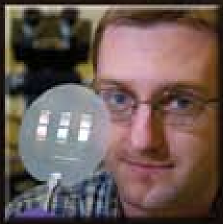
PURDUE
UNIVERSITY

FINANCIAL REPORT 2005–2006



LETTER OF TRANSMITTAL

To the Board of Trustees of Purdue University:

We are pleased to submit this, the 84th annual financial report of Purdue University. This report is for the fiscal year that ended June 30, 2006, and sets forth the complete and permanent record of the financial status of the University for the year.

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

Respectfully submitted,

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.

REPORT OF THE TREASURER

This report presents Purdue University's financial position and results of operations for the fiscal year ending June 30, 2006. We provide this financial report as part of the University's commitment to report annually on its fiscal affairs. These financial statements have been audited by the Indiana State Board of Accounts and their report appears on page 5.

Purdue University, founded in 1869 and named for benefactor John Purdue, began its journey with six faculty, 39 students, and a mission to provide education in agriculture and the mechanical arts as one of the nation's land grant institutions. Since its inception, Purdue has been advancing education and transforming lives through its mission of learning, discovery, and engagement. The student body is made up of over 69,000 students on four campuses and multiple enrollment centers across the state, from every county in Indiana, all fifty states, and 130 countries.

Through its strategic plan, Purdue is focused on achieving preeminence as a public research university. Included in this focus are plans to provide the infrastructure and financing necessary to realize this vision. The University completed major construction projects in excess of $156 million during fiscal year 2006, including three new academic/research buildings on the West Lafayette campus. These buildings are the Birck Nanotechnology Center and the Bindley Bioscience Center in Discovery Park, the University's new location for collaborative, interdisciplinary research, and the Biomedical Engineering Building, adjacent to Discovery Park. Additional physical infrastructure investments estimated at over $396 million are either under way or in design at this time.

Purdue also is practicing good stewardship in its existing campus infrastructure by implementing a plan to fund repairs and rehabilitation (R&R) of existing facilities through careful fiscal management of dedicated student fee revenue, debt financing, and R&R appropriations from the state of Indiana. The facilities expansion on the West Lafayette campus has increased demands on the utility infrastructure as well, requiring careful planning for replacement and expansion of campus heating, cooling, and electrical systems. Purdue is also conscious of its responsibility to be an efficient consumer of natural resources and has embarked on an energy management and sustainability plan that includes the establishment of conservation measures, phased implementation of building-level metering, and the creation of an energy management office.

The focus on infrastructure replacement extends to the University's aging enterprise information systems. OnePurdue is the University's multi-year, system-wide initiative that will change the way Purdue does business by integrating mission-critical enterprise data, information, and business processes. Replacement of financial, human resources, and student information systems is included in this aggressive plan, which is now under way. Once fully implemented, OnePurdue applications will be used by virtually everyone in the University community.

Purdue jointly manages and invests its endowment funds with the Purdue Research Foundation, in order to capture economy of scale and to provide access to a variety of sophisticated investment options. During fiscal year 2006, the respective boards approved a new endowment investment policy, with a revised asset allocation that targets a reduced allocation to U.S. equities and fixed income, and an increased allocation to non-U.S. developed markets, emerging markets, real estate, and natural resources. At June 30, 2006, the market value of the combined Purdue Endowment was $1.494 billion.

Through prudent stewardship, Purdue University continues on its march toward preeminence.

MORGAN R. OLSEN
Executive Vice President and Treasurer

BOARD OF TRUSTEES

As of June 30, 2006

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.

J. Timothy McGinley
Chairman of Board
Appointed July 1993
Indianapolis, Indiana
President, House Investments, Inc.
Term: 1989–2007

Michael J. Birck
Hinsdale, Illinois
Chairman and CEO, Tellabs, Inc.
Term: 1999–2009

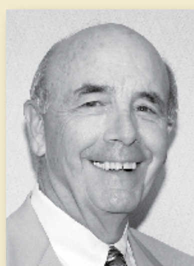
William S. Oesterle
Indianapolis, Indiana
CEO, Angie's List
Term: 2005–2008

John D. Hardin Jr.
Vice Chairman of Board
Appointed September 2004
Danville, Indiana
Farmer
Term: 1992–2007

Mamon M. Powers Jr.
Gary, Indiana
President, Powers and Sons Construction Company, Inc.
Term: 1996–2008

Mark W. Townsend
Hartford City, Indiana
Farmer
Term: 2004–2007

Barbara H. Edmondson
Clayton, Indiana
Partner, Edmondson Liberty Farms and Edmondson Farm Management
Term: 1997–2006



Thomas E. Spurgeon
Peoria, Illinois
Consultant to Lincoln Office
Term: 2005–2008

Robert E. Peterson
Rochester, Indiana
Attorney
Term: 2003–2006

Rachel N. Cumberbatch
Lebanon, Indiana
Student
Term: 2005–2007

OFFICERS OF THE UNIVERSITY

As of June 30, 2006

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*
RABINDRA N. MUKERJEA, *Director of Strategic Planning and Assessment*
THOMAS B. ROBINSON, *Vice President for Student Services*
ALYSA C. ROLLOCK, *Vice President for Human Relations*
CHARLES O. RUTLEDGE, *Vice President for Research*
KEN L. SANDEL, *Managing Director for the Executive Vice President and Treasurer*
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*

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, 2006 and 2005. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. We also did not audit the trust which maintains the University's portion of trust agreements as discussed in Note 1. The University's interest in the charitable remainder trusts represents approximately 1% of the assets of the University. The financial statements of these units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based upon the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Purdue University, as of June 30, 2006 and 2005, 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 October 19, 2006, 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

October 19, 2006

State Board of Accounts

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ending June 30, 2006

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of Purdue University for the fiscal year ending June 30, 2006, the financial activities for the 2005–2006 fiscal year, and a brief description of the financial statements produced herein. This discussion should be read in conjunction with the financial statements and the notes to the statements, which immediately follow this section.

The financial information presented in this report is designed to enable the user to review how the University managed its resources to meet its primary missions of discovery, learning, and engagement.

It should be recognized that a presentation of the financial performance of the University is not a full measure of the value of the discovery, learning, and engagement functions carried out during the year. This report deals with the costs and sources of revenue used to provide the quality and diversity in higher education that the University believes necessary to meet its goals and objectives.

In 2005–2006, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

FINANCIAL HIGHLIGHTS

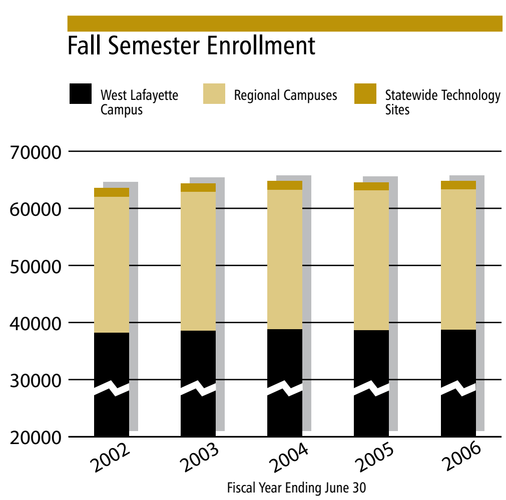
Operating revenues were $987.1 million, compared to $946.1 million in the prior year — an increase of 4.3%. This increase is due primarily to increases in net student fee revenue ($31.8 million) and grants and contracts ($7.9 million).

Tuition and fee revenue, net of scholarship allowances, increased from $417.9 million in the 2004–2005 fiscal year to $449.7 million in the 2005–2006 fiscal year — an increase of 7.6%. 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.

Total operating expenses increased 4.5% from $1.34 billion for the 2004–2005 fiscal year to $1.4 billion for the 2005–2006 fiscal year. This change was driven by a 4.5% increase in compensation and benefits, the single largest component of operating expenses, which increased by $39.6 million from $887.6 million to $927.2 million.

