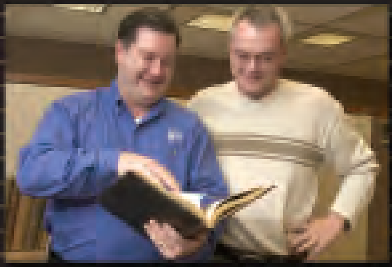
PURDUE UNIVERSITY

Financial Report

2003-2004



LETTER OF TRANSMITTAL

To the Board of Trustees of Purdue University:

We are pleased to submit this, the 82nd annual financial report of Purdue University. This report is for the fiscal year ended June 30, 2004, and sets forth the complete and permanent record of the financial status of the University for the year.

The University Financial Statements have been audited by the Indiana State Board of Accounts, and the Auditors' Report appears on page 2.

Respectfully submitted,

MARTIN C. JISCHKE
President

Respectfully submitted,

MORGAN R. OLSEN
Executive Vice President and Treasurer

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

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Purdue University, a component unit of the State of Indiana, as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component units of the University as discussed in Note 1, which represent 100% of the assets and revenues of the discretely presented component units. We also did not audit the trust which maintains the University's portion of trust agreements as discussed in Note 1. The University's interest in the charitable remainder trusts represents approximately 1% of the assets and revenues of the University. The financial statements of these units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based upon the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Purdue University, as of June 30, 2004 and 2003, 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 13, 2004, 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 13, 2004

BOARD OF TRUSTEES

As of June 30, 2004

The responsibility for making rules and regulations to govern the University is vested in a 10-member Board of Trustees appointed by the governor. The selection of these trustees is prescribed in Indiana Code IC 20-12-37. Three of the trustees are selected by the Purdue Alumni Association. The remaining seven trustees are selected by the governor. Two of the trustees must be involved in agricultural pursuits, and one must be a full-time student of Purdue University. All trustees serve for a period of three years, except for the student member, who serves for two years.

OFFICERS OF THE UNIVERSITY

As of June 30, 2004

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, 2004

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of Purdue University for the fiscal year ended June 30, 2004, the financial activities for the 2003-2004 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.

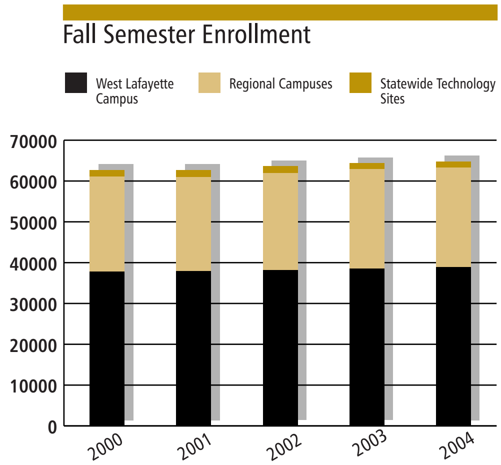
In 2003-2004, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 39 "Determining Whether Certain Organizations are Component Units" (an amendment of GASB Statement No. 14). As a result, two of the University foundations are separately presented as part of these financial statements. Statements of Financial Position and Statements of Activities are presented for the Purdue Research Foundation and the Purdue Alumni Foundation following the University's Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets. As private, non-profit entities, these foundations follow the accounting pronouncements of the Financial Accounting Standards Board (FASB). The University is not required to restate the statements of the foundations to be consistent with GASB reporting and has not done so. Additional information regarding these foundations may be found in Note 1. The financial information presented here, in the Management's Discussion and Analysis, focuses solely on Purdue University and does not include financial analysis or data related to the foundations.

FINANCIAL HIGHLIGHTS

Operating revenues were $883.9 million compared to $786.6 million in the prior year – an increase of 12.4%. This increase is due primarily to increases in net student fee revenue ($38.4 million), grants and contracts ($31.8 million), and auxiliary enterprises ($21.4 million).

Tuition and fee revenue, net of scholarship allowances, increased from $346.8 million in the 2002-2003 fiscal year to $385.2 million in the 2003-2004 fiscal year – an increase of 11.1%. 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 is being phased in over a five-year period. Enrollment patterns for the last five years are illustrated in Figure 1.

Figure 1. ***Five-Year Enrollment* Data***



Operating expenses increased, but not to the same extent as revenue. Total operating expenses increased 8.6% from $1.15 billion for the 2002-2003 fiscal year to $1.25 billion for the 2003-2004 fiscal year. This change was driven by a 7.1% increase in compensation and benefits, the single largest component of operating expenses, which increased from $847.2 million to $907.7 million.

Nonoperating revenues increased $116.7 million, from $472.7 million in the 2002-2003 fiscal year to $589.4 million in the 2003-2004 fiscal year. Investment income increased $58.3 million from $48.3 million in the 2002-2003 fiscal year to $106.6 million in the current fiscal year. 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, 2003, and June 30, 2004, is contained in investment income.

Private gifts, capital gifts, and gifts for permanent endowments collectively increased $45.9 million or 48.9%. The majority of the increase, $28.9 million, is the result of the University's ongoing capital campaign. The University also recognized revenue of $17.0 million for the portion of the charitable remainder trusts administered by the Purdue Research Foundation where the University has been named remainderman. The University's interest in these trusts has been recognized for the first time and revenue related to the net present value of the expected remainder has been recorded under Private Gifts for Permanent Endowments.

The 2003-2004 change in net assets of $220.4 million represents a $114.7 million or 108.6% increase from the prior year's increase of $105.7 million.

**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.

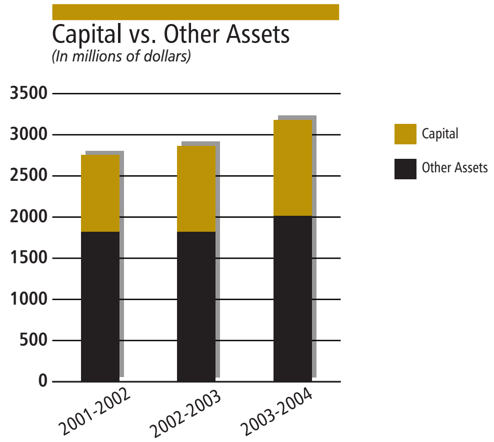
The Statement of Net Assets provides a summary view of the assets, liabilities, and net assets of the University. The Statement of Revenues, Expenses, and Changes in Net Assets, on the other hand, summarizes the yearlong financial process that caused the changes in year-end net assets on the Statement 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 $3.2 billion for the 2003-2004 fiscal year and $2.9 billion for the 2002-2003 fiscal year, an increase of $315.5 million or 11.0%. Current assets as of June 30, 2004, declined $43.5 million while noncurrent assets increased $359.0 million or 16.2%.

