

Financial Report 2001 - 2002



DISCOVER  
PURDUE



# Letter of Transmittal

To the Board of Trustees of Purdue University:

We are pleased to submit this the 80th annual financial report of Purdue University. This report is for the fiscal year ended June 30, 2002, 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, 2002 and 2001. 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, 2002 and 2001, 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 22, 2002, 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 22, 2002

# Board of Trustees

As of June 30, 2002

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  
President and CEO,  
Tellabs, Inc.  
Term: 1999–2003



John A. Edwardson  
Wilmette, Illinois  
Chairman and CEO,  
Burns International  
Services Corporation  
Term: 1995–2002



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



Mamon M. Powers Jr.  
Gary, Indiana  
President, Powers and  
Sons Construction  
Company, Inc.  
Term: 1996–2002



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: 1995–2002



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, 2002

## **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

Joseph B. Hornett, Senior Vice President, Purdue Research Foundation

Gary E. Isom, Vice President for Research and Dean of the Graduate School

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

John A. Sautter, Vice President for Housing and Food Services

Terry D. Strueh, Vice President for Governmental Relations

## **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, 2002

### INTRODUCTION

The following discussion and analysis provides an overview of the financial position of Purdue University for the 2001–2002 fiscal year ended June 30, 2002, the financial activities for the 2001–2002 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 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

The University increased its net assets \$88.8 million for the fiscal year ended June 30, 2002, compared with an increase of \$94.7 million in the fiscal year ended June 30, 2001. Operating revenues were \$713.9 million compared to \$656.3 million in the prior year — an increase of 8.8%. This increase is due primarily to increases in net student fee revenue (\$29.0 million), grants and contracts (\$19.0 million), and auxiliary enterprises (\$10.0 million).



Operating expenses increased 5.4% from \$1.05 billion for the 2000–2001 fiscal year to \$1.11 billion for the 2001–2002 fiscal year. This change was driven by a 5.2% increase in compensation and benefits, the single largest component of operating expenses, which increased from \$749.0 million to \$788.0 million.

Nonoperating revenues declined \$38.4 million, from \$521.4 million in the 2000–2001 fiscal year to \$483.1 million in the 2001–2002 fiscal year. The decrease was due primarily to a reduction in appropriations from the State of Indiana and a loss on investments.

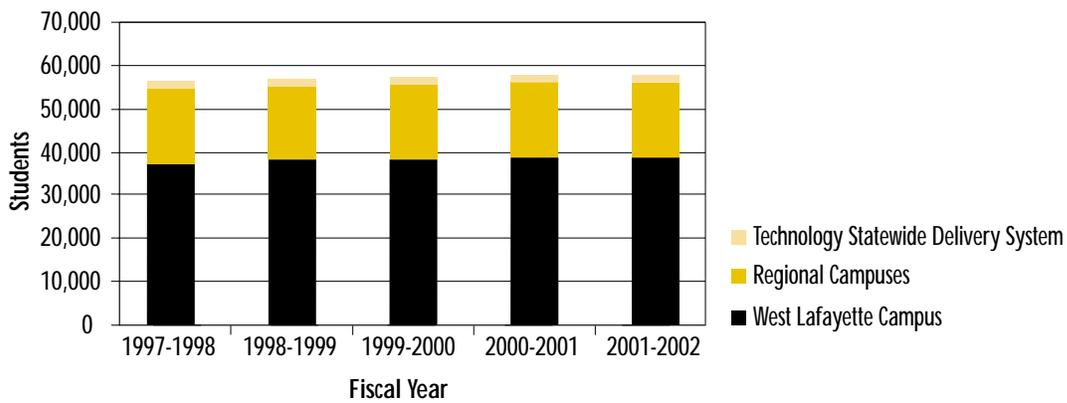
State appropriations declined \$23.6 million between the fiscal years. The reductions include the elimination of the annual appropriation for repairs and renovations, University-initiated savings for debt payments (see Note 9), the elimination of appropriations for capital projects, and a reduction in the operating appropriation. Additionally, the State of Indiana delayed payment of \$26.6 million for the June 2002 operating appropriation. This amount has been accrued as a receivable. The state's fiscal situation is discussed further in the "Economic Factors that Will Affect the Future" section on page 16.

The University experienced an investment loss of \$6.9 million for the 2001–2002 fiscal year, a decrease of \$42.8 million from the prior year's revenue of \$35.9 million. The loss includes investment income (dividends and interest), realized gains and losses, as well as an unrealized loss. 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, 2001, and June 30, 2002, is contained in the reported loss.

The increase in net assets of \$88.8 million represents a 6.2% decrease from the prior year amount of \$94.7 million. The prior year also contained a one-time charge of \$31.5 million due to an increase in the capitalization limit for equipment. On a comparative basis, there was a decline of \$37.4 million in the change to net assets between the fiscal years. The relative decline is attributed entirely to nonoperating measures described previously, which were offset considerably by managing student enrollment and aggressively pursuing grant and contract revenue. These actions improved total net operating income by \$1.0 million from the 2000–2001 fiscal year. Additionally, the decline in nonoperating revenue was mitigated by increased gifts for the permanent endowment and a reduction in assets retired. The change in enrollment over the past five years is illustrated in Figure 1.

Figure 1.

### Fall Semester Enrollment



## 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 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.

Effective with the 2001–2002 fiscal year, the University adopted Governmental Accounting Standards Board (GASB) statements numbered 34, 35, 37, and 38. (See Note 1.) These statements collectively establish a new model of financial reporting that emphasizes the results of operations at an enterprise level rather than segregating operations by fund. Fund level financial statements were used prior to the 2001–2002 fiscal year. Comparative data for the 2000–2001 fiscal year have been restated accordingly.

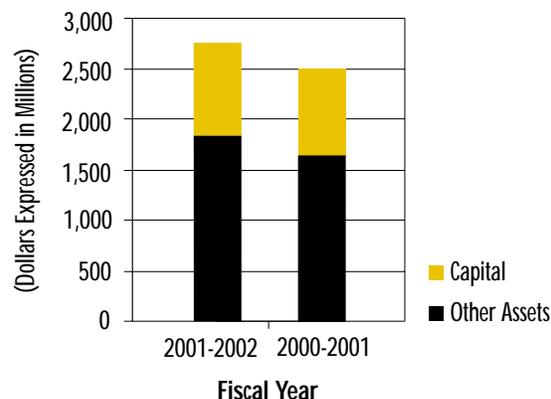
The Statement of Net Assets provides a summary view of the assets, liabilities, and net assets of the University. The Statement of Revenues, Expenses, and Changes in Net Assets, on the other hand, summarizes the yearlong financial process that caused the changes in year-end net assets on the Statement 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 \$2.8 billion for the 2001–2002 fiscal year, compared to \$2.5 billion for the 2000–2001 fiscal year. Figure 2 depicts the portion of those assets that were capital.

Figure 2.

