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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Indiana University Foundation
Bloomington, Indiana

We have audited the accompanying financial statements of the Indiana University Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indiana University Foundation as of June 30, 2013 and 2012, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 7, 2013

Indiana University Foundation
Statement of Financial Position
As of June 30, 2013

	Unrestricted		Temporarily Restricted		Permanently Restricted		
	Foundation	**Agency**	**Foundation**	**University**	**Foundation**	**University**	**Total**
Assets:							
Cash and cash equivalents	$ -	$ 8,620,065	$ 57,829	$ 78,597,965	$ -	$ -	$ 87,275,859
Collateral under securities lending agreement	1,720,220	8,828,675	180,723	15,046,901	863,456	40,294,636	66,934,611
Receivables and other assets	7,876,763	4,522,751	91,939	10,970,772	441,695	28,777,321	52,681,241
Promises to give, net	81,144	-	3,079,939	67,615,854	891,048	70,699,677	142,367,662
Investments	209,022,708	219,228,507	7,921,401	389,498,933	21,527,283	1,027,883,856	1,875,082,688
Property, plant and equipment, net	53,223,439	-	-	-	-	-	53,223,439
Total assets	$ 271,924,274	$ 241,199,998	$ 11,331,831	$ 561,730,425	$ 23,723,482	$ 1,167,655,490	$ 2,277,565,500
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	$ 3,559,892	$ 5,221,585	$ 394,456	$ 4,374,855	$ 650,723	$ 25,364,818	$ 39,566,329
Payable under securities lending agreement	1,720,220	8,828,675	180,723	15,046,901	863,456	40,294,636	66,934,611
Debt	3,785,883	-	-	-	-	58,083	3,843,966
Accrued trust obligation to life beneficiaries	461,418	-	3,105,951	6,301,006	-	26,318,100	36,186,475
Due to (from)	222,797,098	(598,508)	(274,333)	(220,116,328)	423	(1,808,352)	-
Interfund financing	(1,150,000)	-	-	1,150,000	-	-	-
Assets held for the University	-	205,620,826	-	-	-	-	205,620,826
Assets held for University affiliates	-	22,127,420	-	-	-	-	22,127,420
Total liabilities	231,174,511	241,199,998	3,406,797	(193,243,566)	1,514,602	90,227,285	374,279,627
Net assets	40,749,763	-	7,925,034	754,973,991	22,208,880	1,077,428,205	1,903,285,873
Total liabilities and net assets	$ 271,924,274	$ 241,199,998	$ 11,331,831	$ 561,730,425	$ 23,723,482	$ 1,167,655,490	$ 2,277,565,500

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

Indiana University Foundation
Statement of Financial Position
As of June 30, 2012

	Unrestricted		Temporarily Restricted		Permanently Restricted		
	Foundation	Agency	Foundation	University	Foundation	University	Total
Assets:							
Cash and cash equivalents	$ -	$ 11,519,534	$ 195,973	$ 190,902,769	$ -	$ 1,793,729	$ 204,412,005
Collateral under securities lending agreement	1,436,404	7,187,380	150,072	12,230,874	712,842	31,879,597	53,597,169
Receivables and other assets	6,901,205	8,693,461	183,907	16,797,136	859,554	47,389,348	80,824,611
Promises to give, net	52,143	-	2,892,397	75,288,515	858,789	73,731,004	152,822,848
Investments	107,202,029	193,855,646	7,925,039	344,104,595	19,149,828	886,436,565	1,558,673,702
Property, plant and equipment, net	55,204,091	-	-	-	-	-	55,204,091
Total assets	$ 170,795,872	$ 221,256,021	$ 11,347,388	$ 639,323,889	$ 21,581,013	$ 1,041,230,243	$ 2,105,534,426
Liabilities and net assets:							
Liabilities:							
Accounts payable and other	$ 4,550,869	$ 9,225,591	$ 207,168	$ 16,236,764	$ 1,054,026	$ 41,174,754	$ 72,449,172
Payable under securities lending agreement	1,436,404	7,187,380	150,072	12,230,874	712,842	31,879,597	53,597,169
Debt	3,922,574	-	-	-	-	58,083	3,980,657
Accrued trust obligation to life beneficiaries	412,428	-	3,242,179	6,103,460	-	23,812,123	33,570,190
Due to (from)	125,016,119	(7,013,523)	109,167	(89,390,196)	(704,431)	(28,017,136)	-
Interfund financing	(1,900,000)	-	-	1,900,000	-	-	-
Assets held for the University	-	198,080,430	-	-	-	-	198,080,430
Assets held for University affiliates	-	13,776,143	-	-	-	-	13,776,143
Total liabilities	133,438,394	221,256,021	3,708,586	(52,919,098)	1,062,437	68,907,421	375,453,761
Net assets	37,357,478	-	7,638,802	692,242,987	20,518,576	972,322,822	1,730,080,665
Total liabilities and net assets	$ 170,795,872	$ 221,256,021	$ 11,347,388	$ 639,323,889	$ 21,581,013	$ 1,041,230,243	$ 2,105,534,426

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

Indiana University Foundation
Statement of Activities
For the year ended June 30, 2013

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	Foundation	University	Foundation	University	Total
Revenue and support:						
Contributions, net	$ 1,014,864	$ 356,695	$ 82,053,896	$ 403,943	$ 43,128,810	$ 126,958,208
Investment income including net gains (losses), net of outside investment management fees	6,428,326	392,289	96,186,687	1,295,855	55,607,563	159,910,720
Management/administrative fees	15,265,680	(32,757)	(12,638,810)	-	(40,660)	2,553,453
Grants	-	-	1,931,650	-	-	1,931,650
Other income	8,245,708	-	4,148,187	(1,236)	602,579	12,995,238
Development service fees from the University	4,923,219	-	-	-	-	4,923,219
Net assets released from restriction	106,324,948	(613,114)	(107,584,073)	-	1,872,239	-
Total revenue and support	142,202,745	103,113	64,097,537	1,698,562	101,170,531	309,272,488
Expenditures:						
Program expenditures	111,939,441	-	-	-	-	111,939,441
Management and general	11,083,777	12,776	2,088,005	658	(837,275)	12,347,941
Fundraising	15,738,251	-	-	-	-	15,738,251
Change in value of split interest agreement obligation to life beneficiaries	48,991	(195,895)	(721,472)	7,600	(3,097,577)	(3,958,353)
Total expenditures	138,810,460	(183,119)	1,366,533	8,258	(3,934,852)	136,067,280
Change in net assets:						
Unrestricted	3,392,285	-	-	-	-	3,392,285
Temporarily restricted	-	286,232	62,731,004	-	-	63,017,236
Permanently restricted	-	-	-	1,690,304	105,105,383	106,795,687
Total change in net assets	3,392,285	286,232	62,731,004	1,690,304	105,105,383	173,205,208
Beginning net assets	37,357,478	7,638,802	692,242,987	20,518,576	972,322,822	1,730,080,665
Ending net assets	$ 40,749,763	$ 7,925,034	$ 754,973,991	$ 22,208,880	$ 1,077,428,205	$ 1,903,285,873