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

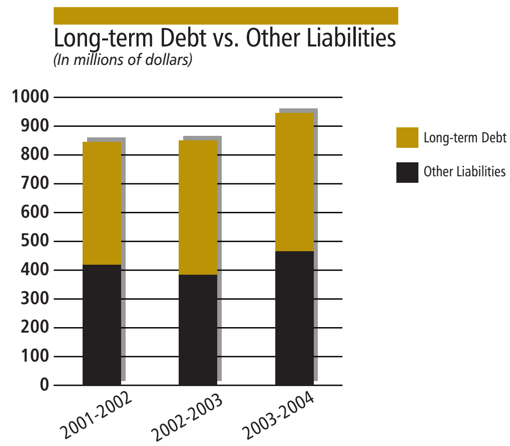
Figure 2.



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 $944.9 million for the 2003-2004 fiscal year and $849.9 million for the 2002-2003 fiscal year. Figure 3 depicts the portion of long-term debt relative to total liabilities.

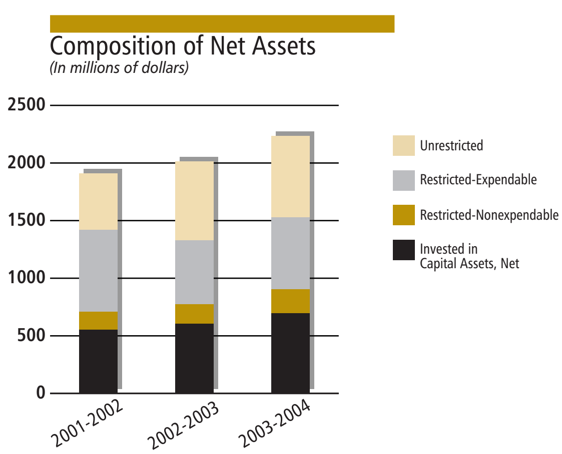
A discussion of the University's capital financing activities appears in the Debt and Financing Activities section on page 11.

Figure 3.



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. 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 $2.24 billion as of June 30, 2004. 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 Statement of Net Assets (Expressed in Thousands)

	2001-2002	2002-2003	2003-2004
Current Assets	$ 680,117	$ 654,743	$ 611,216
Capital Assets	933,973	1,043,309	1,167,863
Other Assets	1,140,004	1,166,914	1,401,348
Total Assets	2,754,094	2,864,966	3,180,427
Current Liabilities	375,146	339,427	407,873
Noncurrent Liabilities	469,582	510,489	537,076
Total Liabilities	844,728	849,916	944,949
Invested in Capital Assets, Net of Related Debt	552,442	605,608	697,257
Restricted - Nonexpendable	158,530	166,886	205,104
Restricted - Expendable	708,711	555,154	624,240
Unrestricted	489,683	687,402	708,877
Total Net Assets	**$1,909,366**	**$2,015,050**	**$2,235,478**

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 2003-2004 fiscal year are listed in Table 2.

Table 2*. Major Projects Completed during the 2003-2004 Fiscal Year* (More than $1 Million)

	Project Total (Expressed in Thousands)
Burton D. Morgan Center for Entrepreneurship	$ 6,988
Calumet Campus Gyte Laboratory Renovation, Phase I	5,328
Cary Quadrangle Renovation, Phase IV	6,672
Cary Quadrangle West Renovation, Phase III	9,846
David C. Pfendler Hall of Agriculture Renovation	14,438
Dick and Sandy Dauch Alumni Center	14,802
Discovery Park Utility Extension	1,495
Discovery Park Utility Extension Phase II	4,748
Envision: A Center for Data Perceptualization	1,401
Jerry S. Rawls Hall	31,798
Martell Forest Research and Education Center	3,648
Ross-Ade Stadium Renovation	70,000
Satellite Chiller Site Distribution	4,749
Shreve Hall Air Conditioning and Sprinkling, Phase III	2,031
Swine Research Complex, Phase I	1,960
Utility Expansion	3,081
Veterinary Medicine Isolation Facility	1,865
Visual and Performing Arts Building, Phase I	24,216
Total Major Projects Completed	**$209,066**

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

	Project Budget (Expressed in Thousands)
Bindley Bioscience Center	$ 15,000
Biomedical Engineering Building	25,000
Birck Nanotechnology Center	56,400
Calumet Campus Parking Garage	11,500
Cary Quadrangle, Phases V-VI	19,700
Discovery Park Utilities Extension, Phase III	4,600
Discovery Park Site Development, Phases IV and V	1,925
Earhart Residence Hall Install Sprinklers and Student Room Air Conditioning	7,950
Forney Hall of Chemical Engineering Addition	19,500
Heine (Robert E.) Laboratory Renovation. Phases III and IV	3,660
IPFW Student Housing	25,500
PMU Sweet Shop Renovation	1,900
Residence Halls Food Service Facility, Phases II and III	17,197
Student Housing Facilities at Purdue University Calumet	16,500
Young Hall Remodel Floors 6,7,8	4,200
Total Major Projects in Progress	**$230,532**

In addition, the University's Board of Trustees has authorized the following major projects that had not been started as of June 30, 2004:

Table 4. ***Major Projects Authorized — Not Started*** (More than $1 Million)

	Project Budget (Expressed in Thousands)
Computer Science Building	$ 20,000
e-Enterprise Center	10,000
Food Service Consolidation, Phase IV	21,803
Forney Hall of Chemical Engineering Renovation (2004)	7,100
Golf Training Facility	2,245
Infrastructure Expansion at Stadium Mall Drive	2,000
IPFW Music Building	25,000
Millennium Engineering Building	47,700
Satellite Plant Chiller #3 Installation	1,135
Schwartz, Dennis J & Mary Lou Tennis Center	7,200
Switchgear for Northwest Main Substation	1,000
Visual and Performing Arts, Phase II	11,800
Total Major Projects Authorized	**$156,983**

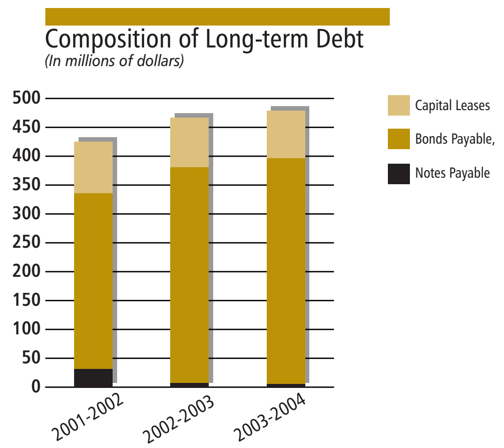
Debt and Financing Activities

During the fiscal year, the University issued two series of bonds: Student Facilities System Revenue Bonds Series 2004A for $28,100,000 and Student Fee Bonds Series S for $13,850,000. Series 2004A was issued to finance student housing facilities and a parking garage at the Calumet campus. Series S provided partial financing for the Biomedical Engineering Building on the West Lafayette campus.

