



# INDIANA UNIVERSITY FOUNDATION

June 30, 2023

## Contents

---

Independent auditor's report	1-2
Financial statements	
Statements of financial position	3
Statements of activities	4-5
Statements of cash flows	6
Notes to financial statements	7-32
Note 1. Organization and Operations and Significant Accounting Policies	
Note 2. Liquidity and Availability	
Note 3. Promises to Give	
Note 4. Fair Value Measurement and Investments	
Note 5. Derivatives	
Note 6. Securities Lending	
Note 7. Split-Interest Agreements	
Note 8. Property, Plant and Equipment	
Note 9. Bonds Payable	
Note 10. Endowments	
Note 11. Board-Designated Net Assets	
Note 12. Net Assets With Donor Restrictions	
Note 13. Contributed Nonfinancial Assets	
Note 14. Retirement Plan	
Note 15. Functional Classification of Expenditures	
Note 16. Related-Party Transactions	
Note 17. Cash Flows Information	

---



RSM US LLP

## Independent Auditor's Report

Board of Directors  
Indiana University Foundation

### Opinion

We have audited the financial statements of Indiana University Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023 and 2022, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

*RSM US LLP*

Chicago, Illinois  
September 29, 2023

Indiana University Foundation

Statements of Financial Position

June 30, 2023 and 2022

(In Thousands)

	2023	2022
<b>Assets</b>		
Cash and cash equivalents	\$ 114,717	\$ 104,712
Collateral under securities lending agreement	23,214	16,066
Receivables	19,060	18,584
Due from brokers	2,129	9,034
Promises to give, net	250,472	267,240
Investments and other assets	3,701,826	3,665,070
Property, plant and equipment, net	68,625	66,051
	<u>                    </u>	<u>                    </u>
<b>Total assets</b>	<b>\$ 4,180,043</b>	<b>\$ 4,146,757</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and other	\$ 9,349	\$ 8,123
Due to brokers	1,556	23,512
Collateral under securities lending agreement	23,214	16,066
Bonds payable, net	149,188	149,159
Split-interest agreement obligations	41,312	43,634
Assets held for the University	476,120	470,864
Assets held for University affiliates	41,853	42,927
	<u>                    </u>	<u>                    </u>
<b>Total liabilities</b>	<b>742,592</b>	<b>754,285</b>
Net assets (deficit):		
Without donor restrictions	17,575	(2,863)
With donor restrictions	3,419,876	3,395,335
	<u>                    </u>	<u>                    </u>
<b>Total net assets</b>	<b>3,437,451</b>	<b>3,392,472</b>
	<u>                    </u>	<u>                    </u>
<b>Total liabilities and net assets</b>	<b>\$ 4,180,043</b>	<b>\$ 4,146,757</b>

See notes to financial statements.

Indiana University Foundation

Statement of Activities  
Year Ended June 30, 2023  
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions of cash and other financial assets	\$ 4,828	\$ 131,765	\$ 136,593
Contributed nonfinancial assets	25	2,665	2,690
Investment income, net	24,396	90,589	114,985
Management/administrative fees	28,943	(25,061)	3,882
Grants	-	7,809	7,809
Other income	11,959	2,492	14,451
Development service fees from the University	4,416	-	4,416
Change in value of split-interest agreements	530	3,063	3,593
Net assets released from restrictions	188,781	(188,781)	-
<b>Total support and other revenue</b>	<b>263,878</b>	<b>24,541</b>	<b>288,419</b>
Expenses:			
Grants and aid to the University	189,464	-	189,464
Management and general	28,537	-	28,537
Fundraising	25,439	-	25,439
<b>Total expenses</b>	<b>243,440</b>	<b>-</b>	<b>243,440</b>
<b>Change in net assets</b>	<b>20,438</b>	<b>24,541</b>	<b>44,979</b>
Net assets (deficit), beginning of year	(2,863)	3,395,335	3,392,472
Net assets, end of year	\$ 17,575	\$ 3,419,876	\$ 3,437,451

See notes to financial statements.

