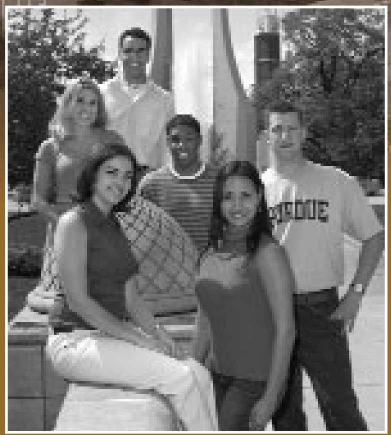
Financial Report

2002-2003



PURDUE
UNIVERSITY

Letter of Transmittal

To the Board of Trustees of Purdue University:

We are pleased to submit this the 81st annual financial report of Purdue University. This report is for the fiscal year ended June 30, 2003, 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 Auditor's Report appears on page 2.

Respectfully submitted,
Martin C. Jischke
President

Respectfully submitted,
Kenneth P. Burns
Executive Vice President
and Treasurer

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

State of Indiana

An Equal Opportunity Employer

INDEPENDENT AUDITORS' REPORT

TO: The Officials of Purdue University, West Lafayette, Indiana

We have audited the accompanying basic financial statements of Purdue University, a component unit of the State of Indiana, as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Purdue University, as of June 30, 2003 and 2002, 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 16, 2003, 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

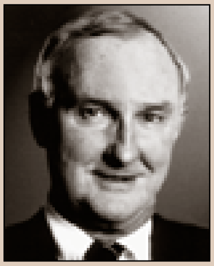
October 16, 2003

Board of Trustees

As of June 30, 2003

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: 1989–2004



Michael J. Birck
Hinsdale, Illinois
Chairman and CEO, Tellabs, Inc.
Term: 1999–2003

John A. Edwardson
Wilmette, Illinois
Chairman and CEO, CDW Computer Centers, Inc.
Term: 1995–2005

John D. Hardin Jr.
Danville, Indiana
Farmer
Term: 1992–2004

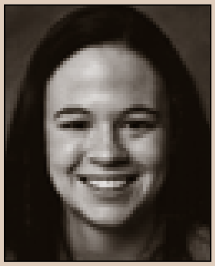
Mamon M. Powers Jr.
Gary, Indiana
President, Powers and Sons Construction Company, Inc.
Term: 1996–2005

W. Wayne Townsend
Vice Chairman of Board
Appointed July 1993
Hartford City, Indiana
Farmer
Term: 1989–2004

Barbara H. Edmondson
Clayton, Indiana
Partner, Edmondson Liberty Farms and Edmondson Farm Management
Term: 1997–2003

Lewis W. Essex
Columbus, Indiana
Retired Chairman and CEO, Essex Castings, Inc.
Term: 1995–2005

D. William Moreau Jr.
Indianapolis, Indiana
Attorney
Term: 1991–2003



Anna C. Dilger
Noblesville, Indiana
Student
Term: 2001–2003

Officers of the University

As of June 30, 2003

Officers of the Board of Trustees

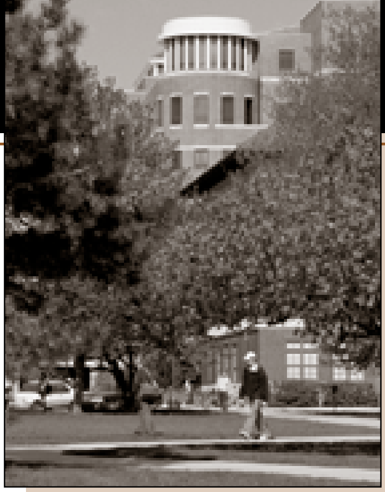
J. Timothy McGinley, Chairman
W. Wayne Townsend, Vice Chairman
Kenneth P. Burns, Treasurer
James S. Almond, Assistant Treasurer and Assistant Secretary
Roseanna M. Behringer, Secretary
Anthony S. Benton, Legal Counsel

Administrative Staff

Martin C. Jischke, President
Sally Frost Mason, Provost
Kenneth P. Burns, 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
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, Interim Vice Provost for Research
John A. Sautter, Vice President for Housing and Food Services
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
Gary H. Newsom, Vice Chancellor for Administrative Services, Purdue University Calumet



Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of Purdue University for the 2002–2003 fiscal year ended June 30, 2003, the financial activities for the 2002–2003 fiscal year, and a brief description of the financial statements produced herein. This discussion should be read in conjunction with the financial statements and the notes to the statements, which immediately follow this section.

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

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

FINANCIAL HIGHLIGHTS

Operating revenues were $786.6 million compared to $713.9 million in the prior year — an increase of 10.2%. This increase is due primarily to increases in net student fee revenue ($49.8 million) and grants and contracts ($19.4 million).

Tuition and fee revenue, net of scholarship allowances, increased from $297.0 million in the 2001–2002 fiscal year to $346.8 million in the 2002–2003 fiscal year — an increase of 16.8%. New tuition levels for incoming freshman were introduced in the fall of 2002 in support of the University's strategic plan. The new fee structure will be phased in over a five-year period. Enrollment patterns for the last five years are illustrated in Figure 1.

Operating expenses also increased, but not to the same extent as revenue. Total operating expenses increased 4.1% from $1.11 billion for the 2001–2002 fiscal year to $1.15 billion for the 2002–2003 fiscal year. This change was driven by an increase in compensation and benefits, the single largest component of operating expenses, which increased from $788.0 million to $847.2 million.

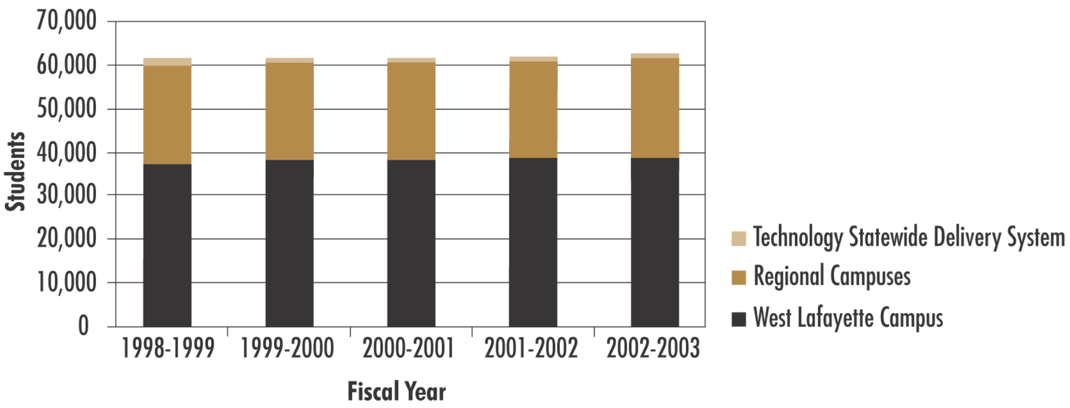
Nonoperating revenues decreased $10.4 million, from $483.1 million in the 2001–2002 fiscal year to $472.7 million in the 2002–2003 fiscal year. Investment income improved $55.2 million from the previous year's loss of $6.9 million to a positive $48.3 million. Investment income includes dividends and interest, realized gains and losses, as well as unrealized gain. 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, 2002, and June 30, 2003, is contained in investment income.

