$98,061**	**$111,860**	**$36,231**	**$2,239,107**

Fiscal year ended June 30, 2006

(in thousands of dollars)

	Natural Classification						
Functional Classification	*Compensation & Benefits*	*Utilities*	*Supplies & Expenses*	*Scholarships & Fellowships*	*Depreciation*	*Travel*	*Total*
Instruction	$ 607,267	$ 77	$ 66,504	$ 8,634	$ –	$ 7,808	$ 690,290
Research	149,874	19	77,845	4,132	–	8,536	240,406
Public service	83,294	332	53,529	3,737	–	4,158	145,050
Academic support	133,837	102	53,723	592	–	3,615	191,869
Student services	49,037	4	15,839	402	–	1,264	66,546
Institutional support	143,612	154	19,259	439	–	2,625	166,089
Physical plant	45,779	46,449	42,250	–	–	100	134,578
Scholarships & fellowships	8,735	–	433	71,109	–	81	80,358
Auxiliary enterprises	158,985	3,197	131,872	4,356	–	5,186	303,596
Depreciation	–	–	–	–	109,224	–	109,224
Total operating expenses	**$1,380,420**	**$50,334**	**$461,254**	**$93,401**	**$109,224**	**$33,373**	**$2,128,006**

Note 17—Segment Information

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

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

Revenue bonds have been issued to finance certain auxiliary housing activities on the Bloomington and IUPUI campuses. These auxiliary entities provide housing primarily to students. Condensed financial statements for Parking and Housing Operations are as follows:

(in thousands of dollars)

Condensed Statement of Net Assets	Parking Operations		Housing Operations	
	June 30, 2007	*June 30, 2006*	*June 30, 2007*	*June 30, 2006*
Assets				
Current assets	$20,241	$19,084	$40,427	$28,577
Capital assets, net	61,803	63,367	120,171	119,531
Total Assets	**82,044**	**82,451**	**160,598**	**148,108**
Liabilities				
Current liabilities	4,576	4,722	4,891	2,374
Long-term liabilities	40,078	43,528	55,300	58,710
Total liabilities	**44,654**	**48,250**	**60,191**	**61,084**
Net Assets				
Invested in capital assets, net of related debt	18,520	16,344	64,777	61,642
Unrestricted	18,870	17,857	35,630	25,382
Total net assets	**$37,390**	**$34,201**	**$100,407**	**$87,024**

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	*Fiscal Year Ended June 30, 2007*	*Fiscal Year Ended June 30, 2006*	*Fiscal Year Ended June 30, 2007*	*Fiscal Year Ended June 30, 2006*
Operating revenues	$ 17,473	$16,633	$51,409	$49,632
Depreciation expense	(2,725)	(2,684)	(4,893)	(5,277)
Other operating expenses	(8,035)	(7,646)	(32,701)	(32,107)
Net operating income	6,713	6,303	13,815	12,248
Nonoperating revenues (expenses)				
Investment income	4	3	-	-
Interest expense	(2,274)	(2,047)	(2,398)	(2,213)
Increase in net assets	**4,443**	**4,259**	**11,417**	**10,035**
Net Assets				
Net assets, beginning of year	34,201	30,904	87,024	77,794
Net transfers	(1,254)	(962)	1,966	(805)
Net assets, end of year	**$37,390**	**$34,201**	**$100,407**	**$87,024**

(Continued from previous page)

Condensed Statement of Cash Flows

	Parking Operations		*Housing Operations*	
	Fiscal Year Ended June 30, 2007	*Fiscal Year Ended June 30, 2006*	*Fiscal Year Ended June 30, 2007*	*Fiscal Year Ended June 30, 2006*
Net cash provided (used) by:				
Operating activities	$ 9,714	$ 9,023	$20,818	$16,973
Capital and related financing activities	(7,389)	(7,029)	6,792	4,105
Investing activities	(1,120)	(496)	(15,263)	(9,038)
Net increase in cash	1,205	1,498	12,347	12,040
Beginning cash and cash equivalent balances	17,720	16,222	26,416	14,376
Ending cash and cash equivalent balances	**$18,925**	**$17,720**	**$38,763**	**$26,416**

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

Note 18—Commitments and Loss Contingencies

The university is party to an agreement in which it agreed to transfer ownership of certain equipment constructed by the university to Midwest Proton Radiotherapy Institute, LLC (MPRI). Capitalized costs of construction of the equipment and related factors will exceed the purchase terms of the agreement by an amount projected to be approximately $26.6 million. The transfer of the equipment will facilitate activities that will further the university's research and teaching mission. In addition, the university expects to realize operating revenue through agreements with the purchasing party and has plans to apply this revenue to the construction costs incurred. This transaction will be reflected in the university's financial statements when all terms of the agreement have been satisfied and are completed. In addition, Indiana University Research and Technology Corporation, a component unit of the university, is party to an agreement granting MPRI the use of the technology underlying certain other assets constructed by the university.

