# 2013 FINANCIAL REPORT

PURDUE UNIVERSITY

# LETTER OF TRANSMITTAL


President Mitchell E. Daniels Jr.

October 18, 2013

To the Board of Trustees of Purdue University:

We are pleased to submit this, the 91st annual financial report of Purdue University. This report is for the fiscal year that ended June 30, 2013, 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 pages 5 and 6.

Respectfully submitted,

MITCHELL E. DANIELS JR.
*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 statements for the fiscal years ended June 30, 2013 and 2012. We provide this information on our financial position and the results of operations 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 pages 5 and 6.

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 10 in nearly every college or school on campus, from our No. 1 agricultural and biological engineering program to our highly rated Krannert School of Management and Pharmacy programs.

Purdue University is also listed among the Princeton Review's 150 "best value" colleges for 2013. We believe this ranking will be maintained in the future, as during fiscal year 2013, President Daniels announced the University's intention to break a 37-year string of tuition increases and to hold them constant for the next two school years. During this time of continued economic stagnation, the University is determined to make it a priority to put students and their families first. In addition to the tuition freeze, the University has established a new Student Affordability and Accessibility Account funded by cost-savings initiatives. The new account will augment scholarship funds and/or extend the tuition freeze further.

Our quality and value continue to attract top undergraduates to the University. 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 50 states and nearly 130 countries. Purdue University continues to have the second-largest international student population among U.S. public universities and is fourth overall, according to the Institute of International Education. Overall, enrollment at all Purdue campuses reached 68,707 for the fall semester of the 2014 academic year.

To ensure the strength of our programs, the University continued its facilities' investment with completed major construction projects in excess of $231 million during fiscal year 2013, including the $99.5 million Mackey complex renovation and addition, the $59.6 million Windsor Residence Hall renovation, the $28.6 million Lilly Hall west wing renovations, and the $23.5 million Herrick Laboratory replacement. Additional capital investments estimated at over $355 million were underway or in design as of June 30, 2013, including the $98 million Student Fitness and Wellness Center renovation and addition, the $53.7 million Health and Human Sciences Research facility, the $39.9 million Vawter Field Housing unit, and the $30 million Center for Student Excellence and Leadership.

Purdue University continues to dedicate ourselves to STEM Leadership and world-changing research while leading the higher education transformation and setting the standard for higher education affordability and accessibility. Of course, the future remains uncertain, but by implementing prudent financial strategies and planning for what might lie ahead, we will meet challenges head-on and flourish as a result. I encourage you to read our financial statements so that you get a deeper and closer look at the finances of the University and see firsthand how we are realizing our resource stewardship goal. We welcome your continued interest in this great university.

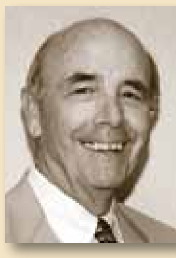
Sincerely,
Alphonso V. Diaz
*Executive Vice President for Business and Finance, Treasurer*

## BOARD OF TRUSTEES

**July 1, 2012-June 30, 2013**

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.

**Keith J. Krach**
*San Francisco, Calif.*
Chairman of the Board
Chairman and CEO,
DocuSign
Term: 2007-13



**Thomas E. Spurgeon**
*Peoria, Ill.*
Vice Chairman of the Board
Consultant, Lincoln Office
Term: 2005-14

**Michael R. Berghoff**
*Indianapolis, Ind.*
President, Lenex Steel Co.
Term: 2009-15

**Michael J. Birck***
*Hinsdale, Ill.*
Chairman and CEO,
Tellabs Inc.
Term: 2009-13

**JoAnn Brouillette**
*West Lafayette, Ind.*
President, Demeter LP
Term: 2006-15

**Vanessa J. Castagna***
*Dallas, Texas*
Board of Directors,
Levi Strauss & Co.
and Carter's, Inc.
Term: 2013-15

**John D. Hardin Jr.**
*Danville, Ind.*
Owner, Hardin Farms
Term: 1992-2016

**Gary J. Lehman**
*Lafayette, Ind.*
President, Oerlikon
AG-Americas
Term: 2010-14

**Miranda McCormack**
*Fowler, Ind.*
Student Trustee
Term: 2011-13

**Don Thompson**
*Chicago, Ill.*
President and CEO,
McDonald's Corp.
Term: 2009-16

**Bruce W. White**
*Chicago, Ill.*
Chairman and CEO,
White Lodging Services
Term: 2011-14

** In February 2013, Trustee Castagna replaced Trustee Birck.*

## OFFICERS OF THE UNIVERSITY

***As of June 30, 2013***

### OFFICERS OF THE BOARD OF TRUSTEES

Keith J. Krach, *Chairman*
Thomas E. Spurgeon, *Vice Chairman*
Alphonso V. Diaz, *Treasurer*
James S. Almond, *Assistant Treasurer and Assistant Secretary*
Janice A. Indrutz, *Secretary*
Thomas B. Parent, *Legal Counsel*

### ADMINISTRATIVE OFFICERS

Mitchell E. Daniels Jr., *President*
Timothy D. Sands, *Executive Vice President for Academic Affairs and Provost*
Alphonso V. Diaz, *Executive Vice President for Business and Finance, Treasurer*
James S. Almond, *Senior Vice President for Business Services and Assistant Treasurer*
Richard O. Buckius, *Vice President for Research*
Morgan J. Burke, *Director of Intercollegiate Athletics*
Melissa E. Exum, *Vice President for Student Affairs*
Peggy L. Fish, *Director of Audits*
Julie K. Griffith, *Vice President for Public Affairs*
Michael J. Gulich, *Director of Sustainability*
Joseph B. Hornett, *Senior Vice President, Treasurer, Purdue Research Foundation*
Luis E. Lewin, *Vice President for Human Resources*
William G. McCartney, *Vice President for Information Technology and CIO*
Jesse L. Moore, *Director, Supplier Diversity Development*
Rabindra N. Mukerjea, *Executive Director of Strategic Planning and Assessment*
Amy R. Noah, *Interim Vice President for Development*
Alysa Christmas Rollock, *Vice President for Ethics and Compliance*
Ken L. Sandel, *Director of Physical and Capital Planning*
Carol A. Shelby, *Senior Director, Environmental Health and Public Safety*
Steven R. Shultz, *University Legal Counsel*
Theodore J. Weidner, *Interim Vice President for Physical Facilities*
Robert D. Wynkoop, *Managing Director, Office of Executive Vice President for Business and Finance*

### REGIONAL CAMPUS STAFF

Vicky L. Carwein, *Chancellor, Indiana University-Purdue University Fort Wayne*
James B. Dworkin, *Chancellor, Purdue University North Central*
Thomas L. Keon, *Chancellor, Purdue University Calumet*
Walter J. Branson, *Vice Chancellor for Financial Affairs,*
*Indiana University-Purdue University Fort Wayne*
James K. Johnston, *Vice Chancellor for Administrative Services, Purdue University Calumet*
Stephen R. Turner, *Vice Chancellor for Administration, Purdue University North Central*

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# INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Purdue University (University), a component unit of the State of Indiana, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Purdue Research Foundation, a component unit of the University as discussed in Note 1, which represents 98% of the assets and 94% of the revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Purdue Research Foundation, is based solely on the report of the other auditor. 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 from material misstatement.

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

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

### *Opinions*

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Purdue University as of June 30, 2013 and 2012, and the respective changes in its financial position and its cash flows, thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**_Other Matters_**

*Required Supplementary Information*

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 the 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Letter of Transmittal, Report of the Treasurer, Board of Trustees, Officers of the University, and In-State Enrollment, and Acknowledgements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Letter of Transmittal, Report of the Treasurer, Board of Trustees, Officers of the University, and 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 this information.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013, on our consideration of the University's internal control over financial reporting and on 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Bruce Hartman
State Examiner

October 24, 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

***June 30, 2013 and 2012***

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, 2013 and 2012 (Fiscal Years 2013 and 2012, respectively), with comparative financial information for Fiscal Year 2011. 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 Position** present the assets, liabilities and net position of the University at a point in time (June 30, 2013 and 2012). 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; whether the University has any deferred inflows or outflows other than assets or liabilities; and a picture of net position and its availability for expenditure by the University.
- **Statements of Revenues, Expenses and Changes in Net Position** 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, 2013 and 2012). 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, 2013 and 2012). 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 Position

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

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

| | 2013 | 2012 | 2011 |
|---|---:|---:|---:|
| Current Assets | $686,626 | $639,547 | $712,513 |
| Capital Assets | 2,012,925 | 1,944,336 | 1,835,976 |
| Other Assets | 2,389,315 | 2,224,312 | 2,169,898 |
| **Total Assets** | **$5,088,866** | **$4,808,195** | **$4,718,387** |
| Current Liabilities | $350,987 | $337,022 | $357,622 |
| Noncurrent Liabilities | 925,921 | 886,691 | 912,767 |
| **Total Liabilities** | **$1,276,908** | **$1,223,713** | **$1,270,389** |
| Net Investment in Capital Assets | $1,139,118 | $1,094,127 | $1,035,092 |
| Restricted-Nonexpendable | 508,524 | 472,579 | 448,180 |
| Restricted-Expendable | 796,503 | 715,954 | 762,968 |
| Unrestricted | 1,367,813 | 1,301,822 | 1,201,758 |
| **Total Net Position** | **$3,811,958** | **$3,584,482** | **$3,447,998** |

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

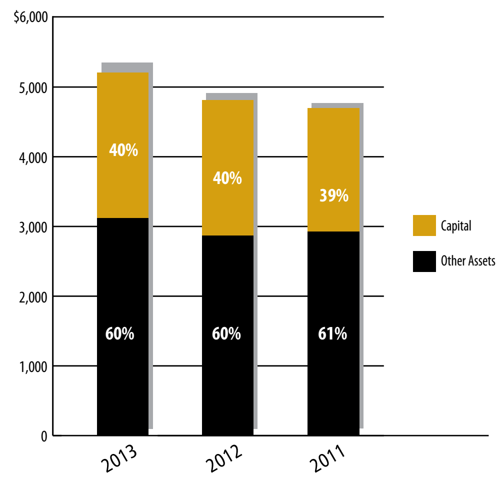
"Gateway to the Future" arch

assets, certain pledges receivable and investments. As of June 30, 2013 and 2012, total assets were approximately $5,088,866,000 and $4,808,195,000, respectively, an increase of $280,671,000, or 5.8% and $89,808,000, or 1.9%, for Fiscal Years 2013 and 2012, 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*

Capital vs. Other Assets
*(Dollars in Millions)*




Current assets increased approximately $47,079,000 and decreased approximately $72,966,000 as of June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, cash and cash equivalents were approximately $436,164,000 and $423,927,000, respectively, an increase of $12,237,000 and a decrease of $86,265,000. As detailed in the Capital Asset and Debt Administration section, the University has an active capital financing program, which has resulted in invested bond proceeds of $85,229,000 and $74,440,000 as of June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, the remaining $350,935,000 and $349,487,000 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).

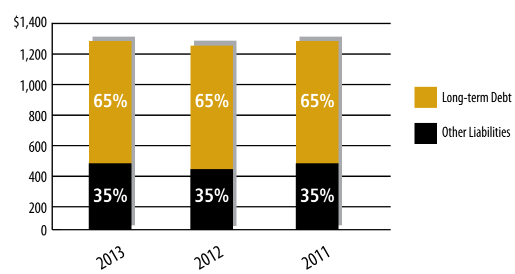
As of June 30, 2013 and 2012, noncurrent assets increased $233,592,000, or 5.6%, and $162,775,000, or 4.1%, respectively. Marketable securities and other investments increased approximately $170,662,000 in Fiscal Year 2013 compared to the $62,194,000 increase in Fiscal Year 2012. The increase in Fiscal Year 2013 was driven by fluctuations in the market for these securities whereas the increase in Fiscal Year 2012 was driven by the acquisition of additional marketable securities. Please reference a more detailed discussion in the Statement of Revenues, Expenses and Changes in Net Position 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 $1,276,908,000 and $1,223,713,000 on June 30, 2013 and 2012, respectively.

