INDIANA UNIVERSITY FOUNDATION

June 30, 2019

Contents

Independent Auditor's Report

RSM US LLP

Board of Directors of the
Indiana University Foundation
Bloomington, Indiana

Report on the Financial Statements
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, 2019 and 2018, 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.

Auditor's 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the Indiana University Foundation adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during 2019. Our opinion is not modified with respect to this matter.

RSM US LLP

Indianapolis, Indiana
September 30, 2019

Indiana University Foundation

Statements of Financial Position
June 30, 2019 and 2018
(In thousands)

	2019	2018
Assets		
Cash and cash equivalents	**$ 43,505**	$ 65,047
Collateral under securities lending agreement	**98,251**	90,182
Receivables and other assets	**19,123**	23,165
Due from brokers	**67,499**	31,157
Promises to give, net	**251,707**	228,242
Investments	**2,677,524**	2,558,430
Property, plant and equipment, net	**58,327**	62,246
Total assets	**$ 3,215,936**	$ 3,058,469
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other	**$ 6,194**	$ 8,828
Due to brokers	**76,873**	59,019
Collateral under securities lending agreement	**98,251**	90,182
Split interest agreement obligations	**42,633**	38,754
Assets held for the University	**240,662**	238,529
Assets held for University affiliates	**42,461**	42,257
Total liabilities	**507,074**	477,569
Net assets:		
Without donor restrictions	**96,808**	84,897
With donor restrictions	**2,612,054**	2,496,003
Total net assets	**2,708,862**	2,580,900
Total liabilities and net assets	**$ 3,215,936**	$ 3,058,469

See notes to financial statements.

Indiana University Foundation

Statement of Activities
Year Ended June 30, 2019
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions	$ 2,281	$ 187,667	$ 189,948
Investment income, net	16,492	106,998	123,490
Management/administrative fees	21,944	(18,724)	3,220
Grants	-	11,582	11,582
Other income	11,220	5,760	16,980
Development service fees from the University	4,416	-	4,416
Change in value of split interest agreements	9	399	408
Net assets released from restrictions	177,631	(177,631)	-
Total support and other revenue	233,993	116,051	350,044
Expenses:			
Grants and aid to the University	177,945	-	177,945
Management and general	23,247	-	23,247
Fundraising	20,890	-	20,890
Total expenses	222,082	-	222,082
Change in net assets	11,911	116,051	127,962
Net assets, beginning of year	84,897	2,496,003	2,580,900
Net assets, end of year	$ 96,808	$ 2,612,054	$ 2,708,862

See notes to financial statements.

Indiana University Foundation

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

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions	$ 6,931	$ 233,627	$ 240,558
Investment income, net	16,278	158,646	174,924
Management/administrative fees	20,665	(17,495)	3,170
Grants	-	50,686	50,686
Other income	11,876	3,987	15,863
Development service fees from the University	4,416	-	4,416
Change in value of split interest agreements	(367)	78	(289)
Net assets released from restrictions	230,692	(230,692)	-
Total support and other revenue	290,491	198,837	489,328
Expenses:			
Grants and aid to the University	227,470	-	227,470
Management and general	22,853	-	22,853
Fundraising	20,950	-	20,950
Total expenses	271,273	-	271,273
Change in net assets	19,218	198,837	218,055
Net assets, beginning of year	65,679	2,297,166	2,362,845
Net assets, end of year	$ 84,897	$ 2,496,003	$ 2,580,900

See notes to financial statements.

