

OHIO NORTHERN UNIVERSITY

Financial Statements

May 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

OHIO NORTHERN UNIVERSITY

Table of Contents

	Page
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities and Changes in Unrestricted Net Assets	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6



KPMG LLP
Suite 2600
One Cleveland Center
1375 E. Ninth Street
Cleveland, OH 44114-1796

Independent Auditors' Report

The Board of Trustees
Ohio Northern University:

We have audited the accompanying statements of financial position of Ohio Northern University (University) as of May 31, 2003 and 2002, and the related statements of activities and changes in unrestricted net assets, changes in net assets, and cash flows 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Northern University as of May 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

November 6, 2003



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

OHIO NORTHERN UNIVERSITY

Statements of Financial Position

May 31, 2003 and 2002

Assets	2003	2002
Current assets:		
Cash	\$ 333,620	6,489
Short-term investments (note 3)	14,055,014	12,878,600
Accrued interest receivable	250,628	399,876
Pledges receivable (note 4)	3,460,000	800,000
Student accounts receivable (less allowance for doubtful accounts of \$175,000 in 2003 and \$275,000 2002)	1,604,248	708,458
Other receivables	1,539,368	2,102,998
Inventories, net (note 5)	399,574	503,472
Prepaid expenses	30,464	32,162
Total current assets	21,672,916	17,432,055
Pledges receivable (note 4)	3,454,266	7,356,639
Charitable remainder trusts	4,396,698	4,490,080
Investments (note 3)	115,474,789	131,341,130
Notes receivable (less allowance for doubtful accounts of \$385,000 in 2003 and 2002)	9,623,670	9,829,581
Property, plant, and equipment, net (note 6)	73,033,339	61,570,541
Other assets – bond origination costs	800,252	838,579
Funds held in trusts by others	13,214,904	12,128,605
Total assets	\$ 241,670,834	244,987,210
Liabilities and Net Assets		
Current liabilities:		
Bank overdraft	\$ 1,074,982	1,604,098
Accounts payable	4,286,927	3,654,582
Accrued expenses	4,492,258	3,990,892
Deferred revenue	2,571,520	910,295
Student and other deposits	357,907	307,940
Accrued interest payable	132,484	146,002
Bonds payable (note 7)	1,400,000	1,220,000
Total current liabilities	14,316,078	11,833,809
Annuities payable	5,171,147	2,532,850
Bonds payable, excluding current installment (note 7)	30,625,000	32,005,000
U.S. Government refundable advances (note 8)	9,096,274	9,064,088
Postretirement medical benefits (note 9)	11,103,045	9,386,570
Total liabilities	70,311,544	64,822,317
Net assets:		
Unrestricted	90,435,512	102,602,036
Temporarily restricted (note 10)	17,762,747	13,737,448
Permanently restricted (note 10)	63,161,031	63,825,409
Total net assets	171,359,290	180,164,893

OHIO NORTHERN UNIVERSITY

Statements of Activities and Changes in Unrestricted Net Assets
Years ended May 31, 2003 and 2002

	2003	2002
Revenue:		
Tuition and fees	\$ 76,989,637	72,403,565
Scholarship and aid	32,680,221	30,429,630
Net tuition and fees	44,309,416	41,973,935
Gifts and bequests	1,876,560	2,723,062
Endowment income	3,500,000	3,448,345
Income from trusts held by others	151,680	115,511
Investment income	589,799	763,693
Other	229,929	275,557
Auxiliary	10,615,468	10,151,559
	61,272,852	59,451,662
Net assets released from restriction	280,321	323,401
Total revenue	61,553,173	59,775,063
Expenses:		
Instruction	32,113,467	30,654,209
Academic support	3,079,377	1,625,361
Libraries	3,495,419	3,103,205
Student services	6,694,602	6,163,459
Institutional support	7,003,322	6,405,035
Auxiliary	8,792,786	9,366,191
Other	280,321	310,636
Total expenses	61,459,294	57,628,096
	93,879	2,146,967
Other activities:		
Unrealized losses on investments	(5,073,073)	(16,345,743)
Realized losses on investments	(5,267,186)	(4,577,086)
Amortization of bond origination costs	(50,375)	(49,622)
Other, net	(145,771)	(242,408)
Change in donor designation	(1,723,998)	—
	(12,260,403)	(21,214,859)
Decrease in unrestricted net assets	(12,166,524)	(19,067,892)
Net assets, beginning of year	102,602,036	121,669,928
Net assets, end of year	\$ 90,435,512	102,602,036

See accompanying notes to financial statements.