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

Indiana University Foundation
Statement of Activities
For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted Foundation	Temporarily Restricted University	Permanently Restricted Foundation	Permanently Restricted University	Total
Revenue and support:						
Contributions, net	$ 1,276,253	$ 261,121	$ 76,837,849	$ 16,014	$ 44,989,575	$ 123,380,812
Investment income including net gains (losses), net of outside investment management fees	2,676,067	(47,123)	45,747,907	(1,572,177)	(63,165,955)	(16,361,281)
Management/administrative fees	14,568,862	(32,559)	(12,111,201)	-	(48,642)	2,376,460
Grants	-	-	547,140	-	-	547,140
Other income	7,867,374	-	5,023,000	236	759,605	13,650,215
Development service fees from the University	4,923,219	-	-	-	-	4,923,219
Net assets released from restriction	107,379,296	(294,791)	(107,647,713)	(456,392)	1,019,600	-
Total revenue and support	138,691,071	(113,352)	8,396,982	(2,012,319)	(16,445,817)	128,516,565
Expenditures:						
Program expenditures	112,273,885	-	-	-	-	112,273,885
Management and general	10,157,932	6,835	1,163,860	720	149,566	11,478,913
Fundraising	13,824,596	-	-	-	-	13,824,596
Change in value of split interest agreement obligation to life beneficiaries	320,415	9,712	274,825	103,186	1,758,333	2,466,471
Total expenditures	136,576,828	16,547	1,438,685	103,906	1,907,899	140,043,865
Change in net assets:						
Unrestricted	2,114,243	-	-	-	-	2,114,243
Temporarily restricted	-	(129,899)	6,958,297	-	-	6,828,398
Permanently restricted	-	-	-	(2,116,225)	(18,353,716)	(20,469,941)
Total change in net assets	2,114,243	(129,899)	6,958,297	(2,116,225)	(18,353,716)	(11,527,300)
Beginning net assets	35,243,235	7,768,701	685,284,690	22,634,801	990,676,538	1,741,607,965
Ending net assets	$ 37,357,478	$ 7,638,802	$ 692,242,987	$ 20,518,576	$ 972,322,822	$ 1,730,080,665

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

Indiana University Foundation
Statements of Cash Flow
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 173,205,208	$ (11,527,300)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,682,056	2,612,260
Change in discount on promises to give	(3,448,673)	(1,535,910)
Change in allowance on promises to give	(1,528,694)	(452,061)
Loss (gain) on investments	(162,515,700)	26,035,852
Real estate assets donated to the University	2,092,589	474,972
Gain on sale of property, plant and equipment	(409,982)	(339,163)
Decrease (increase) in receivables and other assets	28,143,370	(62,589,671)
Decrease in promises to give	15,432,554	1,930,332
Increase (decrease) in accounts payable and other	(32,882,843)	67,803,013
Increase in split interest agreement obligation to life beneficiaries	2,616,285	2,281,742
(Decrease) increase in assets held for the University and University affiliates	15,891,673	(523,032)
Contributions restricted for long-term purposes related to permanent endowments, charitable remainder trusts and annuities	(47,077,945)	(42,354,827)
Net cash used in operating activities	(7,800,102)	(18,183,793)
Cash flows from investing activities:		
Proceeds from sale/transfer of fixed assets	1,349,342	410,787
Proceeds from sales of investments	5,603,738,146	4,053,198,479
Purchases of investments	(5,757,631,432)	(4,013,260,085)
Purchases of property, plant and equipment	(3,733,354)	(4,634,128)
Net cash (provided by) used in investing activities	$ (156,277,298)	$ 35,715,053

	2013	2012
Cash flows from financing activities:		
Proceeds from contributions restricted for long term purposes related to permanent endowments, charitable remander trusts and annuities:		
Endowment	$ 47,077,945	$ 40,532,546
Trust and other	-	1,822,281
Payments on debt	(136,691)	(129,842)
Net cash provided by financing activities	46,941,254	42,224,985
Net increase (decrease) in cash and cash equivalents	(117,136,146)	59,756,245
Cash and cash equivalents - beginning of year	204,412,005	144,655,760
Cash and cash equivalents - end of year	$ 87,275,859	$ 204,412,005

Supplemental Data:		
Cash paid for interest	$ 531,425	$ 638,851
Gifts of securities, life insurance, consulting services, real and personal property at fair value	$ 9,881,863	$ 6,119,485

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

Note 1 - Organization and Operations

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

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

Note 2 - Summary of Significant Accounting Policies

Unrestricted Net Assets

Foundation

The unrestricted Foundation net asset class includes the general and board designated assets and liabilities of the Foundation. Revenue and support received by the Foundation without explicit donor restrictions are reported as unrestricted to the Foundation. Certain fees and other income earned by the Foundation are also reported as unrestricted. In general, the unrestricted net assets of the Foundation may be used at the discretion of the Foundation's management and Board of Directors (Board) to support the Foundation's purposes and operations. Temporarily restricted Foundation net assets are reclassified to unrestricted as they are appropriated or the time or purpose restriction has been met. Temporarily restricted University net assets are reclassified to unrestricted as the time or purpose restrictions are met. These amounts are reported in the Statement of Activities as net assets released from restriction.

Agency

The unrestricted Agency net asset class includes custodial assets held for the University and affiliated entities under a management and custodial agreement.

Temporarily Restricted Net Assets

Foundation

The temporarily restricted Foundation net asset class includes expendable assets and certain related liabilities of the Foundation. Foundation expendable assets relate to donor gifts and assets held in trust with explicit time or purpose restrictions that ultimately benefit an unrestricted expendable endowment. Temporarily restricted Foundation net assets are reclassified to unrestricted net assets as they are appropriated or the donor time or purpose restriction has been met. These amounts are reported in the Statement of Activities as net assets released from restriction.