**Indiana University Foundation**

**Statement of Activities**  
**Year Ended June 30, 2022**  
**(In Thousands)**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and other revenue:</b>			
Contributions of cash and other financial assets	\$ 2,145	\$ 184,678	\$ 186,823
Contributed nonfinancial assets	19	6,656	6,675
Investment income, net	1,306	6,282	7,588
Management/administrative fees	26,764	(22,940)	3,824
Grants	-	5,422	5,422
Other income	14,164	2,155	16,319
Development service fees from the University	4,416	-	4,416
Change in value of split-interest agreements	(1,115)	(8,481)	(9,596)
Net assets released from restrictions	167,778	(167,778)	-
<b>Total support and other revenue</b>	<b>215,477</b>	<b>5,994</b>	<b>221,471</b>
<b>Expenses:</b>			
Grants and aid to the University	322,666	-	322,666
Management and general	23,948	-	23,948
Fundraising	20,664	-	20,664
<b>Total expenses</b>	<b>367,278</b>	<b>-</b>	<b>367,278</b>
<b>Change in net assets</b>	<b>(151,801)</b>	<b>5,994</b>	<b>(145,807)</b>
Net assets, beginning of year	148,938	3,389,341	3,538,279
Net assets (deficit), end of year	<u>\$ (2,863)</u>	<u>\$ 3,395,335</u>	<u>\$ 3,392,472</u>

See notes to financial statements.

## Indiana University Foundation

### Statements of Cash Flows Years Ended June 30, 2023 and 2022 (In Thousands)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 44,979	\$ (145,807)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,704	2,609
Amortization	29	21
Change in discount on promises to give	(1,850)	6,115
Change in allowance on promises to give	(5,040)	1,701
Gain on investments	(132,053)	(5,641)
Change in value of split-interest agreements	40	(828)
Contribution of beneficial interests in irrevocable trusts	-	(11,086)
Change in value of beneficial interests in irrevocable trusts	1,088	3
Loss on sale of property, plant and equipment	643	1,057
Contributions restricted for long-term purposes, including permanent endowments, charitable remainder trusts and annuities	(63,750)	(73,803)
Decrease (increase) in:		
Receivables, other assets, and due from brokers	6,429	19,735
Promises to give	23,658	(18,174)
(Decrease) increase in:		
Accounts payable, other, and due to brokers	(20,504)	(21,635)
Assets held for the University and University affiliates	4,182	163,643
<b>Net cash used in operating activities</b>	<b>(139,445)</b>	<b>(82,090)</b>
Cash flows from investing activities:		
Proceeds from sales of investments	760,863	1,261,919
Purchase of investments	(666,654)	(1,422,995)
Proceeds from sales of property, plant and equipment	718	2,711
Purchase of property, plant and equipment	(6,639)	(13,230)
<b>Net cash provided by (used in) investing activities</b>	<b>88,288</b>	<b>(171,595)</b>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term purposes, including:		
Permanent endowments	63,030	72,732
Charitable remainder trusts and annuities	720	1,071
Proceeds from bond issuance (net of issuance costs of \$841 and amortization of \$21)	-	149,138
Proceeds from split-interest agreement obligations	1,880	4,580
Payments on split-interest agreement obligations	(4,242)	(4,517)
Principal payments on debt	(226)	(52)
<b>Net cash provided by financing activities</b>	<b>61,162</b>	<b>222,952</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,005</b>	<b>(30,733)</b>
Cash and cash equivalents, beginning of year	104,712	135,445
Cash and cash equivalents, end of year	\$ 114,717	\$ 104,712

See notes to financial statements.



## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 1. Organization and Operations and Significant Accounting Policies

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

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

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

Summary of significant accounting policies include the following:

**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 from 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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

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

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 perpetual charitable trusts held by external trustees.

When a donor's restriction is satisfied by using the resources in the manner specified by the donor and/or 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:** Receivables 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.

**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, 2023 and 2022.

**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 uncollectible reserve annually based on past-due pledge installments and evaluates the estimate against actual results to determine reliability of the estimate.

**Investments and other assets:** 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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

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

Also included in investments are beneficial interests in irrevocable trusts of \$13,451 and \$14,539 at June 30, 2023 and 2022, respectively. The Foundation is a beneficiary of several trusts maintained by independent trustees. The trusts' assets are to be held in perpetuity. The Foundation expects to receive annual distributions of its share of the trusts' annual income. These distributions are recorded in investment income, net on the statements of activities. The gifts are recognized as contributions in the financial statements. Assets are recorded at the fair market value of the Foundation's interests in the trusts. The change in value of the beneficial interest in irrevocable trusts is recorded as gain or (loss) with donor restrictions in the statements of activities and totaled \$(1,088) and \$(3) for fiscal years ended June 30, 2023 and 2022, respectively. The investment income from beneficial interests in irrevocable trusts totaled \$683 and \$415 for fiscal years 2023 and 2022, respectively.

