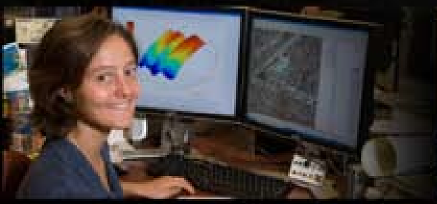
PURDUE
UNIVERSITY

FINANCIAL REPORT 2006–2007



LETTER OF TRANSMITTAL

To the Board of Trustees of Purdue University:

We are pleased to submit this, the 85th annual financial report of Purdue University. This report is for the fiscal year that ended June 30, 2007, and sets forth the complete and permanent record of the financial status of the University for the year.

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

Respectfully submitted,

FRANCE A. CÓRDOVA
President

Respectfully submitted,

MORGAN R. OLSEN
Executive Vice President and Treasurer

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

REPORT OF THE TREASURER

This report presents Purdue University's financial position and the results of operations for the fiscal year ending June 30, 2007. We provide this financial report as part of the University's commitment to report annually on its fiscal affairs. These financial statements have been audited by the Indiana State Board of Accounts, and the board's report appears on page 5.

Purdue University, founded in 1869 and named after benefactor John Purdue, began its journey with six faculty, 39 students, and a mission to provide agriculture and mechanical arts education as one of the nation's land-grant institutions. Today, Purdue is a world-class research university, offering instruction in a wide range of disciplines and granting undergraduate and graduate degrees through four campuses. More than 69,000 students are enrolled at Purdue's campuses, and these individuals come from all 92 counties in Indiana, all 50 states, and 130 countries.

In 2007, Purdue completed a six-year strategic plan focused on achieving preeminence as a public research university. Included in this plan were strategies to provide the infrastructure and financing to realize the vision for preeminence. The University completed major construction projects in excess of $69 million during fiscal year 2007, including the Richard and Patricia Lawson Computer Science Building, the Dennis and Mary Lou Schwartz Tennis Center, and the Gerald D. and Edna Mann Hall for Discovery Park's complex of research centers. Other capital projects updated residence hall facilities on the West Lafayette campus and the facilities infrastructure on the Fort Wayne campus. Additional investments estimated at over $438 million were under way or in design as of June 30, 2007, including the $53.2 million Neil Armstrong Hall of Engineering, our flagship engineering facility that opened in the fall of 2007.

Recognizing that campuses of tomorrow must have a greater focus on sustainability, diversity, vitality, and aesthetic appeal, Purdue began a new multicampus master planning project in fall 2006. This planning effort is well under way at the West Lafayette and Calumet campuses, and will begin this fall at Purdue North Central and Indiana University-Purdue University Fort Wayne. New campus master plans should be completed for all campuses in summer 2008. Existing facilities and infrastructure continue to be updated, as the second year of the repair and rehabilitation (R&R) funding plan was completed in 2007. Furthermore, a modified R&R assessment system has allowed us to pinpoint funding to targeted facilities aligned with strategic priorities. Energy management and efficiency have continued as a focus area through the staffing of an energy management office and staff training in design standards.

The University's core enterprise information systems for finance and human capital management were replaced between February and June 2007 as the multiyear, system-wide OnePurdue initiative achieved critical milestones. Implementation of student systems is scheduled for 2008.

Purdue manages and invests a consolidated asset pool comprised of the Purdue University and Purdue Research Foundation endowment funds, in order to capture economy of scale and to provide access to a variety of sophisticated investment options. The Purdue Endowment diversified during fiscal year 2007 by decreasing allocations to U.S. equities and fixed income securities and increasing allocations to emerging market equities, natural resources, and non-marketable alternative investments. The market value of the combined endowment grew $293 million during fiscal year 2007 to $1.787 billion.

France A. Córdova became the 11th president of Purdue University on July 16, 2007. President Córdova has already appointed eight groups to begin work on the University's next strategic plan. These groups will report to a steering committee, cochaired by the interim provost and the chair of the University Senate. Under new leadership and with a new strategic plan, Purdue will continue its journey of advancement among the best universities in the world.

MORGAN R. OLSEN
Executive Vice President and Treasurer

BOARD OF TRUSTEES

As of June 30, 2007

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 20-12-37. 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.

OFFICERS OF THE UNIVERSITY

As of June 30, 2007

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JOHN D. HARDIN JR., *Vice Chairman*
MORGAN R. OLSEN, *Treasurer*
JAMES S. ALMOND, *Assistant Treasurer and Assistant Secretary*
ROSEANNA M. BEHRINGER, *Secretary*
ANTHONY S. BENTON, *Legal Counsel*

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SALLY MASON, *Provost*
MORGAN R. OLSEN, *Executive Vice President and Treasurer*
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JOHN A. SAUTTER, *Vice President for Housing and Food Services*
SCOTT W. SEIDLE, *Senior Director of Investments*
TERRY D. STRUEH, *Vice President for Governmental Relations*
GLENN F. TOMPKINS, *Senior Associate Athletic Director — Business*

Regional Campus Staff

HOWARD S. COHEN, *Chancellor, Purdue University Calumet*
JAMES B. DWORKIN, *Chancellor, Purdue University North Central*
MICHAEL A. WARTELL, *Chancellor, Indiana University-Purdue University Fort Wayne*
G. WILLIAM BACK, *Vice Chancellor for Administration, Purdue University North Central*
WALTER J. BRANSON, *Vice Chancellor for Financial Affairs,*
Indiana University-Purdue University Fort Wayne
JAMES K. JOHNSTON, *Vice Chancellor for Administrative Services, Purdue University Calumet*

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Purdue University, a component unit of the State of Indiana, as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. We also did not audit the trust which maintains the University's portion of trust agreements as discussed in Note 1. The University's interest in the charitable remainder trusts represents approximately 1% of the assets of the University. The financial statements of these units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based upon the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Purdue University, as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2007, on our consideration of Purdue University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

State Board of Accounts

December 3, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ending June 30, 2007

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of Purdue University for the fiscal year ending June 30, 2007, the financial activities for the 2006–2007 fiscal year, and a brief description of the financial statements produced herein. This discussion should be read in conjunction with the financial statements and the notes to the statements, which immediately follow this section.

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.

FINANCIAL HIGHLIGHTS

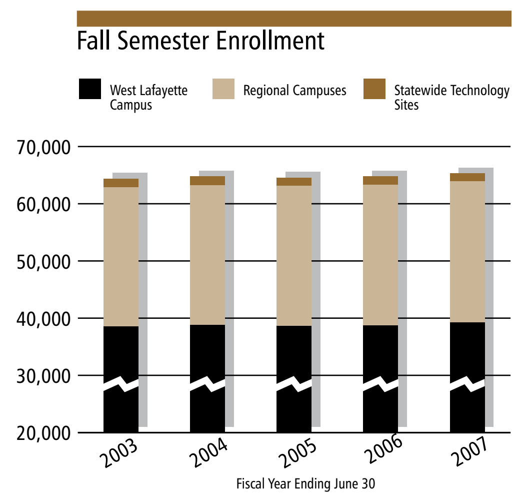
Operating revenues were $1.04 billion, compared to $972.7 million in the prior year — an increase of 6.8%. This increase is due primarily to increases in net student fee revenue ($42.4 million) and grants and contracts ($14.6 million).

Tuition and fee revenue, net of scholarship allowances, increased from $449.7 million in the 2005–2006 fiscal year to $492.1 million in the 2006–2007 fiscal year — an increase of 9.4%. New tuition levels for incoming freshmen were introduced in fall 2002 to support the University's strategic plan. The new fee structure is being phased in over a five-year period. Enrollment at all campuses for 2006–2007 increased by 548 students — the largest increase since fall 2003. Enrollment at the West Lafayette campus increased by 516 students, with nonresident enrollment up 227 students and in-state enrollment up 289 students. Enrollment patterns for the past five years are illustrated in Figure 1.

Total operating expenses increased 5.0%, from $1.38 billion for the 2005–2006 fiscal year to $1.45 billion for the 2006-2007 fiscal year. This change was driven by a 5.8% increase in compensation and benefits — the single largest component of operating expenses — which increased by $54.6 million from $939.8 million to $994.4 million.

Nonoperating revenues increased $155.7 million, from $560.2 million in the 2005–2006 fiscal year to $715.9 million in the 2006–2007 fiscal year. Investment income increased $113.4 million, from $102.1 million in the 2005–2006 fiscal year to $215.5 million in the 2006–2007 fiscal year. Investment income includes dividends and interest, realized gains and losses, and net unrealized gains. The University

Figure 1. Five-Year Enrollment Data*



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

reports its investments at fair value as of the date of the financial statements. The change in the market value of investments between June 30, 2006, and June 30, 2007, is included in investment income.

Capital and endowment activity increased $18.0 million, or 28.2%, from the 2005–2006 fiscal year, driven by increased endowment gift activity, which included $12.5 million in School of Pharmacy endowments from the Lilly Endowment and $10.6 million in increased bequest activity.

The 2006–2007 change in net assets of $302.0 million represents an increase of $153.1 million, or 103%, from the prior-year increase of $148.9 million.

PURDUE UNIVERSITY FINANCIAL STATEMENTS

Use of the Financial Statements

The primary purpose of financial reporting, whether for a commercial enterprise or for a university, is to provide information that will assist (1) management in the effective allocation and use of the organization's resources and (2) the general public, investors, creditors, and others in evaluating the effectiveness of management in achieving organizational objectives. The nature of the organization, its resources, and its objectives all serve to influence the form and process by which the accounting is accomplished and the information reported.

The main goal of a college or university is to provide services that fulfill societal needs without regard for financial gain. Resources are consumed to attain service objectives rather than to make a profit. The accounting and reporting process must, therefore, address itself to accounting for resources received, used, and held rather than for the determination of net income.

The Statement of Net Assets provides a summary view of the assets, liabilities, and net assets of the University. The Statement of Revenues, Expenses, and Changes in Net Assets, on the other hand, summarizes the yearlong financial activities that caused the changes in year-end net assets on the Statement of Net Assets. Likewise, the Statement of Cash Flows reconciles the beginning and ending balances of cash and cash equivalents and articulates sources and uses of cash. The Statement of Net Assets classifies assets and liabilities as either current or noncurrent. Current assets are available to meet the needs of the University in the short term. Similarly, current liabilities are due and payable within the next fiscal year.

