

OHIO NORTHERN UNIVERSITY

Financial Statements

May 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

OHIO NORTHERN UNIVERSITY

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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, 2004 and 2003, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2004 and 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2004, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

September 24, 2004

OHIO NORTHERN UNIVERSITY

Statements of Financial Position

May 31, 2004 and 2003

Assets	2004	2003
Current assets:		
Cash	\$ 11,138	333,620
Short-term investments (note 3)	9,617,263	14,055,014
Accrued interest receivable	203,455	250,628
Pledges receivable (note 4)	2,515,952	3,460,000
Student accounts receivable (less allowance for doubtful accounts of \$225,000 in 2004 and \$175,000 in 2003)	10,184	1,604,248
Other receivables	1,288,754	1,539,368
Inventories, net (note 5)	321,662	399,574
Prepaid expenses	21,753	30,464
Total current assets	13,990,161	21,672,916
Pledges receivable (note 4)	998,968	3,454,266
Charitable remainder trusts	4,396,698	4,396,698
Investments (note 3)	133,806,908	115,474,789
Notes receivable (less allowance for doubtful accounts of \$385,000 in 2004 and 2003)	10,442,874	9,623,670
Property, plant, and equipment, net (note 6)	81,612,996	73,033,339
Other assets – bond origination costs	749,876	800,252
Funds held in trusts by others	13,542,862	13,214,904
Total assets	\$ 259,541,343	241,670,834
Liabilities and Net Assets		
Current liabilities:		
Bank overdraft	\$ 1,364,122	1,074,982
Accounts payable	3,746,644	4,286,927
Accrued expenses	4,696,957	4,492,258
Deferred revenue	2,301,641	2,571,520
Student and other deposits	292,126	357,907
Accrued interest payable	114,721	132,484
Bonds payable (note 7)	1,475,000	1,400,000
Total current liabilities	13,991,211	14,316,078
Annuities payable	5,546,579	5,171,147
Bonds payable, excluding current installment (note 7)	29,150,000	30,625,000
U.S. Government refundable advances (note 8)	9,263,123	9,096,274
Postretirement medical benefits (note 9)	12,590,645	11,103,045
Total liabilities	70,541,558	70,311,544
Net assets:		
Unrestricted	106,127,833	90,435,512
Temporarily restricted (note 10)	18,384,461	17,762,747
Permanently restricted (note 10)	64,487,491	63,161,031
Total net assets	188,999,785	171,359,290
Total liabilities and net assets	\$ 259,541,343	241,670,834

See accompanying notes to financial statements.

OHIO NORTHERN UNIVERSITY

Statements of Activities and Changes in Unrestricted Net Assets

Years ended May 31, 2004 and 2003

	2004	2003
Revenue:		
Tuition and fees	\$ 82,673,234	76,989,637
Scholarship and aid	34,341,495	32,680,221
Net tuition and fees	48,331,739	44,309,416
Gifts and bequests	2,134,631	1,876,560
Endowment payout	3,100,000	3,500,000
Income from trusts held by others	241,943	151,680
Other investment income	494,444	589,799
Other	369,081	229,929
Auxiliary	12,346,476	10,615,468
	67,018,314	61,272,852
Net assets released from restriction	302,603	280,321
Total revenue	67,320,917	61,553,173
Expenses:		
Instruction	34,490,009	32,393,788
Academic support	3,771,382	3,079,377
Libraries	3,464,331	3,495,419
Student services	7,082,680	6,694,602
Institutional support	7,614,929	7,003,322
Auxiliary	9,134,899	8,792,786
Total expenses	65,558,230	61,459,294
	1,762,687	93,879
Other activities:		
Unrealized gains (losses) on investments	5,341,960	(5,073,073)
Realized gains (losses) on investments	5,153,222	(5,267,186)
Amortization of bond origination costs	(50,376)	(50,375)
Other, net	71,140	(145,771)
Net assets released from restriction for property and equipment	3,413,688	—
Change in donor designation	—	(1,723,998)
	13,929,634	(12,260,403)
Increase (decrease) in unrestricted net assets	15,692,321	(12,166,524)
Net assets, beginning of year	90,435,512	102,602,036
Net assets, end of year	\$ 106,127,833	90,435,512

See accompanying notes to financial statements.

