

Indiana University Alumni Association, Inc.

Accountants' Report and Financial Statements

June 30, 2011 and 2010

Indiana University Alumni Association, Inc.

June 30, 2011 and 2010

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Independent Accountants' Report

Finance Committee and Board of Managers
Indiana University Alumni Association, Inc.
Bloomington, Indiana

We have audited the accompanying statements of financial position of Indiana University Alumni Association, Inc. (Association) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana University Alumni Association, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

October 31, 2011

Indiana University Alumni Association, Inc.

Statements of Financial Position

June 30, 2011 and 2010

Assets

	2011	2010
Cash and cash equivalents	\$ 457,922	\$ 366,183
Membership receivable, net of allowance; 2011 and 2010 - \$21,912	121,595	194,941
Contributions receivable	-	750,000
Accounts receivable	550,391	517,354
Inventories	22,609	22,103
Prepaid expenses and other assets	452,577	272,661
Investments	17,082,968	14,516,825
Beneficial interest in perpetual trust	815,366	703,033
Property and equipment	2,943,408	3,194,726
Total assets	\$ 22,446,836	\$ 20,537,826

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 681,687	\$ 507,250
Accrued expenses	239,417	293,273
Unearned dues income	3,875,039	4,363,476
Deferred revenue	96,287	1,171,469
Total liabilities	4,892,430	6,335,468

Net Assets

Unrestricted		
Operations	12,786,439	8,682,128
Temporarily restricted		
Operations	-	750,000
Alumni Center	3,090,706	3,214,480
	3,090,706	3,964,480
Permanently restricted		
Operations	861,895	852,717
Alumni Center	815,366	703,033
	1,677,261	1,555,750
Total net assets	17,554,406	14,202,358
Total liabilities and net assets	\$ 22,446,836	\$ 20,537,826

Indiana University Alumni Association, Inc.

Statements of Activities Years Ended June 30, 2011 and 2010

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Membership and other dues	\$ 1,235,098	\$ -	\$ -	\$ 1,235,098
Contributions	1,510,719	-	9,178	1,519,897
Sales	355,186	-	-	355,186
Advertising income	105,994	-	-	105,994
Royalties and commissions	1,006,026	-	-	1,006,026
Publishing reimbursements	117,850	-	-	117,850
Interest and dividends	537,793	46,934	-	584,727
Other program revenue	2,315,949	-	-	2,315,949
Net assets released from restrictions	942,982	(942,982)	-	-
Total revenue, gains and other support	8,127,597	(896,048)	9,178	7,240,727
Expenses				
Alumni programs	4,793,387	-	-	4,793,387
Alumni services	223,401	-	-	223,401
Institutional advancement	469,775	-	-	469,775
Communications	767,654	-	-	767,654
Total program services	6,254,217	-	-	6,254,217
Membership	524,150	-	-	524,150
Management and general	510,496	-	-	510,496
Total expenses	7,288,863	-	-	7,288,863
Change in Net Assets Before Other Revenues and Expenses	838,734	(896,048)	9,178	(48,136)
Other Revenues and Expenses				
Realized and unrealized gains	2,425,648	22,274	-	2,447,922
Change in value of perpetual trust	-	-	112,333	112,333
Gain (loss) on sale of property	(12,220)	-	-	(12,220)
Change in estimate for unearned member dues	852,149	-	-	852,149
Total other revenues and expenses	3,265,577	22,274	112,333	3,400,184
Change in Net Assets	4,104,311	(873,774)	121,511	3,352,048
Net Assets, Beginning of Year	8,682,128	3,964,480	1,555,750	14,202,358
Net Assets, End of Year	\$ 12,786,439	\$ 3,090,706	\$ 1,677,261	\$ 17,554,406