Other assets consist of investments whose fair values are not readily determinable. These assets are recorded at historical cost and are evaluated annually for impairment. There is \$35,303 and \$32,082 of other assets reflected in investments and other assets in the statements of financial position as of June 30, 2023 and 2022, respectively. The underlying investment entity's redemption frequency is considered to be a long-term commitment and there is no redemption notice period. There were no unfunded commitments for these assets at June 30, 2023 and 2022, respectively.

**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.

**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 is recorded at cost at the date of acquisition. Donated property, plant and equipment is recorded at fair value at the date of contribution. 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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

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

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, 2023 and 2022.

**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 \$546 and \$1,521 are reflected in the statements of activities as net assets released from restrictions for the years ended June 30, 2023 and 2022, respectively.

**Revenue recognition:** The Foundation follows Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or services to customers.

Revenues within the scope of Topic 606 consist primarily of management and administrative fees, development service fees from the University, grant income and certain other income resulting primarily from reimbursements from the University for the cost of direct support of certain fundraising activities and receipts from various program operations.

The Foundation has no significant costs that are capitalized to obtain or to fulfill a contract with a customer. Performance obligations for the revenue streams noted above are satisfied at a point in time, and revenue is recognized as performance obligations are met. These revenue streams do not include significant financing components and there are no significant consideration amounts that are variable.

**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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

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

**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:** Other income reported in the statements of activities is composed 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, 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 composed 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 function 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. As of June 30, 2023 and 2022, 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.

**Recently issued accounting standards:** In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. The new standard is effective for the Foundation's June 30, 2024, financial statements.

The Foundation does not expect this recently issued standard to have a material effect on its financial statements.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

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

**Recently adopted accounting standard:** In February 2016, the Financial Accounting Standards Board 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 are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard was effective for the Foundation's June 30, 2023, 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 adopted this ASU for the year ended June 30, 2023. The impact of the adoption was not material to the Foundation's financial statements.

**Reclassifications:** Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation, with no impact to previously reported net assets or changes in net assets.

**Subsequent events:** The Foundation has evaluated subsequent events for potential recognition and/or disclosure through September 29, 2023, 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.

## Indiana University Foundation

### Notes to Financial Statements (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
- 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, 2023 and 2022:

	2023	2022
Total assets at year-end	\$ 4,180,043	\$ 4,146,757
Less nonfinancial assets:		
Property, plant and equipment, net	(68,625)	(66,051)
	<u>4,111,418</u>	<u>4,080,706</u>
Less amounts not available to be used within one year:		
Investments encumbered by donor restriction	(2,189,365)	(2,181,115)
Assets designated by the Board	(79,832)	(113,328)
Annual spending policy distribution for encumbered investments	94,316	93,774
Agency assets	(517,973)	(513,791)
Collateral under security lending agreements	(23,214)	(16,066)
Promises to give for donor-restricted gifts or due after one year, net	(249,169)	(265,946)
Receivables and other assets due after one year	(14,221)	(14,341)
Financial assets not available to be used within one year	<u>(2,979,458)</u>	<u>(3,010,813)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,131,960</u>	<u>\$ 1,069,893</u>

#### Note 3. Promises to Give

A summary of promises to give as of June 30, 2023 and 2022, follows:

	2023	2022
Promises to give	\$ 310,591	\$ 334,249
Allowance	(15,359)	(20,399)
Discount	(44,760)	(46,610)
	<u>\$ 250,472</u>	<u>\$ 267,240</u>

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 3. Promises to Give (Continued)

Promises to give are due in the following periods:

	2023	2022
Promises to give, net, due in:		
One year or less	\$ 18,329	\$ 18,106
Between one year and five years	134,193	147,699
More than five years	97,950	101,435
	<u>\$ 250,472</u>	<u>\$ 267,240</u>

Discount rates used to present value promises to give range between 0.6% and 4.2%.