In the 2003-2004 fiscal year, the University maintained its excellent credit ratings by Moody's Investors Service (Aa1) and by Standard & Poor's (AA). In addition, the University's variable rate debt received short-term ratings by Moody's of VMIG1 and by Standard & Poor's of A-1+.

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

Figure 5.

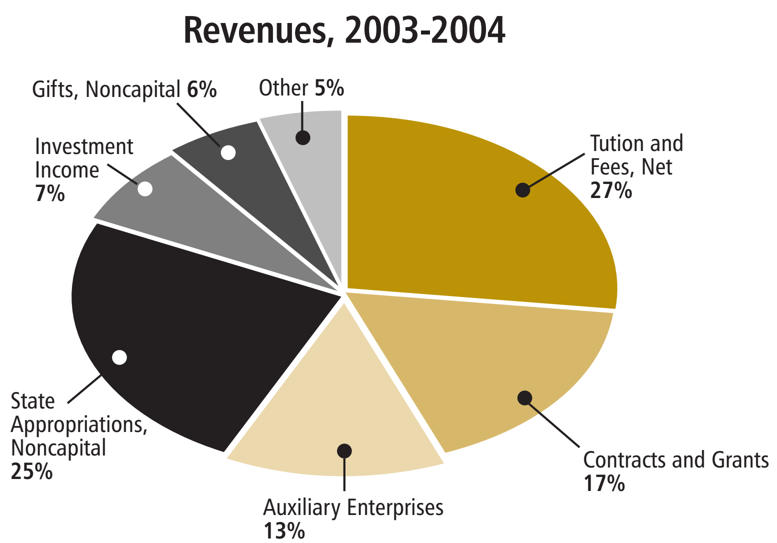


Statement of Revenues, Expenses, and Changes in Net Assets

A review of the Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the extent to which the results of operations, nonoperating revenues, and capital funding over the course of the fiscal year 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 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 2003-2004 fiscal year.

Figure 6.



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

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

	2001-2002	2002-2003	2003-2004
		(Expressed in Thousands)	
Operating Revenues			
Tuition and Fees, Net	$ 296,962	$ 346,794	$ 385,198
Grants and Contracts	192,820	212,251	244,090
Auxiliary Enterprises, Net	162,284	167,605	189,022
Other Operating Revenues	61,853	59,988	65,597
Total Operating Revenues	713,919	786,638	883,907
Operating Expenses			
Depreciation	67,482	67,123	75,301
Operating Expense	1,040,726	1,086,492	1,177,558
Total Operating Expenses	1,108,208	1,153,615	1,252,859
Operating Loss	(394,289)	(366,977)	(368,952)
Nonoperating Revenue	427,989	457,519	526,036
Capital and Endowments	55,063	15,142	63,344
Total Nonoperating Revenues	483,052	472,661	589,380
Increase in Net Assets	88,763	105,684	220,428
Net Assets, Beginning of Year	1,820,603	1,909,366	2,015,050
Net Assets, End of Year	**$1,909,366**	**$2,015,050**	**$2,235,478**

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***

	2001-2002	2002-2003	2003-2004
		(Expressed in Thousands)	
Cash Used by Operating Activities	$(303,349)	$(289,742)	$(297,226)
Cash Provided by Noncapital Financing Activities	423,349	423,790	453,470
Cash Provided (Used) by Investing Activities	57,774	2,117	(15,732)
Cash Used by Capital and Related Financing Activities	(85,593)	(112,230)	(148,758)
Net Increase (Decrease) in Cash and Cash Equivalents	92,181	23,935	(8,246)
Cash and Cash Equivalents, Beginning of Year	366,848	459,029	482,964
Cash and Cash Equivalents, End of Year	**$459,029**	**$482,964**	**$474,718**

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

For the 2004-2005 fiscal year, the University received increases in operating appropriations from the State of Indiana for its West Lafayette (3.1%), Calumet (0.5%), North Central (2.7%) and Fort Wayne (5.5%) campuses. The increase for the West Lafayette campus was targeted to research support and the Biomedical Engineering program with modest amounts for inflation and operating support for new facilities. Tuition increases were voluntarily constrained by the seven public universities in Indiana at the request of the Governor. With this combination of constrained increases in both operating appropriations and tuition and fees, the University has continued its emphasis on internal reallocations to high priority initiatives.

The University was notified in 2003-2004 that it would not receive Repair and Rehabilitation (R&R) funding from the State in 2004-2005 for buildings and infrastructure. The University received $2.08 million of the $8.3 million appropriated for the 2003-2005 biennium. The University received less than $90,000 of the $28.0 million appropriated for R&R in the 2001-03 biennium.

Enrollment* at all Purdue campuses increased to 64,780 for the fall semester of the 2003-2004 academic year, up from 64,392 the previous year. This includes an additional 283 students for a total of 38,847 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.

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. As of June 30, 2004, the University has raised $947 million toward its $1.3 billion goal.

One important economic factor facing the University is the consideration of the 2005-2007 biennial budget request by the State Legislature during the legislative session beginning in January 2005. The legislative request was approved by the Board of Trustees at its September 24, 2004, meeting.

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.

DICK AND SANDY DAUCH ALUMNI CENTER

** 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 2004	2003
	(Expressed in Thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$474,718	$482,964
Accounts Receivable, Net of Allowance for Uncollectible Amounts	60,542	52,412
Marketable Securities	13,330	29,661
Pledges Receivable, Net of Allowance for Uncollectible Amounts	32,511	58,160
Notes Receivable, Net of Allowance for Uncollectible Amounts	9,858	8,338
Accrued Revenues	10,570	9,785
Inventories	6,018	6,167
Prepaid Expenses	2,681	628
Deferred Expenses	783	584
Funds Held in Trust by Others	205	6,044
Total Current Assets	611,216	654,743
Noncurrent Assets:		
Notes Receivable, Net of Allowance for Uncollectible Amounts	35,657	36,093
Pledges Receivable, Net of Allowance for Uncollectible Amounts	32,478	16,509
Marketable Securities and Other Investments	1,316,242	1,114,312
Interest in Charitable Remainder Trusts	16,971	
Capital Assets, Net of Accumulated Depreciation	1,167,863	1,043,309
Total Noncurrent Assets	2,569,211	2,210,223
Total Assets	**3,180,427**	**2,864,966**
Liabilities:		
Current Liabilities:		
Accounts Payable	39,084	33,987
Accrued Salary and Wages	8,060	5,692
Accrued Compensated Absences (Current Portion)	20,101	20,221
Deferred Revenue (Current Portion)	37,135	31,789
Deposits Held in Custody for Others	19,782	20,146
Accrued Expenses	24,490	32,080
Securities Lending Liability	229,698	166,225
Notes Payable (Current Portion)	1,718	1,605
Long-term Bonds Payable, Net (Current Portion)	24,010	23,615
Leases Payable to Affiliated Foundations (Current Portion)	3,795	4,067
Total Current Liabilities	407,873	339,427

