

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

Financial Statements for the
Years Ended June 30, 2003 and 2002
and Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Ohio University
HDL Center- Room 279
Athens, Ohio 45701-2979

We have reviewed the Independent Auditor's Report of the Ohio University, Athens County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio University is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 15, 2004

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OHIO UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Ohio University
And
The Honorable Betty Montgomery,
Auditor of State:

We have audited the accompanying statement of net assets of Ohio University (the "University"), a component unit of the State of Ohio, as of June 30, 2003 and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year 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 audit. The financial statements of the University for the year ended June 30, 2002 were audited by other auditors whose report, dated October 11, 2002, expressed an unqualified opinion on those statements and included an explanatory paragraph that described the adoption of a new financial reporting model discussed in Note 1 to the financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2003 financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2003 and their changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 through 10 is not a required part of the financial statements, but is supplementary information required by the GASB. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2003, on our consideration of the University's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of our audit.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

October 30, 2003

OHIO UNIVERSITY

Management's Discussion and Analysis

The discussion and analysis of Ohio University's (University) financial statements provides an overview of the University's financial activities for the fiscal years (FY) ended June 30, 2003 and June 30, 2002. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

USING THIS REPORT

In June of 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement requires a comprehensive look at the entity as a whole. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, which applies those standards to public colleges and universities. As a result, public colleges and universities no longer have a unique reporting format. The purpose of these statements is to enhance the understandability and usefulness of the general purpose external financial reports issued by public colleges and universities. The goal is to respond to the needs of the primary users of these statements, i.e., those to whom we are primarily accountable (the citizenry), those who directly represent the citizens (legislative and oversight bodies), and those who lend or who participate in the lending process (investors and creditors).

This annual financial report includes the report of the independent auditors, this management's discussion and analysis, the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and notes to the financial statements.

FINANCIAL HIGHLIGHTS OF FY 2003

The state funding environment for higher education continues to present funding challenges to public institutions. Actual state appropriations decreased from the previous year by \$2,813,523 (-1.9%) and \$4,494,947 (-3.0%) for FY 2003 and FY 2002, respectively. Budget units, unable to entirely absorb a campus-wide budget reduction late in the fiscal year by decreases in expenditures, were given permission to absorb structural deficits with unit carry-forward funds until FY 2004.

Tuition increases of 9.9% for returning undergraduate and graduate students and 12.7% for medical students were instituted, compared to 8.0% and 8.9% for the year before. In addition, for the first time a 2-tiered structure was instituted with new undergraduate students paying an additional annual charge of \$300 and new medical students paying an additional annual charge of \$894.

The University's planning process resulted in a decision to implement an Early Retirement Incentive Plan (ERIP) buyout in FY 2003 for eligible employees in the Ohio Public Employees Retirement System (OPERS). An ERIP allows the University to purchase additional service credit, in this case two years, which enables eligible employees to retire early or to retire with a larger retirement benefit than they may have otherwise. The buyout period began on May 1, 2003. The period remains open until June 30, 2004. A \$10,000 incentive was offered to

employees who signed up for the buyout by June 30, 2003 and who would retire by September 1, 2003. The advantage to the University is personnel costs savings over time. As of June 30, 2003, 136 employees have signed up for the ERIP for a total cost estimate of \$7,057,268, which includes the sick and vacation payouts in accordance with standard policy, the \$10,000 incentive bonus for the 131 employees leaving by September 1 and the OPERS payment calculated and billed by OPERS.

The University's implementation of an enterprise-wide information system continued to evolve. The Enterprise Project's mission is to replace the University's legacy administrative systems with the financial and human resource management/payroll modules from the Oracle Corporation. The human resource management/payroll module went live on July 1, 2001. The financial modules were implemented on April 1, 2003. These systems implementations are capitalized at \$11,191,146 and depreciation began in FY 2003. Implementation of Workforce, a time and attendance system utilizing the Web as well as card swipe for time capturing is set for the winter of FY 2004. The advantage of all these initiatives is the ability to get at data with greater speed in order to enhance management reporting and analysis, and the ability to achieve greater operational efficiency. Distribution of departmental management reports is no longer a labor-intensive hard-copy distribution. Instead, individuals pick up their reports via the Web from their own Web portal. The Enterprise Project is also working to span the University with an electronic document management and imaging system.

CURRENT YEAR RESULTS

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

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

Included in the University's financial statements is The Ohio University Osteopathic Medical Center, Inc. (MCI), discretely presented as a component unit. While information related to MCI is incorporated in these statements, the information included in this discussion and analysis only addresses the primary institution. Readers of these financial statements are also referred to financial statements separately issued for MCI for further information related to that entity (see footnote (1)(a)).

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

- The Statement of Net Assets classifies assets and liabilities as current or noncurrent. Generally, current liabilities are those that will be paid within one year of the date of the Statement. Current assets are those that are available to satisfy current liabilities.
- **Cash and cash equivalents** decreased by \$8,077,619 over FY 2002. This was primarily due to an increase in **accounts receivable**. The increase in accounts receivable, beyond that which would be considered routine, was primarily attributable to the timing of a draw-down of federal funds.
- **Investments** include the net appreciation on endowment investments available for expenditure, if authorized by the Board, in accordance with donors' restrictions. Endowment investments earnings in FY 2003 were virtually flat compared to the prior year as the University's fiscal year to date composite return was slightly negative at -0.2 percent.

- **Restricted cash and cash equivalents** primarily represent unspent bond proceeds as of June 30 of each year.
- **Endowment investments** represent the contributed value of University endowments incremented each year by new contributions, \$16,099 and \$10,984 for FY 2003 and FY 2002, respectively, and annual unused earnings on one larger endowment whose donor has requested they be added to principal each year. The University usually does not take on any new endowments unless the donor's bequest specifically states that the gift is to be administered by the Board of Trustees of Ohio University. Otherwise, the University's Foundation (The Ohio University Foundation) receives and administers new endowments.
- **Capital assets** are presented net of their accumulated depreciation of \$335,071,026 for FY 2003 and \$319,363,171 for FY 2002.
- **Refundable Advances for Federal Student Loans** represents the Federal capital contribution (FCC) to Federal student loan programs, presented as a potential long-term liability.

The following chart depicts the breakdown of Assets, Liabilities and Net Assets for Ohio University for the years ended June 30, 2003 and 2002:

	<u>2003</u>	<u>% of Total</u>	<u>2002</u>	<u>% of Total</u>
Assets:				
Capital assets, net	\$ 453,103,537	35.08%	\$ 411,925,152	33.71%
Other assets	192,627,325	14.92%	199,123,491	16.29%
	<u>\$ 645,730,862</u>	50.00%	<u>\$ 611,048,643</u>	50.00%
Liabilities:				
Current liabilities	\$ 93,446,995	7.24%	\$ 75,178,808	6.15%
Noncurrent liabilities	121,534,356	9.41%	135,966,142	11.13%
	<u>\$ 214,981,351</u>	16.65%	<u>\$ 211,144,950</u>	17.28%
Net assets	<u>\$ 430,749,511</u>	33.35%	<u>\$ 399,903,693</u>	32.72%

The Net Assets for fiscal years 2003 and 2002 are further displayed as follows:

	<u>2003</u>	<u>% of Total</u>	<u>2002</u>	<u>% of Total</u>
Invested in capital assets, net of related debt	\$ 334,620,636	77.68%	\$ 285,269,795	71.33%
Restricted nonexpendable	11,727,151	2.72%	11,604,413	2.90%
Restricted expendable	33,749,128	7.83%	57,253,381	14.32%
Unrestricted	50,652,596	11.77%	45,776,104	11.45%
	<u>\$ 430,749,511</u>	100.00%	<u>\$ 399,903,693</u>	100.00%

Invested in capital assets net of related debt represents the historic dollar value of capital assets reduced by their related depreciation and outstanding debt related to their purchase or construction.

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

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

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

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

- The Statement of Revenues, Expenses and Changes in Net Assets differentiates between operating and nonoperating revenue. Sales of goods and services are recorded as operating revenues, where it is generally assumed that the buyer receives something of value equal to the amount given up. Essentially all other types of revenue are nonoperating, or other revenue. Nonoperating revenues include State appropriations, grants that do not require any services to be performed for the benefit of the grantor and investment income. The operating income (loss) line will typically display a loss for State-supported public institutions since State appropriations, that play such a significant role in the funding of public institutions, are mandated to be reported as nonoperating revenue. Other revenues include State capital appropriations, capital gifts and grants and additions to permanent endowments.
- **Student tuition and fee revenues, auxiliary enterprises** revenues, and the corresponding **student aid** expenses, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the institution and the amount that is paid by students and/or third parties making payments on the student's behalf. For FY 2003 that amount is \$43,003,884 (of which \$34,222,491 is netted against **student tuition and fees** and \$8,781,393 is netted against **auxiliary enterprises** revenues) and for FY 2002 it was \$37,061,484 (of which \$27,054,883 was netted against **student tuition and fees** and \$10,006,601 was netted against **auxiliary enterprises** revenues).
- **Auxiliary enterprises** revenues consist of the sales and services of such activities as residence halls, dining services, intercollegiate athletics, airport operations, telephone operations and campus recreation. The bulk of this revenue is the activity of the Residence and Dining Hall auxiliary whose room and board rates were increased 8% in FY 2003 over FY 2002.
- **Sales and services and other sources** of revenues, when combined, total \$14,738,177 for FY 2003 and \$15,315,389 for FY 2002. The decrease is primarily related to a decrease in the amount recorded in FY 2003 of \$1,937,745 from MCI, a component unit, versus an amount of \$3,100,000 for FY 2002. The amounts represent payment for the use of university staff and real and personal property. The amount received in FY 2002 was for a period longer than one year, in anticipation of changing MCI's reporting period to coincide with the University's, which never materialized. The line items of **sales and services and other sources** are viewed together in this analysis because of changes in reporting brought about by an analysis of where revenues might be best represented.
- The University, as a component unit of the State of Ohio, is required to report its **operating expenses** on the face of its financial statements using a functional view. Functional categories are presented as defined by the National Association of College and University Business Officers (NACUBO).

- The expense line “**Student aid**” represents institutional resources provided **in excess** of amounts owed by the students to the institution and refunded to them. It **does not** represent the amount of financial aid made available to students.
- Expenditures for capital assets are capitalized on the Statement of Net Assets and systematically reduced through the use of **depreciation** expense in the Statement of Revenues, Expenses, and Changes in Net Assets. The University has chosen to display depreciation on a separate line in the Statements of Revenues, Expenses, and Changes in Net Assets as opposed to allocating it among the various functional categories.
- Allocated throughout the functional categories is the cost of the **Early Retirement Incentive Plan (ERIP)** discussed under “Financial Highlights of FY 2003”. The estimated cost for all employees who have elected the ERIP as of June 30, 2003 is an amount of \$7,057,268.
- **State appropriations** consist primarily of state share of instruction revenues. The State of Ohio continued to experience declining tax revenues. This has resulted in reductions to the state support allocated to higher education. Decreases in state appropriations from the previous year amounted to \$2,813,523 (-1.9%) and \$4,494,947 (-3.0%) for FY 2003 and FY 2002, respectively. The reduction in FY 2002 was \$9.4 million below that which was expected and originally budgeted.
- **Investment income** increased over last year from a net investment loss in FY 2002 of \$3,930,184 to a net investment gain in FY03 of \$4,896,225. The University’s core and low duration fixed income investments performed well during the year, increasing in value as interest rates continued to decline. The University benefited from healthy returns on its equity investments during the second and fourth quarters of the fiscal year.
- **State capital appropriations** decreased to \$12,623,786 in FY 2003 from an amount of \$32,658,816. This is not indicative of a decrease in state capital appropriations, but rather an issue of timing and what projects are in process. The University receives, on average, \$36,000,000 in state capital appropriations each biennium including amounts received for basic renovations.
- **Capital grants and gifts** nearly doubled in size from an amount of \$6,429,694 in FY 2002 to an amount of \$13,173,470 in FY 2003. Primarily contributing to this growth was an FAA grant for an extension to the runway at the University’s airport – an amount of \$4,136,249 and an amount of \$3,590,900 from the Ohio Coal Development Office through Sorbent Technologies for commercial demonstration of fluesorbent injection.