Nonoperating revenues decreased $35.2 million, from $595.4 million in the 2004–2005 fiscal year to $560.2 million in the 2005–2006 fiscal year. Investment income decreased $12.0 million from $114.1 million in the 2004–2005 fiscal year to $102.1

Figure 1. Five-Year Enrollment Data*



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

million in the 2005–2006 fiscal year. Investment income includes dividends and interest, realized gains and losses, as well as 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, 2005, and June 30, 2006, is contained in investment income.

Capital and endowment activity increased $1.7 million or 2.7% from the 2004–2005 fiscal year.

The 2005–2006 change in net assets of $148.9 million represents an increase of $3.8 million or 2.6% from the prior-year increase of $145.1 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 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

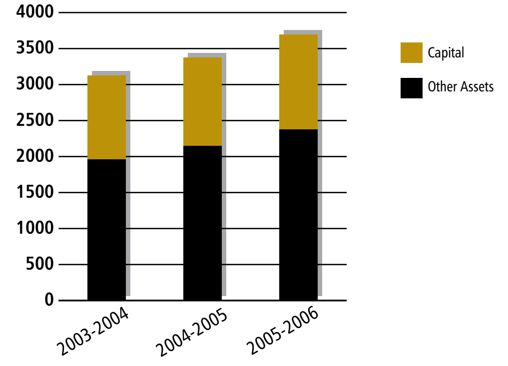
Current assets include those that may be used to support current operations, such as cash and cash equivalents, accounts and pledges receivable, and inventories. Noncurrent assets include capital assets, certain pledges receivable, and investments. Total assets were $3.6 billion as of June 30, 2006, compared to $3.3 billion at June 30, 2005, an increase of $277.3 million or 8.4%. Current assets as of June 30, 2006, increased $7.6 million while noncurrent assets increased $269.7 million or 10.0%.

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

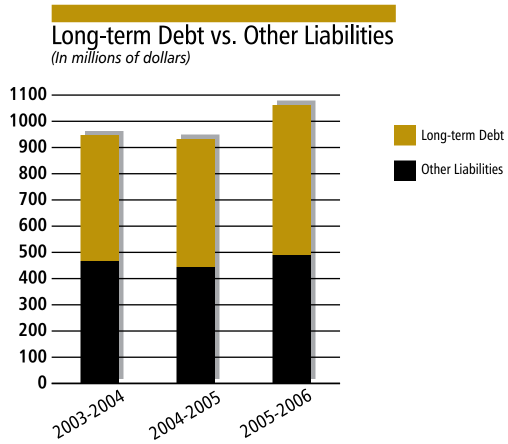
Figure 2

Capital vs. Other Assets
(In millions of dollars)



securities lending activity, and salaries and wages payable. Noncurrent liabilities include bonds, notes, and leases payable. Total liabilities were $1,062.3 million at June 30, 2006 and $933.8 million at June 30, 2005. Figure 3 depicts the portion of long-term debt relative to total liabilities.

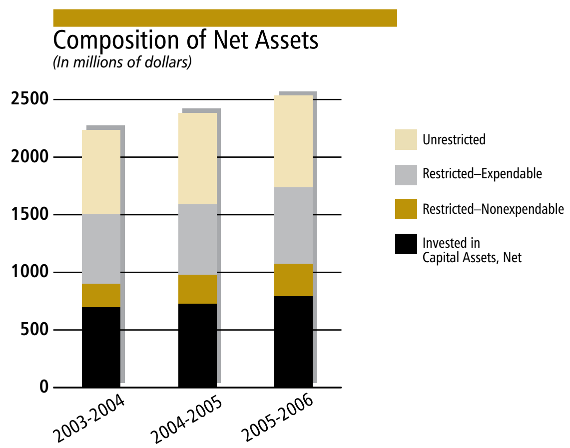
Figure 3



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 $2.53 billion as of June 30, 2006. Figure 4 provides a comparison between fiscal years as well as the composition of net assets.

Figure 4



Biomedical Engineering Building

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)*

	Restated 2003–2004	**2004–2005**	**2005–2006**
Current Assets	$611,216	$608,709	$616,334
Capital Assets	1,167,863	1,222,108	1,324,298
Other Assets	1,401,348	1,486,647	1,654,189
Total Assets	3,180,427	3,317,464	3,594,821
Current Liabilities	407,873	392,627	444,845
Noncurrent Liabilities	533,980	541,188	617,427
Total Liabilities	941,853	933,815	1,062,272
Invested in Capital Assets, Net of Related Debt	697,257	727,659	791,088
Restricted–Nonexpendable	205,104	248,548	282,897
Restricted–Expendable	604,448	615,405	662,549
Unrestricted	731,765	792,037	796,015
Total Net Assets	**$2,238,574**	**$2,383,649**	**$2,532,549**

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 2005–2006 fiscal year are listed in Table 2.

Table 2. Major Projects Completed during the 2005–2006 Fiscal Year *(More than $1 Million)*

	Project Total (Dollars in Thousands)
Aquaculture Building Reconstruction	$ 2,659
Bindley Bioscience Center	15,000
Biomedical Engineering Building	25,000
Birck Nanotechnology Center	58,300
Calumet Campus Parking Garage	11,500
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 Completed	**$156,543**

Bindley Bioscience Center

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

	Project Budget (Dollars in Thousands)
Armstrong Hall of Engineering	$ 53,187
Cary Quadrangle, Phases V and VI	19,700
Computer Science Building, Phase I (Lawson Hall)	20,000
Dennis J. and Mary Lou Schwartz Tennis Center	7,200
Discovery Park Site Development, Phase IV and V	1,925
Discovery Park Site Development, Phase Va	1,045
Earhart Residence Hall — Installation of Sprinklers and Student Room Air Conditioning	7,950
Fort Wayne Chiller Replacement	2,000
Fort Wayne Student Housing, Phase II	10,500
Fort Wayne Music Building	28,000
Gerald D. and Edna E. Mann Hall	12,400
High Voltage Improvements, Phase I	1,750
McCutcheon Drive Parking Garage Addition	16,712
McCutcheon Hall Fire Protection and Air Conditioning	8,900
Stewart Center Partial Roof Replacement and Masonry Repair	1,269
Wade Utility MACT Compliance	9,000
Total Major Projects in Progress	**$201,538**

In addition, the University's Board of Trustees has authorized the following major projects that had not been started as of June 30, 2006:

Table 4. Major Projects Authorized, but Not Started

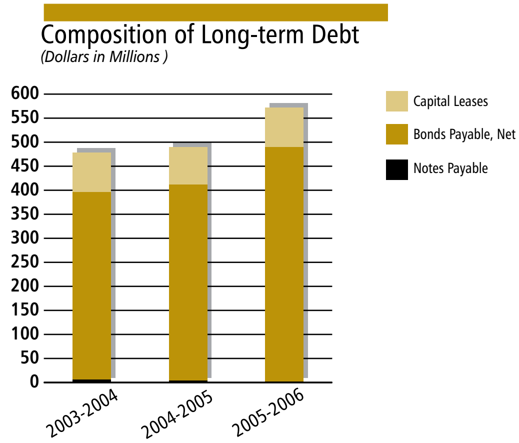
	Project Budget (Dollars in Thousands)
Beck Agricultural Center	$ 4,100
Child Care Center	3,000
Discovery Learning Center	10,000
High Voltage Improvement, Phase II	25,100
PMU Market Renovation	6,160
Printing Services Facility	3,700
Purdue Village Community Center	3,820
Replacement Student Apartments	60,000
Residence Halls Food Service Consolidation, Phase IV	12,382
Storm Sewer Modifications	9,500
University Hall Accessibility Upgrade	2,200
Wetherill Laboratory of Chemistry Electrical Upgrade	2,000
Windsor Residence Halls Renovation	53,000
Total Major Projects Authorized	**$194,962**

Debt and Financing Activities

During the fiscal year, the University issued three series of bonds: Student Fee Bonds Series U for $35.2 million, Student Fee Bonds Series V for $60.4 million, and Student Fee Bonds Series W for $41.6 million. Series U was issued to partially refinance Series Q. Series V provided partial financing of the Neil Armstrong Hall of Engineering on the West Lafayette campus and the Fort Wayne Music Building. Series W was issued to finance Strategic Infrastructure and Utilities Improvements on the West Lafayette campus.

