

# 2014 FINANCIAL REPORT



**PURDUE MOVES** THE WORLD FORWARD

HIGHER EDUCATION  
AT THE HIGHEST  
PROVEN VALUE

## LETTER OF TRANSMITTAL

October 24, 2014

To the Board of Trustees of Purdue University:



President Mitchell E. Daniels, Jr.

We are pleased to submit this, the 92nd annual financial report of Purdue University. This report is for the fiscal year that ended June 30, 2014, 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,  
WILLIAM E. SULLIVAN  
*Treasurer and  
Chief Financial Officer*

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, 2014 and 2013. 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 its report, which is an unmodified opinion, appears on Pages 5 and 6.

At perhaps no other moment in history has Purdue been more focused on aggressive action to benefit the state, Hoosier students, and Indiana families. Through a series of initiatives known as Purdue Moves, the University is poised to offer higher education at the highest proven value. Through these initiatives, the campus is finding efficiencies, generating savings, reducing the financial burden on students, and investing in efforts that are most likely to generate jobs and attract new businesses to the Hoosier economy. These initiatives are at the heart of our budget planning.

The first area of Purdue Moves describes our efforts to enhance Purdue's science, technology, engineering, and mathematics (STEM) leadership by expanding the College of Engineering, transforming the College of Technology into the Purdue Polytechnic Institute, and growing Purdue's computer science program. To compete in the future as the U.S. economy becomes even more technology-based, Indiana will need more STEM-trained residents and more STEM employers. Purdue's investments in STEM leadership support both the supply and demand sides of Indiana's STEM economy.

World-changing research is a second area of Purdue Moves emphasis. In the past fiscal year, our faculty, staff, and students started 24 businesses that are based on Purdue research. This is more than double the previous school record and four times the Big Ten five-year average. Likewise, Purdue researchers in the past year obliterated the previous school record for the number of U.S. and global patents issued in a fiscal year. The goal of Purdue's world-changing research initiative is to continue the kind of vital research that is both important to our state and helpful to society.

Purdue's strength in research extends into studying how students best learn. The result is the third area of emphasis, developing a transformative education. Purdue is challenging traditional teaching methods and developing new ways to incorporate active, engaged learning into the classroom. Purdue is a national leader in the development of student-centered courses that are empirically proven to better generate confidence and competence in the curriculum.

Finally, while we develop each of these areas, we remain dedicated to affordability and accessibility. Purdue's commitment to freeze tuition for at least three years means that four-year graduates in the class of 2016 will be the first in 40 years to enjoy one base tuition rate throughout their entire undergraduate experience.

Of course, the future remains uncertain. But by implementing prudent financial strategies and planning for what might lie ahead, Purdue will meet challenges head-on and flourish as a result. I encourage you to read our financial statements to 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,

William E. Sullivan

*Treasurer and Chief Financial Officer*

## BOARD OF TRUSTEES

*July 1, 2013-June 30, 2014*

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.



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



**Michael R. Berghoff**  
Indianapolis, Indiana  
Vice Chairman of the Board  
President, Lenex Steel Corp.  
Term: 2009-15



**Lawrence "Sonny"  
Beck**  
Atlanta, Indiana  
President, Beck's Superior Hybrids  
Term: 2013-16



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



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Term: 2011-14



## OFFICERS OF THE UNIVERSITY

*As of June 30, 2014*

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**William E. Sullivan**, Treasurer  
**James S. Almond**, Assistant Treasurer and Assistant Secretary  
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**Suresh Garimella**, Executive Vice President for Research and Partnerships  
**Morgan J. Burke**, Director of Intercollegiate Athletics  
**Michael B. Cline**, Vice President for Physical Facilities  
**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 and Treasurer, Purdue Research Foundation  
**Luis E. Lewin**, Vice President for Human Resources  
**William G. McCartney**, Vice President for Information Technology and System Chief Information Officer  
**Jesse L. Moore**, Director, Supplier Diversity Development  
**Rabindra N. Mukerjea**, Executive Director of Strategic Planning and Assessment  
**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  
**Robert D. Wynkoop**, Managing Director, Office of the Treasurer and Chief Financial Officer

### 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  
**Stephen R. Turner**, Vice Chancellor for Finance and Administration, Purdue University North Central and Purdue University Calumet  
**David Wesse**, Vice Chancellor for Financial and Administrative Affairs, Indiana University-Purdue University Fort Wayne



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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 the 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, 2014 and 2013, 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 (Foundation), a component unit of the University as discussed in Note 1, which represents 95 percent of the assets, 98 percent of net assets, and 95 percent of revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

**Opinions**

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2014 and 2013, and the respective changes in financial position, where applicable, 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's 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 an 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 audit was 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 Treasurer, Board of Trustees, Officers of the University, 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 Treasurer, Board of Trustees, Officers of the University, 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, 2014, 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, 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 Universities internal control over financial reporting and compliance.

  
Paul D. Joyce, CPA  
State Examiner

October 24, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*June 30, 2014 and 2013*

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 management in the effective allocation and use of the organization's resources, and 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, 2014 and 2013, with comparative financial information for fiscal year 2012. 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 unmodified 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, 2014 and 2013). 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 fiscal years ended June 30, 2014 and 2013). 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 fiscal years ended June 30, 2014 and 2013). 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, Assessment and Effectiveness (see <http://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**

For the Year Ended June 30 (Dollars in Thousands)

|                                  | 2014               | 2013               | 2012               |
|----------------------------------|--------------------|--------------------|--------------------|
| Current Assets                   | \$642,052          | \$686,626          | \$639,547          |
| Capital Assets                   | 2,072,125          | 2,012,925          | 1,944,336          |
| Other Assets                     | 2,701,680          | 2,389,315          | 2,224,312          |
| <b>Total Assets</b>              | <b>\$5,415,857</b> | <b>\$5,088,866</b> | <b>\$4,808,195</b> |
| Deferred Outflows of Resources   | \$7,227            | \$8,011            | \$8,686            |
| Current Liabilities              | \$355,176          | \$350,987          | \$337,022          |
| Noncurrent Liabilities           | 891,527            | 933,914            | 895,354            |
| <b>Total Liabilities</b>         | <b>\$1,246,703</b> | <b>\$1,284,901</b> | <b>\$1,232,376</b> |
| Deferred Inflows of Resources    | \$12               | \$18               | \$23               |
| Net Investment in Capital Assets | \$1,166,479        | \$1,139,118        | \$1,094,127        |
| Restricted-Nonexpendable         | 548,952            | 508,524            | 472,579            |
| Restricted-Expendable            | 977,855            | 796,503            | 715,954            |
| Unrestricted                     | 1,483,083          | 1,367,813          | 1,301,822          |
| <b>Total Net Position</b>        | <b>\$4,176,369</b> | <b>\$3,811,958</b> | <b>\$3,584,482</b> |

*Discovery Park is the \$1 billion hub of Purdue's interdisciplinary research efforts.*



Current assets include those that may be used to support current operations, such as cash and cash equivalents, accounts and other receivables, and inventories. Noncurrent assets include capital assets, certain pledges receivable, and investments. As of June 30, 2014 and 2013, total assets were approximately \$5,415,857,000 and \$5,088,866,000, respectively, an increase of \$326,991,000, or 6.4%, and \$280,671,000, or 5.8%, for fiscal years 2014 and 2013, 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 and in Note 4.

Current assets decreased approximately \$44,574,000 and increased approximately \$47,079,000 as of June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, cash and cash equivalents were approximately \$379,414,000 and \$436,164,000, respectively, a decrease of \$56,750,000 and an increase of \$12,237,000, respectively.

As detailed in the Capital Asset and Debt Administration section, the University has an active capital financing program that has resulted in invested bond proceeds of \$43,332,000 and \$85,229,000 as of June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, the remaining \$336,082,000 and \$350,935,000, respectively, of cash and cash equivalents are available for operations.

As of June 30, 2014 and 2013, noncurrent assets increased \$371,565,000, or 8.4%, and \$233,592,000, or 5.6%, respectively. Noncurrent investments increased approximately \$302,337,000 in fiscal year 2014 compared to the \$170,662,000 increase in fiscal year 2013. The increases in fiscal years 2014 and 2013 were primarily driven by fluctuations in the market for these securities. Please reference a more detailed discussion in the Statement of Revenues, Expenses, and Changes in Net Position section and in Note 2.

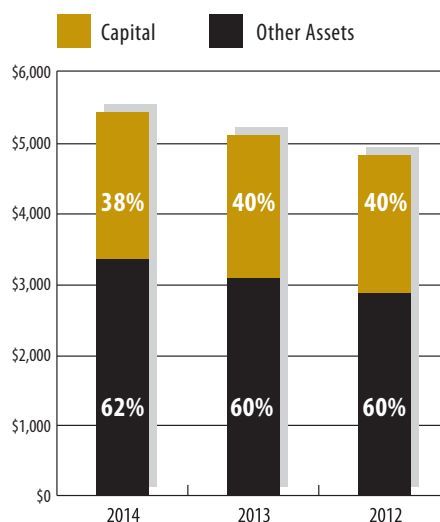
Current liabilities generally are due and payable over the course of the following fiscal year. These include accounts and other payables, unearned revenues, the current portion of long-term debt, liability for securities lending activity, and salaries and related compensation payables. Current liabilities 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 \$1,246,703,000 and \$1,284,901,000 on June 30, 2014 and 2013, respectively.

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

Bonds, leases, and notes payable decreased by \$37,739,000 in fiscal year 2014 and increased by \$46,138,000 in fiscal year 2013, respectively. A discussion of the University's capital financing activities appears in the Debt and Financing Activities section as well as in Note 6.

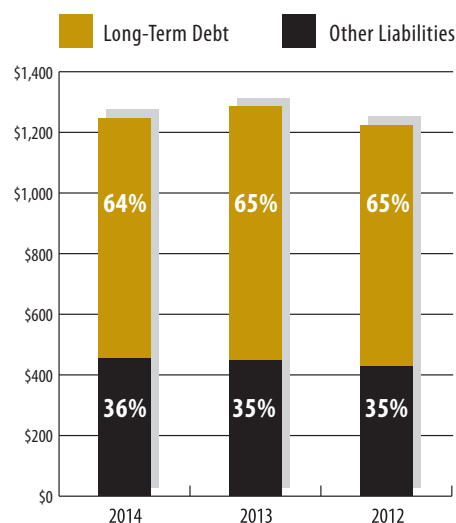
**Figure 1**

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



**Figure 2**

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



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.
- 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 funds that have purpose restrictions imposed by third parties. Examples include but are not limited to scholarship funds and contract and grant funds.
- Unrestricted funds have no third-party restrictions, although management routinely designates the majority of 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 \$4,176,369,000 and \$3,811,958,000 as of June 30, 2014 and 2013, respectively. Figure 3 provides a comparison between fiscal years as well as the composition of net position.

Net investment in capital assets increased \$27,361,000 and \$44,991,000 in fiscal years 2014 and 2013, respectively. For the periods ended June 30, 2014 and 2013, the University added capital assets of \$208,256,000 and \$206,047,000, respectively, offset by annual depreciation of \$148,356,000 and \$135,846,000, respectively.

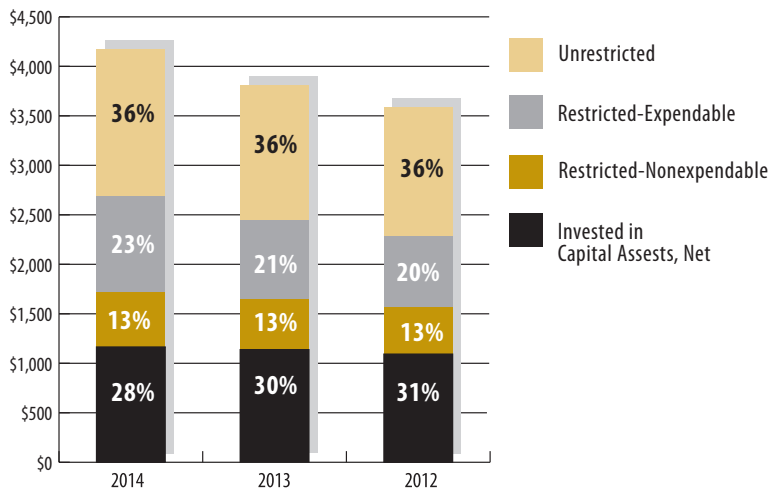
Restricted-nonexpendable increased \$40,428,000 and \$35,945,000 in fiscal years 2014 and 2013, respectively, primarily resulting from contributions to endowments and investment performance during the fiscal years.

In the fiscal year ended June 30, 2014, restricted-expendable increased \$181,352,000 compared to an increase of \$80,549,000 in the prior year. These increases were principally driven by the change in net appreciation of the University investments.

Consistent with operational results (detailed in the Statement of Revenues, Expenses, and Changes in Net Position section), unrestricted funds increased \$115,270,000 and \$65,991,000 for the fiscal years ending 2014 and 2013, respectively.

**Figure 3**

**Composition of Net Assets**  
(Dollars in Millions)



## 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**  
For the Year Ended June 30 (Dollars in Thousands)

|                                    | 2014               | 2013               | 2012               |
|------------------------------------|--------------------|--------------------|--------------------|
| <b>Operating Revenues</b>          |                    |                    |                    |
| Tuition and Fees, Net              | \$727,256          | \$730,250          | \$707,796          |
| Grants and Contracts               | 344,537            | 364,697            | 375,341            |
| Auxiliary Enterprises, Net         | 254,567            | 249,379            | 250,744            |
| Other Operating Revenues           | 108,849            | 105,805            | 102,691            |
| <b>Total Operating Revenues</b>    | <b>\$1,435,209</b> | <b>\$1,450,131</b> | <b>\$1,436,572</b> |
| <b>Operating Expenses</b>          |                    |                    |                    |
| Depreciation                       | \$148,356          | \$135,846          | \$126,284          |
| Other Operating Expense            | 1,777,325          | 1,741,263          | 1,707,436          |
| <b>Total Operating Expenses</b>    | <b>\$1,925,681</b> | <b>\$1,877,109</b> | <b>\$1,833,720</b> |
| <b>Operating Loss</b>              | <b>(\$490,472)</b> | <b>(\$426,978)</b> | <b>(\$397,148)</b> |
| <b>Nonoperating Revenue</b>        |                    |                    |                    |
| Other Nonoperating Revenue         | \$803,113          | \$618,439          | \$519,800          |
| Capital and Endowments             | 51,770             | 36,015             | 13,832             |
| <b>Total Nonoperating Revenues</b> | <b>\$854,883</b>   | <b>\$654,454</b>   | <b>\$533,632</b>   |
| Increase in Net Position           | \$364,411          | \$227,476          | \$136,484          |
| Net Position, Beginning of Year    | 3,811,958          | 3,584,482          | 3,447,998          |
| <b>Net Position, End of Year</b>   | <b>\$4,176,369</b> | <b>\$3,811,958</b> | <b>\$3,584,482</b> |

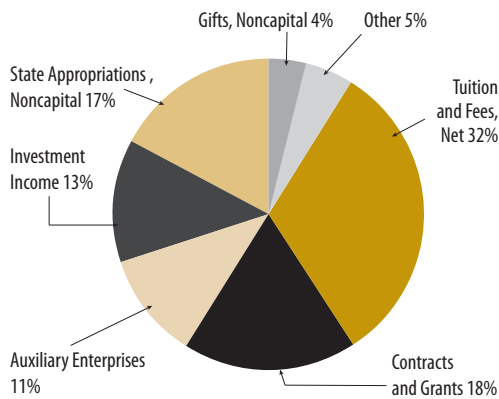
*The University invests in drug discovery as part of its mission to meet grand challenges in the U.S. and abroad.*



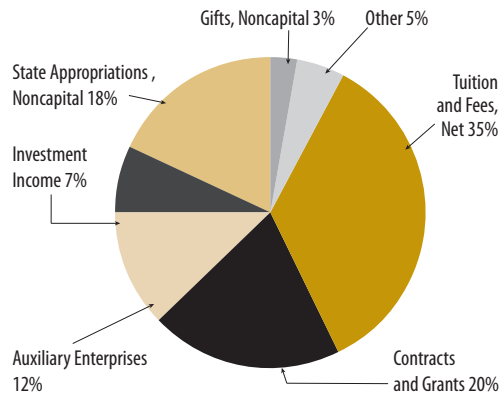
Revenues are classified as either operating or nonoperating. Operating revenues include tuition and fees, grants and contracts, auxiliary enterprises, and sales and services. Tuition and fees and housing are shown net of an allowance for scholarships. Nonoperating revenues include state appropriations, 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 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 fiscal years 2014 and 2013. Overall, for the fiscal years ended June 30, 2014 and 2013, the University had a net increase in net position of \$364,411,000 and \$227,476,000, respectively.

