

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

Financial Statements as of and for the
Years Ended June 30, 2007 and 2006,
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 discretely presented component unit, as of June 30, 2007 and 2006, 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. 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 discretely presented component unit as of June 30, 2007 and 2006, and their changes in net assets and their cash flows where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 2, the financial statements include investments that are not listed on national exchanges or for which quoted market prices are not available. These investments include limited partnerships, hedge funds, funds-of-funds, and commingled funds that are not mutual funds. Such investments totaled \$19,305,665 (3.6% of net assets) and \$4,174,935 (0.8% of net assets) for the University and \$51,173,000 (21.4% of net assets) and \$52,941,000 (24.2% of net assets) for the Ohio University Foundation at June 30, 2007 and 2006, respectively. Where a publicly listed price is not available, management uses alternative sources of information including the funds' audited financial statements, unaudited interim reports, lists of underlying fund holdings, and similar evidence provided by the fund managers to determine fair values of the investments.

The Management's Discussion and Analysis ("MD&A") on pages 3 through 15 is not a required part of the 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.

Deloitte & Touche LLP

November 1, 2007

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 the University's financial activities for the fiscal year ("FY") ended June 30, 2007, with comparative data for FY 2006 and FY 2005. Its purpose is to enhance the understandability and usefulness of the financial statements and is unaudited, but required, supplemental information. The intent of this discussion 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).

This 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 former Northwest Territory. It is defined by statute to be a body politic and corporate and an instrumentality of the State.

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

The University consists of the main campus in Athens, Ohio and five regional campuses: Chillicothe, Eastern (Belmont County), Lancaster, Southern (Ironton) and Zanesville. Total Fall 2006 enrollment for all campuses was 28,442. The University, in Fall 2006, had a total faculty of 1,099 full-time and 758 part-time, with a total workforce of 4,831 non-student employees. The student to faculty ratio on the Athens Campus in Fall 2006 was 20:1, same as the year before. The University offers 27 associate majors, 249 baccalaureate majors, 169 masters majors, 57 doctoral majors and 1 Doctor of Osteopathy major.

The University's main campus boasts the second highest graduation rate in the State of Ohio, as 71% of its main campus undergraduate students graduate within 6 years or less. An additional noteworthy statistic is that the mean ACT score of first-year students of 24 surpasses both State and Federal averages. Ohio resident enrollment on the Athens campus is 85% of the total enrollment.

Ohio University continues to be designated a Research University (high research activity) by the Carnegie Foundation for the Advancement of Teaching.

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 inclusion of The Ohio University Foundation (the "Foundation") in the University's statements as a component unit. The Foundation is a 501(c)(3) organization incorporated in Ohio in October 1945 to support the educational undertakings of Ohio University. The University has

chosen a discrete presentation and the Foundation's (component unit) information appears in a separate column next to the University (primary institution) 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, 164 HDL Center, Athens, Ohio 45701, or by calling (740) 593-1884.

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

Financial Highlights of FY 2007

State appropriations to the University remained relatively flat in FY 2007, decreasing by \$171,799 over FY 2006 compared to a decrease of \$2,250,795 from FY 2005 to FY 2006. State appropriations, expressed as a percentage of total State appropriations and student tuition and fees — net, have declined from 42% (FY 2005) to 41% (FY 2006) to 39% (FY 2007).

The University increased tuition by 6% for undergraduate and 3% for graduate students in FY 2007, the same percentage increases assessed in FY 2006 over FY 2005. Room rates increased by 4% with no increase in board rates in FY 2007. The non-resident surcharge remained the same as in FY 2006, i.e., no percentage increase.

The Board of Trustees approved a 3% employee pay raise pool in FY 2007, compared to FY 2006's 2% increase on July 1, 2005, with an additional 1% increase on January 1, 2006. In addition, faculty received a mid-year \$1.2 million pay increase in an effort to raise faculty salaries to be competitive with the group of institutions the University has identified as "peer institutions." The \$1.2 million increase is the first of five years of planned additional increases of that amount.

The Early Retirement Incentive Plan ("ERIP") one year buyout which began in FY 2006 for eligible employees in the Ohio Public Employees Retirement System ("OPERS") continued through FY 2007. The buyout period began on April 1, 2006 and remained open until August 31, 2007. A \$10,000 incentive was offered to employees who signed up for the buyout by April 28, 2006 with a retirement date of July 1, 2006 or prior. All employees taking the buyout are required to be retired by November 1, 2007. As of June 30, 2007, 116 employees had elected to participate in the ERIP. The FY 2007 financial statements include \$1.6 million in costs associated with the buyout for a total cost to date of \$3.6 million. The cumulative costs include sick leave and vacation payouts in accordance with standard policy, a \$10,000 incentive bonus for the 67 employees who signed up by April 28, 2006 and who left by July 1, 2006, and the OPERS payment calculated and billed by OPERS.

Under the direction of Vice President for Finance and Administration, Chief Financial Officer and Treasurer, William R. Decatur, the Division of Finance undertook a five-year longitudinal and benchmarking ratio analysis project to assess the University's current relative financial position. That information lead into the development of a five-year strategic financial plan, designed to improve the University's financial picture and position it to better address strategic priorities. Previous to that, the University presented to its Board of Trustees a capital plan tied to its strategic planning document, Vision OHIO, and a capital financing plan. A notable item is that the University currently plans for no new debt issuances within the next 10 years. Its focus in the near term will be on growing its expendable net assets, particularly its *unrestricted* expendable net assets to better position the University to address strategic priorities as they are identified.

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 assists in answering this question. Net assets, the difference between total assets and total liabilities, are a 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, student retention, 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 statement date. Current assets are those that are available to satisfy current liabilities.

- **Cash and cash equivalents** decreased from FY 2006 by an amount of \$25,238,676 compared to an increase of \$21,463,596 in FY 2006 over FY 2005. The primary contributor to these fluctuations was a change in **Restricted cash and cash equivalents**, representing unspent bond proceeds. This amount decreased in FY 2007 over FY 2006 because there were no new bond issuances in FY 2007, which would have contributed to *Restricted cash and cash equivalents*, rather only expenditures of proceeds from series 2006 B & C bond issuances from FY 2006. The Statements of Cash Flows present further analysis of changes in cash year over year. Additional information about *Cash and cash equivalents* is located in Footnote 2.
- **Investments** include working capital funds and the net market appreciation on total return endowment accounts available for expenditure in accordance with donors' restrictions, if authorized by the Board. **Endowment investments** represent the **Additions to permanent endowments**, cumulative for all periods, plus any unused earnings added back to principal in accordance with donor gift agreements and the net market appreciation on endowments categorized as non-total return endowments. For non-total return endowments, the donors have only authorized the spending of interest and dividends. For those accounts, capital appreciation remains a part of the corpus of the endowment. **Additions to permanent endowments**, totaled \$7,301 in FY 2007, \$205,205 in FY 2006, and \$6,025 in FY 2005. A single large contribution was made to the existing Edison Biotechnology Institute Goll-Ohio Eminent Scholar Research Endowment in the amount of \$200,000 in FY 2006, which accounts for the increase between FY 2006 and FY 2005. The University generally does not take on new endowments, except through its Foundation, unless a donor's bequest specifically states that the gift is to be administered by the Board of Trustees of Ohio University. Otherwise, the Foundation receives and administers endowments on behalf of Ohio University. *Investments* are further addressed in Footnote 2.
- **Accounts and pledges receivable — net** is primarily made up of student receivables for fees and room and board, the largest contributor to the balance, followed by billed and unbilled receivables for research and other sponsored programs. Student receivables were \$23,600,597 in FY 2007, \$17,061,747 in FY 2006 and \$13,899,341 in FY 2005. The increase in student receivables between FY 2007 and FY 2006 was attributable to a 6% tuition increase over the previous year and summer quarter Federal Stafford Loans, which were not disbursed to student accounts until July 1. In prior years, Stafford Loans were released against receivable balances in mid-June. Due to a change in federal regulations, those funds for payment of summer sessions billings could not be released against the students' accounts prior to July 1.

On July 1, 2007, \$5,943,909 in Stafford Loans was released. The increase in student receivables between FY 2006 and FY 2005 was attributable to a 6% tuition increase over the previous year, and summer quarter Pell Grants which were not disbursed to student accounts until July 1. According to the Higher Education Reconciliation Act (HERA), grants for summer quarter were not permitted to be disbursed until July 1, unlike in prior years. The amount disbursed against receivables on July 1, 2006 was \$1,124,125. Grants and contracts receivables were \$14,493,406 in FY 2007, \$12,630,258 in FY 2006 and \$13,102,337 in FY 2005. Additional information about *Accounts and pledges receivable – net* is located in Footnote 3.

- **Notes receivable — net** include amounts due the University for student loans extended, as well as amounts due (payback of grants-in-aid received) from graduates of the College of Osteopathic Medicine (COM) who have left the State of Ohio to practice medicine. Both are net of allowance for doubtful accounts. The amount listed in the Current Assets section represents those payments expected to be received in the next fiscal year. This category amounts to \$15,015,709 and \$14,131,387 for FY 2007 and FY 2006, respectively. *Notes receivable* are further addressed in Footnote 4.
- **Prepaid expenses and deferred charges** – the primary contributors to this category are the expenses related to summer sessions which are not recognized until the next fiscal year and releases of payments, including direct deposit, associated with the July 1 faculty payroll, released before July 1 to meet payment deadlines. The primary reason for the reduction in FY 2007 over FY 2006 is for one of the same reasons that *Accounts and pledges receivable – net*, went up, that is a change in the release time for Stafford Loans. In FY 2006, those amounts would have been disbursed to student accounts prior to July 1, serving to reduce **Accounts and pledges receivable – net** and increase **Prepaid expenses and deferred charges**.
- **Inventories** in order of their magnitude are: food inventory for the Residence and Dining Hall Auxiliary, The Ohio University Press inventory of books for sale or work in process, airport parts for the Airport Auxiliary, printing supplies for Printing Resources, and drug inventory for the Student Health Center.
- **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 \$426,805,545 for FY 2007, \$405,710,557 for FY 2006 and \$379,719,520 for FY 2005. Capital assets, net of their accumulated depreciation, are the largest contributor to Total Assets. The percentage of capital assets to total assets was 68% for FY 2007, 67% for FY 2006 and 69% for FY 2005. More about *capital assets* is available in Footnote 5.
- **Accounts payable and accrued liabilities** consist of three months of accrued payroll for faculty electing the 12 pay option, vouchers payable (trade), the health insurance run-out reserve, accrued OPERS, purchasing card payable, the year-end accrued civil service payroll, the current portion of compensated absences and accruals for various tax payments related to payroll, to name some of the more significant items. This line item increased by 8.2% over FY 2006, mostly due to an increase in vouchers payable and an increase in the accrual for the 12 pay option because of the annual pay increase and increased participation. The split between *accounts payable and accrued liabilities* appears in Footnote 6.
- **Deferred revenue** consists primarily of summer 2007 revenue, most of which is attributable to FY 2008 and thus deferred, deferred revenue on grants and contracts for amounts received but not yet earned and approximately \$3 million received for construction of an Academic and Research Center (a collaboration of the College of Medicine and the College of Engineering) for which construction has not yet begun. The increase of 6.3% over FY 2006 is explained by a tuition increase on summer sessions, a decrease to deferred revenue for grants and contracts and an increase for the \$3 million described above.

- **Refunds and other liabilities** include deposits received for student rooms and student account overpayments to be refunded or applied to future periods.
- **Bonds and notes payable** are described below in “Debt Administration” and further in Footnote 7. The University issued no new debt in FY 2007, only experiencing a rollover of bond anticipation notes. The University’s capital plan for the next 10 years calls for no new debt to be issued.
- **Deposits held in custody for others** represent amounts held for student organizations and other amounts which are not funds of the university, but rather funds for which the University acts as the agent in administration.
- **Compensated absences** include accrued vacation, up to the maximum allowed, for all administrative and classified employees who are benefits-eligible. It also includes an estimate of sick leave, for all benefits-eligible employees, expected to be paid out through retirements. Footnote 10 provides additional information for this line item.
- **Refundable advances for federal student loans** represent the cumulative Federal Capital Contributions (“FCC”) to Federal student loan programs, presented as a potential long-term liability. It is incremented each year by receipt of new Federal Capital Contributions, reduced by the government’s distributive share of bad debt expense and by any return of funds to the Federal government. In FY 2007, an amount of \$1,983,309 in FCC, received for Department of Health and Human Services HRSA Primary Care Loans, was returned. It was received in prior years and was unable to be awarded.
- **Net assets**
 1. **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 the purchase or construction of capital assets. It is increased by the value of any **restricted cash and cash equivalents**, representing funds usually held by bond trustees and available for future capital initiatives. Increases to this net asset class in any given year is caused by capital assets being purchased or being completed and the reduction of debt related to the purchase, lease or construction of capital assets.
 2. **Restricted nonexpendable net assets** are equal to **endowment investments**, previously described.
 3. **Restricted expendable net assets** are 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.
 4. **Unrestricted net assets** are made up of funds available for expenditure at the discretion of the Board of Trustees and include the accumulation of unrestricted revenues, received in excess of expenses, including that of auxiliary enterprises. Most of the increase in FY 2007 over FY 2006 is attributable to a significant increase in investment earnings described below and monies unspent for increasing of quasi-endowments.