Indiana University Foundation

Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(In thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ 127,962**	$ 218,055
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	**3,010**	3,144
Change in discount on promises to give	**4,010**	17,512
Change in allowance on promises to give	**1,135**	7,183
Gain on investments	**(128,697)**	(190,682)
Change in value of split interest agreements	**3,175**	6,460
Loss on sale of property, plant and equipment	**462**	198
Contributions restricted for long-term purposes, including permanent endowments, charitable remainder trusts and annuities	**(107,960)**	(166,923)
(Increase) decrease in:		
Receivables, other assets, and due from brokers	**(32,300)**	28,497
Promises to give	**2,401**	(12,348)
Increase (decrease) in:		
Accounts payable, other, and due to brokers	**15,262**	(27,575)
Assets held for the University and University affiliates	**2,337**	10,583
Net cash used in operating activities	**(109,203)**	(105,896)
Cash flows from investing activities:		
Proceeds from sales of investments	**2,263,581**	2,039,471
Purchase of investments	**(2,253,977)**	(2,062,382)
Proceeds from sales of property, plant and equipment	**1,238**	139
Purchase of property, plant and equipment	**(791)**	(4,664)
Net cash provided by (used in) investing activities	**10,051**	(27,436)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term purposes, including:		
Permanent endowments	**72,391**	101,488
Charitable remainder trusts and annuities	**4,557**	1,080
Proceeds from split interest agreement obligations	**4,965**	1,840
Payments on split interest agreement obligations	**(4,261)**	(4,312)
Principal payments on debt	**(42)**	(84)
Net cash provided by financing activities	**77,610**	100,012
Net decrease in cash and cash equivalents	**(21,542)**	(33,320)
Cash and cash equivalents, beginning of year	**65,047**	98,367
Cash and cash equivalents, end of year	**$ 43,505**	$ 65,047

See notes to financial statements.

Note 1. Organization and Operations and Significant Accounting Policies

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

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

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

Summary of significant accounting policies:

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America.

Basis of presentation: The Foundation follows the accounting guidance on financial statements of not-for-profit organizations, which establishes standards for general-purpose external financial statements issued by not-for-profit organizations. It requires that net assets and related support and revenue, expenses, gains and losses be classified into two classes of net assets – without donor restrictions and with donor restrictions, based upon the existence or absence of donor-imposed restrictions. A definition and description of each net asset class follows:

Net assets without donor restrictions: Net assets without donor restrictions are resources available to support the Foundation and the University as determined by the board. The only limits on the use of these net assets are the broad limits resulting for the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions: Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Foundation must continue to use the resources in accordance with the donor's instructions.

The Foundation's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds and its beneficial interest in a perpetual charitable trust held by an external trustee.

Note 1. Organization and Operations and Significant Accounting Policies (Continued)

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor and/or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.

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. The cash balance exceeds federally insured limits. However, the Foundation has not experienced any losses in such accounts and management does not believe that it is exposed to any significant credit risk.

Receivables and other assets: Receivables and other assets primarily consist of life insurance receivables and other miscellaneous receivables. Based on historical experience and an analysis of specific accounts, management has determined that no allowance for doubtful accounts is necessary for receivables and other assets.

Due from brokers: The amount shown as due from brokers represents a receivable from the broker for unsettled sales of securities as of June 30, 2019 and 2018.

Promises to give: Promises to give are recorded at present value, less an allowance for uncollectible amounts, to reserve against future bad debt losses. Management utilizes a rate consistent with the level of risk associated with a donor to discount promises to give. Management estimates the uncollectable reserve annually based on past due pledge installments and evaluates the estimate against actual results to determine reliability of the estimate.

Investments: Investments are carried at fair value. Purchases and sales of securities are recorded on trade dates, and realized gains and losses are determined on the basis of the average cost of securities sold.

In connection with its investing and hedging activities, the Foundation enters into transactions, directly and indirectly through positions held by the underlying investment entities, with a variety of securities and derivative financial instruments. These derivative financial instruments may have market and/or credit risk in excess of the amounts recorded in the statements of financial position.

The Foundation's direct and indirect investments 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 in the financial statements.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Foundation's overall exposure to market risk. The Foundation attempts to control its exposure to market risk through various analytical monitoring techniques.

Note 1. Organization and Operations and Significant Accounting Policies (Continued)

Credit risk: Credit risk arises primarily from the potential inability of counterparties to perform in accordance with the terms of a contract. The Foundation's exposure to credit risk associated with counterparty nonperformance is limited to the current cost to replace all contracts in which the Foundation has a gain. Exchange-traded financial instruments generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements and the margin requirements of individual exchanges. The Foundation seeks to mitigate its exposure to this credit risk by placing its cash with major institutions.

Concentration of credit risk: The Foundation’s managers currently invest with various managers and clearing brokers. In the event these counterparties do not fulfill their obligations, the Foundation may be exposed to risk. This risk of default depends on the creditworthiness of the counterparty to these transactions. The Foundation attempts to minimize this credit risk by monitoring the creditworthiness of the managers and clearing brokers.