The University also entered into a capital lease with Purdue Research Foundation, a discrete component unit. The lease-purchase agreement was $8.2 million for the Academic Learning Center near the Calumet campus.

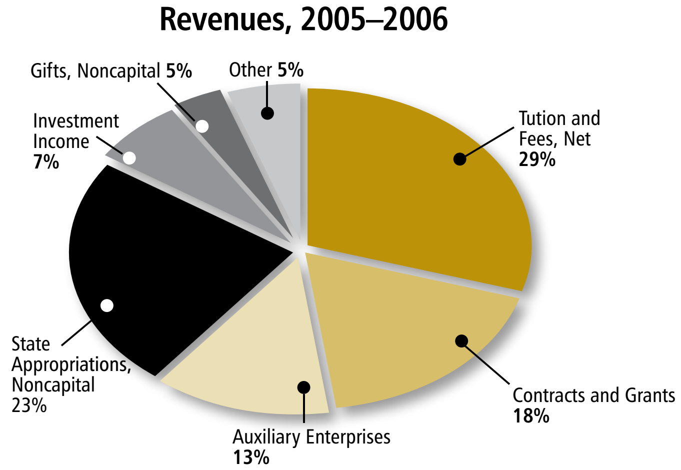
Figure 5



In the 2005–2006 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 6



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 affect the net assets of the University.

Revenues are classified as either operating or nonoperating. Operating revenues include tuition and fees, grants and contracts, auxiliary enterprises, and sales and services. Tuition and fees and housing are shown net of an allowance for scholarships. If scholarships awarded to students exceed the amount owed for tuition and housing, the amounts paid to students are shown as expenses. Nonoperating revenues include state appropriations, investment income, and private gifts. 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 2005–2006 fiscal year.

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

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

Expressed in Thousands	Restated 2003–2004	2004–2005	2005–2006
Operating Revenues			
Tuition and Fees, Net	$ 385,198	$ 417,937	$ 449,691
Grants and Contracts	244,090	262,869	270,785
Auxiliary Enterprises, Net	189,022	196,743	195,093
Other Operating Revenues	65,597	68,535	71,554
Total Operating Revenues	883,907	946,084	987,123
Operating Expenses			
Depreciation	75,301	83,627	90,325
Operating Expense	1,177,558	1,255,058	1,308,074
Total Operating Expenses	1,252,859	1,338,685	1,398,399
Operating Loss	(368,952)	(392,601)	(411,276)
Nonoperating Revenue	529,132	533,300	496,415
Capital and Endowments	63,344	62,089	63,761
Total Nonoperating Revenues	592,476	595,389	560,176
Cumulative Effect of Change in Accounting Policy		(57,713)	
Increase in Net Assets	223,524	145,075	148,900
Net assets, Beginning of Year	2,015,050	2,238,574	2,383,649
Net assets, End of Year	**$2,238,574**	**$2,383,649**	**$2,532,549**

Statement of Cash Flows

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

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

	2003–2004	2004–2005	2005–2006
Cash Used by Operating Activities	$(297,226)	$(306,042)	$(317,519)
Cash Provided by Noncapital Financing Activities	453,470	471,119	441,094
Cash Provided (Used) by Investing Activities	(15,732)	(80,954)	37,159
Cash Used by Capital and Related Financing Activities	(148,758)	(173,458)	(137,467)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,246)	(89,335)	23,267
Cash and Cash Equivalents, Beginning of Year	482,964	474,718	385,383
Cash and Cash Equivalents, End of Year	**$474,718**	**$385,383**	**$408,650**

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

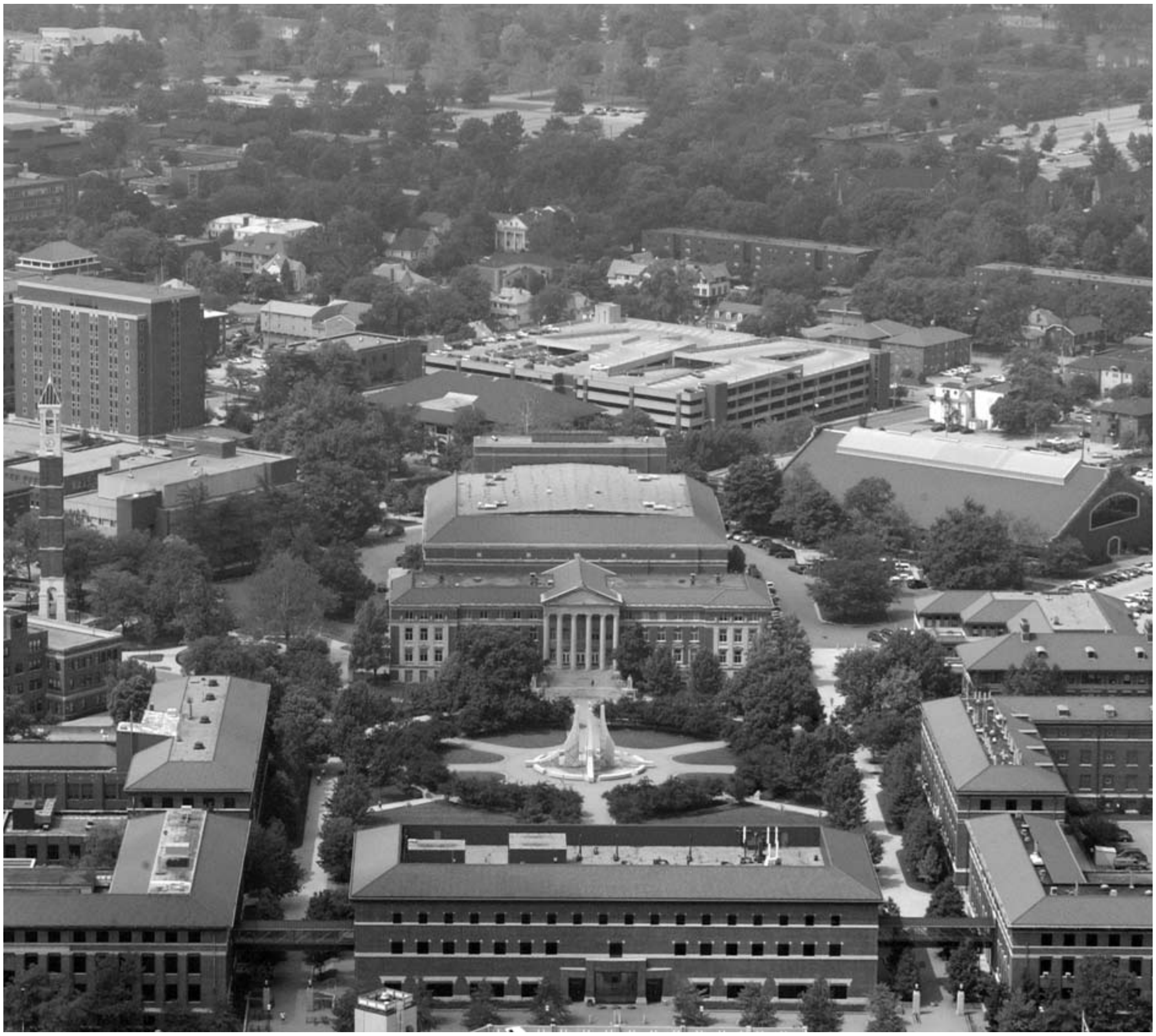
For the 2006–2007 fiscal year, the University received increases in operating appropriations from the state of Indiana for each campus — West Lafayette (0.9%), Calumet (1.7%), North Central (2.7%), and Fort Wayne (3.1%). Tuition rate increases were set for two fiscal years (2005–2006 and 2006–2007), with six percent increases each year, not inclusive of a new Repair and Rehabilitation (R&R) fee for new students only, which was effective fall 2006. The strategic plan fee increase that was implemented in 2002–2003 will be fully implemented in 2007–2008, and the fee will have generated approximately $35.4 million for plan priorities. With this combination of limited increases in operating appropriations and tuition and fees, the University has continued its emphasis on internal reallocations to high priority initiatives.