OHIO NORTHERN UNIVERSITY

Statements of Changes in Net Assets

Years ended May 31, 2004 and 2003

	2004			
	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenue and gains:				
Revenue	\$ 67,018,314	—	—	67,018,314
Gifts, bequests and investment activity	10,515,946	4,664,856	1,471,828	16,652,630
	<u>77,534,260</u>	<u>4,664,856</u>	<u>1,471,828</u>	<u>83,670,944</u>
Expenses and losses	65,558,230	326,851	145,368	66,030,449
Net assets released from restriction	3,716,291	(3,716,291)	—	—
Increase in net assets	15,692,321	621,714	1,326,460	17,640,495
Net assets, beginning of year	90,435,512	17,762,747	63,161,031	171,359,290
Net assets, end of year	\$ <u>106,127,833</u>	<u>18,384,461</u>	<u>64,487,491</u>	<u>188,999,785</u>
	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenue and gains:				
Revenue	\$ 61,272,852	—	—	61,272,852
Gifts, bequests, and investment activity	(10,536,405)	1,240,608	902,934	(8,392,863)
	<u>50,736,447</u>	<u>1,240,608</u>	<u>902,934</u>	<u>52,879,989</u>
Expenses and losses	61,459,294	103,294	123,004	61,685,592
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	(12,166,524)	4,025,299	(664,378)	(8,805,603)
Net assets, beginning of year	102,602,036	13,737,448	63,825,409	180,164,893
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>

See accompanying notes to financial statements.

OHIO NORTHERN UNIVERSITY

Statements of Cash Flows

Years ended May 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ 17,640,495	(8,805,603)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,456,565	3,713,760
Amortization of bond origination costs	50,376	50,375
Net (gains) losses on investments	(10,495,182)	10,082,350
Donations restricted for long-term investment	(3,641,615)	(3,350,043)
Decrease in accrued interest receivable	47,173	149,248
Decrease in pledges receivable	3,399,346	1,242,373
Decrease (increase) in accounts receivable	1,844,678	(332,160)
Decrease in inventories	77,912	103,898
Decrease in prepaid expenses	8,711	1,698
Increase in contributions receivable from trusts	(327,958)	(992,917)
Decrease in accounts payable	(863,148)	(38,854)
Increase in accrued expenses	204,699	501,366
Increase (decrease) in deferred revenue	(269,879)	1,661,225
Increase (decrease) in student and other deposits	(65,781)	49,967
Decrease in accrued interest payable	(17,763)	(13,518)
Increase in postretirement medical liability	1,487,600	1,716,475
Increase (decrease) in annuities payable	375,432	2,638,297
Net cash provided by operating activities	<u>13,911,661</u>	<u>8,377,937</u>
Cash flows used in investing activities:		
Acquisition of land, buildings, and equipment	(12,713,357)	(14,529,455)
Receipts on notes receivable	1,925,162	1,713,399
Issuance of notes receivable	(2,744,366)	(1,507,488)
Purchases of investments	(269,148,300)	(106,806,646)
Proceeds from sales of investments	265,749,114	111,414,223
Net cash used in investing activities	<u>(16,931,747)</u>	<u>(9,715,967)</u>
Cash flows provided by financing activities:		
Payments on bonds	(1,400,000)	(14,175,000)
Issuance of bonds	—	12,975,000
Decrease in bond origination costs	—	12,048
Donations restricted for long-term investments	3,641,615	3,350,043
Increase (decrease) in bank overdrafts	289,140	(529,116)
Increase in U.S. Government refundable advances	166,849	32,186
Net cash provided by financing activities	<u>2,697,604</u>	<u>1,665,161</u>
Net increase (decrease) in cash	(322,482)	327,131
Cash – beginning of year	333,620	6,489
Cash – end of year	\$ <u>11,138</u>	<u>333,620</u>
Supplemental data:		
Ohio Northern University paid approximately \$1,486,000 and \$1,711,000 in interest during 2004 and 2003, respectively.		

See accompanying notes to financial statements.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2004 and 2003

(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, 2004 and 2003

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 primarily on quoted market prices.

In accordance with the University's policy, 3% of the rolling twelve quarter fair market value average of investments at May 31, 2004 is available for expenses.