The following charts depict total revenue by source for FY 2003 and FY 2002, respectively:

<u>Revenues by source</u>	<u>2003</u>	<u>% of Total</u>	<u>2002</u>	<u>% of Total</u>
State appropriations	\$ 142,006,365	30.60%	\$ 144,819,888	32.11%
Student tuition and fees, net	156,176,229	33.65%	143,115,709	31.73%
Grants and contracts	82,130,090	17.70%	72,219,822	16.01%
Sales and services	9,097,035	1.96%	6,926,473	1.54%
Auxiliary enterprises, net	51,545,536	11.11%	46,812,756	10.38%
Investment income, net	4,896,225	1.05%	(3,930,184)	-0.87%
State capital appropriations	12,623,786	2.72%	32,658,816	7.24%
Other	5,657,241	1.21%	8,399,900	1.86%
Total	<u>\$ 464,132,507</u>	<u>100.00%</u>	<u>\$ 451,023,180</u>	<u>100.00%</u>

The following chart depicts operating and nonoperating expenses for FY 2003 and FY 2002, respectively:

<u>Expenses by source</u>	<u>2003</u>	<u>% of Total</u>	<u>2002</u>	<u>% of Total</u>
Instruction and departmental research	\$ 170,495,306	38.72%	\$ 165,131,818	38.89%
Separately budgeted research	26,388,575	5.99%	27,255,898	6.42%
Public service	16,205,555	3.68%	14,879,215	3.51%
Academic support	36,422,783	8.27%	32,212,536	7.59%
Student services	23,563,230	5.35%	20,807,467	4.90%
Institutional support	38,248,929	8.69%	36,882,740	8.69%
Operation and maintenance of plant	36,664,688	8.33%	33,934,978	7.99%
Student aid	2,896,605	0.66%	5,706,074	1.34%
Depreciation	24,215,215	5.50%	21,979,684	5.18%
Auxiliary enterprises	60,707,809	13.79%	59,552,681	14.03%
Interest on capital asset-related debt	3,762,188	0.85%	5,453,686	1.28%
Disposal and write-offs of plant facilities	765,403	0.17%	767,581	0.18%
Total	\$ 440,336,286	100.00%	\$ 424,564,358	100.00%

- **Extraordinary Items – Reversal of 2002 Workers’ Compensation allocation** – For FY 2003, the State of Ohio has reversed an earlier decision that required state-assisted universities to record a portion of the state’s workers’ compensation liability in their respective financial statements. This has a favorable impact on the University’s financial statements for FY 2003 with a resultant increase to net income in the amount of \$7,049,597.
- **Senate Bill 6 ratios**, one of the measures by which the University’s activities are monitored at the state level, returned a composite score of 3.4 in FY 2003 and FY 2002. The highest possible score is 5.0. The University remained the same in all three ratios comprising the composite score.

Statements of Cash Flows

The Statement of Cash Flows presents detailed information about the major sources and uses of cash. The four categories of presentation and their respective FY 2003 and FY 2002 amounts are:

	<u>2003</u>	<u>2002</u>
Net cash provided by (used in) operating activities	\$(152,681,747)	\$(157,250,400)
Net cash provided by (used in) noncapital financing activities	\$ 172,899,737	\$ 177,469,952
Net cash provided by (used in) capital financing activities	\$ (41,269,982)	\$ (24,215,217)
Net cash provided by (used in) investing activities	\$ 4,373,695	\$ (6,250,226)

Total cash and cash equivalents decreased to an amount of \$27,213,007 in FY 2003 compared to an amount of \$43,891,305 in FY 2002. Contributing to that decrease is \$8,600,679 in restricted cash and cash equivalents that were applied to their intended purpose and an increase to accounts receivable primarily due to a delay in the draw-down of federal funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Major capital additions completed during the fiscal year ended June 30, 2003 and the primary resource that funded their acquisition/construction included (in millions):

• Enterprise Project	\$11.2	Sale of Bonds
• Human Resources & Training Center	5.8	Sale of Bonds
• Dingus Center – Southern Campus	5.8	State of Ohio Capital Appropriations
• Bush Airport Runway Expansion	5.1	Federal Grant
• Johnson Hall Renovation	3.5	Internal Funds
• Ridges Building No. 21-Voinovich Center	2.4	State of Ohio Capital Appropriations
• Ridges Building No. 22	2.3	State of Ohio Capital Appropriations
• Brasee Hall Renovation – Lancaster Campus	1.4	State of Ohio Capital Appropriations
• Elson Hall Rehabilitation – Zanesville Campus	1.2	State of Ohio Capital Appropriations

Cumulative costs associated with capital projects continuing after the fiscal year ended June 30, 2003 totaled approximately \$69.2 million. These projects include (in millions):

• Bentley Hall Annex & Renovation	\$17.5
• District Water Cooling	13.3
• Lecture Hall/Smart Classroom	9.7
• Performance Contracting	6.4
• Innovation Center	5.6
• Utility Infrastructure	3.5
• Read Hall Renovation	2.3
• Bennett Hall Improvements – Chillicothe Campus	1.6
• Golf Course Renovation	1.5
• University Center	1.4

The University's estimated future capital commitments, for which funding has been identified, total approximately \$56,170,000 at June 30, 2003.

Debt Administration

At year-end, the University had \$132,665,000 in bonds and notes obligations outstanding versus \$125,880,000 the previous year, an increase of 5.4%. The University's Standard and Poor's revenue bond rating of A+ and Moody's revenue bond rating of A1 have not changed from the prior year.

During the year ended June 30, 2003, the University issued a series of General Receipts Bond Anticipation Notes totaling \$8,400,000. In addition, on March 12, 2003, the University issued \$14,400,000 in Subordinated General Receipts Bond Anticipation Notes. In the previous fiscal year the University issued \$8,550,000 in General Receipts Bond Anticipation Notes. The University retired \$16,015,000 of debt in FY 2003 compared to an amount of \$13,515,000 the year before.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Dr. Robert Glidden, Ohio University's nineteenth president, has announced his retirement at the end of FY 2004. The Board of Trustees is actively involved in the search for his successor. During Dr. Glidden's final year he will continue to lead the University in the face of declining state support. In a message to the campus, Dr. Glidden stated that the University community must find a way to adjust the unrestricted budget by some \$11.8 million over the next three years. It is expected that this will be accomplished through a combination of revenue enhancements and expenditure reductions. The most immediate need is to determine how to absorb a budget shortfall of \$6.5 million in FY 2005. During the course of FY 2004 a series of committees will be convened to scrutinize operations across the University for efficiency and effectiveness, all in the context of the University's mission statement. These committees will have campus-wide representation and will examine such areas as the institution's capacity for growth, duplication of service in both academic and academic support areas, and levels of compensation in comparison to the competitive marketplace.

The University is optimistic of its ability to emerge from these difficult times with its educational mission intact and advancing forward.

Ohio University
Statements of Net Assets
June 30, 2003 and June 30, 2002

	2003		2002	
ASSETS	Primary Institution	MCI	Primary Institution	MCI
Current assets:				
Cash and cash equivalents	\$ 12,226,980	\$ 105,478	\$ 20,304,599	\$ 87,491
Investments	90,360,051	0	91,846,138	0
Accounts receivable, net	38,766,796	1,756,311	29,788,598	1,519,213
Accrued interest receivable	515,972	1,437	894,660	3,801
Notes receivable, net	1,934,318	0	1,776,643	0
Prepaid expenses and deferred charges	11,477,965	358,567	8,807,680	150,668
Inventories	1,536,875	0	1,600,907	0
Total current assets	<u>156,818,957</u>	<u>2,221,793</u>	<u>155,019,225</u>	<u>1,761,173</u>
Noncurrent assets:				
Restricted cash and cash equivalents	14,986,027	0	23,586,706	0
Investment in unconsolidated subsidiary	0	25,741	0	3,323
Endowment investments	11,727,151	0	11,604,413	0
Notes receivable, net	9,095,190	0	8,913,147	0
Capital assets, net	453,103,537	0	411,925,152	2,500
Total noncurrent assets	<u>488,911,905</u>	<u>25,741</u>	<u>456,029,418</u>	<u>5,823</u>
Total assets	<u>\$ 645,730,862</u>	<u>\$ 2,247,534</u>	<u>\$ 611,048,643</u>	<u>\$ 1,766,996</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 38,890,077	\$ 1,204,937	\$ 39,608,194	\$ 1,216,284
Deferred revenue	20,418,048	0	16,666,571	0
Refunds and other liabilities	3,246,273	0	1,961,686	0
Capital lease obligations	249,836	0	594,757	3,467
Bonds and notes payable	30,642,761	0	16,347,600	0
Total current liabilities	<u>93,446,995</u>	<u>1,204,937</u>	<u>75,178,808</u>	<u>1,219,751</u>
Noncurrent liabilities:				
Accounts payable and accrued liabilities	0	0	6,392,835	0
Compensated absences	12,249,793	0	13,135,006	0
Capital lease obligations	87,366	0	198,899	0
Bonds and notes payable	102,022,239	0	109,532,400	0
Refundable advances for federal student loans	7,174,958	0	6,707,002	0
Total noncurrent liabilities	<u>121,534,356</u>	<u>0</u>	<u>135,966,142</u>	<u>0</u>
Total liabilities	<u>214,981,351</u>	<u>1,204,937</u>	<u>211,144,950</u>	<u>1,219,751</u>
Net assets:				
Invested in capital assets, net of related debt	334,620,636	0	285,269,795	0
Restricted:				
Nonexpendable	11,727,151	0	11,604,413	0
Expendable	33,749,128	0	57,253,381	0
Unrestricted	50,652,596	1,042,597	45,776,104	547,245
Total net assets	<u>430,749,511</u>	<u>1,042,597</u>	<u>399,903,693</u>	<u>547,245</u>
Total liabilities and net assets	<u>\$ 645,730,862</u>	<u>\$ 2,247,534</u>	<u>\$ 611,048,643</u>	<u>\$ 1,766,996</u>

See accompanying notes to financial statements

Ohio University
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2003 and June 30, 2002