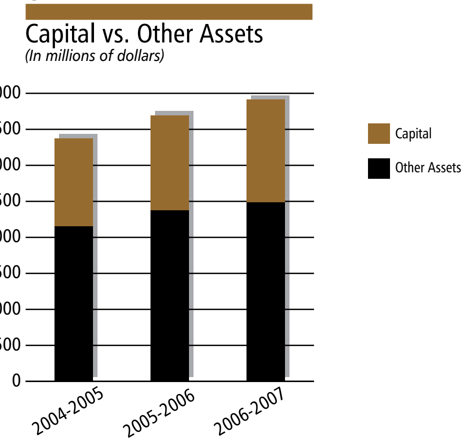
Statement of Net Assets

Current assets include those that may be used to support current operations, such as cash and cash equivalents, accounts and pledges receivable, and inventories. Noncurrent assets include capital assets, certain pledges receivable, and investments. Total assets were $3.9 billion as of June 30, 2007, compared to $3.6 billion on June 30, 2006 — an increase of $315.1 million or 8.8%. Current assets as of June 30, 2007, increased $65.1 million, while noncurrent assets increased $250 million or 8.4%.

Figure 2 depicts the portion of total assets that were capital.

Current liabilities are expected to become due and payable over the course of the following fiscal year. These include accounts

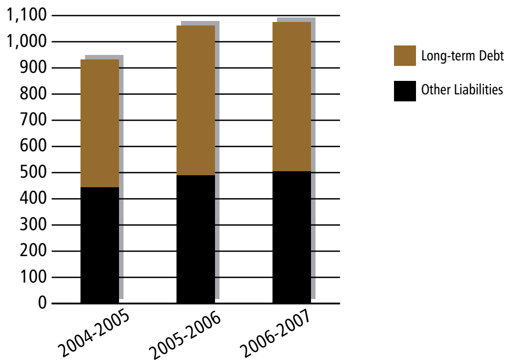
Figure 2



payable, the current portion of long-term debt, liability for securities lending activity, and salaries and wages payable. Noncurrent liabilities include bonds, notes, and leases payable. Total liabilities were $1.075 billion on June 30, 2007, and $1.062 billion on June 30, 2006. Figure 3 depicts the portion of long-term debt (noncurrent) relative to total liabilities.

Figure 3

Long-term Debt vs. Other Liabilities
(In millions of dollars)

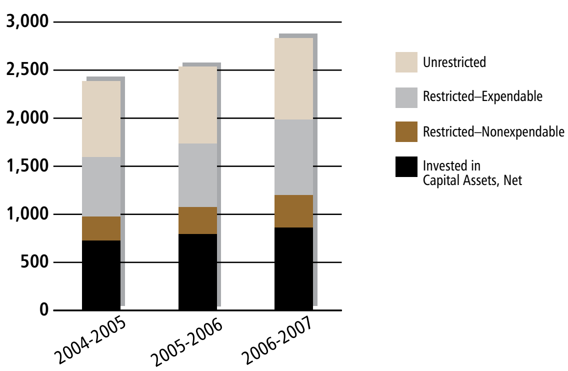


A discussion of the University's capital financing activities appears in the Debt and Financing Activities section on page 10.

Net assets are classified into four categories: invested in capital assets, net of related debt; restricted–nonexpendable; restricted–expendable; and unrestricted. "Invested in capital assets, net of related debt" represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and related debt and subject to the University's policies on capitalization. "Restricted–nonexpendable" represents the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds must be held inviolate and in perpetuity and are, therefore, not expendable. Earnings on these funds support various programs determined by donors. "Restricted–expendable" represents net assets that have purpose restrictions imposed by third parties. Examples include scholarship funds and contract and grant funds. Unrestricted net assets do not have third-party restrictions, although management has designated these funds for a particular purpose. It is management's practice to designate unrestricted net assets for specific purposes at the close of each fiscal year. Total net assets for the University were $2.8 billion as of June 30, 2007. Figure 4 provides a comparison between fiscal years as well as the composition of net assets.

Figure 4

Composition of Net Assets
(In millions of dollars)



Neil Armstrong Hall of Engineering

A summarized comparison of the University's assets, liabilities, and net assets appears in Table 1.

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

	2004–2005	2005–2006	2006–2007
Current Assets	$ 608,709	$ 616,334	$ 681,386
Capital Assets	1,222,108	1,324,298	1,423,291
Other Assets	1,486,647	1,654,189	1,805,246
Total Assets	$3,317,464	$3,594,821	$3,909,923
Current Liabilities	$ 392,627	$ 444,845	$ 459,488
Noncurrent Liabilities	541,188	617,427	615,843
Total Liabilities	$ 933,815	$1,062,272	$1,075,331
Invested in Capital Assets, Net of Related Debt	$ 727,659	$ 791,088	$ 863,282
Restricted–Nonexpendable	248,548	282,897	335,904
Restricted–Expendable	615,405	662,549	785,084
Unrestricted	792,037	796,015	850,322
Total Net Assets	**$2,383,649**	**$2,532,549**	**$2,834,592**

Capital and Noncapital Projects

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, faculty, and staff. Significant projects completed during the 2006–2007 fiscal year are listed in Table 2.

Table 2. Major Projects Completed during the 2006–2007 Fiscal Year (More than $2 million)

	Project Total (Dollars in Thousands)
Cary Quadrangle, Phases V and VI	$19,700
Computer Science Building, Phase I (Lawson Hall)	20,000
Dennis J. and Mary Lou Schwartz Tennis Center	7,200
Earhart Residence Hall — Installation of Sprinklers and Student Room Air Conditioning	7,950
Fort Wayne Chiller Replacement	2,000
Gerald D. and Edna E. Mann Hall	12,400
Total Major Projects Completed	**$69,250**

Lawson Hall of Computer Science

Table 3. Major Construction Projects in Progress (More than $2 million)

	Project Budget (Dollars in Thousands)
Armstrong Hall of Engineering	$ 53,187
Beck Agricultural Center	5,200
Forney Hall Renovation, Phase II	2,350
Fort Wayne Student Housing, Phase II	10,500
Fort Wayne Music Building	28,000
High Voltage Improvement, Phase II	25,100
McCutcheon Drive Parking Garage Addition	16,712
McCutcheon Hall — Fire Protection and Air Conditioning	8,900
PMU Union Market Renovation	7,000
Printing Services Facility	3,700
Replacement Student Apartments	52,000
Residence Halls Food Service Consolidation, Phase IV	19,800
Wade Utility MACT Compliance	9,000
Windsor Residence Halls Renovation	53,000
Total Major Projects in Progress	**$294,449**

In addition, the University's Board of Trustees has authorized the following major projects that had not been started as of June 30, 2007:

Table 4. Major Projects Authorized, but Not Started

	Project Budget (Dollars in Thousands)
Calumet — Student Housing, Phase II	$ 21,100
Child Care Center	3,000
Discovery Learning Center	25,000
Discovery Park Site Development, Phase VI	2,400
Fort Wayne Music Building, Philharmonic Addition	4,500
Lilly Hall West Wing Renovations	28,550
Purdue Village Community Center	3,820
Stewart Center Fourth Floor Renovation for Library Archives and Special Collections	3,600
Storm Sewer Modifications	9,500
Wayne T. and Mary T. Hockmeyer Hall of Structural Biology	30,000
Wetherill Laboratory of Chemistry — Electrical Upgrade	2,000
Young Hall — Exterior Re-cladding	6,000
Young Hall — Floors 9 and 10 Renovation	4,455
Total Major Projects Authorized	**$143,925**

Debt and Financing Activities

During the fiscal year, the University issued two series of bonds: Student Facilities Revenue Bonds Series 2007A for $61.9 million and Series 2007B for $27.1 million. Series 2007A was issued to partially refinance $48.35 million of Series 2003A and $17.95 million of Series 2003B. As a result of the refunding, the University will reduce its aggregate debt service payments by $6.4 million, resulting in an economic gain of $3.8 million. Student Facilities Revenue Bonds Series 2007B was issued to finance costs for the construction of the new Wiley Dining Court at the West Lafayette campus and Student Housing Phase II at the Fort Wayne campus.

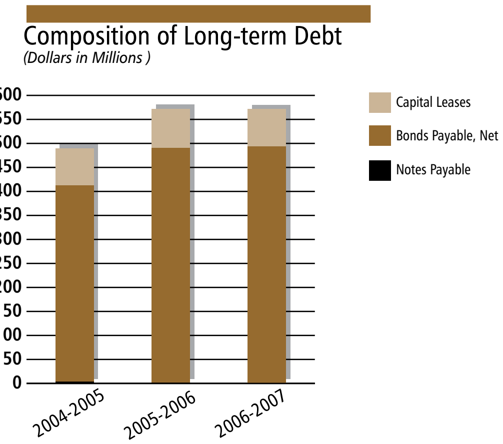
The Ross-Ade Foundation issued Certificates of Participation (COPS), Series 2006 for $70.345 million. Series 2006 was used to refund $10.955 million of COPS Series 1996 and $60 million of COPS Series 2001A. The refunding will reduce the University's aggregate lease payments to Ross-Ade Foundation by $5.0 million, resulting in an economic gain of $3.5 million.

On October 3, 2007, subsequent to the 2006–2007 fiscal year, Purdue University issued Student Facilities System Revenue Bonds, Series 2007C, in the amount of $61.725 million. This series was issued to fund construction of a new residence hall of 365 beds and the first of a five-phase renovation of the Windsor Halls complex at the West Lafayette campus. The bonds were issued in variable rate mode.

The University continues to maintain its excellent credit ratings by Moody's Investors Service (Aa1) and by Standard & Poor's (AA). Purdue is one of only eight public higher education institutions whose Moody's credit rating is Aa1 or better (Aaa). In addition, the University's variable rate debt received short-term ratings by Moody's of VMIG-1 and by Standard & Poor's of A-1+.

Figure 5 compares the composition of long-term debt by fiscal year.

Figure 5

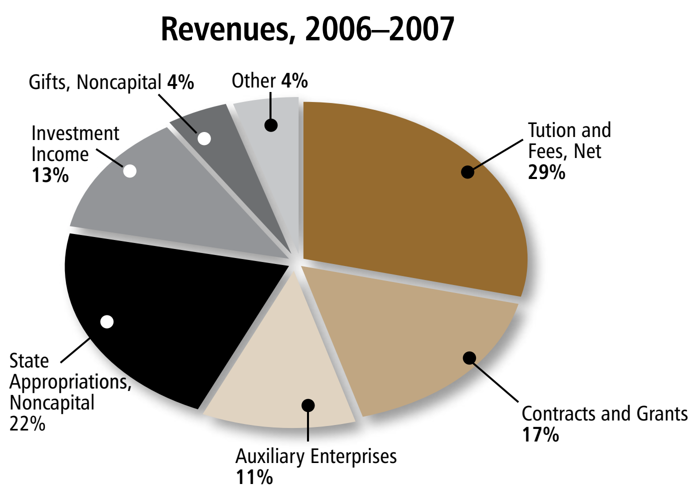


Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding how the results of operations, non-operating revenues, and capital funding over the course of the fiscal year affect the net assets of the University.