University

The temporarily restricted University net asset class includes expendable assets held for the benefit of the University and certain related liabilities. University expendable assets relate to donor gifts and assets held in trust with explicit time or purpose restrictions. University expendable assets are generally restricted by donors or account managers and may be utilized by the University only in accordance with the purpose restriction established by the donors or account managers. Account managers are University representatives responsible for monitoring compliance with donor restrictions. When donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction and expended from unrestricted net assets.

Permanently Restricted Net Assets

Foundation

The permanently restricted Foundation net asset class includes nonexpendable assets and certain related liabilities which benefit the Foundation where the donor has restricted the gift corpus in perpetuity. Foundation nonexpendable assets are generally donor endowments and assets held in trust that ultimately benefit a nonexpendable endowment. The donor’s permanent endowment or assets held in trust are included in permanently restricted net assets at its market value. This includes the original gift value, any donor directed reinvestment of earnings, and the related appreciation or depreciation absent explicit donor stipulations to the contrary.

University

The permanently restricted University net asset class includes nonexpendable assets and certain related liabilities which benefit the University where the donor has restricted the gift corpus in perpetuity. University nonexpendable assets are generally donor endowments and assets held in trust that ultimately benefit a nonexpendable endowment. The donor’s permanent endowment or assets held in trust are included in permanently restricted net assets at its market value. This includes the original gift value, any donor directed reinvestment of earnings, and related appreciation or depreciation absent explicit donor stipulations to the contrary.

Reclassification of Donor Intent

At times the Foundation receives requests by donors or their designees to change the use for which their original gift was intended. These requests are reviewed by the Foundation for approval. Approved changes, depending on the donors’ requests, may result in the reclassification of net assets between unrestricted, temporarily restricted, or permanently restricted net asset classes. Reclassifications of donor intent of $1,872,239 and $563,208 are reflected in the Statement of Activities as net assets released from restriction for the years ended June 30, 2013 and 2012, respectively.

Securities Lending

The Foundation has a securities lending agreement and guaranty with the BNY/ Mellon. Cash, US Government securities, and/or letters of credit can collateralize the loaned securities. Collateral required is at least 102% of the current market value of the loaned securities. Income earned from the secured lending transactions is recorded as investment income. The Foundation continues to carry the loaned securities as its assets. In addition, the Foundation has recorded an asset and offsetting liability of $66,934,611 and $53,597,169 as of June 30, 2013 and 2012, respectively, to reflect the cash collateral related to the lent securities under the securities lending agreement.

Contributions

Contributions are irrevocable voluntary transfers from donors of assets in the form of gifts of property, including cash, marketable securities, real estate investments, life insurance policies, trusts, works of art, software and licensing rights, and other non-cash gifts and are recorded at fair market value on the date of the gift. Grants recorded as contributions are irrevocable voluntary transfers of assets held, administered and maintained for investment purposes at the Foundation and are also recorded at fair market value on the date the grant was awarded. Unconditional promises to give to are recorded as receivables and contribution revenue in the appropriate net asset class when received. Promises to give are recorded at present value, less an allowance for uncollectible amounts, and include pledges, contracts, irrevocable trusts held by third parties, life insurance premiums, and bequests payable under validated estates.

Management/Administrative Fees

A fee is charged to accounts within each net asset class for which the Foundation manages investments. This management fee is charged based on the market value and type of investments managed. These fees are used for the administration of the Foundation's management and fundraising operations.

Grants

Private research grants are received from donors to support the University's research programs. Research grants are administered in accordance with the grant by the account manager.

Other Income

Foundation unrestricted other income is comprised primarily of: reimbursements from the University for the cost of the Foundation's direct support of certain University fundraising activities; receipts from the Foundation's various program operations, including real estate, air services, the Student Foundation, women's programs, and other miscellaneous programs; and the change in the cash surrender value of life insurance policies. Temporarily and permanently restricted University other income is comprised primarily of amounts received from the University with donor related restrictions for activities and events, the change in the cash surrender value of life insurance policies, and departmental support to the IU School of Medicine from medical practice plans. These plans, which are associated with the University, operate as separate legal entities. The income received from these plans support the related University medical departments as specified.

Expenditures

Expenditures have been classified as program, management and general, or fundraising based on actual expenditures or cost allocations using estimates of time spent by Foundation personnel. Unrestricted Foundation programs include real estate, air services, the Student Foundation, women's programs, and other miscellaneous programs. Expenditures related to the temporarily restricted net asset class are incurred when purpose restrictions have been met and are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction. These consist primarily of grants and aid to the University, including University support, student scholarships and financial aid, faculty support, faculty research, land, building and equipment purchases, and library and art acquisitions.

Cash and Cash Equivalents

The Foundation considers investments in marketable securities and other highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents managed by outside investment managers are included in investments. For these short-term instruments, cost approximates the fair market value.

Fair Value of Financial Instruments

Investments are stated at fair value and are recorded on the trade date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Foundation uses various valuation approaches that maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

> Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
>
> Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
>
> Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values might be materially higher or lower than the values that would have been used had a readily available market for the securities existed. Accordingly, the degree of judgment exercised by the Foundation and/or the investment managers in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Foundation's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Foundation uses prices and inputs that are current as of the measurement date, including during periods of market dislocation.

The Foundation's investments include investments in private equity funds, real estate funds, hedge funds and direct equity investments. Exchange-traded direct equity investments are generally valued based on quoted prices from the exchange. Exchange–traded direct equity investments that are actively traded are categorized in Level 1 of the fair value hierarchy. Fair value of debt securities is determined in the following order, as available, (1) last reported sale, (2) quotation reporting system, (3) established market maker, or (4) pricing service.

The Foundation created a practical expedient to measure the fair value of investments in certain entities that do not have a quoted market price but calculate net asset value (NAV) per share or its equivalent. After initial recognition, in determining the fair value of internally and externally managed funds, the Foundation considers the NAV of the fund provided by the fund manager to be the best estimate of fair value. This disclosure is presented in footnote 4.

For non-exchange traded investments either held directly or held within internally managed funds, fair value after initial recognition is based on an assessment of each underlying investment, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, and other factors including liquidity. For non-exchange traded private equity funds, real estate funds, hedge funds and direct equity investments valued using NAV per share or its equivalent, the Foundation considers the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment shall be categorized as a Level 2 or a Level 3 fair value measurement. Those funds that are redeemable within 90 days are categorized as Level 2.