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

*Figure 2*

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




Bonds, leases and notes payable increased by $46,807,000 in Fiscal Year 2013 and decreased $42,036,000 in Fiscal Year 2012. A discussion of the University's capital financing activities appears in the Debt and Financing Activities section as well as in Note 6.

The University adopted new required accounting standards in Fiscal Year 2013 where the Government Accounting Standards Board (GASB) defined new financial elements of deferred inflows and outflows (see Note 1). However, the University had no activities that met the definition during either fiscal year.

The University also adopted a new accounting standard, which modified its reporting entity as described in Note 1. Prior year balances have been reclassified to show the impact of this change.

Net position is classified into four categories:

- Net investment in capital assets 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 position that has purpose restrictions imposed by third parties. Examples include scholarship funds and contract and grant funds. This category also includes the net appreciation in the endowments (restricted-nonexpendable).
- Unrestricted net position does not have third-party restrictions, although management has designated these funds for a particular purpose. It is management's practice to designate unrestricted net position for specific purposes at the close of each fiscal year.

Total net position for the University was $3,811,958,000 and $3,584,482,000 as of June 30, 2013 and 2012, respectively. Figure 3 provides a comparison between fiscal years as well as the composition of net position.

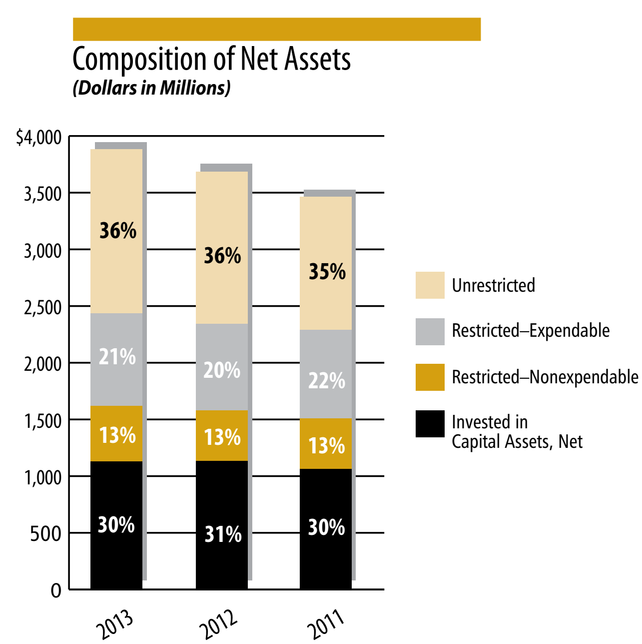
Net investment in capital assets increased $44,991,000 and $59,035,000 in Fiscal Years 2013 and 2012, respectively. As of June 30, 2013 and 2012, the University added capital assets of $206,047,000 and $241,518,000, respectively, offset by annual depreciation of $135,846,000 and $126,284,000, respectively. Debt transferred related to expended bond and commercial paper proceeds, net of payments and amortization of bond premiums accounted for $23,598,000 and $56,199,000 in Fiscal Years 2013 and 2012, respectively. See additional details in the Capital Asset and Debt Administration section.

Restricted-nonexpendable increased $35,945,000 and $24,399,000 in Fiscal Years 2013 and 2012, respectively, primarily resulting from contributions to endowments and any corresponding matching funds provided by the University.

As of June 30, 2013, restricted-expendable increased $80,549,000 compared to a decrease of $47,014,000 in the prior year. This fluctuation was driven by the change in net appreciation of the University endowments resulting in an unrealized gain in Fiscal Year 2013 and an unrealized loss in Fiscal Year 2012.

Consistent with operational results (detailed in the Statement of Revenues, Expenses and Changes in Net Position section), unrestricted net position increased $65,991,000 and $100,064,000 as of June 30, 2013 and 2012, respectively.

***Figure 3***



## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

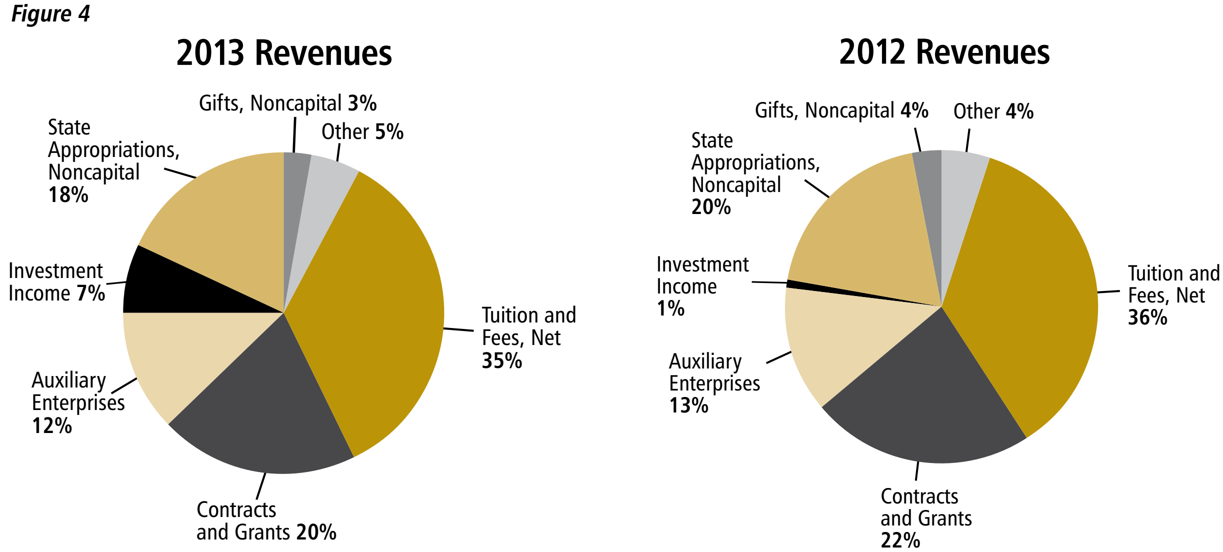
A summarized comparison of the University's revenues, expenses and changes in net position follows in Table 2.

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Tuition and Fees, Net | $730,250 | $707,796 | $659,832 |
| Grants and Contracts | 364,697 | 375,341 | 366,567 |
| Auxiliary Enterprises, Net | 249,379 | 250,744 | 232,213 |
| Other Operating Revenues | 105,805 | 102,691 | 92,857 |
| **Total Operating Revenues** | **$1,450,131** | **$1,436,572** | **$1,351,469** |
| **Operating Expenses** | | | |
| Depreciation | $135,846 | $126,284 | $119,820 |
| Other Operating Expenses | 1,741,263 | 1,707,436 | 1,666,873 |
| **Total Operating Expenses** | **$1,877,109** | **$1,833,720** | **$1,786,693** |
| **Operating Loss** | ($426,978) | ($397,148) | ($435,224) |
| **Nonoperating Revenue** | $618,439 | $519,800 | $779,690 |
| Capital and Endowments | 36,015 | 13,832 | 24,345 |
| **Total Nonoperating Revenues** | **$654,454** | **$533,632** | **$804,035** |
| Increase in Net Position | $227,476 | $136,484 | $368,811 |
| Net Position, Beginning of Year | 3,584,482 | 3,447,998 | 3,079,187 |
| **Net Position, End of Year** | **$3,811,958** | **$3,584,482** | **$3,447,998** |

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 2013 and 2012. Overall, as of June 30, 2013 and 2012, the University had a net increase in net position of $227,476,000 and $136,484,000, respectively.

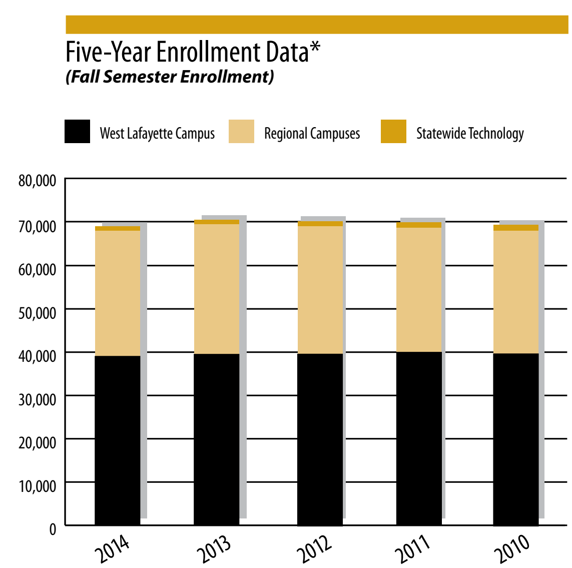
***Figure 4***




Total operating revenues increased $13,559,000, or 0.9% from $1,436,572,000 in Fiscal Year 2012 to $1,450,131,000 in Fiscal Year 2013. There was an increase of $85,103,000 from Fiscal Year 2011 to Fiscal Year 2012. Net tuition and fee revenue increased $22,454,000 and $47,964,000 in Fiscal Years 2013 and 2012, respectively, primarily resulting from a student fee rate increase in both years of approximately 3.5% for West Lafayette and the regional campuses. Enrollment across all campuses decreased by 1,567 students in Fiscal Year 2013 after an increase of 15 students in Fiscal Year 2012. West Lafayette's enrollment decreased by 468 students in Fiscal Year 2013 compared to the decrease of 381 students in Fiscal Year 2012. Enrollment patterns for the past five years are illustrated in Figure 5.

Operating grant and contract revenue decreased $10,644,000 and increased $8,774,000 in Fiscal

***Figure 5***




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

Years 2013 and 2012, respectively. The decrease in Fiscal Year 2013 is due to the expiration of the American Recovery and Reinvestment Act (ARRA).

Auxiliary Enterprise revenue decreased $1,365,000 and increased $18,531,000 in Fiscal Years 2013 and 2012, 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.

Total operating expenses increased from $1,833,720,000 as of June 30, 2012, to $1,877,109,000 as of June 30, 2013. Compensation and benefits, which makes up approximately 67% of operating expenses, increased $32,081,000 and $19,648,000 in Fiscal Years 2013 and 2012, respectively. During both Fiscal Year 2013 and 2012, the University had performance-based salary increases of approximately 2.0%. In addition to the performance-based increase, the University added 150 positions in Fiscal Year 2013, whereas there was a decrease of 205 positions in Fiscal Year 2012. The benefits increased less than 1% in both years as a result of the University's focused efforts to manage its health care costs. Supplies and services, which makes up approximately 23% of operating expenses, increased $6,336,000 and $22,723,000 in Fiscal Years 2013 and 2012, respectively.

Nonoperating revenues (net of expenses) increased $98,639,000 in Fiscal Year 2013 and decreased $259,890,000 in Fiscal Year 2012. In Fiscal Year 2013, the primary reason for the change was an increase in investment income of approximately $134,287,000. In Fiscal Year 2012, the primary reason for the change was a decrease in investment income of approximately $254,760,000. As of June 30, 2013, the University's endowment increased 11.8% and the blended target benchmark as established by the Investment Committee increased 11.1%, whereas, as of June 30, 2012, the University's endowment decreased 2.1% and the blended target benchmark decreased 1.8%. The University's endowment was invested 40.9% in public equities, 15.2% in fixed income and 43.9% in private investments as of June 30, 2013. The portfolio composition did not materially change from prior years.

Capital and Endowment income increased $22,183,000 or 160.4% over the previous year from $13,832,000 in Fiscal Year 2012 to $36,015,000 in Fiscal Year 2013. Capital gifts increased $10,989,000 and decreased $5,154,000 in Fiscal Years 2013 and 2012, respectively. Private Gifts for Endowments increased $6,303,000 and decreased $3,769,000 as of June 30, 2013 and 2012, respectively. The fluctuations 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)*

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash Used by Operating Activities | ($293,488) | ($274,627) | ($307,465) |
| Cash Provided by Noncapital Financing Activities | 532,179 | 559,613 | 549,958 |
| Cash Used by Investing Activities | (39,130) | (66,486) | (167,123) |
| Cash Used by Capital and Related Financing Activities | (187,324) | (304,765) | (127,588) |
| Net Increase (Decrease) in Cash and Cash Equivalents | $12,237 | ($86,265) | ($52,218) |
| Cash and Cash Equivalents, Beginning of Year | 423,927 | 510,192 | 562,410 |
| **Cash and Cash Equivalents, End of Year** | **$436,164** | **$423,927** | **$510,192** |

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 2013 and 2012 are listed in Table 4 (dollars in thousands). Significant projects in progress as of June 30, 2013, are listed in Table 5 (dollars in thousands).

