PURDUE
UNIVERSITY

FINANCIAL REPORT 2004–2005

LETTER OF TRANSMITTAL

To the Board of Trustees of Purdue University:

We are pleased to submit this, the 83rd annual financial report of Purdue University. This report is for the fiscal year that ended June 30, 2005, 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 2.

Respectfully submitted,

MARTIN C. JISCHKE
President

Respectfully submitted,

MORGAN R. OLSEN
Executive Vice President and Treasurer

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

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, 2005 and 2004. 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 audit. We did not audit the financial statements of the component units of the University as discussed in Note 1, which represent 100% of the assets and revenues of the discretely presented component units. 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 audit 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit 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, 2005 and 2004, 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 November 9, 2005, 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

November 9, 2005

BOARD OF TRUSTEES

As of June 30, 2005

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, 2005

Officers of the Board of Trustees

J. TIMOTHY MCGINLEY, *Chairman*
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*

Administrative Staff

MARTIN C. JISCHKE, *President*
SALLY MASON, *Provost*
MORGAN R. OLSEN, *Executive Vice President and Treasurer*
MURRAY M. BLACKWELDER, *Senior Vice President for Advancement*
JAMES S. ALMOND, *Vice President for Business Services and Assistant Treasurer*
JOSEPH L. BENNETT, *Vice President for University Relations*
JAMES R. BOTTUM, *Vice President for Information Technology*
MORGAN J. BURKE, *Director of Intercollegiate Athletics*
PEGGY L. FISH, *Director of Audits*
KEVIN P. GREEN, *Director of State Relations*
JOSEPH B. HORNETT, *Senior Vice President, Purdue Research Foundation*
WAYNE W. KJONAAS, *Vice President for Physical Facilities*
JESSE L. MOORE, *Manager, Supplier Diversity Development*
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THOMAS B. ROBINSON, *Vice President for Student Services*
ALYSA C. ROLLOCK, *Vice President for Human Relations*
CHARLES O. RUTLEDGE, *Vice President for Research*
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 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*

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2005

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of Purdue University for the fiscal year ended June 30, 2005, the financial activities for the 2004–2005 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 enables 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 is necessary to meet its goals and objectives.

In 2004–2005, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures" (an amendment of GASB Statement No. 3). As a result, risk disclosures related to the University's investments, which include credit risk, custodial credit risk, interest rate risk, and foreign currency risk, have been presented.

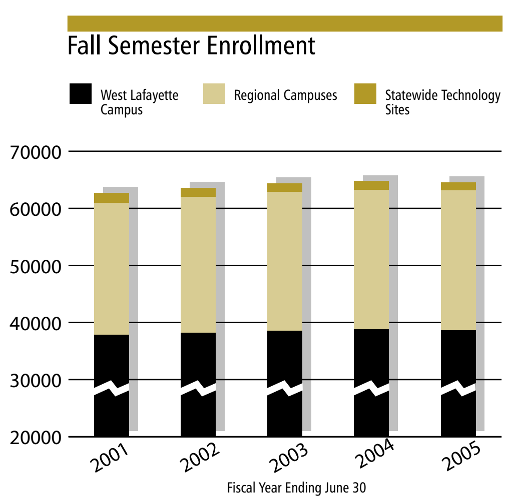
FINANCIAL HIGHLIGHTS

Operating revenues were $946.1 million, compared to $883.9 million in the prior year — an increase of 7.0%. This increase is due primarily to increases in net student fee revenue ($32.7 million), grants and contracts ($18.8 million), and auxiliary enterprises revenue ($7.7 million).

Tuition and fee revenue, less scholarship allowances, increased from $385.2 million in the 2003–2004 fiscal year to $417.9 million in the 2004–2005 fiscal year — an increase of 8.5%. New tuition levels for incoming freshmen were introduced in the fall of 2002 in support of the University's strategic plan. The new fee structure is being phased in over a five-year period. Enrollment patterns for the last five years are illustrated in Figure 1.

Operating expenses increased, but not to the same extent as revenue. Total operating expenses increased 6.9% from $1.25 billion for the 2003–2004 fiscal year to $1.34 billion for the 2004–2005 fiscal year. This change was driven by a 6.0% increase in compensation and benefits — the single largest component of operating expenses — which rose by $50.4 million from $837.2 million to $887.6 million.

Figure 1. Five-Year Enrollment Data*



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

Nonoperating revenues increased $2.9 million, from $592.5 million in the 2003–2004 fiscal year to $595.4 million in the 2004–2005 fiscal year. Investment income increased $4.4 million from $109.7 million in the 2003–2004 fiscal year to $114.1 million in the 2004–2005 fiscal year. Investment income includes dividends and interest, realized gains and losses, and net unrealized gains. The University 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, 2004 and June 30, 2005 is contained in investment income.

Capital and endowment activity decreased $1.3 million or -2.0% from the 2003–2004 fiscal year.

The 2004–2005 change in net assets of $145.1 million represents a decrease of $78.4 million or -35.1% from the prior year increase of $223.5 million. The change was driven by a write-down of fixed assets for a change in capitalization levels for certain fixed assets of $57.7 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 $3.3 billion as of June 30, 2005, compared to $3.2 billion at June 30, 2004, an increase of $137.0 million or 4.3%. Current assets as of June 30, 2005, decreased $2.5 million while noncurrent assets increased $139.5 million or 5.4%.

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 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 $933.8 million at June 30, 2005, and $941.9 million at June 30, 2004. Figure 3 depicts the portion of long-term debt relative to total liabilities.

Figure 2

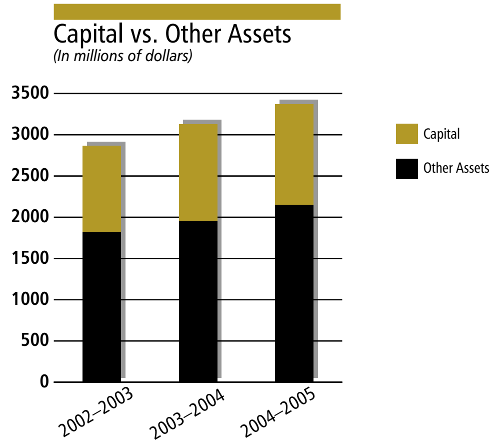
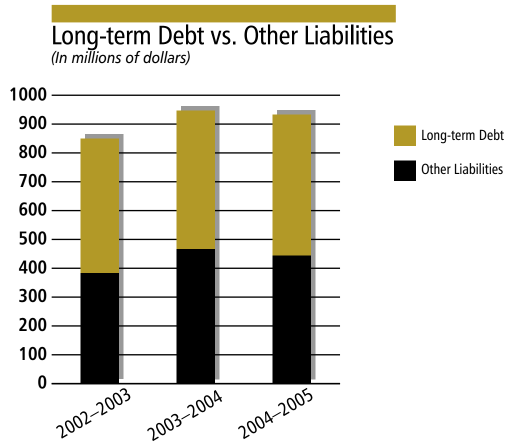


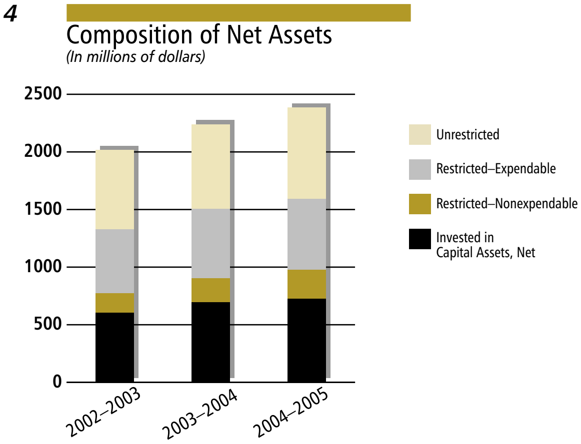
Figure 3



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 $2.38 billion as of June 30, 2005. Figure 4 provides a comparison across fiscal years of the composition of net assets.

