

Ohio University
(A Component Unit
of the State of Ohio)

Financial Statements as of and for the Years
Ended June 30, 2005 and 2004, and
Independent Auditors' Report

OHIO UNIVERSITY
(A Component Unit of the State of Ohio)

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Ohio University
Athens, Ohio

We have audited the accompanying statements of net assets of Ohio University (the "University"), a component unit of the State of Ohio, and its aggregate discretely presented component units, as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets and of cash flows, where applicable, for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of Ohio University and its aggregate discretely presented component units as of June 30, 2005 and 2004, and their respective changes in net assets and their respective cash flows where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis ("MD&A") on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2005, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

October 13, 2005

OHIO UNIVERSITY

Management's Discussion and Analysis

The following discussion and analysis of the financial statements of Ohio University (the "University") provides an overview of its financial activities for the fiscal year ("FY") ended June 30, 2005 with comparative data for FY 2004 and FY 2003. Its purpose is to enhance the understandability and usefulness of the basic external financial statements and is required supplemental information. The overriding goal is to respond to the needs of the primary users of these statements, i.e., those to whom the University is primarily accountable (the citizenry), those who directly represent the citizens (legislative and oversight bodies), and those who lend or who participate in the lending process (investors and creditors).

The annual financial report includes the report of the independent auditors, this Management's Discussion and Analysis ("MD&A"), the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and notes to the financial statements. Responsibility for the completeness and fairness of this information rests with University management.

ABOUT OHIO UNIVERSITY

Ohio University is a public institution established by the State of Ohio (the "State") in 1804 under Chapter 3337 of the Ohio Revised Code ("ORC"). It is the oldest public institution of higher learning in the State of Ohio and the Northwest Territory. It is defined by statute to be a body politic and corporate and an instrumentality of the State. Ohio University celebrated its two-hundredth anniversary in 2004.

The University is governed by a 13-member Board of Trustees. The Governor, with the advice and consent of the State Senate, appoints 9 trustees for staggered 9-year nonrenewable terms. In addition, 2 non-voting student members are appointed to the Board of Trustees for staggered 2-year terms. The Ohio University Board of Trustees created 2 National Trustee positions and has invited 2 distinguished out-of-state University alumni to sit with the Trustees and participate in the deliberations of the Board. One term is 2 years and the other is 3 years. Both are non-voting members.

The University consists of the main campus in Athens, Ohio and 5 regional campuses. Total fall 2004 enrollment for all campuses was 28,513. The University, in FY 2005, had a total faculty of approximately 1,070 full-time and 810 part-time, with a total workforce of approximately 4,820 non-student employees. The student to faculty ratio on the Athens campus in the fall of 2004 was 20:1. During FY 2005, the University offered 26 Associate majors, 254 Baccalaureate majors, 170 Masters majors, 58 PhD majors and 1 DO major.

Ohio University is designated a Doctoral/Research-Extensive university by the Carnegie Foundation for the Advancement of Teaching. Only 151 schools, 3.8% of the 3,941 schools assessed by the Carnegie Foundation are classified as research universities. According to the Carnegie definition, "These institutions typically offer a wide range of baccalaureate programs and they are committed to graduate education through the doctorate. During the period studied, they awarded 50 or more doctoral degrees per year across at least 15 disciplines."

Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14 and implemented by the University effective July 1, 2003 led to the conclusion that The Ohio University Foundation (the

“Foundation”), a 501(c)(3) organization incorporated in Ohio in October 1945 to support the educational undertakings of Ohio University, is to be reported in the University’s statements as a component unit. The University has chosen a discrete presentation and the Foundation’s information appears in a separate column next to the University on the Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets. The University is not required to prepare a Statement of Cash Flows for the Foundation. A separate financial report for the Foundation is available by contacting The Ohio University Foundation, HDL Center, Room 164, Athens, Ohio 45701 or (740)593-1884.

The Ohio University Osteopathic Medical Center Inc. (“MCI”) ceased to exist as an entity effective July 1, 2003. The appearance of five months of MCI’s data in a discrete column on the University’s financial statements for the year ended June 30, 2004 was the last year for MCI to be included in this report. The successor organization, University Medical Associates (“UMA”) was evaluated and is not a component unit of the University under GASB Statement No. 14 and Statement No. 39.

This MD&A is intended to address issues of the primary entity and not those of its component unit.