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,039,875	\$ -	\$ -	\$ 1,039,875
1,505,420	750,000	16,739	2,272,159
292,519	-	-	292,519
123,789	-	-	123,789
2,300,063	-	-	2,300,063
179,098	-	-	179,098
544,048	50,356	-	594,404
1,612,904	-	-	1,612,904
182,594	(182,594)	-	-
<u>7,780,310</u>	<u>617,762</u>	<u>16,739</u>	<u>8,414,811</u>
4,238,179	-	-	4,238,179
234,630	-	-	234,630
529,084	-	-	529,084
713,346	-	-	713,346
<u>5,715,239</u>	<u>-</u>	<u>-</u>	<u>5,715,239</u>
488,530	-	-	488,530
575,766	-	-	575,766
<u>6,779,535</u>	<u>-</u>	<u>-</u>	<u>6,779,535</u>
<u>1,000,775</u>	<u>617,762</u>	<u>16,739</u>	<u>1,635,276</u>
755,252	1,585	-	756,837
-	-	30,354	30,354
5,648	-	-	5,648
-	-	-	-
<u>760,900</u>	<u>1,585</u>	<u>30,354</u>	<u>792,839</u>
1,761,675	619,347	47,093	2,428,115
6,920,453	3,345,133	1,508,657	11,774,243
<u>\$ 8,682,128</u>	<u>\$ 3,964,480</u>	<u>\$ 1,555,750</u>	<u>\$ 14,202,358</u>

Indiana University Alumni Association, Inc.

Statements of Cash Flows Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	\$ 3,352,048	\$ 2,428,115
Items not requiring (providing) cash		
Depreciation and amortization	250,800	307,252
(Gain) loss on sale of property and equipment	12,220	(5,648)
Net realized (gain) loss on sale of investments	(418,298)	265,178
Net unrealized gain of investments	(2,029,624)	(1,022,015)
Change in estimate of unearned member dues	(852,149)	-
Change in value of perpetual trust	(112,333)	(30,354)
Changes in		
Receivables	790,309	(552,958)
Inventories	(506)	(1,028)
Prepaid expenses	(179,916)	(94,793)
Accounts payable and accrued expenses	120,581	(11,603)
Unearned dues income	363,712	343,957
Deferred revenue	(1,075,182)	(883,797)
Net cash provided by operating activities	221,662	742,306
Investing Activities		
Purchases of investments	(4,595,660)	(796,114)
Sales and maturities of investments	4,477,439	111,879
Purchase of property and equipment	(63,502)	(50,766)
Sales of property and equipment	51,800	22,792
Net cash used in investing activities	(129,923)	(712,209)
Increase in Cash and Cash Equivalents	91,739	30,097
Cash and Cash Equivalents, Beginning of Year	366,183	336,086
Cash and Cash Equivalents, End of Year	\$ 457,922	\$ 366,183

Indiana University Alumni Association, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Indiana University Alumni Association, Inc. (Association) is a not-for-profit organization whose mission and principal activities are for educational and charitable purposes, dedicated to advancing the interest of Indiana University. The Association's revenues and other support are derived principally from contributions and membership dues. The Association was incorporated as a not-for-profit organization in September 1969 under the laws of the State of Indiana.

The financial affairs of the Association are included in a number of self-balancing funds that are used for internal purposes. An explanation of the Association's funds follows:

Operating Fund - Represents the portion of expendable funds that is available for support of the Association's operations.

Life Membership Fund - Includes those assets derived from life memberships in the Association.

Constituent Societies/Affiliates/Alumni Chapter Funds - Includes those resources designated to constituent society, affiliate and alumni chapter activities. Constituent societies, affiliates and alumni chapters are separate alumni organizations which are an integral part of the Association. Separate funds are maintained within Association records for each. Governing bodies and officers of constituent societies, affiliates and alumni chapters direct the financial activities of their respective groups; however, the Association has the legal and fiscal authority for these separate alumni associations. Dues are allocated to constituent societies and alumni chapters from both annual and life member dues proceeds. Activity in the chapter accounts for the period of May 1 through April 30 is included in the financial statements as of June 30, in order to allow the Chapters time to summarize and report financial transactions.

Alumni Center Fund - Includes resources related to the renovation and ongoing operations of the Alumni Center.