**Figure 4**

**2014 Revenues**



**2013 Revenues**

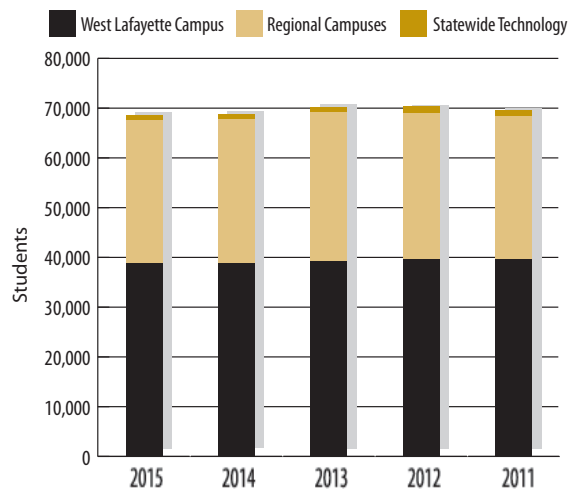


Total operating revenues decreased \$14,922,000, or 1.0%, from \$1,450,131,000 in fiscal year 2013 to \$1,435,209,000 in fiscal year 2014. There was an increase of \$13,559,000 from fiscal year 2012 to fiscal year 2013. Net tuition and fee revenue decreased \$2,994,000 and increased \$22,454,000 in fiscal years 2014 and 2013, respectively. The decrease in fiscal year 2014 primarily resulted from a small decrease in enrollment, and tuition and fees remaining flat. The increase in fiscal year 2013 primarily resulted from a student fee rate increase of approximately 3.5% for West Lafayette and the regional campuses. Enrollment patterns for the past five years are illustrated in Figure 5.

Operating grant and contract revenue decreased \$20,160,000 and \$10,644,000 in fiscal years 2014 and 2013, respectively. The decrease in fiscal year 2014 is principally due to the expiration of the American Recovery and Reinvestment Act (ARRA) and lower awards received during the period.

**Figure 5**

**Five-Year Enrollment Data\***  
(Fall Semester Enrollment)



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

Auxiliary enterprise revenue increased \$5,188,000 and decreased \$1,365,000 in fiscal years 2014 and 2013, respectively.

Total operating expenses increased from \$1,877,109,000 in the fiscal year ended June 30, 2013, to \$1,925,681,000 in the fiscal year ended June 30, 2014. Details are presented in Note 8.

Nonoperating revenues (net of expenses) increased \$184,674,000 in fiscal year 2014 and \$98,639,000 in fiscal year 2013. The primary reason for the change was an increase in investment income of approximately \$130,658,000 and \$134,287,000 for fiscal years ended June 30, 2014 and 2013, respectively. The University endowments net investment performance was 17.1% and 11.8% for the fiscal years ended June 30, 2014 and 2013, respectively. The University's endowment was invested 44.5% in public equities, 12.7% in fixed income, and 42.8% in private investments. The portfolio composition did not materially change from prior years.

Capital and endowments income increased \$15,755,000, or 43.7%, over the previous year from \$36,015,000 in fiscal year 2013 to \$51,770,000 in fiscal year 2014. Capital gifts increased \$4,994,000 and \$10,989,000 in fiscal years 2014 and 2013, respectively. Private gifts for endowments increased \$2,724,000 and \$6,303,000 as of June 30, 2014 and 2013, respectively.

## 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.

*Numerous graduate and undergraduate students at Purdue benefit from extensive experience in state-of-the-art labs.*



**Table 3. Summarized Comparison of Changes in Cash and Cash Equivalents**  
For the Year Ended June 30 (Dollars in Thousands)

|   | 2014             | 2013             | 2012             |
|---|------------------|------------------|------------------|
| Cash Used by Operating Activities                     | (\$321,369)      | (\$293,488)      | (\$274,627)      |
| Cash Provided by Noncapital Financing Activities      | 577,382          | 532,179          | 559,613          |
| Cash Used by Investing Activities                     | (50,525)         | (39,130)         | (66,486)         |
| Cash Used by Capital and Related Financing Activities | (262,238)        | (187,324)        | (304,765)        |
| Net Increase (Decrease) in Cash and Cash Equivalents  | (\$56,750)       | \$12,237         | (\$86,265)       |
| Cash and Cash Equivalents, Beginning of Year          | 436,164          | 423,927          | 510,192          |
| <b>Cash and Cash Equivalents, End of Year</b>         | <b>\$379,414</b> | <b>\$436,164</b> | <b>\$423,927</b> |

The fluctuation in noncapital financing activities reflects the nonoperating revenue changes described above. The use of cash in investing activities reflects an increase in the investment portfolio. The fluctuation in cash flows used by capital and related financing activities over the past three fiscal years reflects the financing strategy and timing of the University's capital plan, which is outlined 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 (over \$20 million) completed during fiscal years 2014 and 2013 are listed in Table 4. Significant projects (over \$20 million) in progress and projects planned but not started as of June 30, 2014, are listed in Table 5.

**Table 4. Major Projects Completed, More than \$20 Million**  
For the Year Ended June 30 (Dollars in Thousands)

| Projects Completed in 2014                   | Project Budget   |
|--|------------------|
| Center for Student Excellence and Leadership | \$28,100         |
| Drug Discovery Facility                      | 28,694           |
| Health and Human Sciences Facility           | 38,000           |
| <b>Total Major Projects Completed</b>        | <b>\$94,794</b>  |
| Projects Completed in 2013                   | Project Budget   |
| Herrick Laboratory Replacement, Phase I      | \$23,500         |
| Lilly Hall West Wing Renovations             | 28,550           |
| Mackey Complex Renovation and Addition       | 99,500           |
| Windsor Residence Halls Renovation           | 59,600           |
| <b>Total Major Projects Completed</b>        | <b>\$211,150</b> |

**Table 5. Major Construction Projects in Progress and Authorized But Not Started (Budgets)**

For the Year Ended June 30 (Dollars in Thousands)

| <b>Projects in Progress and Authorized But Not Started</b>             | <b>Project Budget</b> |
|--|-----------------------|
| Active Learning Center   | \$79,000              |
| Flex Lab   | 54,000                |
| Fort Wayne South Campus Renovations, Phase I                           | 21,350                |
| Honors College   | 90,000                |
| North Central Student Service and Activity Complex                     | 33,428                |
| Vawter Field Housing   | 37,397                |
| Wade Production Distribution   | 33,100                |
| <b>Total Major Projects in Progress and Authorized But Not Started</b> | <b>\$348,275</b>      |

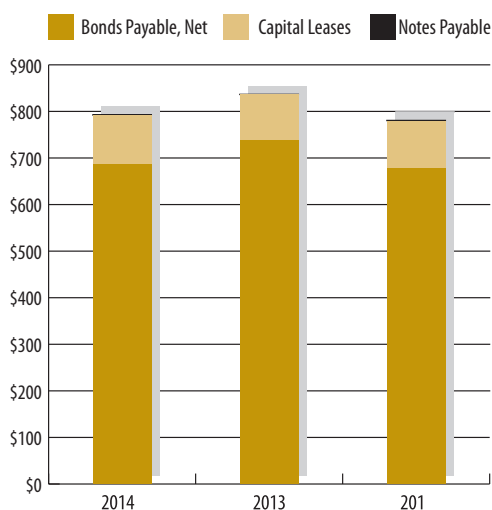
### Debt and Financing Activities

Bonds, leases, and notes (net) obligations totaled \$948,958,000 and \$986,697,000 as of June 30, 2014 and 2013, respectively. These obligations are approximately 76% and 77% of the total liabilities of the University at fiscal year end 2014 and 2013, respectively. The University's debt portfolio as of June 30, 2014, consisted of \$99,633,000 of variable-rate instruments, or 10.5%, compared to \$849,325,000 in fixed-rate obligations. The University's debt portfolio as of June 30, 2013, consisted of \$89,704,000 of variable-rate instruments, or 9.0%, compared to \$896,993,000 in fixed-rate obligations. Figure 6 compares the composition of long-term debt (noncurrent portion) by fiscal year. For additional details see Note 6.

As of June 30, 2014 and 2013, 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, 2014 and 2013. 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 from Moody's of VMIG-1/P-1 and from Standard & Poor's of A-1+.

**Figure 6**

**Composition of Long-Term Debt**  
(Dollars in Millions)



### ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Entering the second year of the 2013-15 biennial period, fiscal year 2015 state operating appropriations for the University remained flat at fiscal year 2014 levels. Repair and rehabilitation has also been partially funded by the state at \$18.5 million for the biennium. Academic year 2014-15 tuition for Indiana residents and for nonresident students will remain flat at the West Lafayette campus for the second year in a row. Tuition rates at each of the regional campuses will increase 2% for Indiana residents and for nonresident students. 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 campuses.

The University has submitted its 2015-17 legislative request to the state, based on instructions issued from the Indiana Commission for Higher Education (ICHE) and the Indiana State Budget Agency. Operating appropriations will be based on a performance funding formula, with values to be recommended by ICHE. The formula is based



on a series of metrics, many of them student-based: overall degree completion, at-risk student degree completion, high-impact degree completion, a student persistence incentive, an on-time graduation rate metric, and an institution-defined productivity metric. Any adjustments for growth in dual-credit offerings will be considered by ICHE outside the funding formula. The January 2015 legislative session will set Purdue's operating appropriations for the next biennium.

Enrollment at all Purdue campuses was 68,649\* for the fall semester of the 2014-15 academic year. Enrollment at the West Lafayette campus was 38,770, nearly steady from the fall semester of the prior academic year. First-year students totaled 6,373. Purdue is experiencing record-high retention and graduation rates due to a University-wide commitment to student success. The first-year retention rate at the West Lafayette campus is at 92.6% compared to 91.0% last year, and the second-year retention rate is at 86.1%, up from last year's 84.3%. Both the four-year and six-year graduation rates increased to 49.2% and 73.8% from 46.8% and 70.7%, respectively. This is also the eighth consecutive year that first-year students have posted an increase in test scores and preparedness, representing all-time highs in test scores and grade point averages. The class average SAT scores increased 16 points to a combined 1789 on the critical reading, math and writing sections. In eight years, the cumulative point gain for incoming students' SAT scores is 105.

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

*Not pearls or polka dots, but innovation prize-winning SOYTABS, developed by students as a binding agent for pharmaceuticals.*





*Ralph Taylor, Purdue alumnus and former basketball player, shares some thoughts with a liberal arts class.*

## STATEMENT OF NET POSITION

For the Year Ended June 30 (Dollars in Thousands)

|  | 2014               | 2013               |
|--|--------------------|--------------------|
| <b>Assets and Deferred Outflows of Resources:</b>                      |                    |                    |
| <b>Current Assets:</b>   |                    |                    |
| Cash and Cash Equivalents  | \$379,414          | \$436,164          |
| Investments  | 112,700            | 82,970             |
| Accounts Receivable, Net of Allowance for Uncollectible Amounts        | 83,669             | 85,270             |
| Pledges Receivable, Net of Allowance for Uncollectible Amounts         | 26,944             | 27,931             |
| Notes and Bonds Receivable, Net of Allowance for Uncollectible Amounts | 12,551             | 4,909              |
| Other Assets   | 26,774             | 49,382             |
| <b>Total Current Assets</b>  | <b>642,052</b>     | <b>686,626</b>     |
| <b>Noncurrent Assets:</b>  |                    |                    |
| Investments  | 2,607,608          | 2,305,271          |
| Pledges Receivable, Net of Allowance for Uncollectible Amounts         | 29,030             | 20,680             |
| Notes Receivable, Net of Allowance for Uncollectible Amounts           | 53,996             | 53,068             |
| Interest in Charitable Remainder Trusts                                | 11,046             | 10,296             |
| Capital Assets, Net of Accumulated Depreciation                        | 2,072,125          | 2,012,925          |
| <b>Total Noncurrent Assets</b>   | <b>4,773,805</b>   | <b>4,402,240</b>   |
| <b>Total Assets</b>  | <b>\$5,415,857</b> | <b>\$5,088,866</b> |
| <b>Deferred Outflows of Resources</b>                                  |                    |                    |
| Deferred Loss from Debt Refunding                                      | \$7,227            | \$8,011            |
| <b>Liabilities and Deferred Inflows of Resources:</b>                  |                    |                    |
| <b>Current Liabilities:</b>  |                    |                    |
| Accounts Payable and Accrued Expenses                                  | \$109,307          | \$97,371           |
| Unearned Revenue   | 37,338             | 41,304             |
| Deposits Held in Custody for Others                                    | 25,194             | 35,429             |
| Accrued Compensated Absences   | 26,361             | 26,856             |
| Bonds (Net), Leases and Notes Payable                                  | 156,976            | 150,027            |
| <b>Total Current Liabilities</b>                                       | <b>355,176</b>     | <b>350,987</b>     |
| <b>Noncurrent Liabilities:</b>   |                    |                    |
| Accrued Compensated Absences   | 30,996             | 33,789             |
| Other Post-Employment Benefits   | 38,568             | 36,179             |
| Other Retirement Benefits  | 1,898              |                    |
| Funds Held in Trust for Others   | 8,153              | 7,344              |
| Advances from Federal Government                                       | 19,930             | 19,932             |
| Bonds (Net), Leases, and Notes Payable                                 | 791,982            | 836,670            |
| <b>Total Noncurrent Liabilities</b>                                    | <b>891,527</b>     | <b>933,914</b>     |
| <b>Total Liabilities</b>   | <b>\$1,246,703</b> | <b>\$1,284,901</b> |
| <b>Deferred Inflows of Resources</b>                                   |                    |                    |
| Deferred Gain from Debt Refunding                                      | \$12               | \$18               |

## STATEMENT OF NET POSITION (continued)

|   | 2014               | 2013               |
|---|--------------------|--------------------|
| <b>Net Position:</b>                      |                    |                    |
| <b>Net Investment in Capital Assets</b>   | <b>\$1,166,479</b> | <b>\$1,139,118</b> |
| <b>Restricted:</b>                        |                    |                    |
| <b>Nonexpendable:</b>                     |                    |                    |
| Instruction and Research                  | 279,578            | 258,684            |
| Student Aid                               | 247,332            | 227,767            |
| Other                                     | 22,042             | 22,073             |
| <b>Total Nonexpendable</b>                | <b>548,952</b>     | <b>508,524</b>     |
| <b>Expendable:</b>                        |                    |                    |
| Instruction, Research, and Public Service | 167,275            | 150,740            |
| Student Aid                               | 97,021             | 86,411             |
| Construction                              | 83,016             | 45,207             |
| Other                                     | 630,543            | 514,145            |
| <b>Total Expendable</b>                   | <b>977,855</b>     | <b>796,503</b>     |
| <b>Unrestricted</b>                       | <b>1,483,083</b>   | <b>1,367,813</b>   |
| <b>Total Net Position</b>                 | <b>\$4,176,369</b> | <b>\$3,811,958</b> |

See accompanying Notes to the Financial Statements.