	2003		2002	
	Primary Institution	MCI	Primary Institution	MCI
OPERATING REVENUES:				
Student tuition and fees, net of scholarship allowances	\$ 156,176,229	\$ 0	\$ 143,115,709	\$ 0
Federal grants and contracts	26,208,619	0	17,539,638	0
State grants and contracts	8,262,062	0	5,046,825	0
Local grants and contracts	634,608	0	664,578	0
Private grants and contracts	6,417,402	0	5,756,293	0
Sales and services	9,097,035	0	6,926,473	0
Auxiliary enterprises, net of scholarship allowances	51,545,536	0	46,812,756	0
Patient and professional services	0	10,455,443	0	10,177,138
Other sources	5,641,142	0	8,388,916	45,559
Total operating revenues	263,982,633	10,455,443	234,251,188	10,222,697
OPERATING EXPENSES:				
Educational and general:				
Instruction and departmental research	170,495,306	0	165,131,818	0
Separately budgeted research	26,388,575	0	27,255,898	0
Public service	16,205,555	0	14,879,215	0
Academic support	36,422,783	0	32,212,536	0
Student services	23,563,230	0	20,807,467	0
Institutional support	38,248,929	0	36,882,740	0
Operation and maintenance of plant	36,664,688	0	33,934,978	0
Student aid	2,896,605	0	5,706,074	0
Depreciation	24,215,215	2,500	21,979,684	15,000
Auxiliary enterprises	60,707,809	0	59,552,681	0
Operating expenses - MCI	0	10,003,840	0	10,157,944
Total operating expenses	435,808,695	10,006,340	418,343,091	10,172,944
Operating income (loss)	(171,826,062)	449,103	(184,091,903)	49,753
NONOPERATING REVENUES AND EXPENSES:				
State appropriations	142,006,365	0	144,819,888	0
Federal grants	20,835,465	0	22,436,903	0
State grants	4,484,965	0	6,030,584	0
Local grants	6,130	0	117,262	0
Private gifts	2,107,369	0	8,198,045	0
Investment income, net of investment expense	4,896,225	49,627	(3,930,184)	12,368
Income taxes	0	(5,476)	0	(7,900)
Interest on capital asset - related debt	(3,762,188)	0	(5,453,686)	0
Disposal and write-offs of plant facilities	(765,403)	2,098	(767,581)	0
Net nonoperating revenues	169,808,928	46,249	171,451,231	4,468
Income (loss) before other revenues, expenses, gains or losses	(2,017,134)	495,352	(12,640,672)	54,221
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES				
State capital appropriations	12,623,786	0	32,658,816	0
Capital grants and gifts	13,173,470	0	6,429,694	0
Additions to permanent endowments	16,099	0	10,984	0
Total other revenues	25,813,355	0	39,099,494	0
Income before extraordinary items	23,796,221	495,352	26,458,822	54,221
EXTRAORDINARY ITEMS				
Reversal of 2002 Workers' Compensation allocation	7,049,597	0	0	0
INCREASE IN NET ASSETS	30,845,818	495,352	26,458,822	54,221
Net Assets				
Net assets - beginning of year	399,903,693	547,245	373,444,871	493,024
Net assets - end of year	\$ 430,749,511	\$ 1,042,597	\$ 399,903,693	\$ 547,245

See accompanying notes to financial statements

Ohio University
Statements of Cash Flows
for the Years Ended June 30, 2003 and June 30, 2002

	2003		2002	
	Primary Institution	MCI	Primary Institution	MCI
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	\$ 185,099,221	\$ 0	\$ 164,960,361	\$ 0
Grants and contracts	25,802,126	0	29,007,334	0
Payments to suppliers	(71,111,746)	(3,292,879)	(70,485,060)	(3,603,760)
Payments to employees	(236,090,000)	(5,470,662)	(228,106,155)	(5,451,492)
Payments for benefits	(66,545,837)	(1,451,402)	(58,296,350)	(1,006,031)
Payments for scholarships and fellowships	(65,486,579)	0	(58,106,721)	0
Loans issued to students	(3,115,819)	0	(2,688,078)	0
Collection of loans to students	2,497,686	0	2,063,755	0
Auxiliary enterprise sales	48,045,483	0	56,720,965	0
Sales and services of educational departments	11,080,524	0	6,833,075	0
Patient and other professional services	0	10,190,388	0	9,986,666
Other receipts (payments)	17,143,194	(5,476)	846,474	52,437
Net cash used in operating activities	(152,681,747)	(30,031)	(157,250,400)	(22,180)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations	142,006,365	0	144,642,412	0
Gifts and grants for other than capital purposes	27,433,929	0	33,538,521	0
William D. Ford direct lending receipts	61,484,884	0	58,427,798	0
William D. Ford direct lending disbursements	(61,484,884)	0	(58,427,798)	0
PLUS loan receipts	27,713,108	0	23,611,286	0
PLUS loan disbursements	(27,713,108)	0	(23,611,286)	0
Student organization agency transactions	3,459,443	0	(710,981)	0
Net cash provided by noncapital financing activities	172,899,737	0	177,469,952	0
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Proceeds from capital debt	22,800,000	0	8,550,000	0
Capital appropriations	13,291,782	0	31,817,190	0
Capital grants and gifts received	13,173,470	0	6,429,694	0
Purchases of capital assets	(68,629,434)	0	(51,408,564)	0
Principal paid on capital debt and leases	(16,685,481)	0	(14,149,850)	(19,626)
Interest paid on capital debt and leases	(5,220,318)	0	(5,453,687)	0
Net cash used in capital financing activities	(41,269,982)	0	(24,215,217)	(19,626)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales and maturities of investments	62,986,320	0	315,590,003	72,000
Interest on investments	1,746,394	48,018	7,022,081	0
Purchase of investments	(60,359,019)	0	(328,862,310)	(250)
Net cash provided by (used in) investing activities	4,373,695	48,018	(6,250,226)	71,750
Net increase (decrease) In cash	(16,678,298)	17,987	(10,245,891)	29,944
Cash and cash equivalents, beginning of year	43,891,305	87,491	54,137,196	57,547
Cash and cash equivalents, end of year	\$ 27,213,007	\$ 105,478	\$ 43,891,305	\$ 87,491
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:				
Operating income (loss)	\$ (171,826,062)	\$ 449,103	\$ (184,091,903)	\$ 49,753
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Depreciation expense	24,215,215	2,500	21,979,683	15,000
Changes in assets and liabilities:				
Accounts receivable, net	(3,418,847)	(320,609)	(7,229,885)	(187,368)
Notes receivable, net	(339,718)	0	(687,328)	0
Deferred revenue	3,751,477	0	1,762,702	0
Prepaid expenses and deferred charges	(5,471,475)	(208,005)	1,221,336	44,300
Inventories	64,032	0	195,408	0
Accounts payable and accrued liabilities	209,044	46,980	9,585,217	56,135
Refunds and other liabilities	134,587	0	14,370	0
Net cash used in operating activities	\$ (152,681,747)	\$ (30,031)	\$ (157,250,400)	\$ (22,180)

See accompanying notes to financial statements

Ohio University

Notes to Financial Statements For the Years Ended June 30, 2003 and June 30, 2002

(1) Summary of Significant Accounting Principles

(a) Organization

Ohio University (University) is a public institution established by the State of Ohio (State) in 1804 under Chapter 3337 of the Ohio Revised Code (ORC). As such it is a component unit of the State of Ohio and is included as a discrete entity in the State of Ohio's Comprehensive Annual Financial Report. The University is the oldest of the state-assisted universities in Ohio. It is defined by statute to be a body politic and corporate and an instrumentality of the State. The University is governed by a 9 member Board of Trustees that is granted authority under Ohio law to do all things necessary for the proper maintenance and continual successful operation of the University. The Governor, with the advice and consent of the State Senate, appoints Trustees for staggered 9-year nonrenewable terms. In addition, 2 non-voting student members are appointed to the Board of Trustees for staggered 2-year terms.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all the organizations, activities, functions and component units for which the University is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the University's ability to impose its will over the component unit or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the University.

The Ohio University Osteopathic Medical Center, Inc. (MCI), a discretely presented component unit of Ohio University, is a professional association formed under Chapter 1785 of the Ohio Revised Code (ORC) for the purpose of organizing licensed physicians and surgeons, who are faculty members of the Ohio University College of Osteopathic Medicine (College), into a multi-specialty faculty group practice. The sole purpose for which this professional association is formed is to render medical care, consultation, diagnosis and treatment through physicians and surgeons licensed to practice medicine in the State of Ohio.

MCI is a separate legal entity from the University, and certain members of MCI's Board of Directors are employees of the University.

For a significant portion of MCI's operations, MCI utilizes the College's services, facilities, tangible personal and real property, personnel, library, research facilities and records and the goodwill attendant to affiliation with the College. In accordance with the Clinical Practice Agreement, MCI has agreed to pay the University, designated for the College, for these benefits. The payment is to be made annually, based upon the formula specified in the Clinical Practice Agreement. For the years ended January 31, 2003 and 2002, MCI paid the University \$1,937,745 and \$3,100,000, respectively.

Effective January 2, 1999, MCI entered into a contract with Emergency Medicine Physicians of Athens County, Ltd. ("EMP"), as an independent contractor, to provide physician coverage and perform certain administrative duties for O'Bleness Memorial Hospital Emergency Room and Urgent Care Center ("Emergency Room"). This agreement between EMP and MCI is for a two-year period with a right to renew on a year-to-year basis thereafter. Under this agreement, EMP performs all services associated with operation of the Emergency Room. EMP retains all amounts billed and collected for the Emergency Room services. EMP reimburses MCI for emergency/urgent care physicians' services furnished by MCI's physicians. MCI maintains malpractice insurance coverage for its physicians.

A separate report presented on the modified cash basis of accounting is available by contacting MCI at Ohio University Osteopathic Medical Center, Inc., 002 Grosvenor West, Athens, Ohio 45701 or (740) 593-1355.

The accompanying financial statements display MCI as a discretely presented component unit to comply with GASB Statement No. 14, *The Financial Reporting Entity*. MCI reports a fiscal year end of January 31, on a cash basis, which is converted to the accrual basis for presentation herein.

The Ohio University Foundation (Foundation) is a legally separate nonprofit corporation. It is exempt from federal income tax and is formed for the purpose of promoting educational and research activities for the benefit of the University. The Foundation maintains a self-appointing Board of Trustees. The Foundation's financial activity is not included in the University's financial statements except that capital equipment purchased by the Foundation is included in the University's financial statements.

(b) Basis of Presentation

The financial statement presentation required by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended, provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses and changes in net assets and cash flows. It replaces fund-groups with net asset-groups, and requires the direct method of cash flow presentation.

(c) Basis of Accounting

The University is a special-purpose government engaged only in business type activities as defined by GASB 34 and 35. Accordingly, the financial statements are presented using an economic resources measurement focus and are presented on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant interfund transactions have been eliminated. The financial statements of MCI as contained herein are presented under the accrual basis of accounting.

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition, the University should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

(d) Cash and Cash Equivalents

Cash consists primarily of petty cash, cash in banks and money market accounts. Cash equivalents are short-term highly liquid investments readily converted to cash with original maturities of 3 months or less.

(e) Investments

All investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in publicly traded securities are stated at fair value as established by major securities markets. Nonpublicly traded investments are valued based on independent appraisals and estimates considering market prices of similar investments. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses, and Changes in Net

Assets. Investments classified as current assets in the Statements of Net Assets include those that can be withdrawn on demand.

(f) *Accounts Receivable*

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

(g) *Inventories*

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

(h) *Restricted Cash and Cash Equivalents*

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

(i) *Capital Assets*

Capital assets are presented in the Statements of Net Assets of the University. Effective July 1, 2000 with the advent of GASB 35, most of these items are also required to be depreciated over their estimated useful lives. If purchased or constructed, they are recorded at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value as of the date received. Depreciation is computed using the straight-line method and for library books the composite method is also applied.

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

<u>Asset class</u>	<u>Capitalize at</u>	<u>Estimated useful life</u>
Land	Any amount	N/A
Land improvements	\$100,000 or more	N/A
Collections of works of art & historical treasures	\$2,500 or more	N/A
Infrastructure	\$100,000 or more	10-50 years
Buildings	Any amount	40 years
Machinery and equipment	\$2,500 or more	5-25 years
Library books and publications	Any amount	10 years
Vehicles	\$2,500 or more	5-10 years

The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend its life are not capitalized. Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. Land, land improvements and collections of works of art and historical treasures are not depreciated.

(j) *Deferred Revenue*

Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, related to the subsequent accounting period. The effect of not allocating the summer term between fiscal years does not have a significant impact on the financial statement presentation.

(k) *Compensated Absences*

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

(l) *Net Assets*

The University's net assets are categorized as described below:

Invested in capital assets, net of related debt: This represents the University's investment in capital assets, net of debt obligations related to those capital assets.

Restricted net assets-nonexpendable: Restricted nonexpendable net assets represent contributed values of permanent endowments restricted or unrestricted as to income.