Endowments

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the State of Indiana's "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as requiring the preservation of the fair value to provide for intergenerational equity. The value of a donor's permanent endowment classified as permanently restricted net assets is its market value. Market value includes the original gift value of the assets held in perpetuity, the original value of subsequent gifts to the permanent endowment, and net realized and unrealized gains absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Where the Board designates unrestricted funds to function as endowments they are classified as unrestricted net assets. Where the Board designates donor restricted non-endowment funds to function as endowments they are classified as temporarily restricted net assets.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost at the date of acquisition or, if received by gift, at fair market value at the date of donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Purchased real estate held to benefit the University is recorded as property, plant and equipment and is depreciated over its estimated useful life, generally 20 years.

Management reviews long-lived assets for possible impairment if there is a significant event that detrimentally affects operations. The primary financial indicator used by the Foundation to assess the recoverability of its long-lived assets held and used is undiscounted future cash flows from operations. The amount of impairment if any, is measured based on estimated fair value or projected future cash flows using a discount rate reflecting the Foundation's average cost of funds. Based on the projected future cash flows, management has concluded that no asset impairment existed as of June 30, 2013.

Split Interest Agreements

The Foundation has entered into split interest agreements, including charitable remainder trusts and gift annuities which provide that the Foundation, as trustee, make payments to designated beneficiaries in accordance with the applicable donor's trust or contractual agreement. The Foundation is also the beneficiary of charitable trusts held by third party trustees that are accounted for as promises to give. Contributions related to split interest agreements totaled $1,563,716 and $4,725,463 for the years ended June 30, 2013 and 2012, respectively. At the date of contribution, the Foundation records a split interest agreement obligation to life beneficiaries based on the present value of the estimated payments to designated life beneficiaries. The Foundation's split interest agreement obligation fair value has been categorized based upon a fair value hierarchy in accordance with Accounting Standards Codification (ASC) 820. All valuations are classified as Level 2 within the fair value hierarchy based on a combination of the market and income valuation techniques. The Foundation took into account historical and projected cash flow and net income, collectability and default rates. Specifically, the present value of estimated payments is based on actuarially determined life expectancy tables, trust asset growth assumptions, and discount rates ranging from 1.2% to 9.5%. The preceding method described produces a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of similar liabilities could result in a different fair value measurement at the reporting date. The annual change in the value of the split interest agreement obligation to life beneficiaries, as reflected in the Statement of Activities, primarily represents the change in actuarial assumptions as well as the revenue and expense of the trust.

A summary of assets held and related obligation related to split interest agreements as of June 30, 2013 and 2012 follows:

		2013		2012
Assets:				
Charitable remainder trusts	$	38,613,866	$	34,691,204
Charitable gift annuities		30,787,751		28,165,309
Total	$	69,401,617	$	62,856,513
Liabilities:				
Split interest agreement obligation	$	35,961,526	$	33,320,821

Charitable gift annuity assets are separate and distinct funds, managed as independent accounts of the Foundation. The Foundation maintains reserves and a surplus of such reserves in an amount at least equal to the designated beneficiary payments on all the outstanding gift annuity contracts. These reserves shall not be applied for the payment of debts and obligations of the Foundation or for any purpose other than payment of the annuity benefits.

Income Taxes

The Foundation is a not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except for income taxes on unrelated business income that are not significant. Contributions to the Foundation are deductible under Section 170(b)(1)(A)(iv) of the Code.

Financial Accounting Standards Board (FASB) ASC 740-10 (formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation believes it is no longer subject to income tax examinations for years prior to 2010. As of June 30, 2013, the Foundation has no uncertain tax positions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends ASC 820. ASU 2011-04 also requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. This guidance, effective for reporting periods beginning after December 15, 2011, did not have a material effect on the financial statements.

New Accounting Standards Not Yet Effective

In December, 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU No. 2011-11 affects all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The amendments in this ASU require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on the financial statements. The new guidance is effective for reporting periods beginning after January 1, 2013. Management is currently evaluating the impact ASU 2011-11 will have on the disclosures in the financial statements.

In October 2012, the FASB issued ASU No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The primary objective of this ASU is to address the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows for not-for-profit entities. The ASU requires all cash receipts from the sale of donated financial assets to be classified as cash flows from investing activities, with two exceptions 1) cash receipts from the sale of donated financial assets that upon receipt are directed without any donor imposed limitations for sale and that are converted nearly immediately to cash should be classified as operating activities and 2) if the contributed resources are donor restricted to long-term purposes then those cash receipts should be classified as financing activities. The amendments in this ASU are effective prospectively for financial statements issued for fiscal years, and interim periods within those years, beginning after June 15, 2013. Early adoption is permitted. Management is currently evaluating the impact ASU 2012-05 will have on the financial statements.

Note 3 - Promises to Give

A summary of promises to give as of June 30, 2013 and 2012 follows:

2013

	Unrestricted		Temporarily Restricted		Permanently Restricted	
	Foundation	**Agency**	**Foundation**	**University**	**Foundation**	**University**
Promises to give	$ 86,581	$ -0-	$ 4,726,715	$ 81,192,169	$ 893,600	$ 86,862,028
Allowance	(4,494)	-0-	(164,062)	(4,699,662)	(1,096)	(4,083,253)
Discount	(943)	-0-	(1,482,714)	(8,876,653)	(1,456)	(12,079,098)
Promises to give, net	$ 81,144	$ -0-	$ 3,079,939	$ 67,615,854	$ 891,048	$ 70,699,677

Unconditional promises to give to the Foundation are due in the following periods:

	Unrestricted		Temporarily Restricted		Permanently Restricted	
	Foundation	**Agency**	**Foundation**	**University**	**Foundation**	**University**
One year or less	$ 48,399	$ -0-	$ 38,753	$ 7,851,802	$ 1,071	$ 20,688,724
Between one year and five years	31,760	-0-	29,893	26,856,005	4,007	20,056,284
More than five years	985	-0-	3,011,293	32,908,047	885,970	29,954,669
	$ 81,144	$ -0-	$ 3,079,939	$ 67,615,854	$ 891,048	$ 70,699,677

2012

	Unrestricted		Temporarily Restricted		Permanently Restricted	
	Foundation	**Agency**	**Foundation**	**University**	**Foundation**	**University**
Promises to give	$ 61,030	$ -0-	$ 4,527,362	$ 91,114,308	$ 861,102	$ 92,629,845
Allowance	(7,435)	-0-	(151,757)	(5,294,562)	(782)	(5,026,725)
Discount	(1,452)	-0-	(1,483,208)	(10,531,231)	(1,531)	(13,872,116)
Promises to give, net	$ 52,143	$ -0-	$ 2,892,397	$ 75,288,515	$ 858,789	$ 73,731,004

Unconditional promises to give to the Foundation are due in the following periods:

	Unrestricted		Temporarily Restricted		Permanently	
	Foundation	**Agency**	**Foundation**	**University**	**Foundation**	**University**
One year or less	$ 14,989	$ -0-	$ -0-	$ 17,005,128	$ 183	$ 10,351,501
Between one year and five years	36,717	-0-	-0-	28,254,370	1,446	29,451,080
More than five years	437	-0-	2,892,397	30,029,017	857,160	33,928,423
	$ 52,143	$ -0-	$ 2,892,397	$ 75,288,515	$ 858,789	$ 73,731,004

Discount rates used to present value promises to give, based on the IRS issued Applicable Federal Rate, range between 1.2% and 6%.