Alternative investments: The managers of underlying investment entities in which the Foundation invests may utilize derivative instruments with off-balance-sheet risk. The Foundation’s exposure to risk is limited to the amount of its investment.

Property, plant and equipment: Property, plant and equipment are recorded at cost at the date of acquisition. 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. Management has not identified any triggering events during the years ended June 30, 2019 and 2018.

Due to brokers: The amount shown as due to brokers represents a payable to the broker for unsettled purchases of securities as of June 30, 2019 and 2018.

Split interest agreement obligations: 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 records a split interest agreement obligation to life beneficiaries based on the present value of the estimated payments to designated life beneficiaries.

Assets held for the University and University affiliates: The Foundation invests and administers net assets owned by the University and its affiliates under a management and custodial agreement. These are reflected as liabilities on the statements of financial position.

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 the without donor restrictions and with donor restrictions net asset classes. Reclassifications of donor intent of $8,636 and $9,387 are reflected in the statements of activities as net assets released from restrictions for the years ended June 30, 2019 and 2018, respectively.

Note 1. Organization and Operations and Significant Accounting Policies (Continued)

Contributions: Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Grants: Private research grants are received from donors to support the University's research programs. Research grants are distributed in accordance with the grant by the account manager. Grants recorded as contributions are irrevocable, voluntary nonreciprocal transfers of assets held, administered and maintained for investment purposes at the Foundation.

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

Other income: Unrestricted other income is comprised primarily of the following: reimbursements from the University for the cost of direct support of certain fundraising activities; receipts from 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. The income with donor restrictions is comprised primarily of amounts received from the University with donor related restrictions for activities and events and the change in the cash surrender value of life insurance policies.

Allocation between program and support functions: The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Foundation. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, overhead and fundraising costs, which are allocated based on regularly recurring surveys of managers' time and effort.

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.

Accounting Standards Codification (ASC) 740-10, *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 2016. As of June 30, 2019 and 2018, 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.

Reclassification of prior year presentation: Certain prior year amounts have been reclassified on the statement of activities as of June 30, 2018, for consistency with the current year presentation. The reclassification had no effect on the reported change in net assets.

(In thousands)

Note 1. Organization and Operations and Significant Accounting Policies (Continued)

Adopted accounting standard: The Foundation implemented the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* during the fiscal year ended June 30, 2019, applying the changes retrospectively. The new standard changes the following aspects of the financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily and permanently restricted net asset classes have been combined and renamed net assets with donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note 2).
- The financial statements include a disclosure of underwater endowments within net assets with donor restrictions (Note 8).
- The financial statements include a disclosure of board designated net assets without donor restrictions (Note 9).
- The financial statements include a disclosure of expenses by functional and natural classification (Note 12).

The changes have the following effect on net assets at June 30, 2018:

	As Originally Presented	After Adoption of ASU 2016-14
Net asset class:		
Unrestricted net assets	$ 84,897	
Temporarily restricted net assets	910,011	
Permanently restricted net assets	1,585,992	
Net assets without donor restrictions		$ 84,897
Net assets with donor restrictions		2,496,003
Total net assets	$ 2,580,900	$ 2,580,900

Recently issued accounting standards: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for the Foundation's June 30, 2020, financial statements. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Foundation has not yet selected a transition method and is currently evaluating the impact of the adoption of the standard on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new standard is effective for fiscal years beginning after December 15, 2018, making it effective for the Foundation's June 30, 2020, financial statements. The Foundation is currently evaluating the impact of the adoption of this standard on its financial statements.

Note 1. Organization and Operations and Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Additionally, the ASU provides for earlier effective dates for public business entities. As the Foundation is a resource recipient, the ASU is applicable to contributions received for fiscal years beginning after December 15, 2018, making it effective for the Foundation's June 30, 2020, financial statements. Early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of this standard on its financial statements.

In 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU affects any entity that is required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. The new standard is effective for fiscal years beginning after December 15, 2019, making it effective for the Foundation's June 30, 2021, financial statements. The Foundation is currently evaluating the impact of the adoption of this standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Foundation's June 30, 2021, financial statements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the impact of the adoption of the standard on its financial statements.

