

# **Ohio Northern University**

Accountants' Report and Financial Statements

May 31, 2007 and 2006



# Ohio Northern University

May 31, 2007 and 2006

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## Independent Accountants' Report on Financial Statements

Board of Trustees  
Ohio Northern University  
Ada, Ohio

We have audited the accompanying statements of financial position of Ohio Northern University (University) as of May 31, 2007 and 2006, and the related statements of activities 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, 2007 and 2006, 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 our report dated September 21, 2007, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

September 21, 2007

**Ohio Northern University**  
**Statements of Financial Position**  
**May 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,823,027	\$ 704,723
Short-term investments	17,736,015	7,562,526
Contributions receivable	4,606,521	917,131
Student accounts receivable, net of allowance of \$100,000 in 2007 and \$160,000 in 2006	1,141,450	923,876
Other receivables	2,868,561	3,119,147
Inventories	365,712	394,868
Prepaid expenses	565,721	811,191
Total current assets	31,107,007	14,433,462
<b>Noncurrent Assets</b>		
Contributions receivable	1,046,183	602,674
Assets held in charitable remainder trusts	3,621,489	3,505,687
Cash, restricted for long-lived assets	900,347	14,602,841
Investments	186,131,834	157,224,668
Notes receivable, net of allowance of \$385,000 in 2007 and 2006	11,500,866	11,678,992
Property, plant and equipment	116,716,575	97,746,592
Bond origination costs	792,949	851,769
Beneficial interest in remainder trusts	2,836,977	3,031,192
Beneficial interest in perpetual trusts	10,551,718	9,347,560
Total noncurrent assets	334,098,938	298,591,975
Total assets	\$ 365,205,945	\$ 313,025,437
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,424,104	\$ 3,834,053
Accrued expenses	6,883,163	6,135,677
Deferred revenue and deposits	3,949,995	3,988,148
Bonds payable, current portion	2,180,000	2,110,000
Total current liabilities	16,437,262	16,067,878
<b>Noncurrent Liabilities</b>		
Annuities and trusts payable	5,096,967	5,494,666
Bonds payable, excluding current portion	45,850,000	48,030,000
U.S. Government refundable advances	9,271,379	9,363,815
Postretirement medical benefits	18,022,800	16,710,056
Total noncurrent liabilities	78,241,146	79,598,537
Total liabilities	94,678,408	95,666,415
<b>Net Assets</b>		
Unrestricted	164,612,867	135,871,177
Temporarily restricted	24,354,455	10,870,107
Permanently restricted	81,560,215	70,617,738
Total net assets	270,527,537	217,359,022
Total liabilities and net assets	\$ 365,205,945	\$ 313,025,437

**Ohio Northern University**  
**Statements of Activities**  
**Years Ended May 31, 2007 and 2006**

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue, Gains and Other Support</b>				
Tuition and fees	\$ 101,036,811	\$ —	\$ —	\$ 101,036,811
Less scholarships and aid	<u>(42,706,572)</u>	<u>—</u>	<u>—</u>	<u>(42,706,572)</u>
Net tuition and fees	58,330,239	—	—	58,330,239
Gifts and bequests	2,127,654	16,941,080	8,433,502	27,502,236
Investment return for operations	3,950,000	—	—	3,950,000
Investment income from trusts held by others	209,021	—	1,498,675	1,707,696
Other investment income	1,065,502	—	—	1,065,502
Other	1,584,752	—	—	1,584,752
Auxiliary	<u>15,868,146</u>	<u>—</u>	<u>—</u>	<u>15,868,146</u>
Total revenue, gains and other support	<u>83,135,314</u>	<u>16,941,080</u>	<u>9,932,177</u>	<u>110,008,571</u>
<b>Expenses</b>				
Instruction	42,816,730	—	—	42,816,730
Academic support	4,391,554	—	—	4,391,554
Libraries	3,738,664	—	—	3,738,664
Student services	7,983,006	—	—	7,983,006
Auxiliary	11,446,730	—	—	11,446,730
Institutional support	8,306,088	—	—	8,306,088
Fund raising	<u>1,967,094</u>	<u>—</u>	<u>—</u>	<u>1,967,094</u>
Total expenses	<u>80,649,866</u>	<u>—</u>	<u>—</u>	<u>80,649,866</u>
<b>Change in Net Assets Before Other Revenue</b>	<u>2,485,448</u>	<u>16,941,080</u>	<u>9,932,177</u>	<u>29,358,705</u>
<b>Other Revenue (Expenses)</b>				
Investment return in excess of operating distributions	23,910,950	—	(42,320)	23,868,630
Amortization of bond origination costs	(58,820)	—	—	(58,820)
Other	—	—	—	0
Net assets released from restriction	<u>2,404,112</u>	<u>(2,404,112)</u>	<u>—</u>	<u>0</u>
Other revenue (expenses)	<u>26,256,242</u>	<u>(2,404,112)</u>	<u>(42,320)</u>	<u>23,809,810</u>
<b>Change in Net Assets</b>	28,741,690	14,536,968	9,889,857	53,168,515
<b>Reclassification of Net Assets</b>	—	(1,052,620)	1,052,620	0
<b>Net Assets, Beginning of Year</b>	<u>135,871,177</u>	<u>10,870,107</u>	<u>70,617,738</u>	<u>217,359,022</u>
<b>Net Assets, End of Year</b>	<u>\$ 164,612,867</u>	<u>\$ 24,354,455</u>	<u>\$ 81,560,215</u>	<u>\$ 270,527,537</u>