Students are vital to the success of nationally recognized Purdue Family Health Clinics in Carroll and White counties.



## COMPONENT UNITS

For the Year Ended June 30 (Dollars in Thousands)

### Consolidated Statement of Financial Position

|   | 2014               | 2013               |
|---|--------------------|--------------------|
| <b>Assets:</b>                                  |                    |                    |
| Cash and Cash Equivalents                       | \$6,913            | \$16,954           |
| Accounts Receivable, Net                        | 33,015             | 25,976             |
| Other Assets                                    | 5                  | 30                 |
| Investments                                     | 2,608,744          | 890,484            |
| Lease Purchase Agreements                       | 122,191            | 127,897            |
| Notes Receivable, Net                           | 12,323             | 3,643              |
| Interest in Charitable Perpetual Trusts         | 16,016             | 14,592             |
| Capital Assets, Net of Accumulated Depreciation | 166,074            | 162,680            |
| <b>Total Assets</b>                             | <b>\$2,965,281</b> | <b>\$1,242,256</b> |
| <b>Liabilities:</b>                             |                    |                    |
| Accounts Payable and Accrued Expenses           | \$26,875           | \$22,463           |
| Due on Split-Interest Agreements                | 58,290             | 53,157             |
| Deposits Held in Custody for Others             | 1,668,966          | 53,706             |
| Bonds (Net), Leases, and Notes Payable          | 213,862            | 218,181            |
| Other Liabilities                               | 21,112             | 21,526             |
| <b>Total Liabilities</b>                        | <b>\$1,989,105</b> | <b>\$369,033</b>   |
| <b>Net Assets:</b>                              |                    |                    |
| Temporarily Restricted                          | \$708,982          | \$619,726          |
| Permanently Restricted                          | 139,096            | 135,050            |
| Unrestricted                                    | 128,098            | 118,447            |
| <b>Total Net Assets</b>                         | <b>\$976,176</b>   | <b>\$873,223</b>   |

*In-depth research, geared to improve performance of “smart” wind turbines, propels energy sustainability.*



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

For the Year Ended June 30 (Dollars in Thousands)

|   | 2014               | 2013               |
|---|--------------------|--------------------|
| <b>Operating Revenues:</b>  |                    |                    |
| Tuition and Fees (Net of Scholarship Allowance Pledged of \$112,112 and \$103,972, respectively. See Note 6)    | \$727,256          | \$730,250          |
| Federal Grants  | 16,398             | 14,970             |
| County Grants   | 7,760              | 8,241              |
| Grants and Contracts  | 344,537            | 364,697            |
| Sales and Services  | 74,721             | 73,866             |
| Auxiliary Enterprises (Net of Scholarship Allowance Pledged of \$14,254 and \$13,895, respectively. See Note 6) | 254,567            | 249,379            |
| Other Operating Revenues  | 9,970              | 8,728              |
| <b>Total Operating Revenues</b>   | <b>\$1,435,209</b> | <b>\$1,450,131</b> |
| <b>Operating Expenses:</b>  |                    |                    |
| Instruction   | 646,683            | 613,664            |
| Research  | 235,007            | 236,388            |
| Extension and Public Service  | 148,081            | 143,453            |
| Academic Support  | 135,762            | 146,293            |
| Student Service   | 45,985             | 48,712             |
| General Administration and Institutional Support  | 163,006            | 150,529            |
| Physical Plant Operations and Maintenance   | 149,236            | 136,233            |
| Depreciation  | 148,356            | 135,846            |
| Student Aid   | 72,291             | 63,775             |
| Auxiliary Enterprises   | 181,274            | 202,216            |
| <b>Total Operating Expenses</b>   | <b>\$1,925,681</b> | <b>\$1,877,109</b> |
| <b>Net Operating Loss</b>   | <b>(490,472)</b>   | <b>(426,978)</b>   |
| <b>Nonoperating Revenues (Expenses):</b>  |                    |                    |
| State Appropriations  | 392,293            | 370,382            |
| Grants and Contracts  | 61,534             | 65,687             |
| Private Gifts   | 85,226             | 61,009             |
| Investment Income   | 280,979            | 150,321            |
| Interest Expense  | (23,142)           | (34,535)           |
| Other Nonoperating Revenues, Net of Nonoperating Expenses of \$346 and \$778, respectively                      | 6,223              | 5,575              |
| <b>Total Nonoperating Revenues before Capital and Endowments</b>  | <b>\$803,113</b>   | <b>\$618,439</b>   |
| <b>Capital and Endowments:</b>  |                    |                    |
| State Capital Appropriations  | 6,322              | —                  |
| Capital Gifts   | 16,116             | 11,122             |
| Private Gifts for Permanent Endowments and Charitable Remainder Trusts  | 29,075             | 26,351             |
| Gain (Loss) on Retirement of Capital Assets, Net of Proceeds and Insurance Recoveries                           | 257                | (1,458)            |
| <b>Total Capital and Endowments</b>   | <b>\$51,770</b>    | <b>\$36,015</b>    |
| <b>Total Nonoperating Revenues</b>  | <b>854,883</b>     | <b>654,454</b>     |
| <b>INCREASE IN NET POSITION</b>   | <b>\$364,411</b>   | <b>\$227,476</b>   |
| Net Position, Beginning of Year   | 3,811,958          | 3,584,482          |
| Net Position, End of Year   | \$4,176,369        | \$3,811,958        |

See accompanying Notes to the Financial Statements.

## COMPONENT UNITS

For the Year Ended June 30 (Dollars in Thousands)

### Consolidated Statement of Activities

|  | 2014             | 2013             |
|--|------------------|------------------|
| <b>Revenue and Support:</b>                                |                  |                  |
| Amount Received for Purdue University Research Projects    | \$2,380          | \$250            |
| Less Payments to Purdue University                         | (2,380)          | (250)            |
| <b>Administrative Fee on Research Projects</b>             |                  |                  |
| Contributions  | 17,484           | 21,996           |
| Income on Investments                                      | 20,737           | 19,541           |
| Net Unrealized and Realized Gains                          | 132,153          | 84,176           |
| Decrease in Value of Split-Interest Agreements             | (9,044)          | (6,044)          |
| Increase in Interests in Perpetual Trusts                  | 1,424            | 791              |
| Rents  | 11,954           | 14,226           |
| Royalties  | 6,963            | 6,313            |
| Other  | 17,278           | 5,150            |
| <b>Total Revenue and Support</b>                           | <b>\$198,949</b> | <b>\$146,149</b> |
| <b>Expenses and Losses:</b>                                |                  |                  |
| <b>Expenses for the Benefit of Purdue University:</b>      |                  |                  |
| Contributions to Purdue University                         | \$20,050         | \$20,937         |
| Patent and Royalty   | 6,281            | 5,968            |
| Grants   | 12,589           | 12,690           |
| Services for Purdue University                             | 340              | 265              |
| Development Office   | 750              | 748              |
| Other  | 2,266            | 2,873            |
| <b>Total Expenses for the Benefit of Purdue University</b> | <b>\$42,276</b>  | <b>\$43,481</b>  |
| <b>Administrative and Other Expenses:</b>                  |                  |                  |
| Salaries and Benefits                                      | \$18,062         | \$10,465         |
| Property Management  | 12,529           | 28,598           |
| Professional Fees  | 3,874            | 3,542            |
| Supplies   | 718              | 587              |
| Interest   | 8,744            | 9,249            |
| Research Park  | 1,384            | 671              |
| Other  | 8,409            | 5,601            |
| <b>Total Administrative and Other Expenses</b>             | <b>\$53,720</b>  | <b>\$58,713</b>  |
| Change in Net Assets                                       | \$102,953        | \$43,955         |
| Net Assets, Beginning of Period                            | 873,223          | 825,297          |
| Change in Reporting Entity                                 | —                | 3,971            |
| <b>Net Assets, End of Period</b>                           | <b>\$976,176</b> | <b>\$873,223</b> |

## STATEMENT OF CASH FLOWS

For the Year Ended June 30 (Dollars in Thousands)

|  | 2014               | 2013               |
|--|--------------------|--------------------|
| <b>Cash Flows From Operating Activities:</b>                     |                    |                    |
| Tuition and Fees, Net of Scholarship Allowances                  | \$731,848          | \$729,925          |
| Federal Grants   | 16,398             | 14,970             |
| County Grants  | 7,760              | 8,241              |
| Grants and Contracts   | 342,137            | 372,847            |
| Sales and Services   | 76,680             | 71,987             |
| Auxiliary Enterprises, Net of Scholarship Allowances             | 252,463            | 249,654            |
| Other Operating Revenues   | (8,140)            | 11,016             |
| Compensation and Benefits  | (1,200,387)        | (1,245,517)        |
| Supplies and Services  | (468,751)          | (441,032)          |
| Scholarships, Fellowships, and Student Awards                    | (71,931)           | (64,288)           |
| Student Loans Issued   | (8,411)            | (10,221)           |
| Student Loans Collected  | 8,965              | 8,930              |
| <b>Cash Used by Operating Activities</b>                         | <b>(\$321,369)</b> | <b>(\$293,488)</b> |
| <b>Cash Flows From Noncapital Financing Activities:</b>          |                    |                    |
| State Appropriations   | \$392,293          | \$370,382          |
| Grants and Contracts   | 61,534             | 65,687             |
| Gifts for Other than Capital Purposes                            | 113,798            | 89,641             |
| Funds Held in Trust for Others                                   | 3,534              | 894                |
| Other Nonoperating Revenues, Net                                 | 6,223              | 5,575              |
| <b>Cash Provided by Noncapital Financing Activities</b>          | <b>\$577,382</b>   | <b>\$532,179</b>   |
| <b>Cash Flows From Investing Activities:</b>                     |                    |                    |
| Purchases of Investments   | (\$3,105,503)      | (\$2,939,414)      |
| Proceeds from Sales and Maturities of Investments                | 3,014,968          | 2,862,043          |
| Interest and Dividends on Investments, Net                       | 40,010             | 38,241             |
| <b>Cash Used by Investing Activities</b>                         | <b>(\$50,525)</b>  | <b>(\$39,130)</b>  |
| <b>Cash Flows From Capital and Related Financing Activities:</b> |                    |                    |
| Debt Repayment   | (\$74,565)         | (\$63,074)         |
| Capital Debt Proceeds  | 35,455             | 114,856            |
| Interest Expense   | (40,821)           | (38,164)           |
| Capital Gifts Received   | 8,356              | 11,511             |
| State Appropriations for Capital Projects                        | 6,322              | —                  |
| Construction or Purchase of Capital Assets                       | (196,985)          | (212,453)          |
| <b>Cash Used by Capital and Related Financing Activities</b>     | <b>(\$262,238)</b> | <b>(\$187,324)</b> |
| Net Increase (Decrease) in Cash and Cash Equivalents             | (\$56,750)         | \$12,237           |
| Cash and Cash Equivalents, Beginning of Year                     | 436,164            | 423,927            |
| <b>Cash and Cash Equivalents, End of Year</b>                    | <b>\$379,414</b>   | <b>\$436,164</b>   |



**STATEMENT OF CASH FLOWS** (continued)  
For the Year Ended June 30 (Dollars in Thousands)

**Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities**

|  | 2014               | 2013               |
|--|--------------------|--------------------|
| Operating Loss                                       | (\$490,472)        | (\$426,978)        |
| Depreciation Expense                                 | 148,356            | 135,846            |
| Noncash Investing, Capital, and Financing Activities | 792                | 140                |
| Changes in Assets and Liabilities:                   |                    |                    |
| Accounts Receivable                                  | (1,830)            | 5,444              |
| Notes Receivable                                     | 96                 | (1,295)            |
| Other Assets   | 21,255             | (19,504)           |
| Accrued Compensated Absences                         | 999                | 6,443              |
| Accounts Payable                                     | 14,255             | 5,138              |
| Deferred Revenue                                     | (16,168)           | 1,270              |
| Deposits Held in Custody for Others                  | 1,350              | —                  |
| Advances from Federal Government                     | (2)                | 8                  |
| <b>Cash Used by Operating Activities</b>             | <b>(\$321,369)</b> | <b>(\$293,488)</b> |

See accompanying Notes to the Financial Statements.

*The new Krach Leadership Center gives students centralized access to an array of resources.*



## NOTES TO THE FINANCIAL STATEMENTS

*For the Fiscal Year Ended June 30, 2014*

### **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
- 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" define 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 was 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 Purdue 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 Boulevard, West Lafayette, IN 47906-4182.

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 foundation's 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, invest, 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 Boulevard, West Lafayette, IN 47906-4182.

**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 Boulevard, West Lafayette, IN 47906-4182.

**Indiana-Purdue Fort Wayne (IPFW) Foundation** was created in 1958 to promote the educational purposes of Indiana University-Purdue University Fort Wayne. The IPFW 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 IPFW 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 IPFW Foundation's Board of Directors. As a result, the IPFW Foundation is reported as a discretely presented component unit. The IPFW 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 E. Coliseum Boulevard, KT G06, Fort Wayne, IN 46805-1499.

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

#### RELATIONSHIP TO THE 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. A segment of 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 that 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, 2014 and 2013.

#### 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 2014, the University adopted GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." 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."

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 approximately \$1,611,000 as of June 30, 2013.
- Recognized IPFW Foundation as a discretely presented component unit; IPFW Foundation's net position was approximately \$17,951,000 as of June 30, 2013.

The effect of GASB Statement No. 65:

- Changed the presentation of certain items previously required to be reported as assets or liabilities to properly record them as either deferred outflows of resources or deferred inflows of resources, or to recognize certain items that were previously reported as assets or liabilities as outflows of resources (expenses) or inflows of resources (revenues).

#### 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.

## 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 investment's maturity date at June 30. Endowment funds are primarily included in noncurrent investments, with the exception of amounts designated for distribution.

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

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

**Notes and Bonds Receivable.** Notes and bonds receivable consist of student loan repayments due the University net of allowance for doubtful accounts and other receivables as well as bond proceeds receivable as of the fiscal year end.

**Inventories.** Inventories principally consist of consumable supplies and items held for resale or recharge within the University, and they are valued using a variety of methods, including first in first out (FIFO), weighted average, and moving average — depending upon the type of inventory. Agricultural commodities are reported using the consumption method, measured by physical count and valued at market.

**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.

**Interest in Charitable Trusts and Contracts.** The University and Purdue Research Foundation act as Trustees for certain endowments and trust funds, for which they or others have beneficiary interests. In addition, the University and PRF have beneficiary interests in insurance contracts and gift annuity programs.

Various revocable and irrevocable trusts established for the benefit of the University, PRF, the former Purdue Alumni Foundation, and affiliates exist where PRF acts as trustee, commonly referred to as the PRF Trust Funds. 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. 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.

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.