The University is expected to receive $16.6 million for R&R funding from the state for the 2005–2007 biennium, which is nearly 50% of the requested formula funding amount. The state has also agreed to pay $10.8 million toward its June 2005 Purdue University operating accounts payable of $27.9 million. The University must allocate these dollars for deferred maintenance, not general fund expenses as originally appropriated.

The University has submitted its 2007–2009 Legislative Request for Operating Appropriations to the state. In addition to modest base adjustments and inflationary increases, the request also calls for a new initiative to facilitate growth of the "Indiana New Manufacturing Economy" linking our expertise from each campus in the manufacture of liquid fuel alternatives, pharmaceuticals, advanced manufacturing, value-added agriculture, logistics, and regional strengths. The January 2007 legislative session will set Purdue's operating appropriation for the next biennium.

Enrollment* at all Purdue campuses increased to 64,769 for the fall semester of the 2005–2006 academic year, up from 64,582 the previous year. This includes an increase of 59 students for a total of 38,712 on the West Lafayette campus. Undergraduate enrollment is being carefully managed at the

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



West Lafayette campus while other campuses in the Purdue system have the ability to serve additional full-time and part-time students.

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, 2006, the University community has raised $1.396 billion toward its $1.5 billion goal.

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

Particular attention should be given to the Notes to the Financial Statements that are an integral part of the financial statements.

STATEMENT OF NET ASSETS

	As of June 30	
	2006	2005
	(Dollars in Thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$408,650	$385,383
Accounts Receivable, Net of Allowance for Uncollectible Amounts	39,962	31,346
Marketable Securities	49,548	132,535
Pledges Receivable, Net of Allowance for Uncollectible Amounts	26,093	23,198
Notes Receivable, Net of Allowance for Uncollectible Amounts	11,219	8,952
Bond Proceeds Receivable	42,382	
Accrued Revenues	15,125	15,322
Appropriation Receivable from the State	10,795	
Other Assets	12,560	11,973
Total Current Assets	**$616,334**	**$608,709**
Noncurrent Assets:		
Notes Receivable, Net of Allowance for Uncollectible Amounts	34,962	37,158
Pledges Receivable, Net of Allowance for Uncollectible Amounts	25,573	26,772
Marketable Securities and Other Investments	1,558,567	1,376,020
Interest in Charitable Remainder Trusts	17,890	18,705
Appropriation Receivable from the State	17,197	27,992
Capital Assets, Net of Accumulated Depreciation	1,324,298	1,222,108
Total Noncurrent Assets	**2,978,487**	**2,708,755**
Total Assets	**$3,594,821**	**$3,317,464**
LIABILITIES:		
Current Liabilities:		
Accounts Payable	39,001	33,269
Accrued Salary and Wages	14,097	10,398
Accrued Compensated Absences (Current Portion)	21,555	21,686
Deferred Revenue (Current Portion)	49,683	41,718
Deposits Held in Custody for Others	18,361	20,872
Accrued Expenses	22,781	22,573
Securities Lending Liability	250,494	215,068
Bonds (Net), Leases and Notes Payable (Current Portion)	28,873	27,043
Total Current Liabilities	**$444,845**	**$392,627**

(continued on page 15)

STATEMENT OF NET ASSETS *(CONTINUED)*

	As of June 30	
	2006	2005
	(Dollars in Thousands)	
Noncurrent Liabilities:		
Accrued Compensated Absences (Less Current Portion)	16,875	17,014
Deferred Revenue (Less Current Portion)	838	6,569
Funds Held in Trust for Others	7,026	6,512
Bonds (Net), Leases and Notes Payable (Less Current Portion)	572,232	490,372
Advances from Federal Government	20,456	20,721
Total Noncurrent Liabilities	**617,427**	**541,188**
Total Liabilities	**$1,062,272**	**$933,815**
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	**$791,088**	**$727,659**
Restricted		
Nonexpendable		
Instruction and Research	146,824	125,085
Student Aid	111,307	99,254
Other	24,766	24,209
Total Nonexpendable	**$282,897**	**$248,548**
Expendable		
Instruction and Research	60,611	69,515
Student Aid	55,638	60,239
Auxiliary Enterprises	3,980	3,384
Construction	84,040	66,401
Other (Note 1)	458,280	415,866
Total Expendable	**$662,549**	**$615,405**
Unrestricted	**796,015**	**792,037**
Total Net Assets	**$2,532,549**	**$2,383,649**

See Accompanying "Notes to the Financial Statements."

COMPONENT UNIT

Statement of Financial Position

	Purdue Research Foundation For the Year Ending June 30, 2006 (Dollars in Thousands)
Assets	
Cash and cash equivalents	$ 24,105
Accounts and other receivables	4,530
Pledges receivable	1,937
Investments in securities	710,679
Investment in INCAPS	153
Mortgages and contracts	60
Notes receivable	955
Investment in AmeriPlex PRF, LLC	7,972
Real estate	109,267
Less allowances	(11,779)
Net real estate	$ 97,488
Other assets and equipment	$9,953
Less allowances	(3,056)
Net other assets and equipment	$ 6,897
Interest in charitable remainder trusts	$ 27,720
Interest in charitable perpetual trust	18,182
Total Assets	**$900,678**
Liabilities and net assets	
Liabilities	
Accounts payable	$ 7,997
Net funds held as custodian	45,062
Bonds payable	17,695
Mortgages and notes payable	18,216
Gift annuity payable	2,038
Total Liabilities	**$ 91,008**
Net Assets	
Unrestricted	100,210
Board designated	15,000
Temporarily restricted	492,340
Permanently restricted	105,217
Unrealized gains	96,903
Total net assets	**$809,670**
Total liabilities and net assets	**$900,678**

See Note 1.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Year Ending June 30 2006	2005
	(Dollars in Thousands)	
Operating Revenues		
Tuition and Fees	$510,215	$471,677
Less: Scholarship Allowances	(60,524)	(53,740)
Net Tuition and Fees (pledged for repayment of Student Fee Bonds)	$449,691	$417,937
Federal Appropriations	14,874	15,299
County Appropriations	7,379	6,992
Grants and Contracts	270,785	262,869
Sales and Services	47,107	44,484
Auxiliary Enterprises		
(Net of Scholarship Allowance of $6,587 and $5,944 Respectively)	195,093	196,743
Other Operating Revenues	2,194	1,760
Total Operating Revenues	**$987,123**	**$946,084**
Operating Expenses		
Compensation and Benefits	927,243	887,579
Supplies and Services	350,810	338,217
Depreciation Expense	90,325	83,627
Scholarships, Fellowships, and Student Awards	30,021	29,262
Total Operating Expenses	**$1,398,399**	**$1,338,685**
Net Operating Loss	(411,276)	(392,601)
Nonoperating Revenues (Expenses)		
State Appropriations	358,282	358,957
Private Gifts	55,020	78,071
Investment Income	102,139	114,089
Interest Expense	(23,303)	(21,814)
Other Nonoperating Revenues, Net	4,277	3,997
Total Nonoperating Revenues before Capital and Endowments	**$496,415**	**$533,300**
Capital and Endowments		
State Capital Appropriations	8,306	6,076
Capital Gifts	25,435	19,755
Private Gifts for Permanent Endowments and Charitable Remainder Trusts	31,099	40,042
Plant Assets Retired	(1,079)	(3,784)
Total Capital and Endowments	**$63,761**	**$62,089**
Total Nonoperating Revenues	**560,176**	**595,389**
Increase in Net Assets before Change in Accounting Policy	**148,900**	**202,788**
Cumulative Effect of Change in Accounting Policy		
Assets under Capitalization Level Written Off (Note 1)		(57,713)
INCREASE IN NET ASSETS	**$148,900**	**$145,075**
Net Assets, Beginning of Year	2,383,649	2,238,574
Net Assets, End of Year	$2,532,549	$2,383,649

See Accompanying "Notes to the Financial Statements."