See Notes to Financial Statements

**2006**

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 95,261,617 <u>(39,728,042)</u>	\$ — <u>—</u>	\$ — <u>—</u>	\$ 95,261,617 <u>(39,728,042)</u>
55,533,575	—	—	55,533,575
2,185,463	2,829,202	3,209,302	8,223,967
3,520,000	—	—	3,520,000
220,928	—	—	220,928
651,772	—	738,356	1,390,128
1,531,908	—	—	1,531,908
<u>13,704,559</u>	<u>—</u>	<u>—</u>	<u>13,704,559</u>
<u>77,348,205</u>	<u>2,829,202</u>	<u>3,947,658</u>	<u>84,125,065</u>
38,789,135	—	—	38,789,135
4,342,728	—	—	4,342,728
3,583,771	—	—	3,583,771
7,868,008	—	—	7,868,008
10,449,626	—	—	10,449,626
8,132,278	—	—	8,132,278
<u>1,782,237</u>	<u>—</u>	<u>—</u>	<u>1,782,237</u>
<u>74,947,783</u>	<u>—</u>	<u>—</u>	<u>74,947,783</u>
<u>2,400,422</u>	<u>2,829,202</u>	<u>3,947,658</u>	<u>9,177,282</u>
10,941,610	—	(224,650)	10,716,960
(50,376)	—	—	(50,376)
(921,291)	—	—	(921,291)
<u>2,135,320</u>	<u>(2,135,320)</u>	<u>—</u>	<u>0</u>
<u>12,105,263</u>	<u>(2,135,320)</u>	<u>(224,650)</u>	<u>9,745,293</u>
14,505,685	693,882	3,723,008	18,922,575
—	—	—	0
<u>121,365,492</u>	<u>10,176,225</u>	<u>66,894,730</u>	<u>198,436,447</u>
<u>\$ 135,871,177</u>	<u>\$ 10,870,107</u>	<u>\$ 70,617,738</u>	<u>\$ 217,359,022</u>