The following chart depicts the breakdown of Assets, Liabilities and Net Assets for Ohio University for the years ended June 30, 2007, 2006, and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets - net	\$ 215,222,893	\$ 189,771,412	\$ 182,764,132
Noncurrent assets	<u>597,794,863</u>	<u>604,666,564</u>	<u>555,953,366</u>
 Total assets	 813,017,756	 794,437,976	 738,717,498
Liabilities:			
Current liabilities	94,332,681	79,609,270	79,854,071
Noncurrent liabilities	<u>189,127,729</u>	<u>208,538,844</u>	<u>176,121,153</u>
 Total liabilities	 <u>283,460,410</u>	 <u>288,148,114</u>	 <u>255,975,224</u>
 TOTAL NET ASSETS	 <u>\$ 529,557,346</u>	 <u>\$ 506,289,862</u>	 <u>\$ 482,742,274</u>

Net assets, expressed as a percent of total assets, were 65% for FY 2007, 64% for FY 2006 and 65% for FY 2005. Current assets less current liabilities represent working capital and were \$120,890,212 for FY 2007, \$110,162,142 for FY 2006 and \$102,910,061 for FY 2005. 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 2.28 to 1 for FY 2007, 2.38 to 1 for FY 2006 and 2.29 to 1 for FY 2005.

The Net Assets for the years ended June 30, 2007, 2006, and 2005 are further displayed as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Invested in capital assets—net of related debt	\$ 386,411,424	\$ 379,778,713	\$ 360,279,657
Restricted nonexpendable	16,818,390	15,167,182	11,970,621
Restricted expendable	40,874,666	39,584,791	47,976,632
Unrestricted	<u>85,452,866</u>	<u>71,759,176</u>	<u>62,515,364</u>
	 <u>\$ 529,557,346</u>	 <u>\$ 506,289,862</u>	 <u>\$ 482,742,274</u>

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 by accounting guidance to be reported as nonoperating revenue. “Other revenues” include State capital appropriations, capital grants and gifts and additions to permanent endowments.

Operating Revenues:

- **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 2007 that difference is \$46,998,538 (of which \$39,514,236 is netted against **student tuition and fees** and \$7,484,302 is netted against **auxiliary enterprises** revenues). For FY 2006 that amount was \$48,681,179 (of which \$39,543,722 was netted against **student tuition and fees** and \$9,137,457 was netted against **auxiliary enterprises** revenues). In FY 2005 that amount was \$44,310,905 (of which \$35,493,035 was netted against **student tuition and fees** and \$8,817,870 was netted against **auxiliary enterprises** revenues).
- **Sales and services** includes revenue for such items as departmental sales, land lease income, health services drugs sales, nursery child care, nonathletic ticket sales, advertising sales, clinical medical services and printing services, to name a few.
- **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 parking services. The bulk of this revenue is the activity of the Residence and Dining Hall auxiliary whose room rates were increased 4% in FY 2007 over FY 2006, and 4% in FY 2006 over FY 2005, with board rates remaining unchanged for the same periods. The revenue is reduced by the amount of scholarships and discounts applicable to room and board charges, discussed above. Any investment income earned by the University's auxiliaries is not included in this line item, but instead is a part of **investment income – net of investment expense**.
- **Other sources** includes revenue from royalties, insurance recoveries, rebates on contractual agreements, sales to the Foundation, premiums on loans sales, interest on notes receivable, commissions and finance charges. The fluctuation on this line item for FY 2007 over FY 2006, is primarily related to an increase in royalty income for the sale of a patented drug and insurance recoveries.

Operating Expenses:

The University, as a component unit of the State of Ohio, is required to report its operating expenses on the face of the Statements of Revenues, Expenses, and Changes in Net Assets using a functional view. Functional categories are presented below as defined by the National Association of College and University Business Officers ("NACUBO").

- **Instruction and Departmental Research** — The instruction and departmental research category includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions are included.

Expenses for departmental research and public service that are not separately budgeted are included in this classification. This category excludes expenses for academic personnel whose primary assignment is administration — for example, academic deans.

- **Separately Budgeted Research** — The separately budgeted research category includes all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. Subject to these conditions, the category includes expenses for individual and/or

project research as well as that of institutes and research centers. This category does not include all sponsored programs nor is it necessarily limited to sponsored research, since internally supported research programs, if separately budgeted, might be included in this category under the circumstances described. Expenses for departmental research that are separately budgeted are included in this category. However, the research category does not include expenses for departmental research that are not separately budgeted. Such expenditures are included in the instructional category.

- **Public Service** — The public service category includes expenses for activities established primarily to provide non-instructional services beneficial to individuals and groups external to the institution. These activities include community service programs (excluding instructional activities) and cooperative extension services. Included in this category are conferences, institutes, general advisory services, reference bureaus, radio and television, consulting, and similar non-instructional services to particular sectors of the community.
- **Academic Support** — The academic support category includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. It includes the retention, preservation, and display of educational materials, such as libraries, museums, and galleries; the provision of services that directly assist the academic functions of the institution, such as demonstration schools associated with a department, school, or college of education; media such as audio-visual services and technology such as computing support; academic administration (including academic deans but not department chairpersons) and personnel development providing administration support and management direction to the three primary missions; and separately budgeted support for course and curriculum development.
- **Student Services** — The student services category includes expenses incurred for offices of admissions and the registrar and activities with the primary purpose of contributing to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. It includes expenses for student activities, cultural events, student newspapers, intramural athletics, student organizations, counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service.
- **Institutional Support** — The institutional support category includes expenses for central executive-level activities concerned with management and long-range planning for the entire institution, such as the governing board, planning and programming operations, and legal services; fiscal operations, including the investment office; administrative data processing; space management; employee personnel and records; logistical activities that provide procurement, storerooms, printing; transportation services to the institution; support services to faculty and staff that are not operated as auxiliary enterprises; and activities concerned with community and alumni relations, including development and fund raising. Appropriate allocations of institutional support are made to auxiliary enterprises, hospitals, and any other activities not directly related to the primary program categories or the related support categories.
- **Operation and Maintenance of Plant** — The operation and maintenance of plant category includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. They include expenses normally incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture, and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; safety; hazardous waste disposal;

property, liability and all other insurance relating to property; space and capital leasing; facility planning and management; and central receiving. It does not include interest expense on capital related debt.

- **Student Aid** — The student aid category includes expenses for scholarships and fellowships — from restricted or unrestricted funds — in the form of grants to students, resulting from selection by the institution or from an entitlement program. The category also includes trainee stipends, prizes, and awards. Trainee stipends awarded to individuals who are not enrolled in formal course work are charged to instruction, research, or public service.

Recipients of grants are not required to perform service to the institution as consideration for the grant, nor are they expected to repay the amount of the grant to the funding source. When services are required in exchange for financial assistance, as in the College Work-Study program, charges are classified as expenses of the department or organizational unit to which the service is rendered. Aid to students in the form of tuition or fee remissions also are included in this category. However, remission of tuition or fees granted because of faculty or staff status, or family relationship of students to faculty or staff, are recorded as staff benefits expenses in the appropriate functional expense category.

The first three categories of instruction, research and public service represent the core mission of the University. The other functions serve to support the core mission.

- The most significant expense fluctuation to address is an increase in **Institutional support** of \$3,852,142, a percentage increase over the prior year of 16.42%. All is explained by increased expenditure activity in the area of Information Technology, in response to security issues which came to light in FY 2006 and for which further funding was allotted to address them in FY 2007.
- Although **Student aid** increased by \$1,921,254, or 23.07%, this category does not address the extent to which the University provides aid to its students. It is the amount of aid refunded to students, over and above their student account billings, to cover such educationally related items as books and outside room and board. The increase to this category is primarily a result of increased loans to students, applied to student receivables prior to the application of institutional funds, increasing the amount of institutional funds which are refunded to students and recorded as an expense.
- Expenditures for capital assets are capitalized on the Statements of Net Assets and systematically reduced through the use of **Depreciation** expense in the Statements of Revenues, Expenses, and Changes in Net Assets. The University has chosen to display depreciation on a separate line in the Statements of Revenues, Expenses, and Changes in Net Assets as opposed to allocating it among the various functional classifications. The amount of depreciation was \$30,652,754 for FY 2007, compared to \$29,427,367 for FY 2006 and \$29,076,351 for FY 2005. Information about capitalization levels and estimated useful lives of assets is contained in the footnotes.
- **Auxiliary enterprises** include expenses of the University's eight auxiliaries, as previously described.

Nonoperating Revenues and Expenses:

- **State appropriations** consist primarily of State share of instruction revenues and by definition must be reported as nonoperating revenues. As such, the University will always show an operating deficit due to the dependency on State appropriations for operations, even though it has declined in recent years.

- **Investment income** increased in FY 2007 over FY 2006, by \$11,163,216, compared to an increase of \$96,058 in FY 2006, over FY 2005. For FY 2007, the pooled investment portfolio of the University and its Foundation achieved returns of 16.85 percent, compared to 9.90 percent from the year before. This greatly improved performance reflects the joint efforts of the Management and Investment Committees, staff and investment consultants to remodel the asset allocation to a more diversified and less risky strategy.
- **Interest on capital asset-related debt** is the amount of non-capitalizable interest on debt related to the acquisition, lease or construction of capital assets. Information related to the payment of future interest on outstanding debt is located in Footnote 7.
- **Disposal and write-offs of plant facilities** represents the net of any revenue received for the sale of plant assets, over its book value.

Other Revenues, Expenses, Gains, or Losses:

- **State capital appropriations** are a line item that can vary widely. The revenue recognized is in direct relationship to the expenditures incurred in any particular year for the acquisition or building of capitalizable equipment or buildings, funded by this source.
- **Capital grants and gifts** (shown below in “Grants and contracts”) increased to \$3,444,433 in FY 2007 from \$2,531,424 in FY 2006, compared to \$3,534,963 in FY 2005.

The following table depicts total revenue by source for FY 2007, FY 2006, and FY 2005, respectively:

	2007	2006	2005
State appropriations	\$ 137,197,682	\$ 137,369,481	\$ 139,620,276
Student tuition and fees, net	217,740,577	201,446,914	196,518,557
Grants and contracts	78,552,382	71,371,589	74,487,489
Sales and services	10,113,479	10,419,607	10,461,067
Auxiliary enterprises, net	65,090,980	59,479,387	54,502,659
Investment income, net	19,442,211	8,278,995	8,182,937
State capital appropriations	14,024,105	20,766,812	12,408,134
Other	<u>10,215,320</u>	<u>8,107,084</u>	<u>5,559,678</u>
 Total	 <u>\$ 552,376,736</u>	 <u>\$ 517,239,869</u>	 <u>\$ 501,740,797</u>

The following table depicts operating and nonoperating expenses for FY 2007, FY 2006, and FY 2005, respectively:

	Percent Change	2007	2006	2005
Instruction and departmental research	8.81%	\$203,991,047	\$187,478,442	\$179,633,550
Separately budgeted research	-3.72%	32,457,968	33,712,270	33,222,564
Public service	4.13%	20,961,207	20,129,885	19,726,387
Academic Support	4.97%	58,184,520	55,429,877	52,460,139
Student services	-0.50%	24,451,160	24,573,546	20,178,218
Institutional support	16.42%	27,313,425	23,461,283	31,928,677
Operation and maintenance of plant	6.62%	42,401,934	39,770,454	36,823,032
Student aid	23.07%	10,250,507	8,329,253	9,833,690
Depreciation	4.16%	30,652,754	29,427,367	29,076,351
Auxiliary enterprises	8.52%	70,306,093	64,784,092	61,874,393
Interest on capital asset-related debt	15.65%	7,431,076	6,425,686	5,530,775
Disposal and write-offs of plant facilities	315.90%	<u>707,561</u>	<u>170,126</u>	<u>1,195,240</u>
Total	7.17%	<u>\$529,109,252</u>	<u>\$493,692,281</u>	<u>\$481,483,016</u>

- **Senate Bill 6 ratios**, one of the measures by which the University's activities are monitored at the state level, returned a composite score of 3.2 in FY 2007, 2.9 in FY 2006 and 3.2 in FY 2005. The highest possible score is 5.0. The score assigned to the viability ratio (expendable net assets divided by plant debt) increased by 1. This particular ratio is 30% of the composite score. The University remained the same in the primary reserve ratio (expendable net assets divided by operating expenses), which is 50% of the composite score and remained the same in the net income ratio (change in total net assets divided by total revenues), 20% of the composite score.

The Statements of Cash Flows present detailed information about the major sources and uses of cash and the resultant change in the University's cash position, under the direct method. The four categories of presentation and their respective FY 2007, FY 2006, and FY 2005 amounts are:

	2007	2006	2005
Net cash used in operating activities	\$ (143,327,070)	\$ (132,740,542)	\$ (133,457,564)
Net cash provided by noncapital financing activities	169,618,733	162,524,076	171,942,710
Net cash provided by (used in) capital financing activities	(55,674,058)	(10,562,877)	(60,661,900)
Net cash provided by (used in) investing activities	4,143,719	2,242,939	(2,205,125)

Total cash and cash equivalents decreased to \$51,781,073 in FY 2007, compared to a total of \$77,019,749 in FY 2006 and \$55,556,153 in FY 2005. The changes were entirely related to amounts of cash from bond proceeds, primarily in the hands of the trustee bank.