COMPONENT UNIT

Statement of Activities

	Purdue Research Foundation For the Year Ending June 30, 2006 (Dollars in Thousands)
Revenue and support	
Amount received for Purdue University research projects	$ 16,451
Less payments to Purdue University	(16,451)
Administrative fee on research projects	
Contributions	12,756
Income on investments	10,734
Net unrealized and realized gains	62,843
Change in gift annuities	75
Revenue from pledges	151
Increase in interests in charitable trusts	2,189
Rents	6,201
Royalties	2,912
Other	916
Net assets released from restrictions	
Total Revenue and support	**$ 98,777**
Expenses and losses	
Expenses for the benefit of Purdue University	
Contributions to Purdue University	$ 11,813
Patent and royalty	3,075
Grants	9,630
Services for Purdue University	1,685
Development office	847
Other	682
Total expenses for the benefit of Purdue University	**$ 27,732**
Administrative and other expenses	
Salaries and benefits	6,344
Property management	5,142
Professional fees	3,089
Supplies	1,298
Interest	1,625
Research park	1,044
Other	1,322
Total administrative and other expenses	**$ 19,864**
Change in net assets	$51,181
Purdue Alumni Foundation assets transferred	132,290
Net assets, beginning of year	626,199
Net assets, end of year	**$809,670**

See Note 1.

STATEMENT OF CASH FLOWS

	For the Year Ending June 30 2006	2005
	(Dollars in Thousands)	
Cash Flows by Operating Activities		
Tuition and Fees, Net of Scholarship Allowances	$450,577	$419,727
Federal Appropriations	14,874	15,299
County Appropriations	7,379	6,992
Grants and Contracts	266,349	261,428
Sales and Services	46,744	43,347
Auxiliary Enterprises, Net of Scholarship Allowances	196,612	196,622
Other Operating Revenues	2,029	2,410
Compensation and Benefits	(923,306)	(883,939)
Supplies and Services	(348,247)	(337,692)
Scholarships, Fellowships, and Student Awards	(30,021)	(29,262)
Student Loans Issued	(10,671)	(10,386)
Student Loans Collected	10,162	9,412
Cash Used by Operating Activities	**$(317,519)**	**$(306,042)**
Cash Flows by Noncapital Financing Activities		
State Appropriations	358,282	358,184
Gifts for Other than Capital Purposes	83,355	113,740
Funds Held in Trust for Others and Deferred Gifts	(4,711)	(5,017)
Other Nonoperating Revenues, Net	4,168	4,212
Cash Provided by Noncapital Financing Activities	**$441,094**	**$471,119**
Cash Flows by Investing Activities		
Purchases of Investments	(7,958,989)	(5,770,338)
Proceeds from Sales and Maturities of Investments	7,943,078	5,647,215
Interest and Dividends on Investments, Net	53,070	42,169
Cash Provided (Used) by Investing Activities	**$37,159**	**$(80,954)**
Cash Flows by Capital and Related Financing Activities		
Debt Repayment	(64,211)	(29,138)
Capital Debt Proceeds	98,474	38,700
Interest Expense	(23,625)	(22,171)
Capital Gifts Received	22,943	31,085
State Appropriations for Capital Projects	8,306	11,076
Construction or Purchase of Capital Assets	(179,354)	(203,010)
Cash Used by Capital and Related Financing Activities	**$(137,467)**	**$(173,458)**
Net Increase (Decrease) in Cash and Cash Equivalents	**23,267**	**(89,335)**
Cash and Cash Equivalents, Beginning of Year	385,383	474,718
Cash and Cash Equivalents, End of Year	**$408,650**	**$385,383**

(continued on page 20)

STATEMENT OF CASH FLOWS

Reconciliation of Cash Used for Operating Activities (Indirect Method)

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:	For the Year Ending June 30 2006	2005
	(Dollars in Thousands)	
Operating Loss	$(411,276)	$(392,601)
Depreciation Expense	90,325	83,627
Gifts in Kind	(767)	2,083
Changes in Assets and Liabilities:		
Accounts Receivable	(6,657)	(3,009)
Notes Receivable	(551)	(1,053)
Accrued Revenues	75	(1,601)
Other Assets	(588)	(2,286)
Accrued Compensated Absences	(270)	2,888
Accounts Payable	3,937	783
Deferred Revenue	7,370	4,009
Deposits Held in Custody for Others	(3,081)	164
Accrued Expenses	530	(1,561)
Accrued Salary and Wages	3,699	2,337
Advances from Federal Government	(265)	178
Cash Used by Operating Activities	**$(317,519)**	**$(306,042)**

See Accompanying "Notes to the Financial Statements."

Neil Armstrong Hall of Engineering

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ending June 30, 2006

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

BASIS OF PRESENTATION:

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

During fiscal year 2006, the University adopted GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General Information. Purdue University was established in 1869 under Indiana Code section IC 20-12-35-1. It is the land-grant university for the state of Indiana. The responsibility for making rules and regulations to govern the University is vested in a 10-member Board of Trustees. The selection of these trustees is prescribed in Indiana Code IC 20-12-37. Three of the trustees are selected by the Purdue Alumni Association. The other seven trustees are selected by the governor. Two of the trustees must be involved in agricultural pursuits, and one must be a full-time student of Purdue University. All trustees serve for a period of three years, except for the student member, who serves for two years.

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

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

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

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

Discrete Component Unit

Purdue Research Foundation. Purdue Research Foundation (PRF) was created in 1930. The primary purpose of PRF is to promote the educational purpose of Purdue University; award scholarships, grants, or other financial assistance to students and faculty; seek, acquire, and hold gifts and endowments for the needs of the University; and acquire property or facilities for the future use or benefit of the University. PRF is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. PRF provided grants, contracts, and gifts to Purdue University totaling approximately $11.8 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 the Purdue Research Foundation, 3000 Kent Avenue, West Lafayette, IN 47906.

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

Blended Component Units

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

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

Other

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

Purdue Alumni Foundation. Purdue Alumni Foundation (PAF) was created in 1944 by the Purdue Alumni Association Inc. and was dissolved December 31, 2005. In past years, PAF was reported as a discrete component unit of the University. The primary purpose of PAF was to provide 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 was an exempt organization under Section 501(c)(3) of the Internal Revenue Code. $132.3 million of net assets was transferred to PRF, while $15.5 million was transferred to the Purdue Alumni Association. Complete financial statements for the foundation can be obtained by writing to: Purdue Alumni Foundation, 3000 Kent Avenue, West Lafayette, IN 47906.

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 $1,733,308 for the 2005–2006 fiscal year and $1,130,093 for the 2004–2005 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 $2,029,171 for the 2005–2006 fiscal year and $3,092,205 for the 2004–2005 fiscal year.

Notes Receivable. Notes receivable primarily represent student loan repayments due the University and are presented net of allowance for doubtful accounts of $63,382 for the 2005–2006 fiscal year and $73,417 for the 2004–2005 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, 2006. 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, 2006. 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. For fiscal year 2004–2005, 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 87% or $398.3 million of the "other" category results from undistributed gain on endowment funds and the fair value of funds functioning as endowments where the donor has restricted the use of the funds for a particular purpose. Neither component is available for general institutional use.
- Unrestricted: Net assets not subject to externally imposed stipulations pertaining to their use. Management may designate that these funds will be spent for certain projects or programs or to fulfill certain long-term goals. Management has designated substantially all unrestricted net assets for academic and capital purposes.

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

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

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

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

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

Grants and Contracts. The University has been awarded grants and contracts for which the monies have not been received or expended. These awards have not been reflected in the financial statements but represent commitments of sponsors, both government and other, to provide funds for specific research and training projects. Grants and contracts, including grants for student aid, are included in operating revenues when earned and 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 2005–2006 fiscal year, revenue from gifts-in-kind of $5,376,808 was recognized. Comparative data for 2004–2005 reflect $5,040,183 in gifts-in-kind revenue.