*Table 4. Major Projects Completed*

| Projects Completed in 2013 | Project Budget | Source of Funds |
|---|---|---|
| Calumet Cooling Tower Replacement | $2,700 | Calumet Reserves |
| Calumet Energy Savings Projects | 2,520 | Bonds |
| Elliott Hall of Music Sprinkler System Installation | 3,550 | Repair and Rehabilitation Funds |
| Energy Performance Contract | 4,500 | Bonds |
| Heine Pharmacy Building Lab Renovations | 2,500 | Gifts |
| Herrick Laboratory Replacement, Phase 1 | 23,500 | Gift and Grant |
| Lilly Hall West Wing Renovations | 28,550 | Bonds |
| Mackey Complex Renovation & Addition | 99,500 | Gifts and Certificates of Participation |
| Windsor Residence Halls Renovation | 59,600 | Bonds |
| Young Hall Floors 2, 3, and Partial Basement Renovation | 4,500 | West Lafayette Reserves |
| **Total Major Projects Completed** | **$231,420** | |

| 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** | |

***Table 5. Major Construction Projects in Progress***

| Major Projects in Progress | Project Budget | Source of Funds |
|---|---|---|
| Bindley Bioscience Center Addition | $14,900 | Grant |
| Center for Student Excellence and Leadership | 30,000 | Endowment Income and Athletic Reserves |
| Drug Discovery Facility | 20,000 | Bonds and Gifts |
| Health and Human Sciences Research Facility | 53,700 | Bonds and Gifts |
| High Voltage Improvement Phase II | 25,100 | Bonds |
| Metering Installation | 5,000 | West Lafayette Reserves |
| Northwest Athletics Complex Phase I | 21,000 | Departmental Reserves |
| Ralph and Bettye Bailey Hall | 8,180 | Gifts |
| Stewart Center Fire Alarm and Sprinkler System Installation | 4,100 | Repair and Rehabilitation Funds |
| Storm Sewer Modifications | 9,500 | Bonds |
| Student Fitness and Wellness Center Renovation & Addition | 98,000 | Bonds and Gifts |
| Vawter Field Housing | 39,900 | Bonds and Departmental Reserves |
| Wade Boiler #7 Purchase | 4,300 | West Lafayette Reserves |
| Wang Hall of Electrical and Computer Engineering | 18,000 | Gift and West Lafayette Reserves |
| Zucrow Building Complex Electric System Replacement | 3,900 | Repair and Rehabilitation Funds and Student Fees |
| **Total Major Projects in Progress** | **$355,580** | |

In addition, the Trustees have authorized the following major projects in which construction has not been started as of June 30, 2013, and may not have state approval (dollars in thousands).

*Table 6. Major Projects Authorized — Not Started*

| Major Project Budgets Authorized | Project Budget | Source of Funds |
|---|---|---|
| **Authorized in 2010** | | |
| Calumet Emerging Technologies Building | $28,900 | Bonds |
| Herrick Labs Center for Advanced Acoustics Research Addition | 12,500 | Grants and Departmental Reserves |
| North Central Student Services and Activities Complex | 34,700 | Bonds and Gifts |
| **Authorized in 2012** | | |
| Harrison Hall Bathroom Renovation | 3,020 | Departmental Reserves |
| Thermal Energy Storage | 16,800 | Appropriations and West Lafayette Reserves |
| Wade Power Plant Improvements | 33,100 | Bonds |
| **Authorized in 2013** | | |
| Softball Stadium | 13,000 | Departmental Reserves |
| Math Sciences Plaza and Utility Tunnel Waterproofing and Repairs | 3,350 | West Lafayette Reserves |
| **Total Major Project Budgets Authorized — Not Started** | **$145,370** | |

## DEBT AND FINANCING ACTIVITIES

Bonds, Leases and Notes (Net) obligations totaled $978,704,000 and $931,897,000 as of June 30, 2013 and 2012, respectively. These obligations are approximately 77% and 76% of the total liabilities of the University in Fiscal Year 2013 and 2012, respectively. Figure 6 compares the composition of long-term debt (noncurrent portion) by fiscal year. The University's debt portfolio as of June 30, 2013, consisted of $89,704,000 of variable rate instruments or 9.2% compared to $889,923,000 in fixed rate obligations. 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. As of June 30, 2013 and 2012, 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, 2013 and 2012. 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 (dollars in thousands) shows major debt issued in Fiscal Years 2013 and 2012. For additional details see Note 6.

*Figure 6*

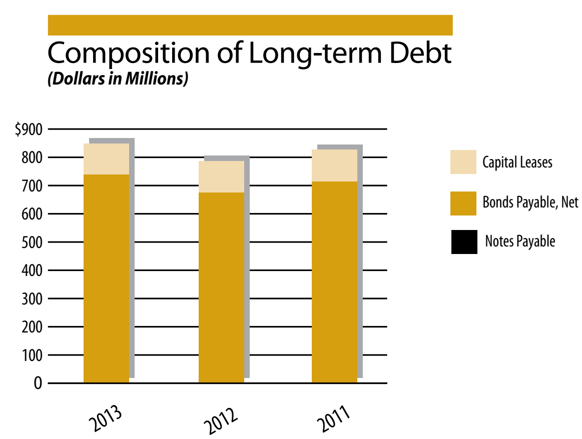


*Table 7. Debt Issued in Fiscal Years 2013 and 2012*

| | Interest Rates | Final Maturity Dates | Issue Amount |
|---|---|---|---|
| **Issued in Fiscal Year 2013** | | | |
| Student Facilities System Revenue Bonds — Series 2012A | | | |
| Used to finance construction for the West Lafayette housing and parking facilities, and to refund a portion of Student Facilities System Revenue Bond Series 2003B and commercial paper | 2.00-5.00% | 2032 | $44,770 |
| Student Fee Bonds — Series AA | | | |
| Used to finance a portion of construction of the West Lafayette Student Fitness and Wellness Center, Drug Discovery Facility, Health and Human Sciences Facility and R&R projects on the West Lafayette campus | 1.25-5.00% | 2032 | 54,555 |
| **No Debt was Issued in Fiscal Year 2012** | | | |
| **Total Debt Issued** | | | **$99,325** |

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

With an improving state economy, appropriations to the University for the 2013-14 Fiscal Year increased $12,800,000 or 4.1%, distributed amongst the campuses as follows: West Lafayette (4.7%), Calumet (3.7%), Fort Wayne (1.2%) and North Central (2.9%). Appropriations will remain flat for the 2014-15 Fiscal Year. Repair and rehabilitation was partially funded by the state at $18,500,000 for the biennium (Fiscal Years 2013-14 and 2014-15). Tuition rates were set for the biennium, with no increase for residents and nonresident students at the West Lafayette campus each year, breaking a 37-year string of tuition increases. Tuition rates at each of the regional campuses will increase 2.0% for residents and nonresident students for each of the two years. Each campus continues its efforts to identify operational efficiencies, cost savings initiatives and new sources of revenue to supplement its operating budget. Efforts to support student affordability and accessibility are a priority at all of the campuses.

Enrollment at all Purdue campuses was 68,707* for the fall semester of the 2013-14 academic year. Enrollment at the West Lafayette campus was 38,788, a decrease of 468 students from the fall semester of the prior academic year and reflecting a goal to shift its total student population to 29,000-30,000 undergraduates and more than 9,000 graduate students. First-year students totaled 6,283 at the West Lafayette campus. Purdue saw its largest number of undergraduate applications at 30,955 with an overall increase in the yield of admitted students who chose to come to Purdue. The academic quality of the freshman class at the West Lafayette campus increased for the seventh consecutive year and continues to have a positive impact on the University's retention and graduation rates. Cumulative SAT scores for the freshman class increased 24 points, after increasing 18 points in fall 2012 and 14 points in fall 2011.

Under these conditions, 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 POSITION

| | As of June 30 | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in Thousands) | |
| **ASSETS:** | | |
| **Current Assets:** | | |
| Cash and Cash Equivalents | $436,164 | $423,927 |
| Investments | 82,970 | 64,872 |
| Accounts Receivable, Net of Allowance for Uncollectible Amounts | 85,270 | 90,277 |
| Pledges Receivable, Net of Allowance for Uncollectible Amounts | 27,931 | 25,563 |
| Notes Receivable, Net of Allowance for Uncollectible Amounts | 4,909 | 4,910 |
| Other Assets | 49,382 | 29,998 |
| **Total Current Assets** | **$686,626** | **$639,547** |
| **Noncurrent Assets:** | | |
| Investments | 2,305,271 | 2,134,609 |
| Pledges Receivable, Net of Allowance for Uncollectible Amounts | 20,680 | 28,061 |
| Notes Receivable, Net of Allowance for Uncollectible Amounts | 53,068 | 51,771 |
| Interest in Charitable Remainder Trusts | 10,296 | 9,871 |
| Capital Assets, Net of Accumulated Depreciation | 2,012,925 | 1,944,336 |
| **Total Noncurrent Assets** | **4,402,240** | **4,168,648** |
| **Total Assets** | **$5,088,866** | **$4,808,195** |
| **LIABILITIES:** | | |
| **Current Liabilities:** | | |
| Accounts Payable and Accrued Expenses | 97,371 | 98,331 |
| Deferred Revenue | 41,304 | 41,271 |
| Deposits Held in Custody for Others | 35,429 | 35,013 |
| Accrued Compensated Absences | 26,856 | 26,164 |
| Bonds (Net), Leases and Notes Payable | 150,027 | 136,243 |
| **Total Current Liabilities** | **$350,987** | **$337,022** |
| **Noncurrent Liabilities:** | | |
| Accrued Compensated Absences | 33,789 | 33,523 |
| Other Post-Employment Benefits | 36,179 | 30,694 |
| Funds Held in Trust for Others | 7,344 | 6,896 |
| Advances from Federal Government | 19,932 | 19,924 |
| Bonds (Net), Leases and Notes Payable | 828,677 | 795,654 |
| **Total Noncurrent Liabilities** | **925,921** | **886,691** |
| **Total Liabilities** | **$1,276,908** | **$1,223,713** |

## STATEMENT OF NET POSITION (CONTINUED)

| | As of June 30 | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in Thousands) | |
| **NET POSITION:** | | |
| **Net Investment in Capital Assets** | **$1,139,118** | **$1,094,127** |
| **Restricted** | | |
| Nonexpendable | | |
| Instruction and Research | 258,684 | 243,695 |
| Student Aid | 227,767 | 207,310 |
| Other | 22,073 | 21,574 |
| **Total Nonexpendable** | **$508,524** | **$472,579** |
| Expendable | | |
| Instruction, Research and Public Service | 150,740 | 150,308 |
| Student Aid | 86,411 | 83,884 |
| Construction | 45,207 | 32,550 |
| Other | 514,145 | 449,212 |
| **Total Expendable** | **796,503** | **715,954** |
| **Unrestricted** | **1,367,813** | **1,301,822** |
| **Total Net Position** | **$3,811,958** | **$3,584,482** |