The Foundation's promises to give recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. All valuations are classified as Level 2 within the fair value hierarchy based on a combination of the market and income valuation techniques. The Foundation took into account historical and projected cash flow and net income, collectability and default rates. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Note 4 - Investments

A summary of total investment income, including net gains (losses) net of outside management fees for the year ended June 30, 2013 and 2012 consist of the following:

	2013	2012
Dividend, interest and other investment income	$ 9,767,463	$ 9,920,514
Net realized and unrealized gains (losses) on investments	155,663,461	(21,571,091)
Outside investment management fees	(5,520,204)	(4,710,704)
Total investment income, including net gains (losses), net of outside investment management fees	$ 159,910,720	$ (16,361,281)

The Foundation's investments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. The following tables present information about the Foundation's investments by security type measured at fair value as of June 30, 2013 and 2012:

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Domestic equities	$ 313,476,486	$ 68,537,378	$ 551,958	$ 382,565,822
International equities	294,411,857	-0-	-0-	294,411,857
Domestic fixed income	95,603,310	146,760,433	2,767,929	245,131,672
International fixed income	(5)	58,037,270	-0-	58,037,265
Cash equivalents	21,825,278	-0-	-0-	21,825,278
Alternative investments:				
Hedged equity funds	-0-	-0-	114,708,557	114,708,557
Absolute return funds	-0-	-0-	254,714,708	254,714,708
Venture capital funds	-0-	-0-	100,496,948	100,496,948
Buyout funds	-0-	-0-	129,125,068	129,125,068
Distressed/special situation funds	-0-	-0-	58,625,785	58,625,785
Real estate funds	-0-	-0-	95,125,996	95,125,996
Natural resource funds	-0-	-0-	79,754,823	79,754,823
Public inflation hedge	-0-	19,738,891	-0-	19,738,891
Direct commercial real estate	-0-	-0-	20,129,763	20,129,763
Mortgage securities	-0-	-0-	690,255	690,255
Total	$ 725,316,926	$ 293,073,972	$ 856,691,790	$ 1,875,082,688

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Domestic equities	$ 216,328,769	$ 63,877,854	$ 480,957	$ 280,687,580
International equities	275,090,775	9,034	-0-	275,099,809
Domestic fixed income	70,941,499	130,956,163	3,075,523	204,973,185
International fixed income	-0-	18,208,525	-0-	18,208,525
Cash equivalents	8,391,823	-0-	-0-	8,391,823
Alternative investments:				
Hedged equity funds	-0-	75,582,024	203,752	75,785,776
Absolute return funds	-0-	112,035,004	111,415,599	223,450,603
Venture capital funds	-0-	551,832	92,686,612	93,238,444
Buyout funds	-0-	-0-	113,709,268	113,709,268
Distressed/special situation funds	-0-	-0-	55,972,168	55,972,168
Real estate funds	8,627,769	-0-	80,563,458	89,191,227
Natural resource funds	-0-	-0-	78,748,874	78,748,874
Public inflation hedge	-0-	20,842,156	-0-	20,842,156
Direct commercial real estate	-0-	-0-	19,678,883	19,678,883
Mortgage securities	-0-	-0-	695,381	695,381
Total	$ 579,380,635	$ 422,062,592	$ 557,230,475	$ 1,558,673,702

There were no significant transfers between levels 1 and 2 for the years ended June 30, 2013 and 2012. Transfers into Level 3 for the year ended June 30, 2013 of $187,852,124, were the result of a change in categorization from Level 2 to Level 3 for those funds valued using NAV per share (or its equivalent) based on redemption liquidity restrictions. Changes in Level 3 assets measured at fair value as of and for the years ended June 30, 2013 and 2012 follow.

	2013	**2012**
Beginning balance	$ 557,230,475	$ 562,292,724
Realized and unrealized gains (losses)	90,311,970	12,124,593
Purchases	126,893,978	99,083,787
Sales	(105,596,757)	(111,925,455)
Transfers in	187,852,124	138,000
Transfers out	-0-	(4,483,174)
Ending balance	$ 856,691,790	$ 557,230,475

Included in the underlying US Government and agency debt instruments are futures and forwards that are considered derivative financial instruments. The carrying values of these derivative financial instruments are adjusted to net fair market value. Open positions as of June 30, 2013 and 2012 are summarized as follows:

	2013		2012	
	Notional Par	**Net Fair Market Value Asset (Liability)**	**Notional Par**	**Net Fair Market Value Asset (Liability)**
Futures:				
10 yr US	$ (1,100,000)	$ 32,055	$ 400,000	$ 4,375
Euro-Oat EUX 10 yr	(200,000)	5,253	-0-	-0-
Forwards:				
US Government Agencies	$ 10,900,000	$ (181,113)	$ 15,900,000	$ 34,399

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 $977,000 and $712,000 in cash, as of June 30, 2013 and 2012, respectively. The related net gains generated were $1,022,231 and $569,791for the years ended June 30, 2013 and 2012, respectively.