#### 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.



## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### **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, 2023 and 2022, 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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 4. Fair Value Measurement and Investments (Continued)

**Net asset value (NAV):** Investments in nonregistered 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 investments of the underlying investment entities, which may include derivatives, securities and other designated or side pocketed investments for which prices are not readily available, may not reflect amounts that could be realized upon immediate sale, nor amounts that may be ultimately realized.

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

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

**Beneficial interest in irrevocable trusts:** Beneficial interest in irrevocable trusts are valued at the proportional share of interest at the closing price reported on the active or observable market on which the trusts' underlying individual securities are traded, as reported to the Foundation by the trustees.

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

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

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

#### Note 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, 2023:

	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
<b>Assets:</b>					
Investments:					
Domestic equities	\$ 527,127	\$ 964	\$ -	\$ 82,781	\$ 610,872
International equities	164,528	-	-	467,671	632,199
Domestic fixed income	63,082	150,788	-	81,323	295,193
International fixed income	10,122	34,500	-	3,200	47,822
Real estate	9,143	-	18,033	-	27,176
Cash equivalents	19,116	2,076	-	-	21,192
Alternative investments:					
Hedged equity funds	-	-	-	7,530	7,530
Absolute return funds	-	-	-	371,713	371,713
Venture capital	-	-	-	459,229	459,229
Buyouts	-	-	-	436,119	436,119
Distressed/special situations	-	-	-	96,794	96,794
Real estate	-	-	-	309,409	309,409
Alternative fixed income	-	-	-	157,183	157,183
Natural resources	-	-	-	180,641	180,641
	<u>793,118</u>	<u>188,328</u>	<u>18,033</u>	<u>2,653,593</u>	<u>3,653,072</u>
Beneficial interest in irrevocable trusts	-	-	13,451	-	13,451
	<u>\$ 793,118</u>	<u>\$ 188,328</u>	<u>\$ 31,484</u>	<u>\$ 2,653,593</u>	<u>3,666,523</u>
Other assets (see Note 1)					35,303
Total investments and other assets	<u>\$ 793,118</u>	<u>\$ 188,328</u>	<u>\$ 31,484</u>	<u>\$ 2,653,593</u>	<u>\$ 3,701,826</u>
<b>Liabilities:</b>					
Split-interest agreement obligations	\$ -	\$ -	\$ 41,312	\$ -	\$ 41,312
Derivatives*	\$ 452	\$ -	\$ -	\$ -	\$ 452

## Indiana University Foundation

### Notes to Financial Statements (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, 2022:

	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
<b>Assets:</b>					
<b>Investments:</b>					
Domestic equities	\$ 395,930	\$ -	\$ -	\$ 150,993	\$ 546,923
International equities	281,524	-	-	345,303	626,827
Domestic fixed income	144,333	104,782	-	59,271	308,386
International fixed income	19,072	22,438	-	2,346	43,856
Real estate	9,634	-	18,833	-	28,467
Cash equivalents	31,629	-	-	-	31,629
<b>Alternative investments:</b>					
Hedged equity funds	-	-	-	3,904	3,904
Absolute return funds	-	-	-	348,876	348,876
Venture capital	-	-	-	551,818	551,818
Buyouts	-	-	-	415,016	415,016
Distressed/special situations	-	-	-	109,903	109,903
Real estate	-	-	-	282,791	282,791
Alternative fixed income	-	-	-	134,607	134,607
Natural resources	-	-	-	185,446	185,446
	882,122	127,220	18,833	2,590,274	3,618,449
Beneficial interest in irrevocable trusts	-	-	14,539	-	14,539
	<u>\$ 882,122</u>	<u>\$ 127,220</u>	<u>\$ 33,372</u>	<u>\$ 2,590,274</u>	<u>3,632,988</u>
Other assets (see Note 1)					32,082
Total investments and other assets	<u>\$ 882,122</u>	<u>\$ 127,220</u>	<u>\$ 33,372</u>	<u>\$ 2,590,274</u>	<u>\$ 3,665,070</u>
<b>Liabilities:</b>					
Split-interest agreement obligations	\$ -	\$ -	\$ 43,634	\$ -	\$ 43,634
Derivatives*	\$ -	\$ -	\$ -	\$ -	\$ -

\*Derivatives are presented in due to brokers and due from brokers on the statement of financial position.