(continued on page 15)

STATEMENT OF NET ASSETS *(continued)*

	As of June 30	
	2004	2003
	(Expressed in Thousands)	
Noncurrent Liabilities:		
Accrued Compensated Absences (Less Current Portion)	15,712	14,657
Deferred Revenue (Less Current Portion)	12,456	740
Funds Held in Trust for Others	9,650	8,150
Notes Payable (Less Current Portion)	5,686	7,272
Long-term Bonds Payable, Net (Less Current Portion)	390,899	373,314
Leases Payable to Affiliated Foundations (Less Current Portion)	82,130	85,925
Advances from Federal Government	20,543	20,431
Total Noncurrent Liabilities	537,076	510,489
Total Liabilities	**944,949**	**849,916**
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	697,257	605,608
Restricted		
Nonexpendable		
Instruction and Research	96,804	82,580
Student Aid	87,364	80,592
Other	20,936	3,714
Total Nonexpendable	205,104	166,886
Expendable		
Instruction and Research	77,446	67,432
Student Aid	57,911	51,937
Auxiliary Enterprises	2,713	2,713
Construction	99,389	86,237
Other (Note 1)	386,781	346,835
Total Expendable	624,240	555,154
Unrestricted	708,877	687,402
Total Net Assets	**$2,235,478**	**$2,015,050**

See Accompanying "Notes to the Financial Statements."

COMPONENT UNITS

Statements of Financial Position

	Purdue Research Foundation	Purdue Alumni Foundation
	Statement reported as of	
	June 30, 2004	**December 31, 2003**
	(Expressed in Thousands)	
ASSETS		
Cash and cash equivalents	$ 2,649	$ 1,434
Accounts and other receivables	1,758	111
Pledges receivable	2,755	
Investments in securities	487,289	140,767
Investment in Inproteo	1,934	
Investment in INCAPS	200	
Mortgages and contracts	639	
Notes receivable	2,644	
Investment in affiliate	7	
Real estate	84,031	209
Less allowances	(10,327)	
Net real estate	73,704	209
Other assets and equipment	6,409	27
Less allowances	(2,576)	
Net other assets and equipment	3,833	27
Interest in charitable remainder trusts	28,966	2,533
Interest in charitable perpetual trust	16,970	
Total Assets	**623,348**	**145,081**
Liabilities and net assets		
Liabilities		
Accounts payable	4,541	806
Net funds held as custodian	16,113	8,950
Bonds payable	10,085	
Mortgages and note payable	10,987	
Gift annuity payable	1,027	
Total Liabilities	42,753	9,756
Net Assets		
Unrestricted	92,208	9,368
Temporarily restricted	341,893	84,534
Permanently restricted	82,375	20,750
Unrealized gain	64,119	20,673
Total net assets	580,595	135,325
Total Liabilities and Net Assets	**$623,348**	**$145,081**

See Note 1.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Year Ended June 30	
	2004	2003
	(Expressed in Thousands)	
Operating Revenues		
Tuition and Fees	$ 435,709	$ 392,242
Less: Scholarship Allowance	(50,511)	(45,448)
Net Tuition and Fees	385,198	346,794
Federal Appropriations	15,223	13,912
County Appropriations	6,600	6,539
Grants and Contracts	244,090	212,251
Sales and Services	42,565	38,378
Auxiliary Enterprises		
(Net of Scholarship Allowance of $5,033 and $4,393 Respectively)	189,022	167,605
Other Operating Revenues	1,209	1,159
Total Operating Revenues	883,907	786,638
Operating Expenses		
Compensation and Benefits	907,717	847,236
Supplies and Services	240,691	211,453
Depreciation Expense	75,301	67,123
Scholarships, Fellowships, and Student Awards	29,150	27,803
Total Operating Expenses	1,252,859	1,153,615
Net Operating Loss	(368,952)	(366,977)
Nonoperating Revenues (Expenses)		
State Appropriations	355,042	353,423
Private Gifts	81,302	68,764
Investment Income	106,554	48,252
Interest Expense	(21,412)	(18,415)
Other Nonoperating Revenues, Net	4,550	5,495
Total Nonoperating Revenues before Capital and Endowments	526,036	457,519
Capital and Endowments		
Capital State Appropriations	8,076	
Capital Gifts	28,348	15,279
Private Gifts for Permanent Endowments	30,116	9,825
Plant Assets Retired	(3,196)	(9,962)
Total Capital and Endowments	63,344	15,142
Total Nonoperating Revenues	589,380	472,661
INCREASE IN NET ASSETS	**220,428**	**105,684**
Net Assets, Beginning of Year	2,015,050	1,909,366
Net Assets, End of Year	$2,235,478	$2,015,050

See Accompanying "Notes to the Financial Statements."

COMPONENT UNITS

Statements of Activities

	Purdue Research Foundation	Purdue Alumni Foundation
	Statement reported as of	
	June 30, 2004	**December 31, 2003**
	(Expressed in Thousands)	
Revenue and support		
Amount received for Purdue University research projects	$ 70,444	
Less payments to Purdue University	(70,444)	
Administrative fee on research projects		
Contributions	6,168	$ 8,039
Income on investments	10,802	2,659
Net unrealized and realized gains	57,805	24,759
Loss on investment in Inproteo	(35)	
Change in gift annuities	24	
Revenue from pledges	2,727	
Increase in interests in charitable trusts	5,404	
Change in value of charitable remainder trusts		(58)
Rents	5,038	
Royalties	4,457	
Other	97	541
Net assets released from restrictions		
Total Revenue and support	92,487	35,940
Expenses and losses		
Expenses for the benefit of Purdue University		
Contributions to Purdue University	5,398	
Scholarships, awards, athletics and other projects		14,337
Patent and royalty	2,737	
Grants	9,094	
Services for Purdue University	1,423	
Development Office	451	
Other	376	
Total expenses for the benefit of Purdue University	19,479	14,337
Administrative and other expenses		
Salaries and benefits	3,380	
Property management	3,076	
Professional fees	2,340	417
Supplies	1,215	
Interest	282	
Other	396	78
Total administrative and other expenses	10,689	495
Change in net assets	62,319	21,108
Net assets, beginning of year	518,276	114,217
Net assets, end of year	**$580,595**	**$135,325**