FINANCIAL HIGHLIGHTS OF FY 2005

State funding for higher education declined in FY 2005 moving the University to a position of increasingly greater reliance on student tuition and fees revenue to fill the resultant gap. State appropriations for FY 2005 decreased by \$2,768,624 in FY 2005 compared to an increase of \$382,535 from FY 2003 to FY 2004. State appropriations, expressed as a percentage of total State appropriations and student tuition and fees – net, has declined from 46% to 44% to 42% over the last 3 years.

The University increased tuition by 9% for returning undergraduate and graduate students in FY 2005 compared to an increase of 9.9% from FY 2003 to FY 2004. Room and board rates increased by 3% in FY 2005 compared to an increase of 8% from FY 2003 to FY 2004.

The University did final payouts of costs associated with an Early Retirement Incentive Plan (“ERIP”) buyout which began in FY 2003 for eligible employees in the Ohio Public Employees Retirement System (“OPERS”). The buyout period began on May 1, 2003 and remained open until June 30, 2004. A \$10,000 incentive was offered to employees who signed up for the buyout by June 30, 2003 and who would retire by September 1, 2003. All employees taking the buyout were required to be retired by September 1, 2004. The result of the ERIP program was that 192 employees participated for a total cost of approximately \$9,880,000 which included sick leave and vacation payouts in accordance with standard policy, a \$10,000 incentive bonus for the 131 employees who left by September 1, 2003 and the OPERS payment calculated and billed by OPERS. Most of these costs were accrued in FY 2004, although final payouts were still occurring in FY 2005. Of the vacated positions, 79.5 were abolished for an annual cost savings, including benefits, of \$4,530,000.

The University recognizes the need for continual administrative systems upgrades to stay abreast of technology, operate more efficiently and to respond to ever increasing demands for accountability and management information - faster. The University’s implementation of an enterprise-wide information system continued to evolve. Workforce, a time and attendance system utilizing the Web and card swiping for time capturing, was implemented in more departments in FY 2005. A large influx of users occurred in conjunction with the start of the fall quarter in FY 2006. An automated method of entering data into Payroll for graduate appointments was operational in FY 2005 providing for greater operational efficiencies in that area. Work continued on the concept of “Business On-Line” – an automated approach to submitting financial transactions for processing. The system will have work rules built into it and allow for data entry at the departmental level, thus eliminating the need for paper flow and redundant data entry, including the maintenance of duplicative systems within individual departments.

CURRENT YEAR RESULTS

One of the most important questions asked about a University's finances is whether the University's position has improved as a result of the year's activities. The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information on the University as a whole and on its activities in a way that helps answer this question. Net assets, the difference between total assets and total liabilities are the measure of the current financial condition. Increases or decreases in the University's net assets are one indicator of whether its financial health is improving or deteriorating. Numerous other nonfinancial factors, such as the number and quality of applicants, freshman class size and composition, student retention and graduation rates, strength of the faculty, condition of the campus infrastructure and the safety of the campus, must be considered when assessing the overall health of the University.

Points of interest relative to the Statements of Net Assets are as follows:

- The Statements of Net Assets present assets, liabilities and net assets (assets minus liabilities) as of the last day of the fiscal year. It further classifies assets and liabilities as current or noncurrent. Generally, current liabilities are those that will be paid within one year of the date of the Statements of Net Assets. Current assets are those that are available to satisfy current liabilities.
- **Total Cash and cash equivalents** decreased by \$24,381,879 compared to an increase of \$52,725,025 in FY04 over FY 2003. The prime contributor to this was a decrease of \$23,449,345 in **Restricted cash and cash equivalents** (primarily monies held by bond trustees awaiting expenditure) being spent for their intended purpose.
- **Investments** include the net appreciation on endowment investments available for expenditure in accordance with donors' restrictions, if authorized by the Board.
- **Endowment investments** represent the contributed value of University endowments incremented each year by new contributions, \$6,025 in FY 2005, \$10,601 in FY 2004 and \$16,099 in FY 2003, and annual unused earnings on one larger endowment whose donor has requested they be added to principal each year. The University generally does not take on any new endowments unless the donor's bequest specifically states that the gift is to be administered by the Board of Trustees of Ohio University. Otherwise, the University's Foundation (the Ohio University Foundation) receives and administers new endowments.
- **Capital assets** are recorded at historical cost and presented net of their accumulated depreciation. Depreciation serves to amortize the cost of assets over their useful lives. The amount of accumulated depreciation was \$379,719,520 for FY 2005, \$357,475,056 for FY 2004 and \$335,071,026 for FY 2003.
- **Refundable Advances for Federal Student Loans** represents the cumulative Federal capital contribution ("FCC") to Federal student loan programs, presented as a potential long-term liability.