Revenues are classified as either operating or nonoperating. Operating revenues include tuition and fees, grants and contracts, auxiliary enterprises, and sales and services. Tuition and fees and housing are shown net of an allowance for scholarships. If scholarships awarded to students exceed the amount owed for tuition and housing, the amounts paid to students are shown as expenses. Nonoperating revenues include state appropriations, investment income, and private gifts. Because Purdue is a public university, nonoperating revenues are an integral part of its operating budget. Private gifts for capital projects and additions to the University's permanent endowment are also considered nonoperating sources of revenue but are not part of the University's operating budget. Figure 6 provides information about the University's sources of revenues, excluding endowments and capital, for the 2006–2007 fiscal year.

Figure 6



A summarized comparison of the University's revenues, expenses, and changes in net assets follows in Table 5.

Table 5. Summary Statement of Revenues, Expenses, and Changes in Net Assets

Expressed in Thousands	2004–2005	2005–2006	2006–2007
Operating Revenues			
Tuition and Fees, Net	$ 417,937	$ 449,691	$ 492,122
Grants and Contracts	262,869	270,785	285,398
Auxiliary Enterprises, Net	196,743	182,364	189,432
Other Operating Revenues	68,535	69,818	71,745
Total Operating Revenues	$ 946,084	$ 972,658	$1,038,697
Operating Expenses			
Depreciation	83,627	90,325	97,708
Operating Expenses	1,255,058	1,293,609	1,354,851
Total Operating Expenses	$1,338,685	$1,383,934	$1,452,559
Operating Loss	$ (392,601)	$ (411,276)	$ (413,862)
Nonoperating Revenue	533,300	496,415	634,182
Capital and Endowments	62,089	63,761	81,723
Total Nonoperating Revenues	$ 595,389	$ 560,176	$ 715,905
Cumulative Effect of Change in Accounting Policy	(57,713)		
Increase in Net Assets	$ 145,075	$ 148,900	$ 302,043
Net Assets, Beginning of Year	2,238,574	2,383,649	2,532,549
Net Assets, End of Year	$ 2,383,649	$ 2,532,549	$ 2,834,592

Statement of Cash Flows

The Statement of Cash Flows presents sources and uses of cash and cash equivalents throughout the fiscal year. These activities are presented in four categories: operating, noncapital financing, investing, and capital and related financing. Net increases or decreases in cash and cash equivalents provide a reconciliation to beginning and ending balances as presented in the Statement of Net Assets. This statement also indicates the extent to which operating activities provided or used cash. Table 6 provides a summarized comparison of the University's sources, uses, and changes in cash and cash equivalents.

Table 6. Summarized Comparison of Changes in Cash and Cash Equivalents (Expressed in Thousands)

	2004–2005	2005–2006	2006–2007
Cash Used by Operating Activities	$ (306,042)	$ (317,519)	$ (340,215)
Cash Provided by Noncapital Financing Activities	471,119	441,094	500,705
Cash Provided (Used) by Investing Activities	(80,954)	37,159	10,731
Cash Used by Capital and Related Financing Activities	(173,458)	(137,467)	(122,703)
Net Increase (Decrease) in Cash and Cash Equivalents	$ (89,335)	$ 23,267	$ 48,518
Cash and Cash Equivalents, Beginning of Year	474,718	385,383	408,650
Cash and Cash Equivalents, End of Year	**$ 385,383**	**$ 408,650**	**$ 457,168**

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

For the 2007–2008 fiscal year, the University received increases in operating appropriations from the state of Indiana for each campus — West Lafayette (3.6%), Calumet (2.0%), North Central (5.3%), and Fort Wayne (3.0%). Tuition rate increases were set for two fiscal years (2007–2008 and 2008–2009), with four to five percent increases each year. The strategic plan fee increase that was implemented in 2002–2003 will be fully implemented in 2007–2008, and the fee will have generated approximately $35.4 million for plan priorities. With this combination of limited increases in operating appropriations and tuition and fees, the University has continued its emphasis on internal reallocations to high-priority initiatives.

The University expects to receive $19.8 million in Repair and Rehabilitation (R&R) funding from the state for the 2007–2009 biennium, which is 50 percent of the requested formula funding amount. The state has also agreed to pay in full the $17.2 million of its June 2005 Purdue University operating accounts payable over the next two years. The University must allocate these dollars for deferred maintenance, not general fund expenses as originally appropriated.

Purdue's new president, France A. Córdova, began her tenure in July 2007. President Córdova plans to embark on a new strategic plan that in part will focus on attracting the best and brightest students to the University.

Enrollment* at all Purdue campuses increased to 65,987 for the fall semester of the 2007–2008 academic year — up from 65,317 the previous year. This includes a decrease of 126 students on the West Lafayette campus for a new total of 39,102. Undergraduate enrollment continues to be carefully managed in West Lafayette, while other Purdue campuses have the ability to serve additional full-time and part-time students.

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

Particular attention should be given to the Notes to the Financial Statements (see p. 21) that are an integral part of the financial statements.

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

STATEMENT OF NET ASSETS

	As of June 30	
	2007	2006
	(Dollars in Thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$457,168	$408,650
Accounts Receivable, Net of Allowance for Uncollectible Amounts	55,116	39,962
Marketable Securities	98,595	49,548
Pledges Receivable, Net of Allowance for Uncollectible Amounts	19,047	26,093
Notes Receivable, Net of Allowance for Uncollectible Amounts	9,295	11,219
Bond Proceeds Receivable		42,382
Accrued Revenues	16,264	15,125
Appropriation Receivable from the State	8,598	10,795
Other Assets	17,303	12,560
Total Current Assets	**$681,386**	**$616,334**
Noncurrent Assets:		
Notes Receivable, Net of Allowance for Uncollectible Amounts	42,350	34,962
Pledges Receivable, Net of Allowance for Uncollectible Amounts	26,668	25,573
Marketable Securities and Other Investments	1,710,480	1,558,567
Interest in Charitable Remainder Trusts	17,149	17,890
Appropriation Receivable from the State	8,599	17,197
Capital Assets, Net of Accumulated Depreciation	1,423,291	1,324,298
Total Noncurrent Assets	**3,228,537**	**2,978,487**
Total Assets	**$3,909,923**	**$3,594,821**
LIABILITIES:		
Current Liabilities:		
Accounts Payable	52,072	39,001
Accrued Salary and Wages	10,351	14,097
Accrued Compensated Absences (Current Portion)	24,207	21,555
Deferred Revenue (Current Portion)	47,246	49,683
Deposits Held in Custody for Others	21,657	18,361
Accrued Expenses	25,263	22,781
Securities Lending Liability	247,464	250,494
Bonds (Net), Leases and Notes Payable (Current Portion)	31,228	28,873
Total Current Liabilities	**$459,488**	**$444,845**

(continued on page 15)

STATEMENT OF NET ASSETS *(CONTINUED)*

	As of June 30	
	2007	2006
	(Dollars in Thousands)	
Noncurrent Liabilities:		
Accrued Compensated Absences (Less Current Portion)	16,263	16,875
Deferred Revenue (Less Current Portion)		838
Funds Held in Trust for Others	8,042	7,026
Bonds (Net), Leases and Notes Payable (Less Current Portion)	571,364	572,232
Advances from Federal Government	20,174	20,456
Total Noncurrent Liabilities	**615,843**	**617,427**
Total Liabilities	**$1,075,331**	**$1,062,272**
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	**863,282**	**791,088**
Restricted		
Nonexpendable		
Instruction and Research	179,317	146,824
Student Aid	129,179	111,307
Other	27,408	24,766
Total Nonexpendable	**$335,904**	**$282,897**
Expendable		
Instruction, Research, and Public Service*	99,710	110,099
Student Aid	55,823	55,638
Auxiliary Enterprises	4,572	3,980
Construction	52,875	84,040
Other (Note 1)*	572,104	408,792
Total Expendable	**$785,084**	**$662,549**
Unrestricted	**850,322**	**796,015**
Total Net Assets	**$2,834,592**	**$2,532,549**

See Accompanying "Notes to the Financial Statements."

** Reclassified. See Note 1.*

COMPONENT UNIT

Statement of Financial Position

	Purdue Research Foundation Statement Reported as of June 30, 2007 (Dollars in Thousands)
Assets	
Cash and Cash Equivalents	$24,083
Accounts and Other Receivables	3,921
Pledges Receivable	1,797
Investments in Securities	810,076
Mortgages and Contracts	42
Notes Receivable	785
Investment in AmeriPlex PRF, LLC	7,695
Real Estate	123,914
Less Allowances	(13,564)
Net Real Estate	$110,350
Other Assets and Equipment	$9,641
Less Allowances	(3,982)
Net Other Assets and Equipment	$5,659
Interest in Charitable Remainder Trusts	$30,050
Interest in Charitable Perpetual Trust	20,208
Total Assets	**$1,014,666**
Liabilities and Net Assets	
Liabilities	
Accounts Payable	$3,095
Net Funds Held as Custodian	54,118
Bonds Payable	17,245
Mortgages and Notes Payable	18,225
Gift Annuity Payable	2,278
Total Liabilities	**$94,961**
Net Assets	
Unrestricted	116,010
Board Designated	9,000
Temporarily Restricted	510,543
Permanently Restricted	117,248
Unrealized Gains	166,904
Total Net Assets	**$919,705**
Total Liabilities and Net Assets	**$1,014,666**

See Note 1.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Year Ending June 30	
	2007	2006
	(Dollars in Thousands)	
Operating Revenues		
Tuition and Fees	$559,414	$510,215
Less: Scholarship Allowance	(67,292)	(60,524)
Net Tuition and Fees (Pledged for Repayment of Student Fee Bonds)	$492,122	$449,691
Federal Appropriations	16,660	14,874
County Appropriations	7,460	7,379
Grants and Contracts	285,398	270,785
Sales and Services*	45,443	45,371
Auxiliary Enterprises		
(Net of Scholarship Allowance of $7,299 and $6,587 Respectively)*	189,432	182,364
Other Operating Revenues	2,182	2,194
Total Operating Revenues	**$1,038,697**	**$972,658**
Operating Expenses		
Compensation and Benefits*	994,371	939,814
Supplies and Services*	327,213	323,774
Depreciation Expense	97,708	90,325
Scholarships, Fellowships, and Student Awards	33,267	30,021
Total Operating Expenses	**$1,452,559**	**$1,383,934**
Net Operating Loss	(413,862)	(411,276)
Nonoperating Revenues (Expenses)		
State Appropriations	365,354	358,282
Private Gifts	75,557	55,020
Investment Income	215,563	102,139
Interest Expense	(26,120)	(23,303)
Other Nonoperating Revenues, Net	3,828	4,277
Total Nonoperating Revenues before Capital and Endowments	**$634,182**	**$496,415**
Capital and Endowments		
State Capital Appropriations	10,706	8,306
Capital Gifts	21,746	25,435
Private Gifts for Permanent Endowments and Charitable Remainder Trusts	51,939	31,099
Plant Assets Retired	(2,668)	(1,079)
Total Capital and Endowments	**$81,723**	**$63,761**
Total Nonoperating Revenues	**715,905**	**560,176**
INCREASE IN NET ASSETS	**302,043**	**148,900**
Net Assets, Beginning of Year	2,532,549	2,383,649
Net Assets, End of Year	$2,834,592	$2,532,549

See Accompanying "Notes to the Financial Statements."