**Ohio Northern University**  
**Statements of Cash Flows**  
**Years Ended May 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Change in net assets	\$ 53,168,515	\$ 18,922,575
Items not requiring (providing) cash		
Depreciation	6,415,689	5,035,213
Amortization of bond origination costs	58,820	58,831
Net realized and unrealized gains on investments	(23,883,461)	(13,752,660)
Contributions restricted for long-term investment	(8,433,502)	(3,209,302)
Contributions restricted for capital projects	(10,000,000)	—
Changes in		
Contributions receivable	(4,132,899)	685,061
Student accounts receivable	(217,574)	148,435
Other receivables	250,586	2,101,225
Inventories	29,156	(26,931)
Prepaid expenses	245,470	(551,717)
Remainder and perpetual trusts	(1,125,745)	764,013
Accounts payable	(409,949)	(399,827)
Accrued expenses	747,486	465,731
Deferred revenue and deposits	(38,153)	1,449,890
Postretirement medical benefits	1,312,744	2,024,357
Annuities payable	(397,699)	(412,542)
	<u>13,589,484</u>	<u>13,302,352</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Acquisition of land, buildings and equipment	(25,385,672)	(18,781,172)
(Increase) decrease in notes receivable	178,126	(1,343,336)
Purchases of investments	(95,975,034)	(79,768,451)
Proceeds from sales of investments	80,777,840	75,187,919
	<u>(40,404,740)</u>	<u>(24,705,040)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Payments on bonds	(2,110,000)	(1,540,000)
Issuance of bonds	—	22,530,000
Contributions restricted for long-term investments	8,433,502	3,209,302
Contributions restricted for capital projects	10,000,000	—
Payments of bond origination costs	—	(211,100)
Increase in U.S. Government refundable advances	(92,436)	852,908
	<u>16,231,066</u>	<u>24,841,110</u>
Net cash provided by financing activities		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(10,584,190)	13,438,422
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>15,307,564</u>	<u>1,869,142</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 4,723,374</u>	<u>\$ 15,307,564</u>
Cash and cash equivalents	\$ 3,823,027	\$ 704,723
Cash, restricted for long-lived assets	900,347	14,602,841
	<u>\$ 4,723,374</u>	<u>\$ 15,307,564</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 2,255,895	\$ 1,332,103

# Ohio Northern University

## Notes to Financial Statements

### May 31, 2007 and 2006

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

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. The University's primary sources of revenue and support are tuition income, auxiliary revenue and contribution and investment income.

##### ***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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

##### ***Cash Equivalents***

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At May 31, 2007 and 2006, cash equivalents consisted primarily of money market funds and certificates of deposit. At May 31, 2007, the University's cash accounts exceeded federally insured limits by approximately \$4,600,000.

Cash equivalents related to uninvested cash is considered part of investments in the accompanying financial statements.

##### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The University maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowment accounts based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts. These allocated amounts are classified as unrestricted net assets.

# Ohio Northern University

## Notes to Financial Statements

May 31, 2007 and 2006

The following methods and assumptions were used by the University in estimating fair value for investments:

*Short-Term Investments* – The carrying amounts reported in the statements of financial position for short-term investments approximate fair value as reported by the trustee or custodian of the investments. These investments consist primarily of money market funds.

*Long-Term Investments* – The fair values for equity securities with readily determinable fair values and all debt securities are recorded at fair value based on quoted market prices. Investments in private equity or limited partnerships are recorded at estimated fair value based on the University's capital balance in each partnership, which is calculated by the general partner of each limited partnership.

The University has invested in various types of alternative investments, including those employing long/short equity, long/short sector specific and absolute return strategies. Alternative investments are recorded at estimated fair value based on information provided by the fund manager and generally represents the University's estimated capital balance in each fund. Approximately \$26,195,566 or 17% was invested in these types of funds at May 31, 2007 and \$19,957,326 or 13% at May 31, 2006.

The Board of Trustees designates only a portion of the University's cumulative investment return of the endowment fund for support of current operations. The remainder is retained as an unrestricted net asset to support operations of future years and to offset potential market declines. The payout amount computed under the endowment spending policy of the investment pool is used to support current operations.

### ***Fair Value of Financial Instruments***

The carrying amount is a reasonable estimate of the fair values for all financial assets and liabilities.

### ***Student Accounts and Notes Receivable***

Student accounts receivable are stated at the amount billed to students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the term unless the student has a payment plan. Charges that are past due without payments for three consecutive months, and have had no response to the due diligence process, are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist of amounts due under the Federal Perkins Loan Program and Health Professions Student Loan Program and are stated at their outstanding principal amounts. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student. Loans with a delinquent balance and still accruing interest amounted to approximately \$787,000 and \$933,000 at May 31, 2007 and 2006, respectively.

# Ohio Northern University

## Notes to Financial Statements

May 31, 2007 and 2006

### **Functional Allocation of Expenses**

The costs of supporting various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the educational, institutional support and fund-raising categories based on time and effort.

### **Bond Origination Costs**

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

### **Inventories**

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

### **Property and Equipment**

Property 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.