OHIO NORTHERN UNIVERSITY

Statements of Changes in Net Assets

Years ended May 31, 2003 and 2002

	2003			
	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenue and gains:				
Revenue	\$ 61,272,852	—	—	61,272,852
Gifts, bequests and investment activity	(10,536,405)	2,742,444	3,350,043	(4,443,918)
	<u>50,736,447</u>	<u>2,742,444</u>	<u>3,350,043</u>	<u>56,828,934</u>
Expenses and losses	61,459,294	1,605,130	2,570,113	65,634,537
Change in donor designation	(1,723,998)	3,168,306	(1,444,308)	—
Net assets released from restriction	280,321	(280,321)	—	—
Increase (decrease) in net assets	<u>(12,166,524)</u>	<u>4,025,299</u>	<u>(664,378)</u>	<u>(8,805,603)</u>
Net assets, beginning of year	<u>102,602,036</u>	<u>13,737,448</u>	<u>63,825,409</u>	<u>180,164,893</u>
Net assets, end of year	<u>\$ 90,435,512</u>	<u>17,762,747</u>	<u>63,161,031</u>	<u>171,359,290</u>
	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenue and gains:				
Revenues	\$ 59,451,662	—	—	59,451,662
Gifts, bequests, and investment activity	(21,214,859)	3,906,600	4,540,790	(12,767,469)
	<u>38,236,803</u>	<u>3,906,600</u>	<u>4,540,790</u>	<u>46,684,193</u>
Expenses and losses	57,628,096	—	—	57,628,096
Net assets released from restrictions for:				
Operating	323,401	(323,401)	—	—
Increase (decrease) in net assets	<u>(19,067,892)</u>	<u>3,583,199</u>	<u>4,540,790</u>	<u>(10,943,903)</u>
Net assets, beginning of year	<u>121,669,928</u>	<u>10,154,249</u>	<u>59,284,619</u>	<u>191,108,796</u>
Net assets, end of year	<u>\$ 102,602,036</u>	<u>13,737,448</u>	<u>63,825,409</u>	<u>180,164,893</u>

See accompanying notes to financial statements.

OHIO NORTHERN UNIVERSITY

Statements of Cash Flows

Years ended May 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Change in net assets	\$ (8,805,603)	(10,943,903)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,713,760	3,470,827
Amortization of bond origination costs	50,375	49,622
Net losses on investments	10,082,350	16,345,743
Donations restricted for long-term investment	(3,350,043)	(4,540,790)
Decrease in accrued interest receivable	149,248	35,507
Decrease (increase) in pledges receivable	1,242,373	(6,219,364)
Increase in accounts receivable	(332,160)	(1,468,922)
Decrease (increase) in inventories	103,898	(106,093)
Decrease (increase) in prepaid expenses	1,698	(3,125)
Decrease (increase) in contributions receivable from trusts	(992,917)	2,650,035
Increase (decrease) in accounts payable	(82,396)	804,475
Increase (decrease) in accrued expenses	501,366	(128,843)
Increase in deferred revenue	1,661,225	113,663
Increase in student and other deposits	49,967	53,903
Increase (decrease) in accrued interest payable	(13,518)	44,392
Increase in postretirement medical liability	1,716,475	1,160,572
Increase in annuities payable	2,638,297	37,850
Net cash provided by operating activities	8,334,395	1,355,549
Cash flows used in investing activities:		
Sale (purchase) of land, buildings, and equipment	(14,485,913)	1,071,351
Net receipts on notes receivable	205,911	394,288
Purchases of investments	(106,806,646)	(173,078,929)
Proceeds from sales of investments	111,414,223	153,826,448
Net cash used in investing activities	(9,672,425)	(17,786,842)
Cash flows provided by financing activities:		
Payments on bonds	(14,175,000)	(910,000)
Issuance of bonds	12,975,000	10,140,000
Decrease (increase) in bond origination costs	12,048	(140,000)
Donations restricted for long-term investments	3,350,043	4,540,790
Increase (decrease) in bank overdrafts	(529,116)	1,148,003
Increase in U.S. Government refundable advances	32,186	142,867
Net cash provided by financing activities	1,665,161	14,921,660
Net increase (decrease) in cash	327,131	(1,509,633)
Cash – beginning of year	6,489	1,516,122
Cash – end of year	\$ 333,620	6,489
Supplemental data:		

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

(1) Nature of Organization

Ohio Northern University (University) is a private, United Methodist Church-related university in Ada, Ohio, which includes the Colleges of Arts and Sciences, Business Administration, Engineering, Pharmacy, and Law. The University draws a large percentage of the undergraduate student body from the State of Ohio, while a large percentage of law students are from outside Ohio.