Construction Projects

As of June 30, 2007, contractual obligations for capital construction projects were $130,150,626.

Indiana University Foundation
Notes to the Financial Statements
June 30, 2007 and 2006

Note 1 - Organization and Operations

The Indiana University Foundation, Inc. (the "Foundation") is a not-for-profit corporation organized under the laws of the State of Indiana. The corporate purposes of the Foundation are to raise, receive, hold, invest and administer property and to make expenditures to or for the benefit of Indiana University, including its regional campuses and associated entities (such as the Purdue University schools housed at the Indiana University-Purdue University Indianapolis campus, Riley Children's Foundation, the Indiana University Research & Technology Corporation, the Clarian Health Partners, Inc., the Indiana University Alumni Association, and certain medical practice plans), herein referred to as the "University."

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

Note 4 - Investments

Fair market value for a publicly traded security is based on the closing price for equity securities and the closing bid price for debt securities. Fair market value for non-publicly traded securities is computed based on the price earnings ratio, dividend discount model, or price to book analysis appropriately discounted due to illiquidity. Investments in alternative investments are carried at estimated fair value provided by the management of the respective alternative investment. A summary of investments as of June 30, 2007 and 2006 follows:

	2007					
	Unrestricted		Temporarily Restricted		Permanently Restricted	
	Foundation	Agency	Foundation	University	Foundation	University
Institutional co-mingled funds	$ 25,275,015	$ 77,769,081	$ 669,711	$ 293,865,790	$ 6,471,816	$ 161,118,256
Common, preferred and international stocks	20,609,357	62,943,006	2,168,747	251,978,872	5,601,027	140,587,482
Alternative investments	14,165,291	50,623,694	435,949	94,091,438	6,519,802	200,360,261
Real estate	143,997	335,928	1,015,393	3,033,474	43,264	4,957,551
Mortgage securities	-0-	-0-	-0-	-0-	-0-	762,685
US Government and agency debt instruments	3,832,313	11,739,795	237,655	46,348,503	1,007,769	25,013,980
Corporate, municipal, and international bonds	3,750,377	11,354,298	585,255	46,527,919	1,054,851	27,525,294
Cash equivalents	3,391,127	2,507,262	62,333	9,764,999	217,842	5,465,823
Total investments	$ 71,167,477	$ 217,273,064	$ 5,175,043	$ 745,610,995	$ 20,916,371	$ 565,791,332

Indiana University Foundation
Notes to the Financial Statements
June 30, 2007 and 2006

	2006					
	Unrestricted		Temporarily Restricted		Permanently Restricted	
	Foundation	Agency	Foundation	University	Foundation	University
Institutional co-mingled funds	$ 19,799,636	$ 62,377,022	$ 407,875	$ 207,493,483	$ 6,787,760	$ 153,783,481
Common, preferred and international stocks	18,582,040	58,562,377	1,849,348	206,739,531	6,773,678	154,568,048
Alternative investments	7,209,910	24,095,033	157,554	46,818,340	3,265,749	92,530,618
Real estate	150,649	336,360	1,014,699	3,115,047	45,589	2,568,764
Mortgage securities	-0-	-0-	-0-	-0-	-0-	787,100
US Government and agency debt instruments	3,791,684	11,944,415	141,764	43,608,220	1,317,336	29,843,650
Corporate, municipal, and international bonds	5,068,741	15,913,378	570,123	57,718,045	1,865,913	42,675,197
Cash equivalents	1,742,241	3,263,220	154,640	25,340,750	393,851	8,932,340
Commercial paper	195,080	614,931	4,018	2,081,370	66,866	1,505,084
Total investments	$ 56,539,981	$ 177,106,736	$ 4,300,021	$ 592,914,786	$ 20,516,742	$ 487,194,282

Included in the underlying US Government and agency debt instruments are futures, forwards, and option contracts that are considered derivative financial instruments. The carrying values of these derivative financial instruments are adjusted to net fair market value as determined by the Foundation's investment manager. Significant open positions as of June 30, 2007 and 2006 are summarized as follows:

	2007		2006	
	Notional Par	Net Fair Market Asset (Liability) Value	Notional Par	Net Fair Market Asset (Liability) Value
Futures:				
US Treasury Notes and Bonds	$ (40,500,000)	$ 105,571	$ (4,500,000)	$ (58,523)
Eurodollars	1,204,000,000	(808,050)	509,000,000	(1,222,600)
90 Day Libor	18,500,000	(21,735)		
Forwards:				
US Government Agencies	$ 10,502,289	$ 86,246	$ 22,500,000	$ 16,172

The gross and net credit risk associated with the related counterparties on these open futures and forwards positions is insignificant. The market risk for these futures and forwards is directly linked with exchange rates or market interest rates as the underlying securities bear a fixed rate of interest. The futures instruments required $1,276,447 and $506,950 in cash, and $1,610,468 and $621,115 of US Treasury Bills as collateral in a margin maintenance account as of June 30, 2007 and 2006, respectively. The related net gains generated were $797,280 and $656,055 for the years ended June 30, 2007 and 2006, respectively.

Indiana University Foundation
Notes to the Financial Statements
June 30, 2007 and 2006

Investment income including net gains (losses), net of outside investment management fees, for the years ended June 30, 2007 and 2006 consists of the following:

		2007			
		Temporarily Restricted		Permanently Restricted	
	Unrestricted	Foundation	University	Foundation	University
Dividend, interest and other investment income	$ 1,925,392	$ -0-	$ 13,461,945	$ -0-	$ 1,000
Net realized and unrealized gains (losses) on investments	18,903,342	-0-	211,545,321	49,515	(52,228)
Outside investment management fees	(336,206)	-0-	(4,351,711)	-0-	-0-
Total investment income, including net gains (losses), net of outside investment management fees	$ 20,492,528	$ -0-	$ 220,655,555	$ 49,515	$ (51,228)

		2006			
		Temporarily Restricted		Permanently Restricted	
	Unrestricted	Foundation	University	Foundation	University
Dividend, interest and other investment income	$ 3,429,666	$ -0-	$ 11,906,988	$ -0-	$ 1,145
Net realized and unrealized gains (losses) on investments	9,455,584	-0-	102,035,140	(121,452)	76,809
Outside investment management fees	(314,254)	-0-	(4,031,949)	-0-	-0-
Total investment income, including net gains (losses), net of outside investment management fees	$ 12,570,996	$ -0-	$ 109,910,179	$ (121,452)	$ 77,954

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

Indiana University Foundation
Notes to the Financial Statements
June 30, 2007 and 2006

Note 7 – Restricted Net Assets

The income generated from restricted net assets is used in accordance with the donors' time or purpose restrictions. Foundation and University permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor imposed restrictions as of June 30, 2007 and 2006 are as follows:

2007	Temporarily Restricted		Permanently Restricted	
	Foundation	University	Foundation	University
Foundation operations	$ 4,018,981	$ -0-	$ 21,238,921	$ -0-
University Programs:				
Awards	-0-	11,852,775	-0-	5,111,588
Capital and capital improvements	-0-	36,975,039	-0-	1,385,405
Fellowships/lectureships	-0-	41,267,309	-0-	59,190,288
General endowments	-0-	299,804,881	-0-	158,899,308
Medical practice plans	-0-	41,971,206	-0-	-0-
Professorships/chairs	-0-	181,203,263	-0-	192,090,423
Research	-0-	35,198,949	-0-	17,089,737
Scholarships	-0-	222,110,066	-0-	179,287,348
Operations	-0-	59,871,329	-0-	2,236,591
Total	$ 4,018,981	$ 930,254,817	$ 21,238,921	$ 615,290,688

2006	Temporarily Restricted		Permanently Restricted	
	Foundation	University	Foundation	University
Foundation operations	$ 3,182,226	$ -0-	$ 20,738,525	$ -0-
University Programs:				
Awards	-0-	9,879,639	-0-	5,081,215
Capital and capital improvements	-0-	15,642,008	-0-	1,455,117
Fellowships/lectureships	-0-	30,345,508	-0-	58,123,616
General endowments	-0-	246,280,492	-0-	101,300,551
Medical practice plans	-0-	40,143,461	-0-	-0-
Professorships/chairs	-0-	125,000,621	-0-	161,891,533
Research	-0-	29,638,281	-0-	13,927,602
Scholarships	-0-	174,335,063	-0-	162,192,227
Operations	-0-	50,566,102	-0-	2,347,252
Total	$ 3,182,226	$ 721,831,175	$ 20,738,525	$ 506,319,113