#### Capital vs. Other Assets

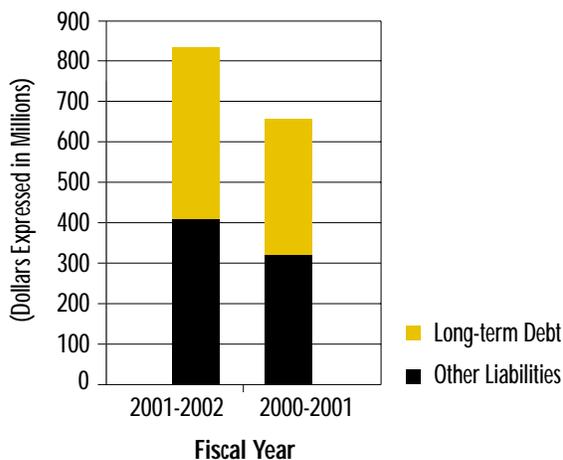


Current liabilities are expected to become due and payable over the course of the following fiscal year. These include accounts payable, the current portion of long-term debt, the securities lending liability, and salaries and wages payable.

Noncurrent liabilities include bonds, notes, and leases payable. Total liabilities were \$844.7 million for the 2001–2002 fiscal year and \$661.5 million for the 2000–2001 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 13.

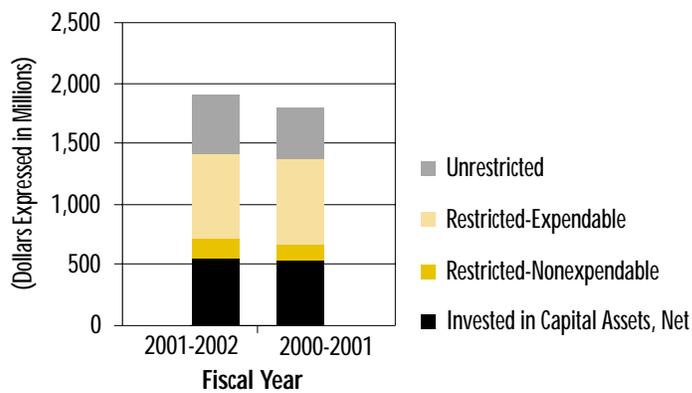
Net assets are classified into four categories: invested in capital assets, net of related debt; restricted–nonexpendable; restricted–expendable; and unrestricted. “Invested in capital assets, net of related debt” represents the University’s investment in capital assets such as movable equipment, buildings, infrastructure, and improvements 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 \$1.91 billion as of June 30, 2002. Figure 4 provides a comparison between fiscal years as well as the composition of net assets.

Figure 4.

### Composition of Net Assets



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**

	2001–2002	2000–2001
	(Expressed in Thousands)	
Current Assets	\$ 680,117	\$ 528,986
Capital Assets	933,973	861,641
Other Assets	1,140,004	1,091,426
<b>Total Assets</b>	<b>2,754,094</b>	<b>2,482,053</b>
Current Liabilities	375,146	278,700
Noncurrent Liabilities	469,582	382,750
<b>Total Liabilities</b>	<b>844,728</b>	<b>661,450</b>
Invested in Capital Assets, Net of Related Debt	552,442	531,682
Restricted—Nonexpendable	158,530	145,408
Restricted—Expendable	708,711	707,091
Unrestricted	489,683	436,422
<b>Total Net Assets</b>	<b>\$ 1,909,366</b>	<b>\$ 1,820,603</b>

**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 2001–2002 fiscal year are listed in Table 2.

Table 2.

**Major Projects Completed during the 2001–2002 Fiscal Year (More than \$1 Million)**

	Project Total
	(Expressed in Thousands)
Animal Holding Facility, Phase III	\$ 2,460
Cary Quadrangle East Renovation, Phase I	9,636
Energy Savings Projects	4,979
Heavilon Hall Air-Handling Replacement	1,003
North Central Campus Library Student Facility — Ground-Floor Completion	3,421
Northwest Campus Substation, Phase II	1,350
Physical Facilities Service Building	3,202
Purdue Memorial Union Club Renovation	8,872
Wade Boiler Electrical Work	1,317
WBAA Radio Station Renovation/Expansion	1,495
<b>Total Major Projects Completed</b>	<b>\$ 37,735</b>

Major construction projects in progress as of June 30, 2002, are listed in Table 3.

Table 3.

**Major Projects in Progress as of June 30, 2002 (More than \$1 Million)**

	<b>Project Budget</b>
	(Expressed in Thousands)
Calumet Campus Gyte Laboratory Renovation, Phase I	\$ 5,450
Cary Quadrangle Northeast Renovation, Phase II	7,230
Cary Quadrangle West Renovation, Phase III	9,945
David C. Pfendler Hall of Agriculture Renovation	14,000
Dick and Sandy Dauch Alumni Center	14,834
Discovery Park Utility Extension	1,500
Earhart Hall Food Service Consolidation	7,924
Heine (Robert E.) Pharmacy Building Third-Floor Renovation	2,000
Humanities and Social Sciences Library Renovation	4,630
Jerry S. Rawls Hall Construction	35,295
Main Substation Switchgear Replacement	2,700
Martell Forest Research and Education Center	3,700
Recreational Sports Center Renovation	5,000
Residence Halls Food Service Facility — Architectural Services	1,276
Ross-Ade Stadium Renovation	70,000
Satellite Chiller	8,550
Satellite Chiller Site Distribution	4,750
Shreve Hall Air Conditioning and Sprinkling, Phase II	2,025
Utility Expansion	3,962
Visual and Performing Arts Building, Phase I	25,750
<b>Total Major Projects in Progress</b>	<b>\$ 230,521</b>

In addition, the University's Board of Trustees has authorized the following major projects that had not been started as of June 30, 2002:

Table 4.

**Major Projects Authorized — Not Started as of June 30, 2002 (More than \$1 Million)**

	<b>Project Budget</b>
	(Expressed in Thousands)
Bindley Bioscience Center	\$ 15,000
Birck Nanotechnology Center	56,400
Burton D. Morgan Center for Entrepreneurship	7,000
Cary Quadrangle, Phases IV–VI	16,689
Chemical Engineering Building Addition/Renovation	23,500
Computer Science Building	20,000
Food Service Consolidation, Phases II–IV	39,000
Shreve Hall Air Conditioning and Sprinkling, Phase III	1,890
Swine Research Complex, Phase I	2,000
<b>Total Major Projects Authorized</b>	<b>\$ 181,479</b>

## Debt and Financing Activities

The University continued its use of commercial paper as interim financing for various Dormitory System construction projects, including the renovation of Cary Quadrangle and the consolidation of food service operations. During the 2001–2002 fiscal year, an additional \$13.0 million was issued under this program.

Student Fee Bonds (Series R) were issued during the 2001–2002 fiscal year in the amount of \$43.1 million. This series included funds for the renovation of the Recreational Sports Center, a chiller to provide additional cooling capacity to the campus, and refunding of Series F and Series G bonds. (See Note 9.)