Capital Assets and Debt Administration

Capital Assets

The University made significant additions to capital during FY 2007 (see Footnote 5). These capital asset additions were financed with University funds, state capital appropriations, sale of bonds, gifts and grants. Major capital projects completed during the fiscal year ended June 30, 2007 and the primary resources that funded their construction included (in millions):

Baker University Center Athens Campus Student Union	\$59.9	Sale of Bonds and State Capital Appropriations
Bromley Hall Renovation Athens Campus Residence Hall	\$10.6	University Funds
Greg Smith Hall Proctorville Center, Southern Campus	\$3.7	University Funds, State Capital Appropriations and Contributions
Brasee Hall Renovation Lancaster Campus	\$2.4	State Capital Appropriations and Contributions
Elson Hall Renovation Zanesville Campus	\$2.0	State Capital Appropriations
Lausche Heating Plant Upgrade Athens Campus	\$1.6	State Capital Appropriations

Cumulative costs associated with capital projects continuing after the fiscal year ended June 30, 2007, totaled approximately \$27.4 million at June 30, 2007. These projects include (in millions):

Alvin C. Adams Residence Hall	\$20.0
Academic and Research Center	\$1.5

The University's estimated future capital commitments, for which funding has been identified, total approximately \$70,015,000.

The University completed its facilities master plan and the related capital funding plan in FY 2007. These were driven by academic priorities as outlined in Vision Ohio, the University's strategic master plan.

Debt Administration

At year-end, the University had \$182,585,000 in bonds and notes obligations outstanding, versus \$192,770,000 and \$167,410,000 at the end of FY 2006 and 2005, respectively. Detailed information exists in Footnote 7 related to borrowings and retirements for FY 2007 and FY 2006. The only FY 2007 issuance was a rollover of bond anticipation notes, which was reduced by \$700,000 in the rollover.

The University's facilities master plan and its related capital funding plan do not call for the issuance of additional debt over the 10 years covered by the plan.

The University's Standard and Poor's bond rating of A+ and Moody's bond rating of A1 have not changed from the prior year.

Economic Factors That Will Affect The Future

Perhaps the most significant event that will affect the future of Ohio University and the other 12 public and 23 community colleges in Ohio is the creation of the University System of Ohio, announced by Governor Ted Strickland earlier this year. Eric Fingerhut has been appointed Chancellor and is a member of the Governor's Cabinet. The University has been asked to identify what it considers its *Centers of Excellence* in order to market and enhance them and by contrast, to cut those programs which are deemed to be weak or duplicative. The emphasis will be on collaboration and not competition among those institutions within the University System of Ohio.

In accordance with Governor Strickland's plan for the funding of higher education, tuition rates for FY 2007 will remain unchanged in FY 2008. In return, the State is providing "State Tuition Replacement Funds" which is a new revenue source designed to provide funding equivalent to a 3% increase to undergraduate tuition and fees. This is expected to generate \$4,321,000 for Ohio University. In addition, State Appropriations consisting primarily of State Share of Instruction and Success Challenge funding, is expected to generate an additional \$2,736,000 in FY 2008.

This MD&A is intended to provide additional information for the reader of the audited financial statements which follow. Further questions may be addressed to: Gina L. Fetty, Controller; 204 HDL Center; Athens, Ohio 45701

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

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007		2006	
	Primary Institution	The Ohio University Foundation	Primary Institution	The Ohio University Foundation
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 37,117,319	\$ 5,849,783	\$ 31,594,535	\$ 9,587,897
Investments	111,750,833	88,583,204	98,134,548	71,719,252
Accounts and pledges receivable — net	44,486,015	7,095,881	35,341,172	9,813,347
Accrued interest and dividends receivable	352,870	240,470	300,445	123,586
Notes receivable — net	3,365,266		3,414,177	
Prepaid expenses and deferred charges	16,172,819	1,114,849	19,120,275	1,187,378
Inventories	1,977,771		1,866,260	
Total current assets	<u>215,222,893</u>	<u>102,884,187</u>	<u>189,771,412</u>	<u>92,431,460</u>
NONCURRENT ASSETS:				
Restricted cash and cash equivalents	14,663,754	3,072,984	45,425,214	3,809,375
Pledges receivable — net		10,987,232		18,255,492
Bequests receivable		1,688,039		1,380,885
Cash surrender value — life insurance policies		2,133,520		2,326,534
Charitable remainder trusts		2,684,684		2,525,515
Charitable remainder annuities		2,960,350		2,995,210
Endowment investments	16,818,390	121,505,896	15,167,182	105,990,952
Notes receivable — net	11,650,443		10,717,210	
Capital assets — net	<u>554,662,276</u>	<u>30,514,914</u>	<u>533,356,958</u>	<u>31,130,520</u>
Total noncurrent assets	<u>597,794,863</u>	<u>175,547,619</u>	<u>604,666,564</u>	<u>168,414,483</u>
TOTAL	<u>\$ 813,017,756</u>	<u>\$ 278,431,806</u>	<u>\$ 794,437,976</u>	<u>\$ 260,845,943</u>

(Continued)

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

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007		2006	
	Primary Institution	The Ohio University Foundation	Primary Institution	The Ohio University Foundation
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	\$ 42,579,902	\$ 829,258	\$ 39,369,310	\$ 2,308,333
Deferred revenue	24,523,487		23,063,617	
Refunds and other liabilities	4,810,021	3,292,511	1,880,191	3,348,090
Capital lease obligations	86,942		54,526	
Bonds and notes payable	20,770,000	822,600	14,099,160	1,729,757
Deposits held in custody for others	1,562,329	296,757	1,142,466	263,548
Total current liabilities	<u>94,332,681</u>	<u>5,241,126</u>	<u>79,609,270</u>	<u>7,649,728</u>
NONCURRENT LIABILITIES:				
Compensated absences	12,787,146		13,022,319	
Capital lease obligations	242,664		37,823	
Bonds and notes payable	161,815,000	33,575,500	178,670,840	34,398,100
Bond premium — net	5,661,054		6,141,111	
Refundable advances for federal student loans	8,621,865		10,666,751	
Total noncurrent liabilities	<u>189,127,729</u>	<u>33,575,500</u>	<u>208,538,844</u>	<u>34,398,100</u>
Total liabilities	<u>283,460,410</u>	<u>38,816,626</u>	<u>288,148,114</u>	<u>42,047,828</u>
NET ASSETS:				
Invested in capital assets — net of related debt	386,411,424	3,512,898	379,778,713	4,334,895
Restricted:				
Nonexpendable	16,818,390	121,505,896	15,167,182	105,990,952
Expendable	40,874,666	111,188,428	39,584,791	110,872,406
Unrestricted	85,452,866	3,407,958	71,759,176	(2,400,138)
Total net assets	<u>529,557,346</u>	<u>239,615,180</u>	<u>506,289,862</u>	<u>218,798,115</u>
TOTAL	<u>\$813,017,756</u>	<u>\$278,431,806</u>	<u>\$794,437,976</u>	<u>\$260,845,943</u>

See notes to the financial statements.

(Concluded)

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007		2006	
	Primary Institution	The Ohio University Foundation	Primary Institution	The Ohio University Foundation
OPERATING REVENUES:				
Student tuition and fees — net of scholarship allowances of \$39,514,236 and \$39,543,722, respectively	\$ 217,740,577	\$ -	\$ 201,446,914	\$ -
Federal grants and contracts	27,404,263		30,122,163	
State grants and contracts	7,294,112		6,278,728	
Local grants and contracts	383,291		498,917	
Private grants and contracts	8,180,953		6,893,069	
Sales and services	10,113,479		10,419,607	
Auxiliary enterprises — net of scholarship allowances of \$7,484,302 and \$9,137,457, respectively	65,090,980		59,479,387	
Other sources	10,208,019	10,639,334	7,901,879	10,162,309
Total operating revenues	346,415,674	10,639,334	323,040,664	10,162,309
OPERATING EXPENSES:				
Educational and general:				
Instruction and departmental research	203,991,047	5,849,044	187,478,442	5,216,562
Separately budgeted research	32,457,968	338,367	33,712,270	403,735
Public service	20,961,207	35,718	20,129,885	39,098
Academic support	58,184,520	1,733,161	55,429,877	1,676,180
Student services	24,451,160	780,732	24,573,546	976,815
Institutional support	27,313,425	9,139,820	23,461,283	9,153,131
Operation and maintenance of plant	42,401,934		39,770,454	
Student aid	10,250,507	2,972,107	8,329,253	3,303,750
Depreciation	30,652,754	1,409,835	29,427,367	1,505,035
Auxiliary enterprises	70,306,093		64,784,092	
Operating expenses — Foundation's subsidiaries		6,716,987		6,773,723
Total operating expenses	520,970,615	28,975,771	487,096,469	29,048,029
OPERATING LOSS	(174,554,941)	(18,336,437)	(164,055,805)	(18,885,720)

(Continued)

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007		2006	
	Primary Institution	The Ohio University Foundation	Primary Institution	The Ohio University Foundation
NONOPERATING REVENUES AND EXPENSES:				
State appropriations	\$ 137,197,682	\$ -	\$ 137,369,481	\$ -
Federal grants	20,694,075		17,199,027	
State grants	6,593,195		5,563,372	
Local grants	1,785		2,450	
Private gifts	4,556,275	3,670,924	2,282,439	31,516,860
Donor gift change in designation or beneficiary		(15,317,456)		
University support		3,397,557		3,364,852
Investment income — net of investment expense	19,442,211	32,445,939	8,278,995	16,155,393
Interest on capital asset-related debt	(7,431,076)		(6,425,686)	
Disposal and write-offs of plant facilities	(707,561)		(170,126)	
Net nonoperating revenues and expenses	<u>180,346,586</u>	<u>24,196,964</u>	<u>164,099,952</u>	<u>51,037,105</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>5,791,645</u>	<u>5,860,527</u>	<u>44,147</u>	<u>32,151,385</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:				
State capital appropriations	14,024,105		20,766,812	
Capital grants and gifts	3,444,433		2,531,424	
Additions to permanent endowments	7,301	14,956,538	205,205	4,189,518
Total other revenues, expenses, gains, or losses	<u>17,475,839</u>	<u>14,956,538</u>	<u>23,503,441</u>	<u>4,189,518</u>
INCREASE IN NET ASSETS	<u>23,267,484</u>	<u>20,817,065</u>	<u>23,547,588</u>	<u>36,340,903</u>
NET ASSETS:				
Beginning of year	<u>506,289,862</u>	<u>218,798,115</u>	<u>482,742,274</u>	<u>182,457,212</u>
End of year	<u>\$ 529,557,346</u>	<u>\$ 239,615,180</u>	<u>\$ 506,289,862</u>	<u>\$ 218,798,115</u>

See notes to the financial statements.

(Concluded)

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	Primary Institution	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 213,247,160	\$ 197,324,175
Grants and contracts	36,260,223	46,210,885
Payments to suppliers	(98,375,930)	(104,192,243)
Payments to employees	(261,104,174)	(251,014,000)
Payments for benefits	(76,101,255)	(67,911,097)
Payments for scholarships and fellowships	(37,585,701)	(33,429,762)
Loans issued to students	(4,261,745)	(3,217,977)
Collection of loans to students	2,898,452	3,248,595
Auxiliary enterprise sales	63,613,961	59,230,129
Sales and services	9,015,529	11,635,309
Other receipts	9,066,410	9,375,444
	<u>(143,327,070)</u>	<u>(132,740,542)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	137,816,243	137,369,481
Gifts and grants for other than capital purposes	31,852,631	25,252,493
Federal direct student loan programs receipts	97,628,329	100,020,920
Federal direct student loan programs disbursements	(97,650,287)	(100,020,920)
Student organization agency transactions	(28,183)	(97,898)
	<u>169,618,733</u>	<u>162,524,076</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from capital debt		72,390,000
Capital appropriations	11,394,203	21,776,537
Capital grants and gifts received	3,728,626	2,251,278
Purchases of capital assets	(53,081,762)	(52,884,868)
Principal paid on capital debt and leases	(10,284,049)	(46,962,056)
Interest paid on capital debt and leases	(7,431,076)	(7,133,768)
	<u>(55,674,058)</u>	<u>(10,562,877)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	38,864,231	24,529,459
Investment income	7,648,449	8,454,605
Purchase of investments	(42,368,961)	(30,741,125)
	<u>4,143,719</u>	<u>2,242,939</u>
NET (DECREASE) INCREASE IN CASH	(25,238,676)	21,463,596
CASH AND CASH EQUIVALENTS — Beginning of year	<u>77,019,749</u>	<u>55,556,153</u>
CASH AND CASH EQUIVALENTS — End of year, including restricted cash of \$14,663,754 and \$45,425,214, respectively.	<u>\$ 51,781,073</u>	<u>\$ 77,019,749</u>

(Continued)

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>Primary Institution</u>	
	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(174,554,941)	\$(164,055,805)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	30,652,754	29,427,367
Changes in assets and liabilities:		
Accounts receivable — net	(7,762,725)	(1,874,755)
Notes receivable — net	(1,162,321)	177,517
Prepaid expenses and deferred charges	2,785,882	(2,800,674)
Inventories	(111,511)	(72,733)
Accounts payable and accrued liabilities	5,173,743	2,783,031
Deferred revenue	(1,366,691)	3,812,005
Refunds and other liabilities	<u>3,018,740</u>	<u>(136,495)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$(143,327,070)</u>	<u>\$(132,740,542)</u>

See notes to financial statements.

(Concluded)

OHIO UNIVERSITY

(A Component Unit of the State of Ohio)

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Ohio University (“University”) is a public institution established by the State of Ohio (“State”) in 1804 under Chapter 3337 of the Ohio Revised Code (ORC). As such, it is a component unit of the State and is included as a discretely presented entity in the State’s Comprehensive Annual Financial Report. The University is the oldest of the State-assisted universities in Ohio. It is defined by statute to be a body politic and corporate and an instrumentality of the State.