*See Accompanying "Notes to the Financial Statements."*

Discovery Park fountain

## COMPONENT UNITS

### Consolidated Statement of Financial Position

| | For the Year Ended June 30 | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in Thousands) | |
| **Assets:** | | |
| Cash and Cash Equivalents | $16,954 | $16,815 |
| Accounts Receivable, Net | 25,976 | 14,565 |
| Other Assets | 30 | 24 |
| Investments | 890,484 | 815,565 |
| Pledges Receivable, Net | – | 15 |
| Lease Purchase Agreements | 127,897 | 133,352 |
| Notes Receivable, Net | 3,643 | 2,618 |
| Interest in Charitable Perpetual Trusts | 14,592 | 13,801 |
| Capital Assets, Net of Accumulated Depreciation | 162,680 | 178,677 |
| **Total Assets** | **$1,242,256** | **$1,175,432** |
| **Liabilities:** | | |
| Accounts Payable and Accrued Expenses | $22,463 | $20,299 |
| Due on Split Interest Agreements | 53,157 | 51,165 |
| Deposits Held in Custody for Others | 53,706 | 52,002 |
| Bonds (Net), Leases and Notes Payable | 218,181 | 223,075 |
| Other Liabilities | 21,526 | 3,594 |
| **Total Liabilities** | **$369,033** | **$350,135** |
| **Net Assets:** | | |
| Temporarily Restricted | $619,726 | $608,924 |
| Permanently Restricted | 135,050 | 131,622 |
| Unrestricted | 118,447 | 84,751 |
| **Total Net Assets** | **$873,223** | **$825,297** |

The Neil Armstrong Hall of Engineering

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | For the Year Ended June 30 | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in Thousands) | |
| **Operating Revenues** | | |
| Tuition and Fees (Net of Scholarship Allowance of $103,972 and $97,499, respectively, pledged, see Note 6) | $730,250 | $707,796 |
| Federal Grants | 14,970 | 14,331 |
| County Grants | 8,241 | 9,012 |
| Grants and Contracts | 364,697 | 375,341 |
| Sales and Services | 73,866 | 72,526 |
| Auxiliary Enterprises (Net of Scholarship Allowance of $13,895 and $12,725, respectively, pledged, see Note 6) | 249,379 | 250,744 |
| Other Operating Revenues | 8,728 | 6,822 |
| **Total Operating Revenues** | **$1,450,131** | **$1,436,572** |
| **Operating Expenses** | | |
| Instruction | 613,664 | 586,806 |
| Research | 236,388 | 236,798 |
| Extension and Public Service | 143,453 | 141,925 |
| Academic Support | 146,293 | 140,238 |
| Student Services | 48,712 | 48,476 |
| General Administration and Institutional Support | 150,529 | 149,485 |
| Physical Plant Operations and Maintenance | 136,233 | 133,764 |
| Depreciation | 135,846 | 126,284 |
| Student Aid | 63,775 | 70,376 |
| Auxiliary Enterprises | 202,216 | 199,568 |
| **Total Operating Expenses** | **$1,877,109** | **$1,833,720** |
| **Net Operating Loss** | **(426,978)** | **(397,148)** |
| **Nonoperating Revenues (Expenses)** | | |
| State Appropriations | 370,382 | 389,078 |
| Grants and Contracts | 65,687 | 73,261 |
| Private Gifts | 61,009 | 70,647 |
| Investment Income | 150,321 | 16,034 |
| Interest Expense | (34,535) | (32,843) |
| Other Nonoperating Revenues (Net of Nonoperating Expenses of $778 and $245, respectively) | 5,575 | 3,623 |
| **Total Nonoperating Revenues before Capital and Endowments** | **$618,439** | **$519,800** |
| **Capital and Endowments** | | |
| Capital Gifts | 11,122 | 133 |
| Private Gifts for Permanent Endowments and Charitable Remainder Trusts | 26,351 | 20,048 |
| Loss on Retirement of Capital Assets, Net of Proceeds and Insurance Recoveries | (1,458) | (6,349) |
| **Total Capital and Endowments** | **$36,015** | **$13,832** |
| **Total Nonoperating Revenues** | **654,454** | **533,632** |
| **INCREASE IN NET POSITION** | **$227,476** | **$136,484** |
| Net Position, Beginning of Year | $3,584,482 | $3,447,998 |
| Net Position, End of Year | $3,811,958 | $3,584,482 |

*See Accompanying "Notes to the Financial Statements."*

## COMPONENT UNITS

### Consolidated Statement of Activities

| | For the Year Ended June 30 | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in Thousands) | |
| **Revenue and Support** | | |
| Amount Received for Purdue University Research Projects | $250 | $192 |
| Less Payments to Purdue University | (250) | (192) |
| **Administrative Fee on Research Projects** | – | – |
| Contributions | $21,996 | $15,494 |
| Income on Investments | 19,911 | 19,034 |
| Net Unrealized and Realized Gains/(Losses) | 83,806 | (24,090) |
| Change in Value of Split Interest Agreements | (6,044) | (2,024) |
| Increase (Decrease) in Interests in Perpetual Trusts | 791 | (1,366) |
| Rents | 14,226 | 12,386 |
| Royalties | 6,313 | 4,809 |
| Other | 5,150 | 3,685 |
| **Total Revenue and Support** | **$146,149** | **$27,928** |
| **Expenses and Losses** | | |
| **Expenses for the Benefit of Purdue University** | | |
| Contributions to Purdue University | $20,937 | $23,070 |
| Patent and Royalty | 5,968 | (5,803) |
| Grants | 12,690 | 12,103 |
| Services for Purdue University | 265 | 1,134 |
| Development Office | 748 | 721 |
| Other | 2,873 | 3,076 |
| **Total Expenses for the Benefit of Purdue University** | **$43,481** | **$34,301** |
| **Administrative and Other Expenses** | | |
| Salaries and Benefits | $10,465 | $8,857 |
| Property Management | 28,598 | 9,637 |
| Professional Fees | 3,542 | 3,452 |
| Supplies | 587 | 340 |
| Interest | 9,249 | 9,702 |
| Research Park | 671 | 572 |
| Other | 5,601 | 3,801 |
| **Total Administrative and Other Expenses** | **$58,713** | **$36,361** |
| Change in Net Assets | $43,955 | ($42,734) |
| Net Assets, Beginning of Period | 825,297 | 868,031 |
| Change in Reporting Entity | 3,971 | – |
| **Net Assets, End of Period** | **$873,223** | **$825,297** |

## STATEMENT OF CASH FLOWS

| | For the Year Ended June 30 | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in Thousands) | |
| **Cash Flows by Operating Activities** | | |
| Tuition and Fees, Net of Scholarship Allowances | $729,925 | $708,855 |
| Federal Grants | 14,970 | 14,331 |
| County Grants | 8,241 | 9,012 |
| Grants and Contracts | 372,847 | 367,859 |
| Sales and Services | 71,987 | 73,394 |
| Auxiliary Enterprises, Net of Scholarship Allowances | 249,654 | 248,647 |
| Other Operating Revenues | 11,016 | 21,310 |
| Compensation and Benefits | (1,245,517) | (1,223,859) |
| Supplies and Services | (441,032) | (424,953) |
| Scholarships, Fellowships and Student Awards | (64,288) | (68,285) |
| Student Loans Issued | (10,221) | (10,323) |
| Student Loans Collected | 8,930 | 9,385 |
| **Cash Used by Operating Activities** | **$(293,488)** | **$(274,627)** |
| **Cash Flows by Noncapital Financing Activities** | | |
| State Appropriations | 370,382 | 389,078 |
| Grants and Contracts | 65,687 | 73,261 |
| Gifts for Other than Capital Purposes | 89,641 | 94,746 |
| Funds Held in Trust for Others | 894 | (1,095) |
| Other Nonoperating Revenues, Net | 5,575 | 3,623 |
| **Cash Provided by Noncapital Financing Activities** | **$532,179** | **$559,613** |
| **Cash Flows by Investing Activities** | | |
| Purchases of Investments | (2,939,414) | (2,968,462) |
| Proceeds from Sales and Maturities of Investments | 2,862,043 | 2,862,695 |
| Interest and Dividends on Investments, Net | 38,241 | 39,281 |
| **Cash Used by Investing Activities** | **$(39,130)** | **$(66,486)** |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Debt Repayment | (63,074) | (41,928) |
| Capital Debt Proceeds | 114,856 | 5,515 |
| Interest Expense | (38,164) | (39,853) |
| Capital Gifts Received | 11,511 | 7,137 |
| State Appropiations for Captial Projects | – | – |
| Construction or Purchase of Capital Assets | (212,453) | (235,636) |
| **Cash Used by Capital and Related Financing Activities** | **$(187,324)** | **$(304,765)** |
| Net Increase (Decrease) in Cash and Cash Equivalents | 12,237 | (86,265) |
| Cash and Cash Equivalents, Beginning of Year | 423,927 | 510,192 |
| **Cash and Cash Equivalents, End of Year** | **$436,164** | **$423,927** |

## STATEMENT OF CASH FLOWS (CONTINUED)

| | For the Year Ended June 30 | |
|---|---|---|
| | 2013 | 2012 |
| | (Dollars in Thousands) | |
| **Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:** | | |
| Operating Loss | $(426,978) | $(397,148) |
| Depreciation Expense | 135,846 | 126,284 |
| Noncash investing, capital and financing activities | 140 | 666 |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | 5,444 | (5,620) |
| Notes Receivable | (1,295) | (1,020) |
| Other Assets | (19,504) | (4,563) |
| Accrued Compensated Absences | 6,443 | 4,816 |
| Accounts Payable | 5,138 | (13,633) |
| Deferred Revenue | 1,270 | 15,600 |
| Deposits Held in Custody for Others | – | – |
| Advances from Federal Government | 8 | (9) |
| **Cash Used by Operating Activities** | **$(293,488)** | **$(274,627)** |

*See Accompanying "Notes to the Financial Statements."*

Discovery Park

# NOTES TO THE FINANCIAL STATEMENTS

***For the Fiscal Year Ending June 30, 2013***

## **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 28 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" and GASB No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34," 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 that have a fiscal dependency and financial benefit or burden relationship with the primary government 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 purpose of the foundation is to provide charitable, educational and scientific support to the University, including the solicitation, receipt, and acceptance of gifts, donations, and bequests of funds and other property for the benefit of the University. The University is the sole beneficiary of the Purdue Foundation and the governing body is substantively the same as the University's. As a result, the Purdue Foundation is reported as a blended component unit of the University. The foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Complete financial statements for the foundation can be obtained by writing to: The Purdue Foundation, 1281 Win Hentschel Blvd., West Lafayette, IN 47906.

As additionally required by GASB Statement No. 39, 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. All of the current discretely presented component units report 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.

**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. The economic resources received or held by PRF are entirely, or almost entirely, for the direct benefit of the University; however, the University does not appoint the voting majority of PRF's Board of Directors. As a result, PRF is reported as a discretely presented component unit. PRF is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. PRF includes several wholly owned subsidiary LLC corporations, all of which support the purposes of PRF and the University. PRF also 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. Complete financial statements for the foundation can be obtained by writing to: Purdue Research 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. The Ross-Ade Foundation provides services entirely, or almost entirely, to the University or otherwise exclusively, or almost exclusively, benefits the University even if it does not provide services directly to it. The University also appoints the voting majority of the Ross-Ade Foundation's Board of Directors, but it is not substantively the same as the University's Board of Directors. As a result, the Ross-Ade Foundation is reported as a discretely presented component unit. Complete financial statements for the foundation can be obtained by writing to: Ross-Ade Foundation, 1281 Win Hentschel Blvd., West Lafayette, IN 47906.

**Indiana Purdue Fort Wayne Foundation (IPFWF)** was created in 1958 to promote the educational purposes of Indiana University-Purdue University Fort Wayne. The Foundation accomplishes that purpose by owning and leasing land and buildings, receiving gifts of money or property, and investing, transferring, or leasing personal or real property for educational or charitable purposes. The foundation provides services entirely to the University or otherwise exclusively benefits the University even if it doesn't provide services directly to it; however, the University does not appoint the voting majority of the IPFWF's Board of Directors. As a result, the IPFWF is reported as a discretely presented component unit. The foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Complete financial statements for the foundation can be obtained by writing to: IPFW Foundation, c/o Matt Whitney, 2101 East Coliseum Blvd., KT G06, Fort Wayne, IN 46805-1499.

The University has an association with Indiana University-Purdue University Indianapolis for which it is not financially accountable nor 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, 2013 and 2012.

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 2013, the University adopted GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements"; GASB Statement No. 61, "The Financial Reporting Entity: Omnibus — an Amendment of GASB Statements No. 14 and No. 34"; GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements"; and GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." During Fiscal Year 2012, the University did not adopt any new GASB pronouncements.