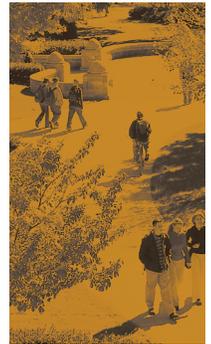
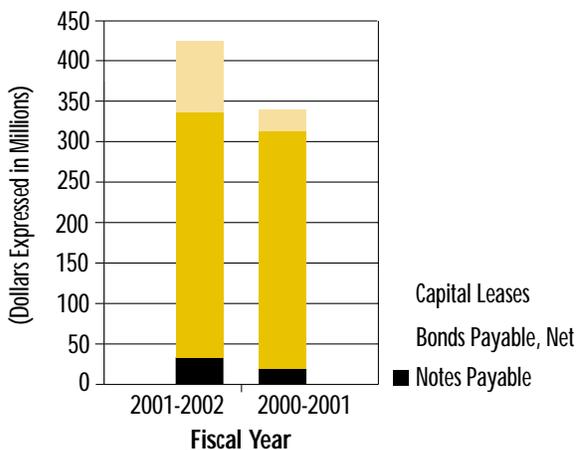
Ross-Ade Foundation, an affiliated organization of Purdue University, issued certificates of participation for the \$70.0 million Ross-Ade Stadium renovation project. At the same time, the University entered into a capital lease with the foundation, with lease payments equal to the debt service on the certificates. This capital lease is reflected in the Statement of Net Assets. A corresponding amount equal to unspent bond proceeds and construction in progress also has been included in that statement.

In the 2001–2002 fiscal year, the University maintained its ratings with Moody's Investors Service (Aa2 with a positive outlook) and Standard & Poor's (AA).

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

Figure 5.

Composition of Long-term Debt



The University changed the investment strategy for its operating cash pool during the 2001–2002 fiscal year. This is reflected by an increase in noncurrent marketable securities and a decrease in marketable securities classified as current assets. Securities lending activity increased significantly when compared to the 2000–2001 fiscal year. (See Note 4 for details on securities lending.)

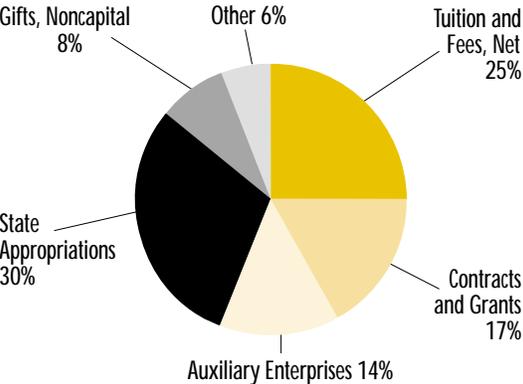
### Statement of Revenues, Expenses, and Changes in Net Assets

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 (expense), 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 2001–2002 fiscal year.

Figure 6.

Revenues, All Sources, 2001–2002

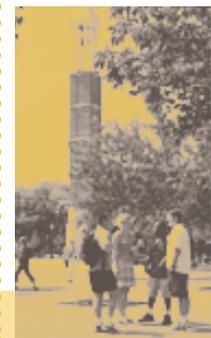


A summarized comparison of the University's revenues, expenses, and changes in net assets follows in Table 5.

Table 5.

Summary of Revenues, Expenses, and Changes in Net Assets

	2001–2002	2000–2001
	(Expressed in Thousands)	
<b>Operating Revenues</b>		
Tuition and Fees, Net	\$ 296,962	\$ 267,924
Grants and Contracts	192,820	173,844
Auxiliary Enterprises, Net	162,284	152,244
Other Operating Revenues	61,853	62,241
<b>Total Operating Revenues</b>	<b>713,919</b>	<b>656,253</b>
<b>Operating Expenses</b>		
Depreciation	67,482	64,692
Operating Expense	1,040,726	986,810
<b>Total Operating Expenses</b>	<b>1,108,208</b>	<b>1,051,502</b>
<b>Operating Loss</b>	<b>(394,289)</b>	<b>(395,249)</b>
<b>Nonoperating Revenues</b>		
Capital and Endowments	427,989	475,145
<b>Total Nonoperating Revenues</b>	<b>483,052</b>	<b>521,403</b>
<b>Increase in Net Assets before Change in Accounting Policy</b>	<b>88,763</b>	<b>126,154</b>
<b>Change in Accounting Policy</b>	<b>—</b>	<b>(31,481)</b>
<b>Increase in Net Assets</b>	<b>88,763</b>	<b>94,673</b>
<b>Net Assets, Beginning of Year</b>	<b>1,820,603</b>	<b>1,725,930</b>
<b>Net Assets, End of Year</b>	<b>\$ 1,909,366</b>	<b>\$ 1,820,603</b>



## 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	2000–2001
	(Expressed in Thousands)	
Cash Used by Operating Activities	\$ (303,349)	\$ (316,335)
Cash Provided by Noncapital Financing Activities	388,458	410,207
Cash Provided (Used) by Investing Activities	57,774	(76,252)
Cash Used by Capital and Related Financing Activities	(50,702)	(44,860)
Net Increase (Decrease) in Cash and Cash Equivalents	92,181	(27,240)
Cash and Cash Equivalents, Beginning of Year	366,848	394,088
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 459,029</b>	<b>\$ 366,848</b>

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Purdue University is committed to maintaining its excellent financial condition as it pursues its land-grant mission of discovery, learning, and engagement. Challenges from the national economy in general and the budget crisis for the State of Indiana in particular require management to plan diligently.

The University's Board of Trustees adopted a five-year strategic plan on November 2, 2001, to make Purdue a preeminent university with strategies to advance quality in all areas, lead the world in basic and applied sciences and engineering, and contribute to societal progress — especially in Indiana. Funding for the plan is derived from many sources, including student fees, sponsored funding, private giving, and internal reallocations.

Enrollment\* at all Purdue campuses increased to 58,173 for the fall semester of the 2002–2003 academic year, up from 57,508 the previous year. This includes an additional 356 students for a total of 38,564 on the West Lafayette Campus. With the undergraduate population at the West Lafayette Campus at capacity, enrollment is being carefully managed. Other campuses in the

*\*Enrollment figures do not include Indiana University students enrolled at the Indiana University-Purdue University Fort Wayne Campus or Purdue University students enrolled at the Indiana University-Purdue University Indianapolis Campus.*

Purdue system, however, have the ability to serve additional full-time and part-time students and may increase gross student fee revenue through growth in the student population. The funding metrics for each campus' strategic plan likewise consider new tuition levels required to achieve excellence. For example, fee increases associated strictly with the strategic plan on the West Lafayette Campus are estimated to generate \$38 million on an annual basis at the end of a five-year phase-in period.

The University has embarked on a comprehensive fund-raising effort to generate \$1.3 billion by 2007 in support of students, faculty, programs, and facilities. "The Campaign for Purdue" will fund more than 50 new buildings and renovation projects, affecting almost every campus, school, and program in the University system. The campaign was officially announced on September 27, 2002, and initial results will be reflected in the 2002–2003 financial report.

The University has begun the construction of Discovery Park, a \$100 million research and education complex on the West Lafayette Campus that will integrate science, technology, engineering, and management. Initially, four major centers are planned for the park: the Birck Nanotechnology Center — \$56.4 million; Bindley Bioscience Center — \$15 million; Burton D. Morgan Center for Entrepreneurship — \$7.0 million; and the e-Enterprise Center.