See Note 1

STATEMENT OF CASH FLOWS

	For the Year Ended June 30	
	2004	2003
	(Expressed in Thousands)	
Cash Flows by Operating Activities		
Tuition and Fees, Net of Scholarship Allowance	$385,762	$346,275
Federal Appropriations	15,223	13,912
County Appropriations	6,600	6,539
Grants and Contracts	242,622	210,261
Sales and Services	42,401	42,589
Auxiliary Enterprises, Net of Scholarship Allowance	187,353	167,493
Other Operating Revenues	555	3,687
Compensation and Benefits	(913,315)	(846,618)
Supplies and Services	(233,710)	(203,999)
Scholarships, Fellowships, and Student Awards	(29,292)	(27,865)
Student Loans Issued	(9,873)	(9,947)
Student Loans Collected	8,448	7,931
Cash Used by Operating Activities	(297,226)	(289,742)
Cash Flows by Noncapital Financing Activities		
State Appropriations	354,674	353,185
Gifts for Other than Capital Purposes	75,548	68,561
Funds Held in Trust for Others and Deferred Gifts	18,554	(378)
Other Nonoperating Revenues, Net	4,694	2,422
Cash Provided by Noncapital Financing Activities	453,470	423,790
Cash Flows by Investing Activities		
Purchase of Investments	(6,730,399)	(9,192,392)
Proceeds from Sales and Maturities of Investments	6,640,692	9,164,841
Interest and Dividends on Investments, Net	73,975	29,668
Cash Provided (Used) by Investing Activities	(15,732)	2,117
Cash Flows by Capital and Related Financing Activities		
Debt Repayment	(29,155)	(96,452)
Capital Debt	41,950	135,551
Interest Expense	(20,159)	(17,550)
Capital Gifts	38,111	16,038
State Appropriations for Capital Projects	3,076	
Funds Held in Trust by Others	5,840	33,835
Purchase of Capital Assets	(188,421)	(183,652)
Cash Used by Capital and Related Financing Activities	(148,758)	(112,230)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,246)	23,935
Cash and Cash Equivalents, Beginning of Year	482,964	459,029
Cash and Cash Equivalents, End of Year	$474,718	$482,964

(continued on page 20)

STATEMENT OF CASH FLOWS *(continued)*

Reconciliation of Cash Used for Operating Activities (Indirect Method)

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities	For the Year Ended June 30 2004	2003
	(Expressed in Thousands)	
Operating Loss	$(368,952)	$(366,977)
Depreciation Expense	75,301	67,123
Gifts in Kind	6,990	5,220
Changes in Assets and Liabilities:		
Accounts Receivable	(2,678)	(551)
Notes Receivable	(1,424)	(1,882)
Accrued Revenues	(1,278)	(170)
Inventories	149	(89)
Prepaid Expenses	(2,053)	452
Deferred Expenses	(200)	188
Accrued Compensated Absences	935	815
Accounts Payable	1,891	1,445
Deferred Revenue	6,240	4,784
Deposits Held in Custody for Others	(5,784)	454
Accrued Expenses	(8,843)	1,384
Accrued Salary and Wages	2,368	(1,539)
Advances from Federal Government	112	(399)
Cash Used by Operating Activities	$(297,226)	$(289,742)

See Accompanying "Notes to the Financial Statements."

BIRCK NANOTECHNOLOGY CENTER (under construction)

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2004

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.

During the 2004 fiscal year, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14.

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.

For the year ended June 30, 2004, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and clarifies reporting requirements for those organizations. Based on these criteria, the financial statements now include the University as the primary government, and two entities, the Purdue Research Foundation and the Purdue Alumni Foundation, as discretely presented component units. Two other entities, The Purdue Foundation and Ross-Ade Foundation, continue to be blended within the University's statements and are not separately presented in accordance with GASB Statement No. 14.

Discrete Component Units

Purdue Research Foundation. Purdue Research Foundation (PRF) was created in 1930. The primary purpose of the foundation 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 to 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 $19.5 million during its most recent fiscal year. PRF's fiscal year begins July 1 and ends June 30. PRF's audited financial statements, as presented in Purdue University's financial report, were rounded to the nearest thousand dollars. Complete financial statements for the foundation can be obtained by writing to: Purdue Research Foundation, 3000 Kent Avenue, West Lafayette, IN 47906.

Purdue Alumni Foundation. Purdue Alumni Foundation (PAF) was created in 1944 by the Purdue Alumni Association, Inc. The primary purpose of the foundation is 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 projects. PAF is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. PAF provided grants, contracts, and gifts to Purdue University totaling approximately $14.3 million during its most recent fiscal year. PAF's fiscal year begins January 1 and ends December 31. PAF's audited financial statements, as presented in Purdue University's financial report, were rounded to the nearest thousand dollars. Complete financial statements for the foundation can be obtained by writing to: Purdue Alumni Foundation, 3000 Kent Avenue, West Lafayette, IN 47906.

Both foundations are private nonprofit organizations that report 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 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.)

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

Accounting Methods and Policies

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

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

Accounts Receivable. Accounts receivable are shown net of an allowance for doubtful amounts. The amount of the allowance was $1,057,086 for the 2003-2004 fiscal year and $1,005,458 for the 2002-2003 fiscal year.

Pledges Receivable. Pledges receivable are accrued as of the end of the fiscal year, provided the pledge is verifiable, measurable, and probable of collection. Pledges receivable do not include gifts made in anticipation of estates, telephone solicitations, or promises of endowment funds. An allowance for uncollectible pledges is calculated based on the University's experience. The amount of the allowance was $3,954,682 for the 2003-2004 fiscal year and $4,383,447 for the 2002-2003 fiscal year.

Notes Receivable. Notes receivable primarily represent student loans due the University and are presented net of allowance for doubtful amounts of $73,675 for the 2003-2004 fiscal year and $155,043 for the 2002-2003 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, 2004. 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 investment's 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, 2004. 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 table on page 25. 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 86% or $332.4 million of the "other" category results from undistributed gain on endowment funds and the fair value of funds functioning as endowments where the donor has restricted the use of the funds for a particular purpose. Neither component is available for general institutional use.