State appropriations increased by $5.1 million due to increases in fee replacement funding for debt service on the University's student fee bonds and a non-recurring appropriation of $7.8 million. The University's recurring operating appropriation was reduced $4.9 million. Declines in private and capital gifts are attributed to two major gifts recognized in the 2001–2002 fiscal year.

The 2002–2003 change in net assets of $105.7 million represents a $16.9 million increase from the prior year amount of $88.8 million or 19.1%.

Figure 1.

Five-Year Fall Semester Enrollment*



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

PURDUE UNIVERSITY FINANCIAL STATEMENTS

Use of the Financial Statements

The primary purpose of financial reporting, whether for a commercial enterprise or for a college or 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 process 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. 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.

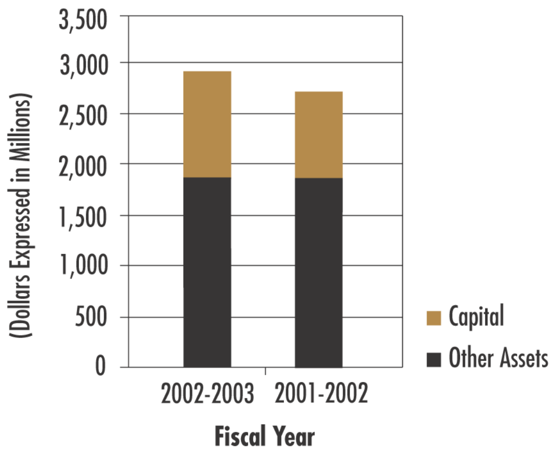
Statement of Net Assets

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 $2.9 billion for the

2003 fiscal year and $2.8 billion for the 2002 fiscal year. Figure 2 depicts the portion of those assets that were capital.

Figure 2.

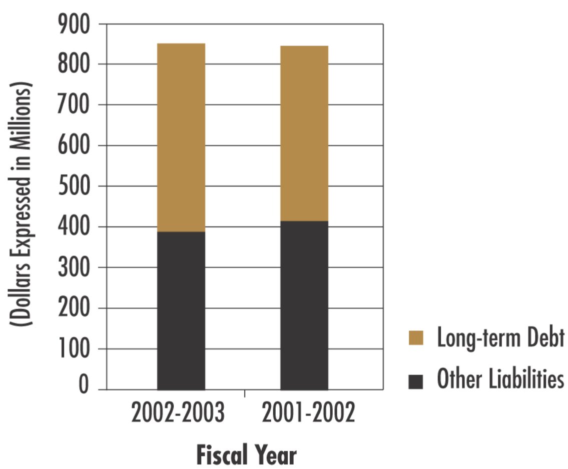
Capital vs. Other Assets



Current liabilities are expected to become due and payable over the course of the following fiscal year. These include accounts payable, the current portion of long-term debt, liability for securities lending activity, and salaries and wages payable. Noncurrent liabilities include bonds, notes, and leases payable. Total liabilities were $849.9 million for the 2003 fiscal year and $844.7 million for the 2002 fiscal year. Figure 3 depicts the portion of long-term debt relative to total liabilities.

Figure 3.

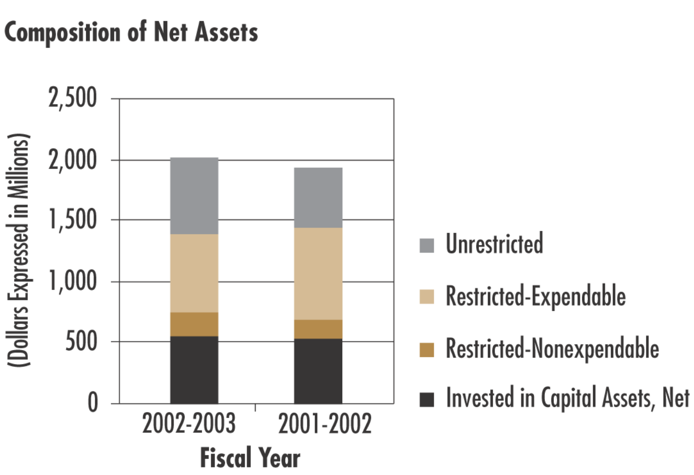
Long-term Debt vs. Other Liabilities



A discussion of the University's capital financing activities appears in the Debt and Financing Activities section on page 12.

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, 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. Auxiliary enterprise restricted–expendable net assets declined $80.4 million due to the refunding of the 1993 Dormitory System Revenue Bonds with a new indenture, the Student Facilities System Revenue Bonds. The new indenture removes the third-party restrictions, thus the operating net assets were reclassified as “Unrestricted.” 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 $2.02 billion as of June 30, 2003. Figure 4 provides a comparison between fiscal years as well as the composition of net assets.

Figure 4.



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

Table 1.

Summary of Assets, Liabilities, and Net Assets

	2002–2003	2001–2002
	(Expressed in Thousands)	
Current Assets	$ 654,743	$ 680,117
Capital Assets	1,043,309	933,973
Other Assets	1,166,914	1,140,004
Total Assets	2,864,966	2,754,094
Current Liabilities	339,427	375,146
Noncurrent Liabilities	510,489	469,582
Total Liabilities	849,916	844,728
Invested in Capital Assets, Net of Related Debt	605,608	552,442
Restricted–Nonexpendable	166,886	158,530
Restricted–Expendable	577,416	708,711
Unrestricted	665,140	489,683
Total Net Assets	**$ 2,015,050**	**$ 1,909,366**

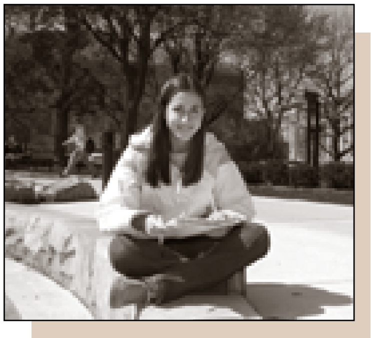
Capital and Noncapital Projects

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, researchers, and staff. Significant projects completed during the 2002–2003 fiscal year are listed in Table 2.

Table 2.

Major Projects Completed during the 2002–2003 Fiscal Year (More than $1 Million)

	Project Total (Expressed in Thousands)
Cary Quadrangle Northeast Renovation, Phase II	$ 7,161
Earhart Hall Food Service Consolidation	7,155
Heine (Robert E.) Pharmacy Building 3rd Floor Renovation	2,276
Humanities and Social Sciences Library Renovation	4,595
Main Substation Switchgear Replacement	2,702
Recreational Sports Center Renovation	4,633
Satellite Chiller	7,793
Shreve Hall Air Conditioning and Sprinkling, Phase II	1,980
Total Major Projects Completed	**$ 38,295**



Major construction projects in progress as of June 30, 2003, are listed in Table 3.

Table 3.