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

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

The University records its interest in PRF Trusts' charitable remainder trusts based on the estimated present value of future cash flows. Future cash flows are estimated using an assumed investment rate of return on the underlying investments that will satisfy the trust requirements and an applicable discount rate at the time of contribution. The University's discrete component unit reflects their respective PRF Trust interest on the Statement of Financial Position. The fair value of funds held by PRF Trusts for Purdue University was $29,189,351 for 2005–2006 and $30,204,730 for 2004–2005. 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.

NOTE 2 — CASH AND CASH EQUIVALENTS

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

NOTE 3 — DEPOSITS AND INVESTMENTS

Deposits. At June 30, 2006, the bank balance of the University's deposits (demand deposit accounts) was $2,744,686.81, of which $161,724.38 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 20, 2005, 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, 2006, and June 30, 2005, the University had the following investments:

Investment Type	2006 Market Value	2005 Market Value
US Agencies	$100,863,959	$167,044,665
Asset Backed Securities	75,721,107	52,729,834
Corporate Bonds	224,389,923	257,296,654
US Equity	373,240,833	395,596,978
International Equity	157,675,955	97,300,523
International Fixed Income	4,370,912	7,405,806
Marketable Alternatives	104,368,293	94,672,216
Mortgage Backed Securities	166,731,051	154,786,369
Non-marketable Alternatives	46,222,367	13,120,931
Private Real Estate	7,953,107	6,384,237
US Treasuries and Securities	271,088,646	201,891,527
Securities Lending Cash Collateral	250,494,121	215,068,334
Mutual Funds and Cash	233,644,499	230,640,067
Total	**$2,016,764,773**	**$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 April 7, 2006. For the University's endowment pool, as a partial hedge against prolonged economic contraction, a commitment to intermediate and long-term bonds should be maintained. The Investment Committee has adopted a target allocation of 15% for the Fixed Income fund. Portfolios will be invested in securities that result in a weighted average credit quality rating of at least "AA" or better.

The estimated fair value of investments is based on quoted market prices except for certain investments, primarily private equity partnerships, hedge funds, and similar alternative investments, for which quoted market prices are not available. The estimated fair value of these investments is based on valuations provided by external investment managers within the past fiscal year through June 30. Because alternative investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

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

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

The distribution of investment securities by credit ratings is summarized below (dollars in thousands). The Federal National Mortgage Association and Federal Home Loan Mortgage Company debt instruments represent $139.3 million (6.9%) and $91.1 million (4.5%), respectively:

AAA	$637,951	31.6%
AA	56,082	2.8%
A	53,396	2.6%
BAA	68,682	3.4%
BA	21,711	1.1%
B	3,176	0.2%
CAA	341	0.0%
Unrated	1,175,426	58.3%
Total	**$2,016,765**	**100.0%**

Investment Custodial Credit Risk. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk. At June 30, 2006, with the exception of $158.5 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% of the assets entrusted to the manager. All currency exposures are to be hedged into the U.S. dollar unless otherwise approved by the Investment Committee. Please refer to the Investment Type table on page 26 for the University's exposure to international investments. In addition to those investments, the University estimates $29.8 million of international exposure in its alternative investments.

NOTE 4 — SECURITIES LENDING

The treasurer of the University, in accordance with policies established by the Board of Trustees, has entered into an agreement with a trust company to participate in a securities-lending program. The market value of the cash collateral is recorded as an asset in the Statement of Net Assets along with a corresponding liability. At June 30, 2006, the University had securities with market value of $260,672,478 involved in loans. These loans were supported by collateral of $265,296,834. Of this collateral amount, $250,494,121 was cash and is included in cash and cash equivalents in the Statement of Net Assets, and $14,802,713 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. At June 30, 2006, the University had no aggregate credit risk.

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

NOTE 5 — DISAGGREGATION OF PAYABLES

Accrued liabilities for payments related to construction in progress were $14,096,876 as of June 30, 2006, representing 36.2% 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 up to 320 hours. For all classes of employees, vacation is payable upon termination.

Exempt staff sick leave is awarded to a maximum of three months at full pay and three months at three-quarter pay each year (and not carried forward to the next year), and any unused sick leave is not payable upon termination. Clerical and service staff may accumulate sick leave hours with no limit. Upon termination and if the employee qualifies as an official retiree, 25% of all accrued, unused sick leave up to and including 520 hours and 100% of all accrued, unused sick leave 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 hours of sick leave and vacation hours earned as of the balance sheet date. For exempt staff, samples are used to apply an estimate of the vacation liability accrual for all exempt staff as of the balance sheet date.

NOTE 7 — CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2006, is summarized below.

***Capital Assets Activity** (Dollars in Thousands)*

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

NOTE 8 — DEBT RELATED TO CAPITAL ASSETS

Notes Payable. Notes outstanding of $3,883,411 at June 30, 2006, 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, 2006, was $435,000. The interest rate as of June 30, 2006, was 3.57%.

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, 2006, was $3,382,711. The interest rate for the notes ranged from 3.10% to 5.04% as of June 30, 2006.

On December 16, 2003, a non-interest bearing note for forestry woodlands was issued for $164,250. The outstanding balance at June 30, 2006, was $65,700.

Bonds Payable. Bonds payable at June 30, 2006, total $505,870,000, consisting of the following issues:

Issue	Issue Date	Interest Rates	Maturity Dates	Outstanding June 30, 2006
Student Facilities System Revenue Bonds:				
Series 2003A	2003	4.0%–5.38%	2004–2028	$87,935,000
Series 2003B	2003	2.0%–5.0%	2005–2029	24,215,000
Series 2004A	2004	Variable	2008–2033	28,100,000
Series 2005A	2004	Variable	2005–2029	23,580,000
Student Fee Bonds:				
Series E	1990	3.0–3.9%	2004–2007	4,300,000
Series H	1993	2.78–5.25%	1998–2015	10,100,000
Series K	1995	2.2–5.63%	1997–2020	16,000,000
Series L	1995	3.0–5.63%	1997–2020	14,000,000
Series N	1998	3.55–5.5%	1998–2014	33,845,000
Series O	1998	2.68–5.63%	2000–2019	27,345,000
Series P	1998	4.0–5.25%	1999–2017	44,965,000
Series Q	2000	2.63–6.0%	2002–2010	9,480,000
Series R	2002	3.0–5.38%	2002–2023	16,440,000
Series S	2004	Variable	2007–2026	13,850,000
Series T	2004	Variable	2008–2027	14,500,000
Series U	2005	3.5–5.25%	2006–2022	35,200,000
Series V	2005	Variable	2008–2027	60,415,000
Series W	2006	4.6–5.0%	2007–2026	41,600,000
Total				**$505,870,000**

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 $449,690,809 for the 2005–2006 fiscal year.

On July 14, 2005, Student Fee Bonds Series U were issued in the amount of $35.2 million. This series was issued to partially refund $34.955 million of Student Fee Bonds Series Q. As a result of the refunding, the University will reduce its aggregate debt service payments by approximately $3,544,000. The refunding resulted in an economic gain of approximately $2,152,000. As of June 30, 2006, the balance outstanding was $35.2 million.

On October 5, 2005, Student Fee Bonds Series V were issued in the amount of $60.415 million. This series was issued to finance a portion of the construction for the Neil Armstrong Hall of Engineering at the West Lafayette campus and also to finance a portion of the construction for the Music Building at the Fort Wayne campus. As of June 30, 2006, the balance outstanding was $60.415 million.

On June 21, 2006, Student Fee Bonds Series W were issued in the amount of $41.6 million. This series was issued to finance strategic infrastructure and utilities improvements on the West Lafayette campus. As of June 30, 2006, the balance outstanding was $41.6 million. These proceeds were received July 6, 2006, thus the related Bonds Proceeds Receivable is reflected on the Statement of Net Assets.