Restricted net assets-expendable: Restricted expendable net assets represent assets that are restricted by a third party either legally or contractually.

Unrestricted net assets: Unrestricted net assets are resources derived primarily from student tuition, fees, state appropriations, and auxiliary enterprises. These net assets are used for educational and general obligations of the University. They may be used at the discretion of the Board of Trustees for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to apply the expense at the discretion of University management.

(m) *Income Taxes*

The University is an organization described in Section 115 of the Internal Revenue Code of 1986 (the Code) and has further been classified as an organization that is not a private foundation in accordance with Sections 509(a)(1) and 170(b)(1)(A)(ii) of the Code. However, certain revenues are considered unrelated business income and are taxable under Internal Revenue Code Sections 511 through 513.

MCI uses the modified cash basis of accounting for income tax reporting purposes.

(n) *Classification of Revenues*

Revenues are classified as either operating or nonoperating according to the following:

Operating revenues: Operating revenues include revenues from activities that have characteristics similar to exchange transactions. These include student tuition and fees, net of scholarship discounts and allowances, sales and services of auxiliary enterprises, and certain Federal, State and local grants and contracts.

Nonoperating revenues: Nonoperating revenues include revenues from activities that have the characteristics of nonexchange transactions, such as State appropriations, and certain Federal, State and local grants and contracts. Nonoperating revenues also include investment income.

(o) *Scholarship Discounts and Allowances*

Student tuition and fees revenue, and certain other payments recorded as auxiliary enterprises revenue, are net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the charge for tuition and fees, and the amount paid by students or by third parties making the payments on the students' behalf. As of June 30, 2003 and June 30, 2002, scholarship discounts and allowances are \$43,003,884 (of which \$34,222,491 is netted against student tuition and fees and \$8,781,393 is netted against auxiliary enterprises revenues) and \$37,061,484, respectively (of which \$27,054,883 is netted against student tuition and fees and \$10,006,601 is netted against auxiliary enterprises revenues).

(p) *Auxiliary Enterprises*

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

(q) *Eliminations*

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

(r) *Use of Estimates*

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

(s) *Newly Issued Accounting Pronouncements*

In May, 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units* that clarifies existing accounting guidance and provides greater consistency in accounting for organizations that are closely related to a primary government. It applies to financial statements for periods beginning after June 15, 2003. The University will apply this guidance in presenting the Foundation in the University's statements as a discretely presented component unit for the period ending June 30, 2004.

(2) *Deposits with Financial Institutions, Cash and Cash Equivalents, and Investments*

The University makes investments in accordance with the Board of Trustees' policy that conforms to the authority granted by the Ohio Revised Code. The purchase of specific investment instruments is at the discretion of the University Treasurer within these policy guidelines.

(a) *Deposits*

At June 30, 2003, the carrying amount of the University's deposits, excluding cash on hand of \$113,197 is \$9,725,427 and the bank balance is \$13,834,828. At June 30, 2002, the amount of the University's deposits, excluding cash on hand of \$97,972 is \$2,852,112 and the bank balance is \$5,595,615. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balance:

- 1) \$546,738 and \$847,110 are covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the University as of June 30, 2003 and 2002, respectively.

- 2) \$13,288,090 and \$4,748,505 are covered by collateral held by third party trustees pursuant to Section 135.181 of the Ohio Revised Code in collateral pools securing all public funds on deposit with specific depository institutions, as of June 30, 2003 and 2002, respectively.

(b) Cash and Cash Equivalents

The University's cash and cash equivalents consist of cash on hand, deposits and highly liquid investments with original maturities of three months or less. As of June 30, 2003 and 2002, cash and cash equivalents for the University are \$12,226,980 and \$20,304,599, respectively. Bond proceeds held by bond trustees and bond anticipation note proceeds held in STAROhio are the primary components of restricted cash and cash equivalents. In addition it includes some funds held in escrow for the successful completion of construction contracts. The amounts for restricted cash and cash equivalents are \$14,986,027 and \$23,586,706 at June 30, 2003 and June 30, 2002, respectively.

STAROhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003. At June 30, 2003 and 2002, investments held in STAROhio are \$12,472,979 and \$5,532,753, respectively. These are classified as cash equivalents on the Statements of Net Assets.

Investments in STAROhio are backed by the securities purchased by STAROhio. Historically, over 90% of the investments purchased by STAROhio are U.S. government obligations and all securities purchased are held in a third party custodial arrangement on behalf of STAROhio. Investments in cash and cash equivalents other than STAROhio and deposits are uninsured and unregistered.

MCI's cash and cash equivalents consisted of cash on hand and highly-liquid investments with original maturities of three months or less. As of January 31, 2003 and 2002, cash and cash equivalents for MCI are \$105,478 and \$87,491, respectively.

(c) Investments

The University's investments, both current and noncurrent, are categorized below to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the University or its agent in the University's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty or its trust department in the University's name. Category 3 includes investments that are uninsured and unregistered with securities held by the counterparty or its trust department but not in the University's name. All long-term investments except for certain fixed income holdings reported in Category 2 are deposited in mutual funds with various managers. The investments are registered in each manager's name and the University's ownership is recorded in the managers' internal records. The investments in mutual funds and STAROhio are not required to be categorized due to their nature.

	<u>2003</u>		<u>2002</u>
	<u>Fair value</u>		<u>Fair value</u>
Category 2:			
U.S. Treasury obligations	\$ 5,345,479	\$	4,795,911
U.S. Agency obligations	7,871,393		17,109,089
U.S. Corporate obligations	9,382,428		35,491,932
Category 3:			
Money market funds	2,072,284		647,472
Mutual funds	<u>77,415,618</u>		<u>45,406,147</u>
Total	<u>\$ 102,087,202</u>	\$	<u>103,450,551</u>

The fair value of investments is based on market values provided by a third party.

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and rate fluctuations embodied in forward, futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of the counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the Statements of Net Assets and is not represented by the contract or notional amounts of the instruments.

(3) Accounts Receivable

The composition of accounts receivable at June 30, 2003 and 2002, is summarized as follows:

	<u>2003</u>		<u>2002</u>
Student receivables for fees, room and board	\$ 9,837,176	\$	7,272,865
Research and other sponsored programs	20,013,266		11,650,238
Other	<u>12,373,383</u>		<u>13,594,329</u>
	42,223,825		32,517,432
Less allowance for doubtful accounts	<u>(3,457,029)</u>		<u>(2,728,834)</u>
Net accounts receivable	<u>\$ 38,766,796</u>	\$	<u>29,788,598</u>

As of June 30, 2003, MCI accounts receivable consisted of patient services revenue in the amount of \$1,612,151, other professional services revenue in the amount of \$143,604 and employee advances in the amount of \$556. As of June 30, 2002, patient services revenue receivable was \$1,323,949, other professional services revenue receivable was \$182,481, and employee advances receivable was \$12,783.

(4) Notes Receivable

Notes receivable at June 30, 2003 and 2002, included allowances for uncollectible amounts of \$999,940 and \$946,590, respectively. Principal repayment and interest terms vary. Federal loan programs are funded primarily through Federal contributions under Perkins and various nursing programs.

The University distributed \$89,197,992 and \$82,039,084 for student loans through the U.S. Department of Education Federal Direct Lending program during the years ended June 30, 2003, and 2002, respectively. These distributions and the related funding sources are included as cash disbursements and cash receipts in the accompanying Statements of Cash Flows.

(5) Capital Assets

The following tables present the changes in the various fixed asset class categories for the years ended June 30, 2003 and June 30, 2002:

	Balance July 1, 2002	Additions	Transfers In (Out)	Retirements	Balance June 30, 2003
Capital assets not being depreciated:					
Land	\$ 16,249,524	\$ -	\$ -	\$ -	\$ 16,249,524
Land improvements	3,026,340	1,674,751	-	-	4,701,091
Construction in progress	62,210,357	47,389,457	(40,436,576)	-	69,163,238
Collections of works of art & historical treasures	6,125,757	-	-	-	6,125,757
Total capital assets not being depreciated	87,611,978	49,064,208	(40,436,576)	-	96,239,610
Capital assets being depreciated:					
Infrastructure	54,073,478	317,115	6,118,271	-	60,508,864
Buildings	429,764,907	2,791,461	23,127,159	(120,839)	455,562,688
Machinery and equipment	82,918,194	9,423,457	10,037,709	(8,307,637)	94,071,723
Library books and publications	63,925,968	3,424,847	-	-	67,350,815
Vehicles	12,993,798	1,396,329	1,153,437	(1,102,701)	14,440,863
Total capital assets being depreciated	643,676,345	17,353,209	40,436,576	(9,531,177)	691,934,953
Total capital assets	731,288,323	66,417,417	-	(9,531,177)	788,174,563
Less accumulated depreciation:					
Infrastructure	21,307,389	2,132,609	-	-	23,439,998
Buildings	189,502,708	10,048,740	-	(23,381)	199,528,067
Machinery and equipment	54,297,394	6,893,098	-	(7,439,412)	53,751,080
Library books and publications	46,154,506	3,322,780	-	-	49,477,286
Vehicles	8,101,174	1,817,988	-	(1,044,567)	8,874,595
Total accumulated depreciation	319,363,171	24,215,215	-	(8,507,360)	335,071,026
Total capital assets being depreciated, net	324,313,174	(6,862,006)	40,436,576	(1,023,817)	356,863,927
Capital assets, net	\$ 411,925,152	\$ 42,202,202	\$ -	\$ (1,023,817)	\$ 453,103,537

	Balance July 1, 2001	Additions	Transfers In (Out)	Retirements	Balance June 30, 2002
Capital assets not being depreciated:					
Land	\$ 13,948,184	\$ 2,301,340	\$ -	\$ -	\$ 16,249,524
Land improvements	3,026,340	-	-	-	3,026,340
Construction in progress	66,723,842	35,338,465	(39,851,950)	-	62,210,357
Collections of works of art & historical treasures	6,125,757	-	-	-	6,125,757
Total capital assets not being depreciated	89,824,123	37,639,805	(39,851,950)	-	87,611,978
Capital assets being depreciated:					
Infrastructure	57,865,432	233,486	838,350	(4,863,790)	54,073,478
Buildings	371,504,426	19,253,875	39,013,600	(6,994)	429,764,907
Machinery and equipment	83,444,739	9,472,275	-	(9,998,820)	82,918,194
Library books and publications	60,234,020	3,691,948	-	-	63,925,968
Vehicles	13,077,332	821,311	-	(904,845)	12,993,798
Total capital assets being depreciated	586,125,949	33,472,895	39,851,950	(15,774,449)	643,676,345
Total capital assets	675,950,072	71,112,700	-	(15,774,449)	731,288,323
Less accumulated depreciation:					
Infrastructure	23,181,918	2,079,261	-	(3,953,790)	21,307,389
Buildings	180,473,856	9,034,447	-	(5,595)	189,502,708
Machinery and equipment	57,293,555	6,717,715	-	(9,713,876)	54,297,394
Library books and publications	42,903,749	3,250,757	-	-	46,154,506
Vehicles	7,984,687	897,504	-	(781,017)	8,101,174
Total accumulated depreciation	311,837,765	21,979,684	-	(14,454,278)	319,363,171
Total capital assets being depreciated, net	274,288,184	11,493,211	39,851,950	(1,320,171)	324,313,174
Capital assets, net	\$ 364,112,307	\$ 49,133,016	\$ -	\$ (1,320,171)	\$ 411,925,152

(6) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2003 and June 30, 2002, consisted of the following:

	2003	2002
Accounts payable	\$ 15,441,458	\$ 18,642,522
Accrued liabilities	23,448,619	27,358,507
Total primary institution	\$ 38,890,077	\$ 46,001,029
Total MCI	\$ 1,204,937	\$ 1,216,284