The effect of GASB Statement No. 61:

- Changed the presentation of Ross-Ade Foundation from a blended component unit to a discretely presented component unit; Ross-Ade Foundation's net position was $1,611,000 and $18,943,000 as of June 30, 2013 and 2012, respectively.
- Recognized IPFWF as a discretely presented component unit; IPFWF's net position was $17,951,000 and $17,397,000 as of June 30, 2013 and 2012, respectively.

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, prior to Fiscal Year 2013, the University had 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, unspent debt proceeds, 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.

**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 to 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 to 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. 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, 2013 and 2012, the fair value of funds held by PRF Trusts for The University was approximately $20,860,000 and $19,102,000, 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.

**Interest in Perpetual Trusts.** PRF records its interest in a charitable perpetual trust (for which a bank acts as trustee) at the fair value of the trust's assets. The increase in the estimated present value of future cash flows of PRF's interest in the charitable perpetual trust is recorded as an increase to permanently restricted net assets in PRF's consolidated statements of activities.

**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 at 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 Position.** University resources are classified for accounting and financial reporting purposes into four net position categories:

- **Net investment in capital assets:** 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 net investment in capital assets.
- **Restricted-nonexpendable:** Net position 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 position that may be spent provided certain third-party restrictions are met. The following categories of restricted-expendable net position are presented: instruction, research and public service; student aid; construction; and other. As of June 30, 2013 and 2012, approximately 35% or $176,479,000 and 31% or $138,071,000, respectively, of the "other" category results from undistributed gain on endowment funds. Approximately 55% or $279,821,000 and 59% or $263,183,000, respectively, of the "other" category, as of June 30, 2013 and 2012, results from the fair value of funds functioning as endowments. The donor has restricted the use of the funds for a particular purpose; therefore, neither component is available for general institutional use.
- **Unrestricted:** Net position 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 position 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 functional classifications in the Statement of Revenues, Expenses and Changes in Net Position. Natural classification 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.

University Hall

**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 $903,000 and $4,683,000 was recognized during the years ending June 30, 2013 and 2012, respectively.

**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, 2013 and 2012, the bank balance of the University's deposits (demand deposit accounts) was approximately $90,582,000 and $80,918,000, 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.

**University 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 December 15, 2012, authorize the treasurer of the Trustees to implement investment activity. The University had the following investments (dollars in thousands):

| Investment Type | June 30, 2013 | June 30, 2012 |
|---|---|---|
| U.S. Agencies | $108,676 | $153,748 |
| Asset-Backed Securities | 28,347 | 31,992 |
| Corporate Bonds | 329,539 | 341,054 |
| U.S. Equity | 362,943 | 349,019 |
| International Equity | 264,298 | 217,786 |
| International Fixed Income | 6,065 | 5,868 |
| Marketable Alternatives | 279,482 | 246,761 |
| Mortgage-Backed Securities | 251,958 | 256,266 |
| Private Equity | 175,578 | 162,000 |
| Real Estate | 36,953 | 35,802 |
| U.S. Treasuries and Securities | 327,315 | 250,687 |
| Mutual Funds and Cash | 562,669 | 491,507 |
| **Total** | **$2,733,823** | **$2,542,490** |

Investment values included accumulated unrealized gains of $193,492,000 and $123,770,000 as of June 30, 2013 and 2012, respectively. Investment income included unrealized gains of $69,722,000 during the year ended June 30, 2013, and unrealized losses of $71,052,000 during the year ended June 30, 2012.

**PRF Investments.** The fair value of investments at June 30, 2013 and 2012, is as follows (dollars in thousands):

| Investment Type | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Short-Term Investments | $42 | $44 |
| U.S. Equity | 16,833 | 3,579 |
| Fixed Income | 5,697 | 6,465 |
| Venture Capital | 88 | 14 |
| Pooled Funds: | | |
| Short-Term Investments | 27,926 | 25,175 |
| U.S. Equity | 144,419 | 125,645 |
| International Equity | 75,608 | 91,135 |
| Fixed Income | 94,686 | 93,862 |
| Funds Invested with University | 13,200 | 12,500 |
| Emerging Markets | 85,793 | 50,047 |
| Public Real Estate | 18,623 | 16,395 |
| Private Real Estate | 28,220 | 27,032 |
| Public Natural Resources | 14,925 | 14,457 |
| Private Natural Resources | 39,569 | 39,296 |
| Hedge Funds | 190,814 | 176,225 |
| Venture Capital/Private Equity | 115,857 | 115,610 |
| **Total** | **$872,300** | **$797,481** |

**Investment Policies, Interest Rate and Credit Risks.** University investments are managed by two separate policies, the cash management investment policy and the endowment investment policy, both of which are approved by the Trustees. PRF investments are managed under an identical endowment investment policy that is approved by the PRF 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; high-yield bonds, including corporate bonds and bank loans (minimum credit quality of BB-/Ba3); and 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 comingled 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, 2013 | Maturity | | | | |
|---|---|---|---|---|---|
| **Sector** | **0-1 year** | **1-5 years** | **6-10 years** | **>10 years** | **Totals** |
| U.S. Agencies | $35,425 | $66,402 | $0 | $6,849 | $108,676 |
| Asset-Backed Securities | – | 12,267 | 14,283 | 1,797 | 28,347 |
| Corporate Bonds | 22,385 | 211,999 | 67,656 | 27,499 | 329,539 |
| International Fixed Income | 6,065 | – | – | – | 6,065 |
| Mortgage-Backed Securities | – | 44,145 | 92,644 | 115,169 | 251,958 |
| U.S. Treasuries and Securities | 53,982 | 251,244 | 20,815 | 1,274 | 327,315 |
| Mutual Funds and Cash | 464,021 | 58,956 | 18,931 | 20,761 | 562,669 |
| **Total** | **$581,878** | **$645,013** | **$214,329** | **$173,349** | **$1,614,569** |

| 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** |

Looking northeast, with Elliott Hall of Music in foreground

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

| | June 30, 2013 | | June 30, 2012 | |
|---|---|---|---|---|
| AAA | $757,334 | 27.8% | $745,959 | 29.4% |
| AA | 57,661 | 2.1% | 65,121 | 2.6% |
| A | 195,380 | 7.1% | 165,638 | 6.5% |
| BAA | 129,506 | 4.7% | 134,895 | 5.3% |
| BA | 16,933 | 0.6% | 15,447 | 0.6% |
| B | 515 | 0.0% | 565 | 0.0% |
| CAA | 699 | 0.0% | 656 | 0.0% |
| Unrated | 1,575,795 | 57.7% | 1,414,209 | 55.6% |
| **Total** | **$2,733,823** | **100.0%** | **$2,542,490** | **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, 2013 and 2012, 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 $492,013,000 and $444,563,000, 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 $66,261,000 and $67,385,000 as of June 30, 2013 and 2012, respectively.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of June 30, 2013 and 2012, 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. The approved spending policy distributed 5.0% 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, 2013 and 2012, accumulated market appreciation of the pool was approximately $438,087,000 and $366,845,000, respectively. Of this amount, 38.80% and 36.71% represents appreciation attributable to donor-restricted (true and term) endowments during the year ended June 30, 2013 and 2012, 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. 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.

## NOTE 3 — ACCOUNTS, PLEDGES AND NOTES RECEIVABLES

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

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Grants and Contracts | $46,502 | $52,776 |
| Student and General | 28,387 | 27,069 |
| Other Accrued Revenues | 14,418 | 16,576 |
| Less: Allowance for Doubtful Accounts | (4,037) | (6,144) |
| **Total Accounts Receivable, Net** | **$85,270** | **$90,277** |

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Pledges Receivable | $50,651 | $55,664 |
| Less: Allowance for Doubtful Pledges | (2,040) | (2,040) |
| Total Pledges Receivable | 48,611 | 53,624 |
| Less: Noncurrent Portion | (20,680) | (28,061) |
| **Pledges Receivable, Current Portion** | **$27,931** | **$25,563** |

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Perkins Loans | $27,068 | $27,188 |
| Institutional Loans | 20,828 | 19,174 |
| Other Student Loans | 11,041 | 10,979 |
| Less: Allowance for Doubtful Loans | (960) | (660) |
| Total Notes Receivable | $57,977 | $56,681 |
| Less: Noncurrent Portion | (53,068) | (51,771) |
| **Notes Receivable, Current Portion** | **$4,909** | **$4,910** |

## NOTE 4 — CAPITAL ASSETS

Capital asset activity is summarized below (dollars in thousands). Interest that qualified for interest capitalization was approximately $11,565,000 and $11,799,000 during the years ended June 30, 2013 and 2012, respectively.

| Capital Assets Activity | Balance July 1, 2012 | Additions | Retirements | Transfers | Balance June 30, 2013 |
|---|---|---|---|---|---|
| Capital Assets, Not Being Depreciated: | | | | | |
| Land | $28,179 | $– | $– | $– | $28,179 |
| Construction in Progress | 305,902 | 90,072 | – | (180,414) | 215,560 |
| Total, Capital Assets, Not Being Depreciated | $334,081 | $90,072 | $– | ($180,414) | $243,739 |
| Capital Assets, Being Depreciated: | | | | | |
| Land Improvements | 69,161 | 1 | – | 248 | 69,410 |
| Infrastructure | 76,914 | 181 | – | 3,306 | 80,401 |
| Buildings | 2,394,916 | 86,961 | 2,586 | 176,749 | 2,656,040 |
| Equipment | 486,477 | 28,832 | 21,364 | 111 | 494,056 |
| Software | 58,362 | – | – | – | 58,362 |
| Total, Capital Assets, Being Depreciated | $3,085,830 | $115,975 | $23,950 | $180,414 | $3,358,269 |
| Less Accumulated Depreciation: | | | | | |
| Land Improvements | 54,453 | 2,349 | – | – | 56,802 |
| Infrastructure | 36,081 | 4,801 | – | – | 40,882 |
| Buildings | 1,040,968 | 85,275 | 2,328 | – | 1,123,915 |
| Equipment | 311,126 | 36,916 | 20,010 | – | 328,032 |
| Software | 32,947 | 6,505 | – | – | 39,452 |
| Total Accumulated Depreciation | $1,475,575 | $135,846 | $22,338 | $– | $1,589,083 |
| **Total Capital Assets, Net of Accumulated Depreciation** | **$1,944,336** | **$70,201** | **$1,612** | **$–** | **$2,012,925** |

| 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** |

## NOTE 5 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Construction Payables | $18,655 | $25,980 |
| Accrued Insurance Liabilities | 22,475 | 26,943 |
| Interest Payable | 17,913 | 16,686 |
| Accrued Salary and Wages | 7,613 | 6,997 |
| Vendor and Other Payables | 30,715 | 21,725 |
| **Total Accounts Payable** | **$97,371** | **$98,331** |

**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 $8,000,000 and $7,396,000 as of June 30, 2013 and 2012, 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, 2013 and 2012, the University reflected approximately $154,000 and $63,000, 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):

| **Accrued Insurance Liabilities** | June 30, 2013 | June 30, 2012 |
|---|---|---|
| Beginning Liability | $26,943 | $28,386 |
| Claims Incurred | 137,586 | 143,423 |
| Claims Payments | (142,054) | (144,866) |
| **Ending Liability** | **$22,475** | **$26,943** |

## NOTE 6 — DEBT RELATED TO CAPITAL ASSETS

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

| Debt-Related Liabilities | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 | Current Portion |
|---|---|---|---|---|---|
| Commercial Paper | $23,785 | $1,500 | $17,829 | $7,456 | $7,456 |
| Notes Payable | 875 | – | 80 | 795 | 86 |
| Leases Payable | 141,317 | 1,000 | 6,203 | 136,114 | 38,619 |
| Bonds Payable | | | | | |
| Student Facilities System Revenue Bonds | 318,713 | 49,669 | 15,652 | 352,730 | 69,700 |
| Student Fee Bonds | 447,207 | 62,687 | 28,285 | 481,609 | 34,166 |
| Total Bonds Payable | 765,920 | 112,356 | 43,937 | 834,339 | 103,866 |
| **Total Debt-Related Liabilities** | **$931,897** | **$114,856** | **$68,049** | **$978,704** | **$150,027** |

| 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** |

**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, 2013 and 2012, the balance outstanding was $7,456,000 and $23,785,000, respectively.

