2012 FINANCIAL REPORT

PURDUE
UNIVERSITY

LETTER OF TRANSMITTAL

Acting President Timothy D. Sands

October 17, 2012

To the Board of Trustees of Purdue University:

We are pleased to submit this, the 90th annual financial report of Purdue University. This report is for the fiscal year that ended June 30, 2012, and sets forth the complete and permanent record of the financial status of the University for the year.

The University Financial Statements have been audited by the Indiana State Board of Accounts, and the Auditors' Report appears on page 5.

Respectfully submitted,

TIMOTHY D. SANDS
Acting President

Respectfully submitted,

ALPHONSO V. DIAZ
Executive Vice President for Business and Finance, Treasurer

Approved for publication and transmission to the governor of the state.

REPORT OF THE TREASURER

This report presents Purdue University's financial position and the results of operations for the fiscal years ended June 30, 2012 and 2011. We provide this financial report as part of the University's commitment to report annually on its fiscal affairs. These financial statements have been audited by the Indiana State Board of Accounts and their report which is an unqualified opinion appears on page 5.

Purdue University continues its long tradition of being a world-class research university. Purdue University is ranked 23rd among the nation's public universities and 65th among all universities, according to U.S. News & World Report. The university offers instruction in a wide range of disciplines, granting undergraduate and graduate degrees through four campuses. Purdue has departments ranked in the Top Ten in nearly every College or School on campus. From our number one Biological and Agricultural Engineering graduate program to our highly rated Speech Language Pathology, Aeronautics and Astronautics, and Pharmacy programs. In specialty rankings, Purdue ranks 10th in engineering and technology, 20th in computer science, 19th in chemistry, and 47th in overall science according to the Academic Ranking of World Universities (ARWU).

The University continues to attract top undergraduates. The academic quality of the freshman class at the West Lafayette campus increased for the sixth consecutive year. The student body continues to be made up from every county in Indiana, all fifty states and more than 125 countries. Enrollment at all Purdue campuses reached an all time high of 70,274 for the fall semester of the 2013 academic year.

The University continued its investment in its facilities with completed major construction projects in excess of $119 million during fiscal year 2012, including the $42.4 million Fort Wayne Student Services and Library Complex, the $17.7 million First Street Towers West Residence Hall, and the $15.5 million Fort Wayne Parking Garage. Additional capital investments estimated at over $496 million were under way or in design as of June 30, 2012, including the $99.5 million Mackey Complex renovation and addition, the $98 million Student Fitness and Wellness Center renovation and addition, the $59.6 million Windsor Residence Halls renovation, and the $53.7 million Health and Human Sciences Research Facility.

During fiscal year 2012, the University launched the Innovation and Commercialization Center that will drive Purdue discoveries to the marketplace quicker, increase revenue for the University, and spur economic development in Indiana and the nation. The center will allow faculty and staff inventors to receive funding in order to test concepts, develop prototypes or participate in joint technology development projects with external partners. The center is a key element of Purdue's long-term initiative to support core activities at the University.

Purdue University continues to dedicate ourselves to the success of our students as future leaders, the development of new partnerships to expand the horizons of research and economic development leading to jobs of the future, and a continued strengthening of the state of Indiana as a global leader in science, technology, engineering, mathematics and agriculture disciplines.

ALPHONSO V. DIAZ
Executive Vice President for Business and Finance, Treasurer

BOARD OF TRUSTEES

As of June 30, 2012

The responsibility for making rules and regulations to govern the University is vested in a 10-member Board of Trustees appointed by the governor. The selection of these trustees is prescribed in Indiana Code IC 21-23-3. Three of the trustees are selected by the Purdue Alumni Association. The remaining seven trustees are selected by the governor. Two of the trustees must be involved in agricultural pursuits, and one must be a full-time student of Purdue University. All trustees serve for a period of three years, except for the student member, who serves for two years.

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As of June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF PURDUE UNIVERSITY, WEST LAFAYETTE, INDIANA

We have audited the accompanying basic financial statements of Purdue University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based upon the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Purdue University, as of June 30, 2012 and 2011, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2012, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Introductory Section, In-State Enrollment, and Acknowledgements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section, In-State Enrollment, and Acknowledgements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

STATE BOARD OF ACCOUNTS

October 17, 2012

State Board of Accounts

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

We are pleased to present this financial discussion and analysis of Purdue University (the University). It is intended to make the University's financial statements easier to understand and communicate our financial situation in an open and accountable manner. The primary purpose of financial reporting, whether for a commercial enterprise or for a university, is to provide information that will assist (1) management in the effective allocation and use of the organization's resources and (2) the general public, investors, creditors and others in evaluating the effectiveness of management in achieving organizational objectives. The nature of the organization, its resources and its objectives all serve to influence the form and process by which the accounting is accomplished and information reported.

The following discussion and analysis provides an overview of the financial position and activities of the University for the fiscal years ended June 30, 2012 and 2011 (Fiscal Years 2012 and 2011, respectively), with comparative financial information for Fiscal Year 2010. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements, which have the following other parts:

- **Report of Independent Auditors** presents an unqualified opinion prepared by our auditors (the Indiana State Board of Accounts) on the fairness (in all material respects) of our financial statements.
- **Statements of Net Assets** present the assets, liabilities and net assets of the University at a point in time (June 30, 2012 and 2011). Their purpose is to present a financial snapshot of the University. They aid readers in determining the assets available to continue the University's operations; how much the University owes to employees, vendors and investors; and a picture of net assets and their availability for expenditure by the University.
- **Statements of Revenues, Expenses and Changes in Net Assets** present the total revenues earned and expenses incurred by the University for operating, nonoperating and other related activities during a period of time (the years ended June 30, 2012 and 2011). Their purpose is to assess the University's operating and nonoperating activities.
- **Statements of Cash Flows** present cash receipts and payments of the University during a period of time (the years ended June 30, 2012 and 2011). Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- **Notes to the Financial Statements** present additional information to support the financial statements and are commonly referred to as "Notes." Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

The financial information presented in this report is designed to enable the user to review how the University managed its resources to meet its primary missions of discovery, learning and engagement. It should be recognized that a presentation of the financial performance of the University is not a full measure of the value of the discovery, learning and engagement functions carried out during the year. This report deals with the costs and sources of revenue used to provide the quality and diversity in higher education that the University believes necessary to meet its goals and objectives. We suggest that you combine this financial analysis and discussion with relevant nonfinancial indicators to assess the University overall. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, building condition, and campus safety. Information about nonfinancial indicators is not included in this analysis but may be obtained from the University's Office of Institutional Research (see www.purdue.edu/datadigest/).

FINANCIAL HIGHLIGHTS

Statement of Net Assets

A summarized comparison of the University's assets, liabilities and net assets appears in Table 1 and demonstrates that the University has grown over the past three fiscal years.

Table 1. Summary Statement of Net Assets (Dollars in Thousands)

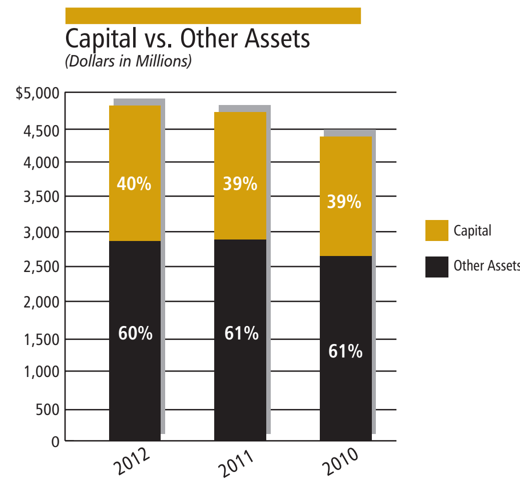
	2012	2011	2010
Current Assets	$639,996	$713,392	$813,135
Capital Assets	1,944,336	1,835,976	1,712,621
Other Assets	2,225,391	2,170,977	1,839,897
Total Assets	**$4,809,723**	**$4,720,345**	**$4,365,653**
Current Liabilities	$337,022	$357,622	$538,773
Noncurrent Liabilities	886,691	912,767	745,739
Total Liabilities	**$1,223,713**	**$1,270,389**	**$1,284,512**
Invested in Capital Assets, Net of Related Debt	$1,094,127	$1,035,092	$984,844
Restricted-Nonexpendable	472,579	448,180	430,685
Restricted-Expendable	715,954	762,968	647,859
Unrestricted	1,303,350	1,203,716	1,017,753
Total Net Assets	**$3,586,010**	**$3,449,956**	**$3,081,141**

"Gateway to the Future" arch

Current assets include those that may be used to support current operations, such as cash and cash equivalents, account and certain other receivables, and inventories. Noncurrent assets include capital assets, certain pledges receivable and investments. As of June 30, 2012 and 2011, total assets were approximately $4,809,723,000 and $4,720,345,000, respectively, an increase of $89,378,000, or 1.9%, and $354,692,000, or 8.1%, for Fiscal Years 2012 and 2011, respectively. The overall growth in assets is attributed to increases in investments and capital assets.

Figure 1 depicts the portion of total assets that were capital. More information about capital assets is provided in the Capital Asset and Debt Administration section.

Figure 1



Current assets decreased approximately $73,396,000 and $99,743,000 as of June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, cash and cash equivalents were approximately $423,927,000 and $510,192,000, respectively, a decrease of $86,265,000 and $52,218,000, respectively. This included $9,936,000 in Security Lending assets as of June 30, 2011. The University decided to terminate its security lending program during fiscal year 2011 but did not completely exit it until the first quarter of fiscal year 2012 (further discussion in Note 2). As detailed in the Capital Asset and Debt Administration section, the University has an active capital financing program that has resulted in invested bond proceeds of $74,440,000 and $172,963,000 as of June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, the remaining $349,487,000 and $327,293,000 of cash and cash equivalents is available for operations. The increase in operating cash results from the University's program-focused and conservative spending in response to the current economic conditions (further detailed in the Economic Factors That Will Affect the Future section).

As of June 30, 2012 and 2011, noncurrent assets increased $162,774,000, or 4.1%, and $454,435,000, or 12.8%, respectively. Marketable securities and other investments increased approximately $62,194,000 in Fiscal Year 2012 compared to the $321,310,000 increase in Fiscal Year 2011. The increase in fiscal year 2012 was driven by the acquisition of additional marketable securities whereas the increase in fiscal year 2011 was the result of an improvement in the market over the prior fiscal year. Please reference a more detailed discussion in the Statement of Revenues, Expenses and Changes in Net Assets section.

Current liabilities are generally expected to become due and payable over the course of the following fiscal year. These include accounts and other payables, deferred revenues, the current portion of long-term debt, liability for securities lending activity, and salaries and related compensation payables. Current liabilities include variable-rate demand bonds, although most of the bonds are expected to be paid in future fiscal years. Noncurrent liabilities include bonds, notes and leases payable. Total liabilities were approximately $1,223,713,000 and $1,270,389,000 on June 30, 2012 and 2011, respectively.

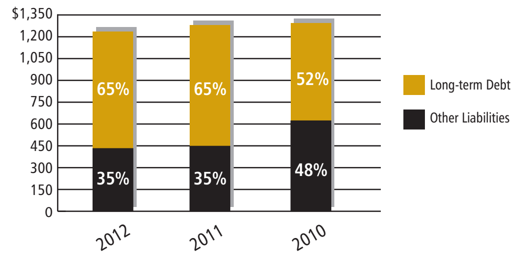
Figure 2 depicts the portion of long-term debt (noncurrent) relative to total liabilities.

Securities lending liabilities decreased $9,936,000 and $159,895,000 in Fiscal Year 2012 and 2011, respectively. For a detailed discussion of the University's security lending program, please refer to Note 2.

Bonds, leases and notes payable decreased by $42,036,000 in Fiscal Year 2012 and increased $127,159,000 in Fiscal Year 2011, respectively. A discussion of the University's capital financing activities appears in the Debt and Financing Activities section below as well as in Note 6.

Figure 2

Long-term Debt vs. Other Liabilities
(Dollars in Millions)



Net assets are classified into four categories:

- Invested in capital assets, net of related debt represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure and improvements, net of accumulated depreciation and related debt, subject to the University's policies on capitalization.
- Restricted-nonexpendable represents the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds must be held inviolate and in perpetuity and are, therefore, not expendable. Earnings on these funds support various programs determined by donors.
- Restricted-expendable represents net assets that have purpose restrictions imposed by third parties. Examples include scholarship funds and contract and grant funds.
- Unrestricted net assets do not have third-party restrictions, although management has designated these funds for a particular purpose. It is management's practice to designate unrestricted net assets for specific purposes at the close of each fiscal year.

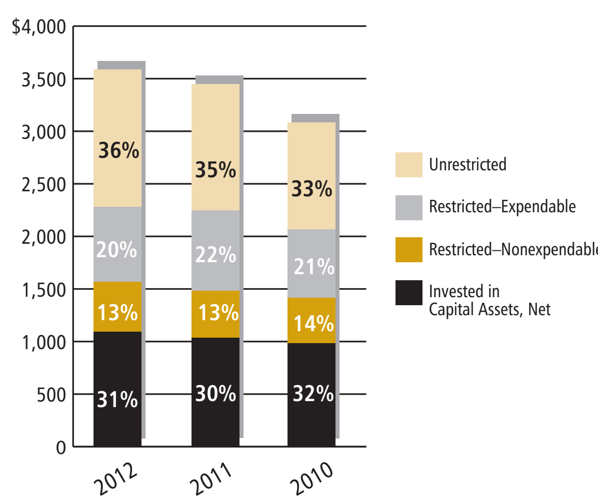
Total net assets for the University were $3,586,010,000 and $3,449,956,000 as of June 30, 2012 and 2011, respectively. Figure 3 provides a comparison between fiscal years as well as the composition of net assets.

Invested in capital assets, net of related debt increased $59,035,000 and $50,248,000 in Fiscal Years 2012 and 2011, respectively. As of June 30, 2012 and 2011, the University added capital assets of $241,518,000 and $248,003,000, respectively, offset by annual depreciation of $126,284,000 and $119,820,000, respectively. Debt transferred related to expended bond and commercial paper proceeds, net of payments and amortization of bond premiums accounted for $56,199,000 and $77,935,000 in Fiscal Years 2012 and 2011, respectively. See additional details in the Capital Asset and Debt Administration section.

Restricted nonexpendable increased $24,399,000 and $17,495,000 in Fiscal Years 2012 and 2011, respec-

Figure 3

Composition of Net Assets
(Dollars in Millions)



tively, primarily resulting from contributions to endowments. In Fiscal Year 2011, the net increase was offset by changes in market conditions.