The Foundation's alternative investments include investments in: (1) private equity such as venture capital and leveraged buyout funds; (2) absolute return/hedged equity strategies; and (3) inflation hedge strategies, including real estate and natural resources. These investments are valued at NAV per share or its equivalent. The Foundation's asset allocation policy allocates up to 51% in these types of investments. A summary of the alternative investments categorized by major security type, with a description of the investment managers' strategies, and the nature of any restrictions to redeem the investment value as of June 30, 2013 follows:

	2013 Fair Value	2013 Unfunded Commitments	2012 Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedged equity funds (a)	$ 114,708,557	$ -0-	$ 75,785,776	monthly, quarterly, semi-annually, annually	30-90 days
Absolute return funds (b)	254,714,708	4,491,054	223,450,603	monthly, quarterly, semi-annually, annually	33-95 days
Venture capital funds (c)	100,496,948	44,146,127	93,238,444		
Buyout funds (d)	129,125,068	68,548,217	113,709,268		
Distressed/special situation funds (e)	58,625,785	31,149,963	55,972,168		
Real estate funds (f)	95,125,996	45,414,767	80,563,458		
Natural resources funds (g)	79,754,823	56,274,223	78,748,874		
Public Inflation Hedge (h)	19,738,891	-0-	20,842,156	monthly	10 days
Total	$ 852,290,776	$ 250,024,351	$ 742,310,747		

(a) This category includes investments in hedge funds that invest globally in both long and short common stocks across all market capitalizations. Management of the hedge funds may opportunistically shift investments across sectors, geographies, and net market exposures. The fair values of the investments in this category are based on the net asset value per share of the investment.

(b) This category includes investments in hedge funds that invest opportunistically across various strategies including long/short equity, fixed income, distressed credit, merger arbitrage, convertible arbitrage, etc. The fair values of the investments in this category are based on the net asset value per share of the investment. As of June 30, 2013, 51% of the total Marketable Alternative Investments (hedged equity and absolute return) could be redeemed in 0-6 months, an additional 21% could be redeemed between 7-12 months, another 21% could be redeemed between 13-24 months, and 2% could be redeemed between 25-36 months. The remaining 5% is designated as illiquid investments.

(c) This category includes funds which invest primarily in early-stage companies in the technology and life science sectors. The nature of investments in this category is that money is distributed as underlying companies are exited via acquisition or IPO. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

(d) This category includes private equity funds that invest across sectors primarily in the United States, but also Asia and Europe. The nature of investments in this category is that money is distributed as underlying companies are recapitalized or exited via acquisition or IPO. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

(e) This category includes funds that are focused on distressed, mezzanine, or secondary investments, primarily in the United States. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

(f) This category includes funds that invest primarily in U.S. commercial real estate, but also include real estate funds focused on Europe and Asia. The real estate exposure can include both publicly traded REIT funds and private partnerships. Publicly traded REIT funds have daily liquidity. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation's ownership interest as of June 30, 2013.

(g) This category includes funds that are focused on direct energy and timber. Partnerships are typically structured to be fully liquidated after 10 years but may be extended. Certain funds in this category will provide an income stream as the underlying commodity is harvested/sold. It is probable that the investments in this category will ultimately be sold at a value that is different from the net asset value of the Foundation’s ownership interest as of June 30, 2013.

(h) This category includes funds that invest in equity and equity-related securities, commodity derivatives, fixed income obligations, and derivatives related to equity, fixed income, and commodity securities.

Note 5 – Property, Plant and Equipment

A summary of property, plant and equipment as of June 30, 2013 and 2012 follows:

	2013	2012
Land and buildings	$ 67,153,198	$ 67,458,915
Aircraft and related facilities	343,405	343,406
Information and technology equipment	3,980,118	3,539,258
Other	3,077,013	3,054,259
	74,553,734	74,395,838
Accumulated depreciation	(21,330,295)	(19,191,747)
Total property, plant and equipment, net	$ 53,223,439	$ 55,204,091

Note 6 – Endowments

The Foundation's endowment consists of 4,857 and 4,635 individual funds as of June 30, 2013 and 2012, respectively. The following tables present the Foundation's endowment composition, changes, and net asset classifications as of and for the years ended June 30, 2013 and 2012:

Endowment Net Asset Composition by Class as of June 30, 2013:

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	Foundation	University	Foundation	University	Total
Donor-restricted endowment funds	$ -0-	$ 3,695,590	$ 557,741,917	$ 21,125,108	$ 974,158,812	$ 1,556,721,427
Board-designated endowment funds	26,084,224	-0-	-0-	-0-	-0-	26,084,224
Total funds	$ 26,084,224	$ 3,695,590	$ 557,741,917	$ 21,125,108	$ 974,158,812	$ 1,582,805,651

Endowment Net Asset Composition by Class as of June 30, 2012:

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	Foundation	University	Foundation	University	Total
Donor-restricted endowment funds	$ -0-	$ 3,338,944	$ 504,542,577	$ 19,788,288	$ 865,633,674	$ 1,393,303,483
Board-designated endowment funds	23,881,115	-0-	-0-	-0-	-0-	23,881,115
Total funds	$ 23,881,115	$ 3,338,944	$ 504,542,577	$ 19,788,288	$ 865,633,674	$ 1,417,184,598

Endowment Net Asset Composition by Class as of and for the year ended June 30, 2013:

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	Foundation	University	Foundation	University	Total
Beginning of year	$ 23,881,115	$ 3,338,944	$ 504,542,577	$ 19,788,288	$ 865,633,674	$ 1,417,184,598
Investment income (loss)	2,717,513	359,533	81,490,869	1,270,908	57,107,098	142,945,921
Contributions and other revenue	862,736	153,959	43,859,744	65,912	47,888,747	92,831,098
Appropriation of endowment assets for expenditure	(1,377,140)	(156,846)	(72,151,273)	-0-	3,529,293	(70,155,966)
Other changes:						
Transfers to/from board-designated endowment funds	-0-	-0-	-0-	-0-	-0-	-0-
End of year	$ 26,084,224	$ 3,695,590	$ 557,741,917	$ 21,125,108	$ 974,158,812	$ 1,582,805,651

Endowment Net Asset Composition by Class as of and for the year ended June 30, 2012:

		Temporarily Restricted		Permanently Restricted		
	Unrestricted	**Foundation**	**University**	**Foundation**	**University**	**Total**
Beginning of year	$ 25,385,916	$ 3,589,784	$ 503,130,594	$ 21,281,594	$ 886,797,907	$ 1,440,185,795
Investment income (loss)	398,114	(79,682)	34,100,112	(1,508,865)	(62,849,315)	(29,939,636)
Contributions and other revenue	723,359	124,450	40,334,121	15,559	38,766,701	79,964,190
Appropriation of endowment assets for expenditure	(2,626,274)	(295,608)	(73,022,250)	-0-	2,918,381	(73,025,751)
Other changes:						
Transfers to/from board-designated endowment funds	-0-	-0-	-0-	-0-	-0-	-0-
End of year	$ 23,881,115	$ 3,338,944	$ 504,542,577	$ 19,788,288	$ 865,633,674	$ 1,417,184,598