(2) Summary of Significant Accounting Policies

The financial statements of the University have been prepared on the accrual basis. Significant accounting policies followed by the University are described below.

(a) Basis of Presentation

The University's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as unrestricted, temporarily restricted, and permanently restricted as follows:

- *Unrestricted Net Assets* – net assets that are not subject to donor-imposed restrictions.
- *Temporarily Restricted Net Assets* – net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time.
- *Permanently Restricted Net Assets* – net assets that are subject to donor-imposed restrictions to be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

(b) Revenue

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Private gifts, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Pledges to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue, in accordance with donor-imposed restrictions, if any, on the contributions.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as an increase to unrestricted net assets. Contributions of cash or other assets to be used to acquire land, building, and equipment with donor-imposed use are considered to be released at the time of acquisition of such long-lived assets. Contributions of assets other than cash are recorded at estimated fair value.

Revenue from government grants is recognized as it is earned through allowable expenditures under the grant, in accordance with the agreement.

(c) Cash

Cash includes currency on hand and demand deposits with banks.

(d) Investments

Investments are stated at fair value based on quoted market prices.

(e) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets on the straight-line method. The cost of repairs and maintenance is generally charged to expense in the year incurred.

Works of art, historical treasures, and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations when received. All such items, whether contributed or purchased, have been capitalized. Works of art, historical treasures, and similar assets are not subject to depreciation, but are subject to review for impairment.

The University does not capitalize library books.

(f) Inventories

Inventories are stated at the lower of cost or market (net realizable value).

(g) Deferred Revenue

Student tuition, housing, and other fees received prior to the beginning of an academic term are treated as deferred revenue until the term begins.

(h) Bond Origination Costs

Costs incurred in obtaining long-term financing are deferred and amortized over the term of the related borrowing.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

(i) Donated Material and Contributed Services

Donated materials, property, and equipment are recorded in the financial statements at their fair value at date of receipt. Contributed services are reflected in the financial statements at the fair value of the services rendered if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by individuals possessing those skills and if not provided by donation. No amounts have been reflected in the accompanying financial statements for contributed services.

(j) Fair Value of Financial Instruments

The fair value of bonds payable is estimated to be approximately \$35,200,000 and \$33,900,000 at May 31, 2003 and 2002, respectively. This value was determined by discounting the future cash flows at rates currently offered to the University for similar debt instruments.

(k) Funds Held in Trust

The University's split-interest agreements with donors consist of irrevocable charitable remainder trusts and charitable gift annuities for which the University is either the remainder beneficiary or both the trustee and the remainder beneficiary.

Assets held in trust for which the University serves as trustee are not included in investments but are reported as charitable remainder trusts. In addition, the present value of the estimated future payments to be made to the donors and/or other beneficiaries is included in liabilities. The liabilities are adjusted during the term of the trusts for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

Assets held in trust for which the University does not serve as trustee (i.e., perpetual trusts) are not reported in investments in the financial statements. However, contribution revenue and a receivable are recognized at the date the trusts are established for the estimated present value of the expected future cash flows to be received as funds held in trust by others.

(l) Income Taxes

The University has received a determination letter from the Internal Revenue Service that the University is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, is exempt from Federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements as, in management's opinion, the University has no significant unrelated business income.

(m) Use of Estimates

Management of the University has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

(n) Reclassifications

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

(3) Investments

The cost and fair values, exclusive of accrued interest, of investments are as follows at May 31:

	2003		2002	
	Cost	Fair value	Cost	Fair value
Corporate stocks	\$ 76,101,333	82,505,614	72,103,312	81,946,116
U.S. government and agency obligations	15,849,634	16,882,277	26,585,826	27,351,690
Certificates of deposit	5,158,066	5,158,066	2,056,814	2,056,814
Industrial and financial bonds	1,292,342	1,316,844	2,100,118	2,143,630
Savings and money market accounts	7,072,452	7,072,452	3,860,272	3,860,272
Repurchase agreements	10,455,014	10,455,014	11,378,600	11,378,600
Land held for sale	1,580,658	1,580,658	1,580,658	1,580,658
1999 bond fund – U.S. government and agency obligations	831,058	860,717	3,889,375	3,898,791
2002 bond fund – money market accounts	3,698,161	3,698,161	10,003,159	10,003,159
	<u>\$ 122,038,718</u>	<u>129,529,803</u>	<u>133,558,134</u>	<u>144,219,730</u>

(4) Pledges Receivable

As of May 31, 2003 and 2002, contributors to the University have made written unconditional promises to give. These promises are reported at the present value of estimated future cash flows and are discounted at a rate of 5%.