As of June 30, 2012, restricted expendable decreased $47,014,000 compared to an increase of $115,109,000 in the prior year. This fluctuation was driven by the equity markets over the past two years related to the endowment pool investments.

Consistent with operational results (detailed in the Statement of Revenues, Expenses and Changes in Net Asset section), unrestricted net assets increased $99,634,000 and $185,963,000 as of June 30, 2012 and 2011, respectively.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

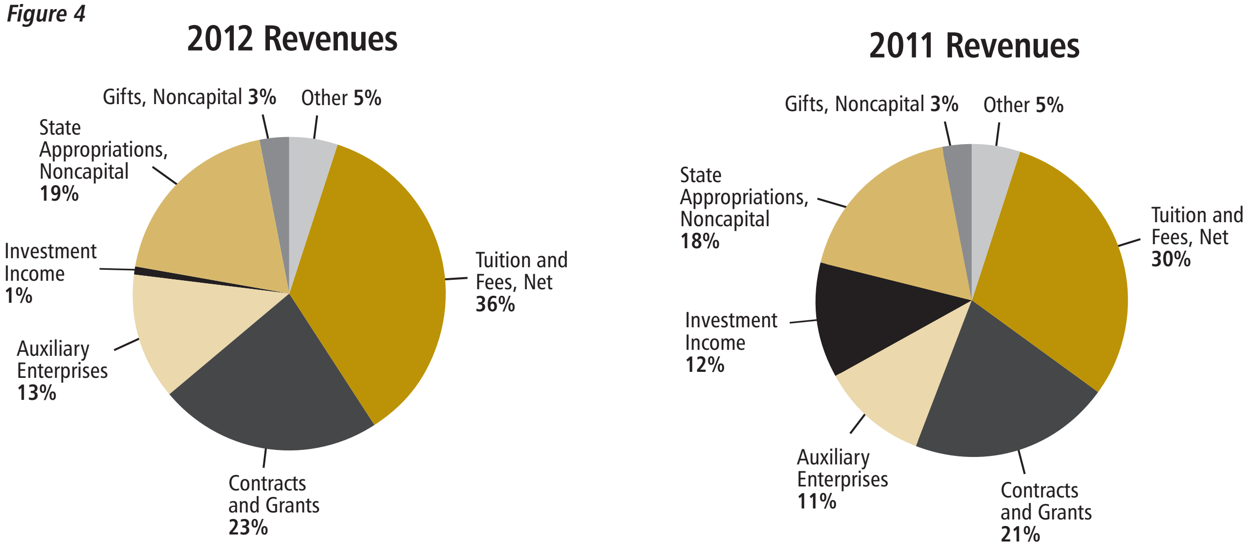
A summarized comparison of the University's revenues, expenses and changes in net assets follows in Table 2.

Table 2. Summary Statement of Revenues, Expenses and Changes in Net Assets (Dollars in Thousands)

	2012	2011	2010
Operating Revenues			
Tuition and Fees, Net	$707,796	$659,832	$615,423
Grants and Contracts	375,341	366,567	339,392
Auxiliary Enterprises, Net	250,744	232,213	220,023
Other Operating Revenues	95,707	92,861	88,539
Total Operating Revenues	**$1,429,588**	**$1,351,473**	**$1,263,377**
Operating Expenses			
Depreciation	126,284	119,820	112,629
Other Operating Expenses	1,700,882	1,666,873	1,626,011
Total Operating Expenses	**$1,827,166**	**$1,786,693**	**$1,738,640**
Operating Loss	($397,578)	($435,220)	($475,263)
Nonoperating Revenue	519,800	779,690	715,333
Capital and Endowments	13,832	24,345	46,428
Total Nonoperating Revenues	**$533,632**	**$804,035**	**$761,761**
Cumulative Effect of Change in Accounting Policy	–	–	(19,340)
Increase in Net Assets	$136,054	$368,815	$267,158
Net Assets, Beginning of Year	3,449,956	3,081,141	2,813,983
Net Assets, End of Year	**$3,586,010**	**$3,449,956**	**$3,081,141**

Revenues are classified as either operating or nonoperating. Operating revenues include tuition and fees, grants and contracts, auxiliary enterprises, and sales and services. Tuition and fees and housing are shown net of an allowance for scholarships. If scholarships awarded to students exceed the amount owed for tuition and housing, the amounts paid to students are shown as expenses. Nonoperating revenues include state appropriations, investment income and private gifts. Because Purdue is a public university, nonoperating revenues are an integral part of its operating budget. Private gifts for capital projects and additions to the University's permanent endowment are also considered nonoperating sources of revenue but are not part of the University's operating budget. Figure 4 provides information about the University's sources of revenues, excluding endowments and capital, for the Fiscal Years 2012 and 2011. Overall, as of June 30, 2012 and 2011, the University had a net increase in net assets of $136,054,000 and $368,815,000, respectively.

Figure 4



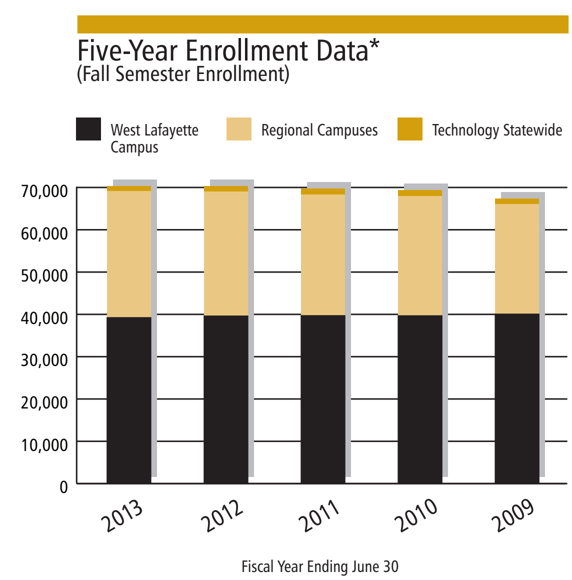
Total operating revenues increased $78,115,000, or 5.8%, from $1,351,473,000 in Fiscal Year 2011 to $1,429,588,000 in Fiscal Year 2012. There was an increase of $88,096,000, or 7.0%, from Fiscal Year 2010 to Fiscal Year 2011. Net tuition and fee revenue increased $47,964,000 and $44,409,000 in Fiscal Years 2012 and 2011, respectively, primarily resulting from a student fee rate increase of approximately 3.5% and 2.5% for West Lafayette and the Regional campuses, respectively. Enrollment increased across all campuses by 565 and 339 students in Fiscal Years 2012 and 2011, respectively. West Lafayette's enrollment decreased by 89 students in Fiscal Year 2012 compared to the increase of 29 students in Fiscal Year 2011. Enrollment patterns for the past five years are illustrated in Figure 5.

Operating grant and contract revenue increased $8,774,000 and $27,175,000 in Fiscal Years 2012 and 2011, respectively. The large increase in fiscal year 2011 is attributed to receiving additional grants related to the American Recovery and Reinvestment Act (ARRA).

Auxiliary Enterprise revenue increased $18,531,000 and $12,190,000 in Fiscal Years 2012 and 2011, respectively. The change in fiscal year 2012 was driven by a 2% rate increase for housing, new fitness and wellness fees, and an increase in athletic revenue. The change in fiscal year 2011 was driven by a 3.95% rate increase in housing and an increase in athletic revenue.

Total operating expenses increased from $1,786,693,000 as of June 30, 2011, to $1,827,166,000 as of June 30, 2012. Compensation and benefits, which makes up approximately 67% of operating expenses, increased $19,648,000 and $28,591,000 in Fiscal Years 2012 and 2011, respectively. Compensation and Benefits increased by less than 2.6% in both years. Supplies and services,

Figure 5



* *Enrollment figures do not include Purdue University students enrolled at the Indiana University-Purdue University Indianapolis campus.*

which makes up approximately 23% of operating expenses, increased $16,169,000 and 7,329,000 in Fiscal Years 2012 and 2011, respectively. Supplies and services total increase was below 4.1% in both years.

Nonoperating revenues (net of expenses) decreased $259,890,000 in Fiscal Year 2012 and increased $64,357,000 in Fiscal Year 2011. In Fiscal Year 2012, the primary reason for the change was a decrease in investment income of approximately $254,760,000. In Fiscal Year 2011, the primary reason for the change was an increase in investment income of approximately $59,074,000. As of June 30, 2012, the University's endowment decreased 2.1% and the Standard and Poor's (S&P) 500 index decreased 1.8%, whereas, as of June 30, 2011, the University's endowment increased 22.9% and the Standard and Poor's (S&P) 500 index increased 30.7%. The University's endowment was invested 37.9% in public equities, 15.6% in fixed income and 46.5% in private investments. The portfolio composition did not materially change from prior years with only a slight shift of 3% from public equities to private investments.

Capital and Endowment income decreased $10,513,000 or 43.2% over the previous year from $24,345,000 in Fiscal Year 2011 to $13,832,000 in Fiscal Year 2012. Capital gifts decreased $5,154,000 and $14,722,000 in Fiscal Years 2012 and 2011, respectively. Private Gifts for Endowments decreased $3,769,000 and $4,229,000 as of June 30, 2012 and 2011, respectively. The decrease in both fiscal years was a result of the turbulent economic conditions over the last two years.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides a means to assess the financial health of the University by providing relevant information about the cash receipts and cash payments of the University during the fiscal year. It assists in determining whether an entity has the ability to generate future net cash flows to meet its obligations as they become due, and to determine the need for external financing. The Statement of Cash Flows presents sources and uses of cash and cash equivalents in four activity-based categories: operating, noncapital financing, investing, and capital and related financing. Table 3 provides a summarized comparison of the University's sources, uses, and changes in cash and cash equivalents.

Table 3. Summarized Comparison of Changes in Cash and Cash Equivalents (Dollars in Thousands)

	2012	2011	2010
Cash Used by Operating Activities	($274,627)	($307,465)	($365,748)
Cash Provided by Noncapital Financing Activities	559,613	549,958	552,406
Cash Provided (Used) by Investing Activities	(66,486)	(167,123)	86,112
Cash Used by Capital and Related Financing Activities	(304,765)	(127,588)	(221,668)
Net Increase (Decrease) in Cash and Cash Equivalents	($86,265)	($52,218)	$51,102
Cash and Cash Equivalents, Beginning of Year	510,192	562,410	511,308
Cash and Cash Equivalents, End of Year	**$423,927**	**$510,192**	**$562,410**

The University's focus on managing its operations described above is reflected in the steady decrease in the cash used by operating activities over the last three fiscal years. The fluctuation in noncapital financing activities reflects the nonoperating revenue changes described above. The fluctuation in investing activities reflects the changes in market conditions during this period. The fluctuation in cash flows used by capital and related financing activities over the last three fiscal years reflects the financing strategy and timing of the University's capital plan, which is detailed in the Capital Asset and Debt Administration section.

CAPITAL ASSET AND DEBT ADMINISTRATION

Major Construction Projects

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, faculty and staff. Significant projects completed during Fiscal Years 2012 and 2011 are listed in Table 4 (dollars in thousands). Significant projects in progress as of June 30, 2012, are listed in Table 5 (dollars in thousands).

Table 4. Major Projects Completed (More than $2 Million)

Projects Completed in 2012	Project Budget	Source of Funds
Agricultural and Biological Engineering and Central Machine Shop	$2,800	Reserves and Gift
Calumet Center for Hospitality and Tourism Management	4,700	Gift and Calumet Reserves
Calumet Center for Innovation through Visualization and Simulation	3,700	Grant and Calumet Reserves
First Street Towers West	17,700	Bonds
Fort Wayne Parking Garage #3	15,500	Bonds
Fort Wayne Student Services & Library Complex	42,400	Bonds, Gifts, and Appropriations
Harrison Hall Sprinkler System and AC Renovation	11,500	Departmental Reserves
Krannert Building Management and Economics Library Remodel Phase 3	2,500	Gifts
Marriott Hall of Hospitality & Tourism Management	13,000	Gifts and West Lafayette Reserves
Math Sciences Research Data Center Renovation	2,950	Grants and Departmental Reserves
Northwest Chiller #6 - Installation	2,900	West Lafayette Reserves
Total Major Projects Completed	**$119,650**	

Projects Completed in 2011	Project Budget	Source of Funds
Bill & Sally Hanley Hall — Human Development	$11,500	Gifts and Grant
Calumet — Powers Building Infrastructure Upgrade	3,260	Grant and Calumet Reserves
Campus-Wide Tunnel Repair and Waterproofing, Phase I	2,000	Bonds
Fort Wayne Music Building Philharmonic Addition	4,500	Gifts
Fort Wayne Student Housing Phase 3	38,000	Bonds
Gatewood Wing — Mechanical Engineering Building	34,500	Bonds and Gifts
Lilly Hall West Wing Renovations	28,550	Bonds
McCutcheon Hall Fire Protection and Air Conditioning	11,210	Departmental Reserves
Printing Services and Grounds Maintenance Facility Relocation	5,500	F&A Recovery and Endowment Income
Wade Utility MACT Compliance	9,000	Bonds
Wetherill Air Handler Units Replacement	12,000	Bonds
Young Hall Floors 9 and 10 Renovation	4,460	Repair and Rehabilitation Funds
Total Major Projects Completed	**$164,480**	

Table 5. Major Construction Projects in Progress (More than $2 Million)

Major Projects in Progress	Project Budget	Source of Funds
Bindley Bioscience Center Addition	$14,900	Grant
Calumet Cooling Tower Replacement	2,700	Calumet Reserves
Calumet Energy Savings Projects	2,520	Bonds
Drug Discovery Facility	20,000	Bonds and Gifts
Elliott Hall of Music Sprinkler System Installation	3,550	Repair and Rehabilitation Funds
Energy Perf Contract - Brown, Stewart Center, & Civil Engineering	4,500	Bonds
Health and Human Sciences Research Facility	53,700	Bonds and Gifts
Heine Pharmacy Building Lab Renovations	2,500	Gifts
Herrick Laboratory Replacement, Phase I	23,500	Gift and Grant
High Voltage Improvement Phase II	25,100	Bonds
Lilly Hall West Wing Renovations	28,550	Bonds
Mackey Complex Renovation & Addition	99,500	Gifts and Certificates of Participation
Metering Installation	5,000	West Lafayette Reserves
Northwest Athletics Complex Phase 1	21,000	Departmental Reserves
Storm Sewer Modifications	9,500	Bonds
Student Fitness and Wellness Center Renovation & Addition	98,000	Bonds and Gifts
Wade Boiler #7 — Purchase	4,300	West Lafayette Reserves
Wang Hall of Electrical and Computer Engineering	18,000	Gift and West Lafayette Reserves
Windsor Residence Halls Renovation	59,600	Bonds
Total Major Projects in Progress	**$496,420**	

In addition, the Trustees have authorized the following major projects in which construction has not been started as of June 30, 2012, and may not have state approval (dollars in thousands).