Figure 4



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)*

	2002–2003	Restated 2003–2004	2004–2005
Current Assets	$654,743	$611,216	$608,709
Capital Assets	1,043,309	1,167,863	1,222,108
Other Assets	1,166,914	1,401,348	1,486,647
Total Assets	2,864,966	3,180,427	3,317,464
Current Liabilities	339,427	407,873	392,627
Noncurrent Liabilities	510,489	533,980	541,188
Total Liabilities	849,916	941,853	933,815
Invested in Capital Assets, Net of Related Debt	605,608	697,257	727,659
Restricted–Nonexpendable	166,886	205,104	248,548
Restricted–Expendable	555,154	604,448	615,405
Unrestricted	687,402	731,765	792,037
Total Net Assets	**$2,015,050**	**$2,238,574**	**$2,383,649**

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 2004–2005 fiscal year are listed in Table 2.

Table 2. Major Projects Completed during the 2004–2005 Fiscal Year *(More than $1 Million)*

	Project Total (Dollars in Thousands)
Discovery Park Utilities Extension, Phase III	$ 4,600
Forney Hall of Chemical Engineering Addition	19,250
Heine (Robert E.) Pharmacy Renovation, Phases III and IV	3,660
Purdue Memorial Union Sweet Shop Renovation	1,900
Residence Halls Food Service Facility, Phase II	16,335
Satellite Plant Chiller No. 3 Installation	1,135
Student Housing Facilities at Purdue University Calumet	16,500
Switchgear for Northwest Main Substation	1,000
Waterfield Student Housing at IPFW	23,274
Young Hall Remodeling, Floors 6,7,8	4,200
Total Major Projects Completed	**$91,854**

Table 3. Major Construction Projects in Progress *(More than $1 Million)*

	Project Budget (Dollars in Thousands)
Armstrong Hall of Engineering	$ 53,187
Bindley Bioscience Center	15,000
Biomedical Engineering Building	25,000
Birck Nanotechnology Center	58,300
Calumet Campus Parking Garage	11,500
Cary Quadrangle, Phases V and VI	19,700
Computer Science Building, Phase I (Lawson Hall)	20,000
Discovery Park Site Development, Phase IV and V	1,925
Earhart Residence Hall — Installation of Sprinklers and Student Room Air Conditioning	7,950
Extension of Infrastructure at University and Third	2,625
Forney Hall of Chemical Engineering Renovation	4,750
Purdue University Airport Pavement and Lighting Repair	1,900
Radiation Therapy Facility	1,400
Residence Halls Food Service Consolidation, Phase V	1,025
Residence Halls Food Service Facility, Phase III	11,970
Spurgeon Golf Training Facility	2,722
Visual and Performing Arts, Phase II (Pao Hall)	17,692
Total Major Projects in Progress	**$256,646**

In addition, the University's Board of Trustees has authorized the following major projects, which had not been started as of June 30, 2005:

Table 4. Major Projects Authorized, but Not Started

	Project Budget (Dollars in Thousands)
Aquaculture Building Reconstruction	$ 2,659
Calumet — 169th Street Entry/Exit Relocation	1,000
Discovery Learning Center	10,000
e-Enterprise Center	10,000
Fort Wayne Chiller Replacement	2,000
Fort Wayne Music Building	25,000
Gyte Renovation	24,000
High Voltage Improvement Phase II	25,100
McCutcheon Drive Parking Garage Addition	12,500
McCutcheon Hall Fire Protection and Air Conditioning	8,900
North Central Parking Garage	5,000
Replacement Student Apartments	60,000
Residence Halls Food Service Consolidation, Phase IV	12,382
Dennis J. and Mary Lou Schwartz Tennis Center	7,000
Storm Sewer Modifications	9,500
Wade Utility MACT Compliance	9,000
Windsor Residence Halls Renovation	46,000
Total Major Projects Authorized	**$270,041**

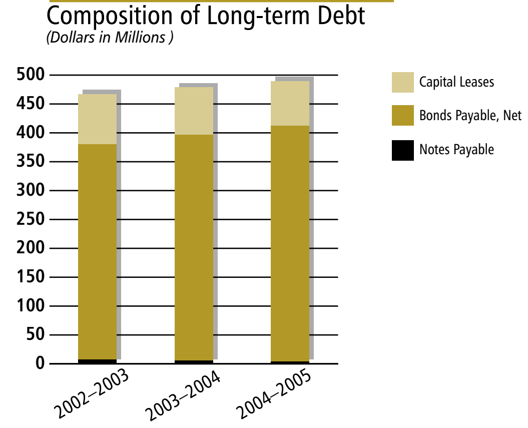
Debt and Financing Activities

During the fiscal year, the University issued two series of bonds: Student Facilities System Revenue Bonds Series 2005A for $24.2 million and Student Fee Bonds Series T for $14.5 million. Series 2005A was issued to finance student housing and dining facilities on the West Lafayette campus. Series T provided partial financing of the Computer Science Building (Lawson Hall) on the West Lafayette campus.

In the 2004–2005 fiscal year, the University maintained its excellent credit ratings by Moody's Investors Service (Aa1) and by Standard & Poor's (AA). In addition, the University's variable-rate debt received short-term ratings by Moody's of VMIG1 and by Standard & Poor's of A-1+.

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

Figure 5



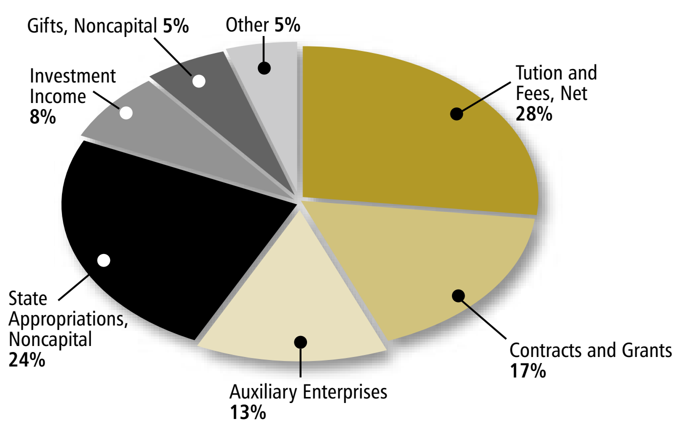
Statement of Revenues, Expenses, and Changes in Net Assets

A review of the Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the extent to which the results of operations, nonoperating revenues, and capital funding over the course of the fiscal year affected 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. As a public university, these nonoperating revenues are an integral part of the University's operating budget. Private gifts for capital projects and additions to the University's permanent endowment are also 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 2004–2005 fiscal year.