\*\*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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

#### Note 4. Fair Value Measurement and Investments (Continued)

As of June 30, 2023 and 2022, the Foundation had \$661,157 and \$741,597, 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.

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 Foundation purchased Level 3 investments of \$3,464 and \$4,483 during the fiscal years ended June 30, 2023 and 2022, respectively.

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:

	2023	2022
Beginning balance	\$ 43,634	\$ 44,399
Liability portion of charitable gifts received	1,880	4,580
Payments to annuitants	(4,242)	(4,517)
Change in the present value of split-interest obligations	40	(828)
Ending balance	<u>\$ 41,312</u>	<u>\$ 43,634</u>

The table below presents the Foundation's ability to redeem investments valued at NAV or its equivalent as of June 30, 2023 and 2022, 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 NAV, their attributes and investment strategies as of June 30, 2023 and 2022:

Investment Category and Strategy	2023 Fair Value	2023 Unfunded Commitments	2022 Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic equities (a)	\$ 82,781	\$ -	\$ 150,993	Quarterly, annually	30-60 days
International equities (b)	467,671	-	345,303	Monthly	30 days
Domestic fixed income (c)	81,323	-	59,271	Monthly, bimonthly, quarterly	30-45 days
International fixed income (d)	3,200	-	2,346	Monthly, bimonthly, quarterly	30-45 days
Hedge equity (e)	7,530	12,779	3,904	Monthly, quarterly, ****	30-90 days
Absolute return (f)	371,713	5,815	348,876	Monthly, quarterly, **** semiannually, annually	30-90 days
Venture capital (g)	459,229	159,377	551,818	Long-term commitment ***	none
Buyouts (h)	436,119	245,338	415,016	Long-term commitment ***	none
Distressed/special situation (i)	96,794	60,291	109,903	Long-term commitment ***	none
Real estate (j)	309,409	130,858	282,791	Long-term commitment ***	none
Alternative fixed income (k)	157,183	7,964	134,607	Long-term commitment ***	none
Natural resources (l)	180,641	38,735	185,446	Long-term commitment ***	none
	<u>\$ 2,653,593</u>	<u>\$ 661,157</u>	<u>\$ 2,590,274</u>		

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### 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 10 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, 2023, 47% of the total Marketable Alternative Investments (Hedged equity funds and Absolute return funds) could be redeemed in zero to six months, an additional 26% could be redeemed between seven to 12 months, 20% could be redeemed between 13 to 24 months and 3% could be redeemed between 25 to 36 months. The remaining 4% 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, 2023.
- (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, 2023.
- (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 sciences 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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 4. Fair Value Measurement and Investments (Continued)

- (j) This category includes investments that are primarily in United States 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 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 \$15,358 and \$81,652 as of June 30, 2023 and 2022, respectively.

The following table summarizes the qualitative information about certain of the Foundation's Level 3 inputs as of June 30, 2023 and 2022:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges
Real estate investments, 2023	\$ 18,033	Market approach	Comparable transactions	N/A
Real estate investments, 2022	18,833	Market approach	Comparable transactions	N/A

#### Note 5. Derivatives

The Foundation authorizes certain investment managers to use a variety of financial instruments with off-balance-sheet risk involving contractual or optional commitments for future settlement, which are exchange-traded or executed over the counter (OTC). These instruments are used to (1) manage exposure to certain markets and asset classes, (2) manage exposure to interest rate fluctuations and (3) simulate long or short positions that are unavailable in the market, or to reduce credit risk where exposure exists. The Foundation records derivative securities at fair value. These instruments may include foreign exchange contracts, swaps, options, futures and forward contracts. The Foundation values derivatives that are traded on an exchange at their last reported sales price. The Foundation values derivative contracts that are centrally cleared or traded on the OTC market using: market price quotations, counterparty quotations, broker or dealer quotations, or pricing models that take into account the terms of the contract (including the notional amount and contract maturity) and inputs such as interest rates, yield curves, prepayment rates, credit spreads, recovery rates, currency exchange rates, volatility, correlation of inputs and changes in the fair value of the referenced asset. Derivative instruments, such as futures contracts, are classified as Level 1 in the fair value hierarchy presented in Note 4. Derivative instruments, such as interest rate swaps, option contracts, forward contracts, credit default swaps and foreign exchange contracts are classified as Level 2 in the fair value hierarchy presented in Note 4. The Foundation records derivative securities on the trade date. Gains and losses from derivative contracts are included in investment income in the statements of activities. The Foundation generally records a realized gain or loss on the expiration, termination or settlement of a derivative contract in the statements of activities.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