The University capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred for the year ended May 31 was:

	<u>2007</u>	<u>2006</u>
Interest costs capitalized	\$ —	\$ 782,795
Interest costs charged to expense	<u>2,401,056</u>	<u>1,305,539</u>
Total interest incurred	<u>\$ 2,401,056</u>	<u>\$ 2,088,334</u>

### **Net Assets**

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.

# Ohio Northern University

## Notes to Financial Statements

May 31, 2007 and 2006

### **Revenue and Support**

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.

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.

### **Government Grants**

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

### **Deferred Revenue**

Deferred revenue consists primarily of student tuition, housing and other fees received prior to the beginning of an academic term.

### **Income Taxes**

The University is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes.

# Ohio Northern University

## Notes to Financial Statements

May 31, 2007 and 2006

### Note 2: Investments and Investment Return

Investments at May 31 consisted of the following:

	<u>2007</u>	<u>2006</u>
Corporate stocks and equity funds	\$ 138,753,881	\$ 116,466,030
U.S. Government and agency obligations	8,929,744	13,076,109
Private equity partnerships	26,195,566	19,957,326
Certificates of deposit	1,041,350	1,030,507
Industrial and financial bonds	9,375,202	4,389,123
Savings and money market accounts	19,510,861	9,817,599
Land held for sale	<u>61,245</u>	<u>50,500</u>
	<u>\$ 203,867,849</u>	<u>\$ 164,787,194</u>

Total investment return comprised of the following:

	<u>2007</u>	<u>2006</u>
Dividends and interest income	\$ 6,708,367	\$ 2,095,356
Net realized and unrealized gains	<u>23,883,461</u>	<u>13,752,660</u>
Total return on investments	30,591,828	15,848,016
Investment return designated for current operations	(3,950,000)	(3,520,000)
Investment income from trusts held by others	(1,707,696)	(220,928)
Other investment income	<u>(1,065,502)</u>	<u>(1,390,128)</u>
Net investment return in excess of amounts designated for current operations	<u>\$ 23,868,630</u>	<u>\$ 10,716,960</u>

### Note 3: Contributions Receivable

Contributions receivable at May 31 consisted of the following:

	<u>2007</u>	<u>2006</u>
Less than one year	\$ 4,606,521	\$ 917,131
One to five years	<u>1,189,000</u>	<u>664,948</u>
	5,795,521	1,582,079
Less present value discount (5%)	<u>(142,817)</u>	<u>(62,274)</u>
	<u>\$ 5,652,704</u>	<u>\$ 1,519,805</u>

**Ohio Northern University**  
**Notes to Financial Statements**  
**May 31, 2007 and 2006**

**Note 4: Beneficial Interest in Perpetual Trusts and Remainder Trusts**

The University is the beneficiary under perpetual trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$10,551,718 and \$9,347,560, which represents the fair value of the trust assets at May 31, 2007 and 2006, respectively.

The University is also the beneficiary under charitable remainder trusts administered by outside parties. Under the terms of the trusts, the University has the irrevocable right to receive a remaindermen of trust assets at a future date. The present value of the expected future cash flows is \$2,836,977 and \$3,031,192 at May 31, 2007 and 2006, respectively. The discount rate used to calculate the present value was 6%.

**Note 5: Property and Equipment**

Property and equipment are summarized as follows at May 31:

	<u>2007</u>	<u>2006</u>
Land	\$ 4,607,034	\$ 3,891,336
Land improvements	5,802,926	5,802,926
Buildings	130,254,799	96,656,871
Equipment	29,951,618	25,714,965
Outdoor track	731,496	731,496
Construction in progress	2,028,531	15,192,707
Works of art, historical treasures and similar assets	<u>1,852,229</u>	<u>1,852,229</u>
	175,228,633	149,842,530
Less accumulated depreciation	<u>(58,512,058)</u>	<u>(52,095,938)</u>
	<u>\$ 116,716,575</u>	<u>\$ 97,746,592</u>

The following construction commitments exist as of May 31:

	<u>2007</u>	<u>2006</u>
Weber Hall	\$ 1,295,300	\$ —
Hakes Pierstorf Family Pharmacy Center	—	521,517
Student apartments	—	2,248,341
Affinity housing	—	3,517,355
Lima Hall	<u>—</u>	<u>6,975,668</u>
	<u>\$ 1,295,300</u>	<u>\$ 13,262,881</u>