** Reclassified. See Note 1.*

COMPONENT UNIT

Statements of Activities

	Purdue Research Foundation For the Year Ending June 30, 2007 (Dollars in Thousands)
Revenue and Support	
Amount Received for Purdue University Research Projects	$10,207
Less Payments to Purdue University	(10,207)
Administrative Fee on Research Projects	
Contributions	21,778
Income on Investments	15,736
Net Unrealized and Realized Gains	114,046
Change in Gift Annuities	59
Revenue from Pledges	299
Increase in Interests in Charitable Trusts	4,356
Rents	6,116
Royalties	4,982
Other	2,149
Net Assets Released from Restrictions	
Total Revenue and Support	**$169,521**
Expenses and Losses	
Expenses for the Benefit of Purdue University	
Contributions to Purdue University	$16,321
Patent and Royalty	5,037
Grants	9,883
Services for Purdue University	2,002
Development Office	768
Other	2,712
Total Expenses for the Benefit of Purdue University	**$36,723**
Administrative and Other Expenses	
Salaries and Benefits	8,032
Property Management	5,679
Professional Fees	3,894
Supplies	309
Interest	1,430
Research Park	908
Other	2,511
Total Administrative and Other Expenses	**$22,763**
Change in Net Assets	$110,035
Net Assets, Beginning of Year	809,670
Net Assets, End of Year	**$919,705**

See Note 1.

STATEMENT OF CASH FLOWS

	For the Year Ending June 30	
	2007	2006
	(Dollars in Thousands)	
Cash Flows by Operating Activities		
Tuition and Fees, Net of Scholarship Allowances	$499,815	$450,577
Federal Appropriations	16,660	14,874
County Appropriations	7,460	7,379
Grants and Contracts	270,685	266,349
Sales and Services*	37,202	45,007
Auxiliary Enterprises, Net of Scholarship Allowances*	191,296	183,884
Other Operating Revenues	(2,714)	2,029
Compensation and Benefits*	(994,213)	(935,878)
Supplies and Services*	(326,559)	(321,210)
Scholarships, Fellowships, and Student Awards	(33,267)	(30,021)
Student Loans Issued	(14,814)	(10,671)
Student Loans Collected	8,234	10,162
Cash Used by Operating Activities	**$(340,215)**	**$(317,519)**
Cash Flows by Noncapital Financing Activities		
State Appropriations	376,149	358,282
Gifts for Other than Capital Purposes	120,218	83,355
Funds Held in Trust for Others and Deferred Gifts	2,765	(4,711)
Other Nonoperating Revenues, Net	1,573	4,168
Cash Provided by Noncapital Financing Activities	**$500,705**	**$441,094**
Cash Flows by Investing Activities		
Purchases of Investments	(5,433,840)	(7,958,989)
Proceeds from Sales and Maturities of Investments	5,381,499	7,943,078
Interest and Dividends on Investments, Net	63,072	53,070
Cash Provided by Investing Activities	**$10,731**	**$37,159**
Cash Flows by Capital and Related Financing Activities		
Debt Repayment	(167,287)	(64,211)
Capital Debt Proceeds	214,165	98,474
Interest Expense	(25,434)	(23,625)
Capital Gifts Received	28,717	22,943
State Appropriations for Capital Projects	10,706	8,306
Construction or Purchase of Capital Assets	(183,570)	(179,354)
Cash Used by Capital and Related Financing Activities	**$(122,703)**	**$(137,467)**
Net Increase (Decrease) in Cash and Cash Equivalents	**48,518**	**23,267**
Cash and Cash Equivalents, Beginning of Year	408,650	385,383
Cash and Cash Equivalents, End of Year	**$457,168**	**$408,650**

(continued on page 20)

STATEMENT OF CASH FLOWS

Reconciliation of Cash Used for Operating Activities (Indirect Method)

	For the Year Ending June 30	
	2007	2006
	(Dollars in Thousands)	
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	$(413,862)	$(411,276)
Depreciation Expense	97,708	90,325
Gifts in Kind	166	(767)
Changes in Assets and Liabilities:		
Accounts Receivable	(15,005)	(6,657)
Notes Receivable	(6,563)	(551)
Accrued Revenues	(622)	75
Other Assets	(4,743)	(588)
Accrued Compensated Absences	2,038	(270)
Accounts Payable	5,300	3,937
Deferred Revenue	(2,959)	7,370
Deposits Held in Custody for Others	561	(3,081)
Accrued Expenses	1,796	530
Accrued Salary and Wages	(3,747)	3,699
Advances from Federal Government	(283)	(265)
Cash Provided (Used) from Operating Activities	**$(340,215)**	**$(317,519)**

See Accompanying "Notes to the Financial Statements."
** Reclassified. See Note 1.*

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ending June 30, 2007

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

BASIS OF PRESENTATION:

The financial statements of Purdue University have been prepared in accordance with the principles contained in Governmental Accounting Standards Board (GASB) Statement No. 35, "Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities," within the financial reporting guidelines of GASB Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments" and with other accounting principles generally accepted in the United States of America, as prescribed by the GASB.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General Information. Purdue University was established in 1869 under Indiana Code section IC 20-12-35-1. It is the land-grant university for the state of Indiana. The responsibility for making rules and regulations to govern the University is vested in a 10-member Board of Trustees. The selection of these trustees is prescribed in Indiana Code IC 20-12-37. 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 Purdue University. All trustees serve for a period of three years, except for the student member, who serves for two years.

The Internal Revenue Service has ruled that the units of Purdue University are exempt under Code sections 115(a) and 501(c)(3), and they are not "private foundations" under The Tax Reform Act of 1969.

Reporting Entity. The University is a special-purpose government that has elected to report as a business-type activity (BTA) using proprietary fund accounting and financial reporting. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. The University is also a component unit of the state of Indiana and is one of seven public universities in the state. The University receives funding from the state for operations, repair and maintenance, and debt service. Its nonexempt employees participate in the state's public employees retirement program. (See Note 12.)

The financial reporting entity, as defined by GASB Statement No. 14, "The Financial Reporting Entity," consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete.

The University adopted GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which 1) provides criteria for determining whether certain university-related organizations should be reported as component units based on the nature and significance of their relationship with a primary government and 2) clarifies reporting requirements for these organizations. Based on these criteria, the financial statements define the University as the primary government, and one entity — the Purdue Research Foundation — as a discretely presented component unit. Two other entities, The Purdue Foundation and Ross-Ade Foundation, continue to be blended within the University's statements and are not separately presented, in accordance with GASB Statement No. 14.

Discrete Component Unit

Purdue Research Foundation. Purdue Research Foundation (PRF) was created in 1930. The primary purpose of PRF is to promote the educational purpose of Purdue University; award scholarships, grants, or other financial assistance to students and faculty; seek, acquire, and hold gifts and endowments for the needs of the University; and acquire property or facilities for the future use or benefit of the University. PRF is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. PRF provided grants, contracts, and gifts to Purdue University totaling approximately $16.3 million during its most recent fiscal year. PRF's fiscal year begins July 1 and ends June 30. PRF's audited financial statements, as presented in Purdue University's financial report, were rounded to the nearest thousand dollars. Complete financial statements for the foundation can be obtained by writing to: Purdue Research Foundation, 3000 Kent Avenue, West Lafayette, IN 47906.

PRF is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, "Financial Reporting of Not-for-Profit Organizations." As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundations' financial information in the University's financial report for these differences.

Blended Component Units

The Purdue Foundation, Inc. The Purdue Foundation, Inc., was created in 1979. It is a separately incorporated, not-for-profit entity. The primary purpose of the foundation is the solicitation, receipt, and acceptance of gifts, donations, and bequests of funds and other property for the benefit of Purdue University. The foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Purdue University is the sole beneficiary of The Purdue Foundation.

Ross-Ade Foundation. The Ross-Ade Foundation was created in 1923. It is a separately incorporated, not-for-profit entity organized as an affiliated organization. Ross-Ade Foundation constructs athletic and parking facilities on behalf of the University. These assets are leased by the University and are reported as capital leases (see Note 8).

Other

IPFW Foundation. The University is also the co-beneficiary with Indiana University of the Indiana-Purdue Foundation at Indiana University-Purdue University Fort Wayne.

Accounting Methods and Policies

The University prepares its financial statements on an accrual basis using the economic resources measurement focus.

Financial Accounting Standards Board (FASB). Certain pre-1989 FASB statements apply to public colleges and universities. GASB Statement No. 35 also permits business-type activities to adopt post-1989 FASB statements unless they conflict with GASB pronouncements. The University has elected not to adopt post-November 30, 1989, FASB statements.

Accounts Receivable. Accounts receivable are shown net of an allowance for doubtful accounts. The amount of the allowance was $2,434,229 for the 2006–2007 fiscal year and $1,733,308 for the 2005–2006 fiscal year.

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. The amount of the allowance was $1,884,219 for the 2006–2007 fiscal year and $2,029,171 for the 2005–2006 fiscal year.

Notes Receivable. Notes receivable primarily represent student loan repayments due the University and are presented net of allowance for doubtful accounts of $34,011 for the 2006–2007 fiscal year and $63,382 for the 2005–2006 fiscal year.

Inventories. Inventories are composed of (1) consumable supplies and items held for resale or recharge within the University, (2) fuel for consumption, and (3) livestock and grain. The inventory of coal and limestone is valued on the Last In/First Out (LIFO) basis. Oil inventory is valued using the weighted-average method. Consumable supplies and items for resale are priced on a moving-average basis. Cattle and grain inventories are valued at market. Other miscellaneous inventories are generally valued on the First In/First Out (FIFO) basis. Agricultural commodities are reported using the consumption method and are measured by physical count. Consumable supplies and items held for resale are reported using the purchase method and are measured using the perpetual inventory method for the 2005–2006 fiscal year and the moving average cost method for the 2006–2007 fiscal year.

Investments. Investments, exclusive of institutional physical properties, are generally reported at fair value as of June 30, 2007. Fair value is generally based on quoted market price. Investments, exclusive of endowment funds, may be classified as cash equivalents, current or noncurrent, depending on the individual investments' maturity date at June 30. Endowment funds are primarily included in noncurrent investments, with the exception of amounts designated for distribution.