#### Note 5. Derivatives (Continued)

The following table identifies the fair value amounts of derivative contracts included in the statements of financial position, categorized by type of contract and underlying primary risk exposure as of June 30, 2023 and 2022. Balances are presented on a gross basis, before application of the effect of counterparty and collateral netting. These financial instruments are executed with creditworthy banks and brokerage firms, are subject to enforceable master netting arrangements or similar agreement and are presented at fair value on a net basis in the statements of financial position.

Type of Contract	Derivative Assets		Derivative Liabilities	
	2023 Fair Value	2022 Fair Value	2023 Fair Value	2022 Fair Value
Foreign exchange risk:				
Foreign exchange contracts	\$ -	\$ 60	\$ -	\$ (60)
Equity price risk:				
Futures contracts	452	-	-	-
Total derivatives	<u>\$ 452</u>	<u>\$ 60</u>	<u>\$ -</u>	<u>\$ (60)</u>

The Foundation considers the notional amounts at June 30, 2023 and 2022, categorized by primary underlying risk, to be representative of the volume of its derivative activities during the years ended June 30, 2023 and 2022.

Primary underlying risk	2023		2022	
	Fair Value	Notional Value	Fair Value	Notional Value
Equity price risk:				
Futures contracts	\$ 452	\$ 15,484	\$ -	\$ -
Total derivatives	<u>\$ 452</u>	<u>\$ 15,484</u>	<u>\$ -</u>	<u>\$ -</u>

#### Note 6. 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% 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.



## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 6. Securities Lending (Continued)

As of June 30, 2023 and 2022, 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, 2023 and 2022, the market value of the securities on loan and payable on collateral due to broker totaled \$23,214 and \$16,066, 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, 2023 and 2022. 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, 2023 and 2022, was \$17 and \$41, respectively.

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

	2023	2022
Cash collateral:		
U.S. equities	\$ 18,288	\$ 9,418
Non-U.S. equities	-	183
Noncash collateral:		
U.S. equities	4,926	5,142
Non-U.S. equities	-	1,323
	<u>\$ 23,214</u>	<u>\$ 16,066</u>

#### Note 7. Split-Interest Agreements

A summary of assets held and the obligations related to split-interest agreements as of June 30, 2023 and 2022, follows:

	2023	2022
Assets (included in investments):		
Charitable remainder trusts and other	\$ 27,832	\$ 41,942
Charitable gift annuities	36,624	38,267
	<u>\$ 64,456</u>	<u>\$ 80,209</u>
Liabilities—split-interest agreement obligations	<u>\$ 41,312</u>	<u>\$ 43,634</u>

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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 8. Property, Plant and Equipment

A summary of property, plant and equipment as of June 30, 2023 and 2022, follows:

	2023	2022
Land and buildings	\$ 99,486	\$ 96,836
Information and technology equipment	2,160	2,194
Software Development	335	-
Other	2,486	2,527
	<u>104,467</u>	<u>101,557</u>
Less accumulated depreciation	(35,842)	(35,506)
	<u>\$ 68,625</u>	<u>\$ 66,051</u>

#### Note 9. Bonds Payable

In October 2021, the Foundation issued 30-year taxable bonds in the amount of \$150,000 pursuant to a Bond Trust Indenture between the Foundation and The Bank of New York Mellon Trust Company, N.A. as trustee. The proceeds were used to provide unrestricted support to the University. The bonds, which mature October 1, 2051, bear interest at a fixed rate of 2.82%, payable semiannually. Interest expense paid to bond holders totaled \$4,230 and \$1,974 for the fiscal years ended June 30, 2023 and 2022, respectively. The rate structure and amortization schedule for retirement of the bonds is set forth in an agreement between the Foundation and Wells Fargo Securities, LLC, which purchased and holds the bonds.