**Notes Payable.** As of June 30, 2013 and 2012, the balance of notes outstanding was approximately $795,000 and $875,000, 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 Interbank 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 $795,000 and $875,000 as of

June 30, 2013 and 2012, respectively. The current portion of this note was approximately $86,000 and $80,000 as of June 30, 2013 and 2012, respectively. The interest rate for the note was fixed at 8.00% as of June 30, 2013 and 2012.

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

| Issue | Issue Date | Interest Rates | Final Maturity Dates | Outstanding June 30, 2013 | Outstanding June 30, 2012 | Current Outstanding June 30, 2013 |
|---|---|---|---|---|---|---|
| Certificates of Participation with Ross-Ade: | | | | | | |
| Series 1998 | 1998 | 3.20-5.25% | 2015 | $1,745 | $2,555 | $850 |
| Series 2006 | 2006 | 4.00-5.25% | 2027 | 46,830 | 49,545 | 2,820 |
| Series 2009A | 2009 | 2.50-5.00% | 2015 | 3,975 | 5,830 | 1,950 |
| Series 2009B | 2009 | 4.07-5.96% | 2031 | 42,795 | 42,795 | – |
| Series 2011A | 2011 | 0.05% * | 2035 | 32,185 | 32,185 | 32,185 |
| Leases with Purdue Research Foundation: | | | | | | |
| Academic Learning Center | 2012 | 2.00-5.00% | 2030 | 6,430 | 6,680 | 250 |
| Remo Property | 2011 | 6.38% | 2015 | 112 | 162 | 54 |
| Kaplan | 2012 | 5.63% * | 2022 | 923 | – | 82 |
| Leases with Indiana Purdue Fort Wayne Foundation: | | | | | | |
| Child Care Center | 2011 | 6.20% | 2016 | 327 | 424 | 103 |
| | | | | 135,322 | 140,176 | 38,294 |
| Net Unamortized Premiums and Deferred Costs | | | | 792 | 1,141 | 325 |
| **Total** | | | | **$136,114** | **$141,317** | **$38,619** |

** Variable interest rates are reset weekly and are based upon market conditions. Amounts shown as of June 30, 2013.*

France A. Córdova Recreational Sports Center

The Certificates of Participation are secured by certain real estate and the projects located on that real estate, the lease payments to the Ross-Ade Foundation, and a pledge of available income, except student fees and state appropriations. As of June 30, 2013 and 2012, the University included approximately $32,185,000 in Current Liabilities related to variable rate Certificates of Participation (Series 2011A). The anticipated redemption schedule is based on the interest rate as of June 30, 2013. As a requirement of the Treasury ruling, which granted tax exemption to the lender on the interest paid by the Ross-Ade Foundation, the University has entered into a lease purchase arrangement whereby on the termination of the stated lease, title to the land and buildings will be conveyed absolutely to the Trustees of the University. At any time during the lease term, the University has the right to acquire the entire title to the facility by paying the Ross-Ade Foundation an amount equal to the then-outstanding indebtedness. The Ross-Ade Foundation has created a reserve for valuation to reduce the carrying value of certain properties leased to the University in an amount not greater than the proceeds to be received if disposal was made to the University.

As of June 30, 2013 and 2012, long-term debt included amounts relating to properties with a net book value (net of accumulated depreciation) of approximately $173,883,000 and $167,753,000, respectively, leased from either the Ross-Ade Foundation, Purdue Research Foundation or the Indiana Purdue Fort Wayne Foundation.

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.

On December 21, 2012, the University entered into a $1,335,000 lease agreement with Purdue Research Foundation for the real estate commonly known as Kaplan Commons near the Calumet campus. The fair value of the building was treated as a capital lease with the value of $1,000,000.

**Bonds Payable.** As of June 30, 2013 and 2012, the balance of bonds outstanding was approximately $834,339,000 and $765,920,000, 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, 2013 | Total Outstanding June 30, 2012 | Current Outstanding June 30, 2013 |
|---|---|---|---|---|---|---|
| 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% | 2013 | $8,870 | $13,965 | $8,870 |
| Series 2003B | | | | | | |
| Used to finance construction of Fort Wayne student housing facilities | 2003 | 2.00-4.25% | 2013 | 515 | 4,615 | 515 |
| Series 2004A | | | | | | |
| Used to finance construction of Calumet student housing and parking garage facilities | 2004 | 0.06% * | 2033 | 17,600 | 17,600 | 17,600 |
| Series 2005A | | | | | | |
| Used to finance construction and renovation of West Lafayette housing and food service facilities | 2005 | 0.05% * | 2029 | 6,020 | 6,020 | 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 | 23,840 | 24,535 | 730 |
| Series 2007C | | | | | | |
| Used to renovate a West Lafayette student housing facility, and finance construction on a new West Lafayette student housing facility | 2007 | 0.05% * | 2032 | 25,520 | 25,520 | 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 | 34,175 | 34,635 | 680 |
| 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 | 39,490 | 40,425 | 970 |
| 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 | 1,110 |
| Series 2011A | | | | | | |
| Used to refund a portion of Student Facilities System Revenue Bond Series 2004A, 2005A, and 2007C | 2011 | 2.00-5.00% | 2025 | 46,805 | 49,440 | 2,705 |
| Series 2012A | | | | | | |
| Used to finance construction for the West Lafayette student housing and parking facilities, and to refund a portion of Student Facilities System Revenue Bond Series 2003B and commercial paper | 2012 | 2.00-5.00% | 2032 | 44,770 | – | 2,670 |
| | | | | $334,455 | $303,605 | $67,390 |
| Net unamortized premiums and deferred costs | | | | 18,275 | 15,108 | 2,310 |
| **Total Student Facilities System Revenue Bonds** | | | | **$352,730** | **$318,713** | **$69,700** |

** Variable interest rates are reset weekly and are based upon market conditions. Amounts shown as of June 30, 2013.*

| Issuance and Description | Issue Date | Interest Rates | Final Maturity Dates | Total Outstanding June 30, 2013 | Total Outstanding June 30, 2012 | Current Outstanding June 30,2013 |
|---|---|---|---|---|---|---|
| Student Fee Bonds: | | | | | | |
| Series N | | | | | | |
| Used to refund Student Fee Bond Series B and D | 1998 | 3.55-5.50% | 2014 | $4,510 | $8,240 | $4,010 |
| Series P | | | | | | |
| Used to refund Student Fee Bond Series M | 1998 | 4.00-5.25% | 2017 | 20,295 | 24,385 | 4,305 |
| 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 | – |
| Series U | | | | | | |
| Used to refund a portion of Student Fee Bond Series Q | 2005 | 3.50-5.25% | 2022 | 29,945 | 32,380 | 2,590 |
| Series W | | | | | | |
| Used to finance West Lafayette strategic infrastructure and utilities improvements | 2006 | 4.00-5.00% | 2026 | 33,265 | 34,945 | 1,750 |
| Series X | | | | | | |
| Used to finance the construction of the West Lafayette Health and Human Sciences facility, add a wing to the West Lafayette Mechanical Engineering building, West Lafayette power improvements, 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 | 93,530 | 97,255 | 3,915 |
| Series Y | | | | | | |
| Used to refund Student Fee Bond Series S, T and V | 2010 | 2.00-5.00% | 2027 | 64,590 | 67,600 | 3,100 |
| 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 and a portion of commercial paper | 2010 | 4.00-5.00% | 2024 | 60,465 | 66,405 | 8,975 |
| 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 | 695 |
| Series AA | | | | | | |
| Used to finance a portion of construction of the West Lafayette Student Fitness and Wellness Center, Drug Discovery Facility, Health and Human Sciences Facility, and R&R projects on the West Lafayette campus | 2012 | 1.25-5.00% | 2032 | 54,555 | – | 1,745 |
| | | | | $461,860 | $432,695 | $31,085 |
| Net unamortized premiums and deferred costs | | | | 19,749 | 14,512 | 3,081 |
| **Total Student Fee Bonds** | | | | **$481,609** | **$447,207** | **$34,166** |

The Student Facilities System Revenue Bonds are secured by a pledge of auxiliary net income and all other available funds, except student fees and state appropriations. As of June 30, 2013 and 2012, total net pledged revenues were approximately $11,161,000 and $15,283,000, respectively.

Student Fee Bonds are secured by a pledge of mandatory student fees. Mandatory student fees (net of scholarship allowance) were approximately $730,250,000 and $707,796,000 during the years ended June 30, 2013 and 2012, respectively.

As of both June 30, 2013 and 2012, the University had approximately $49,140,000 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 based on the interest rate as of June 30, 2013.

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 variable rate bonds or certificates of participation.

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. The series was issued to finance the construction of the West Lafayette Drug Discovery, Health and Human Sciences, and Student Fitness and Wellness facilities. The series also financed various West Lafayette repair and rehabilitation projects.

On September 5, 2012, Student Facilities System Revenue Bonds, Series 2012A, were issued at par value of $44,770,000 and a premium of approximately $5,748,000. The series was issued to finance the construction of the West Lafayette Vawter Field Housing and Harrison Parking facilities. The series also refunded $3,650,000 of Student Facility System Revenue Bonds 2003B and some commercial paper. 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 $338,523. The refunding resulted in an estimated economic gain (difference between the present value of the debt service payment on the old and new debt) of approximately $312,059.

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 |
|---|---|---|---|
| 2014 | $62,986 | $39,364 | $102,350 |
| 2015 | 46,976 | 36,934 | 83,910 |
| 2016 | 47,642 | 34,724 | 82,366 |
| 2017 | 47,795 | 32,536 | 80,331 |
| 2018 | 46,404 | 30,403 | 76,807 |
| 2019-2023 | 233,890 | 118,072 | 351,962 |
| 2024-2028 | 240,790 | 60,499 | 301,289 |
| 2029-2033 | 169,485 | 16,622 | 186,107 |
| 2034-2038 | 43,920 | 1,245 | 45,165 |
| | $939,888 | $370,399 | $1,310,287 |
| Net unamortized premiums and deferred costs | 38,816 | – | 38,816 |
| **Total** | **$978,704** | **$370,399** | **$1,349,103** |

**Defeased Bond Issues.** The University defeases bonds by prepayment or issuing new debt. The University's defeased debt is shown in the following table (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.

Purdue Mall Fountain and Hovde Hall

| Description of Bonds | Final Maturity/ Call Date | Amount Outstanding June 30, 2013 | June 30, 2012 |
|---|---|---|---|
| Student Fee and Facilities: | | | |
| Student Fee Bonds Series R | 7/1/2012 | $– | $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 | 21,600 | 17,950 |

**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, respectively. 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 |
|---|---|
| 2014 | $2,605 |
| 2015 | 1,629 |
| 2016 | 1,391 |
| 2017 | 1,182 |
| **Total Future Minimum Payments** | **$6,807** |

## NOTE 7 — OTHER DEBT INFORMATION

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

| Long-term Liabilities | Balance July 1, 2012 | Increases | Decreases | Balance June 30, 2013 | Current Portion |
|---|---|---|---|---|---|
| Accrued Compensated Absences | $59,687 | $27,122 | $26,164 | $60,645 | $26,856 |
| Other Post-Employment Benefits | 30,694 | 11,675 | 6,190 | 36,179 | – |
| Funds Held in Trust for Others | 6,896 | 10,639 | 10,191 | 7,344 | – |
| Advances from Federal Government | 19,924 | 19 | 11 | 19,932 | – |
| **Total** | **$117,201** | **$49,455** | **$42,556** | **$124,100** | **$26,856** |

| 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** |

**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 both the years ended June 30, 2013 and 2012, there were 509 employees participating in the voluntary retirement incentive program. For the years ending June 30, 2013 and 2012, the University had an outstanding liability associated with the health reimbursement accounts of approximately $6,762,000 and $10,150,000, respectively.