Table 6. Major Projects Authorized — Not Started (More than $2 Million)

Major Project Budgets Authorized	Project Budget	Source of Funds
Authorized in 2010		
Calumet Emerging Technologies Building	$28,900	Bonds
Center for Student Excellence and Leadership	30,000	Endowment Income and Athletics
Herrick Labs Center for Advanced Acoustics Research Addition	12,500	Grants and Departmental
North Central Student Services and Activities Complex	34,700	Bonds and Gifts
Authorized in 2011		
Ralph and Bettye Bailey Hall	8,180	Gifts
Authorized in 2012		
Harrison Hall Bathroom Renovation	3,020	Departmental Reserves
Stewart Center Fire Alarm and Sprinkler System Installation	4,100	Repair and Rehabilitation Funds
Thermal Energy Storage	16,800	Appropriations and West Lafayette Reserves
Vawter Field Housing	39,900	Bonds and Departmental Reserves
Wade Power Plant Improvements	33,100	Bonds
Young Hall Floors 2, 3, and Partial Basement Renovation	4,500	West Lafayette Reserves
Zucrow Building Complex Electrical System Replacement	3,900	Repair and Rehabilitation and Student Fees
Total Major Project Budgets Authorized — Not Started	**$219,600**	

DEBT AND FINANCING ACTIVITIES

Bonds, Leases and Notes (Net) obligations totaled $931,897,000 and $973,933,000 as of June 30, 2012 and 2011, respectively. These obligations are approximately 76% and 77% of the total liabilities of the University in Fiscal Year 2012 and 2011, respectively. The University's debt portfolio as of June 30, 2012, consisted of $105,110,000 of variable rate instruments or 11.3%, compared to $826,787,000 in fixed rate obligations. The University's debt portfolio as of June 30, 2011, consisted of $104,186,000 of variable rate instruments or 10.7%, compared to $869,747,000 in fixed rate obligations. As of June 30, 2012 and 2011, the University had a credit rating of Aaa from Moody's Investors Service. Purdue's Standard & Poor's rating for fixed rate debt was AA+ as of June 30, 2012 and 2011. The University was one of only eight public higher education institutions whose Moody's credit rating was Aaa. In addition, the University's variable-rate debt received short-term ratings by Moody's of VMIG-1/P-1 and by Standard & Poor's of A-1+. Table 7 shows major debt issued in Fiscal Years 2012 and 2011. For additional details see Note 6.

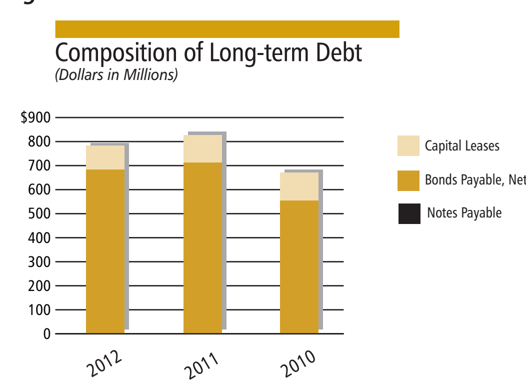
Table 7. Debt Issued in Fiscal Years 2012 and 2011

Issued in Fiscal Year 2011	Interest Rates	Final Maturity Dates	Issue Amount
Certificates of Participation with Ross-Ade:			
Series 2011A			
Used to finance the renovation of Mackey Arena	0.15%*	2035	$32,185
Student Facilities System Revenue Bonds:			
Series 2010A			
Used to finance the renovation of West Lafayette student housing facilities and refund a portion of commercial paper	1.90-5.96%	2030	24,985
Series 2011A			
Used to refund a portion of Student Facilities System Revenue Bond Series 2004A, 2005A and 2007C	2.00-5.00%	2025	49,440
Student Fee Bonds:			
Series Z-1			
Used to refund a portion of commercial paper and a portion of Student Fee Bond Series H, K, L, O and R	4.00-5.00%	2024	68,320
Series Z-2			
Used to finance construction of the West Lafayette Student Fitness and Wellness Center and the Fort Wayne Parking Garage, and a portion of R&R projects	1.04-5.33%	2035	100,705
No Debt was Issued in Fiscal Year 2012			
Total Debt Issued			**$275,635**

*Variable interest rates are reset weekly and are based upon market conditions. Rates shown as of June 30, 2012.

Figure 6 compares the composition of long-term debt (noncurrent portion) by fiscal year.

Figure 6



ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Entering the second year of the 2011-2013 biennial period, fiscal year 2013 state operating appropriations for the University remained flat at fiscal year 2012 levels. Although no funds were appropriated for repair and rehabilitation projects at any of the campuses, the University continues its commitment to these important investments using other available resources.

The University has submitted its 2013-2015 legislative request to the state, based on instructions issued from the Indiana Commission for Higher Education (CHE) and the Indiana State Budget Agency. The Operating Appropriations request is calculated using a performance funding formula defined in the instructions. The formula is based on a series of metrics, many of them student-based: overall degree completion, at-risk student degree completion, high impact degree completion, student persistence incentive, on-time graduation rate metric, and an institution-defined productivity metric. No assumption was included for maintenance/price increases. Any adjustments for research growth on the West Lafayette campus or growth in dual credit offerings may be considered by CHE outside of the funding formula. The January 2013 legislative session will set Purdue's operating appropriations for the next biennium. While effects of the national recession are severe and ongoing, fiscal year 2012 provided substantial financial improvement for state revenues, marking the second straight year of positive results.

Enrollment reached an all-time high at all Purdue campuses with 70,274* for the fall semester of the 2013 academic year — up from 70,259* the previous year. Enrollment at the West Lafayette campus was 39,256, a decrease of 381 students from the fall semester of the 2012 academic year. The academic quality of its freshman class at the West Lafayette campus increased for the sixth consecutive year. Cumulative SAT scores for the freshman class increased 18 points and are 32 points better than the class that came to Purdue two years ago. Purdue's West Lafayette campus freshman class has 6,291 students, down from 6,659 last year.

The University is positioned to maintain its strong financial position into the future.

**Enrollment figures do not include Purdue University students enrolled at the Indiana University-Purdue University Indianapolis campus.*

STATEMENT OF NET ASSETS

	As of June 30	
	2012	2011
	(Dollars in Thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$423,927	$510,192
Investments	64,872	55,968
Accounts Receivable, Net of Allowance for Uncollectible Amounts	90,277	85,152
Pledges Receivable, Net of Allowance for Uncollectible Amounts	25,563	27,434
Notes Receivable, Net of Allowance for Uncollectible Amounts	4,910	8,214
Other Assets	30,447	26,432
Total Current Assets	$639,996	$713,392
Noncurrent Assets:		
Investments	2,134,609	2,072,415
Pledges Receivable, Net of Allowance for Uncollectible Amounts	28,061	31,289
Notes Receivable, Net of Allowance for Uncollectible Amounts	52,850	48,526
Interest in Charitable Remainder Trusts	9,871	18,747
Capital Assets, Net of Accumulated Depreciation	1,944,336	1,835,976
Total Noncurrent Assets	**4,169,727**	**4,006,953**
Total Assets	**$4,809,723**	**$4,720,345**
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Expenses	98,331	113,913
Deferred Revenue	41,271	37,829
Deposits Held in Custody for Others	35,013	21,870
Securities Lending Liability	-	9,936
Accrued Compensated Absences	26,164	26,504
Bonds (Net), Leases and Notes Payable	136,243	147,570
Total Current Liabilities	**$337,022**	**$357,622**
Noncurrent Liabilities:		
Accrued Compensated Absences	33,523	31,797
Other Post Employment Benefits	30,694	27,263
Funds Held in Trust for Others	6,896	7,411
Advances from Federal Government	19,924	19,933
Bonds (Net), Leases and Notes Payable	795,654	826,363
Total Noncurrent Liabilities	**886,691**	**912,767**
Total Liabilities	**$1,223,713**	**$1,270,389**

STATEMENT OF NET ASSETS (CONTINUED)

	As of June 30	
	2012	2011
	(Dollars in Thousands)	
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	$1,094,127	$1,035,092
Restricted		
Nonexpendable		
Instruction and Research	243,695	223,563
Student Aid	207,310	194,476
Other	21,574	30,141
Total Nonexpendable	$472,579	$448,180
Expendable		
Instruction, Research and Public Service	150,308	153,527
Student Aid	83,884	75,895
Construction	32,550	30,387
Other	449,212	503,159
Total Expendable	715,954	762,968
Unrestricted	**1,303,350**	**1,203,716**
Total Net Assets	**$3,586,010**	**$3,449,956**

See Accompanying "Notes to the Financial Statements."

Discovery Park fountain

COMPONENT UNIT

Statement of Financial Position

	Purdue Research Foundation Statement Reported as of June 30, 2012 (Dollars in Thousands)
ASSETS:	
Cash and Cash Equivalents	$12,906
Accounts and Other Receivables	14,457
Pledges Receivable, Net	15
Investments in Securities	797,481
Notes Receivable	1,539
Investment in Affiliates	9,199
Real Estate, Net	138,710
Other Assets and Equipment, Net	15,626
Interest in Charitable Perpetual Trusts	13,801
Total Assets	$1,003,734
LIABILITIES AND NET ASSETS:	
Accounts Payable and Other Accrued Expenses	$14,190
Due on Split Interest Agreements	51,165
Net Funds Held as Custodian	52,002
Bonds Payable	79,808
Mortgages, Notes Payable and Line of Credit	9,125
Gift Annuity Payable	4,896
Other Liabilities	3,591
Total Liabilities	$214,777
NET ASSETS:	
Unrestricted	$77,637
Temporarily Restricted	585,915
Permanently Restricted	125,405
Total Net Assets	**$788,957**
Total Liabilities and Net Assets	**$1,003,734**

Purdue Technology Center of Southeast Indiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For the Year Ended June 30	
	2012	2011
	(Dollars in Thousands)	
Operating Revenues		
Tuition and Fees	$707,796	$659,832
Federal Grants	14,331	15,683
County Grants	9,012	7,951
Grants and Contracts	375,341	366,567
Sales and Services	65,522	65,219
Auxiliary Enterprises (Net of Scholarship Allowance of $12,725 and $13,444 respectively, pledged, see note 6)	250,744	232,213
Other Operating Revenues	6,842	4,008
Total Operating Revenues	**$1,429,588**	**$1,351,473**
Operating Expenses		
Compensation and Benefits	1,220,731	1,201,083
Supplies and Services	411,786	395,617
Depreciation Expense	126,284	119,820
Scholarships, Fellowships and Student Awards	68,365	70,173
Total Operating Expenses	**$1,827,166**	**$1,786,693**
Net Operating Loss	**(397,578)**	**(435,220)**
Nonoperating Revenues (Expenses)		
State Appropriations	389,078	385,300
Grants and Contracts	73,261	77,973
Private Gifts	70,647	67,160
Investment Income (Loss)	16,034	270,794
Interest Expense	(32,843)	(27,665)
Other Nonoperating Revenues, Net	3,623	6,128
Total Nonoperating Revenues before Capital and Endowments	**$519,800**	**$779,690**
Capital and Endowments		
Capital Gifts	133	5,287
Private Gifts for Permanent Endowments and Charitable Remainder Trusts	20,048	23,817
Plant Assets Retired and Insurance Recoveries	(6,349)	(4,759)
Total Capital and Endowments	**$13,832**	**$24,345**
Total Nonoperating Revenues	**533,632**	**804,035**
INCREASE (DECREASE) IN NET ASSETS	$136,054	$368,815
Net Assets, Beginning of Year	$3,449,956	$3,081,141
Net Assets, End of Year	$3,586,010	$3,449,956

See Accompanying "Notes to the Financial Statements."

COMPONENT UNIT

STATEMENT OF ACTIVITIES

	Purdue Research Foundation Statement Reported as of June 30, 2012 (Dollars in Thousands)
Revenue and Support	
Amount Received for Purdue University Research Projects	$192
Less Payments to Purdue University	(192)
Administrative Fee on Research Projects	–
Contributions	$12,625
Income on Investments	13,683
Net Unrealized and Realized Gains	(24,090)
Change in Value of Split Interest Agreements	(2,024)
Decrease in Interests in Perpetual Trusts	(1,366)
Rents	12,229
Royalties	4,809
Other	3,612
Net Assets Released from Restrictions	–
Total Revenue and Support	**$19,478**
Expenses and Losses	
Expenses for the Benefit of Purdue University	
Contributions to Purdue University	$20,822
Patent and Royalty	(5,803)
Grants	12,103
Services for Purdue University	1,134
Development Office	721
Other	2,987
Total Expenses for the Benefit of Purdue University	**$31,964**
Administrative and Other Expenses	
Salaries and Benefits	$8,857
Property Management	9,251
Professional Fees	3,452
Supplies	340
Interest	4,658
Research Park	572
Other	3,782
Total Administrative and Other Expenses	**$30,912**
Change in Net Assets	($43,398)
Net Assets, Beginning of Period	832,355
Net Assets, End of Period	**$788,957**

STATEMENT OF CASH FLOWS

	For the Year Ended June 30	
	2012	2011
	(Dollars in Thousands)	
Cash Flows by Operating Activities		
Tuition and Fees, Net of Scholarship Allowances	$708,855	$660,296
Federal Appropriations	14,331	15,683
County Appropriations	9,012	7,951
Grants and Contracts	367,859	366,836
Sales and Services	66,390	63,250
Auxiliary Enterprises, Net of Scholarship Allowances	248,647	233,540
Other Operating Revenues	21,330	3,038
Compensation and Benefits	(1,223,785)	(1,189,377)
Supplies and Services	(418,043)	(394,809)
Scholarships, Fellowships and Student Awards	(68,285)	(71,018)
Student Loans Issued	(10,323)	(11,240)
Student Loans Collected	9,385	8,385
Cash Used by Operating Activities	**$(274,627)**	**$(307,465)**
Cash Flows by Noncapital Financing Activities		
State Appropriations	389,078	385,300
Grants and Contracts	73,261	77,973
Gifts for Other than Capital Purposes	94,746	80,512
Funds Held in Trust for Others	(1,095)	45
Other Nonoperating Revenues, Net	3,623	6,128
Cash Provided by Noncapital Financing Activities	**$559,613**	**$549,958**
Cash Flows by Investing Activities		
Purchases of Investments	(2,968,462)	(3,701,303)
Proceeds from Sales and Maturities of Investments	2,862,695	3,492,882
Interest and Dividends on Investments, Net	39,281	41,298
Cash Provided (Used) by Investing Activities	**$(66,486)**	**$(167,123)**
Cash Flows by Capital and Related Financing Activities		
Debt Repayment	(41,928)	(192,161)
Capital Debt Proceeds	5,515	322,256
Interest Expense	(39,853)	(31,225)
Capital Gifts Received	7,137	18,752
Construction or Purchase of Capital Assets	(235,636)	(245,210)
Cash Used by Capital and Related Financing Activities	**$(304,765)**	**$(127,588)**
Net Increase (Decrease) in Cash and Cash Equivalents	(86,265)	(52,218)
Cash and Cash Equivalents, Beginning of Year	510,192	562,410
Cash and Cash Equivalents, End of Year	**$423,927**	**$510,192**

STATEMENT OF CASH FLOWS (CONTINUED)

Reconciliation of Cash Used for Operating Activities (Indirect Method)

	For the Year Ended June 30	
	2012	**2011**
	(Dollars in Thousands)	
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	$(397,578)	$(435,220)
Depreciation Expense	126,284	119,820
Noncash investing, capital and financing activities	666	1,138
Changes in Assets and Liabilities:		
Accounts Receivable	(5,620)	(4,173)
Notes Receivable	(1,020)	(2,835)
Other Assets	(4,133)	(5,102)
Accrued Compensated Absences	4,816	8,924
Accounts Payable	(13,633)	7,877
Deferred Revenue	15,600	2,143
Advances from Federal Government	(9)	(37)
Cash Used by Operating Activities	**$(274,627)**	**$(307,465)**

See Accompanying "Notes to the Financial Statements."