# Ohio Northern University

## Notes to Financial Statements

May 31, 2007 and 2006

### Note 6: Works of Art, Historical Treasures and Similar Assets

The University received donations of various works of art in past years. The collection includes approximately 400 items and is displayed in several locations on campus. The fair market value of the collection was \$1,852,229 at May 31, 2007 and 2006, and is based on the estimated value on the date the gifts were received. It is the policy of the University to recognize contributions of works of art as a capitalized asset because the items are held for public exhibition rather than financial gain. However, such works of art are not subject to depreciation. Standard University procedures are used in accessioning, deaccessioning, cataloging and managing objects. The University provides a clean, safe and stable storage environment for its collections. There were no deaccessions in 2007 or 2006.

### Note 7: Bonds Payable

Bonds payable consist of the following:

	<u>2007</u>	<u>2006</u>
1999 State of Ohio Higher Educational Facility Revenue Bonds, variable interest rate ranging from 3.55% to 4.85%, maturing through May 2019, payable in annual installments ranging from \$460,000 to \$790,000	\$ 7,450,000	\$ 7,910,000
2002 State of Ohio Higher Educational Facility Revenue Bonds, variable interest rate ranging from 3.50% to 5.75%, maturing through May 2022, payable in annual installments ranging from \$385,000 to \$770,000	8,415,000	8,800,000
2003 State of Ohio Higher Educational Facility Revenue Bonds, variable interest rate ranging from 2.00% to 5.25%, maturing through May 2019, payable in annual installments ranging from \$740,000 to \$1,150,000	10,160,000	10,900,000
2005 State of Ohio Higher Educational Facility Revenue Bonds, variable interest rate ranging from 3.50% to 5.00%, maturing through May 2031, payable in annual installments ranging from \$525,000 to \$1,505,000	<u>22,005,000</u>	<u>22,530,000</u>
	48,030,000	50,140,000
Less current portion	<u>(2,180,000)</u>	<u>(2,110,000)</u>
	<u>\$ 45,850,000</u>	<u>\$ 48,030,000</u>

# Ohio Northern University

## Notes to Financial Statements

### May 31, 2007 and 2006

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.

The annual principal payments required on bonds payable are as follows:

2008		\$ 2,180,000
2009		2,265,000
2010		2,330,000
2011		2,425,000
2012		2,540,000
Thereafter		<u>36,290,000</u>
		<u>\$ 48,030,000</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, 2007 and 2006, the University believes it is in compliance with these covenants.

Interest expense was \$2,401,056 and \$1,305,539 for the years ended May 31, 2007 and 2006, respectively.

#### **Note 8: Annuities and Trusts Payable**

The University has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability at May 31, 2007 and 2006, of \$3,175,322 and \$3,517,501, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 5%.

The University administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the University's use. The portion of the trust attributable to the future interest of the University is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the University's statements of financial position. On an annual basis, the University revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The University has recorded a liability at May 31, 2007 and 2006, of \$1,921,645 and \$1,977,165, respectively. The present value of the estimated future payments is calculated using a discount rate of 5% and applicable mortality tables.

# Ohio Northern University

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May 31, 2007 and 2006

### Note 9: Postretirement Medical Benefits

The University has a postretirement medical benefit plan (Plan) to provide for the payment of certain health care benefits for retired employees who meet certain eligibility requirements under the Plan. The University's policy is to pay the cost of these health benefits as they occur. The University uses a May 31 measurement date for the Plan.

The following represents selected information about the Plan as of and for the year ended May 31:

	2007	2006
Accumulated postretirement benefit obligation	\$ (22,060,844)	\$ (21,357,275)
Plan assets	<u>—</u>	<u>—</u>
Funded status	(22,060,844)	(21,357,275)
Unrecognized net actuarial loss	5,357,538	6,118,363
Unrecognized prior service cost	<u>(1,319,494)</u>	<u>(1,471,144)</u>
Accrued postretirement benefit cost	<u>\$ (18,022,800)</u>	<u>\$ (16,710,056)</u>
<b>Change in postretirement benefit obligation</b>		
Benefit obligation at beginning of year	\$ (16,710,056)	\$ (14,685,699)
Net periodic postretirement benefit cost	(2,248,744)	(2,691,357)
Benefits paid	<u>936,000</u>	<u>667,000</u>
Benefit obligation at end of year	<u>\$ (18,022,800)</u>	<u>\$ (16,710,056)</u>
<b>Components of net periodic postretirement benefit cost</b>		
Service cost	\$ 829,963	\$ 906,393
Interest cost	1,257,883	1,182,273
Amortization	<u>160,898</u>	<u>602,691</u>
Net periodic postretirement benefit cost	<u>\$ 2,248,744</u>	<u>\$ 2,691,357</u>