Subsequent events: The Foundation has evaluated subsequent events for partial recognition and/or disclosure through September 30, 2019, the date the financial statements were available to be issued.

Note 2. Liquidity and Availability

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund the purpose for which the donor established the endowment. In addition, the Foundation receives support without donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated endowments, contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include management and general expenses, fundraising expenses, and grants and aid to the University expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year. In addition, the Foundation invests cash in excess of daily requirements in short-term investments.

(In thousands)

Note 2. Liquidity and Availability (Continued)

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that expenditures to or for the benefit of the University and to support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Net assets at year end	$ 3,215,936
Less non-financial assets:	
Property, plant and equipment, net	(58,327)
	3,157,609
Less amounts not available to be used within one year:	
Investments encumbered by donor restriction	(1,641,005)
Assets designated by the Board	(57,512)
Annual spending policy distribution for encumbered investments	69,663
Investments held for the University and University affiliates	(283,123)
Collateral under security lending agreements	(98,251)
Promises to give for donor restricted gifts or due after one year, net	(246,899)
Receivables and other assets due after one year	(13,490)
Other restricted cash and investments	(9,217)
Financial assets not available to be used within one year	(2,279,834)
Financial assets available to meet general expenditures within one year	$ 877,775

Note 3. Promises to Give

A summary of promises to give as of June 30, 2019 and 2018, follows:

	2019	2018
Promises to give	$ 323,308	$ 294,697
Allowance	(24,195)	(23,060)
Discount	(47,406)	(43,395)
	$ 251,707	$ 228,242

(In thousands)

Note 3. Promises to Give (Continued)

Promises to give are due in the following periods:

	2019	2018
Promises to give, due in:		
One year or less	$ 17,799	$ 9,892
Between one year and five years	126,121	119,518
More than five years	107,787	98,832
	$ 251,707	$ 228,242

Discount rates used to present value promises to give range between 1.2 percent and 6.0 percent.

Note 4. Fair Value Measurement and Investments

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

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

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

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

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

Note 4. Fair Value Measurement and Investments (Continued)

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

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

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation’s accounting policies regarding the recognition of transfers between levels of the fair value hierarchy. During the fiscal years ended June 30, 2019 and 2018, no such transfers were made.

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

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

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

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

(In thousands)

Note 4. Fair Value Measurement and Investments (Continued)

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

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

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

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

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

	Quoted Prices for Identical Assets in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valued Using Net Asset Value **	Total
Assets:					
Investments:					
Domestic equities	$ 549,839	$ 409	$ -	$ 81,190	$ 631,438
International equities	302,823	-	-	162,278	465,101
Domestic fixed income	126,486	78,548	-	73,581	278,615
International fixed income	22,718	539	-	6,321	29,578
Real estate	9,866	-	25,045	-	34,911
Cash equivalents	28,896	1,610	-	-	30,506
Alternative investments:	-	-	-	-	-
Hedged equity funds	-	-	-	58,074	58,074
Absolute return funds	-	-	-	345,840	345,840
Venture capital	-	-	-	216,754	216,754
Buyouts	-	-	-	184,577	184,577
Distressed / special situations	-	-	-	55,726	55,726
Real estate	-	-	-	144,137	144,137
Alternative fixed income	-	-	-	46,942	46,942
Natural resources	-	-	-	155,325	155,325
	$ 1,040,628	$ 81,106	$ 25,045	$ 1,530,745	$ 2,677,524
Liabilities:					
Split interest agreement obligations	$ -	$ -	$ 42,633	$ -	$ 42,633

(In thousands)

Note 4. Fair Value Measurement and Investments (Continued)