Purdue also offers a long-term disability program providing income continuation payments. Based on date of disability, some additional “auxiliary benefits” may be extended. Prior to January 1, 2013, the program included retirement benefit payments, medical and life insurance premium payments for a small required premium paid by the employee. Those who were participating in the program at that date continue to receive the benefits until they reach the age of 65. Individuals with a date of disability beginning January 1, 2013, may continue medical benefits at the existing employee premiums until the employee becomes eligible for Medicare or for a maximum of three years after the employee becomes disabled, whichever comes first. 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.

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, 2013 | For Fiscal Year Ending June 30, 2012 |
|---|---|---|
| Normal Cost | $5,639 | $5,503 |
| Amortization of the Unfunded | | |
| Actuarial Accrued Liability | 6,819 | 6,655 |
| **Total Annual Required Contribution (End of Year)** | **$12,458** | **$12,158** |

**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% |
| June 30, 2013 | 11,675 | 6,190 | 53% |

**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.*

**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 |
| January 1, 2011 | June 30, 2013 | 12,458 | 1,535 | (2,318) | 11,675 | 6,190 | 5,485 | 36,179 |

| | |
|---|---|
| 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** |

Purdue Memorial Union

## NOTE 8 — OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

**June 30, 2013**

| Function | Compensation & Benefits | Supplies & Services | Depreciation | Scholarships, Fellowships & Student Awards | Total |
|---|---|---|---|---|---|
| Instruction | $548,063 | $65,601 | $– | $– | $613,664 |
| Research | 166,446 | 69,942 | – | – | 236,388 |
| Extension and Public Service | 76,857 | 66,596 | – | – | 143,453 |
| Academic Support | 97,729 | 48,564 | – | – | 146,293 |
| Student Services | 38,279 | 10,433 | – | – | 48,712 |
| General Administration and Institutional Support | 117,919 | 32,610 | – | – | 150,529 |
| Physical Plant Operations and Maintenance | 82,535 | 53,698 | – | – | 136,233 |
| Depreciation | – | – | 135,846 | – | 135,846 |
| Student Aid | – | – | – | 63,775 | 63,775 |
| Auxiliary Enterprises | 124,984 | 77,232 | – | – | 202,216 |
| **Total** | **$1,252,812** | **$424,676** | **$135,846** | **$63,775** | **$1,877,109** |

**June 30, 2012**

| Function | Compensation & Benefits | Supplies & Services | Depreciation | Scholarships, Fellowships & Student Awards | Total |
|---|---|---|---|---|---|
| Instruction | $523,832 | $62,974 | $– | $– | $586,806 |
| Research | 165,568 | 71,230 | – | – | 236,798 |
| Extension and Public Service | 75,890 | 66,035 | – | – | 141,925 |
| Academic Support | 87,565 | 52,673 | – | – | 140,238 |
| Student Services | 35,639 | 12,837 | – | – | 48,476 |
| General Administration and Institutional Support | 116,173 | 33,312 | – | – | 149,485 |
| Physical Plant Operations and Maintenance | 80,233 | 53,531 | – | – | 133,764 |
| Depreciation | – | – | 126,284 | – | 126,284 |
| Student Aid | – | 2,011 | – | 68,365 | 70,376 |
| Auxiliary Enterprises | 135,831 | 63,737 | – | – | 199,568 |
| **Total** | **$1,220,731** | **$418,340** | **$126,284** | **$68,365** | **$1,833,720** |

## 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, 2013 and 2012, the University's contribution to FICA was approximately $52,324,000 and $51,276,000, 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, 2013 and 2012, the University made contributions totaling approximately $55,397,000 and $54,447,000, respectively, to these plans. For the years ended June 30, 2013 and 2012, there were 6,763 and 6,810, respectively, employees participating in the plans with annual pay equal to approximately $507,239,000 and $498,870,000, 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† | 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) |
| | 2012 | 107,679 | 227,419 | 119,740 | 47.3% | 145,682 | 82.2% | 15,911 | 71.3% | 2,042 |
| Police/Fire | 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 |
| | 2012 | 23,438 | 27,329 | 3,891 | 85.8% | 5,648 | 68.9% | 1,286 | 90.7% | 120 |

** Data for 2012 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, 2013 and 2012, there were 5,081 and 5,095, respectively, employees participating in PERF. The University made contributions to this plan totaling approximately $18,486,000 and $16,390,000 for the years ending June 30, 2013 and 2012, respectively.

The required employer's contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal (Level Percent of Payroll) cost method. The actuarial assumptions included: (a) 6.75% 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 888-526-1687; 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, 2013 and 2012, there were 104 and 108, 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, 2012. 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 $3,891,000 at July 1, 2012, and $3,825,000 at July 1, 2011, which is being amortized over a 30-year period. The actual amount contributed by the University was approximately $1,166,000 and $976,000 for the years ending June 30, 2013 and 2012, respectively. The required contribution was determined as part of the July 1, 2012, 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, 2013 and 2012, there were 18 and 24, respectively, staff members with federal appointments employed by the Indiana Cooperative Extension Service and covered by the Federal Civil Service Retirement System.

## NOTE 10 — DISCRETELY PRESENTED COMPONENT UNITS

Summary financial information as of and for the years ended June 30, 2013 and 2012, for the University's discretely presented component units are presented in the tables below.

**Discretely Presented Component Unit Statement of Financial Position (dollars in thousands):**

**As of June 30, 2013**

| | Purdue Research Foundation | Ross-Ade Foundation | IPFW Foundation | Component Unit Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash and Cash Equivalents | $15,531 | $1,163 | $260 | $16,954 |
| Accounts Receivable, Net | 25,841 | 9 | 126 | 25,976 |
| Other Assets | – | 3 | 27 | 30 |
| Investments | 880,890 | – | 9,594 | 890,484 |
| Pledges Receivable, Net | – | – | – | – |
| Lease Purchase Agreements | – | 127,530 | 367 | 127,897 |
| Notes Receivable, Net | 2,564 | 1,079 | – | 3,643 |
| Interest in Charitable Perpetual Trusts | 14,592 | – | – | 14,592 |
| Capital Assets, Net of Accumulated Depreciation | 154,870 | 151 | 7,659 | 162,680 |
| **Total Assets** | **$1,094,288** | **$129,935** | **$18,033** | **$1,242,256** |
| **Liabilities:** | | | | |
| Accounts Payable and Accrued Expenses | $22,427 | $2 | $34 | $22,463 |
| Due on Split Interest Agreements | 53,157 | – | – | 53,157 |
| Deposits Held in Custody for Others | 53,706 | – | – | 53,706 |
| Bonds (Net), Leases and Notes Payable | 89,812 | 128,322 | 47 | 218,181 |
| Other Liabilities | 21,525 | – | 1 | 21,526 |
| **Total Liabilities** | **$240,627** | **$128,324** | **$82** | **$369,033** |
| **Net Assets:** | | | | |
| Temporarily Restricted | $614,036 | $1,611 | $4,079 | $619,726 |
| Permanently Restricted | 128,458 | – | 6,592 | 135,050 |
| Unrestricted | 111,167 | – | 7,280 | 118,447 |
| **Total Net Assets** | **$853,661** | **$1,611** | **$17,951** | **$873,223** |

University Hall with John Purdue Statue

**Discretely Presented Component Unit Statement of Financial Position (dollars in thousands):**

**As of June 30, 2012**

| | Purdue Research Foundation | Ross-Ade Foundation | IPFW Foundation | Component Unit Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash and Cash Equivalents | $12,906 | $3,618 | $291 | $16,815 |
| Accounts Receivable, Net | 14,457 | – | 108 | 14,565 |
| Other Assets | – | 2 | 22 | 24 |
| Investments | 806,680 | – | 8,885 | 815,565 |
| Pledges Receivable, Net | 15 | – | – | 15 |
| Lease Purchase Agreements | – | 132,910 | 442 | 133,352 |
| Notes Receivable, Net | 1,539 | 1,079 | – | 2,618 |
| Interest in Charitable Perpetual Trusts | 13,801 | – | – | 13,801 |
| Capital Assets, Net of Accumulated Depreciation | 154,336 | 16,569 | 7,772 | 178,677 |
| **Total Assets** | **$1,003,734** | **$154,178** | **$17,520** | **$1,175,432** |
| | | | | |
| **Liabilities:** | | | | |
| Accounts Payable and Accrued Expenses | $19,086 | $1,184 | $29 | $20,299 |
| Due on Split Interest Agreements | 51,165 | – | – | 51,165 |
| Deposits Held in Custody for Others | 52,002 | – | – | 52,002 |
| Bonds (Net), Leases and Notes Payable | 88,933 | 134,051 | 91 | 223,075 |
| Other Liabilities | 3,591 | – | 3 | 3,594 |
| **Total Liabilities** | **$214,777** | **$135,235** | **$123** | **$350,135** |
| | | | | |
| **Net Assets:** | | | | |
| Temporarily Restricted | $585,915 | $18,943 | $4,066 | $608,924 |
| Permanently Restricted | 125,405 | – | 6,217 | 131,622 |
| Unrestricted | 77,637 | – | 7,114 | 84,751 |
| **Total Net Assets** | **$788,957** | **$18,943** | **$17,397** | **$825,297** |

**Discretely Presented Component Unit Statement of Activities (dollars in thousands):**

**As of June 30, 2013**

| | Purdue Research Foundation | Ross-Ade Foundation | IPFW Foundation | Component Unit Total |
|---|---|---|---|---|
| **Revenue and Support:** | | | | |
| Amount Received for Purdue University Research Projects | $250 | $– | $– | $250 |
| Less Payments to Purdue University | (250) | – | – | (250) |
| **Administrative Fee on Research Projects** | – | – | – | – |
| Contributions | $19,743 | $1,257 | $996 | $21,996 |
| Income on Investments | 13,907 | 5,175 | 829 | 19,911 |
| Net Unrealized and Realized Gains | 83,806 | – | – | 83,806 |
| Change in Value of Split Interest Agreements | (6,044) | – | – | (6,044) |
| Increase in Interest in Perpetual Trusts | 791 | – | – | 791 |
| Rents | 14,067 | 8 | 151 | 14,226 |
| Royalties | 6,313 | – | – | 6,313 |
| Other | 5,056 | – | 94 | 5,150 |
| **Total Revenue and Support** | **$137,639** | **$6,440** | **$2,070** | **$146,149** |
| **Expenses and Losses** | | | | |
| **Expenses for the Benefit of Purdue University** | | | | |
| Contributions to Purdue University | $19,675 | $– | $1,262 | $20,937 |
| Patent and Royalty | 5,968 | – | – | 5,968 |
| Grants | 12,690 | – | – | 12,690 |
| Services for Purdue University | 265 | – | – | 265 |
| Development Office | 748 | – | – | 748 |
| Other | 2,755 | – | 118 | 2,873 |
| **Total Expenses for the Benefit of Purdue University** | **$42,101** | **$–** | **$1,380** | **$43,481** |
| **Administrative and Other Expenses** | | | | |
| Salaries and Benefits | $10,465 | $– | $– | $10,465 |
| Property Management | 9,546 | 18,940 | 112 | 28,598 |
| Professional Fees | 3,542 | – | – | 3,542 |
| Supplies | 587 | – | – | 587 |
| Interest | 4,431 | 4,814 | 4 | 9,249 |
| Research Park | 671 | – | – | 671 |
| Other | 5,563 | 18 | 20 | 5,601 |
| **Total Administrative and Other Expenses** | **$34,805** | **$23,772** | **$136** | **$58,713** |
| Change in Net Assets | $60,733 | ($17,332) | $554 | $43,955 |
| Net Assets, Beginning of Period | 788,957 | 18,943 | 17,397 | 825,297 |
| Change in Reporting Entity | 3,971 | – | – | 3,971 |
| **Net Assets, End of Period** | **$853,661** | **$1,611** | **$17,951** | **$873,223** |