(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. Property, plant and equipment are reviewed for impairment whenever events or changes indicate that the carrying amount of an asset may not be recoverable.

(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, 2004 and 2003

(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 \$30,600,000 and \$32,400,000 at May 31, 2004 and 2003, 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, 2004 and 2003

(n) **Reclassifications**

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

(3) **Investments**

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

	2004		2003	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Corporate stocks	\$ 84,236,534	96,979,203	76,101,333	82,505,614
U.S. government and agency obligations	20,243,041	20,376,186	15,849,634	16,882,277
Mutual funds	10,141,651	10,141,651	—	—
Certificates of deposit	1,058,066	1,058,066	5,158,066	5,158,066
Industrial and financial bonds	1,313,738	1,289,938	1,292,342	1,316,844
Savings and money market accounts	4,086,174	4,086,174	7,072,452	7,072,452
Repurchase agreements	8,127,381	8,127,381	10,455,014	10,455,014
Land held for sale	534,500	534,500	1,580,658	1,580,658
1999 bond fund – U.S. government and agency obligations	831,072	831,072	831,058	860,717
2002 bond fund – money market accounts	—	—	3,698,161	3,698,161
	<u>\$ 130,572,157</u>	<u>143,424,171</u>	<u>122,038,718</u>	<u>129,529,803</u>

As of May 31, 2004, included in mutual funds is approximately \$5,000,000, which is invested in the Commonfund Absolute Fund, a hedge fund. The hedge fund invests in long/short equities, event-driven strategies (which includes merger, restructuring and liquidation situations), fixed income funds and multi-strategy programs (which includes various combinations of the aforementioned investment types). The remaining mutual fund balance is invested primarily in fixed income securities.

The valuation of the investment in the hedge fund varies by investment type. The equity securities listed on exchanges are valued based on the last sale price or the closing price, or else if it is an unlisted security, the current bid price is utilized to determine the valuation of the security. Fixed income securities are generally valued by reference to outside pricing services. Other investments in the hedge fund are valued at the latest net asset value made available by the fund manager or administrator prior to the valuation date. Securities that are not readily marketable are valued at fair value as deemed appropriate by the Investment Manager, with consideration given to the financial condition and operating results of the issuer, meaningful third-party transactions in the private market, and other factors deemed relevant.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2004 and 2003

(4) Pledges Receivable

As of May 31, 2004 and 2003, 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%.

	2004	2003
Less than one year	\$ 2,515,952	3,460,000
One to five years	998,968	3,454,266
	\$ 3,514,920	6,914,266

(5) Inventories

Inventories consist of the following at May 31:

	2004	2003
Physical plant	\$ 299,337	341,516
China and silverware	2,583	13,061
Printing service	46,330	48,949
Miscellaneous	28,411	51,048
Allowance for obsolescence	(55,000)	(55,000)
	\$ 321,662	399,574

(6) Property, Plant, and Equipment

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

	2004	2003
Land	\$ 3,405,709	3,163,422
Land improvements	5,802,926	5,802,926
Buildings	87,710,089	65,935,461
Equipment	21,880,213	19,564,640
Outdoor track	731,496	731,496
Construction in progress	2,491,240	14,009,735
Capitalized interest	360,000	360,000
Works of art, historical treasures, and similar assets	1,988,555	1,766,326
	124,370,228	111,334,006
Less accumulated depreciation	42,757,232	38,300,667
Property, plant, and equipment, net	\$ 81,612,996	73,033,339

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2004 and 2003

Construction contracts of approximately \$10,422,000 exist for the All Events Stadium (\$3,815,000) and Dicke Hall (\$6,607,000). As of May 31, 2004, the remaining commitment on these contracts was approximately \$3,314,000.

(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. There is \$12,325,000 outstanding under the 2003 series bonds as of May 31, 2004.

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. There is \$9,525,000 outstanding under the 2002 series bonds as of May 31, 2004.

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. There is \$8,775,000 outstanding under the 1999 series bonds as of May 31, 2004.

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).

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, 2004 and 2003, the portion of bond proceeds and interest not expended amounted to \$243,464 and \$4,558,878, respectively, and is held for investment.