Major Projects in Progress as of June 30, 2003 (More than $1 Million)

	Project Budget (Expressed in Thousands)
Bindley Bioscience Center	$ 15,000
Birck Nanotechnology Center	56,400
Burton D. Morgan Center for Entrepreneurship	7,000
Calumet Campus Gyte Laboratory Renovation, Phase I	5,450
Cary Quadrangle Renovation, Phase IV	7,000
Cary Quadrangle West Renovation, Phase III	9,945
David C. Pfendler Hall of Agriculture Renovation	14,000
Dick and Sandy Dauch Advancement Building	14,834
Discovery Park Utility Extension	1,500
Discovery Park Utility Extension Phase II	5,202
Envision: A Center for Data Perceptualization	1,630
Forney Hall of Chemical Engineering	19,500
Heine (Robert E.) Laboratory Renovation Phases III and IV	3,660
IPFW Student Housing	25,500
Jerry S. Rawls Hall Construction	35,295
Martell Forest Research and Education Center	3,700
Residence Halls Food Service Facility - Phase II and III	17,197
Ross-Ade Stadium Renovation	70,000
Satellite Chiller Site Distribution	4,750
Shreve Hall Air Conditioning and Sprinkling, Phase III	2,150
Swine Research Complex, Phase I	2,000
Utility Expansion	3,962
Visual and Performing Arts Building, Phase I	25,750
Total Major Projects in Progress	**$ 351,425**

In addition, the University's Board of Trustees has authorized the following major projects that had not been started as of June 30, 2003:

Table 4.

Major Projects Authorized — Not Started as of June 30, 2003 (More than $1 Million)

	Project Budget (Expressed in Thousands)
Cary Quadrangle, Phases V–VI	$ 9,689
Computer Science Building	20,000
Food Service Consolidation, Phase IV	21,803
Golf Training Facility	2,245
PMU Sweet Shop Renovation	1,900
Student Housing Facilities at Purdue University Calumet	16,500
Young Hall Remodel Floors 6,7,8	4,200
Total Major Projects Authorized	**$ 76,337**

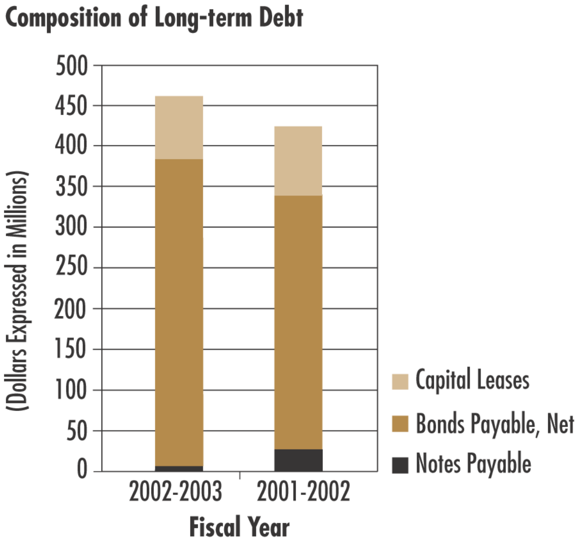
Debt and Financing Activities

During the fiscal year, the University issued two series of bonds: 2003A for $94,975,000 and 2003B for $24,350,000. Series 2003A refunded Series 1993 Dormitory System Revenue bonds and commercial paper used as interim financing for various Dormitory System construction projects. In addition, this series provided funding for the continued renovation of University residence Cary Quadrangle and the consolidation of various food service locations. The Series 2003B provided funding for construction of student housing facilities at the Fort Wayne campus. (See Notes 8 and 9 for additional information on debt and financing.)

In the 2002–2003 fiscal year, the University's credit rating was upgraded by Moody's Investors Service to Aa1. Standard & Poor's maintained its AA rating for the University.

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

Figure 5.



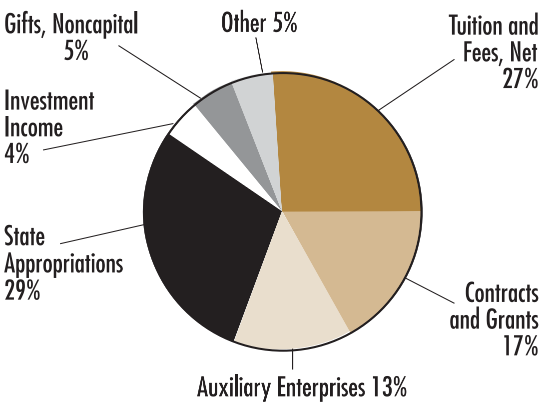
Statement of Revenues, Expenses, and Changes in Net Assets

A review of the Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the extent to which the results of operations, nonoperating revenues, and capital funding over the course of the fiscal year 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 an expense. 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 also are 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 for the 2002–2003 fiscal year.

Figure 6.

Revenues, All Sources, 2002–2003



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

Table 5.

Summary of Revenues, Expenses, and Changes in Net Assets

	2002–2003	2001–2002
	(Expressed in Thousands)	
Operating Revenues		
Tuition and Fees, Net	$ 346,794	$ 296,962
Grants and Contracts	212,251	192,820
Auxiliary Enterprises, Net	167,605	162,284
Other Operating Revenues	59,988	61,853
Total Operating Revenues	786,638	713,919
Operating Expenses		
Depreciation	67,123	67,482
Operating Expense	1,086,492	1,040,726
Total Operating Expenses	1,153,615	1,108,208
Operating Loss	(366,977)	(394,289)
Nonoperating Revenues	457,519	427,989
Capital and Endowments	15,142	55,063
Total Nonoperating Revenues	472,661	483,052
Increase in Net Assets	105,684	88,763
Net Assets, Beginning of Year	1,909,366	1,820,603
Net Assets, End of Year	**$ 2,015,050**	**$ 1,909,366**

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

	2002–2003	2001–2002
	(Expressed in Thousands)	
Cash Used by Operating Activities	$ (289,742)	$ (303,349)
Cash Provided by Noncapital Financing Activities	423,790	423,349
Cash Provided by Investing Activities	2,117	57,774
Cash Used by Capital and Related Financing Activities	(112,230)	(85,593)
Net Increase in Cash and Cash Equivalents	23,935	92,181
Cash and Cash Equivalents, Beginning of Year	459,029	366,848
Cash and Cash Equivalents, End of Year	**$ 482,964**	**$ 459,029**

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The Indiana Legislature passed the 2003–2005 biennial appropriation during the regular legislative session that ended in April 2003. The General Assembly recognized the importance of research campuses in the promotion of economic development by implementing a funding adjustment for research at the West Lafayette campus. The operating appropriation also contained funding for the biomedical engineering program and the restoration of one-half of the appropriation cut from 2002–2003. In total, the operating appropriation for all campuses increased 4.1% in 2004 and 3.1% in 2005 over the previously reduced levels. The Legislature also provided one-quarter of the repair and rehabilitation funding formula for the biennium. Several capital projects were approved, including the “Millennium” engineering building ($36 million) and the biomedical engineering building ($13 million) at the West Lafayette campus, a music building ($19 million) at the Fort Wayne campus, and bonding authority for a parking garage at the Calumet campus.

As stated earlier, new tuition levels for incoming freshman were introduced in Fall 2002 in support of the University's strategic plan and will be phased in over a five-year period. An undergraduate differential fee was introduced in Fall 2003 for the School of Management, along with other fee changes.