Prepaid Expenses. Prepaid expenses include amounts paid for services attributable to the fiscal year beginning July 1, 2007. These services include insurance, equipment leases, services of consultants, subscriptions, and certain subcontracts. These amounts are identified at the end of the fiscal year and accrued for financial reporting purposes.

Capital Assets. Capital assets are stated at cost or fair market value at date of gift, less accumulated depreciation 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.

The University does not capitalize works of 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. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Property Class	Threshold	Useful Life
Moveable Equipment (including fabricated equipment)	$2,500	More than one year
Software	$100,000	5 years
Administrative Systems	$500,000	7–10 years
Buildings and Related Components	$100,000	10 to 50 years
Land Improvements	$100,000	Varies
Infrastructure	$100,000	Varies

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

- Invested in capital assets, net of related debt: Resources resulting from capital acquisition or construction, net of accumulated depreciation and net of related debt (see Note 8).
- Restricted–nonexpendable: Net assets subject to externally imposed stipulations that the funds be maintained inviolate and in perpetuity. Such assets include the University's permanent and term endowment funds (see Note 10) and are categorized as instruction, research, student aid, and other.
- Restricted–expendable: Net assets that may be spent provided certain third-party restrictions are met. The following categories of restricted–expendable net assets are presented: instruction, research, and public service; student aid; auxiliary enterprises; construction; and other. Approximately 87% or $499.4 million of the "other" category results from undistributed gain on endowment funds and the fair value of funds functioning as endowments where the donor has restricted the use of the funds for a particular purpose. Neither component is available for general institutional use.
- Unrestricted: Net assets not subject to externally imposed stipulations pertaining to their use. Management may designate that these funds will be spent for certain projects or programs or to fulfill certain long-term goals. Management has designated substantially all unrestricted net assets for academic and capital purposes.

Operating Revenues and Expenses. Business-type activities receive financing in whole or in part by charging fees for goods and services to external users. These exchange transactions are considered part of operations. The University's operating revenues 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. Revenues are accrued when earned and measurable. Most expenses of the University — other than interest — are considered operating expenses. Operating expenses include compensation and benefits, travel, and supplies. Graduate, staff, staff dependent, and staff spouse fee remissions are included with compensation and benefits. Expenses are accrued when incurred and measurable. Expenses are reported using natural classifications in the Statement of Revenues, Expenses, and Changes in Net Assets. Functional reporting appears in Note 14. Indirect expenses, such as depreciation, are not allocated across functional categories.

Nonoperating Revenues and Expenses. Nonoperating revenues include state appropriations, private gifts, and investment income. Nonoperating expenses primarily include interest on short-term and long-term borrowings.

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

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.

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

Grants and Contracts. The University has been awarded grants and contracts for which the monies have not been received or expended. These awards have not been reflected in the financial statements but represent commitments of sponsors, both government and other, to provide funds for specific research and training projects. Grants and contracts, including grants for student aid, are included in operating revenues when earned and once eligibility requirements have been met.

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

Gifts. The University receives pledges of financial support from many different sources. Gift income is recognized when received or pledged. In-kind gifts of tangible or intangible property are recognized at fair value on the date of gift and are capitalized, if appropriate, subject to the University's policies on capitalization. For the 2006–2007 fiscal year, revenue from gifts-in-kind of $8,193,809 was recognized. Comparative data for 2005–2006 reflect $5,376,808 in gifts-in-kind revenue.

Student Aid. Monies are received that are restricted by donors for aid to students and are reported in the financial statements as private gifts. When aid is awarded to students, it is either reflected as a scholarship allowance or expense. Monies received from donors who have specified the recipient are reported as deposits.

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

The University records its interest in PRF Trusts' charitable remainder trusts based on the estimated present value of future cash flows. Future cash flows are estimated using an assumed investment rate of return on the underlying investments that will satisfy the trust requirements and an applicable discount rate at the time of contribution. The University's discrete component unit reflects their respective PRF Trust interest on the Statement of Financial Position. The fair value of funds held by PRF Trusts for Purdue University was $28,412,921 for 2006–2007 and $29,189,351 for 2005–2006. 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.

Reclassifications. Purdue University implemented a new financial system in February 2007. As a result, the University changed its accounting methodology in order to eliminate intra-university transactions. The effect was to reclassify for fiscal year 2005–2006 certain eliminations, which resulted in Compensation and Benefits expenses increasing by $12.6 million, Sales and Services revenue decreasing by $1.7 million, Auxiliary Enterprise revenue decreasing by $12.7 million, and Supplies and Services expenses decreasing by $27.0 million.

The University also reclassified $49.5 million in fiscal year 2005–2006 from the restricted–expendable–other category to the restricted–expendable–instruction, research, and public service category. This change was made to better reflect resources available for the University's primary missions.

NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, revolving and change funds, cash in transit, credit card deposits in transit, securities lending cash collateral, and certain investments with maturities 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. (See Note 3.) Investments, exclusive of endowment funds, that are included in cash equivalents represent short-term, highly liquid investments that are both a) readily convertible to known amounts of cash and b) so near their maturity date that they present insignificant risk of changes in value because of changes in interest rates. Cash purchases and sales of those types of investments are part of the University's cash management activities rather than part of its operating, capital, investing, and financing activities; details of these transactions are not reported in the Statement of Cash Flows.

NOTE 3 — DEPOSITS AND INVESTMENTS

Deposits. At June 30, 2007, the bank balance of the University's deposits (demand deposit accounts) was $4,078,630.65, of which $142,538.60 was covered by federal depository insurance. The remaining balance was insured by the state of Indiana's Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investments. Authorization for investment activity is stated in Indiana Code IC 20-12-1-2. Additionally, the Bylaws of the Trustees of Purdue University revised and amended on November 10, 2006, authorize the treasurer of the Board of Trustees to implement investment activity. The investment policy, as approved by the Board of Trustees, outlines parameters for investment activity for the University. As of June 30, 2007, and June 30, 2006, the University had the following investments:

Investment Type	Market Value (June 30, 2007)	Market Value (June 30, 2006)
US Agencies	$98,795,317	$100,863,959
Asset Backed Securities	58,209,125	75,721,107
Corporate Bonds	208,656,187	224,389,923
US Equity	405,653,884	373,240,833
International Equity	207,756,926	157,675,955
International Fixed Income	9,337,954	4,370,912
Marketable Alternatives	144,264,839	104,368,293
Mortgage Backed Securities	207,999,163	166,731,051
Private Equity	47,897,002	46,222,367
Real Estate	6,241,040	7,953,107
US Treasuries and Securities	290,381,642	271,088,646
Securities Lending Cash Collateral	247,463,926	250,494,121
Mutual Funds and Cash	333,585,923	233,644,499
Total	**$2,266,242,928**	**$2,016,764,773**

Investment Policies, Interest Rate, and Credit Risks. The University's cash management investment policy outlines the parameters for cash management investment activity for the University. The Board of Trustees approved this policy on February 8, 2002. Authorized investments (exclusive of endowment funds) include obligations of the United States government, its agencies, and its instrumentalities. Also included are commercial paper (rated A1/P1 or better); federally insured bank obligations (rated A or better); tri-party repurchase agreements; asset-backed securities (rated at least AAA or equivalent); corporate notes, bonds, or securities (rated investment grade) with demonstrated liquidity or marketability; pooled funds including mutual funds and common trust funds; and high-yield bonds (minimum credit quality of BB-/BB3). 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. The portfolio will be positioned to maintain sufficient liquidity to meet the operating needs of the University. Funds not required to meet cash needs will be invested over a longer-term horizon.

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's investment policy for endowments outlines the parameters for endowment investments for the University. The Board of Trustees approved this policy on April 7, 2006. For the University's endowment pool, as a partial hedge against prolonged economic contraction, a commitment to intermediate and long-term bonds should be maintained. The Investment Committee has adopted a target allocation of fifteen percent (15%) for the Fixed Income fund. Portfolios will be invested in securities that result in a weighted average credit quality rating of at least "AA" or better.

The estimated fair value of investments is based on quoted market prices 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.

The University had the following fixed income investments and maturities on June 30, 2007, and June 30, 2006 (in thousands):

June 30, 2007			(Maturity)		
Sector:	**0 to 1 year**	**1 to 5 years**	**6 to 10 years**	**>10 years**	**Totals**
US Agencies	$67,420	$26,621	$ 2,866	$1,888	$ 98,795
Asset Backed Securities		34,866	4,525	18,818	58,209
Corporate Bonds	27,426	100,783	51,174	29,273	208,656
International Fixed Income			9,338		9,338
Mortgage Backed Securities	2,764	20,176	48,337	136,722	207,999
US Treasuries and Securities	29,848	218,587	28,229	13,718	290,382
Securities Lending Cash Collateral	247,464				247,464
Mutual Funds and Cash	111,823	97,511	121,223	3,029	333,586
Total	**$ 486,745**	**$498,544**	**$265,692**	**$203,448**	**$1,454,429**

June 30, 2006			(Maturity)		
Sector:	**0 to 1 year**	**1 to 5 years**	**6 to 10 years**	**>10 years**	**Totals**
US Agencies	$35,159	$62,475	$3,225	$5	$100,864
Asset Backed Securities		30,854	9,040	35,827	75,721
Corporate Bonds	25,289	114,377	64,854	19,870	224,390
International Fixed Income	3,093		1,278		4,371
Mortgage Backed Securities	18	13,657	51,697	101,359	166,731
US Treasuries and Securities	9,283	234,018	18,621	9,167	271,089
Securities Lending Cash Collateral	250,494				250,494
Mutual Funds and Cash	84,610	85,770	61,260	2,004	233,644
Total	**$407,946**	**$541,151**	**$209,975**	**$168,232**	**$1,327,304**

The distribution of investment securities by credit ratings for June 30, 2007, and June 30, 2006, is summarized below (dollars in thousands). The Federal National Mortgage Association and Federal Home Loan Mortgage Company debt instruments represent $178.3 million (7.9%) and $96.3 million (4.2%) respectively as of June 30, 2007. This compares to $139.3 million (6.9%) and $91.1 million (4.5%) respectively as of June 30, 2006.

	June 30,2007			June 30,2006	
AAA	$708,273	31.3%	AAA	$637,951	31.6%
AA	60,499	2.7%	AA	56,082	2.8%
A	40,312	1.8%	A	53,396	2.6%
BAA	60,022	2.6%	BAA	68,682	3.4%
BA	16,944	0.7%	BA	21,711	1.1%
B	4,769	0.2%	B	3,176	0.2%
CAA	782	0.0%	CAA	341	0.0%
Unrated	1,374,642	60.7%	Unrated	1,175,426	58.3%
Total	**$2,266,243**	**100.0%**		**$2,016,765**	**100.0%**

Investment Custodial Credit Risk. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk. At June 30, 2007, with the exception of $198.4 million in private placements and investments in limited partnerships ($158.5 million as of June 30, 2006), all investments were held in University accounts at the University's custodial banks.