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

Basis of Presentation — The financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements — and Management’s Discussion and Analysis — for Public Colleges and Universities (an amendment of GASB Statement No. 34)*. The presentation required by GASB Statement No. 34 and GASB Statement No. 35 provides a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, and changes in net assets and cash flows. It replaces fund groups with net asset groups and requires the direct method of cash flow presentation.

The University follows all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14*, was implemented by the University effective July 1, 2003. It further clarifies that certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government. The University has determined that The Ohio University Foundation (“Foundation”) meets this definition and is therefore included as a discretely presented component unit in the University’s financial statements. The Foundation’s financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the FASB. See Note 17 for additional disclosures regarding the Foundation.

Basis of Accounting — The University is a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and 35. Accordingly, the financial statements are presented using an economic resources measurement focus and are presented on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred. All significant interfund transactions have been eliminated. The financial statements of its component unit are also presented under the accrual basis of accounting.

Cash and Cash Equivalents — Cash consists primarily of petty cash, cash in banks, and money market accounts. Cash equivalents are short-term highly liquid investments readily convertible to cash with original maturities of three months or less.

Investments — All investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in publicly traded securities are stated at fair value as established by major securities markets. Nonpublicly traded investments are carried at estimated fair value provided by the funds' managements. Some fund valuations are determined as of March 31 and adjusted by cash receipts, cash disbursements and securities distributions through June 30. The University believes that the carrying amounts are reasonable estimates of fair value as of year-end. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses, and Changes in Net Assets. Investments classified as current assets in the Statements of Net Assets include those that can be withdrawn on demand.

Accounts Receivable — Accounts receivable consists of amounts due for tuition and fees, grants and contracts, and auxiliary enterprise services. Grants and contracts accounts receivable include amounts due from the Federal government, State, and local governments, or private sources, as reimbursement of certain expenditures made in accordance with agreements. Uncollectible amounts have been reserved.

Inventories — Inventories are stated at lower of weighted-average cost or net realizable value.

Restricted Cash and Cash Equivalents — Restricted cash and cash equivalents are primarily funds externally restricted for capital expenditures subject to bond and note agreements and which are either held by bond trustees or temporarily invested in STAR Ohio. In addition, it includes some funds held in escrow for successful completion of construction contracts.

Capital Assets — Purchased or constructed capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair market value as of the date received. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Following are the capitalization levels and estimated useful lives of the asset classes:

Asset Class	Capitalize at	Estimated Useful Life
Land	Any amount	N/A
Land improvements	\$ 100,000	N/A
Works of art and historical treasures	\$ 2,500	N/A
Infrastructure	\$ 100,000	10–50 years
Buildings	Any amount	40 years
Machinery and equipment	\$ 2,500	5–25 years
Library books and publications	Any amount	10 years
Transportation equipment	\$ 2,500	5–10 years

Building renovations that materially increase the value or extend the useful life of the structure are also capitalized. The costs of normal maintenance and repairs are not capitalized. Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. Land, land improvements, and works of art and historical treasures are not depreciated. Any impairment of capital assets and insurance recoveries are disclosed in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Deferred Revenue — Deferred revenue includes amounts for tuition and fees and certain auxiliary activities received prior to the end of the fiscal year related to the subsequent accounting period.

Compensated Absences — University employees earn vacation and sick leave benefits based, in part, on length of service. Upon separation from service, employees are paid their accumulated vacation and sick pay based upon the nature of separation (termination, retirement, or death). Certain limits are placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding the limits are forfeited. The estimated and accrued liability is recorded at year-end in the Statements of Net Assets, and the net change from the prior year is recorded as a component of operating expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

Net Assets — The University’s net assets are categorized as described below:

Invested in Capital Assets — Net of Related Debt — This net asset class represents the University’s investment in capital assets net of debt obligations related to those capital assets, except to the extent of debt proceeds not yet expended.

Restricted Net Assets — Nonexpendable — This net asset class represents the donor contributed portion of University endowments. It also includes capital appreciation of those endowments where the donor has not adopted the University’s endowment expenditure policy, meaning that the capital appreciation of those accounts remain a part of the corpus.

Restricted Net Assets — Expendable — Restricted expendable net assets represent assets that are restricted by a third party, either legally or contractually.

Unrestricted Net Assets — Unrestricted net assets are resources derived primarily from student tuition, fees, State appropriations, and auxiliary enterprises. These net assets are used for general obligations of the University. They may be used at the discretion of the Board of Trustees for any purpose furthering the University’s mission.

Restricted Versus Unrestricted Resources — When an expense is incurred that can be paid using either restricted or unrestricted resources, the University’s policy is to apply the expense at the discretion of University management.

Income Taxes — The University is an organization described in Section 115 of the Internal Revenue Code (the “Code”) and has further been classified as an organization that is not a private foundation in accordance with Sections 509(a)(1) and 170(b)(1)(A)(ii) of the Code. However, certain revenues are considered unrelated business income and are taxable under Internal Revenue Code Sections 511 through 513.

Classification of Revenues — Revenues classified as operating or nonoperating are done so according to the following:

Operating Revenues — Operating revenues include revenues from activities that have characteristics similar to exchange transactions. These include student tuition and fees (net of scholarship discounts and allowances), sales and services of auxiliary enterprises (net of scholarship discounts and allowances), and certain Federal, State, local and private grants, and contracts. The presumption is that there is a fair exchange of value between all parties to the transaction.

Nonoperating Revenues — Nonoperating revenues include revenues from activities that have the characteristics of nonexchange transactions, such as State appropriations, and certain Federal, State, local and private gifts, and grants. The implication is that such revenues are derived from more passive efforts, efforts related more to the acquisition of the revenue, rather than the earning of it.

Scholarship Discounts and Allowances — Student tuition and fees revenue, and certain other payments recorded as auxiliary enterprises revenue, are 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 charge for tuition and fees, and the amount paid by students or by third parties making the payments on the students’ behalf. As of June 30, 2007 and 2006, respectively, scholarship discounts and allowances were \$46,998,538 (of which \$39,514,236 is netted against student tuition and fees and \$7,484,302 is netted against auxiliary enterprises revenues) and \$48,681,179 (of which \$39,543,722 is netted against student tuition and fees and \$9,137,457 is netted against auxiliary enterprises revenues).

Auxiliary Enterprises — Auxiliary revenues are derived primarily from revenues generated from residence halls, dining services, intercollegiate athletics, airport operations, telephone operations, parking services, and campus recreation. They are shown net of scholarship discounts and allowances, primarily for room and board.

Eliminations — The University eliminates interfund assets and liabilities, and revenues and expenses, related to internal activities.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) may require management to make estimates and assumptions that affect certain amounts reported in the financial statements. The estimates and assumptions are based on currently available information and actual results could differ from those estimates.

Newly Issued Accounting Pronouncements — In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other

postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for financial statements for periods beginning after December 15, 2006.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement explains when pollution remediation-related obligations should be reported and how those obligations' costs and liabilities should be determined. The Statement also requires note disclosures about the liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This Statement is effective for financial statements for periods beginning after June 15, 2007.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes standards for the capitalization, amortization, and financial reporting of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

University management has not yet determined the impact that implementation of GASB Statements Nos. 45, 48, 49, 50, and 51 will have on the University's financial statements.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS, CASH AND CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2007, the carrying amount of the University's cash and cash equivalents for all funds is \$51,781,073, compared to bank balances of \$57,349,803. The differences in carrying amount and bank balances are caused by outstanding checks and deposits-in-transit. Of the bank balances, \$614,692 is covered by Federal deposit insurance and \$56,735,111 is uninsured, but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

The University's investment portfolio may include investments in the following:

- Obligations of the U.S. Treasury and other Federal agencies and instrumentalities
- Municipal and State bonds
- Certificates of deposit
- Repurchase agreements
- Mutual funds

- Commercial paper
- Corporate bonds and notes
- Common and preferred stock
- Asset-backed securities
- Private equity and venture capital

The University's endowment fund operates with a long-term investment goal of preserving the purchasing power of the principal in a diversified portfolio.

U.S. Government and Agency securities are invested through trust agreements with banks who keep the securities in their safekeeping accounts at the Federal Reserve Bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the University. Common stocks, corporate bonds, money market instruments, mutual funds, and other investments are invested through trust agreements with banks who keep the investments in their safekeeping account in the appropriate custodial bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the University.

The values of investments at June 30, 2007 and 2006, are as follows:

Type	2007	2006
Common stock	\$ 4,814,473	\$ 4,908,225
Equity mutual funds	49,143,494	49,953,796
U.S. government obligations	2,023,610	1,610,905
U.S. government agency obligations	5,647,895	5,259,113
Mortgage-backed securities	1,003,162	729,890
Corporate bonds and notes	1,091,009	1,333,071
Bond mutual funds	44,432,232	44,573,978
Other	<u>20,413,348</u>	<u>4,932,752</u>
Total	<u>\$ 128,569,223</u>	<u>\$ 113,301,730</u>

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and rate fluctuations embodied in forward, futures, commodity, or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded.

Additional Disclosures Related to Interest-Bearing Investments — Statement Nos. 3 and 40 of the GASB require certain additional disclosures related to the interest rate, credit, and foreign currency risks, associated with interest-bearing investments.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

As of June 30, 2007, maturities of the University's interest-bearing investments are as follows:

Investment Type	Fair value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More Than 10
U.S. government obligations	\$ 2,023,610	\$ -	\$ 1,999,477	\$ 24,133	\$ -
U.S. government agency obligations	5,647,895	396,087	5,058,253	193,555	
Mortgage-backed securities	1,003,162		54,867	790,951	157,344
Corporate bonds	1,091,009	610,858	480,151		
Bond mutual funds	44,432,232	3,241,248	21,973,009	16,953,397	2,264,578
Other	<u>1,102,975</u>	<u>503,975</u>	<u>599,000</u>		
Total	<u>\$ 55,300,883</u>	<u>\$ 4,752,168</u>	<u>\$ 30,164,757</u>	<u>\$ 17,962,036</u>	<u>\$ 2,421,922</u>

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the statements of net assets and is not represented by the contract or notional amounts of the instruments. Credit quality information, as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations, such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings, provides a current depiction of potential variable cash flows and credit risk.

The credit ratings of the University's interest-bearing investments at June 30, 2007, are as follows:

Fair Value	Credit Quality (Moody's)				
	Aaa	Aa	A	Baa	Ba
U.S. government obligations	\$ 2,023,610	\$ 2,023,610	\$ -	\$ -	\$ -
U.S. government agency obligations	5,647,895	5,647,895			
Mortgage-backed securities	1,003,162	1,003,162			
Corporate bonds	1,091,009	199,982	304,699	586,328	
Bond mutual funds	44,423,232	29,981,001	14,442,231		
Other	<u>1,102,975</u>	<u>1,102,975</u>			
Total	<u>\$ 55,291,883</u>	<u>\$ 39,958,625</u>	<u>\$ 14,746,930</u>	<u>\$ 586,328</u>	<u>\$ -</u>

Custodial Credit Risk — Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. As of June 30, 2007, the University had no custodial credit risk.

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At June 30, 2007, there were no single issuer investments that exceeded 5%.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2007, the University's exposure to foreign currency risk is as follows:

Currency	Equity Mutual Funds	Bond Mutual Funds	Other
Australian dollar	\$ 400,207	\$ 42,014	\$ -
Brazilian real	583,465	630,208	
Chinese yuan	476,522		
Euro	5,293,289	112,037	126,147
Hong Kong dollar	433,429		
Indian rupee	409,337	28,009	
Israeli shekels	102,348		
Japanese yen	2,886,660		
Malaysian ringgit	98,873	28,009	
Mexican new peso	296,618	56,019	
Pound Sterling	2,226,710		
Russian rouble	189,986	112,037	
Singapore dollar	150,607	70,023	
South African rand	130,664		
South Korean won	612,951	42,014	
Swedish krona	612,951	14,005	23,653
Swiss franc	584,623		
Taiwan dollar	395,322		
Thai baht	142,493		
Turkish lira	129,274		
Other foreign currencies	<u>295,743</u>	<u>84,028</u>	<u> </u>
Total	<u>\$ 16,452,072</u>	<u>\$ 1,218,403</u>	<u>\$ 149,800</u>

3. ACCOUNTS RECEIVABLE

The composition of accounts receivable at June 30, 2007 and 2006, is summarized as follows:

	2007	2006
Student receivables for fees, room, and board	\$ 23,600,597	\$ 17,061,747
Research and other sponsored programs	14,493,406	12,630,258
Other	<u>13,113,861</u>	<u>10,366,946</u>
Subtotal — accounts receivable	51,207,864	40,058,951
Less allowance for doubtful accounts	<u>(6,721,849)</u>	<u>(4,717,779)</u>
Net accounts receivable	<u>\$ 44,486,015</u>	<u>\$ 35,341,172</u>

4. NOTES RECEIVABLE

The University notes receivable at June 30, 2007 and 2006, is net of allowance for doubtful accounts of \$1,526,043 and \$1,146,248, respectively. Principal repayment and interest terms vary. Federal loan programs are funded primarily through Federal contributions under Perkins and various nursing programs.

The University distributed \$97,650,287 and \$100,020,920 for student loans through the U.S. Department of Education Federal Direct Lending program during the years ended June 30, 2007 and 2006, respectively. These distributions and the related funding sources are included as cash disbursements and cash receipts in the accompanying Statements of Cash Flows.