Enrollment* at all Purdue campuses increased to 64,392 for the fall semester of the 2002–2003 academic year, up from 63,606 the previous year. This includes an additional 356 students for a total of 38,564 on the West Lafayette campus. Undergraduate enrollment is being carefully managed at the West Lafayette campus while other campuses in the Purdue system have the ability to serve additional full-time and part-time students. Graduate enrollment at West Lafayette is projected to increase slightly.

The University continues its comprehensive fund-raising effort to generate $1.3 billion by 2007 in support of students, faculty, programs, and facilities. The Campaign for Purdue was officially announced in September 2002.

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.

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

Statement of Net Assets

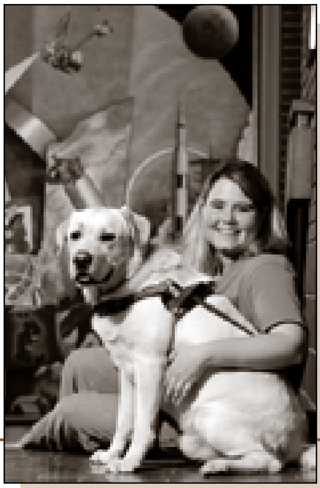
	As of June 30	
	2003	2002
	(Expressed in Thousands)	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 482,964	$ 459,029
Accounts Receivable, Net of Allowance for Uncollectible Amounts	52,412	51,621
Marketable Securities	29,661	49,035
Pledges Receivable, Net of Allowance for Uncollectible Amounts	58,160	55,352
Notes Receivable, Net of Allowance for Uncollectible Amounts	8,338	7,266
Accrued Revenues	9,785	10,005
Inventories	6,167	6,078
Prepaid Expenses	628	1,080
Deferred Expenses	584	771
Funds Held in Trust by Others	6,044	39,880
Total Current Assets	654,743	680,117
Noncurrent Assets:		
Notes Receivable, Net of Allowance for Uncollectible Amounts	36,093	32,098
Pledges Receivable, Net of Allowance for Uncollectible Amounts	16,509	18,113
Marketable Securities and Other Investments	1,114,312	1,089,427
Deferred Bond Issuance Cost	—	366
Capital Assets, Net of Accumulated Depreciation	1,043,309	933,973
Total Noncurrent Assets	2,210,223	2,073,977
Total Assets	**2,864,966**	**2,754,094**
LIABILITIES		
Current Liabilities:		
Accounts Payable	33,987	32,543
Accrued Salary and Wages	5,692	7,232
Accrued Compensated Absences (Current Portion)	20,221	19,921
Deferred Revenue	31,789	27,006
Deposits Held in Custody for Others	20,146	19,751
Accrued Expenses	32,080	29,830
Securities Lending Liability	166,225	207,759
Notes Payable (Current Portion)	1,605	1,527
Long-term Bonds Payable (Current Portion)	23,615	22,430
Leases Payable to Affiliated Foundations (Current Portion)	4,067	7,147
Total Current Liabilities	339,427	375,146

Continued on page 18.

Statement of Net Assets —*Continued*

	As of June 30 2003	2002
	(Expressed in Thousands)	
Noncurrent Liabilities:		
Accrued Compensated Absences (Less Current Portion)	14,657	14,143
Deferred Revenue	740	682
Funds Held in Trust for Others	8,150	8,528
Notes Payable (Less Current Portion)	7,272	31,676
Long-term Bonds Payable, Net (Less Current Portion)	373,314	303,744
Leases Payable to Affiliated Foundations (Less Current Portion)	85,925	89,979
Advances from Federal Government	20,431	20,830
Total Noncurrent Liabilities	510,489	469,582
Total Liabilities	**849,916**	**844,728**
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	605,608	552,442
Restricted		
Nonexpendable		
Instruction and Research	82,580	81,922
Student Aid	80,592	73,594
Other	3,714	3,014
Total Nonexpendable	166,886	158,530
Expendable		
Instruction and Research	67,432	68,459
Student Aid	51,937	48,352
Auxiliary Enterprises	2,713	83,093
Construction	108,499	105,911
Other (Note 1)	346,835	402,896
Total Expendable	577,416	708,711
Unrestricted	665,140	489,683
Total Net Assets	**$ 2,015,050**	**$ 1,909,366**

See the accompanying "Notes to the Financial Statements."



Statement of Revenues, Expenses, and Changes in Net Assets

	For the Year Ended June 30	
	2003	2002
	(Expressed in Thousands)	
OPERATING REVENUES		
Tuition and Fees	$ 392,242	$ 333,828
Less: Scholarship Allowance	(45,448)	(36,866)
Net Tuition and Fees	346,794	296,962
Federal Appropriations	13,912	14,770
County Appropriations	6,539	6,403
Grants and Contracts	212,251	192,820
Sales and Services	38,378	39,352
Auxiliary Enterprises (Net of Scholarship Allowance of $4,393 and $4,257 Respectively)	167,605	162,284
Other Operating Revenues	1,159	1,328
Total Operating Revenues	**786,638**	**713,919**
OPERATING EXPENSES		
Compensation and Benefits	847,236	788,035
Supplies and Services	211,453	227,442
Depreciation Expense	67,123	67,482
Scholarships, Fellowships, and Student Awards	27,803	25,249
Total Operating Expenses	**1,153,615**	**1,108,208**
Net Operating Loss	**(366,977)**	**(394,289)**
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	353,423	348,335
Private Gifts	68,764	97,164
Investment Income (Loss)	48,252	(6,897)
Interest Expense	(18,415)	(17,448)
Other Nonoperating Revenues, Net	5,495	6,835
Total Nonoperating Revenues before Capital and Endowments	**457,519**	**427,989**
CAPITAL AND ENDOWMENTS		
Capital Gifts	15,279	47,746
Private Gifts for Permanent Endowments	9,825	9,829
Plant Assets Retired	(9,962)	(2,512)
Total Capital and Endowments	**15,142**	**55,063**
Total Nonoperating Revenues	**472,661**	**483,052**
INCREASE IN NET ASSETS	**105,684**	**88,763**
Net Assets, Beginning of Year	1,909,366	1,820,603
Net Assets, End of Year	**$ 2,015,050**	**$ 1,909,366**

See the accompanying "Notes to the Financial Statements."