Discovery Park

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ending June 30, 2012

NOTE 1 — BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION:

Established in 1869, Purdue University (the University) is the land-grant university for the state of Indiana. The University is a comprehensive, degree-granting research university with 27 schools and colleges on its main campus in West Lafayette and the following regional campuses:

- Indiana University-Purdue University Fort Wayne
- Purdue University Calumet
- Purdue University North Central

In addition to its academic programs offered at the above campuses, the University offers learning and other assistance programs at several other locations in the state of Indiana through:

- College of Technology Statewide Technology Program
- College of Agriculture Purdue Extension
- Technical Assistance Program

The responsibility for making rules and regulations to govern the University is vested in a 10-member Board of Trustees (the Trustees). The selection of these trustees is prescribed in Indiana Code IC 21-23-3. Three of the trustees are selected by the Purdue Alumni Association. The other seven trustees are selected by the governor. Two of the trustees must be involved in agricultural pursuits, and one must be a full-time student of the University. All trustees serve for a period of three years, except for the student member, who serves for two years.

REPORTING ENTITY:

Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB No. 39, "Determining Whether Certain Organizations Are Component Units," defines the financial reporting entity as an entity that consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete.

The Purdue Foundation, Inc. was created in 1979 as a separately incorporated, not-for-profit entity. The primary purpose of the foundation is the solicitation, receipt and acceptance of gifts, donations and bequests of funds and other property for the benefit of the University. The foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. The University is the sole beneficiary of The Purdue Foundation. Complete financial statements for the foundation can be obtained by writing to: The Purdue Foundation, 1281 Win Hentschel Blvd., West Lafayette, IN 47906.

Ross-Ade Foundation was created in 1923 as a separately incorporated, not-for-profit entity. The Ross-Ade Foundation constructs athletic and parking facilities on behalf of the University. Complete financial statements for the foundation can be obtained by writing to: Ross-Ade Foundation, 1281 Win Hentschel Blvd., West Lafayette, IN 47906.

As additionally required by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units," organizations that raise and hold economic resources for the direct benefit of the University are included in the reporting entity as discretely presented component units.

Purdue Research Foundation (PRF) was created in 1930 as a separately incorporated, not-for-profit entity. Its primary purpose is to promote the educational purpose of the University; award scholarships, grants or other financial assistance to students and faculty; seek, acquire and hold gifts and endowments for the needs of the University; and acquire property or facilities for the future use or benefit of the University. PRF is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. PRF includes the wholly owned subsidiary McClure Park, LLC, which is a for-profit Indiana corporation that was formed to acquire, construct, lease, operate, convey and mortgage real estate and personal property of every kind and any interest therein. McClure Park wholly owns single member limited liability subsidiaries and participates in several limited liability corporations primarily accounted for using the equity method. PRF reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, "Financial Reporting of Not-for-Profit Organizations." As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundations' financial information in the University's financial report for these differences. Complete financial statements for the foundation can be obtained by writing to: Purdue Research Foundation, 1281 Win Hentschel Blvd., West Lafayette, IN 47906.

The University has an association with Indiana University-Purdue University Indianapolis for which it is not financially accountable or has primary access to the resources. Accordingly, this organization has not been included in the University's financial statements.

RELATIONSHIP TO STATE OF INDIANA:

As one of seven public universities in the state, the University is a component unit of the state of Indiana. The University receives funding from the state for operations, repair and maintenance, and debt service. Its nonexempt employees participate in the state's public employees retirement program.

TAX-EXEMPT STATUS:

The income generated by the University, as an instrument of the state, is generally excluded from federal income taxes under Section 115(a) of the Internal Revenue Code. The University also has a determination letter from the Internal Revenue Service stating it is exempt under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Income generated from activities unrelated to the University's exempt purpose is subject to tax under Internal Revenue Code Section 511(a)(2)(B). There was no tax liability related to income generated from activities unrelated to the University's exempt purpose as of June 30, 2012 and 2011.

BASIS OF PRESENTATION:

The financial statements of the University have been prepared in accordance with the principles contained in GASB Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments," as amended by GASB Statement No. 35, "Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities."

During fiscal year 2012, the University did not adopt any new GASB pronouncements. During fiscal year 2011, the University adopted GASB Statement No. 59, "Financial Instruments Omnibus."

BASIS OF ACCOUNTING:

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation is incurred.

The University applies all applicable GASB pronouncements. In addition, the University has chosen to only apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents. Cash and cash equivalents include cash, revolving and change funds, cash in transit, credit card deposits in transit, securities lending cash collateral, and certain investments with maturities of three months or less as of the balance sheet date. It is the University's practice to invest operating cash balances and bond proceeds in investments of varying maturity dates. Investments, exclusive of endowment funds, that are included in cash equivalents represent short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity date that they present insignificant risk of changes in value because of changes in interest rates. Cash purchases and sales of those types of investments are part of the University's cash management activities rather than part of its operating, capital, investing and financing activities; details of these transactions are not reported in the Statement of Cash Flows.

Investments. Investments, exclusive of institutional physical properties, are generally reported at fair value. Fair value is generally based on quoted market price as of June 30, except for certain investments, primarily private equity partnerships, hedge funds and similar alternative investments, for which quoted market prices are not available. The estimated fair value of these investments is based on valuations provided by external investment managers within the past fiscal year through June 30. Because alternative investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market value for such investments existed. Investments, exclusive of endowment funds, may be classified current or noncurrent, depending on the individual investments' maturity date at June 30. Endowment funds are primarily included in noncurrent investments, with the exception of amounts designated for distribution.

Accounts Receivable. Accounts receivable primarily represent grant, contract and student payments due the University and are shown net of an allowance for doubtful accounts.

Pledges Receivable. Pledges receivable are accrued as of the end of the fiscal year, provided the pledge is verifiable, measurable and probable of collection. Pledges receivable do not include gifts made in anticipation of estates, telephone solicitations or promises of endowment funds. An allowance for uncollectible pledges is calculated based on the University's experience.

Notes Receivable. Notes receivable primarily represent student loan repayments due the University and are presented net of allowance for doubtful accounts.

Inventories. Inventories are composed of (1) consumable supplies and items held for resale or recharge within the University, (2) fuel for consumption, and (3) livestock and grain. The inventory of coal is valued on the First In/First Out (FIFO) basis and limestone is valued on the First In/First Out (FIFO) basis. Oil inventory is valued using the weighted-average method. Consumable supplies and items for resale are priced on a moving-average basis. Cattle and grain inventories are valued at market. Other miscellaneous inventories are generally valued on the First In/First Out (FIFO) basis. Agricultural commodities are reported using the consumption method and are measured by physical count. Consumable supplies and items held for resale are reported using the purchase method and are measured using the moving average cost method.

Prepaid Expenses. Prepaid expenses include amounts paid for services attributable to future fiscal years. These services include insurance, equipment leases, services of consultants, subscriptions and certain subcontracts. Bond issuance costs, premiums and discounts are only capitalized when such costs exceed $500,000 per single issue. Premium and discount amortization is computed using the declining balance method with a yearly convention over the life of the debt.

Interest in Charitable Remainder Trusts. The PRF Trust Funds are various revocable and irrevocable trusts established for the benefit of the University, the Purdue Research Foundation, the former Purdue Alumni Foundation and affiliates. PRF acts as trustee for these trusts. The Internal Revenue Service has determined that the PRF Trust Funds are exempt from federal income tax as defined in Sections 642 and 664 of the Internal Revenue Code.

The University records its interest in PRF Trusts' charitable remainder trusts based on the estimated present value of future cash flows. Future cash flows are estimated using an assumed investment rate of return on the underlying investments that will satisfy the trust requirements and an applicable discount rate at the time of contribution. The University's discretely presented component unit reflects their respective PRF Trust interest on the Statement of Financial Position. As of June 30, 2012 and 2011, the fair value of funds held by PRF Trusts for the University was approximately $19,102,000 and $28,083,000, respectively. Change in fair value from one fiscal year to the next is reflective of changes in the market value of the underlying investments, new trusts being added, and the maturation and liquidation of existing trusts.

Capital Assets. Capital assets are stated at cost or fair market value at date of gift. Items are capitalized when their value exceeds the threshold shown in the following table and its estimated useful life is greater than one year. Depreciation is computed on a straight-line basis over the estimated useful life, as shown in the following table. Capital assets are removed from the records at the time of disposal.

Renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project. Interest incurred during the construction phase is included as part of the value of the construction in progress.

Assets under capital leases are capitalized when valued over $500,000 and recorded at the present value of future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or the estimated useful life. Such amortization is included as depreciation expense in the accompanying financial statements.

The University does not capitalize works of library collections and art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means.

Property Class	Threshold	Useful Life
Land	$100,000	Not depreciated
Land Improvements	$100,000	5-25 years
Infrastructure	$100,000	5-25 years
Buildings and Related Components	$100,000	10-50 years
Moveable Equipment (including fabricated equipment)	$5,000	More than one year
Intangible Assets (software)	$500,000	7 years

Accrued Compensated Absences. Liabilities for compensated absences are recorded for vacation leave based on actual amounts earned as of the balance sheet date. Exempt employees may accrue vacation benefits up to a maximum of 44 days. Clerical and service staff may earn vacation up to 320 hours. For all classes of employees, vacation is payable upon termination. An estimate of sick leave liability is recorded for regular clerical and service staff based on historical termination payments. Upon meeting the definition of an official University retiree, regular clerical and service staff are eligible to receive cash payments for 25% of all unused sick leave up to and including 520 hours and 100% of all hours over 520. The liability for compensated absences is expected to be funded by various sources of revenue that are available in future years when the liability is paid.

Deferred Revenue. Deferred revenue consists primarily of cash received from grant and contract sponsors that has not yet been earned under the terms of the agreement. Deferred revenue also includes amounts received in advance of an event, such as student tuition and advance ticket sales related to future fiscal years.

Deposits Held In Custody for Others. Deposits of affiliates and others represent cash and invested funds held by the University as a result of agency relationships with various groups. Noncurrent deposits of affiliates represent the portion of endowment and similar funds held by the University on behalf of others.

Funds Held In Trust for Others. The University holds life income funds for beneficiaries of the pooled income fund, charitable remainder trusts and the gift annuity program. These funds generally pay lifetime income to beneficiaries, after which the principal is made available to the University in accordance with donor intentions. All life income fund assets, including those held in trust, are recorded at fair value net of related liabilities for the present value of estimated future payments due to beneficiaries.

Net Assets. University resources are classified for accounting and financial reporting purposes into four net asset categories:

- **Invested in capital assets, net of related debt:** Resources resulting from capital acquisition or construction, net of accumulated depreciation and net of related debt. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- **Restricted-nonexpendable:** Net assets subject to externally imposed stipulations that the funds be maintained inviolate and in perpetuity. Such assets include the University's permanent and term endowment funds and are categorized as instruction and research, student aid, and other.
- **Restricted-expendable:** Net assets that may be spent provided certain third-party restrictions are met. The following categories of restricted-expendable net assets are presented: instruction, research and public service; student aid; auxiliary enterprises; construction; and other. As of June 30, 2012 and 2011, approximately 89% or $401,254,000 and 88% or $443,232,000, respectively, of the "other" category results from undistributed gain on endowment funds and the fair value of funds functioning as endowments where the donor has restricted the use of the funds for a particular purpose. Neither component is available for general institutional use.
- **Unrestricted:** Net assets not subject to externally imposed stipulations pertaining to their use. Management may designate that these funds will be spent for certain projects or programs or to fulfill certain long-term goals. Management has designated substantially all unrestricted net assets for academic and capital purposes.

Intrauniversity Transactions. Intrauniversity transactions are eliminated from the statements to avoid double counting of certain activities. Examples of these transactions are internal loans and sales and services between University departments.

Classification of Revenues and Expenses. The University has classified revenues and expenses as operating or nonoperating based upon the following criteria:

- **Operating revenues:** Revenues derived from activities associated with providing goods and services for instruction, research, public service, health services, or related support to entities separate from the University and that result from exchange transactions. Exchange activities are transactions where the amount received approximates the fair market value of the goods or services given up. Examples include student tuition and fees, grants and contracts, auxiliary operations (such as Intercollegiate Athletics and Housing and Food Services), sales and service operations, federal land-grant appropriations, and county appropriations.