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets as of June 30, 2013 and 2012:

	2013		
Permanently Restricted Net Assets	**Foundation**	**University**	**Total**
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	$ 21,125,108	$ 974,158,812	$ 995,283,920
Temporarily Restricted Net Assets			
Term endowment funds	$ 3,695,590	$ 384,232,884	$ 387,928,474
The portion of perpetual endowments subject to a time and purpose restriction under UPMIFA	-0-	173,509,033	173,509,033
Total endowment funds classified as temporarily restricted net assets	$ 3,695,590	$ 557,741,917	$ 561,437,507

	2012		
Permanently Restricted Net Assets	**Foundation**	**University**	**Total**
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	$ 19,788,288	$ 865,633,674	$ 885,421,962
Temporarily Restricted Net Assets			
Term endowment funds	$ 3,338,944	$ 342,956,726	$ 346,295,670
The portion of perpetual endowments subject to a time and purpose restriction under UPMIFA	-0-	161,585,851	161,585,851
Total endowment funds classified as temporarily restricted net assets	$ 3,338,944	$ 504,542,577	$ 507,881,521

Return Objectives and Risk Parameters

The primary investment objective of the Foundation's asset management program is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus, at a minimum, maintaining the purchasing power of those assets managed by the Foundation. The assets are to be managed in a manner that will meet the primary investment objective, and where possible, to seek growth above the objective, while at the same time attempting to limit volatility for year-to-year spending.

The Foundation has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy endowment assets are invested in a manner that is intended to yield a long-term rate of return that exceeds the distribution rate, inflation, and administrative fees of the endowment, while assuming a prudent level of investment risk. Actual results may not be sufficient to achieve this over some shorter time frames.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints. Endowment assets will be invested in the Foundation's Pooled Long-Term Fund. Operating funds will typically be invested in the Pooled Short-Term Fund. An additional option is the Pooled Intermediate-Term Fund, which will fill a need for those operating funds that are due to be spent 6 months to 2 years from the time the cash is received. The Foundation's Investment Committee understands the long-term nature of the endowment assets and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets provide the added benefit of inflation protection. Fixed income and absolute return strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the Pooled Long-Term Fund, but is a residual to the investment process and used to meet the short-term liquidity needs.

Relationship of Spending Policy to Investment Objectives

The Foundation determines the method to be used to make endowment distributions to the University. For a number of years, the Foundation has distributed 5% of the 12-quarter rolling average of the market value of the Pooled Long-Term Fund and net income from the Pooled Intermediate-Term Fund. In establishing this method, the Foundation considered the expected long-term rate of return on the investment of the Foundation's endowment funds. Over the long-term, the Foundation expects the spending policy to allow the endowment to grow at a sufficient rate to maintain the purchasing power of the endowment assets, sometimes referred to as intergenerational equity, as well as to provide additional real growth through new gifts. Effective July 1, 2011 the Foundation determined that distributions will continue to be based upon a 12-quarter rolling average of the market value of the Pooled Long-Term Fund, but constrained by inflation bands that will limit the distributions to fall within two times inflation on the growth side and one times inflation on the down side, based on what was distributed in the previous year. The inflation factor will be calculated as a rolling five year average of the Consumer Price Index. Additionally, the 5% distribution rate will be reduced 8.3 basis points (.083%) per year over six years resulting in a 4.5% distribution rate in fiscal year 2016-2017.The expectation is that these inflation bands will prevent distributions from fluctuating widely by limiting decreases in distributions from previous years to one times inflation and increases to two times inflation. Depending upon market conditions and the needs and available resources of the Foundation, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.

Note 7 – Debt

A summary of debt as of June 30, 2013 and 2012 follows:

	2013		2012	
	Unrestricted	**Permanently Restricted**	**Unrestricted**	**Permanently Restricted**
Fixed rate five year unsecured term note related to the financing of real estate purchased for the University with a rate of 4.7% per annum.	$ 3,785,883	$ -0-	$ 3,922,574	$ -0-
Other debt	-0-	58,083	-0-	58,083
Total debt	$ 3,785,883	$ 58,083	$ 3,922,574	$ 58,083

The carrying value of this debt approximates fair market value, as the borrowing rates currently available to the Foundation are similar to the terms on remaining maturities. Scheduled principal payments for the next five years and thereafter as of June 30, 2013 are: $201,451 in 2014; $150,351 in 2015; $157,674 in 2016; $165,354 in 2017; $173,408 in 2018 and $2,995,728 thereafter. The Foundation's debt instruments contain certain financial and non-financial restrictive covenants.

Note 8 – Restricted Net Assets

The income generated from restricted net assets is used in accordance with the donors' time or purpose restrictions. Foundation and University permanently restricted assets are held in perpetuity. A summary of restricted net assets and the related donor imposed restrictions as of June 30, 2013 and 2012 are as follows:

2013

	Temporarily Restricted		Permanently Restricted	
	Foundation	**University**	**Foundation**	**University**
Foundation operations	$ 7,925,034	$ -0-	$ 22,208,880	$ -0-
University Programs:				
Awards	-0-	6,742,085	-0-	8,315,792
Capital and capital improvements	-0-	74,316,436	-0-	2,260,981
Fellowships/lectureships	-0-	21,256,305	-0-	84,120,885
General endowments	-0-	259,306,348	-0-	246,326,034
Medical practice plans	-0-	33,025,572	-0-	-0-
Operations	-0-	82,291,782	-0-	4,040,385
Professorships/chairs	-0-	116,175,867	-0-	290,236,341
Research	-0-	31,636,917	-0-	50,252,828
Scholarships	-0-	130,222,679	-0-	391,874,959
Total	$ 7,925,034	$ 754,973,991	$ 22,208,880	$ 1,077,428,205

2012

	Temporarily Restricted		Permanently Restricted	
	Foundation	**University**	**Foundation**	**University**
Foundation operations	$ 7,638,802	$ -0-	$ 20,518,576	$ -0-
University Programs:				
Awards	-0-	6,462,179	-0-	7,643,380
Capital and capital improvements	-0-	81,714,502	-0-	2,143,383
Fellowships/lectureships	-0-	20,960,628	-0-	80,896,984
General endowments	-0-	228,179,220	-0-	221,330,071
Medical practice plans	-0-	31,053,837	-0-	-0-
Operations	-0-	71,462,141	-0-	3,439,699
Professorships/chairs	-0-	106,354,539	-0-	253,336,864
Research	-0-	28,786,485	-0-	40,427,466
Scholarships	-0-	117,269,456	-0-	363,104,975
Total	$ 7,638,802	$ 692,242,987	$ 20,518,576	$ 972,322,822