The State of Indiana has experienced declining revenues for two consecutive fiscal years, prompting a reduction in state appropriations for the 2001–2002 fiscal year. In March 2002, the State Budget Agency published a "Deficit Management Plan" for managing the state budget through June 30, 2003, and beyond. The plan indicates that appropriations for all public, state-assisted universities in Indiana were reduced by a total of \$233 million for the 2001–2003 biennium. The state's operating appropriation to Purdue was reduced by \$3.3 million for the 2003 fiscal year, and no funding for repairs and rehabilitation will be appropriated.

On September 13, 2002, the Board of Trustees approved Purdue's operating request to the state for the 2003–2005 biennium; modest increases averaging 4.7% over the already-reduced base appropriation were requested. Although optimistic for the future, management recognizes that the State of Indiana must address a structural deficit as it enters the next biennium.

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

## Statement of Net Assets

	As of June 30	
	2002	2001 (Restated)
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 459,029	\$ 366,848
Accounts Receivable, Net of Allowance for Uncollectible Amounts	51,621	33,648
Marketable Securities	49,035	84,299
Pledges Receivable, Net of Allowance for Uncollectible Amounts	55,352	17,630
Notes Receivable, Net of Allowance for Uncollectible Amounts	7,266	6,431
Accrued Revenues	10,005	12,128
Inventories	6,078	6,432
Prepaid Expenses	1,080	705
Deferred Expenses	771	548
Funds Held in Trust by Others	39,880	317
<b>Total Current Assets</b>	<b>680,117</b>	<b>528,986</b>
<b>Noncurrent Assets:</b>		
Notes Receivable, Net of Allowance for Uncollectible Amounts	32,098	30,056
Pledges Receivable, Net of Allowance for Uncollectible Amounts	18,113	17,073
Marketable Securities and Other Investments	1,089,427	1,043,900
Deferred Bond Issuance Cost	366	397
Capital Assets, Net of Accumulated Depreciation	933,973	861,641
<b>Total Noncurrent Assets</b>	<b>2,073,977</b>	<b>1,953,067</b>
<b>Total Assets</b>	<b>2,754,094</b>	<b>2,482,053</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	32,543	23,239
Accrued Salary and Wages	7,232	6,139
Accrued Compensated Absences (Current Portion)	19,921	19,861
Deferred Revenue	27,006	27,200
Deposits Held in Custody for Others	19,751	19,071
Accrued Expenses	29,830	22,605
Obligations under Reverse Repurchase Agreements	—	46,344
Securities Lending Liability	207,759	88,117
Notes Payable (Current Portion)	1,527	1,141
Long-term Bonds Payable (Current Portion)	22,430	22,636
Leases Payable to Affiliated Foundations (Current Portion)	7,147	2,347
<b>Total Current Liabilities</b>	<b>375,146</b>	<b>278,700</b>

Continued on page 19.

## Statement of Net Assets — *Continued*

	As of June 30	
	2002	2001 <i>(Restated)</i>
	<i>(Expressed in Thousands)</i>	
<b>Noncurrent Liabilities:</b>		
Accrued Compensated Absences (Less Current Portion)	14,143	14,093
Deferred Revenue	682	702
Funds Held in Trust for Others	8,528	9,198
Notes Payable (Less Current Portion)	31,676	17,792
Long-term Bonds Payable, Net (Less Current Portion)	303,744	292,815
Leases Payable to Affiliated Foundations (Less Current Portion)	89,979	27,139
Advances from Federal Government	20,830	21,011
<b>Total Noncurrent Liabilities</b>	<b>469,582</b>	<b>382,750</b>
<b>Total Liabilities</b>	<b>844,728</b>	<b>661,450</b>
<b>NET ASSETS:</b>		
<b>Invested in Capital Assets, Net of Related Debt</b>	<b>552,442</b>	<b>531,682</b>
<b>Restricted</b>		
<b>Nonexpendable</b>		
Instruction and Research	81,922	79,347
Student Aid	73,594	63,091
Other	3,014	2,970
<b>Total Nonexpendable</b>	<b>158,530</b>	<b>145,408</b>
<b>Expendable</b>		
Instruction and Research	68,459	66,716
Student Aid	48,352	44,253
Auxiliary Enterprises	83,093	73,484
Construction	105,911	79,090
Other (Note 1)	402,896	443,548
<b>Total Expendable</b>	<b>708,711</b>	<b>707,091</b>
<b>Unrestricted</b>	<b>489,683</b>	<b>436,422</b>
<b>Total Net Assets</b>	<b>\$ 1,909,366</b>	<b>\$ 1,820,603</b>

See the accompanying Notes to the Financial Statements.



# Statement of Revenues, Expenses, and Changes in Net Assets

	For the Year Ended June 30	
	2002	2001 (Restated)
<i>(Expressed in Thousands)</i>		
<b>OPERATING REVENUES</b>		
Tuition and Fees	\$ 333,828	\$ 301,741
Less: Scholarship Allowance	(36,866)	(33,817)
Net Tuition and Fees	296,962	267,924
Federal Appropriations	14,770	15,726
County Appropriations	6,403	6,190
Grants and Contracts	192,820	173,844
Sales and Services	39,352	39,360
Auxiliary Enterprises (Net of Scholarship Allowance of \$4,257 in 2002 and \$3,298 in 2001)	162,284	152,244
Other Operating Revenues	1,328	965
<b>Total Operating Revenues</b>	<b>713,919</b>	<b>656,253</b>
<b>OPERATING EXPENSES</b>		
Compensation and Benefits	788,035	749,049
Supplies and Services	227,442	218,274
Depreciation Expense	67,482	64,692
Scholarships, Fellowships, and Student Awards	25,249	19,487
<b>Total Operating Expenses</b>	<b>1,108,208</b>	<b>1,051,502</b>
<b>Net Operating Loss</b>	<b>(394,289)</b>	<b>(395,249)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	348,335	371,954
Private Gifts	97,164	81,947
Investment Income (Loss)	(6,897)	35,854
Interest Expense	(17,448)	(18,006)
Other Nonoperating Revenues, Net	6,835	3,396
<b>Total Nonoperating Revenues before Capital and Endowments</b>	<b>427,989</b>	<b>475,145</b>
<b>CAPITAL AND ENDOWMENTS</b>		
Capital Gifts	47,746	48,421
Private Gifts for Permanent Endowments	9,829	8,513
Plant Assets Retired	(2,512)	(10,676)
<b>Total Capital and Endowments</b>	<b>55,063</b>	<b>46,258</b>
<b>Total Nonoperating Revenues</b>	<b>483,052</b>	<b>521,403</b>
<b>Increase in Net Assets before Change in Accounting Policy</b>	<b>88,763</b>	<b>126,154</b>
<b>Cumulative Effect of Change in Accounting Policy</b>		
Assets under Capitalization Level Written Off (Note 1)	—	(31,481)
<b>INCREASE IN NET ASSETS</b>	<b>88,763</b>	<b>94,673</b>
Net Assets, Beginning of Year	1,820,603	1,725,930
Net Assets, End of Year	<b>\$ 1,909,366</b>	<b>\$ 1,820,603</b>

See the accompanying Notes to the Financial Statements.