Figure 6

Revenues, 2004–2005



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*** *(Dollars in Thousands)*

	2002–2003	Restated 2003–2004	2004–2005
Operating Revenues			
Tuition and Fees, Net	$ 346,794	$ 385,198	$ 417,937
Grants and Contracts	212,251	244,090	262,869
Auxiliary Enterprises, Net	167,605	189,022	196,743
Other Operating Revenues	59,988	65,597	68,535
Total Operating Revenues	786,638	883,907	946,084
Operating Expenses			
Depreciation	67,123	75,301	83,627
Operating Expense	1,086,492	1,177,558	1,255,058
Total Operating Expenses	1,153,615	1,252,859	1,338,685
Operating Loss	(366,977)	(368,952)	(392,601)
Nonoperating Revenue	457,519	529,132	533,300
Capital and Endowments	15,142	63,344	62,089
Total Nonoperating Revenues	472,661	592,476	595,389
Cumulative Effect of Change in Accounting Policy			(57,713)
Increase in Net Assets	105,684	223,524	145,075
Net Assets, Beginning of Year	1,909,366	2,015,050	2,238,574
Net Assets, End of Year	$2,015,050	$2,238,574	$2,383,649

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. The Statement of Cash Flows also provides an indication of the extent to which operating activities provided or used cash. Table 6 gives 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*** *(Dollars in Thousands)*

	2002–2003	2003–2004	2004–2005
Cash Used by Operating Activities	$(289,742)	$(297,226)	$(306,042)
Cash Provided by Noncapital Financing Activities	423,790	453,470	471,119
Cash Provided (Used) by Investing Activities	2,117	(15,732)	(80,954)
Cash Used by Capital and Related Financing Activities	(112,230)	(148,758)	(173,458)
Net Increase (Decrease) in Cash and Cash Equivalents	23,935	(8,246)	(89,335)
Cash and Cash Equivalents, Beginning of Year	459,029	482,964	474,718
Cash and Cash Equivalents, End of Year	**$482,964**	**$474,718**	**$385,383**

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

For the 2005–2006 fiscal year, the University received decreased operating appropriations from the State of Indiana for its West Lafayette (0.5%) and Calumet (1.5%) campuses, while the North Central (0.4%) and Fort Wayne (2.4%) campuses received increased appropriations. All campuses are expected to receive modest operating appropriation increases, ranging from 0.9% for West Lafayette to 3.1% for Fort Wayne, in the 2006–2007 fiscal year. Tuition rate increases were set for the next two fiscal years (2005–2006 and 2006–2007), with six percent increases each year. 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 is expected to receive $16.6 million for Repair and Rehabilitation (R&R) funding from the state over the next two fiscal years, which is nearly 50 percent of the requested formula funding amount. The University received $4.2 million of the $8.3 million R&R funding appropriated for the 2003–2005 biennium. In May 2005, the Board of Trustees approved a dedicated student fee on all campuses for new students only beginning in the fall of 2006 for R&R funding. This dedicated fee will generate nearly $7.3 million annually on the West Lafayette campus alone when fully implemented in 2011. Additional funding sources have been identified to help address the University's deferred maintenance and rehabilitation needs.

Enrollment* at all Purdue campuses decreased to 64,582 for the fall semester of the 2004–2005 academic year, down from 64,780 the previous year. This includes a decrease of 194 students for a total of 38,653 on the West Lafayette campus. Undergraduate enrollment is being carefully managed at the West Lafayette campus, while other campuses in the Purdue system have the ability to serve additional full-time and part-time students.

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

The University continues its comprehensive fundraising effort to generate $1.5 billion in gifts and pledges by 2007 in support of students, faculty, programs, and facilities. "The Campaign for Purdue" was officially announced in September 2002. As of June 30, 2005, the University community had raised $1.185 billion toward its $1.5 billion goal.

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

Particular attention should be given to the "Notes to the Financial Statements" that are an integral part of the financial statements. These notes start on p. 21.

STATEMENT OF NET ASSETS

	As of June 30	
	2005	2004 (Restated)
	(Dollars in Thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$385,383	$474,718
Accounts Receivable, Net of Allowance for Uncollectible Amounts	31,346	60,542
Marketable Securities	132,535	13,330
Pledges Receivable, Net of Allowance for Uncollectible Amounts	23,198	32,511
Notes Receivable, Net of Allowance for Uncollectible Amounts	8,952	9,858
Accrued Revenues	15,322	10,570
Inventories	6,886	6,018
Prepaid Expenses	4,053	2,681
Deferred Expenses	829	783
Funds Held in Trust by Others	205	205
Total Current Assets	**$608,709**	**$611,216**
Noncurrent Assets:		
Notes Receivable, Net of Allowance for Uncollectible Amounts	37,158	35,657
Pledges Receivable, Net of Allowance for Uncollectible Amounts	26,772	32,478
Marketable Securities and Other Investments	1,376,020	1,316,242
Interest in Charitable Remainder Trusts	18,705	16,971
Appropriation Receivable from the State	27,992	
Capital Assets, Net of Accumulated Depreciation	1,222,108	1,167,863
Total Noncurrent Assets	2,708,755	2,569,211
Total Assets	**$3,317,464**	**$3,180,427**
LIABILITIES:		
Current Liabilities:		
Accounts Payable	33,269	39,084
Accrued Salary and Wages	10,398	8,060
Accrued Compensated Absences (Current Portion)	21,686	20,101
Deferred Revenue (Current Portion)	41,718	37,135
Deposits Held in Custody for Others	20,872	19,782
Accrued Expenses	22,573	24,490
Securities Lending Liability	215,068	229,698
Bonds (Net), Leases, and Notes Payable (Current Portion)	27,043	29,523
Total Current Liabilities	**$392,627**	**$407,873**

(continued on page 15)

STATEMENT OF NET ASSETS *(continued)*

	As of June 30	
	2005	2004 (Restated)
	(Dollars in Thousands)	
Noncurrent Liabilities:		
Accrued Compensated Absences (Less Current Portion)	17,014	15,712
Deferred Revenue (Less Current Portion)	6,569	12,456
Funds Held in Trust for Others	6,512	6,554
Bonds (Net), Leases, and Notes Payable (Less Current Portion)	490,372	478,715
Advances from Federal Government	20,721	20,543
Total Noncurrent Liabilities	541,188	533,980
Total Liabilities	**$ 933,815**	**$ 941,853**
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	727,659	697,257
Restricted		
Nonexpendable		
Instruction and Research	125,085	96,804
Student Aid	99,254	87,364
Other	24,209	20,936
Total Nonexpendable	$248,548	$205,104
Expendable		
Instruction and Research	69,515	77,446
Student Aid	60,239	57,911
Auxiliary Enterprises	3,384	2,713
Construction	66,401	99,389
Other (Note 1)	415,866	366,989
Total Expendable	$ 615,405	$ 604,448
Unrestricted	792,037	731,765
Total Net Assets	**$2,383,649**	**$2,238,574**

See Accompanying "Notes to the Financial Statements."