Foreign Currency Risk. Endowment equity managers may invest in common stocks, preferred stocks or fixed income instruments convertible into common stocks, and American Depository Receipts of foreign corporations. The University's endowment fixed income managers may invest in foreign fixed income securities equivalent in quality to permitted domestic securities, but not to exceed 20% of the assets entrusted to the manager. All currency exposures are to be hedged into the U.S. dollar unless otherwise approved by the Investment Committee. Please refer to the Investment Type table on page 26 for the University's exposure to international investments. In addition to those investments, the University estimates $38.9 million of international exposure in its alternative investments ($29.8 million as of June 30, 2006).

NOTE 4 — SECURITIES LENDING

The treasurer of the University, in accordance with policies established by the Board of Trustees, has entered into an agreement with a trust company to participate in a securities-lending program. The market value of the cash collateral is recorded as an asset in the Statement of Net Assets along with a corresponding liability. At June 30, 2007, the University had securities with market value of $323,084,111 involved in loans (compared to $260,672,478 as of June 30, 2006). These loans were supported by collateral of $327,834,982 ($265,296,834). Of this collateral amount, $247,463,925 ($250,494,121) was cash and is included in cash and cash equivalents in the Statement of Net Assets, and $80,371,056 ($14,802,713) was acceptable non-cash collateral. The University does not have the ability to pledge or sell the non-cash collateral received except in the case of borrower default. Non-cash collateral is not included in the University's Statement of Net Assets. Securities lending of domestic securities is cash collateralized on the contract date at 102%, and foreign securities are cash collateralized at 105%. Credit risk is calculated as the aggregate of the lender's exposures to individual borrowers or on individual loans. At June 30, 2007, the University had no aggregate credit risk.

The University and the borrowers of its securities maintain the right to terminate all securities-lending transactions on demand. The cash collateral received on each loan is invested, together with the cash collateral of other lenders, in a co-mingled investment pool owned by the custodian. The maximum weighted maturity of the fund is 90 days. Since the loans may be called on demand, their duration does not generally match the duration of the investment made with the cash collateral. If the University had to terminate a term loan, the lending agent has the ability to substitute the same security from a different client while returning the University's security. For the year ending June 30, 2007, income from participation in this securities-lending program was $15,673,107 (compared to $11,480,005 on June 30, 2006), and the expense was $15,332,643 ($11,016,507). Net income to the University from this program was $340,464 ($463,498). Under the securities-lending agreement, the custodian remits to the University earnings less rebate fees and expenses on a monthly basis.

NOTE 5 — DISAGGREGATION OF RECEIVABLES AND ACCOUNTS PAYABLES

Accounts receivable as of June 30, 2007, consisted of the following:

Grants and Contracts	$39,490,482
Student and General	18,059,369
Less: Allowance for Doubtful Accounts	(2,434,229)
Total Accounts Receivable, Net	**$55,115,622**

Notes receivable as of June 30, 2007, consisted primarily of student loans as follows:

Perkins Loans	$26,580,025
Student Loans, Other Notes	25,099,035
Less: Allowance for Doubtful Loans	(34,011)
Total Notes Receivable	$51,645,049
Less: Noncurrent Portion	(42,350,402)
Current Portion	**$9,294,647**

Accounts payable as of June 30, 2007, consisted of the following:

Construction Payables	$21,868,165
Accounts Payables, Other	30,203,889
Total Accounts Payable	**$52,072,054**

NOTE 6 — COMPENSATED ABSENCES

University faculty, administrative, and professional (exempt) employees earn vacation and sick leave on a monthly basis. Clerical and service employees earn vacation and sick leave on a biweekly basis.

Exempt employees may accrue vacation benefits up to a maximum of 44 days. Clerical and service staff may earn vacation of up to 320 hours. For all classes of employees, vacation is payable upon termination.

Exempt staff sick leave is awarded to a maximum of three months at full pay and three months at three-quarter pay each year (and not carried forward to the next year), and any unused sick leave is not payable upon termination. Clerical and service staff may accumulate sick leave hours with no limit. Upon termination and if the employee qualifies as an official retiree, 25% of all accrued, unused sick leave up to and including 520 hours and 100% of all accrued, unused sick leave exceeding 520 hours are paid.

The compensated absences liability is calculated based on the pay rates in effect as of the balance sheet date. For clerical and service staff, the liability is calculated using actual hours of qualified staff sick leave and vacation hours earned as of the balance sheet date. For exempt staff, samples are used to apply an estimate of the vacation liability accrual for all exempt staff as of the balance sheet date.

NOTE 7 — CAPITAL ASSETS

Capital asset activity for the years ending June 30, 2007, and June 30, 2006, is summarized below.

Capital Assets Activity (Dollars in Thousands).

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital Assets, Not Being Depreciated:				
Land	$22,345	$376		$22,721
Construction in Progress	135,884	91,989	$58,967	168,906
Total, Capital Assets, Not Being Depreciated	$158,229	$92,365	$58,967	$191,627
Capital Assets, Being Depreciated:				
Land Improvements	55,837	3,218		59,055
Infrastructure	48,388	6,299		54,687
Buildings	1,591,343	83,150	101	1,674,392
Equipment	434,172	46,530	19,923	460,779
Operating Software	3,970	223		4,193
Administrative Software	12,514	26,717	937	38,294
Total, Capital Assets, Being Depreciated	$2,146,224	$166,137	$20,961	$2,291,400
Less Accumulated Depreciation:				
Land Improvements	38,802	2,401		41,203
Infrastructure	11,799	3,337		15,136
Buildings	646,674	54,588	101	701,161
Equipment	273,935	34,496	17,089	291,342
Software (Operating and Administrative)	8,945	2,886	937	10,894
Total Accumulated Depreciation	$980,155	$97,708	$18,127	$1,059,736
Total Capital Assets, Net of Accumulated Depreciation	**$1,324,298**	**$160,794**	**$61,801**	**$1,423,291**

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Not Being Depreciated:				
Land	$21,492	$853		$22,345
Construction in Progress	165,940	100,723	130,779	135,884
Total, Capital Assets, Not Being Depreciated	$187,432	$101,576	$130,779	$158,229
Capital Assets, Being Depreciated:				
Land Improvements	51,130	4,707		55,837
Infrastructure	45,206	3,182		48,388
Buildings	1,417,994	173,349		1,591,343
Equipment	412,593	42,481	20,902	434,172
Operating Software	3,167	1,054	251	3,970
Administrative Software	12,514			12,514
Total, Capital Assets, Being Depreciated	$1,942,604	$224,773	$21,153	$2,146,224
Less Accumulated Depreciation:				
Land Improvements	36,530	2,272		38,802
Infrastructure	8,953	2,846		11,799
Buildings	595,555	51,119		646,674
Equipment	260,185	31,773	18,023	273,935
Software (Operating and Administrative)	6,705	2,315	75	8,945
Total Accumulated Depreciation	$907,928	$90,325	$18,098	$980,155
Total Capital Assets, Net of Accumulated Depreciation	**$1,222,108**	**$236,024**	**$133,834**	**$1,324,298**

NOTE 8 — DEBT RELATED TO CAPITAL ASSETS

Short-term Debt. The University did not have any short-term debt (such as bond anticipation notes or commercial paper) outstanding at June 30, 2007.

Notes Payable. Notes outstanding of $2,261,035 at June 30, 2007, represent financing for various activities.

On March 1, 1998, an Energy Savings Loan Agreement was negotiated with Bank One, now JP Morgan Chase. This agreement authorized a maximum line of credit of $10,000,000 to pay the costs of qualified energy savings projects through December 31, 2001. Projects included both capital and non-capital improvements to the physical plant. Individual notes may have either a fixed or floating interest rate with maturities not extending beyond 2011. The outstanding balance of these notes as of June 30, 2007, was $2,228,185. The interest rate for the notes ranged from 4.06% to 5.04% as of June 30, 2007. The floating rate notes can be reset at the University's option every one, two, three, or six months and is based on LIBOR at the reset dates.

On December 16, 2003, a non-interest bearing note for forestry woodlands was issued for $164,250. The outstanding balance at June 30, 2007, was $32,850.

Bonds Payable. Bonds payable as of June 30, 2007, total $506,365,000, consisting of the following issues:

Issue	Issue Date	Interest Rates	Maturity Dates	Outstanding June 30, 2007
Student Facilities System Revenue Bonds:				
Series 2003A	2003	4.0%–5.38%	2004–2014	$35,835,000
Series 2003B	2003	2.0%–4.25%	2005–2018	6,105,000
Series 2004A	2004	Variable	2008–2033	28,100,000
Series 2005A	2005	Variable	2005–2029	22,940,000
Series 2007A	2007	5.0–5.25%	2014–2029	61,865,000
Series 2007B	2007	4.0–5.0%	2008–2032	27,065,000
Student Fee Bonds:				
Series E	1990	3.0–3.9%	2004–2007	2,000,000
Series H	1993	2.78–5.25%	1998–2015	9,500,000
Series K	1995	2.2–5.63%	1997–2020	15,200,000
Series L	1995	3.0–5.63%	1997–2020	13,300,000
Series N	1998	3.55–5.5%	1998–2014	27,815,000
Series O	1998	2.68–5.63%	2000–2019	25,805,000
Series P	1998	4.0–5.25%	1999–2017	41,940,000
Series Q	2000	2.63–6.0%	2002–2010	7,815,000
Series R	2002	3.0–5.38%	2002–2023	15,840,000
Series S	2004	Variable	2007–2026	13,625,000
Series T	2004	Variable	2008–2027	14,500,000
Series U	2005	3.5–5.25%	2006–2022	35,100,000
Series V	2005	Variable	2008–2027	60,415,000
Series W	2006	4.63–4.98%	2007–2026	41,600,000
Total				**$506,365,000**

The Student Fee Bonds are secured by a pledge of mandatory student fees, and the Student Facilities System Revenue Bonds are secured by a pledge of any other available income, except student fees and state appropriations. Student fees (net of scholarship allowance) were $492,122,200 for the 2006–2007 fiscal year. Variable interest rates are updated weekly and are based upon market conditions.

On January 5, 2007, Student Facilities System Revenue Bonds, Series 2007A, were issued in the amount of $61,865,000. This series was issued to refund $48,345,000 of Student Facilities System Revenue Bonds, Series 2003A, and $17,950,000 of Student Facilities System Revenue Bonds, Series 2003B. As a result of the refunding, the University will reduce its aggregate debt service payments over the next 22 years by approximately $6,375,449. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $3,762,929.