The composition of notes receivable as of June 30, 2007 and 2006, is as follows:

	2007	2006	Current Portion
Student loan program	\$ 15,534,740	\$ 14,171,447	\$ 3,268,024
COM former students	<u>1,007,012</u>	<u>1,106,188</u>	97,242
Total notes receivable	16,541,752	15,277,635	
Less allowance for doubtful accounts	<u>(1,526,043)</u>	<u>(1,146,248)</u>	
Net notes receivable	<u>\$ 15,015,709</u>	<u>\$ 14,131,387</u>	

5. CAPITAL ASSETS

The changes in the various fixed asset classes for the years ended June 30, 2007 and 2006, for the University are as follows:

	Balance July 1, 2006	Additions	Transfers In (Out)	Retirements	Balance June 30, 2007
Capital assets not being depreciated:					
Land	\$ 16,216,224	\$ -	\$ -	\$ -	\$ 16,216,224
Land improvements	4,701,091				4,701,091
Construction in progress	82,363,253	40,647,177	(95,412,882)	(181,417)	27,416,131
Works of art and historical treasures	<u>8,234,552</u>	<u>280,695</u>			<u>8,515,247</u>
Total capital assets not being depreciated	<u>111,515,120</u>	<u>40,927,872</u>	<u>(95,412,882)</u>	<u>(181,417)</u>	<u>56,848,693</u>
Capital assets being depreciated:					
Infrastructure	95,146,560	715,734	5,193,591	(4,191,320)	96,864,565
Buildings	533,513,188	912,566	90,219,291		624,645,045
Machinery and equipment	103,122,011	6,736,990		(3,717,989)	106,141,012
Library books and publications	76,579,733	2,692,742		(1,830,605)	77,441,870
Transportation equipment	<u>19,190,903</u>	<u>1,095,858</u>		<u>(760,125)</u>	<u>19,526,636</u>
Total capital assets being depreciated	<u>827,552,395</u>	<u>12,153,890</u>	<u>95,412,882</u>	<u>(10,500,039)</u>	<u>924,619,128</u>
Total capital assets	<u>939,067,515</u>	<u>53,081,762</u>	<u>-</u>	<u>(10,681,456)</u>	<u>981,467,821</u>
Less accumulated depreciation:					
Infrastructure	34,711,814	4,319,675		(3,831,320)	35,200,169
Buildings	234,138,747	13,368,556			247,507,303
Machinery and equipment	66,679,674	7,998,447		(3,323,630)	71,354,491
Library books and publications	59,918,188	3,440,390		(1,830,605)	61,527,973
Transportation equipment	<u>10,262,134</u>	<u>1,525,686</u>		<u>(572,211)</u>	<u>11,215,609</u>
Total accumulated depreciation	<u>405,710,557</u>	<u>30,652,754</u>	<u>-</u>	<u>(9,557,766)</u>	<u>426,805,545</u>
Total capital assets being depreciated — net	<u>421,841,838</u>	<u>(18,498,864)</u>	<u>95,412,882</u>	<u>(942,273)</u>	<u>497,813,583</u>
Capital assets — net	<u>\$ 533,356,958</u>	<u>\$ 22,429,008</u>	<u>\$ -</u>	<u>\$ (1,123,690)</u>	<u>\$ 554,662,276</u>

	Balance July 1, 2005	Additions	Transfers In (Out)	Retirements	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 16,202,224	\$ 14,000	\$ -	\$ -	\$ 16,216,224
Land improvements	4,701,091				4,701,091
Construction in progress	59,353,941	40,026,418	(17,017,106)		82,363,253
Works of art and historical treasures	<u>8,234,552</u>				<u>8,234,552</u>
Total capital assets not being depreciated	<u>88,491,808</u>	<u>40,040,418</u>	<u>(17,017,106)</u>	<u>-</u>	<u>111,515,120</u>
Capital assets being depreciated:					
Infrastructure	90,735,111	542,096	3,869,353		95,146,560
Buildings	519,575,572	789,863	13,147,753		533,513,188
Machinery and equipment	98,563,436	8,080,278		(3,521,703)	103,122,011
Library books and publications	73,799,371	2,780,362			76,579,733
Transportation equipment	<u>19,258,814</u>	<u>651,851</u>		<u>(719,762)</u>	<u>19,190,903</u>
Total capital assets being depreciated	<u>801,932,304</u>	<u>12,844,450</u>	<u>17,017,106</u>	<u>(4,241,465)</u>	<u>827,552,395</u>
Total capital assets	<u>890,424,112</u>	<u>52,884,868</u>	<u>-</u>	<u>(4,241,465)</u>	<u>939,067,515</u>
Less accumulated depreciation:					
Infrastructure	30,563,599	4,148,215			34,711,814
Buildings	222,186,868	11,951,879			234,138,747
Machinery and equipment	61,451,358	8,188,588		(2,960,272)	66,679,674
Library books and publications	56,407,349	3,510,839			59,918,188
Transportation equipment	<u>9,110,346</u>	<u>1,627,846</u>		<u>(476,058)</u>	<u>10,262,134</u>
Total accumulated depreciation	<u>379,719,520</u>	<u>29,427,367</u>	<u>-</u>	<u>(3,436,330)</u>	<u>405,710,557</u>
Total capital assets being depreciated — net	<u>422,212,784</u>	<u>(16,582,917)</u>	<u>17,017,106</u>	<u>(805,135)</u>	<u>421,841,838</u>
Capital assets — net	<u>\$ 510,704,592</u>	<u>\$ 23,457,501</u>	<u>\$ -</u>	<u>\$ (805,135)</u>	<u>\$ 533,356,958</u>

On April 2, 2006, there was a valve failure in the chilled water system of Grover Center causing a 3-inch pipe on the third floor to burst. The burst pipe caused major water damage to 40-50% of the building. Grover Center, which houses the College of Health and Human Services' offices and classrooms on the Athens campus was built in 1960 and underwent \$24,430,000 of major renovation ending in 2001. Following the cleanup of the water damage, the cost of restoration was determined to be \$1,093,000 at June 30, 2006.

The restoration cost approach was used to determine the impairment loss to the building. Using a ratio of the carrying value of the building to the deflated restoration cost, the impairment loss was determined to be \$787,500. The new carrying value of the building is \$22,141,500 (original carrying value of \$21,834,000, plus the restoration cost of \$1,093,000 less the impairment loss of \$785,500). This is reflected as a \$307,500 increase to Capital Assets — Net in the Statement of Net Assets.

In addition to the \$1,093,000 in restoration costs for the building, expenditures totaling \$447,900 for furniture, demolition, cleaning, etc., were recorded as Operating Expenses — Operation and Maintenance of Plant during 2006. The total insurable damage was \$1,540,900 less the insurance recovery of \$1,440,900 reflects the University's insurance deductible of \$100,000.

The impairment loss of \$785,500 was net with the insurance recovery of \$1,440,900 to reflect a net increase to Operating Revenue — Other Sources of \$655,400 related to the water damage in Grover Center. Twenty-five percent of Grover Center was considered idle at June 30, 2006, which is \$5,535,375.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2007 and 2006, consisted of the following:

	2007	2006
Accounts payable	\$ 16,000,974	\$ 12,725,919
Accrued liabilities	<u>26,578,928</u>	<u>26,643,391</u>
Total	<u>\$ 42,579,902</u>	<u>\$ 39,369,310</u>

7. BONDS AND NOTES PAYABLE

The University's bonds and notes payable at June 30, 2007 and 2006, are summarized as follows:

	July 1, 2006	Borrowed	Retired	June 30, 2007	Current
Subordinated general receipts bonds — series 2006C	\$ 8,025,000	\$ -	\$ 2,435,000	\$ 5,590,000	\$ 4,560,000
Subordinated general receipts bonds — series 2006B	29,170,000			29,170,000	1,025,000
Subordinated general receipts bonds — series 2006A	28,145,000		355,000	27,790,000	1,090,000
General receipts bond anticipation notes	7,050,000	6,350,000	7,050,000	6,350,000	6,350,000
Subordinated general receipts bonds — series 2004	49,760,000		510,000	49,250,000	1,455,000
Subordinated general receipts bonds — series 2003	41,885,000		3,600,000	38,285,000	3,785,000
Subordinated variable general receipts bonds — series 2001	<u>28,735,000</u>		<u>2,585,000</u>	<u>26,150,000</u>	<u>2,505,000</u>
Total bonds and notes payable	<u>\$ 192,770,000</u>	<u>\$ 6,350,000</u>	<u>\$ 16,535,000</u>	<u>\$ 182,585,000</u>	<u>\$ 20,770,000</u>
	July 1, 2005	Borrowed	Retired	June 30, 2006	Current
Subordinated general receipts bonds — series 2006C	\$ -	\$ 8,025,000	\$ -	\$ 8,025,000	\$ -
Subordinated general receipts bonds — series 2006B		29,170,000		29,170,000	
Subordinated general receipts bonds — series 2006A		28,145,000		28,145,000	355,000
General receipts bond anticipation notes	7,650,000	7,050,000	7,650,000	7,050,000	7,050,000
Subordinated general receipts bonds — series 2004	52,430,000		2,670,000	49,760,000	510,000
Subordinated general receipts bonds — series 2003	45,285,000		3,400,000	41,885,000	3,600,000
Subordinated variable general receipts bonds — series 2001	33,535,000		4,800,000	28,735,000	2,584,160
General receipts bonds — series 1999	<u>28,510,000</u>		<u>28,510,000</u>	<u>-</u>	
Total bonds and notes payable	<u>\$ 167,410,000</u>	<u>\$ 72,390,000</u>	<u>\$ 47,030,000</u>	<u>\$ 192,770,000</u>	<u>\$ 14,099,160</u>

On January 17, 2007, the University issued General Receipts Bond Anticipation Notes (the Superior Notes) totaling \$6,350,000. The proceeds are being used to finance the replacement of major administrative systems (human resources, payroll, and financial) and the purchase of an imaging system. The principal payment on the Notes was made as scheduled. Notes outstanding of \$6,350,000 at June 30, 2007, mature on January 16, 2008, and bear an interest rate of 4.25%.

On April 6, 2006, the University issued \$29,170,000 in Subordinated General Receipts Bonds, Series 2006B, and \$8,025,000 in Subordinated Variable Rate General Receipts Bonds, Series 2006C. The proceeds were used to pay part of the costs of construction of a 350-bed residence hall, and to finance the following: Development of a student information system, an energy performance contract, audio visual equipment and furniture, design costs for the renovation of the former Baker Center facility for use by the College of Communication, and design costs for the Academic and Research Center. The balances outstanding for the Series 2006B and Series 2006C Bonds as of June 30, 2007, were \$29,170,000 and \$5,590,000, respectively. For Series 2006C, the variable rate of interest in effect at June 30, 2007, was 3.75%, and the average variable rate of interest for the year ending June 30, 2007, was 3.65%.

On February 16, 2006, the University issued \$28,145,000 in Subordinated General Receipts Bonds, Series 2006A. The proceeds were used to refund the Series 1999 Bonds, as defined below. The balance outstanding as of June 30, 2007, was \$27,790,000.

On March 15, 2004, the University issued \$52,885,000 in Subordinated General Receipts Bonds, Series 2004. The proceeds were used to refund the Series 2003B Notes, and for capital equipment and construction costs on various building projects. The balance outstanding as of June 30, 2007, was \$49,250,000.

On September 3, 2003, the University issued \$47,860,000 in Subordinated General Receipts Bonds, Series 2003. The proceeds were used to refund the Series 1993 Bonds and the Series 2003A Notes. The balance outstanding as of June 30, 2007, was \$38,285,000.

On May 3, 2001, the University issued \$48,025,000 in Subordinated Variable Rate General Receipts Bonds, Series 2001. The proceeds were for capital equipment and construction costs on various building projects. The balance outstanding as of June 30, 2007, was \$26,150,000. The variable rate of interest in effect at June 30, 2007, was 3.75%. The average variable rate of interest for the year ending June 30, 2007, was 3.65%.

On October 3, 2001, the University entered into a swap agreement with Morgan Guaranty Trust Company of New York to hedge \$31,020,000 of the University's Series 2001 Bonds. The swap agreement converts the Series 2001 Bonds' variable interest rate to a fixed rate of 4.039%, settled on the first day of each month. The total amounts paid related to the swap agreement for the year ended June 30, 2007 and 2006, were \$100,852 and \$281,174, respectively. These amounts are included as an adjustment to interest on capital asset-related debt in the Statements of Revenues, Expenses, and Changes in Net Assets. As of June 30, 2007, the swap had a negative fair value of \$151,225. As the swap has a negative fair value, the University is not exposed to credit risk. However, should interest rates begin to rise; the negative fair value of the swap would be reduced and could eventually become positive. At that point, the University would be exposed to counterparty credit risk since the counterparty would be obligated to make payments to the University. The occurrence of a credit event with respect to the University or the counterparty, defined as a reduction in the long-term bond rating to less than Baa2 by Moody's Investors Service, Inc. or BBB by Standard & Poor's, would result in termination of the swap agreement. As of June 30, 2007, no termination events had occurred.

On March 15, 1999, the University issued \$32,520,000 in General Receipts Bonds, Series 1999, to pay construction costs on various building projects. On February 16, 2006, the Series 1999 Bonds were refinanced and rolled into the Series 2006A Bonds.