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

	Quoted Prices for Identical Assets in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valued Using Net Asset Value **	Total
Assets:					
Investments:					
Domestic equities	$ 534,125	$ 10,918	$ -	$ 73,384	$ 618,427
International equities	305,543	-	-	137,511	443,054
Domestic fixed income	104,339	151,050	-	71,307	326,696
International fixed income	12,001	14,107	-	5,569	31,677
Real estate	8,369	-	24,109	-	32,478
Cash equivalents	26,933	1,800	-	-	28,733
Alternative investments:					
Hedged equity funds	-	-	-	83,263	83,263
Absolute return funds	-	-	-	339,546	339,546
Venture capital	-	-	-	174,310	174,310
Buyouts	-	-	-	148,523	148,523
Distressed / special situations	-	-	-	38,293	38,293
Real estate	-	-	-	113,522	113,522
Alternative fixed income	-	-	-	46,867	46,867
Natural resources	-	-	-	133,041	133,041
	$ 991,310	$ 177,875	$ 24,109	$ 1,365,136	$ 2,558,430
Liabilities:					
Split interest agreement obligations	$ -	$ -	$ 38,754	$ -	$ 38,754

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

As of June 30, 2019 and 2018, the Foundation had $715,992 and $609,631, respectively, of unfunded capital commitments to various alternative investments, which have no specific capital call dates and such capital calls are at the discretion of the alternative investment fund managers. Management believes most of the commitments will be called in the next one to five years.

(In thousands)

Note 4. Fair Value Measurement and Investments (Continued)

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investments in financial instruments in which at least one significant unobservable input is used in the valuation model. The tables below present a reconciliation of activity for the Level 3 financial instruments as of June 30, 2019 and 2018:

	2019	2018
Beginning balance (real estate)	$ 24,109	$ 19,005
Realized and unrealized gains (losses)	(377)	(1,659)
Purchases	6,273	7,984
Sales and settlements	(4,960)	(1,221)
	$ 25,045	$ 24,109

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

	2019	2018
Beginning balance	$ 38,754	$ 34,766
Liability portion of charitable gifts received	4,965	1,840
Payments to annuitants	(4,261)	(4,312)
Change in the present value of split interest obligations	3,175	6,460
	$ 42,633	$ 38,754

The table below presents the Foundation's ability to redeem investments valued at net asset value or its equivalent as of June 30, 2019 and 2018, and includes the underlying investment entities' redemption frequency and redemption notice period. The table also includes a summary of the significant categories of such investments measured at net asset value, their attributes and investment strategies as of June 30, 2019 and 2018:

Investment Category and Strategy	2019 Fair Value	2019 Unfunded Commitments	2018 Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic equities[(a)]	$ 81,190	$ -	$ 73,384	quarterly, annually	30-60 days
International equities[(b)]	162,278	-	137,511	weekly, monthly	7-30 days
Domestic fixed income[(c)]	73,581	-	71,307	monthly, bimonthly, quarterly	30-45 days
International fixed income[(d)]	6,321	-	5,569	monthly, bimonthly, quarterly	30-45 days
Hedge equity funds[(e)]	58,074	-	83,263	monthly, quarterly, **** semi-annually, annually	3-95 days
Absolute return funds[(f)]	345,840	-	339,546	monthly, quarterly, **** semi-annually, annually	3-95 days
Venture capital funds[(g)]	216,754	95,267	174,310	Long-term commitment ***	none
Buyout funds[(h)]	184,577	270,192	148,523	Long-term commitment ***	none
Distressed/special situation funds[(i)]	55,726	97,861	38,293	Long-term commitment ***	none
Real estate funds[(j)]	144,137	127,287	113,522	Long-term commitment ***	none
Alternative fixed income[(k)]	46,942	16,713	46,867	Long-term commitment ***	none
Natural resources funds[(l)]	155,325	108,672	133,041	Long-term commitment ***	none
	$ 1,530,745	$ 715,992	$ 1,365,136		

Note 4. Fair Value Measurement and Investments (Continued)

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

**** As of June 30, 2019, 60 percent of the total Marketable Alternative Investments (Hedged equity funds and Absolute return funds) could be redeemed in 0-6 months, an additional 29 percent could be redeemed between 7-12 months and 5 percent could be redeemed between 13-24 months. The remaining 6 percent is designated as illiquid investments.

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

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

(c) This category includes investments that are primarily in both long-term and short-term fixed income securities located in the United States. Management of the investments has the ability to make individual short positions; however, the overall fund position is net long. There were no restricted investments as of June 30, 2019.

(d) This category includes investments that are primarily in both long-term and short-term fixed income securities located in economies outside of the United States. Management of the investments has the ability to make individual short positions; however, the overall fund position is net long. There were no restricted investments as of June 30, 2019.