(7) **Bonds and Notes Payable**

Bonds and notes payable at June 30, 2003 and 2002, are summarized as follows:

	<u>July 1, 2002</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2003</u>	<u>Current</u>
Subordinated general receipts bond anticipation notes	\$ —	\$ 14,400,000	\$ —	\$ 14,400,000	\$ 14,400,000
General receipts bond anticipation notes	8,550,000	8,400,000	8,550,000	8,400,000	8,400,000
Subordinated variable general receipts bonds, series 2001	46,310,000	—	4,190,000	42,120,000	4,427,761
General receipts bonds, series 1999	31,000,000	—	800,000	30,200,000	830,000
General receipts bonds, series 1993	40,020,000	—	2,475,000	37,545,000	2,585,000
Total bonds and notes payable	<u>\$ 125,880,000</u>	<u>\$ 22,800,000</u>	<u>\$ 16,015,000</u>	<u>\$ 132,665,000</u>	<u>\$ 30,642,761</u>

	<u>July 1, 2001</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2002</u>	<u>Current</u>
General receipts bond anticipation notes	\$ 8,650,000	\$ 8,550,000	\$ 8,650,000	\$ 8,550,000	\$ 8,550,000
Subordinated variable general receipts bonds, series 2001	48,025,000	—	1,715,000	46,310,000	4,522,600
General receipts bonds, series 1999	31,775,000	—	775,000	31,000,000	800,000
General receipts bonds, series 1993	42,395,000	—	2,375,000	40,020,000	2,475,000
Total bonds and notes payable	<u>\$ 130,845,000</u>	<u>\$ 8,550,000</u>	<u>\$ 13,515,000</u>	<u>\$ 125,880,000</u>	<u>\$ 16,347,600</u>

On March 12, 2003, the University issued \$14,400,000 in Subordinated General Receipts Bond Anticipation Notes. The proceeds are to be used for the following purposes: construction costs associated with the Avionics Engineering Center and the Lecture Hall, design costs of the University Center, and to retire an internal loan to Regional Higher Education for the purchase of the Pickerington Center. The notes bear an interest rate of 1.69% and will mature on September 3, 2003. At that time the bond anticipation notes, along with the Series 1993 bonds, will be refinanced.

During the year ended June 30, 2003, the University issued a series of General Receipts Bond Anticipation Notes totaling \$8,400,000, the proceeds of which are being used to finance the replacement of major administrative systems which include: human resources, payroll, financial and the purchase of an imaging system. This issuance represents notes outstanding of \$8,400,000 at June 30, 2003, of which \$4,850,000 mature on January 22, 2004 and \$3,550,000 mature on February 26, 2004. The notes bear interest rates of 1.55% and 1.49%, respectively

On May 3, 2001, the University issued \$48,025,000 in Subordinated Variable Rate General Receipts Bonds, Series 2001 (the Series 2001 Bonds). The proceeds were for capital equipment and construction costs on various building projects.

On October 3, 2001, the University entered into a swap agreement with Morgan Guaranty Trust Company of New York to hedge \$31,020,000 of the University's Series 2001 Bonds. The swap agreement converts the Series 2001 Bonds' variable interest rate to a fixed rate of 4.039%, settled on the first day of each month. The total amount paid related to the swap agreement for the year ended June 30, 2003 and June 30, 2002 is \$841,368 and \$485,357, respectively. These amounts are included as an adjustment to interest on capital asset-related debt in the Statements of Revenues, Expenses and Changes in Net Assets. As of June 30, 2003, the swap had a negative fair value of \$1,990,929.

On March 15, 1999, the University issued \$32,520,000 in General Receipts Bonds, Series 1999, with which to pay construction costs on various building projects.

On January 13, 1994, the University issued \$55,450,000 in General Receipts Bonds, Series 1993, which were issued for advance refunds of the Series 1972, Series 1977 and Series 1978 General Receipts Bonds. The remaining proceeds from this issue were used for the payment of construction costs on the student recreation center.

The 1999 and 1993 issues (Superior Obligations) are bound by the provisions of the 1972 Trust Agreement (Prior Indenture) and its supplements as described below. The 1972 Trust Agreement and its supplement relates to the provisions of the General Receipts Bonds. These bonds are pledged on a gross pledge and first lien basis of the "General Receipts" of the University. The receipts include the full amount of every type and character of campus receipts, except for State appropriations and receipts previously pledged or otherwise restricted. The University has complied with all covenants of the Trust Agreement and its supplements.

The First Supplemental Trust Agreement binds the 2001 bond issue. While Superior Obligation bonds issued are outstanding, the pledge and lien on the General Receipts authorized and granted on the 2001 issue shall be subordinate to the pledge and lien on the General Receipts that secure the Superior Obligations. The variable rate of interest in effect at June 30, 2003 was 0.95%. The average variable rate of interest for the year ending June 30, 2003 was 1.27%. The variable rate is established by Bank One Capital Markets based on market supply and demand.

Details of the series are as follows:

<u>Series</u>	<u>Interest Rate</u>	<u>Maturity fiscal year</u>	<u>Initial issue amount</u>	<u>Outstanding at June 30, 2003</u>
1993	4.25% - 5.00%	2004-2019	\$ 55,450,000	\$ 37,545,000
1999	3.60% - 5.25%	2004-2025	32,520,000	30,200,000
2001	Variable	2004-2027	48,025,000	42,120,000
				<u>\$ 109,865,000</u>

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2003 are summarized as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 7,842,761	\$ 4,783,627	\$ 12,626,388
2005	7,716,761	4,472,857	12,189,618
2006	6,392,739	4,181,647	10,574,386
2007	7,007,739	3,894,243	10,901,982
2008	6,570,000	3,596,810	10,166,810
2009-2013	30,550,000	13,601,750	44,151,750
2014-2018	24,390,000	7,388,592	31,778,592
2019-2023	13,000,000	2,886,473	15,886,473
2024-2027	6,395,000	366,646	6,761,646
	<u>\$ 109,865,000</u>	<u>\$ 45,172,645</u>	<u>\$ 155,037,645</u>

As of June 30, 2002 the University had \$80,000 of outstanding Ohio University Housing and Dining Revenue Bonds, Series G that were fully defeased on December 3, 1974 and not included in bonds payable. During the year ended June 30, 2003, the principal and interest of those bonds were fully paid with matured U.S Treasury obligations on deposit with Bank One of Columbus.

During fiscal year 2003, MCI had a revolving promissory note agreement with a bank having an available credit limit of \$600,000. On January 31, 2003, MCI had no borrowings outstanding under the revolving promissory note agreement. Interest on borrowing under this agreement is paid at the prime rate, which was 4.25% at January 31, 2003. The promissory note is collateralized by accounts receivable. No interest expense was paid in 2003.

(8) Leases

The University has \$337,202 in capital lease obligations that have varying maturity dates through 2006 and carry implicit interest rates ranging from 4.85 % to 10.58 %. Capital asset balances as of June 30, 2003 that are financed under capital leases are \$407,000 for buildings and \$2,682,000 for machinery and equipment.

Capital leases as of June 30, 2003 and 2002 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
For the year ended:					
June 30, 2003	\$ 793,656	\$ 214,027	\$ (670,481)	\$ 337,202	\$ 249,836
June 30, 2002	\$ 1,204,339	\$ 452,198	\$ (862,881)	\$ 793,656	\$ 594,757

The scheduled maturities of these leases as of June 30, 2003 are:

	<u>Minimum lease payments</u>
2004	\$ 269,420
2005	73,818
2006	18,549
Total minimum lease payments	361,787
Less amount representing interest	24,585
Net minimum capital lease payments	337,202
Less current portion	249,836
Noncurrent capital lease obligations	\$ 87,366

MCI Leases

MCI leases certain clinical facilities and equipment under operating lease agreements. Facility leases are primarily month-to-month. Total lease expense is \$160,450 and \$181,002 for the years ended January 31, 2003 and 2002, respectively. Future minimum payments, by year and in the aggregate, with initial terms of one year or more, consist of \$129,334 for operating leases at January 31, 2003.

(9) Compensated Absences

Per University policy, salaried faculty and staff earn vacation at the rate of 22 days per year with a maximum accrual of 32 days. Upon termination they are entitled to a payout of their accumulated balance. Hourly classified employees earn vacation at rates per years of service, ranging from 10 to 25 days per year. The maximum accrual is equal to the amount earned in three years, which is subject to payout upon termination. The liability for accrued vacation at June 30, 2003 and 2002 amounted to approximately \$9,274,000 and \$8,697,000, respectively.

All University employees are entitled to a sick leave credit equal to 15 days per year (earned on a pro-rata monthly basis for salaried employees and on a pro-rata hourly basis for classified hourly employees). Salaried employees with 10 or more years of service are eligible to receive a payout upon retirement of up to 25% of unused days (maximum of 30 days). Hourly classified employees with 10 or more years of service are eligible for payout upon retirement of up to 50% of unused days (maximum of 60 days). The liability for accrued sick leave at June 30, 2003 and 2002 amounted to approximately \$4,126,000 and \$4,438,000, respectively.

A summary of compensated absences as of June 30, 2003 and 2002 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
For the year ended:					
June 30, 2003	\$ 13,135,006	\$ 8,310,147	\$ (8,045,360)	\$ 13,399,793	\$ 1,150,000
June 30, 2002	\$ 12,700,879	\$ 650,211	\$ (216,084)	\$ 13,135,006	\$ -

(10) Retirement Plans

(a) Defined Benefit Plans

All University employees are eligible to participate in contributory retirement plans that are administered by the Ohio Public Employees Retirement System of Ohio (OPERS) and the State Teachers Retirement System of Ohio (STRS). The particular system in which the employee enrolls is dependent on their position with the University. Both OPERS and STRS are cost sharing, multiple-employer defined benefit pension plans. Both systems provide retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The payroll for employees covered by OPERS and STRS for the year ended June 30, 2003 is \$93,473,000 and \$74,118,000, respectively. The payroll for employees covered by OPERS and STRS for the year ended June 30, 2002 is \$91,531,000 and \$73,060,000, respectively. For the years ended June 30, 2003 and June 30, 2002, the University's total payroll is \$236,090,000 and \$228,106,000, respectively.

Both OPERS and STRS issue a stand-alone financial report. Interested parties may obtain a copy of the OPERS report by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377). The STRS report may be obtained by making a written request to 275 East Broad Street, Columbus, Ohio 43215-3771.

(b) Defined Contribution Plans

The Alternative Retirement Plan (ARP) is a defined contribution pension plan, under IRS section 401(a), and established by Ohio Amended Substitute House Bill 586 (ORC 3305.02) on March 31, 1998 for public

institutions of higher education. The University's Board of Trustees adopted the University's plan on April 18, 1998. Full-time salaried employees are eligible to choose a provider, in lieu of OPERS or STRS, from the list of eight providers currently approved by the Ohio Department of Insurance and who hold agreements with the University. Employee and employer contributions equal to those required by STRS and OPERS are required for ARP, less any amounts required to be remitted to the state retirement system in which the employee would otherwise have been enrolled.

Eligible employees have 120 days from their date of hire to make an irrevocable election to participate in the alternative retirement plan. Under this plan, employees who would have otherwise been required to be in STRS or OPERS and who elect to participate in the ARP must contribute the employee's share of retirement contributions (9.3% STRS or 8.5% OPERS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute an amount to the state retirement system to which the employee would have otherwise belonged, based on an independent actuarial study commissioned by the Ohio Retirement Study Council and submitted to the Ohio Board of Regents. That amount is 0% for OPERS and 3.5% for STRS for the year ended June 30, 2003. The employer also contributes what would have been the employer's share of the appropriate retirement system, less the aforementioned percentages to the private provider selected by the employee. The University plan provides these employees with immediate plan vesting.