Indiana University Foundation
Notes to the Financial Statements
June 30, 2007 and 2006

Note 9 - Contingencies and Commitments

As described in Note 2 - Summary of Significant Accounting Policies, the Foundation assumes all risk associated with certain permanent endowment assets and the market and interest rate changes related to the Foundation's investment of these monies. For specific endowments where the market value has declined below the original gift corpus, the Foundation reports a decrease in its unrestricted net assets through a reduction in its investment in securities. This amount totals $67,665 and $1,353,459 as of June 30, 2007 and 2006, respectively. Subsequent recovery of investment market value has reduced previously accrued deficits with unrestricted amounts reinstated of $1,285,794 and $2,848,084, respectively for the years ended June 30, 2007 and 2006.

The Foundation has borrowed $55,048,541 and $60,166,428 of temporarily restricted University cash and cash equivalents as of June 30, 2007 and 2006, respectively, and has reported this interfund borrowing as "due to (from)" on the Statement of Financial Position. The Foundation assumes all risk associated with the composition of assets related to the Foundation's reinvestment of the temporarily restricted University monies. These borrowings were used to (1) acquire property, plant and equipment for the benefit of the University, (2) purchase investment securities, and (3) support on-going Foundation operations. Repayment of the borrowings is primarily dependent on the Foundation's ability to (1) generate future appreciation and income from investment securities, (2) receive future revenue from existing property leases arrangements with the University and (3) receive future unrestricted gifts. Management has currently developed initiatives to reduce such borrowings in the future and maintain an appropriate composition of assets to comply with all donor restrictions. However, further investment market value declines and reduced unrestricted giving could require additional borrowings to sustain the Foundation operations in the near term.

Interfund financing of $8,381,531 and $9,396,121 as of June 30, 2007 and 2006, respectively, represents amounts financed by the Foundation unrestricted net assets to the agency and temporarily restricted University net assets. The carrying value of interfund financing approximates fair market value, as the borrowing rates currently available to the Foundation are similar to the terms on remaining maturities. Interest rates are variable ranging from 6.00% to 6.26% and 5.59% to 8.00% as of June 30, 2007 and 2006, respectively.

The Foundation's alternative investments include investments in: (1) private equity such as venture capital and leveraged buyout funds; and (2) absolute return and inflation hedge strategies, including opportunistic real estate and natural resources. The Foundation's asset allocation policy allocates up to 39% in these types of investments. As of June 30, 2007 and 2006, the Foundation has entered into agreements with unfunded commitments of $217.9 million and $195.8 million, respectively. These commitments are expected to be fulfilled over the next three to five years.

Indiana University Foundation
Notes to the Financial Statements
June 30, 2007 and 2006

Note 10 - Program Expenditures

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, air transportation services, Student Foundation, cultural center, women's programs and other miscellaneous programs. These University related program expenditures primarily support "Grants and aid to the University" and "Endowment and capital additions." For the years ended June 30, 2007 and 2006, a summary of these expenditures follows:

	2007		
		Unrestricted	
Program expenditures:	**Foundation**	**University***	**Total**
Foundation programs:			
Real estate	$ 2,465,974	$ -0-	$ 2,465,974
Air transportation services	1,401,629	-0-	1,401,629
Student Foundation	528,279	-0-	528,279
Cultural center	202,480	-0-	202,480
Women's programs	70,070	-0-	70,070
Miscellaneous	62,164	-0-	62,164
	4,730,596	-0-	4,730,596
Grants and aid to the University:			
Operating support:			
University support	2,983,384	32,656,325	35,639,709
Student scholarship and financial aid	144,650	22,727,353	22,872,003
Faculty support	7,960	11,386,243	11,394,203
Faculty research	-0-	10,182,458	10,182,458
	3,135,994	76,952,379	80,088,373
Endowment and capital additions:			
Land, building and equipment purchases	105,757	9,280,582	9,386,339
Library and art acquisitions	-0-	900,422	900,422
	105,757	10,181,004	10,286,761
Total program expenditures	$ 7,972,374	$ 87,133,383	$ 95,105,730

Indiana University Foundation
Notes to the Financial Statements
June 30, 2007 and 2006