The Association recognizes income for various services billed to these funds, including printing, postage and magazine advertising. These interfund transactions are eliminated in the accompanying financial statements.

Indiana University Alumni Association, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Affiliation With Indiana University

Indiana University (IU) shares in the cost of operations of the Association by providing computer services, personnel, travel, office facilities, supplies and other miscellaneous expenses incurred by the Association deemed "Alumni Relations." IU pays approximately \$3,200,000 on an annual basis for the cost of these operations for Alumni Relations. These costs are not included in the financial statements.

All Association personnel are employees of IU. Accordingly, the Association reimburses IU for certain personnel costs that are beyond the general funds support from IU for Alumni Relations. Such costs include salaries, retirement, fringe benefits and payroll taxes, and are included in the financial statements.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Association considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of amounts held on deposit at the Indiana University Foundation (Foundation). Amounts held at the Foundation are not federally insured.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2011, the Association's cash accounts did not exceed federally insured limits.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. The Association provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer or member.

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets.

For investments held on deposit at the Foundation, the officers and directors of the Foundation have the power, and final decision, to invest, to change investments, to accept property, to sell, to hold, or to reinvest all or any of the monies or property transferred to the Foundation. All investments at the Foundation are recorded at fair value.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Unrestricted, Temporarily and Permanently Restricted Net Assets

Unrestricted net assets are those whose use by the Association are unlimited by the donors and can be used at any time for any purpose. Temporarily restricted net assets are those whose use by the Association has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Association in perpetuity.

Membership Dues and Unearned Dues Income

A significant portion of dues is considered a tax deductible contribution by the member. The remaining portion of dues is considered an exchange transaction with value to the member, mainly in the form of a periodical magazine. Consequently, management must estimate the cost of servicing its members on an ongoing basis. Management's methodology to estimate unearned dues income for life members and annual members attempts to quantify the cost of serving its life members over their respective estimated remaining lives. The estimate of the liability related to unearned dues is sensitive to the number of life members (32,291), the average life expectancy of the Association's life members (24 years) and the cost to service those members annually (\$257,535).

Indiana University Alumni Association, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Beginning in fiscal year 2011, the periodical magazine provided to Association members will be produced and distributed quarterly instead of every other month. As a result of this change, management re-evaluated the cost to service each member annually.

The impact on the 2011 statement of activities and the statement of financial position, as a result of the change in methods used to estimate the liability, was a decrease in unearned dues of \$852,149. It is reasonably possible that one or more of the above factors could change management's estimate materially in the near term.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. The Association recognizes funds received from the State of Indiana for Indiana University license plates as unrestricted contribution revenue in the statements of activities. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Donations of property and equipment are recorded at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. It is the Association's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as support increasing temporarily restricted net assets. The Association reclassifies temporarily restricted net assets to unrestricted net assets each year in the amount of the donated property and equipment's depreciation expense.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Inventory Pricing

Inventories consist of merchandise and other memorabilia held for resale to advance the interest of Indiana University. Inventories are stated at the lower of cost or market. Costs are determined using the specific-identification method.

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Deferred Revenue

Revenue from advance royalties and monies received in advance for programs occurring after year-end, are deferred and recognized over the periods to which the dues and royalties relate.

Income Taxes

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Association is subject to federal income tax on any unrelated business taxable income.

The Association files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Association is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Long-Lived Asset Impairment

The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the various programs and management and general expenses.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Note 2: Investments and Investment Return

Investments at June 30, 2011 and 2010 consisted of the following:

	2011	2010
Mutual funds		
Domestic large cap	\$ 1,758,857	\$ 1,755,587
Domestic mid/small cap	730,593	1,404,685
International equity	1,918,208	758,698
Domestic fixed income	2,631,888	1,618,580
Total mutual funds	7,039,546	5,537,550
Money market funds	312,434	670,708
Funds held on deposit at IU Foundation	9,730,988	8,308,567
	\$ 17,082,968	\$ 14,516,825

The asset allocation of the funds held on deposit at the Foundation is as follows:

	2011	2010
Domestic equities	22%	25%
International equities	20	18
Domestic fixed income	9	8
International fixed income	1	1
Cash equivalents	3	1
Alternative investments:		
Hedged equity funds	7	7
Absolute return funds	12	13
Venture capital funds	5	6
Buyout funds	6	6
Distressed/special situations funds	3	3
Real estate funds	5	4
Natural resource funds	5	6
Direct commercial real estate	1	1
Mortgage securities	1	1
	100%	100%

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

Total investment return is comprised of the following:

	2011	2010
Interest and dividend income (net of \$35,958 and \$27,186 in fees)	\$ 584,727	\$ 594,404
Net realized gain (loss) on investments	418,298	(265,178)
Net unrealized gain on investments reported at fair value	2,029,624	1,022,015
	\$ 3,032,649	\$ 1,351,241

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Note 3: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include mutual funds and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes and reference publications and are classified within Level 2 of the valuation hierarchy. The fair value of funds held at the Foundation have been estimated using the net asset value per unit of the fund. Level 2 securities include pooled funds held at the Foundation. The pooled funds held at the Foundation are not publicly traded, but are an investment option that is only available to certain organizations. There is sufficient activity and liquidity within the fund. While many of the underlying investments at the Foundation are publicly traded in active markets, the Association's investments are considered (in its entirety) as a Level 2 investment and are redeemable in the near term, generally within 30 days with proper notice. The Association does not have any Level 3 securities.

Indiana University Alumni Association, Inc.

Notes to Financial Statements

June 30, 2011 and 2010

Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of future distributions expected to be received over the term of the agreement, which approximates the fair value of underlying assets of the trust. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011 and 2010:

	2011			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Mutual funds				
Domestic large cap	\$ 1,758,857	\$ 1,758,857	\$ -	\$ -
Domestic mid/small cap	730,593	730,593	-	-
International equity	1,918,208	1,918,208	-	-
Domestic fixed income	2,631,888	2,631,888	-	-
Total mutual funds	<u>7,039,546</u>	<u>7,039,546</u>	-	-
Money market	312,434	312,434	-	-
Deposits at IUF	9,730,988	-	9,730,988	-
Total investments	<u>\$ 17,082,968</u>	<u>\$ 7,351,980</u>	<u>\$ 9,730,988</u>	<u>\$ -</u>
Beneficial interest in perpetual trust	<u>\$ 815,366</u>	<u>\$ -</u>	<u>\$ 815,366</u>	<u>\$ -</u>

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

	2010			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Mutual funds				
Domestic large cap	\$ 1,755,587	\$ 1,755,587	\$ -	\$ -
Domestic mid/small cap	1,404,685	1,404,685	-	-
International equity	758,698	758,698	-	-
Domestic fixed income	1,618,580	1,618,580	-	-
Total mutual funds	<u>5,537,550</u>	<u>5,537,550</u>	-	-
Money market	670,708	670,708	-	-
Deposits at IUF	8,308,567	-	8,308,567	-
Total investments	<u>\$ 14,516,825</u>	<u>\$ 6,208,258</u>	<u>\$ 8,308,567</u>	<u>\$ -</u>
Beneficial interest in perpetual trust	<u>\$ 703,033</u>	<u>\$ -</u>	<u>\$ 703,033</u>	<u>\$ -</u>

Note 4: Beneficial Interest in Perpetual Trust

The Association is the beneficiary under a perpetual trust administered by an outside party, the Indiana University Foundation, to benefit the Alumni Center. Under the terms of the trust, the Association has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$815,366 and \$703,033, which represents the fair value of the trust assets at June 30, 2011 and 2010, respectively, which is classified as permanently restricted net assets. Additionally, these trust assets have earned income, which is restricted for the maintenance and operations of the Alumni Center. Unspent funds totaling \$214,637 and \$159,929 as of June 30, 2011 and 2010 are classified as temporarily restricted net assets.