The Superior Notes and the Series 1999 Bonds are bound by the provisions of a Trust Agreement dated June 1, 1972 (the Prior Indenture), and its supplements as described below. The Prior Indenture and its supplements relate to the provisions of the Superior Notes and the Series 1999 Bonds. These obligations are secured by a gross pledge of and first lien on the General Receipts of the University. The General Receipts include the full amount of every type and character of campus receipts, except for State appropriations and receipts previously pledged or otherwise restricted. The University has complied with all covenants of the Prior Indenture and its supplements.

The Series 2006A Bonds, the Series 2006B Bonds, the Series 2006C Bonds, the Series 2004 Bonds, the Series 2003 Bonds and the Series 2001 Bonds are secured by a Trust Agreement dated May 1, 2001 (the Subordinated Indenture) and its supplements as described below. While any Superior Obligations issued are outstanding, the pledge and lien on the General Receipts authorized and granted by the Subordinated Indenture are subordinate to the pledge and lien on the General Receipts that secure the Superior Obligations.

A First Supplemental Trust Agreement to the Subordinated Indenture binds the Series 2001 Bonds. A Second Supplemental Trust Agreement binds the Series 2003 Bonds. The Series 2003B Notes were issued pursuant to a Third Supplemental Trust Agreement. A Fourth Supplemental Trust Agreement binds the 2004 Bonds. A Fifth Supplemental Trust Agreement binds the Series 2006A Bonds. A Sixth Supplemental Trust Agreement binds the Series 2006B and Series 2006C Bonds.

Details of the series are as follows:

Series	Interest Rate	Maturity Fiscal Year	Initial Issue Amount	Outstanding at June 30, 2007
2001	Variable	2007–2027	\$48,025,000	\$ 26,150,000
2003	5.00%–5.25%	2007–2024	47,860,000	38,285,000
2004	2.00%–5.00%	2007–2032	52,885,000	49,250,000
2006A	3.50%–5.00%	2007–2025	28,145,000	27,790,000
2006B	3.75%–5.00%	2007–2037	29,170,000	29,170,000
2006C	Variable	2007–2018	8,025,000	<u>5,590,000</u>
Total				<u>\$ 176,235,000</u>

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2007, are summarized as follows:

Years Ending June 30	Principal	Interest	Swap Interest	Total
2008	\$ 14,420,000	\$ 7,732,216	\$ 895,087	\$ 23,047,303
2009	11,215,000	7,233,482	819,250	19,267,732
2010	9,635,000	6,770,064	747,138	17,152,202
2011	9,715,240	6,332,758	670,228	16,718,226
2012	10,035,000	5,884,971	590,580	16,510,551
2013–2017	44,085,600	23,439,272	1,647,679	69,172,551
2018–2022	29,535,000	14,357,029	374,675	44,266,704
2023–2027	23,264,160	8,111,729	149,598	31,525,487
2028–2032	18,340,000	3,548,125		21,888,125
2033–2037	<u>5,990,000</u>	<u>697,500</u>		<u>6,687,500</u>
Total	<u>\$ 176,235,000</u>	<u>\$ 84,107,146</u>	<u>\$ 5,894,236</u>	<u>\$ 266,236,382</u>

8. CAPITAL LEASES

The University has \$329,606 in capital lease obligations that have varying maturity dates through 2014 and carry implicit interest rates ranging from 3.9% to 12.5%. Lease arrangements are being used to provide partial financing for certain equipment. Capital asset balances as of June 30, 2007, that are financed under capital leases are \$614,156.

Capital leases as of June 30, 2007 and 2006, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
For the year ended:					
June 30, 2007	<u>\$ 92,349</u>	<u>\$ 336,306</u>	<u>\$ (99,049)</u>	<u>\$ 329,606</u>	<u>\$ 86,942</u>
June 30, 2006	<u>\$ 119,147</u>	<u>\$ 41,146</u>	<u>\$ (67,944)</u>	<u>\$ 92,349</u>	<u>\$ 54,526</u>

The scheduled maturities of these leases as of June 30, 2007, are:

Years Ending June 30	Minimum Lease Payments
2008	\$ 106,282
2009	67,128
2010	67,128
2011	53,990
2012	40,320
2013-2014	<u>53,760</u>
Total minimum capital lease payments	388,608
Less amount representing interest	<u>59,002</u>
Net minimum capital lease payments	329,606
Less current portion	<u>86,942</u>
Noncurrent capital lease obligations	<u><u>\$ 242,664</u></u>

9. OPERATING LEASES

The University leases various facilities and equipment under operating lease agreements. These facilities and equipment are not recorded as assets in the balance sheet. The total rental expense under these agreements was \$2,159,771 for the year ended June 30, 2007.

Future minimum payments for all significant operating leases with initial terms in excess of one year as of June 30, 2007, are as follows:

Years Ending June 30	
2008	\$ 1,365,745
2009	1,084,975
2010	678,498
2011	473,764
2012	200,444
2013–2017	174,415
2018–2022	<u>57,507</u>
Total minimum operating lease payments	<u><u>\$4,035,348</u></u>

10. COMPENSATED ABSENCES

Per University policy, eligible salaried administrative appointments earn vacation at the rate of 22 days per year with a maximum accrual of 32 days. Upon termination, they are entitled to a payout of their accumulated balance. Hourly classified employees earn vacation at rates per years of service, ranging from 10 to 25 days per year. The maximum accrual is equal to the amount earned in three years, which

is subject to payout upon termination. The liability for accrued vacation at June 30, 2007 and 2006, was \$10,025,718 and \$9,662,060, respectively.

All University employees are entitled to a sick leave credit equal to 15 days per year (earned on a pro-rata monthly basis for salaried employees and on a pro-rata hourly basis for classified hourly employees). Salaried employees with 10 or more years of service are eligible to receive a payout upon retirement of up to 25% of unused days (maximum of 30 days). Hourly classified employees with 10 or more years of service are eligible for payout upon retirement of up to 50% of unused days (maximum of 60 days). The estimated liability for accrued sick leave at June 30, 2007 and 2006, was \$3,461,428 and \$4,110,259, respectively.

A summary of compensated absences as of June 30, 2007 and 2006, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
For the year ended:					
June 30, 2007	<u>\$ 13,772,319</u>	<u>\$ 10,111,409</u>	<u>\$ (10,396,582)</u>	<u>\$ 13,487,146</u>	<u>\$ 700,000</u>
June 30, 2006	<u>\$ 13,669,269</u>	<u>\$ 11,210,879</u>	<u>\$ (11,107,829)</u>	<u>\$ 13,772,319</u>	<u>\$ 750,000</u>

11. RETIREMENT PLANS

Employees of Ohio University are covered under one of three retirement plans, unless eligible for exemption in the case of many student employees. The particular system in which an employee is eligible to enroll is dependent on their position with the University. Generally, faculty appointments are eligible for enrollment in a defined benefit plan, administered by the State Teachers Retirement System of Ohio (“STRS Ohio”), and all other employees are eligible for enrollment in a defined benefit plan, administered by the Ohio Public Employees Retirement System of Ohio (OPERS). In addition, full-time employees may opt out of the state retirement system for a defined contribution plan, also referred to as an alternative retirement plan (ARP) with one of nine independent providers or a defined contribution plan, now offered by both STRS Ohio and OPERS or combined plans offered by both of the state retirement systems. All options are discussed below in more detail.

Defined Benefit Plans — The defined benefit plans of STRS Ohio and OPERS are cost-sharing multiple employer public employee retirement plans. Both systems provide retirement and disability benefits, annual cost of living adjustments, survivor benefits, and postretirement health care. Authority to establish and amend benefits is provided by State statute. Both STRS Ohio and OPERS issue stand-alone financial reports. Interested parties may obtain a copy of the STRS Ohio report by making a written request to 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling toll free 1-888-227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org. The OPERS report may be obtained by making a written request to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Defined Contribution Plans — The Alternative Retirement Plan (ARP) is a defined contribution pension plan, under IRS section 401(a), and established by Ohio Amended Substitute House Bill 586 (ORC 3305.02) on March 31, 1998, for public institutions of higher education. The University’s Board of Trustees adopted the University’s plan on April 18, 1998. Full-time salaried employees are eligible to choose a provider, in lieu of STRS Ohio or OPERS, from the list of nine providers currently approved by the Ohio Department of Insurance and who hold agreements with the University. Employee and

employer contributions equal to those required by STRS Ohio and OPERS are required for the ARP, less any amounts required to be remitted to the state retirement system in which the employee would otherwise have been enrolled.

Eligible employees have 120 days from their date of hire to make an irrevocable election to participate in the ARP. Under this plan, employees who would have otherwise been required to be in STRS Ohio or OPERS and who elect to participate in the ARP must contribute the employee's share of retirement contributions to one of nine private providers approved by the Ohio Department of Insurance. The legislation mandates that the employer must contribute an amount to the state retirement system to which the employee would have otherwise belonged, based on an independent actuarial study commissioned by the Ohio Retirement Study Council and submitted to the Ohio Board of Regents. That amount is 3.5% for STRS Ohio and 0% for OPERS for the year ended June 30, 2007. The employer also contributes what would have been the employer's contribution under STRS Ohio or OPERS, less the aforementioned percentages, to the private provider selected by the employee. The University plan provides these employees with immediate plan vesting.

The ARP does not provide disability benefits, survivor benefits, or postretirement health care. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

STRS Ohio and OPERS also offer a defined contribution plan and a combined plan with features of both a defined contribution plan and a defined benefit plan

Retirement Plan Funding — The Ohio Revised Code provides statutory authority for employee and employer contributions to retirement systems. The employee and employer rates are the same for ARP employees as the retirement system under which they would otherwise be. However, for those who would otherwise be covered by STRS Ohio and who instead elect the ARP, 3.5% of the employer contribution goes to the STRS Ohio retirement system. The University's contributions each year are equal to its required contributions.

Following are the employee and employer contribution rates in effect for fiscal year 2007:

	Contribution Rates		
	STRS Ohio	OPERS	ARP
Faculty			
Employee — all year	10 %		10 %
University — all year	14 %		14 %
Staff			
Employee			
July – December 2006		9.00 %	9.00 %
January – June 2007		9.50 %	9.50 %
University			
July – December 2006		13.54 %	13.54 %
January – June 2007		13.77 %	13.77 %
Law Enforcement Staff			
Employee — all year		10.10 %	10.10 %
University			
July – December 2006		16.93 %	16.93 %
January – June 2007		17.17 %	17.17 %

University contributions for the current and two preceding years are summarized as follows:

	Employer Contributions		
	STRS Ohio	OPERS	ARP
2007	\$ 11,166,000	\$ 13,327,000	\$ 7,426,000
2006	11,020,000	12,628,000	6,931,000
2005	10,870,000	12,282,000	6,660,000

The payroll for employees covered by OPERS and STRS Ohio for the year ended June 30, 2007, was \$97,595,000 and \$79,755,000, respectively. The payroll for employees covered by OPERS and STRS Ohio for the year ended June 30, 2006, was \$94,072,000 and \$78,719,000, respectively. For the years ended June 30, 2007 and 2006, the University's total payroll was \$261,104,000 and \$251,014,000, respectively.

Other Postemployment Benefits — In addition to the pension benefits described above, Ohio Law provides that the University fund postretirement health care benefits to retirees and their dependents through employer contributions to the Ohio Public Employees Retirement System of Ohio (“OPERS”) and the State Teachers Retirement System of Ohio (“STRS Ohio”).

OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (“OPEB”) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2006 employer contribution rate for state employers was 13.54% of covered payroll of which 4.0% was the portion used to fund health care for the year. For both the public safety and law enforcement divisions, the 2006 employer rate was 16.93% and 4.0% was used to fund health care. The number of active contributing participants as of December 31, 2005, was 358,804.

The actuarial value of the OPERS' net assets available for OPEB at December 31, 2005 (the date of the system's latest actuarial review), is \$11.1 billion. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2005, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at \$31.3 billion and \$20.2 billion, respectively.

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans, and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (the “Board”) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The ORC grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14.0% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2006 and 2005, the board allocated employer contributions equal to 1.0% of covered payroll to the Health Care Stabilization Fund.

The balance in the Health Care Stabilization Fund was \$3.5 billion on June 30, 2006, the date of the most recent information available from STRS Ohio.

For the fiscal year ended June 30, 2006, the date of the most recent information available from STRS, net health care costs paid by STRS Ohio were \$282,743,000. There were 119,184 eligible benefit recipients.

12. EARLY RETIREMENT INCENTIVE PLAN

In FY 2006, the University Board of Trustees approved an Early Retirement Incentive Plan (“ERIP”) buyout for eligible employees in the Ohio Public Employees Retirement System (“OPERS”). An ERIP allows the University to purchase additional service credit, in this case one year, which enables eligible employees to retire early or to retire with a larger retirement benefit than they may have otherwise. The buyout period began on April 1, 2006. The period remained open until August 31, 2007. A \$10,000 incentive was offered to employees who signed up for the buyout by April 28, 2006, and who would retire by July 1, 2006. Eligible employees are those eligible to retire with five years of service at age 60, 25 years of service at age 55, or 30 years of service at any age; who become eligible to retire due to the incentive plan; who become eligible to retire during the open period; or who become eligible due to purchasing additional service credit, i.e., exempt, refunded, military, or other eligible time.

As of June 30, 2007, 116 employees had signed up for the ERIP for a total cost of approximately \$3.6 million which includes sick and vacation payouts in accordance with standard policy, the \$10,000 incentive bonus for the 67 employees who left by July 1, 2006, and the OPERS payment calculated and billed by OPERS.