On March 29, 2007, Student Facilities System Revenue Bonds, Series 2007B, were issued in the amount of $27,065,000. This series was issued to finance the costs for the construction of the new Wiley Dining Court on the West Lafayette campus and the Student Housing Phase II project on the Fort Wayne campus.

Scheduled bond maturities and interest expense for the fiscal years ending June 30, are as follows:

Fiscal Year	Principal	Interest	Total
2008	$23,960,000	$22,415,410	$46,375,410
2009	23,785,000	21,307,666	45,092,666
2010	24,460,000	20,147,858	44,607,858
2011	25,535,000	18,918,042	44,453,042
2012	27,075,000	17,607,842	44,682,842
2013–2017	136,925,000	67,486,282	204,411,282
2018–2022	105,840,000	40,416,604	146,256,604
2023–2027	89,285,000	18,789,264	108,074,264
2028–2032	40,590,000	4,164,948	44,754,948
2033–2034	8,910,000	151,700	9,061,700
	$506,365,000	$231,405,616	$737,770,616
Net Unamortized Premiums and Deferred Costs	11,815,898		11,815,898
Total	**$518,180,898**	**$231,405,616**	**$749,586,514**

Capital Leases. At June 30, 2007, long-term debt included amounts relating to properties with a net book value (net of accumulated depreciation) of $93,103,944 leased from Ross-Ade Foundation, a blended component unit. The outstanding balance on these leases at June 30, 2007, was $71,925,000. The debt payments on these properties in the 2006–2007 fiscal year totaled $9,532,893, consisting of $5,635,000 principal and $3,897,893 interest.

On December 1, 2006, Certificates of Participation, Series 2006, were issued by Ross-Ade Foundation in the amount of $70,345,000. This series was issued to refund $10,955,000 of Certificates of Participation, Series 1996, and $60,000,000 of Certificates of Participation, Series 2001A. As a result of the refunding, the University will reduce its aggregate lease payments over the next 20 years by approximately $5,014,865. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $3,448,050.

On April 9, 2004, the University entered into an $8,195,000 capital lease agreement with the Purdue Research Foundation (PRF), a discrete component unit. The lease took effect upon completion of the Academic Learning Center near the Calumet campus. The outstanding balance on the lease was $7,800,000 as of June 30, 2007, and the facility had a book value (net of accumulated depreciation) of $7,726,714. The debt payments on this property in the 2006–2007 fiscal year totaled $566,390, consisting of $200,000 of principal and $366,390 of interest.

Scheduled lease payments for the fiscal years ending June 30, are as follows:

Fiscal Year	Principal	Interest	Total
2008	$4,550,000	$3,902,763	$8,452,763
2009	4,780,000	3,682,238	8,462,238
2010	4,580,000	3,449,913	8,029,913
2011	3,435,000	3,227,108	6,662,108
2012	3,600,000	3,061,258	6,661,258
2013–2017	18,085,000	12,702,281	30,787,281
2018–2022	17,120,000	8,483,155	25,603,155
2023–2027	22,030,000	3,567,060	25,597,060
2028–2030	1,545,000	157,000	1,702,000
	$79,725,000	$42,232,776	$121,957,776
Net Unamortized Premiums and Deferred Costs	2,425,582		2,425,582
Total	**$82,150,582**	**$ 42,232,776**	**$124,383,358**

NOTE 9 — OTHER DEBT INFORMATION

Long-Term Liabilities. Long-term liability activity (expressed in thousands of dollars) for the years ending June 30, 2007 and 2006, is summarized below:

Long-term Liabilities (Dollars in Thousands)

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion
Advances from Federal Government	$20,456		$282	$ 20,174	
Bonds Payable, Net	511,052	$99,641	92,512	518,181	$25,266
Compensated Absences	38,430	23,595	21,555	40,470	24,207
Deferred Revenue	838		838		
Funds Held in Trust for Others	7,026	1,296	280	8,042	
Leases Payable to Affiliated Foundations	86,170	72,923	76,943	82,150	4,931
Notes Payable	3,883		1,622	2,261	1,031
Total	**$667,855**	**$197,455**	**$194,032**	**$671,278**	**$55,435**

Long-term Liabilities (Dollars in Thousands)

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion
Advances from Federal Government	$20,721		$265	$20,456	
Bonds Payable, Net	429,600	140,864	59,412	511,052	22,910
Compensated Absences	38,700	21,416	21,686	38,430	21,555
Deferred Revenue	6,569	58	5,789	838	
Funds Held in Trust for Others	6,512	5,226	4,712	7,026	
Leases Payable to Affiliated Foundations	82,130	8,195	4,155	86,170	4,365
Notes Payable	5,685		1,802	3,883	1,598
Total	**$589,917**	**$175,759**	**$97,821**	**$667,855**	**$50,428**

Defeased Bond Issues. The University defeased the following bond issues by prepayment or issuing new debt. United States 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 on the University's books.

Description of Bonds	Final Maturity/ Call Date	Amount Outstanding June 30, 2007
Student Fee and Facilities:		
Building Facilities Fee Bonds	7/1/2009	$3,280,000
Dormitory Facilities Revenue Bonds, Series A–L	7/1/2008	880,000
Student Fee Bonds Series Q	7/1/2010	34,955,000
Student Facilities System Revenue Bonds, Series 2003A	7/1/2013	48,345,000
Student Facilities System Revenue Bonds, Series 2003B	7/1/2013	17,950,000
Certificates of Participation, Issued by Ross-Ade Foundation:		
Certificates of Participation, Series 2001A	7/1/2011	$60,000,000
Certificates of Participation, Series 2001B	7/1/2007	490,000

Direct Financing Lease. In 1998, the University agreed to refinance the construction of the Animal Disease Diagnostic Laboratory (ADDL) Building and lease it to the Indiana Department of Administration on behalf of the Indiana State Board of Animal Health. Lease payments are equal to the University's debt service payments. Nonrecourse bonds for $10,830,000 were issued to the Indiana Bond Bank, secured solely by lease payments from the Indiana Department of Animal Health through annual appropriations for this purpose from the state of Indiana. The University's rights to receive lease payments have been assigned to the Trustees for the Indiana Bond Bank. At June 30, 2007, the outstanding amount of these bonds was $4,195,000. The ADDL Building, the lease receivable, and the bonds payable are not reflected on the University's books.

In addition, the University has entered into various operating leases for buildings and equipment. Net expenses for rent under these leases for the year ending June 30, 2007, were $8,959,257 and are included in supplies and services in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 10 — DONOR-RESTRICTED ENDOWMENTS

The University's endowment funds (including true, term, and funds functioning as endowments) are invested in a unitized pool. The unitized endowment pool purchases investments to generate present and future income in support of various programs. The University's Board of Trustees establishes the spending policy for the unitized endowment pool. The current spending policy distributes 4.5% of the average of the ending values for the prior 12 quarters in semiannual distributions. The distribution includes both income and equity components. Market appreciation of the pool was $529,143,840 as of June 30, 2007. Of this amount, 40.8% represents appreciation attributable to donor-restricted (true and term) endowments. The University's endowment policies are subject to the provisions of Indiana Code section IC 30-2-12 (Uniform Management of Institutional Funds). Under this section, the University's Board of Trustees may authorize expenditure — consistent with donors' intent — of net appreciation in the fair value of the assets over the historical cost of the endowment.

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, 2007, contractual obligations for capital construction projects were $62,084,736.

Natural Gas Procurement. The University has entered into various forward contracts to purchase natural gas at a specified time in the future at a guaranteed price. This activity allows the University to plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible that the market price before or at the specified time to purchase natural gas may be lower than the price at which the University is committed to buy. This would reduce the value of the contract. The University could sell the forward contract at a loss and then buy natural gas on the open market. The University is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the University have to procure natural gas on the open market.

Limited Partnership Agreements. Under the terms of various limited partnership agreements approved by the University's Board of Trustees, the University is obligated to make periodic payments for commitments to venture capital, private equity, natural resources, and real estate investments over the next several fiscal years. As of June 30, 2007, the University had the following unfunded commitments: $53,497,836 to 34 Private Equity/Venture Capital managers, $19,497,411 to 11 private real estate managers, $26,759,465 to nine natural resource managers, and $1,618,434 to the Indiana Future Fund. These amounts are not included as liabilities in the Statement of Net Assets. Outstanding commitments are estimated to be paid based on the capital calls from the individual managers, subject to change due to market conditions, as shown in the table at right:

Fiscal Year	Amount
2007–08	$25,343,287
2008–09	25,343,287
2009–10	25,343,286
2010–11	25,343,286

NOTE 12 — RETIREMENT PLANS

Authorization. Authorization to establish retirement plans is stated in Indiana Code IC 20-12-1-2.

All Employees. University employees are participants in various retirement programs, including the Federal Insurance Contributions Act (FICA). For the 2006–2007 fiscal year, the University's cost was $43,568,652 under this program.

Faculty and Administrative/Professional Staff. Faculty, professional, and certain administrative employees of the University participate in a defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. Faculty and management personnel participate immediately upon employment; all others must satisfy a three-year waiting period. The University contributes 11% of each participating employee's salary up to $9,000 and 15% of the salary above $9,000. Employee contributions are not required but may be made on a voluntary basis. For the 2006–2007 fiscal year, the University made contributions totaling $62,357,138 to this plan. For the fiscal year ending June 30, 2007, there were 6,137 employees participating in TIAA with annual pay equal to $426,734,711.

Clerical and Service Staff. Regular clerical and service staff, employed at least half-time, participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the state of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the state of Indiana. There are two parts to this plan: an annuity savings plan to which the University contributes 3% of the employee's salary, and a defined benefit agent multi-employer plan to which the University currently contributes 5% of the employee's salary. Employee contributions are not required but may be made on a voluntary basis. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after 10 years of employment. For the 2006–2007 fiscal year, the University made contributions totaling $10,976,056 to this plan. For the fiscal year ending June 30, 2007, there were 4,893 employees participating in PERF with annual pay equal to $129,129,917.

The required employer's contribution was determined as part of the July 1, 2006, actuarial valuation using the projected unit cost method. The actuarial assumptions included: (a) 7.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 5% per year, and (c) 2% per year cost-of-living adjustments. PERF's unfunded actuarial accrued liability is being amortized over 31 years. Actuarial information from fiscal year 2005–2006 related to the University's portion of the plan is disclosed later in this note. Actuarial information for the prior two fiscal years is not available.

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: Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204; by calling (317) 233-4162; or by visiting www.in.gov/perf/.

Police and Firefighters. A supplemental pension program for police officers and firefighters (Police/Fire) was authorized by the Board of 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 Purdue 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 Board of 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 Purdue University retirement programs, including TIAA-CREF and PERF. For the fiscal year ending June 30, 2007, there were 94 employees participating in Police/Fire with annual pay equal to $4,595,231.