The University receives certain charitable contributions from donors, which in accordance with the donor's wishes are used for annual premium payments toward insurance contracts for which the University is a beneficiary.

The endowment funds are invested under an investment agency agreement between Purdue University and the Purdue Research Foundation. These endowment funds are managed in accordance with donor restrictions consistent with the University's endowments. The assets held in trust are equal to the fair market value of the endowment principal plus, or less, any undistributed earnings.

PRF holds life income funds for beneficiaries of a gift annuity program. These funds generally pay lifetime income to the beneficiaries, after which the principal is made available to the University in accordance with donor intentions. All life income funds are recorded at fair value net of related liabilities for the present value of estimated future payments due to beneficiaries.

**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 their estimated useful life is greater than one year. Depreciation is computed on a straight-line basis over the estimated useful life, as shown in the following table. Capital assets are removed from the records at the time of disposal.

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

Assets under capital leases are capitalized when valued over \$500,000 and recorded at the present value of future minimum lease payments. They 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.

| <b>Property Class</b>                               | <b>Threshold</b> | <b>Useful Life</b> |
|---|------------------|--------------------|
| 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, accrued 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 a portion of their accrued sick leave. 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.

**Unearned Revenue.** Unearned revenue consists of 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.** Liabilities to other beneficiaries related to the charitable trusts or endowments where the University serves as trustee for the component unit or related party.

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

- Net invested in capital assets: Resources resulting from capital acquisition or construction, net of accumulated depreciation and net of related debt. To the extent that debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- Restricted-nonexpendable: Net 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. A significant portion of the "other" category is related to donor-restricted funds that are undistributed gains on endowments or funds functioning as endowments.
- 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.

**Intra-University Transactions.** Intra-University 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 nonexchange 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, grants, and various other types of aid. Student loans are not included in this calculation. Aid applied to housing is shown as an allowance against auxiliary revenues. Aid remitted directly to students is shown as scholarships, fellowships, and student awards expenses. Graduate and other employment-related remissions are included with compensation and benefits expenses.

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

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

**Gifts.** The University receives pledges of financial support from many different sources. Gift income is recognized when received or pledged. In-kind gifts of tangible or intangible property are recognized at fair value on the date of the gift and are capitalized, if appropriate, subject to the University's policies on capitalization. Revenue from gifts-in-kind of approximately \$931,000 and \$903,000 was recognized during the years ending June 30, 2014 and 2013, respectively.

**Use of Estimates.** To prepare the financial statements in conformity with generally accepted accounting principles, 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, 2014 and 2013, the bank balance of the University's deposits (demand deposit accounts) was approximately \$90,909,000 and \$90,582,000, respectively. Federal depository insurance covered \$250,000, and 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. Except for some investments that are separately held in accordance with donor restrictions or bond covenants, the University investments are managed by two separate policies, the Cash Management Investment Policy (CMIP) and the Endowment Investment Policy (EIP), both of which are approved by the Trustees. The University had the following investments:

(Dollars in Thousands)

| <b>Investment Type</b>             | <b>June 30, 2014</b> | <b>June 30, 2013</b> |
|------------------------------------|----------------------|----------------------|
| Corporate Bonds                    | \$1,968              | \$1,030              |
| Investment Held by State Treasurer | 340                  | 340                  |
| U.S. Equity                        | 37,544               | 29,497               |
| Public Real Estate                 | 1,628                | 1,573                |
| U.S. Agencies                      | 10                   | 15                   |
| Venture Capital/Private Equity     | 1,795                | 1,804                |
| <b>BOND PROCEEDS INVESTED:</b>     |                      |                      |
| Mutual Funds and Cash              | 43,332               | 85,229               |
| <b>CMIP:</b>                       |                      |                      |
| Asset-Backed Securities            | 41,287               | 28,347               |
| Corporate Bonds                    | 368,556              | 328,509              |
| Mortgage-Backed Securities         | 218,785              | 251,958              |
| U.S. Agencies                      | 106,988              | 108,660              |
| U.S. Treasuries and Securities     | 367,647              | 327,315              |
| Mutual Funds and Cash              | 212,387              | 168,938              |
| <b>EIP:</b>                        |                      |                      |
| Emerging Markets                   | 107,299              | 90,786               |
| Fixed Income                       | 107,730              | 164,170              |
| International Equity               | 219,143              | 173,512              |
| U.S. Equity                        | 375,303              | 336,254              |
| Marketable Alternatives            | 361,657              | 294,409              |
| Private Natural Resources          | 79,360               | 53,918               |
| Public Natural Resources           | 7,182                | 39,491               |
| Private Real Estate                | 47,031               | 36,683               |
| Public Real Estate                 | 38,366               | 37,195               |
| Venture Capital/Private Equity     | 170,974              | 101,689              |
| Mutual Funds and Cash              | 92,501               | 72,501               |
| <b>Total</b>                       | <b>\$3,008,813</b>   | <b>\$2,733,823</b>   |

Investment values included accumulated unrealized gains of \$339,959,000 and \$193,492,000 as of June 30, 2014 and 2013, respectively. Investment income included unrealized gains of \$146,467,000 and \$69,722,000 during the year ended June 30, 2014 and 2013, respectively.

**PRF Investments.** PRF investments are managed under the EIP, which is also approved by the PRF Trustees. The fair value of investments at June 30, 2014 and 2013, which includes the University's investment in the Purdue investment pool, is as follows:

(Dollars in Thousands)

| <b>Investment Type</b>         | <b>June 30, 2014</b> | <b>June 30, 2013</b> |
|--------------------------------|----------------------|----------------------|
| Short-Term Investments         | \$47                 | \$42                 |
| U.S. Equity                    | 17,576               | 16,833               |
| Fixed Income                   | 5,220                | 5,697                |
| Venture Capital                | 149                  | 88                   |
| Pooled Funds:                  |                      |                      |
| Short-Term Investments         | 120,474              | 27,926               |
| U.S. Equity                    | 579,248              | 144,419              |
| International Equity           | 340,164              | 75,608               |
| Fixed Income                   | 251,320              | 94,686               |
| Funds Invested with University | 12,500               | 13,200               |
| Emerging Markets               | 166,555              | 85,793               |
| Public Real Estate             | 62,079               | 18,623               |
| Private Real Estate            | 73,003               | 28,220               |
| Public Natural Resources       | 11,148               | 14,925               |
| Private Natural Resources      | 123,186              | 39,569               |
| Hedge Funds                    | 561,380              | 190,814              |
| Venture Capital/Private Equity | 265,393              | 115,857              |
| <b>Total</b>                   | <b>\$2,589,442</b>   | <b>\$872,300</b>     |

**Investment Policies, Interest Rate, and Credit Risks.** As noted above, investments are managed by two separate policies:

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. As of June 30, 2014 and 2013, the University had \$339,532,000 and \$306,876,000, respectively, of CMIP investments invested in and shown as EIP in these note disclosures.

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 Endowment Investment Policy outlining the parameters for endowment investments was approved on April 13, 2012. Authorized investments include equity, fixed income, and alternative investments, including commingled investments. The overall policy objective is to generate real returns greater than its spending rate over the long term. The policy sets forth a diversified approach by and within the asset classes with the balanced goal of maximizing return and preserving purchasing power. Moreover, a single manager or affiliated groups of

managers will not represent more than 10% of the total endowment's market value. As a partial hedge against prolonged economic contraction, the University has adopted a target allocation of 15% for fixed income.

Portfolios will be invested in securities that result in a weighted average credit quality rating of at least AA or better with no single fixed-income manager having more than 10% of its portfolio in obligations rated less than BBB or its equivalent by Moody's or Standard & Poor's. Any commercial paper in the portfolio must be rated A-1/P-1 by each rating service rating said credit. Any banker's 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, separately held, 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:

| For the Year Ended June 30, 2014 (Dollars in Thousands) |                  |                  |                  |                  |                    |
|---|------------------|------------------|------------------|------------------|--------------------|
| Investment Type   | Maturity         |                  |                  |                  | Totals             |
|   | 0-1 year         | 1-5 years        | 6-10 years       | >10 years        |                    |
| Corporate Bonds   | \$1,968          | \$—              | \$—              | \$—              | \$1,968            |
| U.S. Agencies   | 5                | 5                | —                | —                | 10                 |
| <b>CMIP:</b>  |                  |                  |                  |                  |                    |
| Asset-Backed Securities                                 | 16,724           | 20,052           | 3,432            | 1,079            | 41,287             |
| Corporate Bonds   | 30,190           | 226,553          | 83,231           | 28,582           | 368,556            |
| Mortgage-Backed Securities                              | 6,586            | 32,969           | 53,899           | 125,332          | 218,786            |
| U.S. Agencies   | 3,662            | 63,589           | 20,496           | 19,240           | 106,987            |
| U.S. Treasuries and Securities                          | 145,466          | 215,062          | 1,172            | 5,947            | 367,647            |
| <b>EIP:</b>   |                  |                  |                  |                  |                    |
| Fixed Income  | 26,175           | 56,665           | 51,888           | 30,803           | 165,531            |
| <b>Total</b>  | <b>\$230,776</b> | <b>\$614,895</b> | <b>\$214,118</b> | <b>\$210,983</b> | <b>\$1,270,772</b> |

| For the Year Ended June 30, 2013 (Dollars in Thousands) |                  |                  |                  |                  |                    |
|---|------------------|------------------|------------------|------------------|--------------------|
| Investment Type   | Maturity         |                  |                  |                  | Totals             |
|   | 0-1 year         | 1-5 years        | 6-10 years       | >10 years        |                    |
| Corporate Bonds   | \$1,030          | \$—              | \$—              | \$—              | \$1,030            |
| U.S. Agencies   | 5                | 10               | —                | —                | 15                 |
| <b>CMIP:</b>  |                  |                  |                  |                  |                    |
| Asset-Backed Securities                                 | —                | 12,267           | 14,283           | 1,797            | 28,347             |
| Corporate Bonds   | 21,355           | 211,999          | 67,656           | 27,499           | 328,509            |
| Mortgage-Backed Securities                              | —                | 44,145           | 92,644           | 115,169          | 251,958            |
| U.S. Agencies   | 35,419           | 66,392           | —                | 6,849            | 108,660            |
| U.S. Treasuries and Securities                          | 53,982           | 251,244          | 20,815           | 1,274            | 327,315            |
| <b>EIP:</b>   |                  |                  |                  |                  |                    |
| Fixed Income  | 64,810           | 58,956           | 20,761           | 18,931           | 163,458            |
| <b>Total</b>  | <b>\$176,601</b> | <b>\$645,013</b> | <b>\$216,159</b> | <b>\$171,519</b> | <b>\$1,209,292</b> |

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

In accordance with the CMIP, 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 EIP, 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.

The distribution of fixed-income investments by credit ratings is summarized below:

| (Dollars in Thousands)                | June 30, 2014      | % of Total | June 30, 2013      | % of Total |
|---------------------------------------|--------------------|------------|--------------------|------------|
| <b>Separately Held:</b>               |                    |            |                    |            |
| A                                     | \$10               | 0.51%      | \$15               | 1.44%      |
| BAA                                   | 1,968              | 99.49%     | 1,030              | 98.56%     |
|                                       | 1,978              | 100.00%    | 1,045              | 100.00%    |
| <b>CMIP:</b>                          |                    |            |                    |            |
| A                                     | 135,142            | 12.25%     | 147,247            | 14.09%     |
| AA                                    | 55,829             | 5.06%      | 35,597             | 3.41%      |
| AAA                                   | 691,515            | 62.68%     | 677,676            | 64.86%     |
| B                                     | 556                | 0.05%      | 515                | 0.05%      |
| BA                                    | 16,229             | 1.47%      | 10,917             | 1.04%      |
| BAA                                   | 145,319            | 13.17%     | 103,869            | 9.94%      |
| CAA                                   | 745                | 0.07%      | 699                | 0.07%      |
| Unrated                               | 57,928             | 5.25%      | 68,269             | 6.54%      |
|                                       | 1,103,263          | 100.00%    | 1,044,789          | 100.00%    |
| <b>EIP:</b>                           |                    |            |                    |            |
| A                                     | 31,741             | 19.18%     | 38,523             | 23.57%     |
| AA                                    | 32,074             | 19.38%     | 20,493             | 12.54%     |
| AAA                                   | 70,632             | 42.67%     | 71,488             | 43.73%     |
| BA+                                   | 2,115              | 1.28%      | 3,050              | 1.87%      |
| BAA                                   | 17,776             | 10.74%     | 15,107             | 9.24%      |
| Unrated                               | 11,193             | 6.76%      | 14,797             | 9.05%      |
|                                       | 165,531            | 100.00%    | 163,458            | 100.00%    |
| <b>Total Fixed Income Investments</b> | <b>\$1,270,772</b> |            | <b>\$1,209,292</b> |            |

**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.

Historically, the investment pool managed in accordance with the EIP was a shared investment pool managed by University personnel, and the underlying investment instruments were held in the University's or PRF's name based on their ownership basis in the pool. Effective January 1, 2014, the Trustees transferred the investment function from the University to PRF, including the supporting personnel. With this change, the Trustees approved the movement of the investments to an EIP investment pool that is held in PRF's name. The transfer of the underlying investment vehicles from the University's name to PRF's name will occur over the course of 2014 based on the contractual terms of the underlying investment vehicles. As of June 30, 2014, 87.19% of the EIP investment pool had been transferred to PRF.

As of June 30, 2014, all separately held and CMIP investments were held in University accounts at the University's custodial banks, with the exception of private placements and investments in limited partnerships that totaled approximately \$659,022,000 and \$340,000 held in the state's name.

As of June 30, 2013, all investments were held in University accounts at the University's custodial banks, with the exception of private placements and investments in limited partnerships that totaled approximately \$492,013,000 and \$340,000 held in the state's name.

**Foreign Currency Risk.** Endowment equity managers may invest in common stocks, preferred stocks, 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 that its international exposure in its EIP alternative investments was approximately \$103,923,000 and \$66,261,000 as of June 30, 2014 and 2013, 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, 2014 and 2013, 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 endowment investment pool (EIP) purchases investments to generate present and future income in support of various programs. The Trustees establish the spending policy for the EIP. The approved spending policy distributed 5% 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, 2014 and 2013, accumulated market appreciation of the EIP pool was approximately \$588,811,000 and \$438,087,000, respectively. Of this amount, 40.71% and 38.80% represents appreciation attributable to donor-restricted (true and term) endowments during the year ended June 30, 2014 and 2013, 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.

**Interest in Charitable Trusts and Contracts.** As of June 30, 2014 and 2013, the PRF EIP investment pool includes the following PRF trust assets.

| (Dollars in Thousands) | Assets at Fair Value |                 | Beneficiary Interest |                 |
|------------------------|----------------------|-----------------|----------------------|-----------------|
|                        | June 30, 2014        | June 30, 2013   | June 30, 2014        | June 30, 2013   |
| University             | \$22,670             | \$20,812        | \$11,046             | \$10,312        |
| PRF                    | 48,653               | 44,893          | 18,585               | 15,041          |
| Related Parties        | 8                    | 7               | 1                    | 2               |
| Other Affiliates       | 231                  | 215             | 93                   | 78              |
| <b>Total</b>           | <b>\$71,562</b>      | <b>\$65,927</b> | <b>\$29,725</b>      | <b>\$25,433</b> |

As of June 30, 2014 and 2013, the University EIP investment pool includes the following endowment assets, which are offset by funds held in trust obligations to the other beneficiaries. For details see Note 7.

| (Dollars in Thousands) | Assets at Fair Value |                |
|------------------------|----------------------|----------------|
|                        | June 30, 2014        | June 30, 2013  |
| IPFW Foundation        | \$374                | \$322          |
| Related Parties        | 7,779                | 7,022          |
| <b>Total</b>           | <b>\$8,153</b>       | <b>\$7,344</b> |

The University also has beneficiary interest in insurance contracts of \$756,000 and \$711,000, respectively, as of June 30, 2014 and 2013.