- **Operating expenses:** Expenses paid to acquire or produce goods and services provided in return for operating revenues and to carry out the mission of the University. Examples include compensation and benefits, travel, and supplies. Graduate, staff, staff dependent and staff spouse fee remissions are included with compensation and benefits. Expenses are reported using natural classifications in the Statement of Revenues, Expenses and Changes in Net Assets. Functional reporting appears in Note 8. Indirect expenses, such as depreciation, are not allocated across functional categories.

- **Nonoperating revenues and expenses:** Revenues and related expenses that do not meet the definition of operating revenues, capital revenues or endowment additions. They are primarily derived from activities that are non-exchange transactions, and from activities defined as such by the GASB cash flow standards. Examples include state appropriations, private gifts, investment income and certain federal financial aid. Nonoperating expenses primarily include interest on short-term and long-term borrowings.

Application of Restricted and Unrestricted Resources. When both restricted and unrestricted resources are available for a particular expenditure, University departments may select the most appropriate fund source based on individual facts and circumstances. The University, as a matter of policy, does not require funds to be spent in a particular order, only that the expenditure be allowable, allocable and reasonable to the fund source selected. Restricted funds are categorized as restricted until the external stipulations have been satisfied.

Tuition and Fees. Tuition and fees assessed to students are reported net of scholarship allowances. Scholarship allowances represent amounts credited to students' tuition and fees and include scholarships, Pell Grants and various other types of aid. Student loans are not included in this calculation. Aid applied to housing is shown as an allowance against auxiliary revenues. Aid remitted directly to students is shown as scholarships, fellowships and student awards expenses. Graduate and other employment-related remissions are included with compensation and benefits expenses.

Grants and Contracts. The University has been awarded grants and contracts for which the monies have not been received or expended. These awards have not been reflected in the financial statements but represent commitments of sponsors — both government and other — to provide funds for specific research and training projects.

The University makes commitments to share in the cost of various sponsored projects. Funds to satisfy these commitments are designated when grants and contracts are awarded. As sponsor dollars are spent, the University matches according to the terms of the agreement.

Gifts. The University receives pledges of financial support from many different sources. Gift income is recognized when received or pledged. In-kind gifts of tangible or intangible property are recognized at fair value on the date of gift and are capitalized, if appropriate, subject to the University's policies on capitalization. Revenue from gifts-in-kind of approximately $4,683,000 and $6,149,000 was recognized during the years ending June 30, 2012 and 2011, respectively.

Student Aid. Monies received that are restricted for aid to students by donors who have not specified the recipient are reported in the financial statements as gifts. When aid is awarded to students, it is either reflected as a scholarship allowance or expense.

Use of Estimates. To prepare the financial statements in conformity with accounting principles generally accepted, management must make estimates and assumptions. These estimates and assumptions may 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 and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications. Certain prior-year amounts have been reclassified to conform to the presentation used in the current year.

NOTE 2 — DEPOSITS AND INVESTMENTS

Deposits. As of June 30, 2012 and 2011, the bank balance of the University's deposits (demand deposit accounts) was approximately $80,918,000 and $83,455,000, respectively. $250,000 was covered by federal depository insurance. The remaining balance was insured by the state of Indiana's Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investments. Authorization for investment activity is stated in Indiana Code IC 21-29-2-1. Additionally, the Bylaws of the Trustees, revised and amended on November 10, 2006, authorize the treasurer of the Trustees to implement investment activity. The University had the following investments (dollars in thousands):

Investment Type	June 30, 2012	June 30, 2011
U.S. Agencies	$153,748	$142,466
Asset-Backed Securities	31,992	39,134
Corporate Bonds	341,054	344,059
U.S. Equity	349,019	400,864
International Equity	217,786	235,930
International Fixed Income	5,868	7,138
Marketable Alternatives	246,761	251,512
Mortgage-Backed Securities	256,266	213,500
Private Equity	162,000	156,976
Real Estate	35,802	22,466
U.S. Treasuries and Securities	250,687	165,478
Securities Lending Cash Collateral	-	9,936
Mutual Funds and Cash	491,507	565,660
Total	**$2,542,490**	**$2,555,119**

University Hall

Investment values included accumulated unrealized gains of $123,770,000 and $194,822,000 as of June 30, 2012 and 2011, respectively. Investment income included unrealized losses of $71,052,000 during the year ended June 30, 2012, and unrealized gains of $160,221,000 during the year ended June 30, 2011.

Investment Policies, Interest Rate and Credit Risks. Investments are managed by two separate policies, both of which are approved by the Trustees:

- The cash management investment policy outlining the parameters for all investments exclusive of endowment funds was approved on April 11, 2008. Authorized investments include obligations of the United States (U.S.) government, its agencies and its instrumentalities; asset-backed and mortgage-backed securities (rated at least AAA or equivalent); corporate notes, corporate bonds, 144A bonds and Yankee bonds (rated investment grade) with demonstrated liquidity and marketability; pooled funds, including mutual funds and common trust funds; and high-yield bonds, including corporate bonds and bank loans (minimum credit quality of BB-/Ba3); inclusion in investments managed under the University's endowment investment policy.

  All ratings must be by a nationally recognized rating agency. Portfolios will be invested in securities that result in a weighted average credit quality rating of at least AA or better as recognized by a national rating agency. Bonds rated BBB or lower will not exceed 20% of the portfolio. Funds not required to meet cash needs will be invested over a longer-term horizon.

- The University's endowment investment policy outlining the parameters for endowments investments was approved on April 13, 2012. Authorized investments include equity, fixed income and alternative investments, including commingled investments. The overall policy objective is to generate real returns greater than its spending rate over the long term. The policy sets forth a diversified approach by and within the asset classes with the balanced goal of maximizing return and preserving purchasing power. Moreover, a single manager or affiliated groups of managers will not represent more than 10% of the total endowment's market value. As a partial hedge against prolonged economic contraction, the University has adopted a target allocation of 15% for fixed income. Portfolios will be invested in securities that result in a weighted average credit quality rating of at least AA or better with no single fixed income manager having more than 10% of its portfolio in obligations rated less than BBB or its equivalent by Moody's or Standard & Poor's. Any commercial paper in the portfolio must be rated A-1/P-1 by each rating service rating said credit. Any Bankers acceptances and certificates of deposits in the portfolio must be issued by banks having a Keefe Bruyette & Woods rating of A, A/B or B.

In addition, invested bond proceeds follow investment practices in compliance with arbitrage regulations and generally have maturities of three years or less. These investments are readily available to match expected construction expenditures.

The University had the following fixed-income investments and maturities (dollars in thousands):

June 30, 2012	Maturity				
Sector	0-1 year	1-5 years	6-10 years	>10 years	Totals
U.S. Agencies	$20,089	$128,777	$5	$4,877	$153,748
Asset-Backed Securities	2	13,668	14,973	3,349	31,992
Corporate Bonds	41,056	184,978	87,775	27,245	341,054
International Fixed Income	5,868	–	–	–	5,868
Mortgage-Backed Securities	–	11,649	104,798	139,819	256,266
U.S. Treasuries and Securities	–	216,655	30,345	3,687	250,687
Securities Lending Cash Collateral	–	–	–	–	–
Mutual Funds and Cash	409,482	41,819	19,859	20,347	491,507
Total	**$476,497**	**$597,546**	**$257,755**	**$199,324**	**$1,531,122**

June 30, 2011			Maturity		
Sector	0-1 year	1-5 years	6-10 years	>10 years	Totals
U.S. Agencies	$31,755	$99,959	$10,752	–	$142,466
Asset-Backed Securities	–	21,046	15,597	2,491	39,134
Corporate Bonds	14,982	212,074	97,106	19,897	344,059
International Fixed Income	7,138	–	–	–	7,138
Mortgage-Backed Securities	9,935	2,761	71,476	129,328	213,500
U.S. Treasuries and Securities	8,998	127,734	16,571	12,175	165,478
Securities Lending Cash Collateral	9,936	–	–	–	9,936
Mutual Funds and Cash	469,371	42,773	19,279	34,237	565,660
Total	**$552,115**	**$506,347**	**$230,781**	**$198,128**	**$1,487,371**

The distribution of investment securities by credit ratings is summarized below (dollars in thousands):

	June 30, 2012		June 30, 2011	
AAA	$745,959	29.4%	$653,567	25.6%
AA	65,121	2.6%	124,134	4.9%
A	165,638	6.5%	154,370	6.0%
BAA	134,895	5.3%	116,314	4.6%
BA	15,447	0.6%	21,635	0.8%
B	565	0.0%	3,113	0.1%
CAA	656	0.0%	603	0.0%
Unrated	1,414,209	55.6%	1,481,383	58.0%
Total	**$2,542,490**	**100.0%**	**$2,555,119**	**100.0%**

Investment Custodial Credit Risk. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. Therefore, exposure arises if the securities are uninsured, not registered in the University's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the University's name. Open-ended mutual funds and certain other investments are not subject to custodial risk because ownership of the investment is not evidenced by a security. The University does not have a formal policy for custodial credit risk. As of June 30, 2012 and 2011, all investments were held in University accounts at the University's custodial banks with the exception of private placements and investments in limited partnerships, which totaled approximately $444,564,000 and $430,954,000, respectively.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

In accordance with the cash management investment policy, the University manages its exposure to changes in fair values by limiting the weighted average maturity of its investment portfolio to between 2 and 5 years.

The University endowment, as a long-term pool of capital, has a fixed income policy target of 15% but does not limit the maturity of the individual holdings as a means to manage interest rate risk.

Foreign Currency Risk. Endowment equity managers may invest in common stocks, preferred stocks or fixed-income instruments convertible into common stocks, and American Depository Receipts of foreign corporations. The University's endowment fixed-income managers may invest in foreign fixed-income securities equivalent in quality to permitted domestic securities, but not to exceed 20% of the assets entrusted to the manager. All currency exposures are to be hedged into the U.S. dollar unless otherwise approved by the University. Please refer to the Investment Type table for the University's exposure to international investments. In addition to those investments, the University estimates international exposure in its alternative investments of approximately $67,385,000 and $65,165,000 as of June 30, 2012 and 2011, respectively.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to magnitude of an entity's investment in a single issuer. As of June 30, 2012 and 2011, consistent with policy limits, no single issuer, with the exception of U.S. Treasury and Agencies, held more than 5% of total investments.

Donor-Restricted Endowments. The University's endowment funds (including true, term and funds functioning as endowments) are invested in a unitized pool. The unitized endowment pool purchases investments to generate present and future income in support of various programs. The Trustees establish the spending policy for the unitized endowment pool. Prior to and after July 9, 2010, the approved spending policy distributed 4.5 % and 5.0%, respectively, of the average of the ending values for the prior 12 quarters in semiannual distributions. The distribution includes both income and equity components. As of June 30, 2012 and 2011, accumulated market appreciation of the pool was approximately $366,845,000 and $457,071,000, respectively. Of this amount, 36.71% and 38.46% represents appreciation attributable to donor-restricted (true and term) endowments during the year ended June 30, 2012 and 2011, respectively. The University's endowment policies are subject to the provisions of Indiana Code IC 30-2-12, "Uniform Management of Institutional Funds." Under this section, the Trustees may authorize expenditure — consistent with donors' intent — of net appreciation in the fair value of the assets of the endowment.

Securities Lending. In September 2011, the University terminated its involvement in the Securities Lending program described below. A final payment of approximately $1,842,000 was made on September 21, 2011. This payment consisted of the remaining liability and realized losses associated with the final transaction of approximately $1,777,000 and $65,000.

The treasurer of the University, in accordance with policies established by the Trustees, entered into an agreement with a trust company to participate in a securities-lending program. The market value of the cash collateral was recorded as an asset in the Statement of Net Assets along with a corresponding liability. As of June 30, 2011, the University had securities involved in loans with a market value of approximately $9,756,000. These loans were supported by collateral of approximately $9,974,000 as of June 30, 2011. The collateral amounts included cash of approximately $9,936,000 as of June 30, 2011,

Looking northeast, with Elliott Hall of Music in foreground

which were included in cash and cash equivalents in the Statement of Net Assets. Acceptable non-cash collateral totaled approximately $38,000 as of June 30, 2011. The University did not have the ability to pledge or sell the non-cash collateral received except in the case of borrower default. Non-cash collateral was not included in the University's Statement of Net Assets. Securities lending of domestic securities was cash collateralized on the contract date at 102%, and foreign securities were cash collateralized at 105%. Credit risk was calculated as the aggregate of the lender's exposures to individual borrowers or on individual loans. At June 30, 2011, the University had no aggregate credit risk.

The University and the borrowers of its securities maintained the right to terminate all securities-lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a commingled investment pool owned by the custodian. The maximum weighted maturity of the fund was 90 days. Since the loans could have been called on demand, their duration did not generally match the duration of the investment made with the cash collateral. If the University had to terminate a term loan, the lending agent had the ability to substitute the same security from a different client while returning the University's security. During the year ended June 30, 2011, income from its participation in this securities-lending program was approximately $316,000, with related expense of approximately $200,000. During the year ended June 30, 2011, net income to the University from this program was approximately $116,000. Under the securities-lending agreement, the custodian would remit to the University earnings less rebate fees and expenses on a monthly basis.

NOTE 3 — ACCOUNTS, PLEDGES AND NOTES RECEIVABLES

Accounts and notes receivable consisted of the following (dollars in thousands):

	June 30, 2012	June 30, 2011
Grants and Contracts	$52,776	$48,251
Student and General	27,069	26,843
Other Accrued Revenues	16,576	15,719
Less: Allowance for Doubtful Accounts	(6,144)	(5,661)
Total Accounts Receivable, Net	**$90,277**	**$85,152**

	June 30, 2012	June 30, 2011
Pledges Receivable	$55,664	$60,900
Less: Allowance for Doubtful Pledges	(2,040)	(2,177)
Total Pledges Receivable	53,624	58,723
Less: Noncurrent Portion	(28,061)	(31,289)
Pledges Receivable, Current Portion	**$25,563**	**$27,434**

	June 30, 2012	June 30, 2011
Perkins Loans	$27,188	$27,803
Institutional Loans	19,174	17,976
Other Student Loans	12,058	11,215
Less: Allowance for Doubtful Loans	(660)	(254)
Total Notes Receivables	$57,760	$56,740
Less: Noncurrent Portion	(52,850)	(48,526)
Notes Receivable, Current Portion	**$4,910**	**$8,214**

NOTE 4 — CAPITAL ASSETS

Capital asset activity is summarized below (dollars in thousands). Interest that qualified for interest capitalization was approximately $11,799,000 and $10,976,000 during the years ended June 30, 2012 and 2011, respectively.