	2003	2002
Less than one year	\$ 3,460,000	800,000
One to five years	3,454,266	7,314,344
Over five years	—	42,295
	<u>\$ 6,914,266</u>	<u>8,156,639</u>

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

(5) Inventories

Inventories consist of the following at May 31:

	2003	2002
Physical plant	\$ 341,516	295,568
Central receiving	—	137,530
China and silverware	13,061	14,199
Printing service	48,949	75,437
Miscellaneous	51,048	80,738
Allowance for obsolescence	(55,000)	(100,000)
	\$ 399,574	503,472

(6) Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows at May 31:

	2003	2002
Land	\$ 3,163,422	3,327,476
Land improvements	5,802,926	5,802,926
Buildings	65,935,461	63,971,028
Equipment	19,564,640	24,627,300
Construction in progress	14,009,735	2,457,667
Outdoor track	731,496	731,496
Capitalized interest	360,000	—
Works of art, historical treasures, and similar assets	1,766,326	1,766,326
	111,334,006	102,684,219
Less accumulated depreciation	38,300,667	41,113,678
Property, plant, and equipment, net	\$ 73,033,339	61,570,541

In 2002, the University wrote down their art collection from \$7,252,634 in 2001 to \$1,766,326 in 2002. The decrease in value of \$5,486,308 is reflected in the unrealized appreciation (depreciation) of investments. The decrease in value occurred as a result of a change in the method of valuation of the art collection from replacement value to fair market value, as well as general market conditions.

Construction contracts of \$17,393,158 exist for the addition to Dukes Building (\$1,567,520), the construction of the Student Apartments (\$9,743,709), and the Dicke Building (\$6,081,929). As of May 31, 2003, the remaining commitment on these contracts was approximately \$5,800,000.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

(7) Bonds Payable

In April 2003, State of Ohio Higher Educational Facility Revenue Bonds in the amount of \$12,975,000 were issued to finance certain construction costs and to settle debt outstanding under the University's 1993 bond payable agreement (see below). The 2003 series bonds bear interest at rates ranging from 2.00% to 5.25%, subject to a Trust Indenture dated March 1, 2003 between the Ohio Higher Educational Facility Commission (Commission) and the Bank One Ohio Trust Company, N.A. of Columbus, Ohio, as trustee. The bonds consist of serial bonds and a term bond payable in annual installments ranging from \$350,000 to \$790,000, maturing on May 1, 2019. Interest is payable semiannually.

In April 2002, State of Ohio Higher Educational Facility Revenue Bonds in the amount of \$10,140,000 were issued to finance construction of new housing facilities. The bonds carry interest rates ranging from 3.50% to 5.75%, subject to a Trust Indenture dated April 1, 2002 between the Commission and the Bank One Ohio Trust Company, N.A. of Columbus, Ohio, as trustee. The bonds consist of serial bonds payable in annual installments ranging from \$275,000 to \$475,000 through May 1, 2012 and term bonds payable in annual installments ranging from \$490,000 to \$770,000 beginning May 1, 2013 through May 1, 2022. Interest is payable semiannually. Interest on indebtedness is presented net of interest earned on unexpended bond proceeds.

In March 1999, State of Ohio Higher Educational Facility Revenue Bonds in the amount of \$10,670,000 were issued to finance renovations and capital improvements to several existing campus facilities. The bonds carry interest rates ranging from 3.55% to 4.85%, subject to a Trust Indenture dated March 25, 1999 between the Commission and the Bank One Ohio Trust Company, N.A. of Columbus, Ohio, as trustee. The bonds consist of serial bonds payable in annual installments ranging from \$350,000 to \$625,000 through May 1, 2014 and term bonds payable in annual installments ranging from \$655,000 to \$790,000 beginning May 1, 2015 through May 15, 2019. Interest is payable semiannually. Interest on indebtedness is presented net of interest earned on unexpended bond proceeds.

At May 31, 2002, bonds payable reflect \$17,500,000 State of Ohio Higher Educational Facility Revenue Bonds at interest rates ranging from 2.8% to 5.65%, subject to a Trust Indenture dated December 9, 1993 between the Commission and the Bank One Ohio Trust Company, N.A. of Columbus, Ohio, as trustee. The bonds were legally settled with funds received from a 2003 bond issue (see above). As of May 31, 2002, interest on indebtedness is presented net of interest earned on the unexpended bond proceeds.