ARP does not provide disability benefits, annual cost-of living adjustments, postretirement health care benefits, or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

(c) Retirement Plan Funding

The Ohio Revised Code provides statutory authority for employee and employer contributions to retirement systems. The 2003 employee contribution rates for state employers are 8.5% of covered payroll for OPERS, 10.1% of covered payroll for law enforcement employees and 9.3% of covered payroll for STRS. The 2003 employer contribution rates for state employers is 13.31% of covered payroll for OPERS, 16.7% of covered payroll for law enforcement, and 14.0% of covered payroll for STRS. The employee and employer rates are the same for ARP employees as the retirement system under which they would otherwise be. However, for those who would otherwise be covered by STRS, 3.5% of the employer contribution goes to the STRS retirement system. The University's contributions each year are equal to its required contributions.

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

		Employer contributions		
		STRS	OPERS	ARP
2003	\$	10,376,000	\$ 12,441,000	\$ 5,618,000
2002		10,228,000	12,183,000	4,908,000
2001		10,102,000	12,114,000	4,563,000

(d) MCI Deferred Profit Sharing Plan

Effective February 1, 1984, MCI established a deferred profit sharing plan under Section 401(k) of the Internal Revenue Code covering substantially all employees. Eligibility requirements are one year of service defined as a 12-month period with more than 1,000 hours of service, and a minimum age of 21 years of age. MCI's annual contribution is 50% of each eligible employee's elected contribution up to 3%

of the employee's total salary. Total profit-sharing contribution is \$116,778 and \$119,948, respectively, for the fiscal year ended January 31, 2003 and 2002.

(e) Other Post-Employment Benefits

In addition to the pension benefits described in Note 10, Ohio Law provides that the University fund postretirement health care benefits to retirees and their dependents through employer contributions to the Ohio Public Employees Retirement System of Ohio (OPERS) and the State Teachers Retirement System of Ohio (STRS Ohio).

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for state employers was 13.31% of covered payroll of which 5.00% was the portion used to fund health care for the year. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70% and 5.00% was used to fund health care. The number of active contributing participants was 402,041.

The actuarial value of the OPERS' net assets available for OPEB at December 31, 2001 is \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, is \$16.4 billion and \$4.8 billion, respectively.

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

The ORC grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Stabilization Fund. Effective July 1, 2002, 1% of covered payroll is allocated to the fund. The balance in the Health Care Stabilization Fund was approximately \$3.011 billion on June 30, 2002, the date of the most recent information available from STRS Ohio.

For the year ended June 30, 2002, the date of the most recent information available from STRS Ohio, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

(11) Early Retirement Incentive Plan (ERIP)

In fiscal year 2003 the University Board of Trustees approved an Early Retirement Incentive Plan (ERIP) buyout for eligible employees in the Ohio Public Employees Retirement System (OPERS). An ERIP allows the University to purchase additional service credit, in this case two years, which enables eligible employees to retire early or to retire with a larger retirement benefit than they may have otherwise. The buyout period began on May 1, 2003. The period remains open until June 30, 2004. A \$10,000 incentive was offered to employees who signed up for the buyout by June 30, 2003 and who would retire by September 1, 2003. Eligible employees are those who are currently eligible to retire with 5 years of service at age 60, 25 years of service at age 55 or 30 years of service at any age; who become eligible to retire due to the incentive plan; who become eligible to retire during the open period; or who become eligible due to purchasing additional service credit, i.e., exempt, refunded, military or other eligible time.

As of June 30, 2003, 136 employees have signed up for the ERIP for a total cost estimate of \$7,057,268 that includes sick and vacation payouts in accordance with standard policy, the \$10,000 incentive bonus for the 131 employees leaving by September 1 and the OPERS payment calculated and billed by OPERS.

(12) Related Organization (unaudited)

The Ohio University Foundation is an independent non-profit corporation established in October, 1945 for the purpose of soliciting and receiving gifts and contributions for the benefit of the University. As of June 30, 2003 and 2002, investments of the Foundation total \$143,337,245 and \$147,182,732 respectively. Most of the Foundation's investments have been restricted by donors for a specific purpose. These investments are not recorded in the accompanying financial statements of the University. Expenditures in support of education programs for the University are \$12,382,944 and \$13,291,639, as of June 30, 2003 and 2002. Total net assets for the Foundation for the years ended June 30, 2003 and June 30, 2002 are \$158,654,413 and \$161,044,775, respectively. As of June 30, 2003 the University is owed \$1,015,463.18 by the Foundation, primarily for payments made on its behalf.

(13) Risk Management and Contingencies

(a) Legal

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

(b) Self-insurance

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

A summary of changes in the self-insurance claims liability for each of the periods in the three-year period ending June 30, 2003 is as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Accrued claims liability at beginning of year	\$ 4,211,000	\$ 6,150,000	\$ 5,159,000
Incurred claims, net of favorable settlements	27,780,000	20,450,000	24,700,000
Claims paid	<u>(28,420,000)</u>	<u>(22,389,000)</u>	<u>(23,709,000)</u>
Accrued claims liability at end of year	<u>\$ 3,571,000</u>	<u>\$ 4,211,000</u>	<u>\$ 6,150,000</u>

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

(c) Commercial Insurance Coverage

The University has the following commercial insurance policies.

<u>Type</u>	<u>Deductible</u>	<u>Coverage</u>
Property	\$ 100,000	\$ 1,257,000,000
Crime	25,000	2,000,000
General liability	250,000	1,000,000
Educators legal liability	100,000	4,000,000
Excess liability	—	95,000,000
Automobile	—	1,000,000
Aircraft and airport liability	—	5,000,000 to 50,000,000
Medical malpractice	250,000	5,000,000 each physician

(d) Workers' Compensation Coverage

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

(e) MCI

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse.

The Board of Directors of MCI has adopted a policy regarding compliance and integrity. Management believes that MCI is in compliance with laws and regulations related to fraud and abuse as well as other applicable government laws and regulations. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the results of any regulatory actions, if any, will not be material to MCI's financial position.

All of the physicians employed by MCI are under contractual arrangements that include three basic types: 1) fixed annual salary 2) fixed rate per shift and 3) fixed rate per hour.

There are several lawsuits, pending claims and incidents that occurred in the past whereby claims have been made and may be asserted against MCI for which the ultimate liability, if any, has not been determined. MCI carries malpractice insurance on a claims made basis with annual coverage limits of \$5,000,000 per occurrence and \$5,000,000 in the aggregate per physician.

Management believes that the future costs relating to all pending malpractice claims and incidents are within the scope of MCI's insurance coverages and subject to reimbursement by the insurance carrier to the extent costs are within the coverage limitations. However management cannot currently predict the amount of future costs, if any, that may be outside the coverage limitations. Any such unreimbursed costs would be borne by MCI and recorded in the accompanying financial statements when paid.

MCI's former insurance carrier, which insured MCI's malpractice claims on an occurrence basis for the eleven-year period ended January 31, 1997, has been placed into liquidation by the Ohio Department of Insurance. As a result, claims may not be totally reimbursed by the former insurance carrier and/or covered by the Ohio Department of Insurance.

(14) Commitments

At June 30, 2003 the University is committed to future capital expenditures as follows:

Contractual commitments:	
To be paid by Ohio University	\$ 16,052,864
To be paid by the State of Ohio	6,311,447
Estimated costs of projects not yet committed	33,806,098
	<u>\$ 56,170,409</u>
These projects will be funded by:	
State appropriations	\$ 25,698,291
Local operating funds	16,535,145
Gifts, federal grants, etc.	13,936,973
	<u>\$ 56,170,409</u>

(15) Other Noncurrent Liabilities

(a) Bureau of Workers' Compensation Liability

The Bureau of Workers' Compensation Liability (see footnote 18 for explanation of elimination) is summarized as follows for the years ended June 30, 2003 and 2002, respectively:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
For the year ended:					
June 30, 2003	\$ 7,049,597	\$ —	\$ (7,049,597)	\$ —	\$ —
June 30, 2002	\$ 3,930,007	\$ 3,119,590	\$ —	\$ 7,049,597	\$ 656,762

(b) Refundable Advances for Federal Student Loans

Refundable advances for federal student loans are summarized as follows for the years ended June 30, 2003 and 2002, respectively:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
For the year ended:					
June 30, 2003	\$ 6,707,002	\$ 467,956	\$ —	\$ 7,174,958	\$ —
June 30, 2002	\$ 6,015,522	\$ 691,480	\$ —	\$ 6,707,002	\$ —

(16) Donor Restricted Endowments

Under the standard established by Section 1715.56 of the Ohio Revised Code, an institution may appropriate so much as is prudent of the realized and unrealized net appreciation of the fair value of the assets of the endowment fund over the historic dollar value of the fund for the uses and purposes for which an endowment fund is established. The University's endowment spending policy is based on the concept of total return and the spending rate for any particular year is to be 5%, phased in over a three year period as follows: 5.7% in fiscal year 2004, 5.4% in fiscal year 2005 and 5% in fiscal year 2006. However, if the total return rate as of the date on which a spending rate is determined exceeds 5% plus the inflation adjuster, the Board may, but shall not be required to, increase the spending rate up to the amount such excess is greater than 5%, but in no event greater than 9%.

The amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the Board are \$12,209,000 and \$13,975,000 for June 30, 2003 and 2002, respectively. Those amounts are reported as restricted expendable net assets.

(17) Extraordinary Item – Workers' Compensation

In fiscal year 2002, the State of Ohio required state universities to record a portion of the state's workers' compensation liability in its financial statements. In fiscal year 2003, the State of Ohio reversed this decision and as such the workers' compensation liability and all related expenses have been completely reversed in the accompanying 2003 financial statements.

Under the State of Ohio's Workers' Compensation program, the University is part of a pool of state agencies and state universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis. In fiscal year 2002, as part of the State of Ohio's implementation of GASB Statements No. 34 and 35, the State of Ohio required each state agency and state university to record a portion of the estimated actuarial liability for workers' compensation in its financial statements. Accordingly, the University's

Statement of Net Assets reflected an unfunded workers' compensation liability of \$7,049,597 at June 30, 2002.

In 2003, the Auditor of State and the Office of Budget and Management agreed to re-examine this accounting treatment. Based on their review and consultation with representatives of the state-assisted universities, the agencies determined that the State of Ohio's General Revenue Fund would recognize the entire liability for future workers' compensation claims for the state, including the universities. Accordingly, the University's 2003 Statement of Net Assets reflects a reallocation of the \$7,049,597 unfunded workers' compensation liability to the State of Ohio which reduces this liability to \$0 at June 30, 2003. This entire reduction of expense is reported on the University's 2003 Statement of Revenues, Expenses, and Changes in Net Assets as an Extraordinary Item.

(18) Internal Designation of Funds

The Statements of Net Assets show an amount of \$50,652,596 and \$45,776,104 for Unrestricted Net Assets as of June 30, 2003 and 2002, respectively. Internally those funds have been designated as follows:

	<u>2003</u>	<u>2002</u>
Quasi endowments	\$ 10,048,611	\$ 10,493,244
Open purchase orders - educational and general	1,881,553	2,455,457
Auxiliary enterprises, including open purchase orders	7,619,753	4,280,454
Departmental/auxiliary set-aside for current capital needs	1,661,980	8,214,519
Departmental/auxiliary set-aside for future capital needs	5,238,382	5,412,234
Departmental carryforward	<u>24,202,317</u>	<u>14,920,196</u>
	<u>\$ 50,652,596</u>	<u>\$ 45,776,104</u>

(19) Subsequent Events Relating to MCI

Name Change – Effective July 1, 2003 MCI legally changed its name to University Medical Associates, Inc. (UMA).