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

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

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

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

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

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

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

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

(In thousands)

Note 4. Fair Value Measurement and Investments (Continued)

In instances in which an underlying investment fund has invested in securities that have less liquidity, such investments may be held in a "side pocket." Generally side pockets are illiquid with no active market. The fair value of the Foundation's investment in underlying funds which are designated as side pocketed was $21,407 and $12,247 as of June 30, 2019 and 2018, respectively.

The following table summarizes the qualitative information about certain of the Foundation's Level 3 inputs as of June 30, 2019 and 2018:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges
Real estate investments, 2019	$ 25,045	Market approach	Comparable transactions	N/A
Real estate investments, 2018	$ 24,109	Market approach	Comparable transactions	N/A

Note 5. Securities Lending

The Foundation has a securities lending agreement and guaranty agreement with The Bank of New York Mellon Corporation (BNY). BNY may lend, up to $110,000 of the stocks and bonds for which it holds as custodian, to borrowers under terms of participation in a securities lending program and acts as agent and administrator for the program. The securities lending agreement requires that loans are collateralized at all times in an amount equal to at least 102 percent of the market value of any loaned securities at the time of the loan, plus accrued interest.

The Foundation receives compensation in the form of fees and earns interest on the cash collateral. The amount of fees depends on a number of factors including the type of security and length of the loan. The Foundation continues to receive interest payments or dividends on the securities loaned during the borrowing period. The Foundation has the right under the terms of the securities lending agreement to recall the securities from the borrower on demand.

As of June 30, 2019 and 2018, the Foundation had loaned securities that were collateralized by cash equivalents and short duration fixed income instruments. The cash collateral is invested by BNY in accordance with approved investment guidelines. Those guidelines require the cash collateral to be invested in readily marketable, high-quality, short-term obligations; however, such investments are subject to risk of payment delays or default on the part of the issuer or counterparty or otherwise may not generate sufficient interest to support the costs associated with securities lending. The Foundation could also experience delays in recovering its securities and possible loss of income or value if the borrower fails to return the borrowed securities, although the Foundation is indemnified from this risk by contract with the securities lending agent. As of June 30, 2019 and 2018, the market value of the securities on loan and payable on collateral due to broker totaled $98,251 and $90,182, respectively.

The Foundation receives cash as collateral in return for securities lent as part of the securities lending program. The collateral is invested in the Collateral Portfolio (a securities lending trust subject to Rule 2a-7 under the 1940 Act). The schedules of investments for the Foundation include the particular cash collateral holdings as of June 30, 2019 and 2018. The interest income earned by the Foundation on investments of cash collateral received from borrowers for the securities loaned to them ("securities lending income") is reflected in the Foundation's statements of activities. Interest income earned on collateral investments and recognized by the Foundation during the years ended June 30, 2019 and 2018, was $178 and $224, respectively.

(In thousands)

Note 5. Securities Lending (Continued)

The table below outlines the gross obligations for secured borrowings by the type of collateral pledged at June 30:

	2019	2018
Cash collateral:		
U.S. equities	$ 70,467	$ 70,096
U.S. corporate	-	5,629
U.S. government	-	939
Non-U.S. equities	838	1,645
Non-cash collateral:		
U.S. equities	26,156	10,898
U.S. corporate	-	31
Non-U.S. equities	790	944
	$ 98,251	$ 90,182

Note 6. Split Interest Agreements

A summary of assets held and the obligations related to split interest agreements as of June 30, 2019 and 2018, follows:

	2019	2018
Assets (included in investments):		
Charitable remainder trusts and other	$ 33,880	$ 32,451
Charitable gift annuities	41,314	37,290
	$ 75,194	$ 69,741
Liabilities - split interest agreement obligations	$ 42,633	$ 38,754

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.