COMPONENT UNITS

Statements of Financial Position

	Purdue Research Foundation	Purdue Alumni Foundation
	Statement reported as of	
	June 30, 2005	December 31, 2004
	(Dollars in Thousands)	
Assets		
Cash and Cash Equivalents	$ 8,377	$ 5,038
Accounts and Other Receivables	1,790	197
Pledges Receivable	2,268	
Investments in Securities	523,146	147,729
Investment in Securities Held for Purdue Alumni Foundation	21,259	
Investment in INCAPS	153	
Mortgages and Contracts	225	
Notes Receivable	2,031	
Investment in AmeriPlex PRF, LLC	8,611	
Real Estate	106,031	209
Less Allowances	(10,853)	
Net Real Estate	$ 95,178	$ 209
Other Assets and Equipment	$ 7,762	$ 20
Less Allowances	(2,517)	
Net Other Assets and Equipment	$ 5,245	$ 20
Interest in Charitable Remainder Trusts	$ 26,581	$ 2,673
Interest in Charitable Perpetual Trust	17,132	
Total Assets	**$711,996**	**$155,866**
Liabilities and Net Assets		
Liabilities		
Accounts Payable	$ 3,136	$ 86
Net Funds Held as Custodian	19,043	9,514
Bonds Payable	18,280	
Mortgages and Notes Payable	22,394	
Funds Held for Purdue Alumni Foundation	21,259	
Gift Annuity Payable	1,685	
Total Liabilities	**$ 85,797**	**$ 9,600**
Net Assets		
Unrestricted	$ 99,174	$ 9,346
Temporarily Restricted	360,990	94,045
Permanently Restricted	83,001	21,235
Unrealized Gains	83,034	21,640
Total Net Assets	$626,199	$146,266
Total Liabilities and Net Assets	**$711,996**	**$155,866**

See Note 1.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Year Ended June 30	
	2005	2004 (Restated)
	(Dollars in Thousands)	
Operating Revenues		
Tuition and Fees	$ 471,677	$ 435,709
Less: Scholarship Allowance	(53,740)	(50,511)
Net Tuition and Fees (Pledged for Repayment of Student Fee Bonds)	$ 417,937	$ 385,198
Federal Appropriations	15,299	15,223
County Appropriations	6,992	6,600
Grants and Contracts	262,869	244,090
Sales and Services	44,484	42,565
Auxiliary Enterprises (Net of Scholarship Allowance of $5,944 and $5,033 Respectively)	196,743	189,022
Other Operating Revenues	1,760	1,209
Total Operating Revenues	**$ 946,084**	**$ 883,907**
Operating Expenses		
Compensation and Benefits	887,579	837,228
Supplies and Services	338,217	311,180
Depreciation Expense	83,627	75,301
Scholarships, Fellowships, and Student Awards	29,262	29,150
Total Operating Expenses	**$1,338,685**	**$1,252,859**
Net Operating Loss	**(392,601)**	**(368,952)**
Nonoperating Revenues (Expenses)		
State Appropriations	358,957	355,042
Private Gifts	78,071	81,302
Investment Income	114,089	109,650
Interest Expense	(21,814)	(21,412)
Other Nonoperating Revenues, Net	3,997	4,550
Total Nonoperating Revenues before Capital and Endowments	**$ 533,300**	**$ 529,132**
Capital and Endowments		
Capital State Appropriations	6,076	8,076
Capital Gifts	19,755	28,348
Private Gifts for Permanent Endowments and Charitable Remainder Trusts	40,042	30,116
Plant Assets Retired	(3,784)	(3,196)
Total Capital and Endowments	**$ 62,089**	**$ 63,344**
Total Nonoperating Revenues	**595,389**	**592,476**
Increase in Net Assets before Change in Accounting Policy	202,788	223,524
Cumulative Effect of Change in Accounting Policy		
Assets under Capitalization Level Written Off (Note 1)	(57,713)	
INCREASE IN NET ASSETS	**$ 145,075**	**$ 223,524**
Net Assets, Beginning of Year	2,238,574	2,015,050
Net Assets, End of Year	$2,383,649	$2,238,574

See Accompanying "Notes to the Financial Statements."

COMPONENT UNITS

Statements of Activities

	Purdue Research Foundation	Purdue Alumni Foundation
	Statement reported for the year ended	
	June 30, 2005	**December 31, 2004**
	(Dollars in Thousands)	
Revenue and Support		
Amount Received for Purdue University Research Projects	$ 57,690	
Less Payments to Purdue University	(57,690)	
Administrative Fee on Research Projects		
Contributions	16,300	$ 6,625
Income on Investments	11,129	2,669
Net Unrealized and Realized Gains	49,769	11,348
Loss on Investment in Inproteo and INCAPS	(2,017)	
Change in Gift Annuities	40	
Revenue from Pledges	57	
Increase (Decrease) in Interests in Charitable Trusts	(2,223)	
Change in Value of Charitable Remainder Trusts		140
Rents	4,782	
Royalties	3,953	
Other	490	508
Net Assets Released from Restrictions		
Total Revenue and Support	$ 82,280	$ 21,290
Expenses and Losses		
Expenses for the Benefit of Purdue University		
Contributions to Purdue University	$ 6,669	
Scholarships, Awards, Athletics, and Other Projects		$ 9,642
Patent and Royalty	3,096	
Grants	9,805	
Services for Purdue University	1,547	
Development Office	1,027	
Other	544	
Total Expenses for the Benefit of Purdue University	$ 22,688	$ 9,642
Administrative and Other Expenses		
Salaries and Benefits	$ 4,775	
Property Management	4,444	
Professional Fees	1,873	$ 512
Supplies	963	
Interest	672	
Research Park	453	
Other	808	195
Total Administrative and Other Expenses	$ 13,988	$ 707
Change in Net Assets	$ 45,604	$ 10,941
Net Assets, Beginning of Year	580,595	135,325
Net Assets, End of Year	**$626,199**	**$146,266**

See Note 1.

STATEMENT OF CASH FLOWS

	For the Year Ended June 30	
	2005	2004
	(Dollars in Thousands)	
Cash Flows by Operating Activities		
Tuition and Fees, Net of Scholarship Allowances	$ 419,727	$ 385,762
Federal Appropriations	15,299	15,223
County Appropriations	6,992	6,600
Grants and Contracts	261,428	242,622
Sales and Services	43,347	42,401
Auxiliary Enterprises, Net of Scholarship Allowances	196,622	187,353
Other Operating Revenues	2,410	555
Compensation and Benefits	(883,939)	(842,826)
Supplies and Services	(337,692)	(304,199)
Scholarships, Fellowships, and Student Awards	(29,262)	(29,292)
Student Loans Issued	(10,386)	(9,873)
Student Loans Collected	9,412	8,448
Cash Used by Operating Activities	$(306,042)	$(297,226)
Cash Flows by Noncapital Financing Activities		
State Appropriations	358,184	354,674
Gifts for Other than Capital Purposes	113,740	75,548
Funds Held in Trust for Others and Deferred Gifts	(5,017)	18,554
Other Nonoperating Revenues, Net	4,212	4,694
Cash Provided by Noncapital Financing Activities	$471,119	$453,470
Cash Flows by Investing Activities		
Purchase of Investments	(5,770,338)	(6,730,399)
Proceeds from Sales and Maturities of Investments	5,647,215	6,671,221
Interest and Dividends on Investments, Net	42,169	43,446
Cash Used by Investing Activities	$ (80,954)	$ (15,732)
Cash Flows by Capital and Related Financing Activities		
Debt Repayment	(29,138)	(29,155)
Capital Debt Proceeds	38,700	41,950
Interest Expense	(22,171)	(20,159)
Capital Gifts Received	31,085	38,111
State Appropriations for Capital Projects	11,076	3,076
Funds Held in Trust by Others		5,840
Construction or Purchase of Capital Assets	(203,010)	(188,421)
Cash Used by Capital and Related Financing Activities	$(173,458)	$(148,758)
Net Decrease in Cash and Cash Equivalents	(89,335)	(8,246)
Cash and Cash Equivalents, Beginning of Year	474,718	482,964
Cash and Cash Equivalents, End of Year	$ 385,383	$ 474,718