**Discretely Presented Component Unit Statement of Activities (dollars in thousands):**

**As of June 30, 2012**

| | Purdue Research Foundation | Ross-Ade Foundation | IPFW Foundation | Component Unit Total |
|---|---|---|---|---|
| **Revenue and Support** | | | | |
| Amount Received for Purdue University Research Projects | $192 | $– | $– | $192 |
| Less Payments to Purdue University | (192) | – | – | (192) |
| **Administrative Fee on Research Projects** | – | – | – | – |
| Contributions | $12,625 | $1,215 | $1,654 | $15,494 |
| Income on Investments | 13,683 | 5,422 | (71) | 19,034 |
| Net Unrealized and Realized Losses | (24,090) | – | – | (24,090) |
| Change in Value of Split Interest Agreements | (2,024) | – | – | (2,024) |
| Decrease in Interest in Perpetual Trusts | (1,366) | – | – | (1,366) |
| Rents | 12,229 | 8 | 149 | 12,386 |
| Royalties | 4,809 | – | – | 4,809 |
| Other | 3,612 | 21 | 52 | 3,685 |
| **Total Revenue and Support** | **$19,478** | **$6,666** | **$1,784** | **$27,928** |
| **Expenses and Losses** | | | | |
| **Expenses for the Benefit of Purdue University** | | | | |
| Contributions to Purdue University | $20,822 | $– | $2,248 | $23,070 |
| Patent and Royalty | (5,803) | – | – | (5,803) |
| Grants | 12,103 | – | – | 12,103 |
| Services for Purdue University | 1,134 | – | – | 1,134 |
| Development Office | 721 | – | – | 721 |
| Other | 2,987 | – | 89 | 3,076 |
| **Total Expenses for the Benefit of Purdue University** | **$31,964** | **$–** | **$2,337** | **$34,301** |
| **Administrative and Other Expenses** | | | | |
| Salaries and Benefits | $8,857 | $– | $– | $8,857 |
| Property Management | 9,251 | 271 | 115 | 9,637 |
| Professional Fees | 3,452 | – | – | 3,452 |
| Supplies | 340 | – | – | 340 |
| Interest | 4,658 | 5,037 | 7 | 9,702 |
| Research Park | 572 | – | – | 572 |
| Other | 3,782 | 11 | 8 | 3,801 |
| **Total Administrative and Other Expenses** | **$30,912** | **$5,319** | **$130** | **$36,361** |
| Change in Net Assets | ($43,398) | $1,347 | ($683) | ($42,734) |
| Net Assets, Beginning of Period | 832,355 | 17,596 | 18,080 | 868,031 |
| **Net Assets, End of Period** | **$788,957** | **$18,943** | **$17,397** | **$825,297** |

In addition to the transactions with the foundations listed in Note 6, Debt Related to Capital Assets, PRF provided grants, contracts and gifts to the University totaling approximately $34,263,000 and $34,167,000 as of June 30, 2013 and 2012, 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, 2013 and 2012, contractual obligations for capital construction projects were approximately $81,311,000 and $76,664,000, 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.

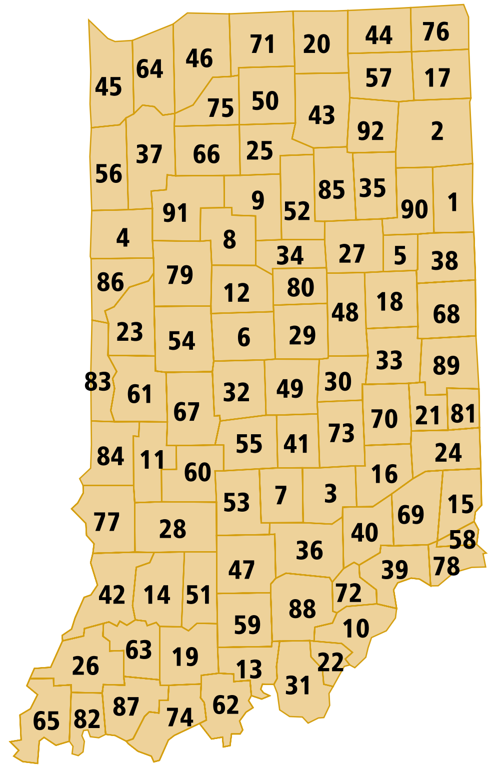
**Limited Partnership Agreements.** Under the terms of various limited partnership agreements approved by the University's Board of Trustees, the University is obligated to make periodic payments for commitments to venture capital, private equity, natural resources and real estate investments over the next several fiscal years. As of June 30, 2013 and 2012, the University had the following unfunded commitments: approximately $69,303,000 and $61,299,000, respectively, to approximately 55 private equity/venture capital managers; $21,918,000 and $18,973,000, respectively, to approximately 15 private real estate managers; $48,899,000 and $41,511,000, respectively, to approximately 30 natural resource managers; and $100,000 and $125,000, respectively, to the Indiana Future Fund. These amounts are not included as liabilities in the accompanying Statement of Net Position. 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 below (dollars in thousands):

| Fiscal Year | Amount |
|---|---:|
| 2014 | $35,055 |
| 2015 | 35,055 |
| 2016 | 35,055 |
| 2017 | 35,055 |

# IN-STATE ENROLLMENT (UNAUDITED)

***Total In-State Enrollment by County, Fall 2012-13 Academic Year***

The overall (in-state and out-of-state) enrollment at Purdue University was 70,274 students for the 2012-13 fall semester. The breakdown was: West Lafayette, 39,256; Calumet, 10,054; Fort Wayne, 13,771; North Central, 6,048; Statewide Technology, 1,145. (Enrollment numbers do not include 5,429 Purdue University students at Indiana University-Purdue University Indianapolis.) Although students came to Purdue from all over the world, 65% system-wide came from within Indiana.




| | County | West Lafayette | Regional Campuses | Statewide Technology Locations | Total |
|---|---|---|---|---|---|
| 1 | Adams | 75 | 584 | – | 659 |
| 2 | Allen | 895 | 7,466 | – | 8,361 |
| 3 | Bartholomew | 200 | 11 | 74 | 285 |
| 4 | Benton | 85 | 9 | 3 | 97 |
| 5 | Blackford | 14 | 27 | – | 41 |
| 6 | Boone | 428 | 12 | 3 | 443 |
| 7 | Brown | 15 | 2 | 2 | 19 |
| 8 | Carroll | 142 | 10 | 9 | 161 |
| 9 | Cass | 127 | 26 | 6 | 159 |
| 10 | Clark | 92 | 2 | 60 | 154 |
| 11 | Clay | 35 | 2 | 2 | 39 |
| 12 | Clinton | 172 | 11 | 16 | 199 |
| 13 | Crawford | 7 | – | 4 | 11 |
| 14 | Daviess | 35 | 4 | 2 | 41 |
| 15 | Dearborn | 110 | 4 | 1 | 115 |
| 16 | Decatur | 74 | 3 | 14 | 91 |
| 17 | De Kalb | 93 | 533 | 1 | 627 |
| 18 | Delaware | 123 | 46 | 14 | 183 |
| 19 | Dubois | 145 | 9 | 7 | 161 |
| 20 | Elkhart | 343 | 265 | 31 | 639 |
| 21 | Fayette | 19 | – | 10 | 29 |
| 22 | Floyd | 127 | 3 | 53 | 183 |
| 23 | Fountain | 78 | 1 | 4 | 83 |
| 24 | Franklin | 73 | 5 | 5 | 83 |
| 25 | Fulton | 68 | 57 | 2 | 127 |
| 26 | Gibson | 45 | 3 | 2 | 50 |
| 27 | Grant | 98 | 104 | 4 | 206 |
| 28 | Greene | 43 | 2 | – | 45 |
| 29 | Hamilton | 1,703 | 52 | 12 | 1,767 |
| 30 | Hancock | 245 | 11 | 9 | 265 |
| 31 | Harrison | 47 | 1 | 30 | 78 |

| | County | West Lafayette | Regional Campuses | Statewide Technology Locations | Total |
|---|---|---|---|---|---|
| 32 | Hendricks | 564 | 27 | 14 | 605 |
| 33 | Henry | 58 | 9 | 13 | 80 |
| 34 | Howard | 293 | 30 | 70 | 393 |
| 35 | Huntington | 81 | 386 | 2 | 469 |
| 36 | Jackson | 76 | 2 | 15 | 93 |
| 37 | Jasper | 134 | 346 | 1 | 481 |
| 38 | Jay | 30 | 21 | 1 | 52 |
| 39 | Jefferson | 63 | 3 | 7 | 73 |
| 40 | Jennings | 17 | 1 | 11 | 29 |
| 41 | Johnson | 288 | 14 | 7 | 309 |
| 42 | Knox | 62 | 5 | 6 | 73 |
| 43 | Kosciusko | 194 | 592 | 3 | 789 |
| 44 | Lagrange | 52 | 295 | – | 347 |
| 45 | Lake | 1,377 | 7,119 | 3 | 8,499 |
| 46 | La Porte | 228 | 1,907 | 1 | 2,136 |
| 47 | Lawrence | 54 | 5 | 1 | 60 |
| 48 | Madison | 169 | 38 | 48 | 255 |
| 49 | Marion | 1,531 | 101 | 23 | 1,655 |
| 50 | Marshall | 154 | 131 | 12 | 297 |
| 51 | Martin | 14 | 5 | 3 | 22 |
| 52 | Miami | 86 | 36 | 14 | 136 |
| 53 | Monroe | 146 | 27 | 2 | 175 |
| 54 | Montgomery | 159 | 5 | 2 | 166 |
| 55 | Morgan | 113 | 13 | 1 | 127 |
| 56 | Newton | 63 | 82 | – | 145 |
| 57 | Noble | 84 | 599 | – | 683 |
| 58 | Ohio | 3 | – | – | 3 |
| 59 | Orange | 26 | 2 | 3 | 31 |
| 60 | Owen | 15 | 5 | 1 | 21 |
| 61 | Parke | 39 | – | – | 39 |
| 62 | Perry | 21 | – | 1 | 22 |

| | County | West Lafayette | Regional Campuses | Statewide Technology Locations | Total |
|---|---|---|---|---|---|
| 63 | Pike | 11 | 3 | 3 | 17 |
| 64 | Porter | 578 | 2,685 | 1 | 3,264 |
| 65 | Posey | 62 | 2 | 1 | 65 |
| 66 | Pulaski | 58 | 63 | – | 121 |
| 67 | Putnam | 81 | 2 | 1 | 84 |
| 68 | Randolph | 32 | 9 | 4 | 45 |
| 69 | Ripley | 77 | 5 | 2 | 84 |
| 70 | Rush | 44 | 4 | 4 | 52 |
| 71 | St. Joseph | 745 | 331 | 113 | 1,189 |
| 72 | Scott | 10 | 1 | 7 | 18 |
| 73 | Shelby | 73 | 3 | 1 | 77 |
| 74 | Spencer | 49 | 2 | 3 | 54 |
| 75 | Starke | 52 | 178 | – | 230 |
| 76 | Steuben | 69 | 296 | – | 365 |
| 77 | Sullivan | 17 | 4 | 1 | 22 |
| 78 | Switzerland | 6 | – | – | 6 |
| 79 | Tippecanoe | 3,370 | 83 | 86 | 3,539 |
| 80 | Tipton | 56 | 4 | 10 | 70 |
| 81 | Union | 11 | – | – | 11 |
| 82 | Vanderburgh | 230 | 10 | 2 | 242 |
| 83 | Vermillion | 24 | – | – | 24 |
| 84 | Vigo | 111 | 14 | – | 125 |
| 85 | Wabash | 79 | 229 | 1 | 309 |
| 86 | Warren | 68 | 1 | 3 | 72 |
| 87 | Warrick | 129 | 7 | 1 | 137 |
| 88 | Washington | 32 | 1 | 22 | 55 |
| 89 | Wayne | 97 | 12 | 31 | 140 |
| 90 | Wells | 79 | 430 | – | 509 |
| 91 | White | 173 | 33 | 7 | 213 |
| 92 | Whitley | 77 | 527 | – | 604 |
| Total | | 18,450 | 26,010 | 949 | 45,409 |

# ACKNOWLEDGEMENTS

The following staff members of the Department of Accounting Services, Office of the Comptroller, prepared the 2012-13 Financial Report.

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