# Statement of Cash Flows

	For the Year Ended June 30	
	2002	2001 (Restated)
	<i>(Expressed in Thousands)</i>	
<b>CASH FLOWS BY OPERATING ACTIVITIES</b>		
Tuition and Fees, Net of Scholarship Allowance	\$ 299,774	\$ 268,484
Federal Appropriations	14,770	15,726
County Appropriations	6,403	6,190
Grants and Contracts	193,677	171,744
Sales and Services	38,739	41,090
Auxiliary Enterprises, Net of Scholarship Allowance	162,197	151,619
Other Operating Revenues	(333)	1,755
Compensation and Benefits	(780,638)	(743,120)
Supplies and Services	(210,592)	(209,326)
Scholarships, Fellowships, and Student Awards	(25,220)	(19,513)
Student Loans Issued	(11,841)	(8,303)
Student Loans Collected	9,715	7,319
<b>Cash Used by Operating Activities</b>	<b>(303,349)</b>	<b>(316,335)</b>
<b>CASH FLOWS BY NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	329,270	364,424
Gifts for Other Than Capital Purposes	53,559	44,226
Funds Held in Trust for Others	(670)	(1,659)
Other Nonoperating Revenues, Net	6,299	3,216
<b>Cash Provided by Noncapital Financing Activities</b>	<b>388,458</b>	<b>410,207</b>
<b>CASH FLOWS BY INVESTING ACTIVITIES</b>		
Purchases of Investments	(4,167,696)	(1,671,093)
Proceeds from Sales and Maturities of Investments	4,192,958	1,533,838
Interest and Dividends on Investments, Net	32,512	61,003
<b>Cash Provided (Used) by Investing Activities</b>	<b>57,774</b>	<b>(76,252)</b>
<b>CASH FLOWS BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Debt Repayment	(11,416)	(25,440)
Capital Debt	104,026	60,168
Interest Expense	(11,248)	(18,318)
Capital Gifts	47,746	48,421
Funds Held in Trust by Others	(39,563)	(6)
Purchase of Capital Assets	(140,247)	(109,685)
<b>Cash Used by Capital and Related Financing Activities</b>	<b>(50,702)</b>	<b>(44,860)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>92,181</b>	<b>(27,240)</b>
Cash and Cash Equivalents, Beginning of Year	366,848	394,088
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 459,029</b>	<b>\$ 366,848</b>

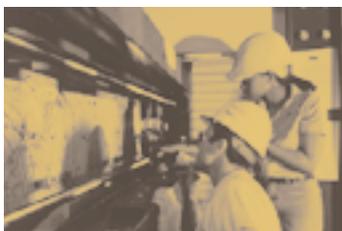
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## Statement of Cash Flows — *Continued*

### Reconciliation of Cash Used for Operating Activities (Indirect Method)

	For the Year Ended June 30	
	2002	2001 <i>(Restated)</i>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
	<i>(Expressed in Thousands)</i>	
Operating Loss	\$ (394,289)	\$ (395,249)
Depreciation Expense	67,482	64,692
Gifts in Kind	13,241	9,785
Changes in Assets and Liabilities:		
Accounts Receivable	1,092	(2,908)
Notes Receivable	(2,377)	(984)
Accrued Revenues	(67)	(6)
Inventories	354	360
Prepaid Expenses	(375)	155
Deferred Expenses	(224)	(47)
Accrued Compensated Absences	109	3,785
Accounts Payable	9,303	(1,353)
Deferred Revenue	(194)	2,718
Deposits Held in Custody for Others	660	246
Accrued Expenses	1,025	1,654
Accrued Salary and Wages	1,092	514
Advances from Federal Government	(181)	303
<b>Cash Used by Operating Activities</b>	<b>\$ (303,349)</b>	<b>\$ (316,335)</b>

See the accompanying Notes to the Financial Statements.



# Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2002

## **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 2001–2002 fiscal year, the University adopted the following accounting standards: GASB Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments"; GASB Statement No. 35, "Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities"; GASB Statement No. 37, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and the National Association of College and University Business Officers Advisory Report 2000-5, "Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Higher Education." As a result of this implementation, comparative data for the fiscal year ended June 30, 2001, have been restated.

### **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 \$77.4 million during their most recent fiscal years. The amounts received by the University in its 2001–2002 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. 34 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 \$1,063,639 for the 2001–2002 fiscal year and \$1,008,992 for the 2000–2001 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 \$4,184,228 for the 2001–2002 fiscal year and \$3,159,562 for the 2000–2001 fiscal year.

*Notes Receivable.* Notes receivable primarily represent student loans due the University and are presented net of allowance for doubtful amounts of \$357,412 for the 2001–2002 fiscal year and \$332,611 for the 2000–2001 fiscal year.

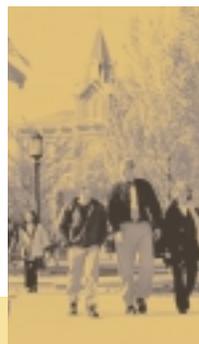
*Inventories.* Inventories are composed of (1) consumable supplies and items held for resale or recharge within the University, (2) fuel for consumption, and (3) livestock and grain. The inventory of coal and limestone is valued on the Last In/First Out (LIFO) basis; oil inventory is valued using the 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, 2002. 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, 2002. These services include insurance, equipment leases, services of consultants, subscriptions, and certain subcontracts. These amounts are identified at the end of the fiscal year and accrued for financial reporting purposes.

*Capital Assets.* Capital assets are stated at cost or fair market value at date of gift, less accumulated depreciation computed on a straight-line basis over the estimated useful life, as shown in the following table. Capital assets are removed from the records at the time of disposal. Effective July 1, 2000, the University changed its capitalization level from \$1,000 to \$2,500 for moveable equipment. Assets with a total cost of \$91,698,635 and accumulated depreciation of \$60,217,859 were retired and are reflected as a cumulative effect of a change in accounting policy of \$31,480,776 (expense). This amount represents equipment previously capitalized but not meeting the new capitalization level.

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 76% or \$304.4 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 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. Effective with the 2001–2002 fiscal year, the University amended its policies to reflect gifts-in-kind as revenue in the year received. For the 2001–2002 fiscal year, revenue from gifts-in-kind of \$15,723,772 was recognized. Comparative data for the 2000–2001 fiscal year have been restated accordingly to reflect \$9,785,201 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.

## 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, 2002, the carrying amount of the University's deposits (demand deposit accounts) was -\$988,058.67, and the bank balance was \$5,503,138.55, 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, 2002, and June 30, 2003. Noncurrent investments mature on or after July 1, 2003. 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, 2002, follows:

Investment Type	Carrying Value	Market Value
	(Expressed in Thousands)	
Money Market Funds	\$ 231,870	\$ 231,902
Securities Lending Cash Collateral	206,397	206,397
Treasury Securities	162,555	163,955
Agency Securities	46,787	47,759
Asset-Backed Securities	52,057	52,497
Corporate Securities	152,784	151,475
Mortgages	146,717	170,814
<b>Total</b>	<b>\$ 999,167</b>	<b>\$ 1,024,799</b>

Noncurrent investments include a \$3,131,703 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, 2002, the University had securities with market values of \$207,701,398 involved in loans. These loans were supported by collateral of \$212,084,516. Of this collateral amount, \$207,759,441 was cash and is included in cash and cash equivalents in the Statement of Net Assets, and \$4,325,075 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, 2002, 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, 2002, income from its participation in this securities lending program was \$2,686,475, and the expense was \$2,398,805. Net income to the University from this program was \$287,670. 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 2001–2002 fiscal year, the State of Indiana deferred payment of the state universities' June operating appropriation. Under the legislation authorizing this deferral, the University may claim these funds after July 15, 2002. A receivable of \$26,612,969 has been recorded, representing 51.6% of current accounts receivable (net).