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(continued on page 20)

STATEMENT OF CASH FLOWS *(continued)*

Reconciliation of Cash Used for Operating Activities (Indirect Method)

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:	**For the Year Ended June 30** **2005**	**2004**
	(Dollars in Thousands)	
Operating Loss	$(392,601)	$(368,952)
Depreciation Expense	83,627	75,301
Gifts in Kind	2,083	6,990
Changes in Assets and Liabilities:		
Accounts Receivable	(3,009)	(2,678)
Notes Receivable	(1,053)	(1,424)
Accrued Revenues	(1,601)	(1,278)
Inventories	(868)	149
Prepaid Expenses	(1,372)	(2,053)
Deferred Expenses	(46)	(200)
Accrued Compensated Absences	2,888	935
Accounts Payable	783	1,891
Deferred Revenue	4,009	6,240
Deposits Held in Custody for Others	164	(5,784)
Accrued Expenses	(1,561)	(8,843)
Accrued Salary and Wages	2,337	2,368
Advances from Federal Government	178	112
Cash Used by Operating Activities	$(306,042)	$(297,226)

See Accompanying "Notes to the Financial Statements."

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NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2005

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," as well as with other accounting principles generally accepted in the United States of America, as prescribed by the GASB.

During fiscal year 2005, the University adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," which is an amendment of GASB Statement No. 3.

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 classify two of its entities, the Purdue Research Foundation and the Purdue Alumni Foundation, as discretely presented component units. 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 Units

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 $22.7 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.

Purdue Alumni Foundation. Purdue Alumni Foundation (PAF) was created in 1944 by the Purdue Alumni Association, Inc. The primary purpose of PAF is to offer ways and means for alumni of Purdue University, as well as others, to provide scholarships and awards and support athletics and other University-related activities. PAF is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. PAF provided grants, contracts, and gifts to Purdue University totaling approximately $9.6 million during its most recent fiscal year. PAF's fiscal year begins January 1 and ends December 31. PAF's audited financial statements, as presented in Purdue University's financial report, were rounded to the nearest thousand dollars. PAF provided $4.3 million for building construction costs to the Ross-Ade Foundation, a University blended component unit. The gift income and corresponding asset value are reflected in the University's financial statements. The University recognized $6.5 million of gift income from PAF for the period January to June 2005. Complete financial statements for the foundation can be obtained by writing to: Purdue Alumni Foundation, 3000 Kent Avenue, West Lafayette, IN 47906.

Both PRF and PAF are private nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, "Financial Reporting of Not-for-Profit Organizations." As such, certain revenue recognition criteria and presentation features differ 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. The 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 $1,130,093 for the 2004–2005 fiscal year and $1,057,086 for the 2003–2004 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 $3,092,205 for the 2004–2005 fiscal year and $3,954,682 for the 2003–2004 fiscal year.

Notes Receivable. Notes receivable primarily represent student loan repayments due the University and are presented net of an allowance for doubtful accounts of $73,417 for the 2004–2005 fiscal year and $73,675 for the 2003–2004 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.

Investments. Investments, exclusive of institutional physical properties, are generally reported at fair value as of June 30, 2005. 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, 2005. 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. Effective July 1, 2004, the University changed its capitalization level from $10,000 to $100,000 for land improvements and infrastructure, and to expense library books if they fall under the $2,500 per item threshold for moveable equipment. Assets with a total cost of $64.0 million and accumulated depreciation of $6.3 million were retired and are reflected as the cumulative effect of a change in accounting policy of $57.7 million. This amount represents assets previously capitalized but not meeting the new capitalization levels.

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 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 and research, student aid, and other.
- Restricted–expendable: Net assets that may be spent provided certain third-party restrictions are met. The following categories of restricted–expendable net assets are presented: instruction and research; student aid; auxiliary enterprises; construction; and other. Approximately 83 percent or $345.9 million of the "other" category comes 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 governmental 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 when 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 2004–2005 fiscal year, revenue from gifts-in-kind of $5,040,183 was recognized. Comparative data for 2003–2004 reflect $18,415,416 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, 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, beginning in 2003–2004, 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 units reflect their respective PRF Trust interests on the Statements of Financial Position. The fair value of funds held by PRF Trusts for Purdue University was $30,204,730 for 2004–2005 and $29,491,686 for 2003–2004. 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/Restatement. $70.5 million of compensation and benefits expenses in 2003–2004 were reclassified as supplies and services to properly reflect the classification in the Statement of Revenues, Expenses, and Changes in Net Assets and in the Statement of Cash Flows. Also for 2003–2004, the Statement of Net Assets reflects the following changes to better reflect the allocation of appreciated endowment investment market value: a $22.9 million increase to unrestricted net assets, a $19.8 million decrease to restricted expendable net assets, and a $3.1 million decrease of funds held in trust and increase of investment income as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets. The 2003–2004 Statement of Cash Flows reclassified $30.5 million of net realized gains from Interest and Dividends, net to Proceeds from the Sales and Maturities of Investments.

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 original maturities three months or less. 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. As of June 30, 2005, the bank balance of the University's deposits (demand deposit accounts) was $6,540,589.99, of which $127,916.30 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 May 31, 1997, 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, 2005, the University had the following investments:

Investment Type	Market Value
U.S. Agencies	$ 167,044,665
Asset Backed Securities	52,729,834
Corporate Bonds	257,296,654
Equity	492,897,501
Mortgage Backed Securities	154,786,369
Private Equity	107,793,147
Real Estate	6,384,237
U.S. Treasuries and Securities	201,891,527
Securities Lending Cash Collateral	215,068,334
Mutual Funds and Cash	238,045,873
Total	**$1,893,938,141**

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 May 9, 2003. 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 20 percent 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 (in thousands):

			(Maturity)		
Sector	**0 To 1 Year**	**1 To 5 Years**	**6 To 10 Years**	**>10 Years**	**Totals**
U.S. Agencies	$ 69,922	$ 83,822	$ 12,204	$ 1,097	$ 167,045
Asset Backed Securities		36,474	6,294	9,961	52,729
Corporate Bonds	15,444	148,180	83,034	10,639	257,297
Mortgage Backed Securities	5,189	19,521	22,068	108,008	154,786
U.S. Treasury and Securities	58,254	112,695	25,434	5,509	201,892
Securities Lending Cash Collateral	215,068				215,068
Mutual Funds and Cash	86,382	109,742	35,313	6,609	238,046
Total	**$450,259**	**$510,434**	**$184,347**	**$141,823**	**$1,286,863**

The distribution of investment securities by credit ratings is summarized below (dollars in thousands). The Federal National Mortgage Association and Federal Home Loan Mortgage Company debt instruments represent $162.7 million (8.6%) and $123.4 million (6.5%), respectively:

AAA	$ 595,068	31.4%
AA	71,419	3.8%
A	72,258	3.8%
BAA	79,518	4.2%
BA	12,106	0.7%
B	2,352	0.1%
CAA	394	0.0%
Unrated	1,060,823	56.0%
Total	**$1,893,938**	**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 investment policy for custodial credit risk. As of June 30, 2005, with the exception of $107.8 million in private placements and investments in limited partnerships, 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 percent 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.