Capital Assets Activity	Balance July 1, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Capital Assets, Not Being Depreciated:					
Land	$28,179	$–	$–	$–	$28,179
Construction in Progress	332,229	148,935	1,259	(174,003)	305,902
Total, Capital Assets, Not Being Depreciated	$360,408	$148,935	$1,259	($174,003)	$334,081
Capital Assets, Being Depreciated:					
Land Improvements	67,972	1,100	–	89	69,161
Infrastructure	67,840	1,265	–	7,809	76,914
Buildings	2,184,446	46,792	1,082	164,760	2,394,916
Equipment	463,407	40,526	18,801	1,345	486,477
Software	55,462	2,900	–	–	58,362
Total, Capital Assets, Being Depreciated	$2,839,127	$92,583	$19,883	$174,003	$3,085,830
Less Accumulated Depreciation:					
Land Improvements	52,024	2,429	–	–	54,453
Infrastructure	31,552	4,529	–	–	36,081
Buildings	964,422	77,044	498	–	1,040,968
Equipment	287,607	37,289	13,770	–	311,126
Software	27,954	4,993	–	–	32,947
Total Accumulated Depreciation	$1,363,559	$126,284	$14,268	$–	$1,475,575
Total Capital Assets, Net of Accumulated Depreciation	**$1,835,976**	**$115,234**	**$6,874**	**$–**	**$1,944,336**

Capital Assets Activity	Balance July 1, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Capital Assets, Not Being Depreciated:					
Land	$23,634	$–	$–	$4,545	$28,179
Construction in Progress	205,053	174,931	–	(47,755)	332,229
Total, Capital Assets, Not Being Depreciated	$228,687	$174,931	$–	($43,210)	$360,408
Capital Assets, Being Depreciated:					
Land Improvements	70,248	1,450	–	(3,726)	67,972
Infrastructure	63,694	2,708	–	1,438	67,840
Buildings	2,116,797	23,927	–	43,722	2,184,446
Equipment	449,424	44,987	32,212	1,208	463,407
Software	54,894	–	–	568	55,462
Total, Capital Assets, Being Depreciated	$2,755,057	$73,072	$32,212	$43,210	$2,839,127
Less Accumulated Depreciation:					
Land Improvements	49,314	2,710	–	–	52,024
Infrastructure	27,232	4,320	–	–	31,552
Buildings	891,041	73,381	–	–	964,422
Equipment	279,995	34,996	27,384	–	287,607
Software	23,541	4,413	–	–	27,954
Total Accumulated Depreciation	$1,271,123	$119,820	$27,384	$–	$1,363,559
Total Capital Assets, Net of Accumulated Depreciation	**$1,712,621**	**$128,183**	**$4,828**	**$–**	**$1,835,976**

NOTE 5 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following (dollars in thousands):

	June 30, 2012	June 30, 2011
Construction Payables	$25,980	$25,640
Accrued Insurance Liabilities	26,943	28,386
Interest Payable	16,686	17,188
Accrued Salary and Wages	6,997	9,094
Vendor and Other Payables	21,725	33,605
Total Accounts Payable	**$98,331**	**$113,913**

Accrued Insurance Liabilities. The University is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; accident, health, and other medical benefits provided to employees and their dependents; and long-term disability benefits provided to employees. The University handles these risks of loss through combinations of risk retention and commercial insurance. For buildings and contents, the University's risk retention is $250,000 per occurrence. There is $2,000,000 retention per occurrence or wrongful act for general, automobile, and professional and educators' legal liability coverage. The University retains the entire risk for medical benefits. The maximum liability to the University for job-related illnesses or injuries is $500,000 per incident, with a maximum annual aggregate liability of approximately $7,396,000 and $7,000,000 as of June 30, 2012 and 2011, respectively.

Separate funds have been established to account for these risks. All departments of the University are charged fees based on actuarial estimates of the amounts necessary to pay claims and to establish reserves for catastrophic losses. During the years ended June 30, 2012 and 2011, the University reflected approximately $63,000 and $73,000, respectively, of insurance proceeds as nonoperating income.

The University accrues liabilities for claims if information indicates that a loss has been incurred as of June 30, and the amount of the loss can reasonably be estimated. Changes in the balances of accrued insurance liabilities were as follows (dollars in thousands):

	June 30, 2012	June 30, 2011
Beginning Liability	$28,386	$26,333
Claims Incurred	143,423	141,838
Claims Payments	(144,866)	(139,785)
Ending Liability	**$26,943**	**$28,386**

NOTE 6 — DEBT RELATED TO CAPITAL ASSETS

Debt liability activity is summarized below (dollars in thousands):

Debt-Related Liabilities	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion
Commercial Paper	$19,944	$5,000	$1,159	$23,785	$8,511
Notes Payable	1,096	–	221	875	80
Leases Payable	146,683	515	5,881	141,317	38,311
Bonds Payable					
Student Facilities System Revenue Bonds	330,260	–	11,547	318,713	61,056
Student Fee Bonds	475,950	–	28,743	447,207	28,285
Total Bonds Payable	806,210	–	40,290	765,920	89,341
Total Debt-Related Liabilities	**$973,933**	**$5,515**	**$47,551**	**$931,897**	**$136,243**

Debt-Related Liabilities	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
Commercial Paper	$33,849	$30,000	$43,905	$19,944	$19,944
Notes Payable	1,305	–	209	1,096	221
Leases Payable	118,117	32,440	3,874	146,683	37,975
Bonds Payable					
Student Facilities System Revenue Bonds	314,334	80,593	64,667	330,260	60,687
Student Fee Bonds	379,169	174,945	78,164	475,950	28,743
Total Bonds Payable	693,503	255,538	142,831	806,210	89,430
Total Debt-Related Liabilities	**$846,774**	**$317,978**	**$190,819**	**$973,933**	**$147,570**

Commercial Paper. On April 1, 2008, a commercial paper agreement was negotiated with Goldman, Sachs & Company. This agreement authorized a maximum borrowing of $50,000,000 to finance portions of the costs of certain infrastructure, equipment and facilities on various campuses. The interest rate is variable and reset based on market conditions. The University can set the maturity dates up to 270 days. As of June 30, 2012 and 2011, the balance outstanding was $23,785,000 and $19,944,000, respectively.

Notes Payable. As of June 30, 2012 and 2011, the balance of notes outstanding was approximately $875,000 and $1,096,000, respectively, representing financing for various activities.

On March 1, 1998, an Energy Savings Loan Agreement was negotiated with Bank One, now JP Morgan Chase & Co. This agreement authorized a maximum line of credit of approximately $10,000,000 to borrow for the costs of qualified energy savings projects through December 31, 2001. Projects included both capital and non-capital improvements to the physical plant. The outstanding balance as of June 30, 2011, was approximately $147,000 with an interest rate of 1.66%. On August 1, 2011, the University made its final scheduled payment on the Energy Savings Loan. The payment totaled approximately $148,000 and consisted of principal and interest of approximately $147,000 and $1,000, respectively. The floating-rate notes could have been reset at the University's option every one, two, three or six months and was based on London Inter-bank Offered Rate (LIBOR) at the reset dates.

On June 10, 2010, the University entered into a loan agreement with PRF to refinance its capital lease with PRF. This agreement authorized the transfer of the Schneider Avenue building from PRF to the Calumet campus in exchange for the original promise to pay approximately $1,140,000 over 13 annual payments. The outstanding balance of this note was approximately $875,000 and $949,000 as of June 30, 2012 and 2011, respectively. The current portion of this note was approximately $80,000 and

$74,000 as of June 30, 2012 and 2011, respectively. The interest rate for the note was fixed at 8.00% as of June 30, 2012 and 2011.

Leases Payable. Leases payable consisted of the following items (dollars in thousands):

Issue	Issue Date	Interest Rates	Final Maturity Dates	Outstanding June 30, 2012	Outstanding June 30, 2011	Current Outstanding June 30, 2012
Certificates of Participation with Ross-Ade:						
Series 1998	1998	3.20-5.25%	2015	$2,555	$3,330	$810
Series 2006	2006	4.00-5.25%	2027	49,545	52,130	2,715
Series 2009A	2009	2.50-5.00%	2015	5,830	7,600	1,855
Series 2009B	2009	4.07-5.96%	2031	42,795	42,795	–
Series 2011A	2011	0.15% *	2035	32,185	32,185	32,185
Leases with Purdue Research Foundation:						
Academic Learning Center	2012	2.00-5.00%	2030	6,680	6,920	250
Remo Property	2011	6.38%	2015	162	210	51
Leases with Indiana Purdue Fort Wayne Foundation:						
Child Care Center	2012	6.20%	2016	424	–	97
				140,176	145,170	37,963
Net Unamortized Premiums and Deferred Costs				1,141	1,513	348
Total				**$141,317**	**$146,683**	**$38,311**

*Variable interest rates are reset weekly and are based upon market conditions. Amounts shown as of June 30, 2012.

The Certificates of Participation are secured by a pledge of available income, except student fees and state appropriations.

As of June 30, 2012 and 2011, long-term debt included amounts relating to properties with a net book value (net of accumulated depreciation) of approximately $167,753,000 and $97,553,000, respectively, leased from either the Ross-Ade Foundation, Purdue Research Foundation or the Indiana Purdue Fort Wayne Foundation.

On February 16, 2011, the Ross-Ade Foundation issued $32,185,000 of Tax-Exempt adjustable demand Certificates of Participation, Series 2011A. This series was issued to provide additional financing for the Mackey Arena renovation and will be repaid from auxiliary athletic revenues.

On June 1, 2011, the University entered into a $588,000 lease agreement with PRF for the Remo property near the West Lafayette campus. The fair value of the land was valued at more than 25% of the total fair value of the property; as a result, the portion of the lease related to land was treated as an operating lease. The fair value of the building was treated as a capital lease with a value of $255,000.

On September 1, 2011, the University entered into a $615,000 lease agreement with the Indiana Purdue Fort Wayne Foundation for a child care center near the Fort Wayne campus. The fair value of the building was treated as a capital lease with a value of $515,000.

Bonds Payable. As of June 30, 2012 and 2011, the balance of bonds outstanding was approximately $765,920,000 and $806,210,000, respectively. Bonds payable consisted of the following issues (dollars in thousands):

Issuance and Description	Issue Date	Interest Rates	Final Maturity Dates	Total Outstanding June 30, 2012	Total Outstanding June 30, 2011	Current Outstanding June 30, 2012
Student Facilities System Revenue Bonds:						
Series 2003A						
Used to refund Dormitory System Revenue Bond Series 1993 and 2000, refund commercial paper, and renovate a West Lafayette student housing facility	2003	4.00-5.38%	2014	$13,965	$18,800	$5,095
Series 2003B						
Used to finance construction of Fort Wayne student housing facilities	2003	2.00-4.25%	2018	4,615	5,015	450
Series 2004A						
Used to finance construction of Calumet student housing and parking garage facilities	2004	0.13% *	2033	17,600	17,800	17,600
Series 2005A						
Used to finance construction and renovation of West Lafayette housing and food service facilities	2005	0.15% *	2029	6,020	6,785	6,020
Series 2007A						
Used to refund a portion of Student Facilities System Revenue Bond Series 2003A and 2003B	2007	5.00-5.25%	2029	61,865	61,865	–
Series 2007B						
Used to finance construction of the new West Lafayette dining court and Fort Wayne student housing facility	2007	4.00-5.00%	2032	24,535	25,205	695
Series 2007C						
Used to renovate a West Lafayette student housing facility, and finance construction on a new West Lafayette student housing facility	2007	0.15% *	2032	25,520	27,325	25,520
Series 2009A						
Used to finance construction of new West Lafayette and Calumet student housing, renovate a West Lafayette student housing facility, and refund a portion of commercial paper	2009	3.50-5.00%	2034	34,635	34,875	460
Series 2009B						
Used to finance Fort Wayne and West Lafayette student housing facilities, and refund a portion of commercial paper	2009	3.00-5.00%	2035	40,425	41,320	935
Series 2010A						
Taxable Build America Bond used to finance the renovation of West Lafayette student housing facilities, and refund a portion of commercial paper	2010	1.90-5.96%	2030	24,985	24,985	–
Series 2011A						
Used to refund a portion of Student Facilities System Revenue Bond Series 2004A, 2005A, and 2007C	2011	2.00-5.00%	2025	49,440	49,440	2,635
				$303,605	$313,415	$59,410
Net unamortized premiums and deferred costs				15,108	16,845	1,646
Total Student Facilities System Revenue Bonds				**$318,713**	**$330,260**	**$61,056**

*Variable interest rates are reset weekly and are based upon market conditions. Amounts shown as of June 30, 2012.

Issuance and Description	Issue Date	Interest Rates	Final Maturity Dates	Total Outstanding June 30, 2012	Total Outstanding June 30, 2011	Current Outstanding June 30,2012
Student Fee Bonds:						
Series H						
Used to finance construction of a West Lafayette steam turbine generator	1993	2.78-5.25%	2012	$–	$1,100	$–
Series K						
Used to finance the West Lafayette telephone computer network	1995	2.20-5.63%	2012	–	1,000	–
Series L						
Used to finance the West Lafayette telephone computer network	1995	3.00-5.63%	2012	–	800	–
Series N						
Used to refund Student Fee Bond Series B and D	1998	3.55-5.50%	2014	8,240	11,690	3,730
Series O						
Used to finance the construction of the Fort Wayne Science building, the West Lafayette Food Science building and the Calumet Classroom Office building	1998	2.68-5.63%	2012	–	1,920	–
Series P						
Used to refund Student Fee Bond Series M	1998	4.00-5.25%	2017	24,385	28,255	4,090
Series R						
Used to renovate the West Lafayette Recreational Sports Center, purchase a chiller to provide additional cooling capacity on the West Lafayette campus and refund Student Fee Bond Series F and G	2002	3.00-5.38%	2012	780	1,520	780
Series U						
Used to refund a portion of Student Fee Bond Series Q	2005	3.50-5.25%	2022	32,380	34,700	2,435
Series W						
Used to finance West Lafayette strategic infrastructure and utilities improvements	2006	4.00-5.00%	2026	34,945	36,560	1,680
Series X						
Used to finance the construction of the West Lafayette Health and Human Science facility, add a wing to the West Lafayette Mechanical Engineering building, construct the Fort Wayne Student Services and Library Complex, for repair and rehabilitation projects, and to refund a portion of commercial paper	2009	2.00-5.50%	2028	97,255	100,800	3,725
Series Y						
Used to refund Student Fee Bond Series S, T and V	2010	2.00-5.00%	2027	67,600	70,555	3,010
Series Z-1						
Used to finance a portion of construction of the West Lafayette Student Fitness and Wellness Center, Fort Wayne Parking Garage, and R&R projects as well as refund a portion of commercial paper and Student Fee Bond Series H, K, L, O, and R	2010	4.00-5.00%	2024	66,405	68,320	5,940
Series Z-2						
Taxable Build America Bonds used to finance construction of the West Lafayette Student Fitness and Wellness Center and the Fort Wayne Parking Garage, and a portion of R&R projects	2010	1.04-5.33%	2035	100,705	100,705	–
				$432,695	$457,925	$25,390
Net unamortized premiums and deferred costs				14,512	18,025	2,895
Total Student Fee Bonds				**$447,207**	**$475,950**	**$28,285**

The Student Facilities System Revenue Bonds are secured by a pledge of auxiliary revenues and all other available income, except student fees and state appropriations. As of June 30, 2012 and 2011, total net pledged revenues were approximately $15,283,000 and $15,416,000, respectively.