Note 9 - Retirement Plan

The Foundation maintains the Indiana University Foundation Section 403(b) Annuity Plan (Plan), a defined contribution retirement plan available to all eligible employees. The Foundation Investment Retirement Committee administers the operation of the Plan. The Teachers Insurance and Annuity Association-College Retirement Equities Fund, American United Life Insurance Company and Variable Annuity Life Insurance Company serve as the custodians of the Plan. To be an eligible employee you must be an individual who is customarily employed on a regular basis of 20 or more hours a week, is a full-time employee or has completed a year of eligibility service. A year of eligibility service is defined as working 1,000 hours or more, during a period of 12 consecutive months. The Plan, a separately administered defined contribution 403(b) retirement plan, provides individual retirement accounts for each eligible participating employee. Participants are fully vested after two years. Benefits to retired participants are based on the value of the individual retirement account at the date of retirement. The total contribution is 10% of the participant's annual salary up to the social security wage base and 15% on annual salary in excess of the social security wage base. The Foundation's policy is to fund retirement costs related to this plan as incurred. Retirement expense related to this plan amounted to $1,433,221 and $1,246,550 for the years ended June 30, 2013 and 2012, respectively.

Note 10 - Contingencies and Commitments

The Foundation has borrowed $222,797,098 and $125,016,119 of restricted cash and cash equivalents as displayed in its Foundation Unrestricted, Foundation Temporarily Restricted, and Permanently Restricted assets as of June 30, 2013 and 2012, respectively, and has reported this interfund borrowing as "due to (from)" on the Statement of Financial Position. The Foundation assumes all risk associated with the composition of assets related to the Foundation's reinvestment of the temporarily restricted University monies. These borrowings were used to (1) acquire property, plant and equipment for the benefit of the University, (2) purchase investment securities, and (3) support on-going Foundation operations. Repayment of the borrowings is primarily dependent on the Foundation's ability to (1) generate future appreciation and income from investment securities, (2) receive future revenue from existing property leases arrangements with the University and (3) receive future unrestricted gifts. Management has currently developed initiatives to reduce such borrowings in the future and maintain an appropriate composition of assets to comply with all donor restrictions.

Interfund financing of $1,150,000 and $1,900,000 as of June 30, 2013 and 2012, respectively, represents amounts financed by the Foundation unrestricted net assets to the agency and temporarily restricted University net assets. The carrying value of interfund financing approximates fair market value, as the borrowing rates currently available to the Foundation are similar to the terms on remaining maturities. Interest rates are from 4.0% to 4.95% as of June 30, 2013 and June 30, 2012.

Note 11 - Program Expenditures

Program expenditures include support for Foundation and University programs. Foundation programs include: real estate, air 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 University." For the years ended June 30, 2013 and 2012, a summary of these expenditures follows:

	2013		
	Unrestricted		
Program expenditures:	**Foundation**	**University***	**Total**
Foundation programs:			
Real estate	$ 2,876,779	$ -0-	$ 2,876,779
Student Foundation	546,133	-0-	546,133
Air Services	736,034	-0-	736,034
Women's programs	151,499	-0-	151,499
Miscellaneous	17,097	-0-	17,097
	4,327,542	-0-	4,327,542
Grants and aid to the University:			
Operating support:			
University support	1,771,397	29,877,286	31,648,683
Student scholarship and financial aid	5,627	36,738,927	36,744,554
Faculty support	108,772	15,022,682	15,131,454
Faculty research	-0-	8,202,888	8,202,888
	1,885,796	89,841,783	91,727,579
Endowment and capital additions for the University:			
Land, building and equipment purchases	207	15,884,113	15,884,320
Total program expenditures	$ 6,213,545	$ 105,725,896	$ 111,939,441

	2012		
	Unrestricted		
Program expenditures:	**Foundation**	**University***	**Total**
Foundation programs:			
Real estate	$ 2,190,814	$ -0-	$ 2,190,814
Student Foundation	528,518	-0-	528,518
Air Services	622,297	-0-	622,297
Women's programs	37,895	-0-	37,895
Miscellaneous	47,855	-0-	47,855
	3,427,379	-0-	3,427,379
Grants and aid to the University:			
Operating support:			
University support	1,610,263	33,749,453	35,359,716
Student scholarship and financial aid	8,037	33,025,994	33,034,031
Faculty support	153,168	13,709,730	13,862,898
Faculty research	-0-	8,699,702	8,699,702
	1,771,468	89,184,879	90,956,347
Endowment and capital additions for the University:			
Land, building and equipment purchases	17,948	17,872,211	17,890,159
Total program expenditures	$ 5,216,795	$ 107,057,090	$ 112,273,885

*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 12 - 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.

Revenue and Support

Fees and 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, 2013 and 2012 the University provided development services support to the Foundation in the amount of $4,923,219 and reimbursed the Foundation for its direct support of the IMPACT Campaign general fundraising efforts in the amount of $324,000 for both years ended June 30, 2013 and 2012. As a part of the Foundation program operations, the Foundation received support from the University for the years ended June 30, 2013 and 2012, respectively, as follows: $3,644,999 and $3,870,262 of rental income for the lease of certain real estate; $1,000,904 and $986,359 for Telefund service fees related to its telephone fundraising operations; $714,936 and $598,210 for charter services; and $15,265,680 and $14,568,862 in management/administrative fees of which, $2,553,453 and $2,376,460 were received on custodial assets held for the University or University affiliates.

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, 2013 and 2012 follows:

	2013	2012
Contributions	$ 10,143,822	$ 8,398,518
Promises to Give	$ 63,843,372	$ 75,583,429

Expenditures

Investment Management Fee and Investments

As of June 30, 2013 and 2012, respectively, the Foundation owns partnership interests of $1,726,514 and $8,821,391 where a related party is a general partner. Management fees are outlined in individual 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, leased real estate and financial services. For the years ended June 30, 2013 and 2012, these services total $68,482 and $52,255, 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 $2,092,589 and $474,972 for the years ended June 30, 2013 and 2012, 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.

Note 13 – Subsequent Events

The Foundation has evaluated subsequent events through October 7, 2013 the date the financial statements were available to be issued. No subsequent events requiring disclosure were identified.