The University did not have direct exposure to foreign currency risk as of June 30, 2005.

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. As of June 30, 2005, the University had securities with a market value of $223,915,850 involved in loans. These loans were supported by collateral of $228,322,005. Of this collateral amount, $215,068,334 was cash and is included in cash and cash equivalents in the Statement of Net Assets, and $13,253,671 was acceptable noncash collateral. The University does not have the ability to pledge or sell the noncash collateral received except in the case of borrower default. Noncash 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. As of June 30, 2005, 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 comingled 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 ended June 30, 2005, income from its participation in this securities-lending program was $5,397,787, and the expense was $5,052,670. Net income to the University from this program was $345,117. 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 PAYABLES

During the 2004–2005 fiscal year, the State of Indiana deferred payment of the University's June operating appropriation of $27,992,315, representing 47.2% of total accounts receivable (net).

Accrued liabilities for payments related to construction in progress were $12,294,974 as of June 30, 2005, representing 37.0% of current accounts payable.

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 percent of all accrued, unused sick leave up to and including 520 hours are paid, and 100 percent of all accrued, unused sick leave that exceeds 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 sick leave hours 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 year ended June 30, 2005, is summarized below (dollars in thousands).

Capital Assets Activity *(Dollars in Thousands)*

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets, Not Being Depreciated:				
Land	$ 21,492	$	$	$ 21,492
Construction in Progress	120,133	113,668	67,861	165,940
Total, Capital Assets, Not Being Depreciated	$ 141,625	$ 113,668	$ 67,861	$ 187,432
Capital Assets, Being Depreciated:				
Land Improvements	55,953	1,476	6,299	51,130
Infrastructure	36,781	10,357	1,932	45,206
Buildings	1,323,321	96,114	1,441	1,417,994
Equipment	443,836	44,732	75,975	412,593
Operating Software	2,192	975		3,167
Administrative Software	12,514			12,514
Total, Capital Assets, Being Depreciated	$1,874,597	$ 153,654	$ 85,647	$1,942,604
Less Accumulated Depreciation:				
Land Improvements	40,202	1,919	5,591	36,530
Infrastructure	7,248	2,442	737	8,953
Buildings	550,562	45,893	900	595,555
Equipment	246,284	30,731	16,830	260,185
Software (Operating and Administrative)	4,063	2,642		6,705
Total Accumulated Depreciation	$ 848,359	$ 83,627	$ 24,058	$ 907,928
Total Capital Assets, Net of Accumulated Depreciation	$1,167,863	$183,695	$129,450	$1,222,108

NOTE 8 — DEBT RELATED TO CAPITAL ASSETS

Notes Payable. Notes outstanding of $5,685,142 as of June 30, 2005 represent financing for various activities.

On December 1, 1997, a note in the amount of $3,435,000 was obtained from Bank One, Indiana, N.A., to refund outstanding Athletic Facilities Bonds. The note has a floating interest rate and is due July 1, 2006. The outstanding balance of the note as of June 30, 2005 was $860,000. The interest rate as of June 30, 2005 was 2.56%.

On March 1, 1998, an Energy Savings Loan Agreement was negotiated with Bank One, Indiana, N.A. 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, 2005 was $4,726,592. The interest rate for the notes ranged from 2.63% to 5.04% as of June 30, 2005.

On December 16, 2003, a non-interest-bearing note for forestry woodlands was issued for $164,250. The outstanding balance as of June 30, 2005, was $98,550.

Bonds Payable. Bonds payable as of June 30, 2005 total $424,480,000, consisting of the following issues:

Issue	Issue Date	Interest Rates	Maturity Dates	Outstanding June 30, 2005
Student Facilities System Revenue Bonds:				
Series 2003A	2003	4.0%–5.38%	2004–2028	$91,525,000
Series 2003B	2003	2.0%–5.0%	2005–2029	24,350,000
Series 2004A	2004	Variable	2008–2033	28,100,000
Series 2005A	2005	Variable	2005–2029	24,200,000
Student Fee Bonds:				
Series E	1990	3.0%–3.9%	2004–2007	6,500,000
Series H	1993	2.78%–5.25%	1998–2015	10,600,000
Series K	1995	2.2%–5.63%	1997–2020	16,800,000
Series L	1995	3.0%–5.63%	1997–2020	14,700,000
Series N	1998	3.55%–5.5%	1998–2014	39,635,000
Series O	1998	2.68%–5.63%	2000–2019	28,820,000
Series P	1998	4.0%–5.25%	1999–2017	47,860,000
Series Q	2000	2.63%–6.0%	2002–2022	46,015,000
Series R	2002	3.0%–5.38%	2002–2023	17,025,000
Series S	2004	Variable	2007–2026	13,850,000
Series T	2004	Variable	2008–2027	14,500,000
Total				**$424,480,000**

The Student Fee Bonds are secured by a pledge of 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 $417,936,985 for the 2004–2005 fiscal year.

On October 27, 2004, Student Fee Bonds, Series T, were issued in the amount of $14.5 million. This series was issued to finance a portion of the costs of Phase I of the new Computer Science Building. As of June 30, 2005, the balance outstanding was $14.5 million.

On February 23, 2005, Student Facilities System Revenue Bonds, Series 2005A, were issued in the amount of $24.2 million. This series was issued to finance construction and renovation of campus housing and food service facilities on Purdue's West Lafayette campus. As of June 30, 2005, the balance outstanding was $24.2 million.

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

Fiscal Year	Principal	Interest	Total
2006	$ 20,870,000	$ 19,343,452	$ 40,213,452
2007	21,815,000	18,347,048	40,162,048
2008	22,955,000	17,282,853	40,237,853
2009	19,520,000	16,342,241	35,862,241
2010	20,035,000	15,356,035	35,391,035
2011–2015	115,240,000	59,532,391	174,772,391
2016–2020	87,525,000	33,842,429	121,367,429
2021–2025	59,680,000	16,732,657	76,412,657
2026–2030	44,740,000	5,650,030	50,390,030
2031–2033	12,100,000	745,500	12,845,500
	$424,480,000	$203,174,636	$627,654,636
Add Unamortized Premium	5,119,590		5,119,590
Total	**$429,599,590**	**$203,174,636**	**$632,774,226**

Capital Leases. On June 30, 2005, long-term debt included amounts relating to properties with a net book value of $93,339,497 leased from a blended component unit. The outstanding balance on these leases as of June 30, 2005, was $82,130,000. The debt payments on these properties in the 2004–2005 fiscal year totaled $8,173,821, consisting of $3,795,000 principal and $4,378,821 interest.