Accrued liabilities for payments related to construction in progress were \$14,358,234 as of June 30, 2002. This represents 44.1% of current accounts payable.

## NOTE 6 — CONSTRUCTION IN PROGRESS

Expenditures for construction projects in various stages of completion at June 30, 2002, totaled \$101.8 million for the fiscal year. As of June 30, 2002, contractual obligations for capital construction projects were \$71,149,561.

## NOTE 7 — CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, is summarized as follows:

### Capital Asset Activity (Expressed in Thousands)

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 16,748	\$ —	\$ —	\$ 16,748
Construction in Progress	58,699	101,794	(27,123)	133,370
<b>Total Capital Assets, Not Being Depreciated</b>	<b>75,447</b>	<b>101,794</b>	<b>(27,123)</b>	<b>150,118</b>
<b>Capital Assets, Being Depreciated:</b>				
Land Improvements	48,358	1,765	—	50,123
Infrastructure	14,808	759	—	15,567
Buildings	1,025,646	32,380	(2,048)	1,055,978
Equipment	390,811	40,261	(23,130)	407,942
Operating Software	585	—	—	585
Administrative Software	—	937	—	937
<b>Total Capital Assets, Being Depreciated</b>	<b>1,480,208</b>	<b>76,102</b>	<b>(25,178)</b>	<b>1,531,132</b>
<b>Less Accumulated Depreciation:</b>				
Land Improvements	(34,258)	(2,026)	—	(36,284)
Infrastructure	(4,286)	(675)	—	(4,961)
Buildings	(440,645)	(35,009)	1,778	(473,876)
Equipment	(214,825)	(29,710)	12,441	(232,094)
Software (Operating and Administrative)	—	(62)	—	(62)
<b>Total Accumulated Depreciation</b>	<b>(694,014)</b>	<b>(67,482)</b>	<b>14,219</b>	<b>(747,277)</b>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 861,641</b>	<b>\$ 110,414</b>	<b>\$ (38,082)</b>	<b>\$ 933,973</b>

## NOTE 8 — DEBT RELATED TO CAPITAL ASSETS

**Notes Payable.** Notes outstanding of \$33,203,303 at June 30, 2002, 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, 2002, was \$2,045,000. The interest rate as of June 30, 2002, was 1.75%.

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 noncapital 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, 2002, was \$8,358,303. The interest rate for the notes ranged from 1.85% to 5.04% as of June 30, 2002.

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 will be refinanced with bonds at some future date. The interest rate and term of the note are subject to market conditions on the maturity date. Other series have subsequently been issued. The outstanding balance of these notes as of June 30, 2002, was \$22,800,000 as follows:

Issue Date	Principal	Interest Rate	Maturity Date
5/01/02	\$ 6,000,000	1.60%	7/02/02
5/22/02	11,800,000	1.55%	7/11/02
6/13/02	5,000,000	1.40%	8/13/02
<b>Total</b>	<b>\$ 22,800,000</b>		



A summary of activity for the commercial paper program for the 2001–2002 fiscal year follows:

Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
\$ 9,800,000	\$ 13,000,000	\$ 0	\$ 22,800,000

**Bonds Payable.** Bonds payable at June 30, 2002, totaled \$326,455,000, consisting of the following issues:

Issue	Issue Date	Interest Rates	Maturity Dates	Outstanding June 30, 2002
Dormitory System Revenue Bonds:				
Series 1993	1993	2.6–5.3%	1994–2014	\$ 34,450,000
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	18,900,000
Series L	1995	3.0–5.63%	1997–2020	16,500,000
Series N	1998	3.55–5.5%	1998–2014	55,365,000
Series O	1998	2.68–5.63%	2000–2019	31,580,000
Series P	1998	4.0–5.25%	1999–2017	55,875,000
Series Q	2000	2.63–6.0%	2002–2022	50,015,000
Series R	2002	3.0–5.38%	2002–2023	43,110,000
Student Union Bonds	1973	5.0–5.5%	1974–2003	560,000
<b>Total</b>				<b>\$ 326,455,000</b>

The Dormitory System Revenue Bonds and Student Union Bonds are secured by a pledge of net income of the respective facilities, and the Student Fee Bonds are secured by a pledge of student fees. Net income of the Dormitory System was \$7,085,505 for the 2001–2002 fiscal year. The Fort Wayne Student Union Building operations experienced a loss of \$253,781. Debt service for that facility was provided by reserve balances. In addition, the final principal and interest payments are held in trust by the bond trustee. The balance in this sinking fund was \$348,951.79 on June 30, 2002. Student fees (net of scholarship allowance) were \$296,962,078.

On January 1, 2002, Student Fee Bonds, Series R were issued in the amount of \$43,110,000. This series included funds for the renovation of the Recreational Sports Center, a chiller to provide additional cooling capacity to the campus, and refunding of Series F and Series G bonds. As of June 30, 2002, the balance outstanding on these bonds was \$43,110,000.

On January 1, 2002, Student Fee Bonds — Series E, Series H, Series K, Series L, and Series O — were changed from the variable-rate mode to the fixed-rate mode. The principal payment schedule remained unchanged. All previous voluntary principal payments on Series E, H, and O bonds were applied to selected maturities at the time of the conversion.

In addition to these transactions, Series G bonds were defeased. (See Note 9.)

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

Fiscal Year	Principal	Interest	Total
2003	\$ 22,430,000	\$ 15,106,178	\$ 37,536,178
2004	25,889,999	14,076,112	39,966,111
2005	22,555,000	13,137,559	35,692,559
2006	19,020,000	12,295,575	31,315,575
2007	19,880,000	11,390,267	31,270,267
2008–2012	89,410,001	43,699,865	133,109,866
2013–2017	81,530,000	20,083,509	101,613,509
2018–2022	39,945,000	5,003,963	44,948,963
2023–2024	5,795,000	67,250	5,862,250
	\$ 326,455,000	\$ 134,860,278	\$ 461,315,278
Less Unamortized Discount	(280,478)		(280,478)
<b>Total</b>	<b>\$ 326,174,522</b>	<b>\$ 134,860,278</b>	<b>\$ 461,034,800</b>



**Capital Leases.** At June 30, 2002, long-term debt included amounts relating to properties leased from affiliated corporations and others with a net book value of \$72,043,465. The outstanding balance on these leases at June 30, 2002, was \$97,126,021. The lease-purchase payments on these properties in the 2001–2002 fiscal year totaled \$3,830,306, consisting of \$2,359,899 principal and \$1,470,407 interest costs.