- Unrestricted: Net assets not subject to externally imposed stipulations pertaining to their use. Management may designate that these funds will be spent for certain projects or programs or to fulfill certain long-term goals. Management has designated substantially all unrestricted net assets for academic and capital purposes.

Operating Revenues and Expenses. Business-type activities receive financing in whole or in part by charging fees for goods and services to external users. These exchange transactions are considered part of operations. The University's operating revenues include student tuition and fees, grants and contracts, auxiliary operations (such as intercollegiate athletics and housing and food services), sales and service operations, federal land-grant appropriations, and county appropriations. Revenues are accrued when earned and measurable. Most expenses of the University — other than 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 benefits. 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 2003-2004 fiscal year, revenue from gifts-in-kind of $18,415,416 was recognized. Comparative data for 2002-2003 reflect $7,466,797 in gifts-in-kind revenue.

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

Purdue Research Foundation Trust Funds. The Purdue Research Foundation (PRF) Trust Funds are various revocable and irrevocable trusts established for the benefit of Purdue University, Purdue Research Foundation, Purdue Alumni Foundation and affiliates. The Purdue Research Foundation acts as trustee for these trusts. The Internal Revenue Service has determined that the PRF Trust

Funds are exempt from federal income tax as defined in Sections 642 and 664 of the Internal Revenue Code.

The University, beginning in 2003-2004, records its interest in PRF Trusts' charitable remainder trusts based on the estimated present value of future cash flows. Future cash flows are estimated using an assumed investment rate of return on the underlying investments that will satisfy the trust requirements and an applicable discount rate at the time of contribution. The University's discrete component units reflect their respective PRF Trust interests on the Statements of Financial Position. For June 30, 2004, the fair value of funds held by PRF Trusts for Purdue University was $29,491,686. 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.

Reclassification. $22.3 million of 2002-2003 restricted-expendable net assets were reclassified to unrestricted net assets to better reflect sources of funding for various construction projects.

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, 2004, the carrying amount of the University's deposits (demand deposit accounts) was -$4,185,079.14 and the bank balance was $3,738,596.60, of which $219,669.79 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, 2004 and June 30, 2005. Noncurrent investments mature on or after July 1, 2005. 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, 2004, follows:

Investment Type	Carrying Value	Market Value
	(Expressed in Thousands)	
Money Market Funds	$ 220,000	$ 218,621
Securities Lending Cash Collateral	218,170	218,170
Treasury Securities	155,220	154,352
Agency Securities	136,964	136,138
Asset Backed Securities	68,794	68,257
Corporate Securities	225,667	226,214
Mortgages	138,568	137,432
Total	**$1,163,383**	**$1,159,184**

Noncurrent investments include a $3,209,351 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, 2004, the University had securities with market value of $252,025,130 involved in loans. These loans were supported by collateral of $256,298,744. Of this collateral amount, $229,698,440 was cash and is included in cash and cash equivalents in the Statement of Net Assets, and $26,600,304 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 exposure to individual borrowers or on individual loans. At June 30, 2004, 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, 2004, income from its participation in this securities lending program was $2,697,196, and the expense was $2,291,917. Net income to the University from this program was $405,279. 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 2003-2004 fiscal year, the State of Indiana deferred payment of the state universities' June operating appropriation of $27,219,147. This appropriation was received in July 2004. Receivables from the State total $32,219,147, representing 53.2% of current accounts receivable (net).

Accrued liabilities for payments related to construction in progress were $18,900,135 as of June 30, 2004. This represents 48.4% of current accounts payable.

NOTE 6 – CONSTRUCTION IN PROGRESS

Expenditures for construction projects in various stages of completion at June 30, 2004, totaled $99.5 million for the fiscal year. As of June 30, 2004, contractual obligations for capital construction projects were $117,565,343.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, is summarized below.

Capital Assets Activity *(Expressed in Thousands)*

	Balance July 1, 2003	**Increases**	**Decreases**	**Balance June 30, 2004**
Capital Assets, Not Being Depreciated:				
Land	$ 16,711	$ 4,788	$ (7)	$ 21,492
Construction in Progress	219,601	99,504	(198,972)	120,133
Total, Capital Assets, Not Being Depreciated	236,312	104,292	(198,979)	141,625
Capital Assets, Being Depreciated:				
Land Improvements	51,535	4,418		55,953
Infrastructure	17,570	19,211		36,781
Buildings	1,096,564	226,786	(29)	1,323,321
Equipment	420,465	47,636	(24,265)	443,836
Operating Software	1,800	392		2,192
Administrative Software	12,514			12,514
Total, Capital Assets, Being Depreciated	1,600,448	298,443	(24,294)	1,874,597
Less Accumulated Depreciation:				
Land Improvements	(38,298)	(1,904)		(40,202)
Infrastructure	(5,795)	(1,453)		(7,248)
Buildings	(509,434)	(41,128)		(550,562)
Equipment	(238,066)	(28,611)	20,393	(246,284)
Software (Operating and Administrative)	(1,858)	(2,205)		(4,063)
Total Accumulated Depreciation	(793,451)	(75,301)	20,393	(848,359)
Total Capital Assets, Net of Accumulated Depreciation	$1,043,309	$327,434	$(202,880)	$1,167,863

NOTE 8 – DEBT RELATED TO CAPITAL ASSETS

Notes Payable. Notes outstanding of $7,403,255 at June 30, 2004, 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, 2004, was $1,270,000. The interest rate as of June 30, 2004, was 1.35%.

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, 2004, was $6,001,855. The interest rate for the notes ranged from 1.41 to 5.04% as of June 30, 2004.

On December 16, 2003, a non-interest bearing note for forestry woodlands was issued for $164,250. The outstanding balance at June 30, 2004 was $131,400.

Bonds Payable. Bonds payable at June 30, 2004, total $409,405,000, consisting of the following issues:

Issue	Issue Date	Interest Rates	Maturity Dates	Outstanding June 30, 2004
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
Series 2004A	2004	Variable	2008-2033	28,100,000
Student Fee Bonds:				
Series E	1990	3.0 - 3.9%	2004-2007	8,700,000
Series H	1993	2.78 - 5.25%	1998-2015	11,000,000
Series K	1995	2.2 - 5.63%	1997-2020	17,500,000
Series L	1995	3.0 - 5.63%	1997-2020	15,300,000
Series N	1998	3.55 - 5.5%	1998-2014	45,145,000
Series O	1998	2.68 - 5.63%	2000-2019	30,230,000
Series P	1998	4.0 - 5.25%	1999-2017	50,645,000
Series Q	2000	2.63 - 6.0%	2002-2022	47,520,000
Series R	2002	3.0 - 5.38%	2002-2023	22,090,000
Series S	2004	Variable	2007-2026	13,850,000
Total				**$409,405,000**

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 $385,198,229.