### NOTE 3 — ACCOUNTS, PLEDGES, AND NOTES RECEIVABLE

Accounts, pledges, and notes receivable consisted of the following:

(Dollars in Thousands)

|  | June 30, 2014   | June 30, 2013   |
|--|-----------------|-----------------|
| Grants and Contracts                               | \$50,396        | \$46,502        |
| Student and General                                | 22,736          | 28,387          |
| Other Accrued Revenues                             | 15,094          | 14,418          |
| Less: Allowance for Doubtful Accounts              | (4,557)         | (4,037)         |
| <b>Total Accounts Receivable, Net</b>              | <b>\$83,669</b> | <b>\$85,270</b> |
| Pledges Receivable                                 | \$58,191        | \$50,651        |
| Less: Allowance for Doubtful Pledges               | (2,217)         | (2,040)         |
| Net Pledges Receivable                             | 55,974          | 48,611          |
| Less: Noncurrent Portion                           | (29,030)        | (20,680)        |
| <b>Pledges Receivable, Current Portion</b>         | <b>\$26,944</b> | <b>\$27,931</b> |
| Perkins Loans                                      | \$26,334        | \$27,068        |
| Institutional Loans                                | 21,053          | 20,828          |
| Other Student Loans and Bonds Receivable           | 19,684          | 11,041          |
| Less: Allowance for Doubtful Loans                 | (524)           | (960)           |
| Net Notes and Bonds Receivable                     | \$66,547        | \$57,977        |
| Less: Noncurrent Portion                           | (53,996)        | (53,068)        |
| <b>Notes and Bonds Receivable, Current Portion</b> | <b>\$12,551</b> | <b>\$4,909</b>  |

*The sky's the limit for Purdue students, with more than 200 majors and nearly 1,000 organizations to propel them to career success.*



## NOTE 4 — CAPITAL ASSETS

Capital asset activity is summarized below. Interest that qualified for interest capitalization was approximately \$20,272,000 and \$11,565,000 during the years ended June 30, 2014 and 2013, respectively.

(Dollars in Thousands)

| <b>Capital Assets Activity</b>                               | <b>Balance<br/>July 1, 2013</b> | <b>Additions</b> | <b>Retirements</b> | <b>Transfers</b>   | <b>Balance<br/>June 30, 2014</b> |
|--|---------------------------------|------------------|--------------------|--------------------|----------------------------------|
| Capital Assets, Not Being Depreciated:                       |                                 |                  |                    |                    |                                  |
| Land   | \$28,179                        | \$—              | \$—                | \$—                | \$28,179                         |
| Construction in Progress                                     | 215,560                         | 54,836           | —                  | (140,255)          | 130,141                          |
| <b>Total, Capital Assets, Not Being Depreciated</b>          | <b>\$243,739</b>                | <b>\$54,836</b>  | <b>\$—</b>         | <b>(\$140,255)</b> | <b>\$158,320</b>                 |
| Capital Assets, Being Depreciated:                           |                                 |                  |                    |                    |                                  |
| Land Improvements  | 69,410                          | 1,959            | —                  | 1,677              | 73,046                           |
| Infrastructure   | 80,401                          | 11,448           | —                  | 13,159             | 105,008                          |
| Buildings  | 2,656,040                       | 100,795          | 226                | 124,880            | 2,881,489                        |
| Equipment  | 494,056                         | 39,211           | 25,053             | 539                | 508,753                          |
| Software   | 58,362                          | 7                | —                  | —                  | 58,369                           |
| <b>Total, Capital Assets, Being Depreciated</b>              | <b>\$3,358,269</b>              | <b>\$153,420</b> | <b>\$25,279</b>    | <b>\$140,255</b>   | <b>\$3,626,665</b>               |
| Less Accumulated Depreciation:                               |                                 |                  |                    |                    |                                  |
| Land Improvements  | 56,802                          | 2,272            | —                  | —                  | 59,074                           |
| Infrastructure   | 40,882                          | 5,786            | —                  | —                  | 46,668                           |
| Buildings  | 1,123,915                       | 97,509           | 143                | —                  | 1,221,281                        |
| Equipment  | 328,032                         | 40,819           | 24,436             | —                  | 344,415                          |
| Software   | 39,452                          | 1,970            | —                  | —                  | 41,422                           |
| <b>Total Accumulated Depreciation</b>                        | <b>\$1,589,083</b>              | <b>\$148,356</b> | <b>\$24,579</b>    | <b>\$—</b>         | <b>\$1,712,860</b>               |
| <b>Total Capital Assets, Net of Accumulated Depreciation</b> | <b>\$2,012,925</b>              | <b>\$59,900</b>  | <b>\$700</b>       | <b>\$—</b>         | <b>\$2,072,125</b>               |

| <b>Capital Assets Activity</b>                               | <b>Balance<br/>July 1, 2012</b> | <b>Additions</b> | <b>Retirements</b> | <b>Transfers</b>   | <b>Balance<br/>June 30, 2013</b> |
|--|---------------------------------|------------------|--------------------|--------------------|----------------------------------|
| Capital Assets, Not Being Depreciated:                       |                                 |                  |                    |                    |                                  |
| Land   | \$28,179                        | \$—              | \$—                | \$—                | \$28,179                         |
| Construction in Progress                                     | 305,902                         | 90,072           | —                  | (180,414)          | 215,560                          |
| <b>Total, Capital Assets, Not Being Depreciated</b>          | <b>\$334,081</b>                | <b>\$90,072</b>  | <b>\$—</b>         | <b>(\$180,414)</b> | <b>\$243,739</b>                 |
| 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                           |
| <b>Total Capital Assets, Being Depreciated</b>               | <b>\$3,085,830</b>              | <b>\$115,975</b> | <b>\$23,950</b>    | <b>\$180,414</b>   | <b>\$3,358,269</b>               |
| 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                           |
| <b>Total Accumulated Depreciation</b>                        | <b>\$1,475,575</b>              | <b>\$135,846</b> | <b>\$22,338</b>    | <b>\$—</b>         | <b>\$1,589,083</b>               |
| <b>Total Capital Assets, Net of Accumulated Depreciation</b> | <b>\$1,944,336</b>              | <b>\$70,201</b>  | <b>\$1,612</b>     | <b>\$—</b>         | <b>\$2,012,925</b>               |

## NOTE 5 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

(Dollars in Thousands)

|                               | June 30, 2014    | June 30, 2013   |
|-------------------------------|------------------|-----------------|
| Construction Payables         | \$17,334         | \$18,655        |
| Accrued Insurance Liabilities | 22,329           | 22,475          |
| Interest Payable              | 16,914           | 17,913          |
| Accrued Salaries and Wages    | 7,870            | 7,613           |
| Vendor and Other Payables     | 44,860           | 30,715          |
| <b>Total Accounts Payable</b> | <b>\$109,307</b> | <b>\$97,371</b> |

**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 as of June 30, 2014 and 2013.

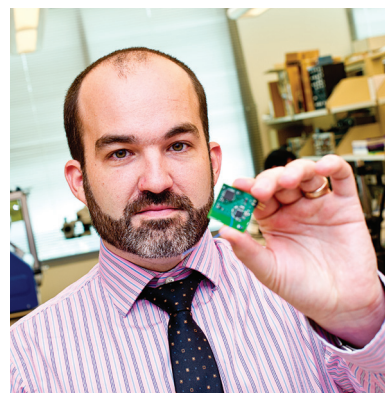
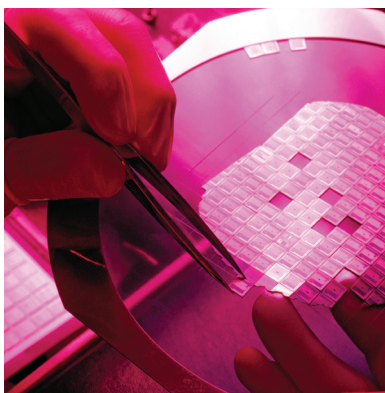
Separate funds have been established to account for these risks. All departments of the University are charged fees based on actuarial estimates of the amounts necessary to pay claims and to establish reserves for catastrophic losses. During the years ended June 30, 2014 and 2013, the University reflected approximately \$793,000 and \$154,000, respectively, of insurance proceeds as nonoperating income.

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

(Dollars in Thousands)

|                         | June 30, 2014   | June 30, 2013   |
|-------------------------|-----------------|-----------------|
| Beginning Liability     | \$22,475        | \$26,943        |
| Claims Incurred         | 125,672         | 137,586         |
| Claims Payments         | (125,818)       | (142,054)       |
| <b>Ending Liability</b> | <b>\$22,329</b> | <b>\$22,475</b> |

*Fiscal year 2014 includes milestones for business startups based on University research and for the number of U.S. and global patents issued.*





## NOTE 6 — DEBT RELATED TO CAPITAL ASSETS

Debt liability activity is summarized below:

(Dollars in Thousands)

| Debt-Related Liabilities                 | Balance<br>July 1, 2013 | Increases       | Decreases       | Balance<br>June 30, 2014 | Current Portion  |
|--|-------------------------|-----------------|-----------------|--------------------------|------------------|
| Commercial Paper                         | \$7,456                 | \$13,500        | \$2,648         | \$18,308                 | \$18,308         |
| Notes Payable                            | 795                     |                 | 85              | 710                      | 93               |
| Leases Payable to Affiliated Foundations | 138,039                 | 21,955          | 15,026          | 144,968                  | 39,417           |
| <b>Bonds Payable:</b>                    |                         |                 |                 |                          |                  |
| Student Facilities System Revenue Bonds  | 352,730                 |                 | 20,583          | \$332,147                | \$67,168         |
| Student Fee Bonds                        | 487,677                 |                 | 34,852          | \$452,825                | \$31,990         |
| Total Bonds Payable                      | 840,407                 | —               | 55,435          | 784,972                  | \$99,158         |
| <b>Total Debt-Related Liabilities</b>    | <b>\$986,697</b>        | <b>\$35,455</b> | <b>\$73,194</b> | <b>\$948,958</b>         | <b>\$156,976</b> |

| Debt-Related Liabilities                 | Balance<br>July 1, 2012 | Increases        | Decreases       | Balance<br>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 to Affiliated Foundations | 141,317                 | 1,000            | 4,278           | 138,039                  | 38,619           |
| <b>Bonds Payable:</b>                    |                         |                  |                 |                          |                  |
| Student Facilities System Revenue Bonds  | 318,713                 | 49,669           | 15,652          | 352,730                  | 69,700           |
| Student Fee Bonds                        | 447,207                 | 62,687           | 22,217          | 487,677                  | 34,166           |
| Total Bonds Payable                      | 765,920                 | 112,356          | 37,869          | 840,407                  | 103,866          |
| <b>Total Debt-Related Liabilities</b>    | <b>\$931,897</b>        | <b>\$114,856</b> | <b>\$60,056</b> | <b>\$986,697</b>         | <b>\$150,027</b> |

**Commercial Paper.** On April 1, 2008, a commercial paper agreement was negotiated with Goldman Sachs Company. This agreement authorized a maximum outstanding at any time 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, 2014 and 2013, the balance outstanding was \$18,308,000 and \$7,456,000, respectively.

**Notes Payable.** As of June 30, 2014 and 2013, the balance of notes outstanding was approximately \$710,000 and \$795,000, respectively, representing financing for various activities.

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 \$710,000 and \$795,000 as of June 30, 2014 and 2013, respectively. The current portion of this note was approximately \$93,000 and \$86,000 as of June 30, 2014 and 2013, respectively. The interest rate for the note was fixed at 8.00% as of June 30, 2014 and 2013.

**Leases Payable.** Leases payable consisted of the following items:

(Dollars in Thousands)

| Issue   | Issue Date | Interest Rates | Final Maturity Date | Outstanding June 30, 2014 | Outstanding June 30, 2013 | Current Outstanding June 30, 2014 |
|---|------------|----------------|---------------------|---------------------------|---------------------------|-----------------------------------|
| Certificates of Participation with Ross-Ade Foundation: |            |                |                     |                           |                           |                                   |
| Series 1998   | 1998       | 5.25%          | 2015                | \$895                     | \$1,745                   | \$895                             |
| Series 2006   | 2006       | 4.00-5.25%     | 2025                | 35,455                    | 46,830                    | 2,935                             |
| Series 2009A  | 2009       | 2.50-4.00%     | 2015                | 2,025                     | 3,975                     | 2,025                             |
| Series 2009B  | 2009       | 4.07-5.96%     | 2031                | 42,795                    | 42,795                    | —                                 |
| Series 2011A  | 2011       | 0.07%*         | 2035                | 32,185                    | 32,185                    | 32,185                            |
| Series 2014A  | 2014       | 2.66%          | 2027                | 21,955                    | —                         | —                                 |
| Leases with Purdue Research Foundation:                 |            |                |                     |                           |                           |                                   |
| Academic Learning Center                                | 2012       | 2.00-5.00%     | 2030                | 6,235                     | 6,430                     | 300                               |
| Remo Property   | 2011       | 6.38%          | 2015                | 57                        | 112                       | 57                                |
| Kaplan  | 2012       | 5.63%          | 2022                | 841                       | 923                       | 86                                |
| Leases with Indiana-Purdue Fort Wayne Foundation:       |            |                |                     |                           |                           |                                   |
| Child Care Center                                       | 2011       | 6.20%          | 2016                | 225                       | 327                       | 109                               |
|   |            |                |                     | \$142,668                 | \$135,322                 | \$38,592                          |
| Net Unamortized Premiums and Costs                      |            |                |                     | 2,300                     | 2,717                     | 825                               |
| <b>Total</b>  |            |                |                     | <b>\$144,968</b>          | <b>\$138,039</b>          | <b>\$39,417</b>                   |

\* Variable interest rates are reset weekly and are based upon market conditions. Amounts shown as of June 30, 2014.

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 for student fees and state appropriations. During the fiscal years ended June 30, 2014 and 2013, the University included approximately \$32,185,000 in current liabilities related to variable-rate Certificates of Participation (Series 2011A). 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.

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.

As of June 30, 2014 and 2013, long-term debt included amounts relating to properties with a net book value (net of accumulated depreciation) of approximately \$154,209,000 and \$173,883,000, respectively, leased from either the Ross-Ade Foundation, Purdue Research Foundation, or the Indiana-Purdue Fort Wayne Foundation.