Student Fee Bonds are secured by a pledge of mandatory student fees. Mandatory student fees (net of scholarship allowance) were approximately $707,796,000 and $659,832,000 during the years ended June 30, 2012 and 2011, respectively.

As of June 30, 2012 and 2011, the University had approximately $49,140,000 and $51,910,000, respectively, included in Current Liabilities related to variable rate Student Facility System Revenue demand bonds (Series 2004A, Series 2005A and Series 2007C). These bonds are backed by certain auxiliary revenues and other available funds, maturing serially through July 1, 2033. The bonds were issued under Indiana Code IC 21-34 and IC 21-35. The proceeds of the bonds were used to (a) provide funds for certain capital improvements, (b) refund certain interim financing, (c) provide for construction period interest for a portion of the bonds, and (d) pay costs incurred to issue the bonds. The anticipated redemption schedule for these bonds is included in the scheduled debt payments table.

On November 23, 2010, Student Fee Bonds, Series Z-1 and Series Z-2, were issued at a par value of $169,025,000 and a premium of approximately $10,198,000. The Series consist of a tax-exempt Series Z-1 and a taxable Series Z-2 (Build America Bonds Direct Pay Option) and have an original principal amount of $68,320,000 and $100,705,000, respectively. Series Z-1 was issued to refund approximately $53,850,000 of Student Fee Bonds Series H, K, L, O and R and approximately $19,970,000 of commercial paper. The Series Z-2 bonds are issued under the America Recovery and Reinvestment Act and the University will receive a 35% interest expense credit from the Federal Government. These bonds were issued to provide financing for the West Lafayette Student Fitness and Wellness Center, a Fort Wayne parking garage, and various R&R projects. As a result of the refunding, the University will reduce its aggregate debt service payments over the life of the debt by approximately $5,686,000. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $4,893,000.

On December 15, 2010, Student Facilities System Revenue Bonds, Series 2010A, were issued at a par value of $24,985,000. The Series 2010A (Build America Bonds Direct Pay Option) bonds are issued under the America Recovery and Reinvestment Act and the University will receive from the Federal Government a 35% interest expense credit. This series was issued to finance the renovation of West Lafayette student housing facilities and refund approximately $4,838,000 of commercial paper.

On June 24, 2011, Student Facilities System Revenue Bonds, Series 2011A, were issued at a par value of $49,440,000 and a premium of approximately $6,168,000. This series was issued to refund $55,200,000 of Student Facility System Revenue Bonds 2004A, 2005A and 2007C. All of the refunded debt had variable interest rates. As a result of the refunding, the University estimates a reduction in its aggregate debt service payments over the life of the debt of approximately $2,371,000. The refunding resulted in an estimated economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $1,996,000.

The University may direct a change in the type of interest rate borne by the variable rate debt, in whole or in part, at any time from the weekly rate to a rate determined pursuant to one of six additional interest rate modes: a daily rate, a monthly rate, a quarterly rate, a semiannual rate, or a term rate (each an "adjustable rate"), or a fixed rate in accordance with the procedures provided in the indenture. However, if the debt is converted in whole or in part to a fixed rate, the interest rate on the debt so converted may not be subsequently changed to an adjustable rate.

The variable rate bonds, and certificates of participation, are subject to purchase on the demand of the holder, a "put," at a price equal to principal plus accrued interest, on seven days' notice and delivery to the

University's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased debt at a price equal to 100 percent of the principal amount by adjusting the interest rate.

The University is provided a 24-hour notice if the remarketing agent is unable to resell any debt that is put to the University. In such a case, the University is required to provide the funds to satisfy the repurchase of the debt at 100% par value, plus interest accrued to the settlement date of the put. The University has chosen to provide self-liquidity in the event of a put from any holder of these bonds or certificates of participation.

Scheduled payments related to the debt for capital assets for the fiscal years ending June 30 are as follows (dollars in thousands):

Fiscal Year	Principal	Interest	Total
2013	$65,302	$37,433	$102,735
2014	47,523	35,184	82,707
2015	45,915	33,015	78,930
2016	42,881	31,018	73,899
2017	42,839	29,053	71,892
2018-2022	209,212	115,787	324,999
2023-2027	221,260	63,443	284,703
2028-2032	157,820	19,796	177,616
2033-2037	68,385	2,663	71,048
	$901,137	$367,392	$1,268,529
Net unamortized premiums and deferred costs	30,760	-	30,760
Total	**$931,897**	**$367,392**	**$1,299,289**

Defeased Bond Issues. The University defeased bonds by prepayment or issuing new debt as shown below (dollars in thousands). U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trusts with the trustee. Neither the defeased bonds nor the related trusts are reflected in the accompanying financial statements.

	Final Maturity/	Amount Outstanding	
Description of Bonds	**Call Date**	**June 30, 2012**	**June 30, 2011**
Student Fee and Facilities:			
Student Fee Bonds Series H	1/1/2012	$–	$5,100
Student Fee Bonds Series K	1/1/2012	–	10,700
Student Fee Bonds Series L	1/1/2012	–	9,400
Student Fee Bonds Series O	1/1/2012	–	16,990
Student Fee Bonds Series R	7/1/2012	11,660	11,660
Student Facilities System Revenue Bonds, Series 2003A	7/1/2013	48,345	48,345
Student Facilities System Revenue Bonds, Series 2003B	7/1/2013	17,950	17,950
Certificates of Participation, Issued by Ross-Ade Foundation:			
Certificates of Participation, Series 2001A	7/1/2011	–	53,280

Direct Financing Lease. In 1998, the University agreed to refinance the construction of the Animal Disease Diagnostic Laboratory (ADDL) Building and lease it to the Indiana Department of Administration on behalf of the Indiana State Board of Animal Health. Lease payments are equal to the University's debt service payments. Nonrecourse bonds for approximately $10,830,000 were issued to the Indiana Bond Bank, secured solely by lease payments from the Indiana Department of Animal Health through annual appropriations for this purpose from the state of Indiana. The University's rights to receive lease payments were assigned to the trustees for the Indiana Bond Bank. As of June 30, 2011, the outstanding amount of these bonds was approximately $510,000. On October 1, 2011, the final scheduled payment was made on the direct financing lease related to the ADDL Building. The payment totaled approximately $522,000 and consisted of principal and interest of approximately $510,000 and $12,000. The ADDL Building, the lease receivable and the bonds payable are not reflected in the accompanying financial statements.

Operating Leases. The University has entered into various operating leases for facilities. The scheduled payments related to these operating leases for the fiscal years ending June 30 are as follows (dollars in thousands):

Fiscal Year	Lease Payment
2013	$2,178
2014	690
2015	670
2016	553
2017	336
Total Future Minimum Payments	$4,427

NOTE 7 — OTHER DEBT INFORMATION

Other debt information is summarized below (dollars in thousands):

Long-term Liabilities	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion
Accrued Compensated Absences	$58,301	$27,890	$26,504	$59,687	$26,164
Other Post Employment Benefits	27,263	11,463	8,032	30,694	–
Funds Held in Trust for Others	7,411	10,193	10,708	6,896	–
Advances from Federal Government	19,933	-	9	19,924	–
Total	**$112,908**	**$49,546**	**$45,253**	**$117,201**	**$26,164**

Long-term Liabilities	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
Accrued Compensated Absences	$57,995	$25,519	$25,213	$58,301	$26,504
Other Post Employment Benefits	18,646	14,755	6,138	27,263	–
Funds Held in Trust for Others	6,345	5,529	4,463	7,411	–
Advances from Federal Government	19,970	–	37	19,933	–
Total	**$102,956**	**$45,803**	**$35,851**	**$112,908**	**$26,504**

Other Post-Employment Benefits. The University offers medical insurance for those retirees who are 55 or older whose age and years of service are equal to or are greater than 70 and have at least 10 years of service. Early retirees are given the option to continue their medical insurance if they pay the entire cost of the blended medical plan rate, which includes both active employees and early retirees. The early retirees benefit in that the cost of the benefit exceeds the cost of the plans, which creates an implicit rate subsidy. After the retiree reaches the age of 65, the program is no longer offered.

During the year ended June 30, 2011, the Trustees approved a voluntary retirement incentive program for employees at least 60 years of age with at least 10 years of employment. The plan will contribute to a health reimbursement account (HRA) in the amount of $7,000 per year up to a total of $35,000, which can be used to pay health premiums and other allowable medical expenses. For the years ended June 30, 2012 and 2011, there were 509 and 491, respectively, employees participating in the voluntary retirement incentive program. For the years ending June 30, 2012 and 2011, the University had an outstanding liability associated with the health reimbursement accounts of approximately $10,150,000 and $13,412,000, respectively.

Purdue also offers a long-term disability program, which includes retirement benefit payments, medical and life insurance premium payments for a small required premium paid by the employee. After the employee reaches the age of 65, the program is no longer available. All future and existing disability income benefit liability is fully insured through an insurance carrier.

The post-retirement medical plans are single-employer plans administered by the University, as authorized by the Trustees, and are financed on a pay-as-you-go basis. Purdue's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The actuarial assumptions included are shown on the following pages. The annual required contribution represents a level of funding that, if paid, on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a 20-year period.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health-care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Purdue Mall Fountain and Hovde Hall

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following tables show the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the University's net OPEB obligation (dollars in thousands):

Determination of Annual Required Contribution (ARC)

Cost Element	For Fiscal Year Ending June 30, 2012	For Fiscal Year Ending June 30, 2011
Normal Cost	$5,503	$8,051
Amortization of the Unfunded Actuarial Accrued Liability	6,655	7,009
Total Annual Required Contribution (End of Year)	**$12,158**	**$15,060**

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2008	$11,014	$4,880	44%
June 30, 2009	11,297	5,293	47%
June 30, 2010	12,750	6,242	49%
June 30, 2011	14,755	6,138	42%
June 30, 2012	11,463	8,032	70%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)
January 1, 2007	$–	$72,948	$72,948	0%
January 1, 2009	–	76,492	76,492	0%
January 1, 2009*	–	97,703	97,703	0%
January 1, 2011†	–	89,872	89,872	0%

* Updated to include the estimated effect of the Retirement Incentive Program
† Updated to incorporate new claim estimates and reduced disability rates based on historical trends

Purdue Memorial Union

Net OPEB Obligation (NOO)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)	NOO as of End of Year (g)
January 1, 2007	June 30, 2008	$11,014	$–	$–	$11,014	$4,880	$6,134	$6,134
January 1, 2007	June 30, 2009	11,363	307	(373)	11,297	5,293	6,004	12,138
January 1, 2009	June 30, 2010	12,949	607	(806)	12,750	6,242	6,508	18,646
January 1, 2009	June 30, 2011	15,060	932	(1,237)	14,755	6,138	8,617	27,263
January 1, 2011	June 30, 2012	12,158	1,363	(2,058)	11,463	8,032	3,431	30,694

Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal, Level Percent of Pay
Amortization Method	20 Years from Date of Establishment, Closed, Level Percent of Pay
Asset Valuation Method	N/A, No Assets in Trust
Actuarial Assumptions:	
Discount Rate	5%
Projected Payroll Increases	3%
Health Care Cost Trend Rate:	
Medical	8.5% Graded to 5% over 7 Years
Prescription Drugs	8.5% Graded to 5% over 7 Years
Vision	3%
Administrative Costs	5%

Plan Membership:	January 1, 2011
Current Retirees and Surviving Spouses	448
Current Disabled	206
Current Active Members	11,492
Total	**12,146**

NOTE 8 — OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows (dollars in thousands):

June 30, 2012

Function	Compensation & Benefits	Supplies & Services	Depreciation	Scholarships, Fellowships & Student Awards	Total
Instruction	$557,090	$67,112	$–	$–	$624,202
Research	162,091	70,055	–	–	232,146
Extension and Public Service	79,820	62,661	–	–	142,481
Academic Support	26,690	31,793	–	–	58,483
Student Services	33,992	7,849	–	–	41,841
Physical Plant Operations and Maintenance	78,716	53,531	–	–	132,247
General Administration and Institutional Services	146,696	53,023	–	–	199,719
Depreciation	–	–	126,284	–	126,284
Student Aid	–	2,011	–	68,365	70,376
Auxiliary Enterprises	135,636	63,751	–	–	199,387
Total	**$1,220,731**	**$411,786**	**$126,284**	**$68,365**	**$1,827,166**

June 30, 2011 Function	Compensation & Benefits	Supplies & Services	Depreciation	Scholarships, Fellowships & Student Awards	Total
Instruction	$550,319	$72,080	$–	$–	$622,399
Research	162,028	68,695	–	–	230,723
Extension and Public Service	81,946	62,205	–	–	144,151
Academic Support	26,194	21,579	–	–	47,773
Student Services	32,467	7,621	–	–	40,088
Physical Plant Operations and Maintenance	76,490	51,877	–	–	128,367
General Administration and Institutional Services	139,095	34,605	–	–	173,700
Depreciation	–	–	119,820	–	119,820
Student Aid	–	1,225	–	70,173	71,398
Auxiliary Enterprises	132,544	75,730	–	–	208,274
Total	**$1,201,083**	**$395,617**	**$119,820**	**$70,173**	**$1,786,693**

NOTE 9 — RETIREMENT PLANS

Authorization. Authorization to establish retirement plans is stated in Indiana Code IC 21-38-7.

All Employees. University employees are participants in various retirement programs, including the Federal Insurance Contributions Act (FICA). During the years ended June 30, 2012 and 2011, the University's contribution to FICA was approximately $51,276,000 and $50,828,000, respectively.