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

Fiscal Year	Principal	Interest	Total
2006	$ 3,960,000	$ 4,207,407	$ 8,167,407
2007	4,165,000	4,007,352	8,172,352
2008	4,380,000	3,790,029	8,170,029
2009	4,595,000	3,572,954	8,167,954
2010	4,395,000	3,342,429	7,737,429
2011–2015	17,930,000	13,910,230	31,840,230
2016–2020	15,135,000	9,348,581	24,483,581
2021–2025	18,710,000	5,112,750	23,822,750
2026–2027	8,860,000	670,000	9,530,000
Total	**$82,130,000**	**$47,961,732**	**$130,091,732**

NOTE 9 — OTHER DEBT INFORMATION

Long-term Liabilities. Long-term liability activity (expressed in thousands of dollars) for the year ended June 30, 2005, is summarized below:

***Long-term Liabilities** (Dollars in Thousands)*

	Restated Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Current Portion
Advances from Federal Government	$ 20,543	$ 793	$ 615	$ 20,721	
Bonds Payable, Net	414,909	38,700	24,009	429,600	$21,281
Compensated Absences	35,813	36,264	33,377	38,700	21,686
Deferred Revenue	12,456	139	6,026	6,569	
Funds Held in Trust for Others	6,554	4,763	4,805	6,512	
Leases Payable to Affiliated Foundations	85,925		3,795	82,130	3,960
Notes Payable	7,404		1,719	5,685	1,802
Total	**$583,604**	**$80,659**	**$74,346**	**$589,917**	**$48,729**

Defeased Bond Issues. In prior years, the University defeased the following bond issues by 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 Date	Amount Outstanding June 30, 2005
Building Facilities Fee Bonds	2009	$5,880,000
Dormitory Facilities Revenue Bonds, Series A–L	2008	1,693,000
Student Fee Bonds, Series M	2006	47,525,000

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. On June 30, 2005, the outstanding amount of these bonds was $5,805,000. 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 ended June 30, 2005 were $8,633,614 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 twelve quarters in semiannual distributions. Each distribution includes both income and equity components. Market appreciation of the pool was $361,188,276 as of June 30, 2005. Of this amount, 35.5% 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, 2005, contractual obligations for capital construction projects were $100,808,691.

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, 2005, the University had the following unfunded commitments: $46,156,372 to seventeen Private Equity/Venture Capital managers, $4,475,500 to three private real estate managers, $2,450,000 to one natural resource manager, and $2,977,303 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 follows:

Fiscal Year	Amount
2005–2006	$14,014,794
2006–2007	14,014,794
2007–2008	14,014,794
2008–2009	14,014,793

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 2004–2005 fiscal year, the University's cost was $39,522,120 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 2004–2005 fiscal year, the University made contributions totaling $55,355,440 to this plan. For the fiscal year ended June 30, 2005, there were 5,715 employees participating in TIAA with annual pay equal to $376,347,750.

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 2004–2005 fiscal year, the University made contributions totaling $8,790,288 to this plan. For the fiscal year ended June 30, 2005, there were 5,024 employees participating in PERF with annual pay equal to $128,869,359.

The required employer's contribution was determined as part of the July 1, 2004 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 33 years. Actuarial information related to the University's portion of the plan is disclosed later in this note.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing to: Public Employees Retirement Fund, Harrison Building, Room 800, 143 W. 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 ended June 30, 2005, there were 101 employees participating in Police/Fire with annual pay equal to $4,538,032.

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 S. Grant Street, West Lafayette, IN 47907-2024.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2004. 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, 2004, of $2.6 million, which is being amortized over a 30-year period. The required contribution to the plan for the 2004–2005 fiscal year was $916,749, consisting of $598,460 normal cost, $258,314 amortization of the unfunded liability, and $59,975 of interest. Of the required amount, $125,741 represents employee contributions, and $791,008 represents the University's contribution. The actual amount contributed by the University was $818,246. The required contribution was determined as part of the July 1, 2004 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 5% 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[†]	2002	134,304	138,342	4,038	97.1%	109,160	3.7%	5,544	111.9%	(4,048)
	2003	142,790	127,758	(15,032)	111.8%	109,468	-13.7%	5,934	108.4%	(4,549)
	2004	UNDER	REVIEW		UNDER	REVIEW		UNDER	REVIEW	
Police/Fire	2002	12,175	15,674	3,499	77.7%	3,867	90.5%	868	107.1%	(54)
	2003	13,384	16,730	3,346	80.0%	4,298	77.8%	912	100.0%	0
	2004	15,007	17,618	2,611	85.2%	4,538	57.5%	917	103.4%	(27)

**Data for 2005 not available from actuaries.*
[†]University portion only.

Cooperative Extension Service. As of June 30, 2005, there were 66 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 $250,000 per incident, with a maximum annual aggregate liability of $7.0 million.

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.

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, 2005 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 2004–2005 and 2003–2004 fiscal years were as follows:

	Year Ended June 30, 2005	**Year Ended June 30, 2004**
Beginning Liability	$14,914,193	$23,782,576
Claims Incurred	57,357,438	58,860,507
Claims Payments	(59,202,942)	(67,728,890)
Ending Liability	**$13,068,689**	**$14,914,193**

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NOTE 14 — OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification (expressed in thousands of dollars) for the fiscal years ended June 30, 2005 and June 30, 2004 are summarized as follows:

Operating Expenses by Function for the Year Ended June 30, 2005

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$409,129	$ 64,862			$ 473,991
Organized Activities Related to Instruction and Research	7,550	9,363			16,913
Sponsored Research	102,783	50,032			152,815
Other Separately Budgeted Research	34,958	5,511			40,469
Extension and Public Service	66,202	27,462			93,664
Academic Support	15,804	16,593			32,397
Student Services	27,714	6,830			34,544
Physical Plant Operations and Maintenance	56,577	37,566			94,143
General Administration	58,883	22,926			81,809
General Institutional Services	27,209	8,897			36,106
Student Aid	1,399	1,495		$29,262	32,156
Auxiliary Enterprises	79,371	86,680			166,051
Depreciation			$83,627		83,627
Total	**$887,579**	**$338,217**	**$83,627**	**$29,262**	**$1,338,685**

Operating Expenses by Function for the Year Ended June 30, 2004 (Restated)

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$385,569	$ 61,734			$ 447,303
Organized Activities Related to Instruction and Research	7,278	8,388			15,666
Sponsored Research	98,271	41,138			139,409
Other Separately Budgeted Research	33,170	5,605			38,775
Extension and Public Service	64,104	25,758			89,862
Academic Support	15,366	14,283			29,649
Student Services	26,153	7,020			33,173
Physical Plant Operations and Maintenance	48,435	32,001			80,436
General Administration	57,205	26,980			84,185
General Institutional Services	22,531	7,773			30,304
Student Aid	1,562	19		$29,150	30,731
Auxiliary Enterprises	77,584	80,481			158,065
Depreciation			$75,301		75,301
Total	**$837,228**	**$311,180**	**$75,301**	**$29,150**	**$1,252,859**

NOTE 15 — SUBSEQUENT EVENTS

On July 20, 2005, the University issued Student Fee Bonds, Series U, in the amount of $35,200,000, with a fixed rate of interest. This series was issued as a partial refunding of the Series Q bonds.