13. RISK MANAGEMENT AND CONTINGENCIES

Legal — During the normal course of operations, the University has become a defendant in various legal and administrative actions. In accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. However, in the opinion of in-house legal counsel and University management, the disposition of all pending litigation would not have a material adverse effect on the University’s financial position.

Self-Insurance — The University provides medical and dental coverage for its employees on a self-insurance basis. Expenses for claims are recorded on an accrual basis based on the date claims are incurred. The University applies GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

A summary of changes in the self-insurance claims liability for each of the periods in the three-year period ended June 30, 2007, is as follows:

	2007	2006	2005
Accrued claims liability — beginning of year	\$ 3,644,000	\$ 3,644,000	\$ 3,500,000
Incurred claims — net of favorable settlements	33,790,462	33,103,688	30,343,446
Claims paid	<u>(33,790,462)</u>	<u>(33,103,688)</u>	<u>(30,199,446)</u>
Accrued claims liability — end of year	<u>\$ 3,644,000</u>	<u>\$ 3,644,000</u>	<u>\$ 3,644,000</u>

Liability for claims is accrued based on estimates of the claims liabilities made by the University's third-party actuary. These estimates are based on past experience and current claims outstanding. Actual claims experience may differ from the estimate.

Commercial Insurance Coverage — The University has the following commercial insurance policies:

Type	Deductible	Coverage
Aircraft liability (AL)	\$ 50,000	\$ 5,000,000
Aircraft liability (King Airs)	-	50,000,000
Airport liability	-	10,000,000
General liability umbrella (GL)	-	4,000,000
Crime	100,000	5,000,000
Educators legal liability umbrella (ELL)	100,000	4,000,000
Excess liability (Shared)	-	50,000,000
Foreign liability	-	1,000,000
Self-insured retention AL GL ELL	100,000	1,000,000
Property	100,000	1,000,000,000

Workers' Compensation Coverage — The University participates in a plan that pays workers' compensation benefits to employees who have been injured on the job. The Ohio Bureau of Workers' Compensation calculates the estimated amount of cash needed in the subsequent fiscal year to pay the claims for these workers and sets rates to collect this estimated amount from participating state agencies and universities in the subsequent year.

14. CAPITAL PROJECT COMMITMENTS

At June 30, 2007, the University is committed to future capital expenditures as follows:

Contractual commitments	\$ 14,221,242
Estimated completion costs of projects	<u>55,794,095</u>
	<u>\$ 70,015,337</u>
These projects will be funded by:	
State appropriations	\$ 36,551,936
University funds (including bond funds)	23,062,558
Gifts, grants, and other	<u>10,400,843</u>
	<u>\$ 70,015,337</u>

15. OTHER NONCURRENT LIABILITIES

Refundable Advances for Federal Student Loans — Refundable advances for federal student loans for the years ended June 30, 2007 and 2006, respectively, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
For the year ended:					
June 30, 2007	<u>\$ 10,666,751</u>	<u>\$ -</u>	<u>\$ (2,044,886)</u>	<u>\$ 8,621,865</u>	<u>\$ -</u>
June 30, 2006	<u>\$ 10,248,823</u>	<u>\$ 473,997</u>	<u>\$ (56,069)</u>	<u>\$ 10,666,751</u>	<u>\$ -</u>

16. DONOR-RESTRICTED ENDOWMENTS

Under the standard established by Section 1715.56 of the Ohio Revised Code, an institution may appropriate so much as is prudent of the realized and unrealized net appreciation of the fair value of the assets of the endowment fund over the historic dollar value of the fund for the uses and purposes for which an endowment fund is established. The University's endowment spending policy is based on the concept of total return and the spending rate for fiscal year 2007 was 5% (including a 1% administrative fee) compared to 5% for fiscal year 2006.

The amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the Board were \$14,682,216 and \$12,320,711 for June 30, 2007 and 2006, respectively. Those amounts are reported as restricted expendable net assets.

17. THE OHIO UNIVERSITY FOUNDATION

The Ohio University Foundation (the "Foundation") was incorporated in Ohio in October 1945 to support the educational undertakings of the University. The Foundation is authorized to solicit and receive gifts and contributions for the benefit of the University and to ensure that funds and property received are applied to the uses specified by the donor.

The Foundation's wholly owned subsidiary, Inn-Ohio of Athens, Inc. (the "Inn"), owns and operates a 144-room hotel and restaurant facility in Athens, OH known as The Ohio University Inn. The Foundation's other wholly owned subsidiary, Housing for Ohio, Inc. ("Housing"), constructed and operates a 182-unit student-housing complex in Athens, OH. The Foundation also owns a minority interest (44.3% at June 30, 2007 and 2006) in Diagnostic Hybrids, Inc. (DHI), which develops and manufactures tissue cell cultures, antibody kits, and biological reagents for use in medical laboratories. The Foundation consolidates a supporting organization that is deemed to be financially interrelated under the provisions of Financial Accounting Standards Board Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*.

Basis of Accounting — The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting. The accompanying consolidated financial statements present the financial position and results of activities of the Foundation and its wholly owned subsidiaries — the Inn, Housing, and one supporting organization. All intercompany transactions have been eliminated.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk — Financial instruments, which potentially subject the Foundation to a concentration of credit risk, consist principally of contributions receivable, investments for the Foundation, and receivables related to operations of the Inn. Exposure to losses on contributions receivable is principally dependent on each donor's financial condition. The Foundation monitors the exposure for credit losses and maintains allowances for anticipated losses.

Investments are recorded at fair value. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the Foundation's consolidated statements of financial position and activities.

Regarding the Inn, the management company that operates the Inn is responsible for collection of receivables. Additionally, the Inn provides a reserve for any estimated uncollectible balances.

Gifts and Contributions — Contributions are recorded at their fair value on the date of receipt. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset categories. When a donor restriction expires (when a stipulated time restriction ends or the purpose of restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Contributed property is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used or restrict the use of such assets for a specific purpose, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property are recorded as unrestricted support.

Contributions of charitable gift annuities are reduced by the actuarially determined liability resulting from acceptance of the gift. Contributions are held in charitable remainder trusts at the present value of their estimated future benefits to be received when the trust assets are distributed upon notification of the donor's death.

Pledges Receivable — Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate. The discount rate utilized was 4.69% for fiscal year 2007 and 4.87% for fiscal year 2006. Amortization of the discounts is included in contribution revenues. Unconditional promises to give, which are silent as to the due date, are presumed to be time restricted by the donor until received and are reported as temporarily restricted net assets. Conditional promises to give are not included as support until the conditions on which they depend are substantially met.

Intentions — The Foundation receives communications from donors indicating that the Foundation has been included in the donor's will or life insurance policy as beneficiary, representing intentions to give rather than promises to give. Such communications are not unconditional promises to give because the donors retain the ability to modify their wills and insurance policies during their lifetimes. The total realizable value of these intended gifts has not been established, nor have the intended gifts been recognized as an asset or contribution revenue. Such gifts are recorded when the Foundation is notified of the donor's death, the will is declared valid by a probate court, and the proceeds are measurable.

Cash Surrender Value of Insurance Policies — The Foundation records as an asset the cash surrender value of insurance policies for which it is the owner and beneficiary.

Investments — Investments in securities are recorded at fair value based on quoted market values, with changes in market value during the year reflected in the consolidated statements of activities. Purchases and sales of investments are accounted for as of the trade date.

Income From Investments — All investment income in the form of interest and dividends is credited to unrestricted net assets unless otherwise designated by the donor. All capital appreciation/depreciation earned on permanently restricted, temporarily restricted, and unrestricted investments is credited to unrestricted net assets unless otherwise restricted by the donor.

Property and Equipment — Property and equipment are recorded at the estimated fair value, if received as a gift, or at the purchase cost, plus any expenditures for improvements.

Depreciation of buildings is recorded over periods ranging from 10 to 40 years using the straight-line method. Depreciation and amortization of other property, equipment, and improvements is recorded over periods ranging from 5 to 15 years using the straight-line method.

Annually, or more frequently if events or circumstances change, a determination is made by management to ascertain whether property and equipment and intangibles have been impaired based on the sum of expected future undiscounted cash flows from operating activities. If the estimated net cash flows are less than the carrying amount of such assets, the Foundation will recognize an impairment loss in an amount necessary to write down the assets to a fair value as determined from expected future discounted cash flows. Based upon its most recent analysis, the Foundation has determined that no impairment to the carrying value of its long-lived assets existed at June 30, 2007 and 2006.

Restricted Cash — Restricted cash represents cash that, under terms of the bond issue trust indenture agreement (“Trust Indenture”) (related to Housing for Ohio, Inc.), is restricted for various purposes. In accordance with the terms of the Trust Indenture and related agreements, the proceeds from the bonds not used to construct the student housing facility and certain equipment and improvements were deposited with the trustee. The Foundation is also required to deposit all revenue directly into a designated revenue fund. The trustee is then authorized, without further direction from the Foundation, to transfer funds out of the revenue fund to other funds as outlined in the Trust Indenture.

Additionally, at June 30, 2006, restricted cash represents partial proceeds of a term loan by the Inn that are held in escrow to retire a previous bond issue.

Donor Gift Change in Designation or Beneficiary — The changes in designation or beneficiary are due to specific direction received from donors in the current fiscal year of gifts received by the Foundation in previous fiscal years, one pledge in an undiscounted amount of \$6,250,000 was transferred from the Foundation to the University.

Functional Allocation of Expenses — The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the programs and supporting services benefited.

Income Taxes — The Internal Revenue Service has determined that the Foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated income. Income taxes for the Inn totaled \$2,009 and \$93,241, respectively, for the years ended June 30, 2007 and 2006.

Fair Value of Financial Instruments — The carrying values of the Foundation’s financial instruments in the accompanying consolidated statements of financial position approximate their respective estimated fair value at June 30, 2007 and 2006.

The Foundation has estimated the fair values of its financial instruments using available quoted market information and other valuation methodologies in accordance with FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Foundation could realize in a current market exchange. Determinations of fair value are based on subjective data and significant judgment relating to timing of payments and collections and the amounts to be realized. Different market assumptions and/or estimation methodologies might have a material effect on the estimated fair value amounts.

Advertising Costs — Advertising costs of the Inn are included in marketing expenses and are expensed as incurred.

Recent Accounting Pronouncements — In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. FASB Statement No. 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. FASB Statement No. 157 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact this Statement will have on the consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Asset and Financial Liability: Including an amendment of FASB Statement No. 115*. FASB Statement No. 159 permits all entities to elect to measure certain financial instruments and other items at fair value with changes in fair value reported in earnings. FASB Statement No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Foundation is evaluating the impact, if any, adopting FASB Statement No. 159 may have on its consolidated financial statements.

In June 2006, the FASB issued Interpretation (“FIN”) No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, on the tax return. This Interpretation also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step will determine if it is more likely than not that a tax position will be sustained upon examination and should therefore be recognized. The second step will measure a tax position that meets the more likely than not recognition threshold to determine the amount of benefit to recognize in the financial statements. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Foundation is currently evaluating the impact this Statement will have on the consolidated financial statements.

Net Assets:

Unrestricted Net Assets — The unrestricted net assets consist of operating funds available for any purpose authorized by the board of trustees.

Unrestricted net assets as of June 30, 2007 and 2006, are available for the following purposes:

	<u>2007</u>		<u>2006</u>	
Board-designated quasi-endowment		\$ 11,180,794		\$ 9,817,429
Board-designated other:				
Board-designated 1804 fund	\$ 465,483		\$ 571,645	
Board-designated carryforward	<u>67,954</u>	533,437	<u>167,985</u>	739,630
Designated underwater accounts		(397,968)		(3,376,957)
Undesignated:				
Undesignated Housing	(2,689,718)		(2,665,221)	
Undesignated other	<u>(1,705,689)</u>	<u>(4,395,407)</u>	<u>(2,580,124)</u>	<u>(5,245,345)</u>
Unrestricted net assets		<u>\$ 6,920,856</u>		<u>\$ 1,934,757</u>

Temporarily Restricted Net Assets — Temporarily restricted net assets consist of funds that are restricted for a specific use or time determined by the donor.

Temporarily restricted net assets as of June 30, 2007 and 2006, are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Alumni relations	\$ 873,876	\$ 1,016,755
Institutional support	12,254,763	9,558,184
Instruction and departmental support	35,885,281	42,573,089
Academic services support	10,613,894	9,471,491
Intercollegiate athletics support	1,094,548	652,964
Student services	1,934,092	1,440,314
Scholarships and fellowships	45,063,407	35,448,690
Public services	457,570	348,793
Research	1,331,756	1,226,042
Fund raising and development	1,654,241	9,117,499
Other	<u>25,000</u>	<u>18,585</u>
	<u>\$ 111,188,428</u>	<u>\$ 110,872,406</u>

Permanently Restricted Net Assets — Permanently restricted net assets consist of funds arising from a gift or bequest in which the donor has stipulated, as a condition of the gift, that the principal be maintained in perpetuity and only the investment income from investment of the funds be expended. Certain donor endowments also specify that a portion of the earnings from the investment be reinvested as principal, or that all income earned over a period of time be reinvested. Amounts are also transferred for specific uses as authorized from time to time by the donor.