Statement of Cash Flows

	For the Year Ended June 30 2003	2002
	(Expressed in Thousands)	
CASH FLOWS BY OPERATING ACTIVITIES		
Tuition and Fees, Net of Scholarship Allowance	$ 346,275	$ 299,774
Federal Appropriations	13,912	14,770
County Appropriations	6,539	6,403
Grants and Contracts	210,261	193,677
Sales and Services	42,589	38,739
Auxiliary Enterprises, Net of Scholarship Allowance	167,493	162,197
Other Operating Revenues	3,687	(333)
Compensation and Benefits	(846,618)	(780,638)
Supplies and Services	(203,999)	(210,592)
Scholarships, Fellowships, and Student Awards	(27,865)	(25,220)
Student Loans Issued	(9,947)	(9,498)
Student Loans Collected	7,931	7,372
Cash Used by Operating Activities	**(289,742)**	**(303,349)**
CASH FLOWS BY NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	353,185	329,270
Gifts for Other Than Capital Purposes	68,561	88,450
Funds Held in Trust for Others	(378)	(670)
Other Nonoperating Revenues, Net	2,422	6,299
Cash Provided by Noncapital Financing Activities	**423,790**	**423,349**
CASH FLOWS BY INVESTING ACTIVITIES		
Purchases of Investments	(9,192,392)	(4,167,696)
Proceeds from Sales and Maturities of Investments	9,164,841	4,192,958
Interest and Dividends on Investments, Net	29,668	32,512
Cash Provided by Investing Activities	**2,117**	**57,774**
CASH FLOWS BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Repayment	(96,452)	(35,911)
Capital Debt	135,551	128,521
Interest Expense	(17,550)	(11,248)
Capital Gifts	16,038	12,855
Funds Held in Trust by Others	33,835	(39,563)
Purchase of Capital Assets	(183,652)	(140,247)
Cash Used by Capital and Related Financing Activities	**(112,230)**	**(85,593)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**23,935**	**92,181**
Cash and Cash Equivalents, Beginning of Year	459,029	366,848
Cash and Cash Equivalents, End of Year	**$ 482,964**	**$ 459,029**

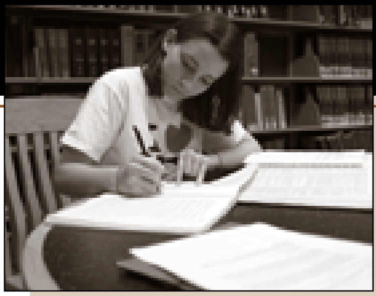
Continued on page 21.

Statement of Cash Flows —*Continued*

Reconciliation of Cash Used for Operating Activities (Indirect Method)

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	For the Year Ended June 30 2003	2002
	(Expressed in Thousands)	
Operating Loss	$ (366,977)	$ (394,289)
Depreciation Expense	67,123	67,482
Gifts in Kind	5,220	13,241
Changes in Assets and Liabilities:		
Accounts Receivable	(551)	1,092
Notes Receivable	(1,882)	(2,377)
Accrued Revenues	(170)	(67)
Inventories	(89)	354
Prepaid Expenses	452	(375)
Deferred Expenses	188	(224)
Accrued Compensated Absences	815	109
Accounts Payable	1,445	9,303
Deferred Revenue	4,784	(194)
Deposits Held in Custody for Others	454	660
Accrued Expenses	1,384	1,025
Accrued Salary and Wages	(1,539)	1,092
Advances from Federal Govenment	(399)	(181)
Cash Used by Operating Activities	**$ (289,742)**	**$ (303,349)**

See the accompanying "Notes to the Financial Statements."



N o t e s t o t h e F i n a n c i a l S t a t e m e n t s

For the Fiscal Year Ended June 30, 2003

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

Summary of Significant Accounting Policies

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

The 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, debt service, and technology. Its nonexempt employees participate in the state's public employees retirement program. (See Note 12.)

Purdue University is the sole beneficiary of the Purdue Research Foundation, the Purdue Foundation, the Purdue Alumni Foundation, and co-beneficiary with Indiana University of the Indiana-Purdue Foundation at Indiana University-Purdue University Fort Wayne, each a separately incorporated, not-for-profit entity organized to promote the educational mission of the respective university. These entities provided grants, contracts, and gifts to Purdue University totaling approximately $57.5 million during their most recent fiscal years. The amounts received by the University in its 2002–2003 fiscal year are reported in the accompanying financial statements. However, the assets and liabilities of these entities are not recorded in the accompanying financial statements. In the unlikely event of the complete dissolution of any of the organizations, the net assets would be transferred to the University. Ross-Ade Foundation is, likewise, a separately incorporated, not-for-profit entity organized as an affiliated organization. However, unlike the foundations described above, 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.)

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.

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 amounts. The amount of the allowance was $1,005,458 for the 2002–2003 fiscal year and $1,063,639 for the 2001–2002 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 $4,383,447 for the 2002–2003 fiscal year and $4,184,228 for the 2001–2002 fiscal year.

Notes Receivable. Notes receivable primarily represent student loans due the University and are presented net of allowance for doubtful amounts of $155,043 for the 2002–2003 fiscal year and $357,412 for the 2001–2002 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, 2003. Fair value is generally based on quoted market price. Investments, exclusive of endowment funds, may be classified as either 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, 2003. 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.

Property Class		Threshold	Useful Life
Moveable Equipment (Including Fabricated Equipment)	$	2,500	More than one year
Library Books		None	Not depreciated
Art and Artifacts	$	2,500	Not depreciated
Software	$	100,000	5 years
Administrative Systems	$	500,000	7 years
Buildings and Related Components	$	100,000	10–50 years
Land Improvements	$	10,000	Varies
Infrastructure	$	10,000	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 80% or $276.6 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 construction — 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 benefit expenses. Expenses are accrued when owed and measurable. Expenses are reported using natural classifications in the Statement of Revenues, Expenses, and Changes in Net Assets. Functional reporting appears in Note 15. 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.

Student Fees. Tuition and fees assessed to students are reported net of scholarship allowances. Scholarship allowances represent amounts applied 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 benefit expense. Fees supporting student activities such as convocations and lectures, intercollegiate athletics, student recreational facilities, student unions, and the student health center are included with auxiliary enterprise revenues.

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.

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 2002–2003 fiscal year, revenue from gifts-in-kind of $7,466,797 was recognized. Comparative data for 2001–2002 reflect $15,723,772 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.

Reclassification. Student loans, gifts, and debt refinancing have been reclassified in the 2001–2002 Statement of Cash Flows to better reflect their activities.

NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, revolving and change funds, cash in transit, credit cards in transit, securities lending cash collateral, and certain investments. 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, 2003, the carrying amount of the University's deposits (demand deposit accounts) was -$1,777,616.29, and the bank balance was $3,138,870.79, of which $100,000 was covered by federal depository insurance. The remaining balance was insured by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investments. Authorization for investment activity is stated in Indiana Code IC 20-12-1-2. Additionally, the Bylaws of the Trustees of Purdue University revised and amended on May 31, 1997, authorize the treasurer of the Board of Trustees to implement investment activity. The investment policy, as recommended by the finance committee of the Board of Trustees, outlines the parameters for 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.

The University's investments, exclusive of endowment funds, are categorized as cash equivalents, current or noncurrent, for financial reporting purposes. Cash equivalents are described in Note 2. Current investments include those maturing between October 1, 2003, and June 30, 2004. Noncurrent investments mature on or after July 1, 2004. All securities were insured, registered, or held by the University or its agent for the benefit of the University.

An accounting of the University's investments, exclusive of endowment funds, at June 30, 2003, follows:

Investment Type	Carrying Value	Market Value
	(Expressed in Thousands)	
Money Market Funds	$ 258,697	$ 258,464
Securities Lending Cash Collateral	156,658	156,658
Treasury Securities	130,179	132,292
Agency Securities	120,520	122,441
Asset-Backed Securities	85,055	85,433
Corporate Securities	178,115	189,625
Mortgages	137,954	139,341
Total	**$ 1,067,178**	**$ 1,084,254**

Noncurrent investments include a $3,430,799 federal home loan mortgage that is collateral for the University's medical self-insurance.