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

Fiscal Year	Principal	Interest	Total
2007	$ 21,915,000	$ 22,703,234	$ 44,618,234
2008	23,610,000	21,635,534	45,245,534
2009	23,190,000	20,542,022	43,732,022
2010	23,840,000	19,396,867	43,236,867
2011	24,890,000	18,182,391	43,072,391
2012–2016	135,775,000	70,614,638	206,389,638
2017–2021	108,525,000	42,187,780	150,712,780
2022–2026	85,880,000	20,312,175	106,192,175
2027–2031	48,145,000	4,547,403	52,692,403
2032–2034	10,100,000	442,400	10,542,400
	$505,870,000	$240,564,444	$746,434,444
Net Unamortized Premiums and Deferred Costs	5,181,189		5,181,189
Total	**$511,051,189**	**$240,564,444**	**$751,615,633**

Capital Leases. At June 30, 2006, long-term debt included amounts relating to properties with a net book value (net of accumulated depreciation) of $95,884,200 leased from a blended component unit. The outstanding balance on these leases at June 30, 2006, was $78,170,000. The debt payments on these properties in the 2005–2006 fiscal year totaled $8,167,407, consisting of $3,960,000 principal and $4,207,407 interest.

On April 9, 2004, the University entered into an $8,195,000 capital lease agreement with the Purdue Research Foundation (PRF), a discrete component unit. The lease took effect upon completion of the Academic Learning Center near the Calumet campus. The outstanding balance on the lease was $8,000,000 as of June 30, 2006 and the facility had a book value (net of accumulated depreciation) of $7,960,857. The debt payments on this property in the 2005–2006 fiscal year totaled $567,240, consisting of $195,000 of principal and $372,240 of interest.

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

Fiscal Year	Principal	Interest	Total
2007	$4,365,000	$4,373,742	$8,738,742
2008	4,585,000	4,149,919	8,734,919
2009	4,815,000	3,925,669	8,740,669
2010	4,620,000	3,687,444	8,307,444
2011	3,480,000	3,458,251	6,938,251
2012–2016	19,200,000	14,528,971	33,728,971
2017–2021	16,885,000	9,775,844	26,660,844
2022–2026	21,670,000	4,993,000	26,663,000
2027–2030	6,550,000	484,500	7,034,500
Total	**$86,170,000**	**$49,377,340**	**$135,547,340**

NOTE 9 — OTHER DEBT INFORMATION

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

Long-term Liabilities *(Dollars in Thousands)*

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

Defeased Bond Issues. 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, 2006
Building Facilities Fee Bonds	2009	$4,235,000
Dormitory Facilities Revenue Bonds, Series A-L	2008	1,285,000
Student Fee Bonds Series M	2006	44,950,000
Student Fee Bonds Series Q	2010	34,955,000

Direct Financing Lease. In 1998, the University agreed to refinance the construction of the Animal Disease Diagnostic Laboratory (ADDL) Building and lease it to the Indiana Department of Administration on behalf of the Indiana State Board of Animal Health. Lease payments are equal to the University's debt service payments. Nonrecourse bonds for $10,830,000 were issued to the Indiana Bond Bank, secured solely by lease payments from the Indiana Department of Animal Health through annual appropriations for this purpose from the state of Indiana. The University's rights to receive lease payments have been assigned to the Trustees for the Indiana Bond Bank. At June 30, 2006, the outstanding amount of these bonds was $5,015,000. The ADDL Building, the lease receivable, and the bonds payable are not reflected on the University's books.

In addition, the University has entered into various operating leases for buildings and equipment. Net expenses for rent under these leases for the year ending June 30, 2006, were $10,094,758 and are included in supplies and services in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 10 — DONOR-RESTRICTED ENDOWMENTS

The University's endowment funds (including true, term, and funds functioning as endowments) are invested in a unitized pool. The unitized endowment pool purchases investments to generate present and future income in support of various programs. The University's Board of Trustees establishes the spending policy for the unitized endowment pool. The current spending policy distributes 4.5% of the average of the ending values for the prior 12 quarters in semi-annual distributions. The distribution includes both income and equity components. Market appreciation of the pool was $415,836,882 as of June 30, 2006. Of this amount, 37.4% 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, 2006, contractual obligations for capital construction projects were $90,383,957.

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, 2006, the University had the following unfunded commitments: $52,730,115 to 25 Private Equity/Venture Capital managers, $11,101,474 to six private real estate managers, $9,138,600 to three natural resource managers, and $2,512,520 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
2006–07	$18,870,677
2007–08	18,870,677
2008–09	18,870,677
2009–10	18,870,678

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 2005–2006 fiscal year, the University's cost was $41,691,471 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 2005–2006 fiscal year, the University made contributions totaling $59,041,643 to this plan. For the fiscal year ending June 30, 2006, there were 5,971 employees participating in TIAA with annual pay equal to $404,156,852.

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 2005–2006 fiscal year, the University made contributions totaling $9,831,639 to this plan. For the fiscal year ending June 30, 2006, there were 4,936 employees participating in PERF with annual pay equal to $130,467,126.

The required employer's contribution was determined as part of the July 1, 2005, 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 32 years. Actuarial information from fiscal year 2002–2003 related to the University's portion of the plan is disclosed later in this note. Information related to fiscal years ending June 30, 2004, and June 30, 2005, are being reviewed.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing to: Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204; by calling (317) 233-4162; or by visiting www.in.gov/perf.

Police and Firefighters. A supplemental pension program for police officers and firefighters (Police/Fire) was authorized by the Board of Trustees on March 13, 1990, and was established on July 1, 1990. In conjunction with other retirement plans offered by the University, this plan provides police officers and firefighters employed by Purdue with a total retirement benefit that is comparable to the benefits received by municipal police and fire personnel in Indiana. Benefit provisions are established and/or amended by the Board of Trustees. The program is an agent single-employer defined benefit plan administered through the Teachers Insurance and Annuity Association (TIAA). The plan provides for vesting after the completion of 10 years of covered employment, and employees are eligible for normal retirement benefits after the completion of 20 years of covered employment and attainment of 55 years of age. The normal benefit payable under this plan is an amount equal to 50% of the annual base salary of a nonprobationary-level police officer at each campus, as in effect at the time of a member's retirement, reduced by the amount of any pension benefits payable under other Purdue University retirement programs, including TIAA-CREF and PERF. For the fiscal year ending June 30, 2006, there were 100 employees participating in Police/Fire with annual pay equal to $4,675,259.

Employees covered by this plan are required to make contributions equal to 3% of the current salary for a nonprobationary-level police officer. University contributions are to be in such additional amounts as needed to maintain the plan on an actuarially sound basis. Financial reports related to this plan may be obtained by writing to: Public Records Officer, Purdue University, Freehafer Hall, 401 South Grant Street, West Lafayette, IN 47907-2024.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2005. 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, 2005, of $2.5 million, which is being amortized over a 30-year period. The required contribution to the plan for the 2005–2006 fiscal year was $956,479, consisting of $635,904 normal cost, $258,001 amortization of the unfunded liability and $62,574 of interest. Of the required amount, $134,332 represents employee contributions, and $822,147 represents the University's contribution. The actual amount contributed by the University was $824,633. The required contribution was determined as part of the July 1, 2005, 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†	2003	$142,790	$127,758	$(15,032)	111.8%	$109,468	-13.7%	$5,934	108.4%	$(4,549)
Police/Fire	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)
	2005	16,209	18,724	2,515	86.6%	4,675	53.8%	822	100.4%	(3)

**Data for 2006 not available from actuaries.*
†University portion only.

Cooperative Extension Service. As of June 30, 2006, there were 63 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. For 2005–2006 fiscal year, the University reflects $1.98 million of insurance proceeds, of which $1.9 million are accounts receivable, as non-operating income within the Plant Asset Retired line in the Statement of Revenue, Expenses and Changes in Net Assets.