	2006		
		Unrestricted	
Program expenditures:	**Foundation**	**University***	**Total**
Foundation programs:			
Real estate	$ 1,680,008	$ -0-	$ 1,680,008
Air transportation services	1,549,520	-0-	1,549,520
Student Foundation	478,427	-0-	478,427
Cultural center	144,911	-0-	144,911
Women's programs	30,415	-0-	30,415
Miscellaneous	59,548	-0-	59,548
	3,942,829	-0-	3,942,829
Grants and aid to the University:			
Operating support:			
University support	7,600,897	24,268,960	31,869,857
Student scholarship and financial aid	74,575	22,585,328	22,659,903
Faculty support	13,465	7,512,653	7,526,118
Faculty research	-0-	7,718,557	7,718,557
	7,688,937	62,085,498	69,774,435
Endowment and capital additions:			
Land, building and equipment purchases	107,070	16,045,652	16,152,722
Library and art acquisitions	312	1,088,896	1,089,208
	107,382	17,134,548	17,241,930
Total program expenditures	$ 11,739,148	$ 79,220,046	$ 90,959,194

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

Note 11 - Related Party Transactions

In addition to amounts and transactions disclosed in the preceding notes and financial statements, the following is a summary of related party transactions. These transactions have been summarized below by financial statement classification as reported in the Statement of Activities. Related parties include affiliates, board of directors, management, and members of their immediate families.

Indiana University Foundation
Notes to the Financial Statements
June 30, 2007 and 2006

Revenue and Support

Other Income

Included in unrestricted other income is direct support from the University for certain fundraising efforts as well as income from its program operations. For the years ended June 30, 2007 and 2006 the University reimbursed the Foundation for its direct support of the Matching the Promise Campaign general fund raising efforts in the amount of $505,297 each year. As a part of the Foundation program operations, the Foundation received support from the University for the years ended June 30, 2007 and 2006, respectively, as follows: $5,264,951 and $2,147,728 of rental income for the lease of certain real estate; $1,245,009 and $1,063,364 for Telefund service fees related to its telephone fund raising operations; $1,070,036 and $1,143,248 for air transportation services; and $2,407,028 and $2,071,511 for management/administrative fees.

Contributions and Promises to Give

The Foundation includes related party contributions in the Statement of Activities and outstanding irrevocable promises to give in the Statement of Financial Position.

A summary of Contributions and Promises to Give as of and for the years ended June 30, 2007 and 2006 follows:

		2007		2006
Contributions	$	17,181,152	$	50,538,801
Promises to Give	$	50,454,088	$	39,749,426

Expenditures

Investment Management Fee and Investments

As of June 30, 2007 and 2006, respectively, the Foundation owns limited partnership interests of $13,261,352 and $5,880,254 where a related party is either a general or limited partner. Management fees are outlined in individual limited partnership agreements and range from 1% to 2.5% of the annual capital commitments.

Management and General Expenses

Included in management and general expenses are fees paid to related parties for legal, insurance and financial services. For the years ended June 30, 2007 and 2006, these services total $562,045 and $717,674, respectively.

Program Expenditures

The Foundation operates a program to acquire on behalf of, lease to, and/or grant real estate to the University. Included in university support are the net book values of properties granted to the University totaling $925,327 and $250,047 for the years ended June 30, 2007 and 2006, respectively. In addition, program costs include maintenance and repair, utilities, insurance and taxes. Income received by the Foundation related to these operations is recorded in other income.

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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

We have audited the accompanying basic financial statements of Indiana University, a component unit of the State of Indiana, as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. The financial statements of this component unit were audited by another auditor whose report thereon has been furnished to us and our opinion, insofar as it relates to this unit, is based upon the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana University, as of June 30, 2007 and 2006, 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 November 9, 2007, on our consideration of Indiana University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

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

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State Board of Accounts

November 9, 2007

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Additional copies of this report may be obtained from:

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Acknowledgements:

The following members of Financial Management Services prepared the *2006-07 Financial Report* and the included financial statements.

Kathleen T. McNeely, Associate Vice President and Executive Director, Financial Management Services
Joan Hagen, Chief Accountant and Managing Director, Financial Management Services
William Overman, Manager of External Financial Reporting
Rhonda Inman, External Reporting and Compliance
Aaron Pritchett, External Reporting and Compliance
Andrea Roberts, External Reporting and Compliance

The following members of Financial Management Services assisted in the preparation of the *2006-07 Financial Report* and the included financial statements.

Sterling George, Director of Operations, Systems Administration, and Records Management
Christina Nikirk, Plant Fund Accountant
Jennifer George, Manager, Auxiliary Accounting
Hal Jankowski, Auxiliary Accountant
Phyllis Taylor, Senior Communications Specialist

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University Architect's Office
University Human Resource Services

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