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, 2003, the University had securities with market value of $181,883,941 involved in loans. These loans were supported by collateral of $185,691,088. Of this collateral amount, $166,225,216 was cash and is included in cash and cash equivalents in the Statement of Net Assets, and $19,465,872 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, 2003, 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 ended June 30, 2003, income from its participation in this securities lending program was $3,285,313, and the expense was $2,949,334. Net income to the University from this program was $335,979. Under the securities lending agreement, the custodian remits to the University earnings less rebate fees and expenses on a monthly basis.

NOTE 5 — DISAGGREGATION OF RECEIVABLES AND PAYABLES

During the 2002–2003 fiscal year, the State of Indiana deferred payment of the state universities' May operating appropriation. This appropriation was received in July 2003. A receivable of $26,851,382 has been recorded, representing 51.2% of current accounts receivable (net).

Accrued liabilities for payments related to construction in progress were $15,692,365 as of June 30, 2003. This represents 46.2% of current accounts payable.

NOTE 6 — CONSTRUCTION IN PROGRESS

Expenditures for construction projects in various stages of completion at June 30, 2003, totaled $137.6 million for the fiscal year. As of June 30, 2003, contractual obligations for capital construction projects were $140,644,449.

NOTE 7 — CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, is summarized below. The decrease in Construction in Progress includes a $7.1 million write-off of administrative software development costs for a project that is no longer being pursued.

Capital Asset Activity (Expressed in Thousands)

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Not Being Depreciated:				
Land	$ 16,748	$ —	$ (37)	$ 16,711
Construction in Progress	133,370	137,592	(51,361)	219,601
Total Capital Assets, Not Being Depreciated	150,118	137,592	(51,398)	236,312
Capital Assets, Being Depreciated:				
Land Improvements	50,123	1,433	(21)	51,535
Infrastructure	15,567	2,003	—	17,570
Buildings	1,055,978	40,586	—	1,096,564
Equipment	407,942	36,343	(23,820)	420,465
Operating Software	585	1,215	—	1,800
Administrative Software	937	11,577	—	12,514
Total Capital Assets, Being Depreciated	1,531,132	93,157	(23,841)	1,600,448
Less Accumulated Depreciation:				
Land Improvements	(36,284)	(2,014)	—	(38,298)
Infrastructure	(4,961)	(834)	—	(5,795)
Buildings	(473,876)	(35,558)	—	(509,434)
Equipment	(232,094)	(26,921)	20,949	(238,066)
Software (Operating and Administrative)	(62)	(1,796)	—	(1,858)
Total Accumulated Depreciation	(747,277)	(67,123)	20,949	(793,451)
Total Capital Assets, Net of Accumulated Depreciation	**$ 933,973**	**$ 163,626**	**$ (54,290)**	**$ 1,043,309**

NOTE 8 — DEBT RELATED TO CAPITAL ASSETS

Notes Payable. Notes outstanding of $8,876,402 at June 30, 2003, 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, 2003, was $1,665,000. The interest rate as of June 30, 2003, was 1.45%.

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 include 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, 2003, was $7,211,402. The interest rate for the notes ranged from 1.30% to 5.04% as of June 30, 2003.

On October 3, 2000, the University issued commercial paper as interim financing for Dormitory System construction projects. The commercial paper issue is a note payable that was refinanced with Purdue University Bonds Series 2003A in April 2003. There was no outstanding commercial paper as of June 30, 2003.

A summary of activity for the commercial paper program for the 2002–2003 fiscal year follows:

Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
$ 22,800,000	$ 10,000,000	$ 32,800,000	$ 0

Bonds Payable. Bonds payable at June 30, 2003, totaled $391,070,000, consisting of the following issues:

Issue	Issue Date	Interest Rates	Maturity Dates	Outstanding June 30, 2003
Student Facilities System Revenue Bonds:				
Series 2003A	2003	4.0–5.38%	2004–2028	$ 94,975,000
Series 2003B	2003	2%–5%	2005–2029	24,350,000
Student Fee Bonds:				
Series E	1990	3.0–3.9%	2004–2007	8,700,000
Series H	1993	2.78–5.25%	1998–2015	11,400,000
Series K	1995	2.2–5.63%	1997–2020	18,200,000
Series L	1995	3.0–5.63%	1997–2020	15,900,000
Series N	1998	3.55–5.5%	1998–2014	50,360,000
Series O	1998	2.68–5.63%	2000–2019	31,580,000
Series P	1998	4.0–5.25%	1999–2017	53,320,000
Series Q	2000	2.63–6.0%	2002–2022	48,950,000
Series R	2002	3.0–5.38%	2002–2023	33,045,000
Student Union Bonds	1973	5.0–5.5%	1974–2003	290,000
Total				**$ 391,070,000**

Student Union Bonds are secured by a pledge of net income of the Fort Wayne Student Union Building, 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. For the Student Union Bonds, the bond trustee held the final principal and interest payment in trust, with the final payment made July 1, 2003. The balance in this sinking fund was $299,005 on June 30, 2003. Student fees (net of scholarship allowance) were $346,793,836.

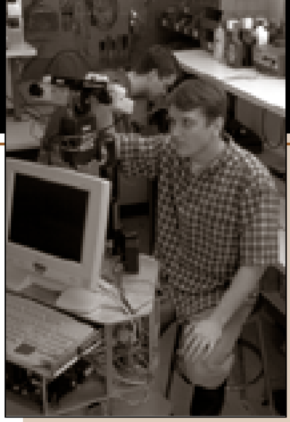
On April 8, 2003, Student Facilities System Revenue Bonds, Series 2003A were issued in the amount of $94,975,000. This series included funds for the refunding of the Dormitory System Revenue Bonds, Series 1993; the Dormitory System Tax-Exempt Commercial Paper Notes, Series 2000; and for the continuation of the Cary Quad renovation and the Food Service Consolidation. As of June 30, 2003, the balance outstanding on these bonds was $94,975,000.

On May 29, 2003, Student Facilities System Revenue Bonds, Series 2003B were issued in the amount of $24,350,000. This series was issued to finance student housing facilities on the Fort Wayne campus. As of June 30, 2003, the balance outstanding on these bonds was $24,350,000.

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

Fiscal Year	Principal	Interest	Total
2004	$ 23,615,000	$ 18,386,072	$ 42,001,072
2005	23,625,000	17,416,445	41,041,445
2006	20,250,000	16,542,402	36,792,402
2007	21,175,000	15,568,398	36,743,398
2008	21,990,000	14,537,977	36,527,977
2009–2013	97,025,000	58,352,183	155,377,183
2014–2018	90,350,000	32,197,860	122,547,860
2019–2023	54,485,000	14,732,494	69,217,494
2024–2028	29,430,000	5,261,500	34,691,500
2029–2030	9,125,000	120,250	9,245,250
	$ 391,070,000	$ 193,115,581	$ 584,185,581
Add Unamortized Premium	5,859,493		5,859,493
Total	**$ 396,929,493**	**$ 193,115,581**	**$ 590,045,074**

Capital Leases. At June 30, 2003, long-term debt included amounts relating to properties leased from affiliated corporations and others with a net book value of $99,483,670. The outstanding balance on these leases at June 30, 2003, was $89,991,553. The lease-purchase payments on these properties in the 2002–2003 fiscal year totaled $8,533,244, consisting of $7,153,783 principal and $1,379,461 interest costs.