Note 5: Contributions Receivable

Contributions receivable at June 30, 2010 consisted of \$750,000 in temporarily restricted gifts from Indiana University that were subsequently received in full in August 2010. This contribution was used for fiscal year 2011 operating expenses.

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Note 6: Endowment

The Association's endowment consists of approximately six individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and as required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association's governing body has interpreted the State of Indiana Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) 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. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration, purpose and preservation of the fund
2. General economic conditions
3. Possible effect of inflation and deflation
4. Expected total return from investment income and appreciation or depreciation of investments
5. Other resources of the Association
6. Investment policies of the Association

The composition of net assets by type of endowment fund at June 30, 2011 and 2010, was:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds (held at IU Foundation)	\$ -	\$ -	\$ 861,895	\$ 861,895
	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds (held at IU Foundation)	\$ (48,114)	\$ -	\$ 852,717	\$ 804,603

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Changes in endowment net assets for the years ended June 30, 2011 and 2010, were:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ (48,114)	\$ -	\$ 852,717	\$ 804,603
Investment return:				
Investment income	-	48,892	-	48,892
Net appreciation (depreciation)	48,114	(6,023)	-	42,091
Total investment return	<u>48,114</u>	<u>42,869</u>	<u>-</u>	<u>90,983</u>
Contributions received	-	-	9,178	9,178
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(42,869)</u>	<u>-</u>	<u>(42,869)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 861,895</u>	<u>\$ 861,895</u>
	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (122,051)	\$ -	\$ 835,978	\$ 713,927
Investment return:				
Investment income	-	43,794	-	43,794
Net appreciation (depreciation)	73,937	(8,140)	-	65,797
Total investment return	<u>73,937</u>	<u>35,654</u>	<u>-</u>	<u>109,591</u>
Contributions received	-	-	16,739	16,739
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(35,654)</u>	<u>-</u>	<u>(35,654)</u>
Endowment net assets, end of year	<u>\$ (48,114)</u>	<u>\$ -</u>	<u>\$ 852,717</u>	<u>\$ 804,603</u>

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 861,895</u>	<u>\$ 852,717</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Association is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$48,114 at June 30, 2010, primarily for the Tardy Endowment. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions.

For Association assets held at the Foundation, the Association follows the policies maintained by the Foundation. These investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Association must hold in perpetuity. Under the Association's policies, endowment assets are invested in a manner that is intended to yield a long-term rate of return of approximately 11.9% while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Association relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. Emphasis is placed on minimizing return volatility rather than maximizing return.

The Association has a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment fund's average fair value over the prior 12 quarters through the year end preceding the year in which expenditure is planned. In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, over the long-term, the Association expects the current spending policy to allow its endowment to grow at an average of 3-4% annually. This is consistent with the Association's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Note 7: Property and Equipment

Property and equipment at June 30, 2011 and 2010 consists of:

	Operating Fund	2011 Alumni Center	Total
Buildings and leasehold improvements	\$ -	\$ 5,333,066	\$ 5,333,066
Furnishings and equipment	381,026	6,750	387,776
	381,026	5,339,816	5,720,842
Less accumulated depreciation and amortization	(313,687)	(2,463,747)	(2,777,434)
	\$ 67,339	\$ 2,876,069	\$ 2,943,408
	Operating Fund	2010 Alumni Center	Total
Buildings and leasehold improvements	\$ -	\$ 5,333,066	\$ 5,333,066
Furnishings and equipment	1,108,007	6,750	1,114,757
	1,108,007	5,339,816	6,447,823
Less accumulated depreciation and amortization	(967,832)	(2,285,265)	(3,253,097)
	\$ 140,175	\$ 3,054,551	\$ 3,194,726

During 1997, the Association completed its renovation of a building owned by IU. The total cost of the renovation was approximately \$5,333,066. In exchange for the renovations made to the building, IU has dedicated the Alumni Center building for use by the Association. The value associated with the use of this building was recorded as temporarily restricted contribution revenue from IU and an addition to property and equipment of \$5,333,066 during the year ended August 31, 1997, and is being amortized over the 30-year lease term. The temporarily restricted net assets are being released, as this property is being depreciated.