In connection with the issuance of the above bonds, the trustee, as lessor, and the University, as lessee, have entered into a lease for various facilities. Under the terms of the lease, the University is required to make rental payments in amounts sufficient to pay the principal, interest and any premium on the bonds whether at maturity, upon accelerations, or upon redemption. In order to secure the University's commitment to pay the trustee the lease payments, the trustee has a security interest in the various facilities.

At May 31, 2003 and 2002, the portion of bond proceeds and interest not expended amounted to \$4,558,878 and \$13,892,534, respectively, and is held for investment.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

The annual principal payments required on bonds payable for 2004 and thereafter are as follows:

Fiscal year ending May 31:	
2004	\$ 1,400,000
2005	1,475,000
2006	1,540,000
2007	1,585,000
2008	1,640,000
Thereafter	<u>24,385,000</u>
	<u>\$ 32,025,000</u>

The bond payable agreements contain certain covenants, including continuation of use of University facilities for educational purposes, maintenance of insurance policies, and availability of certain financial records. As of May 31, 2003, the University is in compliance with all covenants, or when not in compliance, has filed the appropriate explanation of default with the Commission, in accordance with the bond agreements.

(8) U. S. Government Refundable Advances

Advances from the federal government under the Perkins and Nursing Loan Programs are repayable to the federal government upon liquidation of the fund, and thus are reflected as a liability on the balance sheet.

(9) Postretirement Medical Benefits

The University provides for the payment of certain health care benefits for retired employees who meet certain eligibility requirements under this plan. The University's policy is to pay the cost of these health benefits as they occur.

Net periodic postretirement benefit cost, consisting of service cost and interest cost on the accumulated postretirement benefit obligation, was \$2,097,000 and \$1,460,300 for fiscal years 2003 and 2002, respectively. The accumulated postretirement benefit obligation for retirees recognized in the balance sheet was \$11,103,045 and \$9,521,824 as of May 31, 2003 and 2002, respectively.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.75% and 7.00% as of May 31, 2003 and 2002, respectively. The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 8.00% for fiscal year 2003 and was assumed to decrease gradually to 5.00% by the year 2010 and remain at that level thereafter.

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, if the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of May 31, 2003 would increase by approximately \$3,600,000 and the interest cost component of net periodic postretirement benefit cost for the fiscal year then ended would increase by approximately \$186,000.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

(10) Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets are available for the following purposes:

	2003	2002
Gifts and other unexpended revenue available for:		
Scholarships	\$ 328,255	728
Trusts, net of annuity obligations	5,830,753	4,173,472
Facility research	956,069	857,684
Loans	2,600,291	2,538,523
Buildings and equipment	7,937,047	6,167,041
Other	110,332	—
	\$ 17,762,747	13,737,448

Permanently restricted net assets consist primarily of endowment funds. The income from the endowment funds is primarily temporarily restricted for scholarships for students and for academic programs.

(11) Expenses

Expenses, by natural classification, are:

	2003	2002
Salaries and wages	\$ 28,793,574	26,849,512
Fringe benefits	10,038,283	9,221,884
Publications	697,684	636,827
Repairs	967,601	980,681
Library acquisitions	1,666,280	1,512,637
Utilities	1,640,633	1,575,147
Contracting services	3,138,964	2,961,040
Speakers and programs	1,405,456	1,288,246
Maintenance expense	922,016	907,796
Supplies	1,658,363	1,647,166
Travel	954,566	862,775
Depreciation	3,713,760	3,470,827
Interest on indebtedness	1,267,435	1,201,393
Other	4,594,679	4,512,165
	\$ 61,459,294	57,628,096

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2003 and 2002

(12) Employee Retirement Benefits

Employee retirement benefits are provided for through Teachers Insurance and Annuity Association (TIAA), a national organization used to fund retirement benefits for educational institutions. Under this arrangement, the University and plan participants make annual contributions to TIAA to purchase individual annuities equivalent to retirement benefits earned. The University's share of the cost of these benefits approximated \$1,649,000 and \$1,532,000 for the years ended May 31, 2003 and 2002, respectively, and has been recorded as an expense.

(13) Contingencies

The University has federal and state grants for specific purposes that are subject to annual audit and other periodic review by grantor agencies. Such reviews could result in requests for reimbursement by grantor agencies for costs, which may be disallowed as appropriate expenses under the grant terms. University management believes disallowances, if any, will not be material to the balance sheets and statements of operating revenues, expenses and other changes in unrestricted net assets.

(14) Related Parties

Certain members of the University's board of trustees serve as management of entities from which the University purchases goods and services. Management of the University believes these purchases have terms comparable to the terms of similar transactions with independent third parties.