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

Fiscal Year	Principal	Interest	Total
2003	\$ 7,147,055	\$ 4,830,139	\$ 11,977,194
2004	4,053,966	4,571,840	8,625,806
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
2008–2012	20,015,000	16,804,735	36,819,735
2013–2017	17,260,000	12,022,088	29,282,088
2018–2022	16,100,000	7,725,150	23,825,150
2023–2027	20,630,000	3,195,000	23,825,000
<b>Total</b>	<b>\$ 97,126,021</b>	<b>\$ 61,742,532</b>	<b>\$ 158,868,553</b>

On November 1, 2001, the University entered into a capital lease arrangement with Ross-Ade Foundation, an affiliated organization, by issuing certificates of participation. The certificates included a taxable issue of \$10,000,000 and a tax-exempt issue of \$60,000,000, both of which will fund the renovation of Ross-Ade Stadium. The outstanding balance of the lease was \$70,000,000 as of June 30, 2002.



## NOTE 9 — OTHER DEBT INFORMATION

**Long-term Liabilities.** Long-term liability activity for the year ended June 30, 2002, is summarized as follows:

Long-term Liabilities (Expressed in Thousands)

	Balance			Balance June 30, 2002	Current Portion
	July 1, 2001	Increases	Decreases		
Advances from Federal Government	\$ 21,011	\$ 13,649	\$ (13,830)	\$ 20,830	\$ —
Bonds Payable, Net	315,451	43,110	(32,387)	326,174	22,430
Compensated Absences	33,954	32,609	(32,499)	34,064	19,921
Deferred Revenue	702	86,500	(86,520)	682	—
Funds Held in Trust for Others	9,198	13,640	(14,310)	8,528	—
Leases Payable to Affiliated Foundations	29,486	70,000	(2,360)	97,126	7,147
Notes Payable	18,933	15,411	(1,141)	33,203	1,527
<b>Total</b>	<b>\$ 428,735</b>	<b>\$ 274,919</b>	<b>\$ (183,047)</b>	<b>\$ 520,607</b>	<b>\$ 51,025</b>

**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, 2002
Building Facilities Fee Bonds	2009	\$ 10,520,000
Dormitory Facilities Revenue Bonds, Series A-L	2008	4,783,000
Student Fee Bonds, Series B	2005	33,600,000
Student Fee Bonds, Series G	2004	20,725,000
Student Fee Bonds, Series M	2006	54,500,000

On January 1, 2002, Student Fee Bonds, Series G were refunded with the issuance of Series R bonds. 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, 2002, the outstanding balance on the Series G bonds was \$20,725,000. The Series G bond trust account is not reflected on the University's books.

On January 1, 2002, Series R bonds refunded the outstanding \$3,770,000 Student Fee Bonds, Series F at a call premium of 102%. The trustee held the Series R proceeds for the refunding of Series F bonds until March 11, 2002, at which time the bonds were retired.

**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, 2002, the outstanding amount of these bonds was \$7,980,000. 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, 2002, were \$7,877,732 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 twelve-quarter rolling average unit market value in semiannual distributions. The distribution includes both income and equity components. Market appreciation of the pool was \$289,395,572 as of June 30, 2002. Of this amount, 33.5% represents appreciation attributable to donor-restricted (true and term) endowments. The University's endowment policies are subject to the provisions of Indiana Code section IC 30-2-12, "Uniform Management of Institutional Funds." Under this section, the University's Board of Trustees may authorize expenditure — consistent with donors' intent — of net appreciation in the fair value of the assets over the historical cost of the endowment.

## NOTE 11 — CONTINGENT LIABILITIES AND COMMITMENTS

**Legal Actions.** In the normal course of its activities, the University is a party in various legal actions. Although 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, 2002, the University had total unfunded commitments to eight investment managers equal to \$44,128,906. 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:

<u>Fiscal Year</u>	<u>Amount</u>
2002–2003	\$ 11,607,227
2003–2004	11,607,227
2004–2005	11,607,227
2005–2006	9,307,225

## 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 2001–2002 fiscal year, the University's cost was \$33,583,132 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 2001–2002 fiscal year, the University made contributions totaling \$46,647,906 to this plan. For the fiscal year ended June 30, 2002, there were 5,011 employees participating in TIAA with annual pay equal to \$304,636,584.



**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 2001–2002 fiscal year, the University made contributions totaling \$9,943,490 to this plan. For the fiscal year ended June 30, 2002, there were 5,078 employees participating in PERF with annual pay equal to \$124,257,492.

The required employer's contribution was determined as part of the July 1, 2001, 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 36 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/](http://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, 2002, there were 89 employees participating in Police/Fire with annual pay equal to \$3,769,762.

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, 2001. 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, 2001, of \$3.5 million, which is being amortized over a 30-year period. The required contribution to the plan for the 2001–2002 fiscal year was \$882,726, consisting of \$505,336 normal cost, \$319,642 amortization of the unfunded liability, and \$57,748 interest. Of the required amount, \$106,410 represents employee contributions, and \$776,316 represents the University's contribution. The actual amount contributed by the University was \$843,032. The required contribution was determined as part of the July 2001 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:

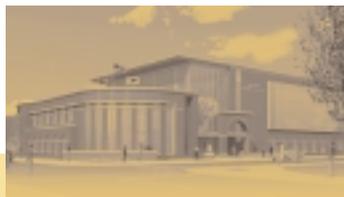
Three-Year Trend Information (Expressed in Thousands)

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†	1999	\$164,010	\$ 142,027	\$ (21,983)	115.0%	\$ 110,107	-20.0%	\$ 6,308	107.4%	\$ (468)
	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)
Police/Fire	1999	\$ 8,758	\$ 12,969	\$ 4,211	67.5%	\$ 3,512	120.0%	\$ 934	101.0%	\$ (8)
	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)

\*Data for 2002 not available from actuaries.

†University portion only.

**Cooperative Extension Service.** As of June 30, 2002, there were 116 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 \$100,000 per incident, with a maximum annual aggregate liability of \$4.4 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, 2002, 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 2001–2002 and 2000–2001 fiscal years were as follows:

	Year Ended June 30, 2002	Year Ended June 30, 2001
Beginning Liability	\$ 21,393,244	\$ 19,803,693
Claims Incurred	55,737,127	54,344,722
Claims Payments	(54,454,462)	(52,755,171)
<b>Ending Liability</b>	<b>\$ 22,675,909</b>	<b>\$ 21,393,244</b>

## NOTE 14 — SEGMENTS

A segment represents an identifiable activity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for and reported on separately. For the fiscal year ended June 30, 2002, the University had two segments. Condensed segment financial statements are a required disclosure under GASB Statement No. 34. (See Note 1.) Comparative financial statements, however, are not required in the year of implementation and are not presented. Condensed segment financial statements for the 2001–2002 fiscal year appear with this note. Descriptions of the activities follow:

*The Purdue University Dormitory System (System).* The System is a nonlegal business unit created by the University to operate its residence facilities located at the West Lafayette Campus and is reported as part of Purdue University. The System is designed to be operated and managed to be financially self-supporting. It includes 11 residence halls, two graduate houses, and apartment-style housing for married students and undergraduate students.

*The Fort Wayne Campus Student Union Building.* The Student Union Building provides conference facilities, food service, and recreational opportunities on the Fort Wayne Campus.