Business Model Change – On July 1, 2003 UMA (previously MCI) converted to a new business model where by all employees associated with delivering medical care are now employed within UMA. Historically, only the physicians resided in MCI with all associated personnel being employees of Ohio University. In that arrangement MCI would in essence lease the services of these individuals, while incurring a financial obligation to the University. As a result of this change after July 1, 2003 there will no longer be a contractual obligation between UMA (previously MCI) and the University.

Malpractice – UMA leadership decided that in light of the tightening malpractice market that they would form their own captive insurance company, UMA Insurance SPC LTD, to provide malpractice coverage for the UMA group as well as Ohio University's College of Osteopathic Medicine (OUCOM). UMA Insurance is domiciled in the Cayman Islands and is currently in the process of being licensed. UMA Insurance self retains the first layer of coverage (\$250,000) and reinsures the next layer (\$750,000) through Lloyd's of London. Policy limits are \$1,000,000/\$3,000,000. As part of this conversion all physicians employed by MCI at June 30, 2003 are tailed out at policy limits of \$2,000,000/\$4,000,000 with the previous carrier, The Doctor's Company (TDC).

Corporate Entity Change – On August 29, 2003 the necessary paperwork was filed with the state of Ohio initiating UMA's change to a 501c3 Not for Profit organization. UMA management is in the process of preparing the IRS filing seeking tax-exempt status.

The University has not yet determined the impact of these changes on the financial statements of the University.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Ohio University
Athens, Ohio

We have audited the financial statements of Ohio University (the "University") as of and for the year ended June 30, 2003, and have issued our report thereon dated October 30, 2003. We conducted our audit 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.

COMPLIANCE

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the University in a separate letter dated October 30, 2003.

This report is intended solely for the information and use of the Board of Trustees and management of the University, federal awarding agencies, state funding agencies, pass-through entities, and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

October 30, 2003

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

*Report on Federal Awards in Accordance
With OMB Circular A-133
for the Year Ended June 30, 2003*

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**OHIO UNIVERSITY
(A COMPONENT UNIT OF THE STATE OF OHIO)**

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OHIO UNIVERSITY
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
Student Aid Cluster:			
U.S. Department of Education:			
SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS	84.007	P007A023342	\$ 1,186,198
COLLEGE WORKSTUDY PROGRAM	84.033	PO33A023342	1,016,964
COLLEGE WORKSTUDY PROGRAM (JLD)	84.033	PO33A023342	35,824
PERKINS (CAPITAL CONTRIBUTION)	84.038	PO38A023342	141,954
FEDERAL DIRECT STUDENT LOAN	84.268	N/A	89,197,992
PELL GRANT PROGRAM	84.063	P063P020345	15,683,958
PELL GRANT PROGRAM (PR YR)	84.063	P063P020345	(961)
Total U.S. Department of Education			<u>107,261,929</u>
U.S. Department of Health and Human Services			
FADHPS AWARD	93.139	6084207-02	11,337
PRIMARY CARE LOANS	93.342	N/A	163,001
LOANS FOR DISADVANTAGED STUDENTS	93.XXX	N/A	163,001
SDS AWARD	93.925	6084209-03	216,634
Total U.S. Department of Health and Human Services			<u>553,973</u>
Total Student Financial Aid Cluster			<u>107,815,902</u>
Research and Development Cluster:			
Appalachian Regional Commission			
Pass-Through Programs From:			
EAST TENNESSEE STATE UNIVERSITY	23.XXX	N/A	2,656
Subtotal Pass-Through Programs			<u>2,656</u>
Total Appalachian Regional Commission			<u>2,656</u>
National Aeronautics and Space Administration:			
Direct Programs:			
Ames Reserch Center:			
MOLECULAR CLONING N CHARAC	43.XXX	NAG2-1608	29,743
George C. Marshall Space Flight Center:			
FURTHER IMPROVEMENT OF A TRAJECTORY	43.XXX	NAG8-1789	8,716
INTEGRATED GUIDANCE N CONTROL	43.XXX	NAS8-01105	1,009,309
PROCESS STRUCTURE PROPERTY RELATIONSHIP IN COMPOSITE	43.XXX	PO H34953D	(291)
			<u>1,017,734</u>
Glenn Research Center:			
SATS FLIGHT DEMO OF 3D COCKPIT DESPLAY OF TRAFFIC INFO	43.XXX	NAG3-2612	23,426
AIRBORNE INTERNET ALTERNATE	43.XXX	NAG3-2815	37,083
			<u>60,509</u>
Goddard Space Flight Center:			
REEXAMINATION OF COOLING FLOWS & RADIO GALAXIES IN THE CHANDRA ERA	43.XXX	NAG5-11025	70,447
RESOURCE MGMT FOR REALTIME AD	43.XXX	NAG5-10349	225,097
MANAGEMENT OF DISTRIBUTED COMP	43.XXX	NASS-00185	124,701
			<u>420,245</u>
Langley Research Center:			
HAPTICS AUGMENTED SCIENCE EDUC	43.XXX	NAG-1-01094	42,682
NASA SYNTHETIC VISION	43.XXX	NCC-1-351	587,185
			<u>629,867</u>
Subtotal Direct Programs			<u>2,158,098</u>
Pass-Through Programs From:			
OHIO AEROSPACE INSTITUTE	43.XXX	R-300-100172-40104	(2,594)
OHIO AEROSPACE INSTITUTE	43.XXX	R-300-100175-40104	75,501
			<u>72,907</u>
GEORGE MASON UNIVERSITY	43.XXX	5-26205-2 PO T200333	20,187
SMITHSONIAN ASTROPHYSICAL OBSERVATORY	43.XXX	G00-1078A	24,547
SMITHSONIAN ASTROPHYSICAL OBSERVATORY	43.XXX	AR2-3007X	31,918
SMITHSONIAN ASTROPHYSICAL OBSERVATORY	43.XXX	AR3-4011X	7,939
SMITHSONIAN ASTROPHYSICAL OBSERVATORY	43.XXX	G01-2139X	46,427
SMITHSONIAN ASTROPHYSICAL OBSERVATORY	43.XXX	G02-3161X	2,178
SMITHSONIAN ASTROPHYSICAL OBSERVATORY	43.XXX	G01-2094X	52,413
			<u>165,422</u>
SPACE TELESCOPE SCIENCE INSTITUTE	43.XXX	HST-GO-08589 02-A	7,905
SPACE TELESCOPE SCIENCE INSTITUTE	43.XXX	HST-GO-08599 03-A	230
SPACE TELESCOPE SCIENCE INSTITUTE	43.XXX	HST-GO-09070-03-A	4,578

OHIO UNIVERSITY
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
SPACE TELESCOPE SCIENCE INSTITUTE	43.XXX	HST-GO-09143-02-A	\$ 21,164
			33,877
Subtotal Pass-Through Programs			292,393
Total National Aeronautics and Space Administration			2,450,491
National Endowment for the Humanities: Pass-Through Programs From:			
INTERNATIONAL RESEARCH AND EXCHANGES BOARD	45.XXX	N/A	3,000
Subtotal Pass-Through Programs			3,000
Total National Endowment for the Humanities			3,000
National Institute of Standards and Technology: Pass-Through Programs From:			
NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY	11.609	70NANB2H0130	46,428
OHIO AEROSPACE INSTITUTE	11.612	FIPER R-300-100154-40104	309,571
Total National Institute of Standards and Technology			355,999
National Oceanic & Atmospheric Administration: Pass-Through Programs From:			
MARYLAND SEA GRANT COLLEGE	11.XXX	SA75280313R	2,688
Total National Oceanic & Atmospheric Administration			2,688
National Science Foundation: Direct Programs:			
ENGINEERING GRANTS	47.041	BES-0096303	45,111
ENGINEERING GRANTS	47.041	ECS-0083412	92,661
ENGINEERING GRANTS	47.041	ECS-0094668	89,492
ENGINEERING GRANTS	47.041	ECS-0210216	56,123
			283,387
MATHEMATICAL & PHYSICAL SCIENCES	47.049	AST-9703036	34,978
MATHEMATICAL & PHYSICAL SCIENCES	47.049	CHE-0096244	32,416
MATHEMATICAL & PHYSICAL SCIENCES	47.049	DBI-9904799	1,403
MATHEMATICAL & PHYSICAL SCIENCES	47.049	DMR-0081006	62,526
MATHEMATICAL & PHYSICAL SCIENCES	47.049	DMR-0094055	77,223
MATHEMATICAL & PHYSICAL SCIENCES	47.049	DMR-0103034	305,636
MATHEMATICAL & PHYSICAL SCIENCES	47.049	DMR-9983816	115,970
MATHEMATICAL & PHYSICAL SCIENCES	47.049	PHY-0072226	299,253
MATHEMATICAL & PHYSICAL SCIENCES	47.049	PHY-0074853	2,282
MATHEMATICAL & PHYSICAL SCIENCES	47.049	PHY-0244999	2,967
			934,654
GEOSCIENCES	47.050	ATM-9905738	87,524
GEOSCIENCES	47.050	EAR-0074647	33,714
GEOSCIENCES	47.050	EAR-0125479	36,695
GEOSCIENCES	47.050	EAR-0207432	31,209
GEOSCIENCES	47.050	EAR-0210213	53,727
GEOSCIENCES	47.050	OCE-0117132	73,441
			316,310
COMPUTER AND INFORMATION SCIENCE AND ENGINEERING	47.070	ANI-0086642	45,367
COMPUTER AND INFORMATION SCIENCE AND ENGINEERING	47.070	ANI-0113307	59,311
COMPUTER AND INFORMATION SCIENCE AND ENGINEERING	47.070	ANI-9981927	86,708
COMPUTER AND INFORMATION SCIENCE AND ENGINEERING	47.070	CCR-0000246	19,150
COMPUTER AND INFORMATION SCIENCE AND ENGINEERING	47.070	EIA-0120056	178,096
			388,632
BIOLOGICAL SCIENCES	47.074	DBI-0115848	312,619
BIOLOGICAL SCIENCES	47.074	DEB-0041977	2,834
BIOLOGICAL SCIENCES	47.074	DEB-0211054	59,892
BIOLOGICAL SCIENCES	47.074	DEB-0235676	6,404
BIOLOGICAL SCIENCES	47.074	DEB-0308806	359
BIOLOGICAL SCIENCES	47.074	IBN-0076342	930
BIOLOGICAL SCIENCES	47.074	IBN-0076421	1,719
BIOLOGICAL SCIENCES	47.074	IBN-0080158	42,942
BIOLOGICAL SCIENCES	47.074	IBN-0090250	81,695
BIOLOGICAL SCIENCES	47.074	IBN-0110413	77,185
BIOLOGICAL SCIENCES	47.074	IBN-0131077	77,380
BIOLOGICAL SCIENCES	47.074	IBN-0131523	67,020
BIOLOGICAL SCIENCES	47.074	IBN-9727757	(1,192)