**Bonds Payable.** As of June 30, 2014 and 2013, the balance of bonds payable was approximately \$784,972,000 and \$834,339,000, respectively. Bonds payable consisted of the following issues:

(Dollars in Thousands)

| Issue  | Issue Date | Interest Rates | Final Maturity Date | Total Outstanding June 30, 2014 | Total Outstanding June 30, 2013 | Current Outstanding June 30, 2014 |
|--|------------|----------------|---------------------|---------------------------------|---------------------------------|-----------------------------------|
| 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       |                | 2013                | \$—                             | \$8,870                         | \$—                               |
| Series 2003B   |            |                |                     |                                 |                                 |                                   |
| Used to finance construction of Fort Wayne student housing facilities  | 2003       |                | 2013                | —                               | 515                             | —                                 |
| Series 2004A   |            |                |                     |                                 |                                 |                                   |
| Used to finance construction of Calumet student housing and parking garage facilities  | 2004       | 0.05%*         | 2033                | 17,600                          | 17,600                          | 17,600                            |
| Series 2005A   |            |                |                     |                                 |                                 |                                   |
| Used to finance construction and renovation of West Lafayette housing and food service facilities  | 2005       | 0.07%*         | 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                          | 2,025                             |
| 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                | 23,110                          | 23,840                          | 765                               |
| Series 2007C   |            |                |                     |                                 |                                 |                                   |
| Used to renovate a West Lafayette student housing facility, and finance construction on a new West Lafayette student housing facility  | 2007       | 0.07%*         | 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       | 5.00%          | 2034                | 33,495                          | 34,175                          | 815                               |
| Series 2009B   |            |                |                     |                                 |                                 |                                   |
| Used to finance Fort Wayne and West Lafayette student housing facilities, and refund a portion of commercial paper   | 2009       | 4.00-5.00%     | 2035                | 38,520                          | 39,490                          | 1,010                             |
| Series 2010A   |            |                |                     |                                 |                                 |                                   |
| Taxable Build America Bonds used to finance the renovation of West Lafayette student housing facilities, and refund a portion of commercial paper  | 2010       | 2.36-5.96%     | 2030                | 23,875                          | 24,985                          | 1,125                             |
| Series 2011A   |            |                |                     |                                 |                                 |                                   |
| Used to refund a portion of Student Facilities System Revenue Bond Series 2004A, 2005A, and 2007C  | 2011       | 3.75-5.00%     | 2025                | 44,100                          | 46,805                          | 2,805                             |
| 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 a portion of commercial paper | 2012       | 3.75-5.00%     | 2032                | 42,100                          | 44,770                          | 3,275                             |
|  |            |                |                     | \$316,205                       | \$334,455                       | \$60,960                          |
| Net Unamortized Premiums and Costs   |            |                |                     | 15,942                          | 18,275                          | 6,208                             |
| <b>Total Student Facilities System Revenue Bonds</b>   |            |                |                     | <b>\$332,147</b>                | <b>\$352,730</b>                | <b>\$67,168</b>                   |

\* Variable interest rates are reset weekly and are based upon market conditions. Amounts shown as of June 30, 2014.

(Dollars in Thousands)

| Issue  | Issue Date | Interest Rates | Final Maturity Date | Total Outstanding June 30, 2014 | Total Outstanding June 30, 2013 | Current Outstanding June 30, 2014 |
|--|------------|----------------|---------------------|---------------------------------|---------------------------------|-----------------------------------|
| Student Fee Bonds:   |            |                |                     |                                 |                                 |                                   |
| Series N   |            |                |                     |                                 |                                 |                                   |
| Used to refund Student Fee Bond Series B and D   | 1998       | 5.50%          | 2014                | \$500                           | \$4,510                         | \$500                             |
| Series P   |            |                |                     |                                 |                                 |                                   |
| Used to refund Student Fee Bond Series M   | 1998       | 5.25%          | 2017                | 15,990                          | 20,295                          | 4,515                             |
| Series U   |            |                |                     |                                 |                                 |                                   |
| Used to refund a portion of Student Fee Bond Series Q  | 2005       | 3.85-5.25%     | 2022                | 27,355                          | 29,945                          | 2,685                             |
| Series W   |            |                |                     |                                 |                                 |                                   |
| Used to finance West Lafayette strategic infrastructure and utilities improvements   | 2006       | 5.00-5.25%     | 2026                | 31,515                          | 33,265                          | 1,820                             |
| 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       | 5.00-5.50%     | 2028                | 89,615                          | 93,530                          | 4,105                             |
| Series Y   |            |                |                     |                                 |                                 |                                   |
| Used to refund Student Fee Bond Series S, T, and V   | 2010       | 4.00-5.00%     | 2027                | 61,490                          | 64,590                          | 3,235                             |
| Series Z-1   |            |                |                     |                                 |                                 |                                   |
| Used to finance a portion of construction of the West Lafayette Student Fitness and Wellness Center; Fort Wayne Parking Garage; and West Lafayette Repair and Rehabilitation projects; as well as refund Student Fee Bond Series H, K, L, O, and a portion of Series R; and refund a portion of commercial paper                                   | 2010       | 4.00-5.00%     | 2024                | 51,490                          | 60,465                          | 9,335                             |
| Series Z-2   |            |                |                     |                                 |                                 |                                   |
| Taxable Build America Bonds used to finance a portion of the construction of the West Lafayette Student Fitness and Wellness Center and the Fort Wayne Parking Garage, and a portion of West Lafayette Repair and Rehabilitation projects  | 2010       | 1.39-5.33%     | 2035                | 100,010                         | 100,705                         | 705                               |
| 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 Repair and Rehabilitation projects on the West Lafayette campus  | 2012       | 3.00-5.00%     | 2032                | 52,810                          | 54,555                          | 1,785                             |
|  |            |                |                     | \$430,775                       | \$461,860                       | \$28,685                          |
| Net Unamortized Premiums and Costs   |            |                |                     | 22,050                          | 25,817                          | 3,305                             |
| <b>Total Student Fee Bonds</b>   |            |                |                     | <b>\$452,825</b>                | <b>\$487,677</b>                | <b>\$31,990</b>                   |

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, 2014 and 2013, total net pledged income was approximately \$18,793,000 and \$11,161,000, respectively.

Student Fee Bonds are secured by a pledge of mandatory student fees. Mandatory student fees (net of scholarship allowance) were approximately \$727,256,000 and \$730,250,000 during the years ended June 30, 2014 and 2013, respectively.

As of both June 30, 2014 and 2013, the University had approximately \$49,140,000 included in current liabilities related to variable-rate Student Facilities System Revenue Demand Bonds (Series 2004A, 2005A, and 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 University may direct a change in the type of interest rate borne by the variable-rate debt, including variable-rate certificates of participation and Series 2011A, 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 the 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 these bonds at a price equal to 100% 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 Feb. 20, 2014, the University issued \$21,955,000 of Certificates of Participation Series 2014A to fund the construction of a softball field at the West Lafayette campus, to pay for allowable construction-period interest and cost of issuance, and to refund a portion of Certificates of Participation Series 2006. As a result of the

*Purdue graduates in science, technology, engineering and math (STEM) are transforming the world as we know it.*



refunding, the University estimates a reduction in its aggregate debt service payments over the life of the debt of approximately \$1,680,789. 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 \$1,388,980.

Scheduled payments related to the debt for capital assets for the fiscal years ended June 30 are as follows:

(Dollars in Thousands)

| <b>Fiscal Year</b>                 | <b>Principal</b> | <b>Interest</b>  | <b>Total</b>       |
|------------------------------------|------------------|------------------|--------------------|
| 2015                               | \$65,739         | \$38,261         | \$104,000          |
| 2016                               | 48,482           | 36,011           | 84,493             |
| 2017                               | 48,645           | 33,798           | 82,443             |
| 2018                               | 47,274           | 31,645           | 78,919             |
| 2019                               | 47,889           | 29,395           | 77,284             |
| 2020-24                            | 238,102          | 112,345          | 350,447            |
| 2025-29                            | 241,620          | 54,603           | 296,223            |
| 2030-34                            | 147,580          | 16,197           | 163,777            |
| 2035-39                            | 23,335           | 642              | 23,977             |
|                                    | \$908,666        | \$352,897        | \$1,261,563        |
| Net Unamortized Premiums and Costs | 40,292           | —                | 40,292             |
| <b>Total</b>                       | <b>\$948,958</b> | <b>\$352,897</b> | <b>\$1,301,855</b> |

**Defeased Bond Issues.** The University defeases bonds by prepayment or by issuing new debt. The University's defeased debt is shown below. 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.

(Dollars in Thousands)

| <b>Description of Bonds</b>                           | <b>Final Maturity/<br/>Call Date</b> | <b>Amount Outstanding</b> |                      |
|---|--------------------------------------|---------------------------|----------------------|
|   |                                      | <b>June 30, 2014</b>      | <b>June 30, 2013</b> |
| Student Fee and Facilities:                           |                                      |                           |                      |
| Student Facilities System Revenue Bonds, Series 2003A | July 1, 2013                         | \$—                       | \$48,345             |
| Student Facilities System Revenue Bonds, Series 2003B | July 1, 2013                         | —                         | 21,600               |

**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)

| <b>Fiscal Year</b>                   | <b>Lease Payments</b> |
|--------------------------------------|-----------------------|
| 2015                                 | \$2,698               |
| 2016                                 | 1,863                 |
| 2017                                 | 1,534                 |
| 2018                                 | 925                   |
| <b>Total Future Minimum Payments</b> | <b>\$7,020</b>        |

## NOTE 7 — OTHER DEBT INFORMATION

Other debt information is summarized below:

(Dollars in Thousands)

| Long-Term Liabilities            | Balance<br>July 1, 2013 | Increases       | Decreases       | Balance<br>June 30, 2014 | Current<br>Portion |
|----------------------------------|-------------------------|-----------------|-----------------|--------------------------|--------------------|
| Accrued Compensated Absences     | \$60,645                | \$23,568        | \$26,856        | \$57,357                 | \$26,361           |
| Other Post-Employment Benefits   | 36,179                  | 7,523           | 5,134           | 38,568                   | —                  |
| Funds Held in Trust for Others   | 7,344                   | 6,534           | 5,725           | 8,153                    | —                  |
| Advances from Federal Government | 19,932                  | —               | 2               | 19,930                   | —                  |
| <b>Total</b>                     | <b>\$124,100</b>        | <b>\$37,625</b> | <b>\$37,717</b> | <b>\$124,008</b>         | <b>\$26,361</b>    |

| Long-Term Liabilities            | Balance<br>July 1, 2012 | Increases       | Decreases       | Balance<br>June 30, 2013 | Current<br>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                   | —                  |
| <b>Total</b>                     | <b>\$117,201</b>        | <b>\$49,455</b> | <b>\$42,556</b> | <b>\$124,100</b>         | <b>\$26,856</b>    |

**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.

*A team within nuclear engineering looks to develop coatings better suited to the inside of nuclear fusion reactors.*



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 contributes to a health reimbursement account (HRA) in the amount of \$7,000 per year up to a total of \$35,000, which can be used to pay health premiums and other allowable medical expenses. For the years ended June 30, 2014 and 2013, there were 513 and 509 employees, respectively, participating in the voluntary retirement incentive program. For the years ended June 30, 2014 and 2013, the University had an outstanding liability associated with the health reimbursement accounts of approximately \$4,347,000 and \$6,762,000, respectively.

Purdue also offers a long-term disability program providing income continuation payments. Based on the 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 on or after 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. Tables on the following pages 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.



### Determination of Annual Required Contribution (ARC)

(Dollars in Thousands)

| Cost Element   | For Fiscal Year Ended June 30, 2014 | For Fiscal Year Ended June 30, 2013 |
|--|-------------------------------------|-------------------------------------|
| Normal Cost  | \$3,095                             | \$5,639                             |
| Amortization of the Unfunded Actuarial Accrued Liability | 5,840                               | 6,819                               |
| <b>Total Annual Required Contribution (End of Year)</b>  | <b>\$8,935</b>                      | <b>\$12,458</b>                     |

### Schedule of Employer Contributions

(Dollars in Thousands)

| 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%                    |
| June 30, 2014      | 7,523                         | 5,134                | 68%                    |

### Schedule of Funding Progress

(Dollars in Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial 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%                   |
| January 1, 2013          | —                             | 72,335                        | 72,335                                      | 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)

(Dollars in Thousands)

| 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                    |
| January 1, 2013          | June 30, 2014   | 8,935                            | 1,447                        | (2,859)            | 7,523                                | 5,134                          | 2,389                             | 38,568                    |

|  |   |
|--|---|
| Valuation Date                         | January 1, 2013   |
| 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                          | 4%  |
| Projected Payroll Increases            | 3%  |
| Health Care Cost Trend Rate:           |   |
| Medical                                | 7.5% Graded to 5% over 5 Years                                    |
| Prescription Drugs                     | 7.5% Graded to 5% over 5 Years                                    |
| Vision                                 | 3%  |
| Administrative Costs                   | 3%  |
| Plan Membership:                       |   |
| Current Retirees and Surviving Spouses | 314   |
| Current Disabled                       | 189   |
| Current Active Members                 | 11,981  |
| <b>Total</b>                           | <b>12,484</b>   |

*International study experiences offered in 60 countries expand Purdue students' worldview.*



**NOTE 8 — OPERATING EXPENSES BY NATURAL CLASSIFICATION**

Operating expenses by natural classification are summarized as follows:

**For the Year Ended June 30, 2014**

(Dollars in Thousands)

| <b>Function</b>                                  | <b>Compensation and Benefits</b> | <b>Supplies and Services</b> | <b>Depreciation</b> | <b>Scholarships, Fellowships, and Student Awards</b> | <b>Total</b>       |
|--|----------------------------------|------------------------------|---------------------|--|--------------------|
| Instruction                                      | \$552,781                        | \$93,902                     |                     |  | \$646,683          |
| Research   | 158,597                          | 76,410                       |                     |  | 235,007            |
| Extension and Public Service                     | 83,160                           | 64,921                       |                     |  | 148,081            |
| Academic Support                                 | 87,968                           | 47,794                       |                     |  | 135,762            |
| Student Services                                 | 39,017                           | 6,968                        |                     |  | 45,985             |
| General Administration and Institutional Support | 107,851                          | 55,155                       |                     |  | 163,006            |
| Physical Plant Operations and Maintenance        | 79,940                           | 69,296                       |                     |  | 149,236            |
| Depreciation                                     |                                  |                              | \$148,356           |  | 148,356            |
| Student Aid                                      |                                  |                              |                     | \$72,291   | 72,291             |
| Auxiliary Enterprises                            | 92,164                           | 89,110                       |                     |  | 181,274            |
| <b>Total</b>                                     | <b>\$1,201,478</b>               | <b>\$503,556</b>             | <b>\$148,356</b>    | <b>\$72,291</b>                                      | <b>\$1,925,681</b> |

**For the Year Ended June 30, 2013**

(Dollars in Thousands)

| <b>Function</b>                                  | <b>Compensation and Benefits</b> | <b>Supplies and Services</b> | <b>Depreciation</b> | <b>Scholarships, Fellowships, and Student Awards</b> | <b>Total</b>       |
|--|----------------------------------|------------------------------|---------------------|--|--------------------|
| 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            |
| <b>Total</b>                                     | <b>\$1,252,812</b>               | <b>\$424,676</b>             | <b>\$135,846</b>    | <b>\$63,775</b>                                      | <b>\$1,877,109</b> |

## 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, 2014 and 2013, the University's contribution to FICA was approximately \$52,405,000 and \$52,324,000, respectively.

**Defined-Contribution Plans.** Certain 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 Administrative/Professional Staff.** Faculty, professional, and certain administrative employees of the University participate in the exempt employees' defined-contribution plans. 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.

For the years ended June 30, 2014 and 2013, there were 6,973 and 6,763 employees, respectively, participating in the plans with annual pay equal to approximately \$556,325,000 and \$507,239,000, respectively. For the years ended June 30, 2014 and 2013, the University made contributions totaling approximately \$55,868,000 and \$55,397,000, respectively, to these plans.