The following chart depicts the breakdown of Assets, Liabilities and Net Assets for Ohio University for the years ended June 30, 2005, 2004, and 2003:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets - net	\$182,764,132	\$176,762,520	\$156,818,957
Noncurrent assets	<u>555,953,366</u>	<u>548,967,862</u>	<u>488,911,905</u>
TOTAL ASSETS	\$738,717,498	\$725,730,382	\$645,730,862
Liabilities:			
Current liabilities	\$ 79,854,071	\$ 78,535,421	\$ 93,446,995
Noncurrent liabilities	<u>176,121,153</u>	<u>184,710,468</u>	<u>121,534,356</u>
TOTAL LIABILITIES	\$255,975,224	\$263,245,889	\$214,981,351
TOTAL NET ASSETS	<u>\$482,742,274</u>	<u>\$462,484,493</u>	<u>\$430,749,511</u>

Net assets, expressed as a percent of total assets, were 65% for FY 2005, 64% for FY 2004 and 67% for FY 2003. Current assets less current liabilities represent working capital and were \$102,910,061 for FY 2005, \$98,227,099 for FY 2004 and \$63,371,962 for FY 2003. The current ratio, calculated by dividing current assets by current liabilities, is an indicator of the ability to pay short-term obligations. This ratio was 2.29 to 1 for FY 2005, 2.25 to 1 for FY 2004 and 1.68 to 1 for FY 2003.

The Net Assets for the years ended June 30, 2005, 2004, and 2003 are further displayed as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Invested in capital assets - net of related debt	\$ 360,279,657	\$ 345,803,896	\$ 334,620,636
Restricted nonexpendable	11,970,621	11,836,376	11,727,151
Restricted expendable	47,976,632	42,898,264	33,749,128
Unrestricted	62,515,364	61,945,957	50,652,596
	<u>\$ 482,742,274</u>	<u>\$ 462,484,493</u>	<u>\$ 430,749,511</u>

Invested in capital assets-net of related debt represents the historic dollar value of capital assets reduced by their related depreciation and outstanding debt related to their purchase or construction. It is increased by the value of any **restricted cash and cash equivalents** representing funds held by bond trustees and available for future capital initiatives.

Restricted nonexpendable net assets are equal to **endowment investments**, previously described.

Restricted expendable net assets is made up primarily of loan funds revenues in excess of their expenses, restricted grants and contracts revenues in excess of their expenses and net market appreciation of endowment funds available for expenditure, all of whose use has been restricted by external sources.

Unrestricted net assets is made up of funds available for expenditure at the discretion of the Board of Trustees and includes the accumulation of unrestricted revenues received in excess of expenses, including that of auxiliary enterprises.

Points of interest relative to the Statements of Revenues, Expenses, and Changes in Net Assets:

- The Statements of Revenues, Expenses and Changes in Net Assets report the revenue earned in the fiscal year (regardless of when received) and the expenses incurred (regardless of when paid). It differentiates between operating and nonoperating revenue. Sales of goods and provisions of services are recorded as operating revenues, when the buyer essentially receives something of value equal to the amount being charged. Essentially all other types of revenue are nonoperating, or other revenue. Nonoperating revenues include State appropriations, grants that do not require any services to be performed for the benefit of the grantor and investment income. The operating income (loss) line will typically display a loss for state-supported public institutions since state appropriations, that have historically played a significant role in the funding of public institutions, are mandated to be reported as nonoperating revenue. "Other revenues" include state capital appropriations, capital grants and gifts and additions to permanent endowments.
- **Student tuition and fees** revenues, **auxiliary enterprises** revenues, and the corresponding **student aid** expenses, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the institution and the amount that is paid by students and/or third parties making payments on the student's behalf. For FY 2005 that amount is \$44,310,905 (of which \$35,493,035 is netted against **student tuition and fees** and \$8,817,870 is netted against **auxiliary enterprises** revenues). For FY 2004 that amount was \$38,156,805 (of which \$30,563,601 was netted against **student tuition and fees** and \$7,593,204 was netted against **auxiliary enterprises** revenues). In FY 2003 that amount was \$33,699,058 (of which \$26,817,711 was netted against **student tuition and fees** and \$6,881,347 was netted against **auxiliary enterprises** revenues).
- **Auxiliary enterprises** revenues consist of the sales and services of such activities as residence halls, dining services, intercollegiate athletics, airport operations, telephone operations, campus recreation and