Permanently restricted net assets as of June 30, 2007 and 2006, are available for the following purposes:

	2007	2006
Alumni relations	\$ 1,398,107	\$ 1,370,728
Institutional support	3,931,688	1,587,638
Instruction and departmental support	52,066,229	46,971,965
Academic services support	4,671,199	4,445,588
Intercollegiate athletics support	137,389	126,007
Student services	2,046,852	2,007,604
Scholarships and fellowships	56,223,647	46,871,570
Public services	317,004	309,308
Research	497,938	2,038,600
Fund raising and development	187,482	215,491
Other	<u>28,361</u>	<u>46,453</u>
	<u>\$ 121,505,896</u>	<u>\$ 105,990,952</u>

Pledges Receivable — Amounts included in pledges receivable for unconditional promises to give at June 30, 2007 and 2006, are as follows:

	2007	2006
Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 22,329,882	\$ 35,546,013
Less allowance for uncollectibles	<u>(4,153,358)</u>	<u>(6,777,974)</u>
Subtotal	18,176,524	28,768,039
Less unamortized discount	<u>(965,215)</u>	<u>(1,626,519)</u>
Unconditional promises to give — net	<u>\$ 17,211,309</u>	<u>\$ 27,141,520</u>

	2007		2006	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Amounts due in:				
Less than one year	\$ 2,875,439	\$ 3,348,638	\$ 7,130,435	\$ 1,755,593
One to five years	1,635,499	6,079,229	12,620,406	1,196,173
More than five years	<u>27,229</u>	<u>3,245,275</u>	<u>4,423,410</u>	<u>15,503</u>
Total	<u>\$ 4,538,167</u>	<u>\$ 12,673,142</u>	<u>\$ 24,174,251</u>	<u>\$ 2,967,269</u>

Investments in Securities — The cost and market value of the investments in securities at June 30, 2007 and 2006, are as follows:

	2007		2006	
	Cost	Market	Cost	Market
Common and preferred stock	\$ 106,351,182	\$ 125,373,901	\$ 110,069,564	\$ 115,650,971
Short-term cash investments	10,979	10,979	2,396,620	2,328,239
Bonds and debentures	34,013,478	33,530,913	6,843,308	6,789,970
Alternative investments	36,785,018	51,173,307	48,055,921	52,941,024
Total investments	\$ 177,160,657	\$ 210,089,100	\$ 167,365,413	\$ 177,710,204

At June 30, 2007 and 2006, the Foundation's investment in DHI was recorded at fair market value of \$6,942,150 and \$6,744,380, respectively (cost of \$3,467,829 at June 30, 2007 and 2006) and is included within alternative investments. The Foundation's supporting organization held an investment in a closely held stock at fair market value of \$6,021,541 and \$2,298,800 at June 30, 2007 and 2006, respectively, which is included in preferred stock. Other alternative investments include absolute return funds, venture capital, buyout, mezzanine/distressed debt, and real estate.

Market prices are not available for certain investments, primarily private equity and hedge funds. These investments are carried at estimated fair value provided by the funds' managements. Some fund valuations are determined as of June 30, while the remaining valuations are determined as of March 31 and adjusted by cash receipts, cash disbursements, and securities distributions through June 30. The Foundation believes that the carrying amounts are reasonable estimates of fair value as of year-end. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the financial statements using the equity method of accounting.

Property and Equipment — As of June 30, 2007 and 2006, property and equipment (primarily relating to Housing and the Inn) are as follows:

	2007	2006
Land	\$ 805,198	\$ 805,198
Land improvements	419,726	419,726
Building and building improvements	35,460,015	35,345,954
Furnishings, fixtures, and equipment	4,300,189	3,646,099
Construction in progress	14,766	34,210
	40,999,894	40,251,187
Less accumulated depreciation and amortization	(10,484,980)	(9,120,667)
Property and equipment — net	\$30,514,914	\$31,130,520

Total depreciation expense of \$1,409,835 and \$1,505,035 was recorded in fiscal years 2007 and 2006, respectively.

Support From Ohio University — During 2007 and 2006, the University paid certain payroll costs amounting to \$3,346,008 and \$3,339,852 and additional costs of \$51,549 and \$25,000, respectively, for the Foundation's Development Office, Office of Alumni Relations, and Accounting Office. The support costs paid by the University are reflected in the consolidated statements of activities as University support, with a like amount included in expenses.

The University provides office space and the use of certain common facilities and services to the Foundation at no cost. These costs have not been recorded as University support because they are not considered to be material to the results of activities of the Foundation.

Included in accounts receivable at June 30, 2007, is \$63,667 owed to the Foundation by the University.

Split Interest Agreements:

Charitable Gift Annuities — Under charitable gift annuity agreements, all assets are held by the Foundation. Therefore, the Foundation has recorded the donated assets at fair value and the liabilities to the donor or his/her beneficiaries discounted to the present value of the estimated future payments to be distributed by the Foundation to such individuals at a rate established at the beginning of the agreement. The amount of the contribution is the difference between the asset and liability and is recorded as contribution revenue. The discount rate applied to gift annuities held at June 30, 2007 and 2006, ranged from 3.8% to 9.4%.

Charitable Remainder Trusts — Under charitable remainder trust agreements, the Foundation serves as the remainderman, whereby the Foundation will receive the net assets of the trust upon death of the donor's beneficiary. During the life of the trust, the donor, or the donor-designated beneficiary, will receive regular payments as established by the trust.

In instances where the donor has not specifically reserved the right to change the remainderman, and all assets of charitable remainder trust are maintained by a third-party trustee in an irrevocable trust for the benefit of the Foundation, the Foundation will recognize, as contribution revenue and as a receivable, the present value of the estimated future benefits to be received when the trust assets are distributed. The trustee disburses income earned on the assets of the charitable remainder trust to the donor or donor-designated beneficiaries.

In instances where the donor has not specifically reserved the right to change the remainderman, and the Foundation serves as the trustee, the Foundation will recognize the fair market value of the assets of the trust, as well as a liability for the net present value of future payments to be distributed by the Foundation to the donor or his/her designated beneficiaries. The amount of the contribution is the difference between the asset and liability at the inception of the trust. The present value of the future payments to the donor-designated beneficiary is determined using a discount rate established at the beginning of the trust. At June 30, 2007 and 2006, the discount rate applied to the charitable remainder trusts was 4.82% and 4.87%, respectively.

Certain charitable remainder trust transactions are not reported on the consolidated statements of financial position or the consolidated statements of activities, as, in these cases, the remainderman can be changed by the donor prior to his/her death.

Adjustments to the receivable to reflect amortization of the discount, revaluation of the present value of the estimated future payments to the donor-designated beneficiaries, and changes in actuarial assumptions during the term of the trust will be recognized as changes in the value of split-interest agreements. Upon the death of the donor-designated beneficiaries, the receivable is closed, the assets received from the trust are recognized at fair value, and any difference is reported as a change in the value of split-interest agreements.

Revocable Trusts — Under revocable trust agreements, the Foundation serves as the remainderman, whereby the Foundation will receive the net assets of the trust upon death of the donor’s beneficiary. All assets of the trust may be maintained by a third-party trustee for the benefit of the Foundation, or by the Foundation if named as a trustee. The trustee disburses income earned on the assets of trust to the donor or donor-designated beneficiaries. Under revocable trust agreements, the donor maintains the ability to legally dissolve the trusts and may or may not reserve the right to change the remainderman. For these reasons, the Foundation does not report revocable trust transactions on the consolidated statement of financial position or the consolidated statement of activities if the trust is held by a third-party trustee.

Inn-Ohio of Athens, Inc.:

The Inn was purchased by the Foundation on August 30, 1986. The primary purpose for which the Foundation invested in the Inn was to provide affordable and convenient housing, dining, and conference facilities for the University employees, alumni, and guests. As a significant portion of the Inn’s revenues is derived from these customers, the Foundation is committed to financially supporting the Inn.

The Inn’s business is subject to all of the risks inherent in the lodging industry. These risks include, among other factors, varying levels of demand for rooms and related services, adverse effects of general and local economic and market conditions, changes in governmental regulations that influence wages or prices, changes in interest rates, the availability of credit and changes in real estate taxes and other operating expenses, and the recurring need for renovation, refurbishment, and improvements.

Operations — The Inn’s operations for the years ended June 30, 2007 and 2006, are summarized below:

	2007	2006
Revenue	<u>\$ 4,331,178</u>	<u>\$ 4,313,636</u>
Operating and general expenses	3,494,976	3,439,046
Depreciation and amortization	520,795	529,117
Interest expense — net	243,308	23,303
Provision for income taxes	<u>2,009</u>	<u>93,241</u>
Total expenses	<u>4,261,088</u>	<u>4,084,707</u>
Net income	70,090	228,929
Dividends paid to the Foundation		(3,000,000)
Unrealized (losses) gains	<u>15,735</u>	<u>(52,881)</u>
Change in net assets	<u>\$ 85,825</u>	<u>\$ (2,823,952)</u>

Effective November 30, 1996, a management agreement (the “Management Agreement”) was entered into with Winegardner & Hammons, Inc. (the “Manager”). The Management Agreement was amended during fiscal 2001 to automatically renew annually unless notified in writing 60 days prior to the end of the fiscal year. The Manager’s compensation is a base fee plus 15% of the hotel’s net available operating profit as defined in the Management Agreement.

In fiscal years 2007 and 2006, base management fees incurred by the Inn with respect to the Manager were \$100,000 per year and incentive fees were \$97,715 and \$96,139, respectively.

The Inn has Alternative Minimum Tax credit carryforwards of approximately \$54,000 at June 30, 2007 and June 30, 2006, which have indefinite lives.

Debt Obligations — Long-term debt of the Inn as of June 30, 2007 and 2006, consists of the following:

	2007	2006
Term loan — principal due through June 2021, interest at 6.2% through June 2011 and adjusted thereafter	\$3,833,100	\$4,000,000
1996 Serial Project Bonds		140,000
1996 Term Project Bonds	<u> </u>	<u>830,000</u>
	3,833,100	4,970,000
Less unamortized discount on Series 1996 Bonds	<u> </u>	<u>(7,143)</u>
Total	<u><u>\$3,833,100</u></u>	<u><u>\$4,962,857</u></u>

The 1996 Serial and Term Project Bonds (the “Bonds”) were secured by a mortgage on the Inn and a security agreement granted by the Inn. The Bonds were also guaranteed by the Foundation from unrestricted money and investments. All bonds were redeemed in fiscal 2007.

In June 2006, the Inn obtained a \$4,000,000 term loan, the proceeds of which were used to pay a dividend of \$3,000,000 in June 2006, and \$1,000,000 of which was placed in the bond fund to retire the 1996 Bonds in November 2006. The term loan is guaranteed by the Foundation. The balance in the bond fund at June 30, 2006, was \$1,016,773.

Substantially all of the property and equipment is pledged as collateral for the term loan. The interest rate on the new term loan is fixed at 6.2% through June 2011. The interest rate will be adjusted to the index rate as defined in the agreement plus 1.40% in June 2011 and every five years thereafter.

Maturities of long-term debt at June 30, 2007, are set forth in the following schedule:

Years Ending November 1	Amount
2008	\$ 177,600
2009	188,900
2010	201,000
2011	213,800
2012	227,400
Due thereafter	<u>2,824,400</u>
Total	<u><u>\$ 3,833,100</u></u>

The fair value of the debt obligations at June 30, 2007 and 2006, approximated their carrying value.

Housing for Ohio, Inc.:

In November 1999, the Foundation established Housing, a limited liability company and 501(c)(3) corporation, with the purpose of acquiring, developing, constructing, and operating a 182-unit student-housing rental project which contains 580 beds. The property, known as University Courtyard Apartments (the “Project”), is located in Athens, OH on property owned by the University and leased to Housing. The facility is managed and operated by a private entity.

Debt — In September 2000, Housing offered \$31,985,000 of variable-rate, tax-exempt bonds (the “2000 Bonds”). The proceeds of the 2000 Bonds financed the construction, installation, and equipping of the Project. The 2000 Bonds will be fully matured at June 2032 and bear interest at an adjustable rate as determined weekly by the remarketing agent, based on their knowledge of prevailing market conditions, except that in no event will the interest rate exceed 12%. The average interest rate for the years ended June 30, 2007 and 2006, was 3.68% and 3.02%, respectively, and the actual interest rate at June 30, 2007 and 2006, was 3.79% and 4.02%, respectively.

As collateral, until all principal and interest on any of the 2000 Bonds has been paid, Housing has pledged, assigned, and granted a security interest to its right, title, and interest in gross revenues of University Courtyard and related assets. The Foundation has made no additional pledge of assets or revenues to the 2000 Bonds, which are nonrecourse to the Foundation.

Principal payments for the bonded debt for the years subsequent to June 30, 2007, are summarized as follows:

Years Ending June 30	Principal
2008	\$ 575,000
2009	635,000
2010	670,000
2011	705,000
2012	740,000
Thereafter	<u>26,750,000</u>
Total	<u>\$ 30,075,000</u>

Debt issuance costs are included in property on the consolidated statements of financial position and are amortized over the term of the Bonds. Amortization during the years ended June 30, 2007 and 2006, was \$34,965 and \$34,965, respectively.

Additionally, Housing has an outstanding promissory note to the Project's developer in the original amount of \$700,000. The note is payable in 10 annual installments of \$70,000 through June 2014. The payment terms are predicated on the Project's current management company remaining the manager of the Project. In the event that the current management company's services are terminated prior to the final payment, the remaining balance shall become immediately due and payable. There is no interest accruing on the note, and management of Housing believes that the present value discount of future payments and the calculation of imputed interest on this note are not material to the consolidated financial statements. Maturities of the note payable at June 30, 2007, are set forth in the following schedule:

Years Ending June 30	Principal
2008	\$ 70,000
2009	70,000
2010	70,000
2011	70,000
2012	70,000
Thereafter	<u>140,000</u>
Total	<u>\$ 490,000</u>

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