During 2011, IU Document Service Centers (DSC) assumed all operating and fiscal responsibilities of IUAA - Print and Mail. The Association transferred ownership of all equipment and other related assets with a historical cost of \$444,865 to DSC at no charge. This transfer resulted in a loss of \$38,982 for the Association.

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Note 8: Unearned Dues

An analysis of unearned dues during the years ended June 30:

	<u>2011</u>	<u>2010</u>
New life memberships, net of cancellations, assuming fulfillment of pledge, if any	\$ 907,211	\$ 759,303
Allocation to constituent societies	(232,902)	(233,316)
Allocation to alumni chapters	(75,325)	(65,436)
Recognition of earned dues	<u>(235,272)</u>	<u>(116,594)</u>
Net increase to unearned dues	363,712	343,957
Change in estimate	(852,149)	-
Balances, July 1	<u>4,363,476</u>	<u>4,019,519</u>
	<u>\$ 3,875,039</u>	<u>\$ 4,363,476</u>

Note 9: Deferred Revenue

Previously, deferred revenue primarily represented advances received on a royalty contract, which expired September 30, 2010. The last scheduled payment on the contract occurred in October 2009. On April 1, 2011, management of the Association executed an addendum to the royalty contract that changed the structure of how the royalty is calculated and paid. The Association no longer receives advances on the royalty and there are no guaranteed minimums, thereby eliminating future deferred revenue under this contract. Additionally, the addendum also eliminated all obligations of the Association in regard to advances, guarantees commitments under the previous structure therefore allowing the Association to recognize all deferred credit card royalty revenue in current year income. It is expected that the annual revenue recognized under the royalty addendum will be significantly less than what was recorded before 2010.

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Note 10: Net Assets

Net Assets Released From Restrictions

Net assets were primarily released from donor restrictions under the Association's policy to imply a time restriction on the contributed use of the Alumni Center, as more fully described in Note 6. For the years ended June 30, net assets released from restrictions are as follows:

	2011	2010
Purpose restrictions accomplished		
Amortization related to utilization of the Alumni Center	\$ 178,482	\$ 178,482
Maintenance and operations for the Alumni Center	14,500	4,112
Time restrictions	750,000	-
	\$ 942,982	\$ 182,594

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2011	2010
Alumni Center - value of contributed 30-year lease	\$ 2,876,069	\$ 3,054,551
Alumni Center - income earned on perpetual trust for maintenance and operations	214,637	159,929
Fiscal year 2011 operations (from Indiana University)	-	750,000
	\$ 3,090,706	\$ 3,964,480

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2011 and 2010 are restricted to:

	2011	2010
Investment in perpetuity, the income of which is expendable to support		
Alumni Center maintenance and operations	\$ 815,366	\$ 703,033
Tardy endowment	824,864	815,832
Alumni leadership development	8,773	8,773
Student leadership development	17,176	17,140
Lifelong learning	3,455	3,445
Virtual alumni association	6,149	6,149
Young alumni programs	1,478	1,378
	\$ 1,677,261	\$ 1,555,750

Indiana University Alumni Association, Inc.

Notes to Financial Statements June 30, 2011 and 2010

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Current Economic Conditions

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in contributions, contracts renegotiated at less favorable terms for the entity, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Association.

Current economic conditions have made it difficult for many members and donors to continue to contribute to not-for-profit organizations. A significant decline in royalty or contribution revenue could have an adverse impact on the Association's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, allowances for contributions receivable and the valuation of intangibles that could negatively impact the Association's ability to meet debt covenants or maintain sufficient liquidity.

Concentrations

The Association received approximately 21% and 24% of its total operating revenue for the years ended June 30, 2011 and 2010, respectively, from this royalty contract. During fiscal year 2010, the Association recognized \$750,000 (33% of total contributions) of contribution revenue from Indiana University to assist in the expected significant decrease in revenue beginning fiscal year 2011.