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: Public Records Officer, Purdue University, Freehafer Hall, 401 South Grant Street, West Lafayette, IN 47907-2024.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2006. Because the plan was implemented on a retroactive basis to cover all current police officers and firefighters, the University has an unfunded actuarial liability at July 1, 2006, of $1.5 million, which is being amortized over a 30-year period. The required contribution to the plan for the 2006–2007 fiscal year was $759,114, consisting of $551,387 normal cost, $158,066 amortization of the unfunded liability, and $49,661 of interest. Of the required amount, $136,470 represents employee contributions, and $622,644 represents the University's contribution. The actual amount contributed by the University was $846,248. The required contribution was determined as part of the July 1, 2006, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included: (a) 7% investment rate of return, (b) projected salary increases of 4% per year, and (c) 3% per year cost-of-living adjustments.

Additional disclosures related to the University's defined benefit programs (PERF and Police/Fire) are presented in the table that follows:

Three-Year Trend Information (Expressed in Thousands of Dollars)

Plan*	Fiscal Year Ending June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Total Unfunded (Excess) Actuarial Liability	Funded Ratio	Annual Covered Payroll	Liability to Payroll	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Benefit)
PERF†	2006	$177,925	$181,268	$3,343	98.2%	$127,808	2.6%	$5,137	113.0%	$(8,785)
Police/Fire	2004	15,007	17,618	2,611	85.2%	4,538	57.5%	917	103.4%	(27)
	2005	16,209	18,724	2,515	86.6%	4,675	53.8%	822	100.4%	(3)
	2006	17,595	19,074	1,479	92.2%	4,595	32.2%	623	135.8%	(223)

**Data for 2007 not available from actuaries.*
†University portion only.

Cooperative Extension Service. As of June 30, 2007, there were 59 staff members with federal appointments employed by the Indiana Cooperative Extension Service and covered by the Federal Civil Service Retirement System.

NOTE 13 — RISK MANAGEMENT

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 $1 million retention per occurrence or wrongful act for general, automobile, and professional and educators' legal liability coverages. 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 $7,659,000.

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. For the 2005–2006 fiscal year, the University reflected $1.98 million of insurance proceeds, of which $1.9 million are accounts receivable, as non-operating income within the Plant Asset Retired line in the Statement of Revenue, Expenses, and Changes in Net Assets.

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. The liability for medical claims incurred but not reported at June 30, 2007, is based on actuarial estimates. The income benefit liability for employees disabled before January 1, 2004, was transferred to an insurance carrier, and all future disabled income benefit liability is now fully insured. Changes in the balances of claims liabilities during the 2006–2007 and 2005–2006 fiscal years were as follows:

	Year Ending June 30, 2007	Year Ending June 30, 2006 (Reclassified)
Beginning Liability	$13,619,664	$13,068,689
Claims Incurred	62,890,241	53,027,183
Claims Payments	(61,416,820)	(52,476,208)
Ending Liability	**$15,093,085**	**$13,619,664**

NOTE 14 — OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification (expressed in thousands of dollars) for the fiscal years ending June 30, 2007, and June 30, 2006, are summarized as follows:

Operating Expenses by Function for the Year Ending June 30, 2007

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$470,860	$78,303			$549,163
Organized Activities Related to Instruction and Research	9,872	9,755			19,627
Sponsored Research	112,084	61,660			173,744
Other Separately Budgeted Research	22,351	2,467			24,818
Extension and Public Service	68,303	20,449			88,752
Academic Support	14,591	13,796			28,387
Student Services	30,489	7,333			37,822
Physical Plant Operations and Maintenance	76,033	31,635			107,668
General Administration	65,187	14,565			79,752
General Institutional Services	37,620	10,989			48,609
Depreciation			$97,708		97,708
Student Aid		746		$33,267	34,013
Auxiliary Enterprises	86,981	75,515			162,496
Total	**$994,371**	**$327,213**	**$97,708**	**$33,267**	**$1,452,559**

Operating Expenses by Function for the Year Ending June 30, 2006

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$434,086	$69,794			$503,880
Organized Activities Related to Instruction and Research	8,029	10,775			18,804
Sponsored Research	109,040	51,209			160,249
Other Separately Budgeted Research	36,338	6,377			42,715
Extension and Public Service	69,504	31,344			100,848
Academic Support	16,391	18,813			35,204
Student Services	30,322	7,685			38,007
Physical Plant Operations and Maintenance	57,658	32,873			90,531
General Administration	58,118	19,423			77,541
General Institutional Services	28,176	7,731			35,907
Depreciation			$90,325		90,325
Student Aid	2,319	1,614		$30,021	33,954
Auxiliary Enterprises	89,833	66,136			155,969
Total	**$939,814**	**$323,774**	**$90,325**	**$30,021**	**$1,383,934**

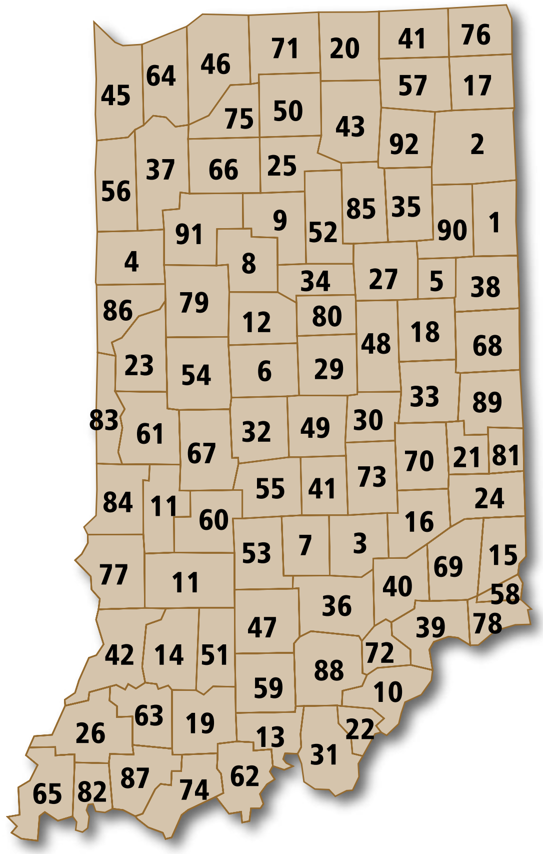
NOTE 15 — SUBSEQUENT EVENT

On October 3, 2007, Student Facilities System Revenue Bonds, Series 2007C, were issued in the amount of $61,725,000. This series was issued to fund construction of a new residence hall of 365 beds and begin the first of a five-phase renovation of the Windsor Halls complex on the West Lafayette campus. The bonds were issued in variable-rate mode.

IN-STATE ENROLLMENT (UNAUDITED)

Total In-State Enrollment by County, Fall 2006–2007 Academic Year

The overall (in-state and out-of-state) enrollment at Purdue University was 65,317 students for the 2006–2007 fall semester. The breakdown was: West Lafayette, 39,228; Calumet, 9,303; Fort Wayne, 11,672; North Central, 3,724; and Technology Statewide, 1,390. (The enrollment figures do not include 4,277 Purdue University students at Indiana University-Purdue University Indianapolis.) Although students came to Purdue from all over the world, 73% systemwide came from within Indiana.



	County	West Lafayette	Regional Campuses	Statewide Technology Sites	Total
1	Adams	88	319	2	409
2	Allen	1,162	7,237	3	8,402
3	Bartholomew	267	4	86	357
4	Benton	143	2	6	151
5	Blackford	28	12	1	41
6	Boone	424	5	3	432
7	Brown	15		3	18
8	Carroll	185	4	14	203
9	Cass	175	22	26	223
10	Clark	143	3	37	183
11	Clay	57	1		58
12	Clinton	230	8	12	250
13	Crawford	13	1		14
14	Daviess	49		1	50
15	DeKalb	109	532	1	642
16	Dearborn	180	1	5	186
17	Decatur	124		44	168
18	Delaware	188	29	15	232
19	Dubois	166	2	1	169
20	Elkhart	491	123	49	663
21	Fayette	37	3	21	61
22	Floyd	160	2	35	197
23	Fountain	94		1	95
24	Franklin	82		5	87
25	Fulton	76	28	6	110
26	Gibson	83			83
27	Grant	142	94	15	251
28	Greene	58		1	59
29	Hamilton	1,671	22	20	1,713
30	Hancock	257	5	5	267
31	Harrison	64	1	19	84
32	Hendricks	598	7	21	626
33	Henry	115	3	20	138
34	Howard	403	23	116	542
35	Huntington	122	388	3	513
36	Jackson	100		24	124
37	Jasper	220	165	2	387
38	Jay	23	23	10	56
39	Jefferson	82	1	7	90
40	Jennings	36	2	22	60
41	Johnson	357	4	15	376
42	Knox	98	1		99
43	Kosciusko	265	425	2	692
44	LaGrange	57	126	1	184
45	LaPorte	388	1,650	3	2,041
46	Lake	2,032	7,490	2	9,524
47	Lawrence	88	1	1	90
48	Madison	279	7	56	342
49	Marion	2,075	41	46	2,162
50	Marshall	178	52	12	242
51	Martin	11			11
52	Miami	112	30	26	168
53	Monroe	215	5	1	221
54	Montgomery	213	2	12	227
55	Morgan	155	3	9	167
56	Newton	82	29	3	114
57	Noble	118	441		559
58	Ohio	19			19
59	Orange	49		1	50
60	Owen	30	1		31
61	Parke	32	2	4	38
62	Perry	29		3	32
63	Pike	14			14
64	Porter	858	2,137	1	2,996
65	Posey	88			88
66	Pulaski	119	26	2	147
67	Putnam	114	1	3	118
68	Randolph	53	7	9	69
69	Ripley	93		20	113
70	Rush	65	2	4	71
71	Scott	21		5	26
72	Shelby	145	1	8	154
73	Spencer	70	1		71
74	St. Joseph	965	128	108	1,201
75	Starke	74	162	4	240
76	Steuben	95	242		337
77	Sullivan	30	1		31
78	Switzerland	17			17
79	Tippecanoe	3,072	30	124	3,226
80	Tipton	92	2	18	112
81	Union	8	1	3	12
82	Vanderburgh	360	3	1	364
83	Vermillion	42		8	50
84	Vigo	195	1	8	204
85	Wabash	97	176	2	275
86	Warren	55		1	56
87	Warrick	204	1	1	206
88	Washington	28		15	43
89	Wayne	147	5	63	215
90	Wells	78	272	1	351
91	White	263	8	14	285
92	Whitley	82	455		537
	Total	23,086	23,044	1,282	47,412

ACKNOWLEDGEMENTS:

The following staff members of the Department of Accounting Services, Office of the Comptroller, prepared the 2006–2007 Financial Report and the included financial statements.

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FINANCIAL REPORT 2006–2007

PURDUE UNIVERSITY

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