The University accrues liabilities for claims if information indicates that a loss has been incurred as of June 30, and the amount of the loss can reasonably be estimated. The liability for medical claims incurred but not reported at June 30, 2006, 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 2005–2006 and 2004–2005 fiscal years were as follows:

	Year Ending June 30, 2006	Year Ending June 30, 2005
Beginning Liability	$13,068,689	$14,914,193
Claims Incurred	51,232,338	57,357,438
Claims Payments	(50,681,363)	(59,202,942)
Ending Liability	**$13,619,664**	**$13,068,689**

University Hall at Founders Park

NOTE 14 — OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification (expressed in thousands of dollars) for the fiscal years ending June 30, 2006, and June 30, 2005, are summarized as follows:

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

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$434,086	$ 69,794			$ 503,880
Organized Activities Related to Instruction and Research	8,029	10,775			18,804
Sponsored Research	109,040	51,209			160,249
Other Separately Budgeted Research	36,338	6,377			42,715
Extension and Public Service	69,504	31,344			100,848
Academic Support	16,391	18,813			35,204
Student Services	30,322	7,685			38,007
Physical Plant Operations and Maintenance	57,658	32,873			90,531
General Administration	58,118	19,423			77,541
General Institutional Services	28,176	7,731			35,907
Student Aid	2,319	1,614		$30,021	33,954
Auxiliary Enterprises	77,262	93,172			170,434
Depreciation			$90,325		90,325
Total	**$927,243**	**$350,810**	**$90,325**	**$30,021**	**$1,398,399**

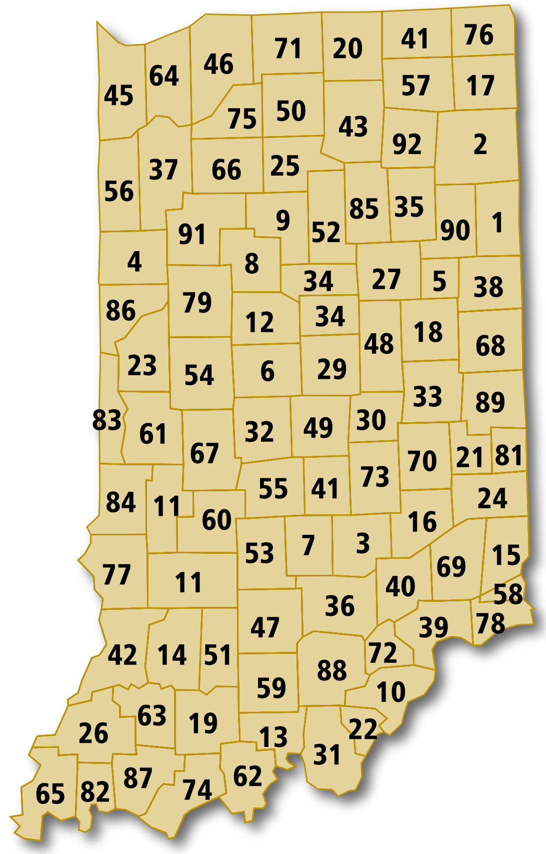
Operating Expenses by Function for the Year Ending June 30, 2005

	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**

IN-STATE ENROLLMENT (UNAUDITED)

Total In-State Enrollment by County, Fall 2005–2006 Academic Year

The overall (in-state and out-of-state) enrollment at Purdue University was 64,769 students for the 2005–2006 fall semester. The breakdown was: West Lafayette, 38,712; Calumet, 9,302; Fort Wayne, 11,795; North Central, 3,519; and Statewide Technology, 1,441. (The enrollment figures do not include 4,232 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	88	357	1	446
2	Allen	1,116	7,267	6	8,389
3	Bartholomew	252	3	112	367
4	Benton	141	5	8	154
5	Blackford	27	15		42
6	Boone	382	4	1	387
7	Brown	10		6	16
8	Carroll	183	1	13	197
9	Cass	172	22	37	231
10	Clark	137	1	33	171
11	Clay	62	2	1	65
12	Clinton	231	4	21	256
13	Crawford	15	2		17
14	Daviess	51		1	52
15	Dearborn	103	547	1	651
16	Decatur	181	1	4	186
17	DeKalb	129	1	34	164
18	Delaware	163	22	19	204
19	DuBois	163	2		165
20	Elkhart	486	87	44	617
21	Fayette	43	2	30	75
22	Floyd	176	3	46	225
23	Fountain	118		1	119
24	Franklin	79		7	86
25	Fulton	85	31	4	120
26	Gibson	85			85
27	Grant	138	59	16	213
28	Greene	51		1	52
29	Hamilton	1,456	13	25	1,494
30	Hancock	244	2	6	252
31	Harrison	57		19	76
32	Hendricks	555	7	8	570
33	Henry	104	3	19	126
34	Howard	403	11	110	524
35	Huntington	127	416	1	544
36	Jackson	100		25	125
37	Jasper	227	169	1	397
38	Jay	27	23		50
39	Jefferson	85	1	9	95
40	Jennings	37	1	24	62
41	Johnson	352	2	15	369
42	Knox	93	1		94
43	Kosciusko	274	458	4	736
44	LaGrange	67	117	1	185
45	Lake	393	1,614	3	2,010
46	LaPorte	2,078	7,673	1	9,752
47	Lawrence	97	1	2	100
48	Madison	287	4	69	360
49	Marion	2,018	33	41	2,092
50	Marshall	171	39	14	224
51	Martin	13			13
52	Miami	118	25	32	175
53	Monroe	197	7		204
54	Montgomery	231	1	9	241
55	Morgan	161	5	3	169
56	Newton	81	23	3	107
57	Noble	110	467		577
58	Ohio	18		1	19
59	Orange	52		1	53
60	Owen	22	1		23
61	Parke	30	1	5	36
62	Perry	31	2	3	36
63	Pike	19			19
64	Porter	853	2,112	2	2,967
65	Posey	98		1	99
66	Pulaski	117	29	2	148
67	Putnam	110	1		111
68	Randolph	48	2	7	57
69	Ripley	96		24	120
70	Rush	57	1	12	70
71	St. Joseph	23		1	24
72	Scott	133	2	10	145
73	Shelby	80	1	1	82
74	Spencer	996	92	117	1,205
75	Starke	88	126	2	216
76	Steuben	101	234		335
77	Sullivan	26			26
78	Switzerland	19		3	22
79	Tippecanoe	3,053	24	115	3,192
80	Tipton	98	2	12	112
81	Union	7	1	4	12
82	Vanderburgh	356	3	3	362
83	Vermillion	41		9	50
84	Vigo	206		15	221
85	Wabash	109	182	3	294
86	Warren	63		2	65
87	Warrick	187	1		188
88	Washington	27	2	14	43
89	Wayne	161	6	78	245
90	Wells	79	322		401
91	White	277	4	11	292
92	Whitley	86	496		582
	Total	22,797	23,201	1,349	47,347

ACKNOWLEDGEMENTS:

The following staff members of the Department of Accounting Services, Office of the Comptroller, prepared the 2005–2006 Financial Report and the included financial statements.

James S. Almond — *Vice President for Business Services and Assistant Treasurer*

John R. Shipley — *University Comptroller*

Kelley M. Butler — *Unrestricted/Restricted Funds Accountant*

Charlie J. Klumpp — *Unrestricted Funds Accountant*

Susan D. Kotterman — *Gift Funds Accountant*

Brock E. Martin — *Plant Agency and Auxiliary Funds Accountant*

Antonio L. C. Marzoli — *Property Accounting Administrator*

Marko C. Petrovic — *Accounting Systems and Research Analyst*

Neil A. Smith — *System and Reconciliation Administrator*

Stacy L. Smith — *Research Analyst*

Katherine L. Vanderwall — *Endowment and Investment Accountant*

Matthew D. Westhuis — *Data Analyst*

Kenneth J. Wilson — *Assistant Comptroller*

FINANCIAL REPORT 2006

PURDUE
UNIVERSITY

An equal access/equal opportunity university

Produced by Purdue Marketing Communications 1201906a