The University expects to contribute approximately \$988,000 to the Plan in fiscal year 2008. Shown below are the expected benefit payments for 2008-2012 and the five years thereafter:

2008	\$ 988,000
2009	1,055,000
2010	1,124,000
2011	1,199,000
2012	1,296,000
2013 – 2017	<u>7,677,929</u>
	<u>\$ 13,339,929</u>

# Ohio Northern University

## Notes to Financial Statements

May 31, 2007 and 2006

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

Discount rate	6.00%
Health care cost trend rate	8.50%

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit was assumed to decrease gradually to 4.67% by the year 2013 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service and interest cost	\$ 360,500	\$ (288,600)
Effect on accumulated postretirement benefit obligation	(3,085,000)	2,543,000

Effective January 1, 2006, the University transferred its post age 65 drug coverage to a fully-insured Medicare Prescription Drug plan offered by United American. The net effect of the change was a reduction in the accumulated postretirement benefit obligation of approximately \$500,000 and was treated as an actuarial gain.

The FASB recently issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans*, (SFAS 158) which revises the accounting and disclosure requirements in the financial statements of employers with respect to defined benefit pension and other post-retirement plans. The statement requires an employer to currently recognize the funded status of defined benefit plans, the difference between the fair value of plan assets and the accumulated benefit obligation on the employers' balance sheet. SFAS 158 is effective for fiscal years ending after June 15, 2007; thus, the University expects to first apply the recognition of the funded status during its fiscal year ending May 31, 2008. The impact of applying the new standards has not yet been determined.

### Note 10: Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Scholarships	\$ 320,728	\$ 320,728
Trusts, net of obligations	2,898,845	4,682,283
Facility research	2,725,824	2,355,696
Loan program	5,016,385	3,014,700
Buildings and equipment	<u>13,392,673</u>	<u>496,700</u>
	<u>\$ 24,354,455</u>	<u>\$ 10,870,107</u>

# Ohio Northern University

## Notes to Financial Statements

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Permanently restricted net assets consist primarily of endowment funds and beneficial interests in perpetual trusts. As of May 31, the income is restricted from the net asset balances of permanently restricted net assets as follows:

	<u>2007</u>	<u>2006</u>
Permanent endowment for scholarship funds	\$ 41,159,597	\$ 36,404,802
Permanent endowment for academic programs	23,302,469	19,794,940
Permanent endowment for other	<u>17,098,149</u>	<u>14,417,996</u>
Total permanently restricted net assets	<u>\$ 81,560,215</u>	<u>\$ 70,617,738</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2007</u>	<u>2006</u>
Purpose restrictions accomplished		
Facility research	\$ 1,449,959	\$ 544,566
Property and equipment	111,006	1,293,004
Other	<u>843,147</u>	<u>297,750</u>
	<u>\$ 2,404,112</u>	<u>\$ 2,135,320</u>

### Note 11: 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 \$2,365,829 and \$2,089,000 for the years ended May 31, 2007 and 2006, respectively, and has been recorded as an expense.

### Note 12: Significant Concentrations and Contingencies

#### **Contributions**

Approximately 47% and 18% of all contributions were received from two donors in 2007 and one donor in 2006, respectively.

#### **Litigation**

The University is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would change this estimate materially in the near term.

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**Note 13: Gift Annuities**

The University previously classified some gift annuities as temporarily restricted. As a result of further review of donor intentions, it was determined that these gifts are permanently restricted. The University has therefore reclassified \$1,052,620 in gift annuities from temporarily restricted net assets to permanently restricted net assets as of May 31, 2007.

**Note 14: Subsequent Event**

Subsequent to the end of the year, the Board of Trustees approved up to \$18,000,000 of primarily tax-exempt bonds to be used for various capital projects to be issued during the year ended May 31, 2008.