Bonds payable outstanding at June 30, 2023 and 2022 are \$150,000. Unamortized bond issuance costs of \$812 and \$841 are net of accumulated amortization of \$49 and \$21 at June 30, 2023 and 2022, respectively. Amortization expense was \$29 and \$21 for the fiscal years ended June 30, 2023 and 2022, respectively.

#### Note 10. 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 7,568 and 7,346 individual funds as of June 30, 2023 and 2022, 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 is 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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 10. Endowments (Continued)

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, 2023 and 2022:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,988,118	\$ 2,988,118
Board-designated endowment	79,832	-	79,832
	<u>\$ 79,832</u>	<u>\$ 2,988,118</u>	<u>\$ 3,067,950</u>

  

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,954,181	\$ 2,954,181
Board-designated endowment	75,656	-	75,656
	<u>\$ 75,656</u>	<u>\$ 2,954,181</u>	<u>\$ 3,029,837</u>

Indiana University Foundation

Notes to Financial Statements  
(In Thousands)

Note 10. Endowments (Continued)

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the year	\$ 75,656	\$ 2,954,181	\$ 3,029,837
Investment income	1,732	62,416	64,148
Contributions and other revenue	4,416	87,463	91,879
Appropriation of endowment assets for expenditure	(1,972)	(115,942)	(117,914)
End of the year	<u>\$ 79,832</u>	<u>\$ 2,988,118</u>	<u>\$ 3,067,950</u>

  

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of the year	\$ 54,483	\$ 2,946,718	\$ 3,001,201
Investment income	232	11,535	11,767
Contributions and other revenue	2,447	104,681	107,128
Appropriation of endowment assets for expenditure	(1,227)	(108,753)	(109,980)
Transfers to board-designated endowment funds	19,721	-	19,721
End of the year	<u>\$ 75,656</u>	<u>\$ 2,954,181</u>	<u>\$ 3,029,837</u>

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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 10. 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 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% in fiscal year 2022 to 2023. 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, 2023 and 2022, there were 299 and 202 accounts of \$65,199 and \$36,499, respectively, with a current fair value of \$62,402 and \$34,962, respectively. The total underwater amount of \$2,797 and \$1,537 as of June 30, 2023 and 2022, 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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 11. Board-Designated Net Assets

The Indiana University Foundation's Board of Directors has designated from net assets without donor restrictions \$123,522 and \$113,328 as of June 30, 2023 and 2022, respectively, of net assets for the following purposes:

	2023	2022
Quasi-endowments:		
Foundation	\$ 72,422	\$ 68,486
University	7,410	7,170
Reserves and encumbrances	43,690	37,672
	<u>\$ 123,522</u>	<u>\$ 113,328</u>

#### Note 12. 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 \$2,245,440 and \$2,241,354 of donor-restricted assets held in perpetuity for the years ended June 30, 2023 and 2022, 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:

	2023	2022
Foundation operations	\$ 37,085	\$ 32,269
University Programs:		
Awards	66,617	66,430
Capital and capital improvements	157,316	152,749
Fellowships/lectureships	211,193	212,166
General endowments	826,858	849,433
Medical practice plans	24,649	32,095
Operating	157,165	117,792
Professorships/chairs	801,830	806,736
Research	149,161	147,697
Scholarships	988,002	977,968
	<u>\$ 3,419,876</u>	<u>\$ 3,395,335</u>

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 13. Contributed Nonfinancial Assets

For the years ended June 30, contributed nonfinancial assets recognized within the statement of activities included:

	2023	2022
Land and buildings	\$ 2,624	\$ 6,188
Works of art	-	400
Miscellaneous contributions in-kind, with purpose restrictions	41	19
Miscellaneous contributions in-kind, without restrictions	25	68
	<u>\$ 2,690</u>	<u>\$ 6,675</u>

Contributions of assets other than cash are recorded at their estimated fair value. Land and buildings are valued using appraisals prepared by appraisal specialists. Works of art are valued using appraisals prepared by appraisal specialists. Other nonfinancial assets are valued using reasonable market value estimates provided by donors on the date of the contribution.

During the year ended June 30, 2023, the Foundation received contributions of land and buildings for the purposes of athletics capital improvement and geography program support. The Foundation also received miscellaneous contributions in-kind for the purposes of student scholarships, faculty support, and general endowment.