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

Fiscal Year	Principal	Interest	Total
2004	$ 4,066,553	$ 4,554,460	$ 8,621,013
2005	3,795,000	4,378,821	8,173,821
2006	3,960,000	4,207,407	8,167,407
2007	4,165,000	4,007,352	8,172,352
2008	4,380,000	3,790,029	8,170,029
2009–2013	19,205,000	15,813,631	35,018,631
2014–2018	16,585,000	11,094,013	27,679,013
2019–2023	16,940,000	6,885,800	23,825,800
2024–2028	16,895,000	2,163,500	19,058,500
Total	**$ 89,991,553**	**$ 56,895,013**	**$ 146,886,566**

NOTE 9 — OTHER DEBT INFORMATION

Long-Term Liabilities. Long-term liability activity (expressed in thousands) for the year ended June 30, 2003, is summarized below:

Long-term Liabilities (Expressed in Thousands)

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Current Portion
Advances from Federal Government	$ 20,830	$ 326	$ (725)	$ 20,431	$ —
Bonds Payable, Net	326,174	125,185	(54,430)	396,929	23,615
Compensated Absences	34,064	33,454	(32,640)	34,878	20,221
Deferred Revenue	682	111	(53)	740	—
Funds Held in Trust for Others	8,528	6,322	(6,700)	8,150	—
Leases Payable to Affiliated Foundations	97,126	—	(7,134)	89,992	4,067
Notes Payable	33,203	10,000	(34,326)	8,877	1,605
Total	**$ 520,607**	**$ 175,398**	**$ (136,008)**	**$ 559,997**	**$ 49,508**

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 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, 2003
Building Facilities Fee Bonds	2009	$ 8,870,000
Dormitory Facilities Revenue Bonds, Series A–L	2008	3,543,000
Dormitory System Revenue Bonds, Series 1993	2004	34,450,000
Student Fee Bonds, Series B	2005	3,300,000
Student Fee Bonds, Series G	2004	12,850,000
Student Fee Bonds, Series M	2006	52,722,500

On January 16, 2003, Dormitory System Revenue Bonds, Series 1993 were refunded with the issuance of the Student Facilities System Revenue Bonds, Series 2003A. United States Treasury obligations were purchased in the amount sufficient to pay principal and interest expense, as well as call premiums when due through the call date of July 2004; they were deposited in an irrevocable trust with a trustee. At June 30, 2003, the outstanding balance on the Dormitory System Revenue Bonds, Series 1993 was $34,450,000. The Series 1993 bonds trust account is not reflected on the University's books.

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 from 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, 2003, the outstanding amount of these bonds was $7,285,000. 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 expenditures for rent under these leases for the year ended June 30, 2003, were $6,841,076 and are included in supplies and services in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 10 — DONOR-RESTRICTED ENDOWMENTS

The University's endowment funds (including true, term, and funds functioning as endowments) are invested in a unitized pool. The unitized endowment pool purchases investments to generate present and future income in support of various programs. The University's Board of Trustees establishes the spending policy for the unitized endowment pool. The current spending policy distributes 4.5% of the average of the ending values for the prior twelve quarters in semi-annual distributions. The distribution includes both income and equity components. Market appreciation of the pool was $256,389,572 as of June 30, 2003. Of this amount, 32.2% 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 some actions have been brought for large amounts, the University has not experienced 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.

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 also is 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, and real estate investments over the next several fiscal years. As of June 30, 2003, the University had total unfunded commitments to eight investment managers equal to $37,312,325. 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
2003–2004	$ 9,328,082
2004–2005	9,328,081
2005–2006	9,328,081
2006–2007	9,328,081

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 2002–2003 fiscal year, the University's cost was $35,578,411 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 2002–2003 fiscal year, the University made contributions totaling $47,658,295 to this plan. For the fiscal year ended June 30, 2003, there were 5,222 employees participating in TIAA with annual pay equal to $324,044,360.

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 2002–2003 fiscal year, the University made contributions totaling $10,145,511 to this plan. For the fiscal year ended June 30, 2003, there were 5,038 employees participating in PERF with annual pay equal to $123,725,352.

The required employer's contribution was determined as part of the July 1, 2002, 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 35 years. Actuarial information related to the University's portion of the plan is disclosed later in this note.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing to Public Employees Retirement Fund, Harrison Building, Room 800, 143 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 ended June 30, 2003, there were 90 employees participating in Police/Fire with annual pay equal to $3,867,246.

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, 2002. 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, 2002, of $3.5 million, which is being amortized over a 30-year period. The required contribution to the plan for the 2002–2003 fiscal year was $867,789, consisting of $485,931 normal cost, $325,087 amortization of the unfunded liability, and $56,771 interest. Of the required amount, $107,267 represents employee contributions, and $760,522 represents the University's contribution. The actual amount contributed by the University was $814,864.The required contribution was determined as part of the July 2002 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)

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†	2000	$169,545	$147,147	$ (22,398)	115.2%	$118,759	-18.9%	$5,463	124.0%	$ (2,894)
	2001	169,867	156,111	(13,756)	108.8%	122,040	-11.3%	5,601	111.0%	(3,390)
	2002	134,304	138,342	4,038	97.1%	109,160	3.7%	5,544	111.9%	(4,048)
Police/Fire	2000	$ 10,117	$ 13,887	$ 3,770	72.9%	$ 3,660	103.0%	$ 907	108.6%	$ (69)
	2001	11,323	14,858	3,535	76.2%	3,770	93.8%	883	108.6%	(67)
	2002	12,175	15,674	3,499	77.7%	3,867	90.5%	868	107.1%	(54)

**Data for 2003 not available from actuaries.*
†University portion only.

Cooperative Extension Service. As of June 30, 2003, there were 92 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 per incident is $250,000 per occurrence. There is a $1 million retention per occurrence or wrongful act for general, automobile, professional, and educator's legal liability. The University retains the entire risk for medical and long-term disability benefits. The maximum liability to the University for job-related illnesses or injuries is $1,000,000 per incident, with a maximum annual aggregate liability of $4.9 million.

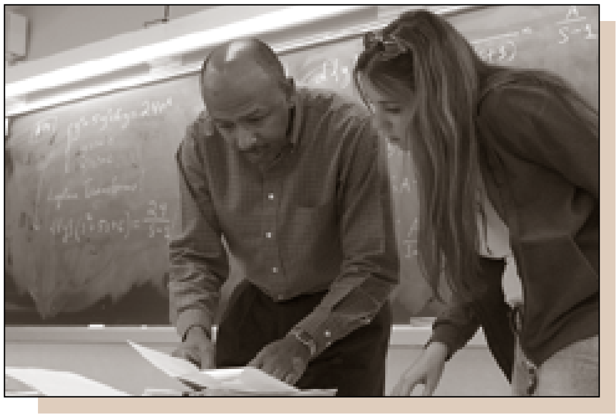
Separate funds have been established to account for these risks. All departments of the University are charged fees based on actuarial estimates of the amounts necessary to pay claims and to establish reserves for catastrophic losses.