On May 5, 2004, Student Facilities System Revenue Bonds, Series 2004A were issued in the amount of $28,100,000. This series was issued to finance student housing facilities and a parking garage at the Calumet campus. As of June 30, 2004, the balance outstanding on these bonds was $28,100,000.

On June 16, 2004, Student Fee Bonds, Series S, were issued in the amount of $13,850,000. This series was issued to finance the Biomedical Engineering Building at the West Lafayette Campus. As of June 30, 2004, the balance outstanding on these bonds was $13,850,000.

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

Fiscal Year	Principal	Interest	Total
2005	$ 23,625,000	$ 18,884,695	$ 42,509,695
2006	20,250,000	18,010,652	38,260,652
2007	21,175,000	17,036,648	38,211,648
2008	22,290,000	15,995,726	38,285,726
2009	18,320,000	15,097,115	33,417,115
2010 - 2014	105,810,000	59,873,120	165,683,120
2015 - 2019	86,565,000	33,911,948	120,476,948
2020 - 2024	56,760,000	16,790,854	73,550,854
2025 - 2029	38,105,000	6,705,250	44,810,250
2030 - 2034	16,505,000	1,169,000	17,674,000
	$409,405,000	$203,475,008	$612,880,008
Add Unamortized Premium	5,504,281		5,504,281
Total	**$414,909,281**	**$203,475,008**	**$618,384,289**

Capital Leases. At June 30, 2004, long-term debt included amounts relating to properties leased from affiliated corporations and others with a net book value of $96,326,193. The outstanding balance on these leases at June 30, 2004, was $85,925,000. The lease-purchase payments on these properties in the 2003-2004 fiscal year totaled $8,417,426, consisting of $4,066,553 principal and $4,350,873 interest costs.

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

Fiscal Year	Principal	Interest	Total
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	4,595,000	3,572,954	8,167,954
2010 - 2014	18,365,000	14,847,403	33,212,403
2015 - 2019	15,880,000	10,202,531	26,082,531
2020 - 2024	17,810,000	6,015,306	23,825,306
2025 - 2027	12,975,000	1,318,750	14,293,750
Total	**$85,925,000**	**$52,340,553**	**$138,265,553**

NOTE 9 – OTHER DEBT INFORMATION

Long-term Liabilities. Long-term liability activity (expressed in thousands) for the year ended June 30, 2004, is summarized below:

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

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Current Portion
Advances from Federal Government	$ 20,431	$ 704	$ (592)	$ 20,543	
Bonds Payable, Net	396,929	41,950	(23,970)	414,909	$ 24,010
Compensated Absences	34,878	34,401	(33,466)	35,813	20,101
Deferred Revenue	740	11,716		12,456	
Funds Held in Trust for Others	8,150	10,122	(8,622)	9,650	
Leases Payable to Affiliated Foundations	89,992		(4,067)	85,925	3,795
Notes Payable	8,877	164	(1,637)	7,404	1,718
Total	**$559,997**	**$99,057**	**$(72,354)**	**$586,700**	**$49,624**

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, 2004
Building Facilities Fee Bonds	2009	$ 7,425,000
Dormitory Facilities Revenue Bonds, Series A – L	2008	2,393,000
Student Fee Bonds, Series B	2004	30,600,000
Student Fee Bonds, Series G	2004	4,520,000
Student Fee Bonds, Series M	2006	49,975,000

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 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, 2004, the outstanding amount of these bonds was $6,560,000. 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, 2004, were $8,724,384 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 $318,367,188 as of June 30, 2004. Of this amount, 33.2% 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 the University 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.

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, and real estate investments over the next several fiscal years. As of June 30, 2004, the University had the following unfunded commitments: $31,768,369 to eight Private Equity/Venture Capital managers, $3,500,000 to two private real estate managers and $3,399,706 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
2004-05	$9,667,018
2005-06	$9,667,019
2006-07	$9,667,019
2007-08	$9,667,019

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 2003-2004 fiscal year, the University's cost was $37,322,613 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 2003-2004 fiscal year, the University made contributions totaling $51,517,205 to this plan. For the fiscal year ended June 30, 2004, there were 5,461 employees participating in TIAA with annual pay equal to $351,144,077.

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 2003-2004 fiscal year, the University made contributions totaling $10,544,413 to this plan. For the fiscal year ended June 30, 2004, there were 4,969 employees participating in PERF with annual pay equal to $122,609,331.

The required employer's contribution was determined as part of the July 1, 2003, 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 34 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, 2004, there were 98 employees participating in Police/Fire with annual pay equal to $4,298,299.

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, 2003. 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, 2003, of $3.3 million, which is being amortized over a 30-year period. The required contribution to the plan for the 2003-2004 fiscal year was $911,800, consisting of $531,842 normal cost, $320,308 amortization of the unfunded liability and $59,650 interest. Of the required amount, $115,974 represents employee contributions, and $795,826 represents the University's contribution. The actual amount contributed by the University was $795,861. The required contribution was determined as part of the July 2003 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 below:

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†	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)
	2003	142,790	127,758	(15,032)	111.8%	109,468	-13.7%	5,934	108.4%	(4,549)
Police/Fire	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)
	2003	13,384	16,730	3,346	80.0%	4,298	77.8%	912	100.0%	0

**Data for 2004 not available from actuaries.*
†University portion only.

Cooperative Extension Service. As of June 30, 2004, there were 67 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 educators' legal liability. 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 $5.2 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, 2004, 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 2003-2004 and 2002-2003 fiscal years were as follows:

	Year Ended June 30, 2004	Year Ended June 30, 2003
Beginning Liability	$23,782,576	$22,675,909
Claims Incurred	58,860,507	65,487,972
Claims Payments	(67,728,890)	(64,381,305)
Ending Liability	**$14,914,193**	**$23,782,576**

NOTE 14 – SEGMENTS

For 2003-2004, the University had no reportable segments.