During the year ended June 30, 2022, the Foundation received contributions of land and buildings for the purposes of student scholarships and faculty support and research. The Foundation received contributed works of art to support athletics capital improvements. The Foundation also received miscellaneous contributions in-kind to support fundraising activities.

#### Note 14. 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% 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 the Plan as incurred. Retirement expense related to this plan amounted to \$2,394 and \$2,105 for the years ended June 30, 2023 and 2022, respectively.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

#### Note 15. Functional Classification of Expenditures

Program expenditures include support for Foundation and University programs. For the years ended June 30, 2023 and 2022, a summary of these expenditures is as follows:

	2023			
	Grants and Aid to the University	Management and General	Fundraising	Total
University activities:				
University support	\$ 47,914	\$ -	\$ -	\$ 47,914
Student scholarships and financial aid	60,317	-	-	60,317
Land, building and equipment purchases	20,204	-	-	20,204
Faculty support	51,061	-	-	51,061
Faculty research	2,740	-	-	2,740
Foundation activities:				
Salaries and benefits	1,771	9,754	18,492	30,017
Depreciation	2,612	66	26	2,704
Insurance	431	115	146	692
Interest	282	3,076	1,196	4,554
Maintenance	1,316	733	471	2,520
Miscellaneous	2	-	23	25
Office expenses	10	399	825	1,234
Professional fees	316	2,026	738	3,080
Technology	20	605	1,973	2,598
Training and recruitment	-	310	184	494
Travel and representation	465	704	1,302	2,471
Utilities	3	248	63	314
Bad debts	-	10,501	-	10,501
	<u>\$ 189,464</u>	<u>\$ 28,537</u>	<u>\$ 25,439</u>	<u>\$ 243,440</u>



## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

#### Note 15. Functional Classification of Expenditures (Continued)

	2022			
	Grants and Aid to the University	Management and General	Fundraising	Total
University activities:				
University support	\$ 195,508	\$ -	\$ -	\$ 195,508
Student scholarships and financial aid	59,635	-	-	59,635
Land, building and equipment purchases	11,795	-	-	11,795
Faculty support	42,072	-	-	42,072
Faculty research	7,577	-	-	7,577
Foundation activities:				
Salaries and benefits	1,300	9,707	14,444	25,451
Depreciation	2,502	77	30	2,609
Insurance	122	97	15	234
Interest	262	2,197	855	3,314
Maintenance	919	673	405	1,997
Miscellaneous	1	1	2	4
Office expenses	12	438	912	1,362
Professional fees	324	2,067	1,139	3,530
Technology	22	601	1,583	2,206
Training and recruitment	-	241	154	395
Travel and representation	612	653	1,063	2,328
Utilities	3	231	62	296
Bad debts	-	6,965	-	6,965
	<u>\$ 322,666</u>	<u>\$ 23,948</u>	<u>\$ 20,664</u>	<u>\$ 367,278</u>

#### Note 16. 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, 2023 and 2022, the University provided development services support to the Foundation in the amount of \$4,416. As a part of the Foundation's program operations, the Foundation received support from the University for each of the years ended June 30, 2023 and 2022, respectively, as follows: \$7,288 and \$6,267 of rental income for the lease of certain real estate, and \$28,943 and \$26,764 in management/administrative fees, of which \$3,321 and \$3,139 were received on custodial assets held for the University or University affiliates. Expected rental income for the year ended June 30, 2024 is \$6,346.

**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.

## Indiana University Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 16. Related-Party Transactions (Continued)

A summary of related-party contributions and promises to give as of and for the years ended June 30, 2023 and 2022, follows:

	2023	2022
Contributions	\$ 3,278	\$ 3,724
Promises to give	25,508	28,648

#### 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 \$1,053 and \$3,426 for the years ended June 30, 2023 and 2022, respectively. The Foundation used the \$150,000 proceeds from the sale of the bonds to provide unrestricted support to the University for the year ended June 30, 2022. 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 17. Cash Flows Information

Supplemental information relative to the statements of cash flows for the years ended June 30, 2023 and 2022, is as follows:

	2023	2022
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 4,510	\$ 2,233
Noncash investing and financing activities:		
Gifts of securities, life insurance, and real and personal property at fair value	\$ 18,373	\$ 35,296