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2004 and 2003

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

Fiscal year ending May 31:		
2005	\$	1,475,000
2006		1,540,000
2007		1,585,000
2008		1,640,000
2009		1,705,000
Thereafter		<u>22,680,000</u>
	\$	<u><u>30,625,000</u></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, 2004, the University believes it 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.

The following represents selected information about the plan for 2004 and 2003:

	<u>Year ended May 31,</u>	
	<u>2004</u>	<u>2003</u>
Service cost	\$ 881,800	683,300
Interest cost	1,106,700	1,086,700
Amortization	<u>464,100</u>	<u>327,000</u>
Net periodic postretirement benefit cost	<u>\$ 2,452,600</u>	<u>2,097,000</u>

OHIO NORTHERN UNIVERSITY

Notes to Financial Statements

May 31, 2004 and 2003

Change in postretirement benefit obligation:

	<u>2004</u>	<u>2003</u>
Benefit obligation at beginning of year	\$ (11,103,045)	(9,521,824)
Net periodic postretirement benefit cost	(2,452,600)	(2,097,000)
Benefits paid	<u>965,000</u>	<u>515,779</u>
Accrued postretirement benefit cost at end of year	<u>\$ (12,590,645)</u>	<u>(11,103,045)</u>

The weighted-average discount rate and the assumed healthcare cost trend rate used in determining the accumulated postretirement benefit obligation was as follows:

	<u>2004</u>	<u>2003</u>
Discount rate	6.25%	5.75%
Health care cost trend rate	9.50%	7.50%

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit was assumed to decrease gradually to 5.00% by the year 2014 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage- point</u>	<u>1-Percentage- point</u>
Effect on total of service and interest cost	\$ 484,400	324,500
Effect on accumulated postretirement benefit obligation	3,660,000	2,960,500

Beginning in 2006, the University is expected to be eligible to receive the employer subsidies included under the Medicare prescription drug legislation. Since the University's prescription drug plan for post-65 retirees is actuarially equivalent to the new Medicare drug plan, Medicare will subsidize the University's plan by paying 28% of the submitted expenses between \$250 and \$5,000 for each Medicare retiree. The reduction in the May 31, 2004 accumulated postretirement benefit obligation due to the expected Medicare prescription drug subsidies amounted to \$1,459,100, which is also considered an actuarial gain. The expected subsidies reduced FY2005 net periodic postretirement benefit cost by approximately \$248,000.

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Notes to Financial Statements

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(10) Restrictions and Limitations on Net Asset Balances

Temporarily restricted net assets are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Gifts and other unexpended revenue available for:		
Scholarships	\$ 328,255	328,255
Trusts, net of annuity obligations	7,492,270	5,830,753
Facility research	1,187,869	956,069
Loans	2,623,984	2,600,291
Buildings and equipment	6,752,083	7,937,047
Other	—	110,332
	<u>\$ 18,384,461</u>	<u>17,762,747</u>

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. As of May 31, 2004, the income is restricted from the net asset balances of permanently restricted net assets as follows:

	<u>2004</u>
Permanent endowment for scholarship funds	\$ 22,704,047
Permanent endowment for academic programs	29,201,638
Permanent endowment for other	<u>12,581,806</u>
Total permanently restricted net assets	<u>\$ 64,487,491</u>

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(11) Expenses

Expenses, by natural classification, are:

	<u>2004</u>	<u>2003</u>
Salaries and wages	\$ 30,212,803	28,793,574
Fringe benefits	10,775,434	10,038,283
Publications	601,268	697,684
Repairs	961,386	967,601
Library acquisitions	1,591,462	1,666,280
Utilities	1,760,661	1,640,633
Contracting services	3,239,852	3,138,964
Speakers and programs	1,465,433	1,405,456
Maintenance expense	642,009	922,016
Supplies	1,704,462	1,658,363
Travel	980,422	954,566
Depreciation	4,456,565	3,713,760
Interest on indebtedness	1,536,464	1,267,435
Other	5,630,009	4,594,679
	<u>\$ 65,558,230</u>	<u>61,459,294</u>

(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 \$1,677,000 and \$1,649,000 for the years ended May 31, 2004 and 2003, 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 and the Board of Trustees of the University believes these purchases have terms comparable to the terms of similar transactions with independent third parties.