NOTE 15 – OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification (expressed in thousands) for the fiscal years ended June 30, 2004, and June 30, 2003, are summarized as follows:

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

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships Fellowships and Student Awards	Total
Instruction and Departmental Research	$385,569	$ 61,734			$ 447,303
Organized Activities Related to Instruction and Research	7,278	8,388			15,666
Sponsored Research	98,271	41,138			139,409
Other Seperately Budgeted Research	33,170	5,605			38,775
Extension and Public Service	64,104	25,758			89,862
Academic Support	15,366	14,283			29,649
Student Services	26,153	7,020			33,173
Physical Plant Operations and Maintenance	48,435	32,001			80,436
General Administration	57,205	26,980			84,185
General Institutional Services	22,531	7,773			30,304
Student Aid	1,562	19		$29,150	30,731
Auxiliary Enterprises	148,073	9,992			158,065
Depreciation			$75,301		75,301
Total	**$907,717**	**$240,691**	**$75,301**	**$29,150**	**$1,252,859**

Operating Expenses by Function for the Year Ended June 30, 2003

	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**

NOTE 16 – SUBSEQUENT EVENT

In October 2004, the University plans to issue Student Fee Bonds, Series T, in the approximate amount of $14,500,000, with a variable rate of interest. This series will be issued to assist in the financing of the Computer Science Building at the West Lafayette Campus.

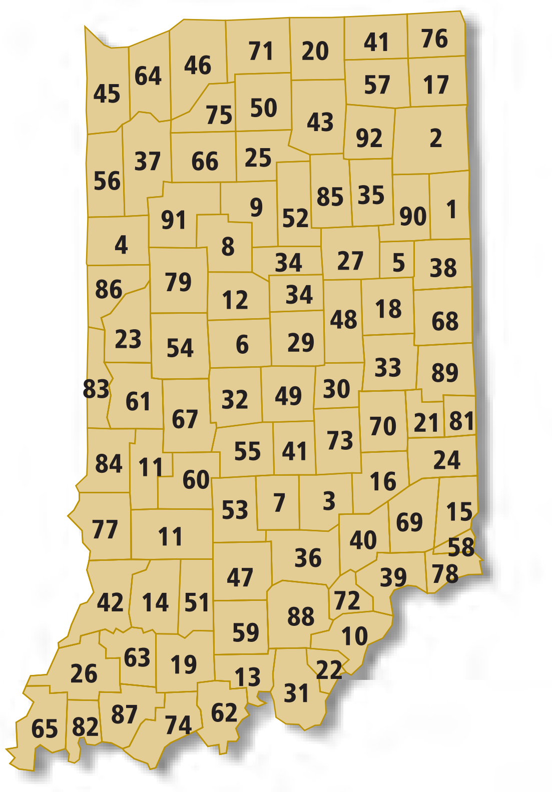
IN-STATE ENROLLMENT (UNAUDITED)

Total In-State Enrollment by County, Fall 2003-2004 Academic Year

The enrollment at Purdue University was 64,780 students for the 2003-2004 fall semester. The breakdown was: West Lafayette, 38,847; Calumet, 9,129; Fort Wayne, 11,806; North Central, 3,469; and Statewide Technology, 1,529. (The enrollment figures do not include 4,264 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	Technology Statewide System	Total
1	ADAMS	114	429		543
2	ALLEN	1,032	7,369	4	8,405
3	BARTHOLOMEW	285	2	135	422
4	BENTON	148	1	5	154
5	BLACKFORD	25	12		37
6	BOONE	347	1	3	351
7	BROWN	20		6	26
8	CARROLL	165		14	179
9	CASS	189	8	31	228
10	CLARK	138		46	184
11	CLAY	59	2		61
12	CLINTON	268	2	22	292
13	CRAWFORD	18			18
14	DAVIESS	46	1		47
15	DEARBORN	190		4	194
16	DECATUR	142		47	189
17	DE KALB	110	590		700
18	DELAWARE	175	16	25	216
19	DUBOIS	168		2	170
20	ELKHART	535	42	61	638
21	FAYETTE	53	1	31	85
22	FLOYD	177	1	39	217
23	FOUNTAIN	137	1	2	140
24	FRANKLIN	70		6	76
25	FULTON	113	23	3	139
26	GIBSON	94			94
27	GRANT	161	48	16	225
28	GREENE	60	1		61
29	HAMILTON	1,181	11	21	1,213
30	HANCOCK	270	2	5	277
31	HARRISON	58		19	77
32	HENDRICKS	487	2	14	503
33	HENRY	107		19	126
34	HOWARD	398	5	121	524
35	HUNTINGTON	129	455		584
36	JACKSON	106		30	136
37	JASPER	238	155	1	394
38	JAY	26	16	1	43
39	JEFFERSON	55		6	61
40	JENNINGS	51		28	79
41	JOHNSON	287	2	22	311
42	KNOX	93	2		95
43	KOSCIUSKO	298	430	3	731
44	LA GRANGE	62	112	7	181
45	LAKE	2,195	7,670	2	9,867
46	LA PORTE	418	1,617	7	2,042
47	LAWRENCE	96		1	97
48	MADISON	288	5	101	394
49	MARION	1,839	18	54	1,911
50	MARSHALL	182	29	8	219

(continued on page 39)



	County	West Lafayette	Regional Campuses	Technology Statewide System	Total
51	MARTIN	15			15
52	MIAMI	135	17	31	183
53	MONROE	173	6	3	182
54	MONTGOMERY	210		2	212
55	MORGAN	175	1	4	180
56	NEWTON	91	27	3	121
57	NOBLE	111	466	3	580
58	OHIO	15		1	16
59	ORANGE	51			51
60	OWEN	19		1	20
61	PARKE	37			37
62	PERRY	39			39
63	PIKE	17			17
64	PORTER	856	2,075	3	2,934
65	POSEY	83			83
66	PULASKI	123	30	5	158
67	PUTNAM	92		1	93
68	RANDOLPH	49	1	8	58
69	RIPLEY	84	1	27	112
70	RUSH	63		8	71
71	ST JOSEPH	930	74	131	1,135
72	SCOTT	28		4	32
73	SHELBY	142		11	153
74	SPENCER	76	1		77
75	STARKE	83	157	2	242

	County	West Lafayette	Regional Campuses	Technology Statewide System	Total
76	STEUBEN	98	276		374
77	SULLIVAN	23	1		24
78	SWITZERLAND	19		1	20
79	TIPPECANOE	3,357	27	103	3,487
80	TIPTON	98		16	114
81	UNION	17		5	22
82	VANDERBURGH	344	3	1	348
83	VERMILLION	54			54
84	VIGO	184	3		187
85	WABASH	118	147	3	268
86	WARREN	67		3	70
87	WARRICK	185	2		187
88	WASHINGTON	37	2	17	56
89	WAYNE	167	6	83	256
90	WELLS	85	357		442
91	WHITE	289	4	10	303
92	WHITLEY	95	470		565
	Total	**22,837**	**23,235**	**1,462**	**47,534**

ACKNOWLEDGEMENTS:

The following staff members of the Department of Accounting Services, Office of the Comptroller, prepared the 2003-2004 *Financial Report* and the included financial statements.

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