Faculty and Administrative/Professional Staff. Faculty, professional and certain administrative employees of the University participate in defined contribution plans. Benefit provisions are established and/or amended by the Trustees. Funds in all defined contribution plans are immediately vested. Faculty and management personnel participate immediately upon employment; all others must satisfy a three-year waiting period. Effective January 1, 2011, the University contributes 10% of each participating employee's salary to the Purdue University 403(b) defined contribution retirement plan administered through Fidelity Investments. Employee contributions are not required but may be made on a voluntary basis to the Purdue University 403(b) voluntary tax-deferred annuity plan and/or the Purdue University 457(b) deferred compensation plan. Those eligible to participate in the defined contribution plan also participate in the Purdue University 401(a) Profit Sharing Plan administered through Fidelity Investments. This plan requires a mandatory employee contribution of 4% of their salary. Prior to January 1, 2011, faculty, professional, and certain administrative employees of the University participated in the Purdue University 403(b) defined contribution retirement plan administered through the Teachers Insurance and Annuity Association (TIAA). Under the TIAA plan, the University contributed 11% of each participating employee's salary up to $9,000 and 15% of the salary above $9,000. For the years ended June 30, 2012 and 2011, the University made contributions totaling approximately $54,447,000 and $63,651,000, respectively, to these plans. For the years ended June 30, 2012 and 2011, there were 6,810 and 6,839, respectively, employees participating in the plans with annual pay equal to approximately $498,870,000 and $481,419,000, respectively.

Three-Year-Trend Information (dollar amounts in thousands)

Plan*	Fiscal Year Ending June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Total Unfunded (Excess) Actuarial Liability	Funded Ratio	Annual Covered Payroll	Liability to Payroll	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Benefit)
PERF†	2009	$182,104	$209,699	$27,595	86.8%	$146,097	18.9%	$9,059	99.1%	$(8,353)
	2010	154,960	230,080	75,120	67.4%	149,890	50.1%	9,779	96.9%	(8,054)
	2011	120,151	212,795	92,644	56.5%	137,714	67.3%	15,355	64.0%	(2,525)
Police/Fire	2009	19,026	22,190	3,164	85.7%	5,537	57.1%	899	74.6%	229
	2010	20,163	23,131	2,968	87.2%	5,582	53.2%	956	91.8%	78
	2011	22,560	26,385	3,825	85.5%	5,677	67.4%	1,182	102.1%	206

*Data for 2011 not available from actuaries.

†University portion only.

PERF. Regular clerical and service staff employed at least half-time participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the state of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the state of Indiana. There are two parts to this plan: an annuity savings plan to which the University contributes 3% of the employee's salary and a defined benefit agent multi-employer plan to which the University currently contributes 9.7% of the employee's salary. Employee contributions are not required but may be made on a voluntary basis. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after 10 years of employment. For the years ended June 30, 2012 and 2011, there were 5,095 and 5,224, respectively, employees participating in PERF. The University made contributions to this plan totaling approximately $16,390,000 and $14,148,000 for the years ending June 30, 2012 and 2011, respectively.

The required employer's contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal (Level Percent of Payroll) cost method. The actuarial assumptions included: (a) 7% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.25%-4.5% per year, and (c) 1% per year cost-of-living adjustments. Actuarial information related to the University's portion of the plan is disclosed in the three-year-trend information table presented earlier in this note.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing to: Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204; by calling 317-232-3882; or by visiting www.in.gov/perf.

Police/Fire. A supplemental pension program for police officers and firefighters (Police/Fire) was authorized by the Trustees on March 13, 1990, and was established on July 1, 1990. In conjunction with other retirement plans offered by the University, this plan provides police officers and firefighters employed by the University with a total retirement benefit that is comparable to the benefits received by municipal police and fire personnel in Indiana. Benefit provisions are established and/or amended by the Trustees. The program is an agent single-employer defined benefit plan administered through the Teachers Insurance and Annuity Association (TIAA). The plan provides for vesting after the completion of 10 years of covered employment, and employees are eligible for normal retirement benefits after the completion of 20 years of covered employment and attainment of 55 years of age. The normal benefit payable under this plan is an amount equal to 50% of the annual base salary of a nonprobationary-level police officer at each campus, as in effect at the time of a member's retirement, reduced by the amount of any pension benefits payable under other University retirement programs, including TIAA-CREF and PERF. For the years ending June 30, 2012 and 2011, there were 108 and 110, respectively, employees participating in Police/Fire.

Employees covered by this plan are required to make contributions equal to 3% of the current salary for a nonprobationary-level police officer. University contributions are to be in such additional amounts as needed to maintain the plan on an actuarially sound basis. The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2010. Because the plan was implemented on a retroactive basis to cover all current police officers and firefighters, the University has an unfunded actuarial liability of approximately $3,825,000 at July 1, 2011 and $2,968,000 at July 1, 2010, which is being amortized over a 30-year period. The actual amount contributed by the University was approximately $976,000 and $878,000 for the years ending June 30, 2012 and 2011, respectively. The required contribution was determined as part of the July 1, 2011, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included: (a) 6.25% investment rate of return, (b) projected salary increases of 3% per year and (c) 3% per year cost-of-living adjustments.

Financial reports related to this plan may be obtained by writing to: Public Records Officer, Purdue University, Freehafer Hall, 401 South Grant Street, West Lafayette, IN 47907-2024.

Cooperative Extension Service. As of June 30, 2012 and 2011, there were 24 and 30, respectively, staff members with federal appointments employed by the Indiana Cooperative Extension Service and covered by the Federal Civil Service Retirement System.

NOTE 10 — RELATED PARTY

Prior to fiscal year 2012 the University entered into an agreement with Alfred Mann Institute for Biomedical Development (AMIP). Subsequent to fiscal year end, the Certificate of Incorporation for the institute was amended and restated and PRF became the sole member of AMIP. The name of the corporation changed to Innovation and Commercialization Center, Inc. The Institute's charitable mission includes the intensive development of technology originating from the University's inventors in order to enhance public benefit from Purdue technology. As of June 30, 2012 and 2011, the University received approximately $641,000 and $872,000, respectively, from the Institute.

In addition to items listed in Note 6, Debt Related to Capital Assets, PRF provided grants, contracts and gifts to the University totaling approximately $34,167,000 and $31,792,000 as of June 30, 2012 and 2011, respectively.

NOTE 11 — CONTINGENT LIABILITIES AND COMMITMENTS

Legal Actions. In the normal course of its activities, the University is a party in various legal actions. Although it is involved in a number of claims, the University does not anticipate significant losses or costs. After taking into consideration legal counsel's evaluation of pending actions, the University believes that the outcome thereof will not have a material effect on the financial statements.

Construction Projects. As of June 30, 2012 and 2011, contractual obligations for capital construction projects were approximately $76,664,000 and $135,849,000, respectively.

Natural Gas Procurement. The University has entered into various forward contracts to purchase natural gas at a specified time in the future at a guaranteed price. This activity allows the University to plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible that the market price before or at the specified time to purchase natural gas may be lower than the price at which the University is committed to buy. This would reduce the value of the contract.

The University could sell the forward contract at a loss and then buy natural gas on the open market. The University is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the University have to procure natural gas on the open market.

Limited Partnership Agreements. Under the terms of various limited partnership agreements approved by the University's Board of Trustees, the University is obligated to make periodic payments for commitments to venture capital, private equity, natural resources and real estate investments over the next several fiscal years. As of June 30, 2012 and 2011, the University had the following unfunded commitments: approximately $61,299,000 and $49,805,000, respectively, to approximately 50 private equity/venture capital managers, $18,973,000 and $19,968,000, respectively, to approximately 15 private real estate managers, $41,511,000 and $38,646,000, respectively, to approximately 25 natural resource managers, and $125,000 and $125,000, respectively, to the Indiana Future Fund. These amounts are not included as liabilities in the accompanying Statement of Net Assets. Outstanding commitments are estimated to be paid based on the capital calls from the individual managers, subject to change due to market conditions, as shown in the table to the right (dollars in thousands).

Fiscal Year	Amount
2012-2013	$30,477
2013-2014	30,477
2014-2015	30,477
2015-2016	30,477

NOTE 12 — SUBSEQUENT EVENTS

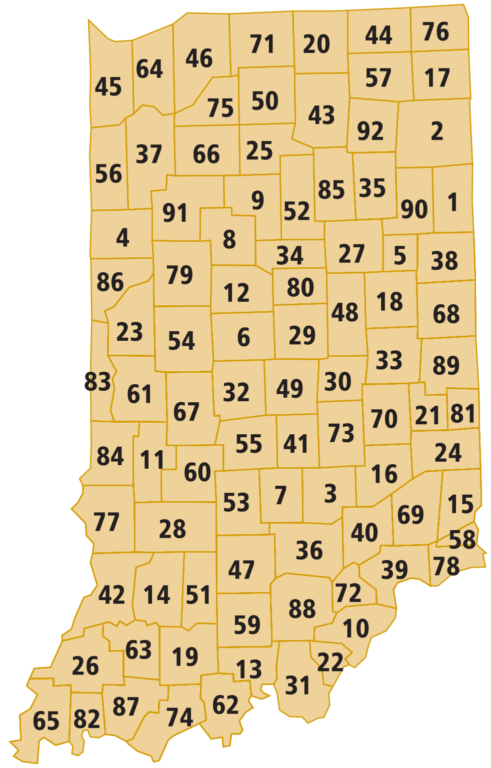
On August 9, 2012, Student Fee Bonds, Series AA, were issued at a par value of $54,555,000 and a premium of approximately $8,869,000. These bonds were issued to provide financing for the West Lafayette Student Fitness and Wellness Center, Health and Human Sciences facility, Drug Discovery facility, and various R&R projects and to refund approximately $14,208,000 of commercial paper, which funded initial expenditures for two of these projects.

On September 5, 2012, Student Facilities System Revenue Bonds, Series 2012A, were issued at a par value of $44,770,000 and a premium of approximately $5,748,000. These bonds were issued to provide financing to construct the West Lafayette Vawter Field Housing, Harrison Street parking facility, and to refund approximately $1,064,000 of commercial paper that funded the initial expenditures for these two projects. It was also used to refinance approximately $3,650,000 of Student Facilities System Revenue Bonds, Series 2003B.

IN-STATE ENROLLMENT (UNAUDITED)

Total In-State Enrollment by County, Fall 2011-2012 Academic Year

The overall (in-state and out-of-state) enrollment at Purdue University was 70,259 students for the 2011-2012 fall semester. The breakdown was: West Lafayette, 39,637; Calumet, 9,786; Fort Wayne, 14,326; North Central, 5,279; and Technology Statewide, 1,231. (The enrollment figures do not include 5,177 Purdue University students at Indiana University-Purdue University Indianapolis.) Although students came to Purdue from all over the world, 66% system-wide came from within Indiana.



	County	West Lafayette	Regional Campuses	Statewide Technology Locations	Total
1	Adams	82	545		627
2	Allen	965	7,603		8,568
3	Bartholomew	193	2	69	264
4	Benton	95	5	4	104
5	Blackford	17	23	1	41
6	Boone	406	8	2	416
7	Brown	15	1	5	21
8	Carroll	149	8	14	171
9	Cass	129	25	13	167
10	Clark	87	3	69	159
11	Clay	31	1	1	33
12	Clinton	185	7	14	206
13	Crawford	4	1	3	8
14	Daviess	34	1	4	39
15	Dearborn	111	1	4	116
16	Decatur	78	4	26	108
17	De Kalb	90	600	2	692
18	Delaware	133	39	8	180
19	Dubois	137	4	7	148
20	Elkhart	360	269	41	670
21	Fayette	25	4	19	48
22	Floyd	121	1	48	170
23	Fountain	77	1	4	82
24	Franklin	73	2	7	82
25	Fulton	69	64	3	136
26	Gibson	44	4	1	49
27	Grant	91	110	5	206
28	Greene	45	2		47
29	Hamilton	1,692	57	19	1,768
30	Hancock	243	11	7	261
31	Harrison	35	1	37	73
32	Hendricks	535	29	31	595
33	Henry	60	9	15	84
34	Howard	319	34	88	441
35	Huntington	77	365	1	443
36	Jackson	76	1	16	93
37	Jasper	164	275	1	440
38	Jay	25	18	1	44
39	Jefferson	59	3	4	66
40	Jennings	27	2	11	40
41	Johnson	288	14	26	328
42	Knox	67	4	10	81
43	Kosciusko	197	699	5	901
44	Lagrange	47	290	1	338
45	Lake	1,461	7,820	1	9,282
46	La Porte	249	1,772		2,021
47	Lawrence	67	5	6	78
48	Madison	168	37	45	250
49	Marion	1,583	97	26	1,706
50	Marshall	158	119	7	284
51	Martin	20		3	23
52	Miami	80	49	21	150
53	Monroe	155	15	3	173
54	Montgomery	153	7	5	165
55	Morgan	115	9	6	130
56	Newton	50	58	2	110
57	Noble	84	626		710
58	Ohio	6			6
59	Orange	21	2	4	27
60	Owen	20		2	22
61	Parke	35	3		38
62	Perry	22	1	1	24
63	Pike	12		1	13
64	Porter	619	2,602		3,221
65	Posey	57			57
66	Pulaski	57	96		153
67	Putnam	71	2	1	74
68	Randolph	33	8	9	50
69	Ripley	83	3	9	95
70	Rush	41	3	3	47
71	St. Joseph	720	272	105	1,097
72	Scott	10	1	10	21
73	Shelby	84	6	7	97
74	Spencer	41	1	4	46
75	Starke	47	145		192
76	Steuben	74	335		409
77	Sullivan	18	1	1	20
78	Switzerland	5			5
79	Tippecanoe	3,645	48	112	3,805
80	Tipton	50	4	14	68
81	Union	10	1	3	14
82	Vanderburgh	244	14	5	263
83	Vermillion	18		1	19
84	Vigo	116	6		122
85	Wabash	73	242	1	316
86	Warren	60	1		61
87	Warrick	139	12	2	153
88	Washington	29		16	45
89	Wayne	114	9	39	162
90	Wells	82	430		512
91	White	183	34	9	226
92	Whitley	67	529		596
	Total	19,006	26,575	1,131	46,712

ACKNOWLEDGEMENTS

The following staff members of the Department of Accounting Services, Office of the Comptroller, prepared the 2011-12 Financial Report and the included financial statements.

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