Note 7. Property, Plant and Equipment

A summary of property, plant and equipment as of June 30, 2019 and 2018, follows:

	2019	2018
Land and buildings	$ 84,854	$ 86,840
Information and technology equipment	2,558	2,579
Other	2,828	2,816
	90,240	92,235
Less accumulated depreciation	(31,913)	(29,989)
	$ 58,327	$ 62,246

(In thousands)

Note 8. Endowments

The Foundation's endowment consists of both donor-restricted endowment funds and funds designated by the board to function as endowments and consists of 6,645 and 6,329 individual funds as of June 30, 2019 and 2018, respectively. 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 of the original gift as of the gift date of the donor-restricted endowment funds and providing for intergenerational equity. This value includes the original gift value of the assets held in perpetuity, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment funds are classified as net assets with donor restrictions until donor stipulations are fulfilled and 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

The following tables present the Foundation's endowment composition, changes and net asset classifications as of and for the years ended June 30, 2019 and 2018:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 2,195,787	$ 2,195,787
Board-designated endowment	36,748	-	36,748
	$ 36,748	$ 2,195,787	$ 2,232,535

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 2,116,176	$ 2,116,176
Board-designated endowment	35,340	-	35,340
	$ 35,340	$ 2,116,176	$ 2,151,516

(In thousands)

Note 8. Endowments (Continued)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the year	$ 35,340	$ 2,116,176	$ 2,151,516
Investment income	2,269	88,907	91,176
Contributions and other revenue	851	95,446	96,297
Appropriation of endowment assets for expenditure	(1,712)	(104,742)	(106,454)
	$ 36,748	$ 2,195,787	$ 2,232,535

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the year	$ 29,114	$ 1,956,146	$ 1,985,260
Investment income	2,981	137,064	140,045
Contributions and other revenue	6,896	125,964	132,860
Appropriation of endowment assets for expenditure	(3,651)	(102,998)	(106,649)
	$ 35,340	$ 2,116,176	$ 2,151,516

Net assets include nonexpendable and expendable assets related to donor gifts and assets held in perpetuity or held in trust with explicit time and/or purpose restrictions. These can be held either for the benefit of the Foundation or for the benefit of the University.

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) equal to or greater than the rate of inflation, in order to maintain the purchasing power of those assets. The assets are managed in a manner that will not only meet the primary investment objective, but also seek growth above the objective and attempt 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 sum of 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.

Note 8. Endowments (Continued)

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 six months to two 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. In establishing a method, the Foundation considers 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 over time, 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 is calculated as a rolling five-year average of the Consumer Price Index. Additionally, the distribution rate is 4.5 percent in fiscal year 2018-2019. The expectation is that these inflation bands will prevent distributions from fluctuating widely. 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.

Underwater endowments: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor originally contributed. At June 30, 2019 and 2018, there were 631 and 671 accounts of $220,782 and $228,775 with a current fair value of $207,493 and $215,229, respectively. The total underwater amount of $13,289 and $13,546 as of June 30, 2019 and 2018, respectively, resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions of donor-restricted endowment funds and continued appropriation for their related programs, which have been deemed prudent by the Board.

(In thousands)

Note 9. Board Designated Net Assets

The Indiana University Foundation's board of directors has designated from net assets without donor restrictions, $57,512 and $52,345, as of June 30, 2019 and 2018, respectively, net assets for the following purposes:

	2019	2018
Quasi-endowments:		
Foundation	$ 31,586	$ 30,087
University	5,162	5,253
Reserves and encumbrances	20,764	17,005
	$ 57,512	$ 52,345

Note 10. Net Assets with Donor Restrictions

The income generated from restricted net assets is used in accordance with the donors' time and/or purpose restrictions. Foundation operations' and University programs' donor restricted assets listed in the following table include $1,660,584 and $1,585,992 of donor restricted assets held in perpetuity for the years ended June 30, 2019 and 2018, respectively. A summary of net assets with donor restrictions and the nature of the related donor-imposed restrictions as of June 30 are as follows:

	2019	2018
Foundation operations	$ 32,622	$ 30,550
University programs:		
Awards	39,451	35,008
Capital and capital improvements	136,212	136,821
Fellowships / lectureships	150,027	136,857
General endowments	652,524	624,533
Medical practice plans	35,371	34,565
Operations	91,808	79,855
Professorships / chairs	603,499	579,705
Research	107,933	106,282
Scholarships	762,607	731,827
	$ 2,612,054	$ 2,496,003

Note 11. Retirement Plan

The Foundation maintains the Indiana University Foundation Section 403(b) Annuity Plan (the Plan), a defined contribution retirement plan available to all eligible employees. The Foundation Investment Retirement Committee administers the operation of the Plan. Benefits to retired participants are based on the value of the individual retirement account at the date of retirement. The total contribution is 10 percent of the participant's annual salary up to the social security wage base and 15 percent on annual salary in excess of the social security wage base. The Foundation's policy is to fund retirement costs related to the Plan as incurred. Retirement expense related to this plan amounted to $2,145 and $2,097 for the years ended June 30, 2019 and 2018, respectively.