**Clerical, Service, and Operations/Technical Assistants.** Clerical, service, and operations/technical assistants hired on or after September 9, 2013, and employed at least half time participate in the nonexempt employees' defined-contribution plan. Benefits-eligible employees in this category participate immediately upon date of employment. The University provides a base contribution of 4% of the participating employee's salary each pay period 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. The University will match voluntary employee pre-tax contributions up to 4% of earnings each pay period. Employees may also contribute voluntarily to the Purdue University 457(b) Deferred Compensation Plan, but these contributions are not matched.

For the year ended June 30, 2014, there were 385 employees participating in the plan with annual pay equal to approximately \$4,338,000. For the year ended June 30, 2014, the University made base contributions totaling approximately \$140,000 and matching contributions totaling approximately \$89,000 to the plan.

**Defined-Benefit Plans.** Certain employees of the University participate in defined-benefit plans administered by other agencies. Actuarial information related to the University's portion of these plans is disclosed in the Required Supplementary Information (RSI) at the back of this financial report.

**PERF.** Regular clerical and service staff employed at least half time and hired on or prior to September 8, 2013, participate in the Public Employees Retirement Fund (PERF), a retirement program administered by the Indiana Public Retirement System (INPRS), 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: a pension and an annuity savings plan. The University was required to contribute 9.7% of the employee's salary. The employee had the option of contributing 3% of the employee salary, and the University elected to make these contributions on the employee's behalf. Employees were eligible to participate in this plan immediately upon employment and are fully vested in the defined-benefit plan after 10 years of employment. 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 N. Capitol Ave., Suite 001, Indianapolis, IN 46204-2223; or by visiting [www.in.gov/perf](http://www.in.gov/perf).

For the years ended June 30, 2014 and 2013, there were 4,651 and 5,081 Purdue employees, respectively, participating in PERF. The University made contributions to this plan totaling approximately \$19,746,000 and \$18,486,000 for the years ended June 30, 2014 and 2013, respectively.

The employer contributions required by the funding policy at actuarial determined rates are sufficient to fund the pension benefits when they become due. The amortization method and period are level dollar closed over 30 years. The actuarial cost method is entry age normal (level percent of payroll) cost. The employer-required contribution is determined using an asset smoothing method. The actuarial assumptions included (a) 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.

**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. 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. Financial reports related to this plan may be obtained by writing to: Abby Daniels, Public Records Officer; Purdue University, Hovde Hall, 610 Purdue Mall, West Lafayette, IN 47907-2040.

For the years ended June 30, 2014 and 2013, there were 101 and 104 employees, respectively, participating in Police/Fire. The University made contributions to this plan totaling approximately \$1,260,000 and \$1,125,000 for the years ended June 30, 2014 and 2013, respectively.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2013. The actuarial valuation was the projected unit credit actuarial cost method over 30 years. The actuarial assumptions included (a) a 6.25% investment rate of return, (b) projected salary increases of 3% per year, and (c) 3% per year cost-of-living adjustments.

**Three-Year-Trend Information**  
(Dollars in Thousands)

| Plan               | Annual Required Contribution | Interest on Net Pension Obligation | Adjustment to Annual Required Contribution | Annual Pension Cost | Contributions Made †‡ | Increase (Decrease) in Net Pension Obligation | Net Pension Obligation, Beginning of Year | Net Pension Obligation, End of Year | Percentage of APC Contributed |
|--------------------|------------------------------|------------------------------------|--|---------------------|-----------------------|---|---|-------------------------------------|-------------------------------|
| <b>PERF</b>        |                              |                                    |  |                     |                       |   |   |                                     |                               |
| June 30, 2013*     | \$13,894                     | \$138                              | \$160                                      | \$13,872            | \$14,017              | (\$145)                                       | \$2,042                                   | \$1,897                             | 101%                          |
| June 30, 2012      | 15,885                       | (177)                              | (203)                                      | 15,911              | 11,345                | 4,567   | (2,525)                                   | 2,042                               | 71%                           |
| June 30, 2011      | 15,270                       | (564)                              | (649)                                      | 15,355              | 9,825                 | 5,530   | (8,054)                                   | (2,525)                             | 64%                           |
| <b>Police/Fire</b> |                              |                                    |  |                     |                       |   |   |                                     |                               |
| July 1, 2013*      | \$780                        | \$70                               | \$180                                      | \$1,030             | \$1,307               | (\$277)                                       | \$176                                     | (\$101)                             | 127%                          |
| July 1, 2012       | 767                          | 85                                 | 435  | 1,286               | 1,166                 | 120   | 56  | 176                                 | 91%                           |
| July 1, 2011       | 726                          | 79                                 | 377  | 1,182               | 976                   | 206   | (150)                                     | 56                                  | 83%                           |

\* Actuarial data for 2014 was not available at the time of this report.

† PERF information includes the pension but not the savings plan component.

‡ Police/Fire contributions include interest earnings.

**Cooperative Extension Service.** As of June 30, 2014 and 2013, there were 14 and 18 staff members, respectively, with federal appointments employed by the Indiana Cooperative Extension Service and covered by the Federal Civil Service Retirement System. The University contributed \$94,000 and \$115,000 during the years ended June 30, 2014 and 2013, respectively, to this plan.

## NOTE 10 — DISCRETELY PRESENTED COMPONENT UNITS

Summary financial information as of and for the years ended June 30, 2014 and 2013, for the University's discretely presented component units is presented in the tables that follow:

### Discretely Presented Component Unit Statement of Financial Position

Year Ended June 30, 2014 (Dollars in Thousands)

|   | Purdue Research<br>Foundation | Ross-Ade<br>Foundation | IPFW<br>Foundation | Component<br>Unit Total |
|---|-------------------------------|------------------------|--------------------|-------------------------|
| <b>Assets:</b>                                  |                               |                        |                    |                         |
| Cash and Cash Equivalents                       | \$4,593                       | \$2,144                | \$176              | \$6,913                 |
| Accounts Receivable, Net                        | 32,985                        | —                      | 30                 | 33,015                  |
| Other Assets                                    | —                             | 2                      | 3                  | 5                       |
| Investments                                     | 2,598,365                     | —                      | 10,379             | 2,608,744               |
| Pledges Receivable, Net                         | —                             | —                      | —                  | —                       |
| Lease Purchase Agreements                       | —                             | 121,910                | 281                | 122,191                 |
| Notes Receivable, Net                           | 11,244                        | 1,079                  | —                  | 12,323                  |
| Interest in Charitable Perpetual Trusts         | 16,016                        | —                      | —                  | 16,016                  |
| Capital Assets, Net of Accumulated Depreciation | 153,757                       | 4,770                  | 7,547              | 166,074                 |
| <b>Total Assets</b>                             | <b>\$2,816,960</b>            | <b>\$129,905</b>       | <b>\$18,416</b>    | <b>\$2,965,281</b>      |
| <b>Liabilities:</b>                             |                               |                        |                    |                         |
| Accounts Payable and Accrued Expenses           | \$25,708                      | \$1,134                | \$33               | \$26,875                |
| Due on Split-Interest Agreements                | 58,290                        | —                      | —                  | 58,290                  |
| Deposits Held in Custody for Others             | 1,668,966                     | —                      | —                  | 1,668,966               |
| Bonds (Net), Leases, and Notes Payable          | 86,752                        | 127,110                | —                  | 213,862                 |
| Other Liabilities                               | 21,112                        | —                      | —                  | 21,112                  |
| <b>Total Liabilities</b>                        | <b>\$1,860,828</b>            | <b>\$128,244</b>       | <b>\$33</b>        | <b>\$1,989,105</b>      |
| <b>Net Assets:</b>                              |                               |                        |                    |                         |
| Temporarily Restricted                          | \$703,155                     | \$1,661                | \$4,166            | \$708,982               |
| Permanently Restricted                          | 131,799                       | —                      | 7,297              | 139,096                 |
| Unrestricted                                    | 121,178                       | —                      | 6,920              | 128,098                 |
| <b>Total Net Assets</b>                         | <b>\$956,132</b>              | <b>\$1,661</b>         | <b>\$18,383</b>    | <b>\$976,176</b>        |

*Employers across the nation and around the world turn to Purdue graduates, many of whom are world changers.*



### Discretely Presented Component Unit Statement of Financial Position

Year Ended June 30, 2013 (Dollars in Thousands)

|   | Purdue Research<br>Foundation | Ross-Ade<br>Foundation | IPFW<br>Foundation | Component Unit<br>Total |
|---|-------------------------------|------------------------|--------------------|-------------------------|
| <b>Assets:</b>                                  |                               |                        |                    |                         |
| 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                 |
| <b>Total Assets</b>                             | <b>\$1,094,288</b>            | <b>\$129,935</b>       | <b>\$18,033</b>    | <b>\$1,242,256</b>      |
| <b>Liabilities:</b>                             |                               |                        |                    |                         |
| 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                  |
| <b>Total Liabilities</b>                        | <b>\$240,627</b>              | <b>\$128,324</b>       | <b>\$82</b>        | <b>\$369,033</b>        |
| <b>Net Assets:</b>                              |                               |                        |                    |                         |
| 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                 |
| <b>Total Net Assets</b>                         | <b>\$853,661</b>              | <b>\$1,611</b>         | <b>\$17,951</b>    | <b>\$873,223</b>        |

Research by civil engineers is improving structural standards that ensure safety during catastrophic events.



**Discretely Presented Component Unit Statement of Activities**

Year Ended June 30, 2014 (Dollars in Thousands)

|  | Purdue Research<br>Foundation | Ross-Ade<br>Foundation | IPFW<br>Foundation | Component Unit<br>Total |
|--|-------------------------------|------------------------|--------------------|-------------------------|
| <b>Revenue and Support</b>                                 |                               |                        |                    |                         |
| Amount Received for Purdue University Research Projects    | \$2,380                       | \$—                    | \$—                | \$2,380                 |
| Less Payments to Purdue University                         | (2,380)                       | —                      | —                  | (2,380)                 |
| <b>Administrative Fee on Research Projects</b>             | <b>\$—</b>                    | <b>\$—</b>             | <b>\$—</b>         | <b>\$—</b>              |
| Contributions  | \$14,651                      | \$1,728                | \$1,105            | \$17,484                |
| Income on Investments                                      | 15,492                        | 4,810                  | 435                | 20,737                  |
| Net Unrealized and Realized Gains                          | 131,415                       | —                      | 738                | 132,153                 |
| Change in Value of Split-Interest Agreements               | (9,044)                       | —                      | —                  | (9,044)                 |
| Increase in Interests in Perpetual Trusts                  | 1,424                         | —                      | —                  | 1,424                   |
| Rents  | 11,820                        | 8                      | 126                | 11,954                  |
| Royalties  | 6,963                         | —                      | —                  | 6,963                   |
| Other  | 17,259                        | —                      | 19                 | 17,278                  |
| <b>Total Revenue and Support</b>                           | <b>\$189,980</b>              | <b>\$6,546</b>         | <b>\$2,423</b>     | <b>\$198,949</b>        |
| <b>Expenses and Losses</b>                                 |                               |                        |                    |                         |
| Expenses for the Benefit of Purdue University              |                               |                        |                    |                         |
| Contributions to Purdue University                         | \$18,244                      | \$—                    | \$1,806            | \$20,050                |
| Patent and Royalty   | 6,281                         | —                      | —                  | 6,281                   |
| Grants   | 12,589                        | —                      | —                  | 12,589                  |
| Services for Purdue University                             | 340                           | —                      | —                  | 340                     |
| Development Office   | 750                           | —                      | —                  | 750                     |
| Other  | 2,206                         | —                      | 60                 | 2,266                   |
| <b>Total Expenses for the Benefit of Purdue University</b> | <b>\$40,410</b>               | <b>\$—</b>             | <b>\$1,866</b>     | <b>\$42,276</b>         |
| <b>Administrative and Other Expenses</b>                   |                               |                        |                    |                         |
| Salaries and Benefits                                      | \$18,062                      | \$—                    | \$—                | \$18,062                |
| Property Management  | 10,413                        | 2,004                  | 112                | 12,529                  |
| Professional Fees  | 3,874                         | —                      | —                  | 3,874                   |
| Supplies   | 718                           | —                      | —                  | 718                     |
| Interest   | 4,269                         | 4,474                  | 1                  | 8,744                   |
| Research Park  | 1,384                         | —                      | —                  | 1,384                   |
| Other  | 8,379                         | 18                     | 12                 | 8,409                   |
| <b>Total Administrative and Other Expenses</b>             | <b>\$47,099</b>               | <b>\$6,496</b>         | <b>\$125</b>       | <b>\$53,720</b>         |
| Change in Net Assets                                       | \$102,471                     | \$50                   | \$432              | \$102,953               |
| Net Assets, Beginning of Period                            | 853,661                       | 1,611                  | \$17,951           | 873,223                 |
| Change in Reporting Entity                                 | —                             | —                      | —                  | —                       |
| <b>Net Assets, End of Period</b>                           | <b>\$956,132</b>              | <b>\$1,661</b>         | <b>\$18,383</b>    | <b>\$976,176</b>        |



**Discretely Presented Component Unit Statement of Activities**

Year Ended June 30, 2013 (Dollars in Thousands)

|  | <b>Purdue Research<br/>Foundation</b> | <b>Ross-Ade<br/>Foundation</b> | <b>IPFW<br/>Foundation</b> | <b>Component Unit<br/>Total</b> |
|--|---------------------------------------|--------------------------------|----------------------------|---------------------------------|
| <b>Revenue and Support</b>                                 |                                       |                                |                            |                                 |
| Amount Received for Purdue University Research Projects    | \$250                                 | \$—                            | \$—                        | \$250                           |
| Less Payments to Purdue University                         | (250)                                 | —                              | —                          | (250)                           |
| <b>Administrative Fee on Research Projects</b>             | <b>\$—</b>                            | <b>\$—</b>                     | <b>\$—</b>                 | <b>\$—</b>                      |
| Contributions  | \$19,743                              | \$1,257                        | \$996                      | \$21,996                        |
| Income on Investments                                      | 13,907                                | 5,175                          | 459                        | 19,541                          |
| Net Unrealized and Realized Gains                          | 83,806                                | —                              | 370                        | 84,176                          |
| Change in Value of Split-Interest Agreements               | (6,044)                               | —                              | —                          | (6,044)                         |
| Increase in Interests in Perpetual Trusts                  | 791                                   | —                              | —                          | 791                             |
| Rents  | 14,067                                | 8                              | 151                        | 14,226                          |
| Royalties  | 6,313                                 | —                              | —                          | 6,313                           |
| Other  | 5,056                                 | —                              | 94                         | 5,150                           |
| <b>Total Revenue and Support</b>                           | <b>\$137,639</b>                      | <b>\$6,440</b>                 | <b>\$2,070</b>             | <b>\$146,149</b>                |
| <b>Expenses and Losses</b>                                 |                                       |                                |                            |                                 |
| <b>Expenses for the Benefit of Purdue University</b>       |                                       |                                |                            |                                 |
| 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                           |
| <b>Total Expenses for the Benefit of Purdue University</b> | <b>\$42,101</b>                       | <b>\$—</b>                     | <b>\$1,380</b>             | <b>\$43,481</b>                 |
| <b>Administrative and Other Expenses</b>                   |                                       |                                |                            |                                 |
| 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                           |
| <b>Total Administrative and Other Expenses</b>             | <b>\$34,805</b>                       | <b>\$23,772</b>                | <b>\$136</b>               | <b>\$58,713</b>                 |
| 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                           |
| <b>Net Assets, End of Period</b>                           | <b>\$853,661</b>                      | <b>\$1,611</b>                 | <b>\$17,951</b>            | <b>\$873,223</b>                |

In addition to items in Note 6, Debt Related to Capital Assets, PRF provided grants, contracts, and gifts to the University totaling approximately \$32,539,000 and \$34,263,000 as of June 30, 2014 and 2013, 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, 2014 and 2013, contractual obligations for capital construction projects were approximately \$42,386,000 and \$81,311,000, 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 or higher than the price at which the University is committed to buy. This would reduce or increase the value of the contract. The University could sell the forward contract at a loss or gain 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 if the counterparty fails to deliver the quantity at the guaranteed price at the specified time, thus resulting in the University having 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, 2014 and 2013, the University had the following unfunded commitments: approximately \$55,194,000 and \$69,303,000, respectively, to approximately 55 private equity/venture capital managers; approximately \$30,513,000 and \$21,918,000, respectively, to approximately 20 private real estate managers; approximately \$31,437,000 and \$48,899,000, respectively, to approximately 25 natural resource managers; and approximately \$77,000 and \$100,000, 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. Currently the University estimates its potential obligation for the next four fiscal years to be \$29,305,000 per year.