### Condensed Statement of Net Assets as of June 30, 2002

	Dormitory System	Fort Wayne Student Union Building
Current Assets	\$ 56,707,308	\$ 759,997
Capital Assets	67,395,183	1,664,136
Other Assets	366,106	305,225
Total Assets	124,468,597	2,729,358
Current Liabilities	7,903,621	359,624
Noncurrent Liabilities	56,143,624	292,675
Total Liabilities	64,047,245	652,299
Invested in Capital Assets, Net of Related Debt	16,791,767	1,104,136
Restricted-Expendable	6,000,000	360,020
Unrestricted	37,629,585	612,903
Total Net Assets	\$ 60,421,352	\$ 2,077,059

Condensed Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2002

	Fort Wayne Student	
	Dormitory System	Union Building
Operating Revenues		
Housing, Net	\$ 33,788,386	\$ —
Food Service	32,333,227	—
Other Operating Revenues	1,783,164	648,317
<b>Total Operating Revenues</b>	<b>67,904,777</b>	<b>648,317</b>
Operating Expenses		
Depreciation	4,044,158	86,582
Operating Expenses	56,334,234	867,298
<b>Total Operating Expenses</b>	<b>60,378,392</b>	<b>953,880</b>
<b>Operating Income (Loss)</b>	<b>7,526,385</b>	<b>(305,563)</b>
Nonoperating Revenues (Expenses)	(440,880)	51,782
Increase (Decrease) in Net Assets	7,085,505	(253,781)
Net Assets, Beginning of Year	53,335,847	2,330,840
<b>Net Assets, End of Year</b>	<b>\$ 60,421,352</b>	<b>\$ 2,077,059</b>

Condensed Statement of Cash Flows for the Year Ended June 30, 2002

	Fort Wayne Student	
	Dormitory System	Union Building
Cash Provided (Used) by Operating Activities	\$ 12,772,763	\$ (347,544)
Cash Provided by Noncapital Financing Activities	23,733	—
Cash Provided by Investing Activities	2,267,454	30,546
Cash Used by Capital and Related Financing Activities	(4,659,689)	(218)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>10,404,261</b>	<b>(317,216)</b>
Cash and Cash Equivalents, Beginning of Year	44,443,224	1,006,207
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 54,847,485</b>	<b>\$ 688,991</b>



## NOTE 15 — OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the fiscal years ended June 30, 2002, and June 30, 2001, are summarized as follows:

### 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
<b>Total</b>	<b>\$ 788,035</b>	<b>\$ 227,442</b>	<b>\$ 67,482</b>	<b>\$ 25,249</b>	<b>\$ 1,108,208</b>

### Operating Expenses by Function for the Year Ended June 30, 2001 (Expressed in Thousands)

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	\$ 328,694	\$ 48,032			\$ 376,726
Organized Activities Related to Instruction and Research	5,698	9,501			15,199
Sponsored Research	69,787	34,989			104,776
Other Separately Budgeted Research	28,977	5,927			34,904
Extension and Public Service	57,974	23,938			81,912
Academic Support	21,646	16,548			38,194
Student Services	21,043	7,178			28,221
Physical Plant Operations and Maintenance	45,351	32,380			77,731
General Administration	32,352	17,210			49,562
General Institutional Services	15,903	5,557			21,460
Student Aid	3,409	413		\$ 19,487	23,309
Auxiliary Enterprises	118,215	16,601			134,816
Depreciation			\$ 64,692		64,692
<b>Total</b>	<b>\$ 749,049</b>	<b>\$ 218,274</b>	<b>\$ 64,692</b>	<b>\$ 19,487</b>	<b>\$ 1,051,502</b>

# In-State Enrollment (unaudited)

Total In-State Enrollment by County, Fall 2001–2002 Academic Year

The enrollment at Purdue University was 57,508 students for the 2001–2002 fall semester. The breakdown was: West Lafayette, 38,221; Calumet, 9,103; Fort Wayne, 5,030; North Central, 3,493; and Statewide Technology, 1,661. (The enrollment figures for Indiana University-Purdue University Fort Wayne and the total University reflect only those students enrolled in Purdue University. These figures do not include 6,098 Indiana University students at the Fort Wayne Campus or 3,942 Purdue University students at Indiana University-Purdue University Indianapolis.) Although students came to Purdue from all over the world, 73% systemwide came from within Indiana.



County	West Lafayette	Regional Campuses	Technology Statewide System	County	West Lafayette	Regional Campuses	Technology Statewide System	County	West Lafayette	Regional Campuses	Technology Statewide System
1 Adams	100	178		36 Jackson	79	1	55	68 Randolph	47		7
2 Allen	1,083	3,086	2	37 Jasper	238	164	1	69 Ripley	100		29
3 Bartholomew	283		153	38 Jay	55	9	15	70 Rush	78		6
4 Benton	184		5	39 Jefferson	70		10	71 St. Joseph	1,025	60	132
5 Blackford	27	6	1	40 Jennings	51		34	72 Scott	26		8
6 Boone	304	1	4	41 Johnson	299	1	23	73 Shelby	125		11
7 Brown	15		11	42 Knox	91	1		74 Spencer	69		
8 Carroll	187	3	7	43 Kosciusko	307	207	3	75 Starke	84	154	2
9 Cass	226	7	20	44 La Grange	68	37	9	76 Steuben	77	90	
10 Clark	155		46	45 Lake	2,181	7,673	2	77 Sullivan	27	2	
11 Clay	64	2		46 La Porte	470	1,610	4	78 Switzerland	20		
12 Clinton	295	2	19	47 Lawrence	105	1	3	79 Tippecanoe	3,584	29	101
13 Crawford	16		1	48 Madison	348	3	100	80 Tipton	104		14
14 Daviess	57			49 Marion	1,805	9	62	81 Union	19		9
15 Dearborn	198		12	50 Marshall	196	19	15	82 Vanderburgh	343	1	2
16 Decatur	132	1	58	51 Martin	23			83 Vermillion	49		
17 De Kalb	117	273		52 Miami	151	6	25	84 Vigo	171		1
18 Delaware	195	6	25	53 Monroe	160	5	5	85 Wabash	128	59	4
19 Dubois	165	2	1	54 Montgomery	244	1	1	86 Warren	96		2
20 Elkhart	588	32	82	55 Morgan	139	2	8	87 Warrick	183	1	
21 Fayette	50		38	56 Newton	81	38	1	88 Washington	41		16
22 Floyd	192	1	49	57 Noble	125	192	7	89 Wayne	140		94
23 Fountain	154		2	58 Ohio	21	1		90 Wells	78	158	2
24 Franklin	87		4	59 Orange	41			91 White	306	3	10
25 Fulton	113	9	4	60 Owen	20	1		92 Whitley	80	199	
26 Gibson	91	2		61 Parke	41			<b>Total</b>	<b>23,598</b>	<b>16,746</b>	<b>1,590</b>
27 Grant	188	23	17	62 Perry	51	1					
28 Greene	68	1		63 Pike	24						
29 Hamilton	1,043	2	17	64 Porter	902	2,123	3				
30 Hancock	300	2	9	65 Posey	83						
31 Harrison	53		16	66 Pulaski	133	26	2				
32 Hendricks	485	1	8	67 Putnam	104	4	4				
33 Henry	110	2	26								
34 Howard	440	2	110								
35 Huntington	127	211	1								