The University accrues liabilities for claims if information indicates that a loss has been incurred as of June 30, and the amount of the loss can reasonably be estimated. The liability for medical claims incurred but not reported at June 30, 2003, is based on actuarial estimates. The liability accrued for staff on long-term disability is estimated based on calculations performed by external actuaries. Changes in the balances of claims liabilities during the 2002–2003 and 2001–2002 fiscal years were as follows:

	Year Ended June 30, 2003	Year Ended June 30, 2002
Beginning Liability	$ 22,675,909	$ 21,393,244
Claims Incurred	65,487,972	55,737,127
Claims Payments	(64,381,305)	(54,454,462)
Ending Liability	**$ 23,782,576**	**$ 22,675,909**

NOTE 14 — SEGMENTS

For 2002–2003, the University had no reportable segments.



NOTE 15 — OPERATING EXPENSES BY FUNCTION

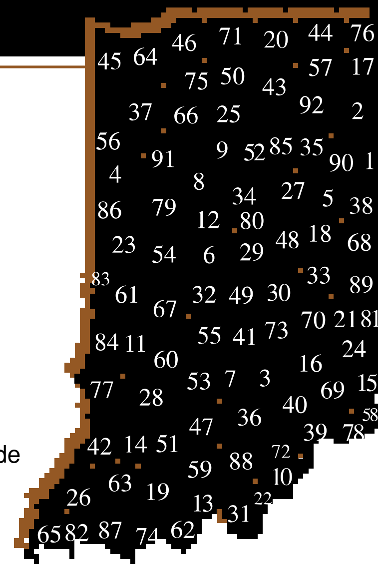
Operating expenses by functional classification for the fiscal years ended June 30, 2003, and June 30, 2002, are summarized as follows:

Operating Expenses by Function for the Year Ended June 30, 2003 (Expressed in Thousands)

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$ 361,496	$ 49,738			$ 411,234
Organized Activities Related to Instruction and Research	6,812	8,828			15,640
Sponsored Research	86,590	40,510			127,100
Other Separately Budgeted Research	31,978	5,632			37,610
Extension and Public Service	62,590	22,849			85,439
Academic Support	14,252	14,592			28,844
Student Services	23,489	5,519			29,008
Physical Plant Operations and Maintenance	47,398	25,714			73,112
General Administration	53,798	22,903			76,701
General Institutional Services	18,724	7,036			25,760
Student Aid	2,418			$ 27,803	30,221
Auxiliary Enterprises	137,691	8,132			145,823
Depreciation			$ 67,123		67,123
Total	**$ 847,236**	**$ 211,453**	**$ 67,123**	**$ 27,803**	**$ 1,153,615**

Operating Expenses by Function for the Year Ended June 30, 2002 (Expressed in Thousands)

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$ 345,643	$ 62,022			$ 407,665
Organized Activities Related to Instruction and Research	6,271	8,716			14,987
Sponsored Research	77,619	38,238			115,857
Other Separately Budgeted Research	29,528	6,823			36,351
Extension and Public Service	60,036	23,379			83,415
Academic Support	22,409	18,405			40,814
Student Services	22,465	7,677			30,142
Physical Plant Operations and Maintenance	46,746	28,209			74,955
General Administration	36,182	12,776			48,958
General Institutional Services	17,711	7,322			25,033
Student Aid	757	537		$ 25,249	26,543
Auxiliary Enterprises	122,668	13,338			136,006
Depreciation			$ 67,482		67,482
Total	**$ 788,035**	**$ 227,442**	**$ 67,482**	**$ 25,249**	**$ 1,108,208**



In-State Enrollment (unaudited)

Total In-State Enrollment by County, Fall 2002–2003 Academic Year

The enrollment at Purdue University was 64,392 students for the 2002–2003 fall semester. The breakdown was: West Lafayette, 38,564; Calumet, 8,863; Fort Wayne, 11,755; North Central, 3,657; and Statewide Technology, 1,553. (The enrollment figures do not include 3,654 Purdue University students at Indiana University-Purdue University Indianapolis.) Although students came to Purdue from all over the world, 75% systemwide came from within Indiana.

County	West Lafayette	Regional Campuses	Technology Statewide System
1 Adams	105	445	
2 Allen	1,035	7,428	2
3 Bartholomew	301	1	132
4 Benton	154	1	6
5 Blackford	24	10	
6 Boone	322	2	2
7 Brown	18		6
8 Carroll	183	2	13
9 Cass	220	6	34
10 Clark	140		49
11 Clay	61	1	
12 Clinton	298	2	22
13 Crawford	11		1
14 Daviess	53	1	
15 Dearborn	183		8
16 Decatur	130	1	56
17 De Kalb	110	611	
18 Delaware	199	13	24
19 Dubois	175	1	1
20 Elkhart	563	50	84
21 Fayette	48		41
22 Floyd	183	2	46
23 Fountain	150		2
24 Franklin	76		6
25 Fulton	110	28	5
26 Gibson	94		
27 Grant	166	47	18
28 Greene	59		2
29 Hamilton	1,108	8	11
30 Hancock	272	3	3
31 Harrison	50		14
32 Hendricks	487	2	9
33 Henry	108	1	19
34 Howard	411	4	101
35 Huntington	131	441	1

County	West Lafayette	Regional Campuses	Technology Statewide System
36 Jackson	96		43
37 Jasper	243	173	1
38 Jay	34	18	1
39 Jefferson	70	1	8
40 Jennings	49	1	31
41 Johnson	289	1	20
42 Knox	87	3	
43 Kosciusko	320	482	4
44 La Grange	64	105	10
45 Lake	2,172	7,421	1
46 La Porte	434	1,662	5
47 Lawrence	102	1	2
48 Madison	310	4	80
49 Marion	1,821	14	55
50 Marshall	182	27	15
51 Martin	20		
52 Miami	150	16	29
53 Monroe	165	8	3
54 Montgomery	233		1
55 Morgan	161	2	5
56 Newton	92	36	1
57 Noble	107	512	5
58 Ohio	17		
59 Orange	48		1
60 Owen	20	1	1
61 Parke	35		
62 Perry	48	1	
63 Pike	15		
64 Porter	849	2,192	5
65 Posey	77	1	
66 Pulaski	129	37	4
67 Putnam	92	1	3

County	West Lafayette	Regional Campuses	Technology Statewide System
68 Randolph	43	4	8
69 Ripley	93	1	30
70 Rush	66	1	5
71 St. Joseph	963	73	142
72 Scott	28	1	4
73 Shelby	137		9
74 Spencer	73	1	
75 Starke	85	192	1
76 Steuben	90	265	
77 Sullivan	27	1	
78 Switzerland	18		1
79 Tippecanoe	3,464	36	106
80 Tipton	117		12
81 Union	18		6
82 Vanderburgh	352	5	1
83 Vermillion	52	1	
84 Vigo	165	1	1
85 Wabash	117	164	5
86 Warren	82		2
87 Warrick	189	1	
88 Washington	31	2	14
89 Wayne	142	3	72
90 Wells	86	377	
91 White	298	6	14
92 Whitley	82	448	
Total	**23,087**	**23,414**	**1,485**

PURDUE
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An equal access/equal opportunity university