*Soon-to-be Purdue graduates gather for a Senior Week photo opportunity at the Gateway to the Future arch.*



## NOTE 12 — SUBSEQUENT EVENTS

Effective July 1, 2014, the Purdue Foundation was reorganized into Purdue International Inc. (PII). PII will continue to support Purdue with a particular focus on facilitating the University's international education, research, and exchange activities. PII is retaining its tax-exempt 501(c)(3) status with the Internal Revenue Service. PII transferred and assigned to Purdue Research Foundation all of the rights, title, and interest in and to the trade name "Purdue Foundation," including — without limitation — all trademarks, service marks, and trade names associated with Purdue Foundation and any contracts, trusts, and gift instruments in existence as of the effective date, July 1, 2014.

As discussed in Note 2, the University changed the management and ownership of its endowment investment pool from the University to Purdue Research Foundation effective January 1, 2014; however, the legal title transfer of the underlying investments is occurring in accordance with the investment vehicle contractual terms and will not be finalized until the fiscal year ended June 30, 2015. As of September 30, 2014, 94.48% of the EIP investment pool is held in PRF and not in the University's name.

## REQUIRED SUPPLEMENTAL INFORMATION

### Retirement Plans — Schedule of Funding Progress

Year Ended June 30, 2014 (Dollars in Thousands)

| Plan               | Actuarial Valuation Date* | 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) | Actual Contribution | Percentage of APC Contributed | Net Pension Obligation (Benefit) |
|--------------------|---------------------------|--------------------------------|-----------------------------|---|--------------|------------------------|----------------------|---------------------------|---------------------|-------------------------------|----------------------------------|
| <b>PERF†</b>       |                           |                                |                             |   |              |                        |                      |                           |                     |                               |                                  |
|                    | 2004                      | \$71,410                       | \$67,177                    | (\$4,233)                                   | 106.3%       | \$87,723               | -4.8%                | \$4,140                   | \$6,845             | 165.3%                        | (\$7,254)                        |
|                    | 2005                      | 81,955                         | 83,618                      | 1,663                                       | 98.0%        | 94,557                 | 1.8%                 | 3,863                     | 4,725               | 122.3%                        | (8,116)                          |
|                    | 2006                      | 177,925                        | 181,268                     | 3,343                                       | 98.2%        | 127,808                | 2.6%                 | 5,137                     | 5,806               | 113.0%                        | (8,785)                          |
|                    | 2007                      | 190,984                        | 187,822                     | (3,162)                                     | 101.7%       | 131,341                | -2.4%                | 7,829                     | 6,976               | 89.1%                         | (7,932)                          |
|                    | 2008                      | 204,286                        | 207,956                     | 3,670                                       | 98.2%        | 138,063                | 2.7%                 | 7,859                     | 8,361               | 106.4%                        | (8,434)                          |
|                    | 2009                      | 182,104                        | 209,699                     | 27,595                                      | 86.8%        | 146,097                | 18.9%                | 9,059                     | 8,978               | 99.1%                         | (8,353)                          |
|                    | 2010                      | 154,960                        | 230,080                     | 75,120                                      | 67.4%        | 149,890                | 50.1%                | 9,779                     | 9,480               | 96.9%                         | (8,054)                          |
|                    | 2011                      | 120,151                        | 212,795                     | 92,644                                      | 56.5%        | 137,714                | 67.3%                | 15,355                    | 9,826               | 64.0%                         | (2,525)                          |
|                    | 2012                      | 107,679                        | 227,419                     | 119,740                                     | 47.3%        | 145,682                | 82.2%                | 15,911                    | 11,345              | 71.3%                         | 2,042                            |
|                    | 2013                      | 98,131                         | 190,072                     | 91,941                                      | 51.6%        | 145,682                | 63.1%                | 13,872                    | 14,017              | 101.0%                        | 1,897                            |
| <b>Police/Fire</b> |                           |                                |                             |   |              |                        |                      |                           |                     |                               |                                  |
|                    | 7/1/04                    | \$15,007                       | \$17,618                    | \$ 2,611                                    | 85.2%        | \$4,538                | 57.5%                | \$917                     | \$818               | 103.4%                        | (\$226)                          |
|                    | 7/1/05                    | 16,209                         | 18,724                      | 2,515                                       | 86.6%        | 4,675                  | 53.8%                | 822                       | 825                 | 100.4%                        | (228)                            |
|                    | 7/1/06                    | 17,595                         | 19,074                      | 1,479                                       | 92.2%        | 4,595                  | 32.2%                | 623                       | 846                 | 135.8%                        | (452)                            |
|                    | 7/1/07                    | 19,679                         | 19,984                      | 305   | 98.5%        | 4,854                  | 6.3%                 | 528                       | 645                 | 122.2%                        | (569)                            |
|                    | 7/1/08                    | 20,014                         | 21,441                      | 1,427                                       | 93.3%        | 5,318                  | 26.8%                | 685                       | 573                 | 83.6%                         | (457)                            |
|                    | 7/1/09                    | 19,026                         | 22,190                      | 3,164                                       | 85.7%        | 5,537                  | 57.1%                | 899                       | 670                 | 74.5%                         | (228)                            |
|                    | 7/1/10                    | 20,163                         | 23,131                      | 2,968                                       | 87.2%        | 5,582                  | 53.2%                | 956                       | 878                 | 91.8%                         | (150)                            |
|                    | 7/1/11                    | 22,560                         | 26,385                      | 3,825                                       | 85.5%        | 5,677                  | 67.4%                | 1,182                     | 976                 | 82.6%                         | 56                               |
|                    | 7/1/12                    | 23,438                         | 27,329                      | 3,891                                       | 85.8%        | 5,648                  | 68.9%                | 1,286                     | 1,166               | 90.7%                         | 176                              |
|                    | 7/1/13                    | 25,809                         | 27,780                      | 1,971                                       | 92.9%        | 5,611                  | 35.1%                | 1,030                     | 1,307               | 126.9%                        | (101)                            |

\* Data for 2014 not available from actuaries at date of issuance.

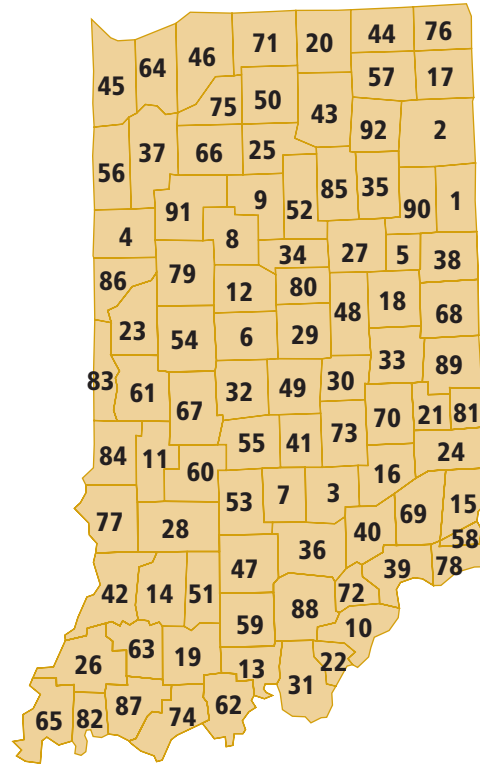
† University portion only.

See accompanying Notes to the Financial Statements.

## IN-STATE ENROLLMENT (UNAUDITED)

### Total In-State Enrollment by County, Fall 2013-14 Academic Year

The overall (in-state and out-of-state) enrollment at Purdue University was 68,789 students for the 2013-14 fall semester. The breakdown was West Lafayette, 38,788; Calumet, 9,422; Fort Wayne, 13,459; North Central, 6,102; Statewide Technology, 1,018. (Enrollment numbers do not include 5,552 Purdue University students at Indiana University-Purdue University Indianapolis.) Although students came to Purdue from all over the world, 66% system-wide came from within Indiana.



| County        | West Lafayette | Regional Campuses | Statewide Technology Locations | Total | County        | West Lafayette | Regional Campuses | Statewide Technology Locations | Total | County         | West Lafayette | Regional Campuses | Statewide Technology Locations | Total         |
|---------------|----------------|-------------------|--------------------------------|-------|---------------|----------------|-------------------|--------------------------------|-------|----------------|----------------|-------------------|--------------------------------|---------------|
| 1 Adams       | 79             | 572               |                                | 651   | 33 Henry      | 65             | 8                 | 13                             | 86    | 65 Posey       | 65             | 2                 | 1                              | 68            |
| 2 Allen       | 900            | 7,201             |                                | 8,101 | 34 Howard     | 281            | 27                | 70                             | 378   | 66 Pulaski     | 49             | 65                |                                | 114           |
| 3 Bartholomew | 188            | 48                | 74                             | 310   | 35 Huntington | 85             | 357               | 2                              | 444   | 67 Putnam      | 83             | 1                 | 1                              | 85            |
| 4 Benton      | 78             | 10                | 3                              | 91    | 36 Jackson    | 79             | 2                 | 15                             | 96    | 68 Randolph    | 28             | 14                | 4                              | 46            |
| 5 Blackford   | 16             | 37                |                                | 53    | 37 Jasper     | 109            | 347               | 1                              | 457   | 69 Ripley      | 73             | 5                 | 2                              | 80            |
| 6 Boone       | 439            | 12                | 3                              | 454   | 38 Jay        | 26             | 20                | 1                              | 47    | 70 Rush        | 37             | 5                 | 4                              | 46            |
| 7 Brown       | 13             | 3                 | 2                              | 18    | 39 Jefferson  | 49             | 5                 | 7                              | 61    | 71 St. Joseph  | 750            | 318               | 113                            | 1,181         |
| 8 Carroll     | 143            | 10                | 9                              | 162   | 40 Jennings   | 21             | 1                 | 11                             | 33    | 72 Scott       | 10             | 1                 | 7                              | 18            |
| 9 Cass        | 122            | 30                | 6                              | 158   | 41 Johnson    | 297            | 16                | 7                              | 320   | 73 Shelby      | 78             | 5                 | 1                              | 84            |
| 10 Clark      | 89             | 2                 | 60                             | 151   | 42 Knox       | 59             | 5                 | 6                              | 70    | 74 Spencer     | 51             | 1                 | 3                              | 55            |
| 11 Clay       | 39             | 3                 | 2                              | 44    | 43 Kosciusko  | 186            | 589               | 3                              | 778   | 75 Starke      | 44             | 176               |                                | 220           |
| 12 Clinton    | 157            | 9                 | 16                             | 182   | 44 Lagrange   | 54             | 291               |                                | 345   | 76 Steuben     | 66             | 277               |                                | 343           |
| 13 Crawford   | 9              |                   | 4                              | 13    | 45 Lake       | 1,300          | 7,101             | 3                              | 8,404 | 77 Sullivan    | 14             | 4                 | 1                              | 19            |
| 14 Daviess    | 24             | 5                 | 2                              | 31    | 46 LaPorte    | 206            | 1,907             | 1                              | 2,114 | 78 Switzerland | 8              |                   |                                | 8             |
| 15 Dearborn   | 112            | 2                 | 1                              | 115   | 47 Lawrence   | 65             | 6                 | 1                              | 72    | 79 Tippecanoe  | 3,158          | 80                | 86                             | 3,324         |
| 16 Decatur    | 70             | 3                 | 14                             | 87    | 48 Madison    | 185            | 61                | 48                             | 294   | 80 Tipton      | 57             | 4                 | 10                             | 71            |
| 17 DeKalb     | 83             | 602               | 1                              | 686   | 49 Marion     | 1,524          | 109               | 23                             | 1,656 | 81 Union       | 10             |                   |                                | 10            |
| 18 Delaware   | 101            | 43                | 14                             | 158   | 50 Marshall   | 142            | 133               | 12                             | 287   | 82 Vanderburgh | 222            | 9                 | 2                              | 233           |
| 19 Dubois     | 140            | 8                 | 7                              | 155   | 51 Martin     | 11             | 5                 | 3                              | 19    | 83 Vermillion  | 18             |                   |                                | 18            |
| 20 Elkhart    | 328            | 243               | 31                             | 602   | 52 Miami      | 71             | 26                | 14                             | 111   | 84 Vigo        | 92             | 11                |                                | 103           |
| 21 Fayette    | 21             |                   | 10                             | 31    | 53 Monroe     | 137            | 27                | 2                              | 166   | 85 Wabash      | 74             | 219               | 1                              | 294           |
| 22 Floyd      | 113            | 5                 | 53                             | 171   | 54 Montgomery | 151            | 2                 | 2                              | 155   | 86 Warren      | 67             | 1                 | 3                              | 71            |
| 23 Fountain   | 72             | 1                 | 4                              | 77    | 55 Morgan     | 124            | 13                | 1                              | 138   | 87 Warrick     | 125            | 5                 | 1                              | 131           |
| 24 Franklin   | 71             | 5                 | 5                              | 81    | 56 Newton     | 51             | 83                |                                | 134   | 88 Washington  | 34             | 1                 | 22                             | 57            |
| 25 Fulton     | 66             | 80                | 2                              | 148   | 57 Noble      | 83             | 600               |                                | 683   | 89 Wayne       | 87             | 10                | 31                             | 128           |
| 26 Gibson     | 46             | 3                 | 2                              | 51    | 58 Ohio       | 4              |                   |                                | 4     | 90 Wells       | 76             | 433               |                                | 509           |
| 27 Grant      | 93             | 85                | 4                              | 182   | 59 Orange     | 26             | 2                 | 3                              | 31    | 91 White       | 143            | 35                | 7                              | 185           |
| 28 Greene     | 34             | 2                 |                                | 36    | 60 Owen       | 16             | 5                 | 1                              | 22    | 92 Whitley     | 82             | 555               |                                | 637           |
| 29 Hamilton   | 1,815          | 49                | 12                             | 1,876 | 61 Parke      | 33             |                   |                                | 33    | Unknown        | 1,112          |                   | 11                             | 1,123         |
| 30 Hancock    | 242            | 14                | 9                              | 265   | 62 Perry      | 20             |                   | 1                              | 21    | <b>Total</b>   | <b>19,001</b>  | <b>25,777</b>     | <b>960</b>                     | <b>45,738</b> |
| 31 Harrison   | 50             |                   | 30                             | 80    | 63 Pike       | 14             | 3                 | 3                              | 20    |                |                |                   |                                |               |
| 32 Hendricks  | 557            | 25                | 14                             | 596   | 64 Porter     | 504            | 2,677             | 1                              | 3,182 |                |                |                   |                                |               |



## ACKNOWLEDGEMENTS

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