(In thousands)

Note 12. Functional Classification of Expenditures

Program expenditures include support for Foundation and University programs. For the years ended June 30, 2019 and 2018, a summary of these expenditures is as follows:

2019	Grants and Aid to the University	Management and General	Fundraising	Total
University activities:				
University support	$ 37,568	$ -	$ -	$ 37,568
Student scholarships and financial aid	53,144	-	-	53,144
Land, building and equipment purchases	38,581	-	-	38,581
Faculty support	36,396	-	-	36,396
Faculty research	5,055	-	-	5,055
Foundation activities:				
Salaries and benefits	976	8,505	15,230	24,711
Depreciation	2,272	265	473	3,010
Insurance	156	212	329	697
Interest	278	-	-	278
Maintenance	1,213	648	564	2,425
Miscellaneous	524	124	221	869
Office expenses	18	310	850	1,178
Professional fees	168	969	741	1,878
Technology	17	552	981	1,550
Training and recruitment	-	200	114	314
Travel and representation	1,571	746	1,382	3,699
Utilities	8	267	5	280
Bad debts	-	10,449	-	10,449
	$ 177,945	$ 23,247	$ 20,890	$ 222,082

2018	Grants and Aid to the University	Management and General	Fundraising	Total
University activities:				
University support	$ 51,965	$ -	$ -	$ 51,965
Student scholarships and financial aid	52,057	-	-	52,057
Land, building and equipment purchases	41,224	-	-	41,224
Faculty support	32,423	-	-	32,423
Faculty research	43,531	-	-	43,531
Foundation activities:				
Salaries and benefits	908	7,909	14,161	22,978
Depreciation	2,193	95	856	3,144
Insurance	178	132	416	726
Interest	188	-	-	188
Maintenance	1,113	289	736	2,138
Miscellaneous	115	-	-	115
Office expenses	22	371	931	1,324
Professional fees	263	446	609	1,318
Technology	18	615	1,644	2,277
Training and recruitment	-	196	108	304
Travel and representation	1,248	756	1,481	3,485
Utilities	24	280	8	312
Bad debts	-	11,764	-	11,764
	$ 227,470	$ 22,853	$ 20,950	$ 271,273

(In thousands)

Note 13. 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 statements of activities. Related parties include affiliates, Board of Directors, management, and members of their immediate families.

Support and other revenue:

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, 2019 and 2018, the University provided development services support to the Foundation in the amount of $4,416 and $4,416, and reimbursed the Foundation for its direct support of campaign fundraising efforts in the amount of $1,089 and $913, respectively. As a part of the Foundation's program operations, the Foundation received support from the University for each of the years ended June 30, 2019 and 2018, respectively, as follows: $6,047 and $5,673 of rental income for the lease of certain real estate; $421 and $438 for Telefund service fees related to its telephone fundraising operations; $1,168 and $881 for charter services; and $21,944 and $20,665 in management/administrative fees, of which $2,648 and $2,619 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 statements of activities and outstanding related-party promises to give in the statements of financial position.

A summary of related-party contributions and promises to give as of and for the years ended June 30, 2019 and 2018, follows:

	2019	2018
Contributions	$ 13,570	$ 11,105
Promises to give	92,634	101,074

Expenditures:

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 $1,191 and $131 for the years ended June 30, 2019 and 2018, 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 14. Cash Flows Information

Supplemental information relative to the statement of cash flows for the years ended June 30, 2019 and 2018, is as follows:

	2019	2018
Supplemental disclosure of cash flow information:		
Cash payments for interest	$ 276	$ 140
Non-cash investing and financing activities:		
Gifts of securities, life insurance, and real and personal property at fair value	$ 39,944	$ 23,933
Transfer of real estate investments to fixed assets	$ -	$ 3,131