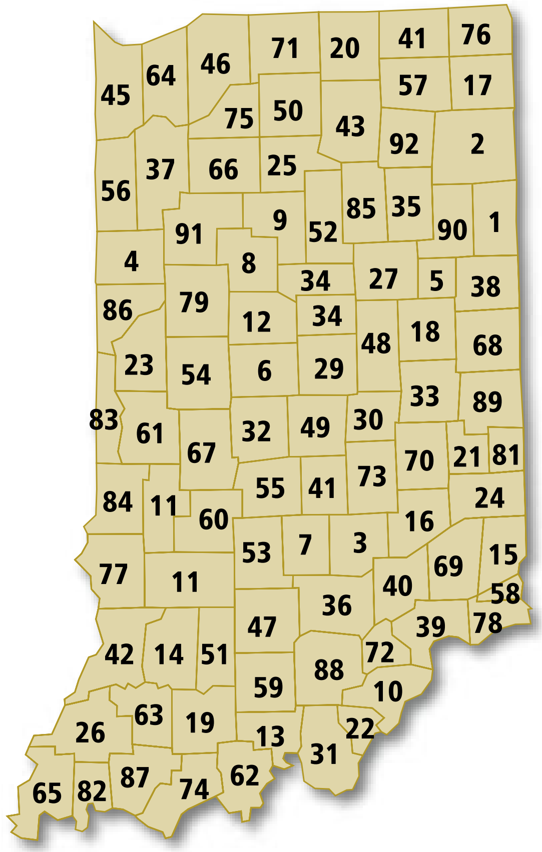
On September 23, 2005, the Purdue University Board of Trustees as beneficiary of the Purdue Alumni Foundation (PAF) consented to the dissolution of PAF with the distribution of its managed funds, subject to all liabilities and applicable restrictions, to the Purdue Research Foundation (PRF), and the balance of all other funds (unrestricted funds) to the Purdue Alumni Association, Inc. On September 29, 2005, the PRF Board of Directors accepted the managed fund assets of PAF upon dissolution. The dissolution is expected to be completed by January 1, 2006.

On October 12, 2005, the University issued Student Fee Bonds, Series V, in the amount of $60,415,000, with a variable rate of interest. This series will be issued to assist in the financing of the Armstrong Hall of Engineering on the West Lafayette campus and the Music Building on the Fort Wayne campus.

IN-STATE ENROLLMENT (UNAUDITED)

Total In-State Enrollment by County, Fall 2004–2005 Academic Year

The overall (in-state and out-of-state) enrollment at Purdue University was 64,582 students for the 2004–2005 fall semester. The breakdown was: West Lafayette, 38,653; Calumet, 9,222; Fort Wayne, 11,810; North Central, 3,441; and Statewide Technology, 1,456. (The enrollment figures do not include 4,164 Purdue University students at Indiana University-Purdue University Indianapolis.) Although students came to Purdue from all over the world, 73% system-wide came from within Indiana.



	County	West Lafayette	Regional Campuses	Statewide Technology Sites	Total
1	Adams	98	406		504
2	Allen	1,101	7,311	5	8,417
3	Bartholomew	269	4	130	403
4	Benton	148	3	8	159
5	Blackford	26	10		36
6	Boone	370	3	1	374
7	Brown	11		6	17
8	Carroll	179	2	9	190
9	Cass	186	19	40	245
10	Clark	149	1	36	186
11	Clay	60	2	1	63
12	Clinton	245	6	17	268
13	Crawford	15			15
14	Daviess	50	1		51
15	De Kalb	99	530	1	630
16	Dearborn	184		5	189
17	Decatur	134	1	43	178
18	Delaware	168	22	20	210
19	Dubois	164	1	2	167
20	Elkhart	519	61	51	631
21	Fayette	51	2	26	79
22	Floyd	174	1	37	212
23	Fountain	126	2	1	129
24	Franklin	68		7	75
25	Fulton	86	29	5	120
26	Gibson	87			87
27	Grant	158	54	19	231
28	Greene	47		1	48
29	Hamilton	1,264	12	25	1,301
30	Hancock	278		6	284
31	Harrison	58		12	70

	County	West Lafayette	Regional Campuses	Statewide Technology Sites	Total
32	Hendricks	525	2	9	536
33	Henry	107	2	17	126
34	Howard	404	7	129	540
35	Huntington	121	435	1	557
36	Jackson	98		36	134
37	Jasper	243	166	1	410
38	Jay	25	13	3	41
39	Jefferson	71		10	81
40	Jennings	43		27	70
41	Johnson	318		13	331
42	Knox	103	2		105
43	Kosciusko	282	450	7	739
44	La Grange	70	105	1	176
45	Lake	2,129	7,631	3	9,763
46	La Porte	416	1,592	5	2,013
47	Lawrence	87		1	88
48	Madison	291	4	89	384
49	Marion	1,938	20	50	2,008
50	Marshall	176	31	14	221
51	Martin	14			14
52	Miami	132	19	39	190
53	Monroe	188	6	2	196
54	Montgomery	204	4	12	220
55	Morgan	165	3	2	170
56	Newton	84	29		113
57	Noble	101	453	1	555
58	Ohio	15			15
59	Orange	54		2	56
60	Owen	18			18
61	Parke	29		2	31
62	Perry	31		1	32

	County	West Lafayette	Regional Campuses	Statewide Technology Sites	Total
63	Pike	24			24
64	Porter	875	2,093	2	2,970
65	Posey	85	1		86
66	Pulaski	113	26	2	141
67	Putnam	104	1	2	107
68	Randolph	42	5	9	56
69	Ripley	90	3	27	120
70	Rush	59		5	64
71	St. Joseph	987	98	129	1,214
72	Scott	26		5	31
73	Shelby	136	1	8	145
74	Spencer	77	2		79
75	Starke	89	140	3	232
76	Steuben	93	260		353
77	Sullivan	23			23
78	Switzerland	22		1	23
79	Tippecanoe	3,184	33	72	3,289
80	Tipton	103		12	115
81	Union	11		2	13
82	Vanderburgh	352	2	1	355
83	Vermillion	45			45
84	Vigo	194	1		195
85	Wabash	106	183	2	291
86	Warren	60		1	61
87	Warrick	194	2		196
88	Washington	31	2	14	47
89	Wayne	167	4	73	244
90	Wells	84	344	1	429
91	White	286	5	7	298
92	Whitley	82	493		575
	Total	**22,798**	**23,156**	**1,369**	**47,323**

ACKNOWLEDGEMENTS:

The following staff members of the Department of Accounting Services, Office of the Comptroller, prepared the 2004–2005 Financial Report and the included financial statements.

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FINANCIAL REPORT 2005

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