OHIO UNIVERSITY
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
BIOLOGICAL SCIENCES	47.074	IBN-9904633	\$ 40,394
BIOLOGICAL SCIENCES	47.074	IBN-9983561	86,503
BIOLOGICAL SCIENCES	47.074	INB-0078055	99,543
BIOLOGICAL SCIENCES	47.074	MCB-9733210	78,778
BIOLOGICAL SCIENCES	47.074	MCB-9874744	160,274
			<u>1,195,279</u>
SOCIAL, BEHAVIORAL AND ECONOMIC SCIENCES	47.075	INT-0123349	8,619
SOCIAL, BEHAVIORAL AND ECONOMIC SCIENCES	47.075	INT-0128992	12,113
			<u>20,732</u>
EDUCATION AND HUMAN RESOURCES	47.076	EEC-0227907	18,373
EDUCATION AND HUMAN RESOURCES	47.076	DUE-0126739	76,379
			<u>94,752</u>
POLAR PROGRAMS	47.078	OPP-0135989	<u>5,008</u>
Subtotal Direct Programs			<u>3,238,754</u>
Pass-Through Programs From:			
AMERICAN ASSOCIATION FOR THE ADVANCEMENT OF SCIENC	47.XXX	N/A	2,039
AMERICAN ASSOCIATION FOR THE ADVANCEMENT OF SCIENC	47.XXX	N/A	435
			<u>2,474</u>
APPLIED SCIENCES INC	47.041	DMI 0110456	106,459
LEHIGH UNIVERSITY	47.049	539023-8000	81,076
INSTITUTE OF ECOSYSTEM STUDIES	47.074	2775-200207	30,111
NATIONAL RESEARCH COUNCIL	47.075	N/A	9,121
UNIVERSITY OF CONNECTICUT	47.XXX	2465	2,134
UNIVERSITY OF CONNECTICUT	47.XXX	BES-9813338	10,662
			<u>12,796</u>
UNIVERSITY OF ILLINOIS URBANA	47.049	DMR-0205858 Sub award 03-126	22,024
UNIVERSITY OF TENNESSEE	47.041	BES-0090009	7,468
			<u>271,529</u>
Subtotal Pass-Through Programs			<u>271,529</u>
Total National Science Foundation			<u>3,510,283</u>
U.S. Agency for International Development:			
Pass-Through Programs From:			
ASSOCIATION LIAISON OFFICE	02.XXX	HNE-A-00-97-00059-00	2,683
Total U.S. Agency for International Development			<u>2,683</u>
U.S. Department of Agriculture:			
Direct Programs:			
HISTORICAL SOCIAL DATA	10.XXX	02-CA-12242343-056	10,582
GRANTS FOR AGRICULTURAL RESEARCH-SPECIAL RESEARCH GRANTS	10.206	2002-35304-12333	63,591
FORESTRY RESEARCH - FIRE TEMP N WEEVIL POPULATION	10.652	01-CA-11242343-09301-CA-11242343-029	3,006
FORESTRY RESEARCH - CONSEQUENCES OF FIRE N FIRE	10.652	00-CA-11242342-024/01-CA-11242343-004/02-044/03-030	13,122
FORESTRY RESEARCH - FIRE AND FIRE SURROGATE RSCH2	10.652	00-CA-11242343-024 & 01-CA-004	26,823
FORESTRY RESEARCH - UTILITY OF HISTORICAL LAND USE	10.652	01-CA-11242343-085	73
FORESTRY RESEARCH - FOREST CONSERVATION IN MARYLAND	10.652	02-CA-11242343-017	9,000
FORESTRY RESEARCH - QUANTIFYING SPATIAL HETEROGENE	10.652	02-CA-11242343-089	11,838
FORESTRY RESEARCH - SEASONAL TRENDS IN LEAF AREA	10.652	03-CA-11242343-008	8,495
			<u>72,357</u>
FIRE AND FIRE SURROGATE RSCH1	10.653	00-CA-11242343-010/00-029/01-001/02-043	8,097
RURAL UTILITIES SERVICE - DISTANCE LEARNING & TELEMEDICINE LOANS & GRANTS	10.855	99-38411-8030	8,190
			<u>162,817</u>
Subtotal Direct Programs			<u>162,817</u>
Pass-Through Programs From:			
OHIO STATE UNIVERSITY RESEARCH FOUNDATION	10.200	RF00943874	37,425
RURAL ACTION INC	10.200	N/A	1,442

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
UNIVERSITY OF NEBRASKA LINCOLN	10.200	25-6205-0034-030	\$ 14,261
Subtotal Pass-Through Programs			53,128
Total U.S. Department of Agriculture			215,945
U.S. Department of Defense:			
Direct Programs:			
Air Force:			
BASIC, APPLIED & ADVANCED RESEARCH IN SCIENCE AND ENGINEERING	12.630	F4-9620-03-1-0285	55,000
AIR FORCE DEFENSE RESEARCH SCIENCES PROGRAM	12.800	F49620-03-1-0004	20,897
AIR FORCE DEFENSE RESEARCH SCIENCES PROGRAM	12.800	F49620-01-1-0284	83,205
AIR FORCE RESEARCH LABORATORY - AIR FORCE DEFENSE RESEARCH SCIENCES PROGRAM	12.800	F29601-00-C-0212	211,595
AIR FORCE RESEARCH LABORATORY - AIR FORCE DEFENSE RESEARCH SCIENCES PROGRAM	12.800	F29601-99-C-0176	6,338
AIR FORCE RESEARCH LABORATORY - AIR FORCE DEFENSE RESEARCH SCIENCES PROGRAM	12.800		28,743
			405,778
Office of the Chief of Naval Research			
US NAVY NAVAL SEA SYSTEMS COMMAND	12.XXX	PO N0002403NR40122.38	40,000
SPACE AND NAVAL WARFARE SYSTEMS CENTER	12.XXX	N66001-02-C-8063	165,522
RESEARCH AND TECHNOLOGY DEPARTMENT	12.910	N66001-01-1-8972	29,534
			235,056
U S ARMY ROBERT MORRIS ACQUISITION CENTER	12.XXX	DAAD05-02-C-0035	122,034
U S ARMY CORP OF ENGINEERS - SIGNAL PROCESSING PATTERNS	12.XXX	DAAD13-00-C-0038	108,276
U S ARMY MEDICAL RESEARCH ACQUISITION - DIETARY ENERGY REQUIREMENTS	12.XXX	DAMD17-95-1-5053	210,884
PLANNING ASSISTANCE TO STATES	12.110	DACW31-02-P-0424	16,859
MILITARY MEDICAL RESEARCH AND DEVELOPMENT	12.420	DAMD17-99-1-9339	93,782
BASIC SCIENTIFIC RESEARCH	12.431	DAAD19-01-1-0598	2,845
			554,680
Subtotal Direct Programs			1,195,514
Pass-Through Programs From:			
DEFENSE ADVANCED RESEARCH PROJECT	12.910	F33615-01-C-1834	163,894
GEO CENTERS INC	12.XXX	DAAM01-97-D-0006	31,631
INNOVATIVE SCIENTIFIC SOLUTIONS	12.XXX	PO SB02023	17,081
INNOVATIVE SCIENTIFIC SOLUTIONS	12.XXX	PO2003254	59,059
			76,140
SYSTRAN FEDERAL CORP	12.XXX	F33615-99-C-5803	82,529
TECHNICAL MANAGEMENT CONCEPTS	12.800	TMC96-5835-0018-14	11,849
THALES ATM INC	12.XXX	B66309	8,883
TRANDES CORPORATION	12.XXX	PO 03-500013	9,978
UNIVERSAL TECHNOLOGY CORPORATION	12.XXX	02-S437-027-26-C1	7,908
WASHINGTON UNIVERSITY	12.XXX	PO No 29543T/WU-HT-03-24	2,412
Subtotal Pass-Through Programs			395,224
Total U.S. Department of Defense			1,590,738
U.S. Department of Education:			
Pass-Through Programs From:			
ATHENS CITY SCHOOL DISTRICT	84.338	N/A	190
COMMUNITY ACTION COMMISSION OF BELMONT COUNTY	84.213	N/A	17,379
COSHOCTON CITY SCHOOL	84.213	N/A	8,396
LANCASTER EVEN START	84.213	N/A	14,682
LOGAN HOCKING SCHOOLS	84.338	N/A	644
Subtotal Pass-Through Programs			41,291
Total U.S. Department of Education			41,291
U.S. Department of Energy:			
Direct Programs:			
EVAL FINE PARTICULATE MATTER	81.XXX	DE-FC26-03NT41723	9,482
SEMICONDUCTOR QUANTUM SYSTEMS	81.XXX	DE-FG02-87ER45334	94,114
INTERMED ENERGY NUCLEAR PHYSIC	81.XXX	DE-FG02-93ER40756	105,824

OHIO UNIVERSITY
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
NOVEL INVEST OF IRN CROSS SEC	81.XXX	DE-FG03-99SF21897	\$ 110,106 319,526
OFFICE OF SCIENCE FINANCIAL ASSISTANCE PROGRAM	81.049	DE-FG02-02ER46012	61,109
OFFICE OF SCIENCE FINANCIAL ASSISTANCE PROGRAM	81.049	DE-FG02-87ER40370	21,319
OFFICE OF SCIENCE FINANCIAL ASSISTANCE PROGRAM	81.049	DE-FG02-88ER40387	433,227
			<u>515,655</u>
FOSSIL ENERGY RESEARCH AND DEVELOPMENT	81.089	CE-FC26-00NT40932	365,622
UNIVERSITY NUCLEAR SCIENCE AND REACTOR SUPPORT	81.114	CE-FG02-02ER41218	34,300
UNIVERSITY NUCLEAR SCIENCE AND REACTOR SUPPORT	81.114	DE-FG03-02NA00074/A000	6,634
			<u>40,934</u>
Subtotal Direct Programs			<u>1,241,737</u>
Pass-Through Programs From:			
ADVANCED TECHNOLOGY SYTEMS	81.XXX	DE-FC26-02NT41476	135,746
BATTELLE PACIFIC NORTHWEST	81.XXX	PO 411882-A-B2	8,776
BROOKHAVEN NATIONAL LABORATORY	81.XXX	58211/58255	8,021
CARNEGIE MELLON UNIVERSITY	81.XXX	DE-FC26-OINT41017 1070008114485	27,400
CONSOL ENERGY INC	81.XXX	PO 01 01 038861	15,800
CROLL REYNOLDS CLEAN AIR	81.XXX	N/A	29,941
FLUOR DANIEL FERNALD INC	81.XXX	98WC002064	4,738
IDAHO NATIONAL ENGINEERING AND ENVIRONMENTAL LAB	81.XXX	N/A	1,268
LAWRENCE LIVERMORE NATIONAL LABORATORY	81.XXX	PO B533445	20,000
LAWRENCE LIVERMORE NATIONAL LABORATORY	81.XXX	N/A	7,566
LAWRENCE LIVERMORE NATIONAL LABORATORY	81.XXX	N/A	6,362
			<u>33,928</u>
LOS ALAMOS NATIONAL LABORATORY	81.049	PO 47735-001-02 3N	22,268
S E UNIVERSITIES RESEARCH ASSOC	81.114	SURA-98-P3287	204
UNIVERSITY OF NEVADA RENO	81.118	12GC0000021	4,401
UNIVERSITY OF MICHIGAN	81.049	F005182	104,823
Subtotal Pass-Through Programs			<u>397,314</u>
Total U.S. Department of Energy			1,639,051
U.S. Department of Health & Human Services:			
Direct Programs:			
RESEARCH RELATED TO DEAFNESS AND COMMUNICATION DISORDERS	93.173	1 R21 DC05468	33,560
RESEARCH RELATED TO DEAFNESS AND COMMUNICATION DISORDERS	93.173	5 K23 DC00153	116,059
RESEARCH RELATED TO DEAFNESS AND COMMUNICATION DISORDERS	93.173	5 R01 DC05063	404,618
			<u>554,237</u>
MENTAL HEALTH RESEARCH GRANTS	93.242	5 R01 MH57832	140,984
MENTAL HEALTH RESEARCH GRANTS	93.242	5 R01 MH59009	328,780
			<u>469,764</u>
ALCOHOL RESEARCH PROGRAMS	93.273	1 R01 AA14294-01	127,024
DRUG ABUSE RESEARCH PROGRAMS	93.279	1 01 DA13939	152,590
CANCER RESEARCH MANPOWER	93.398	7 K01 CA 79743	47,250
MCH CLASS I MOLECULE RETENTION	93.756	1 R15 AI45520	1,584
CELL BIOLOGY AND BIOPHYSICS RESEARCH	93.821	1 R15 GM60969	74,872
CELL BIOLOGY AND BIOPHYSICS RESEARCH	93.821	5 R01 GM61048	175,059
			<u>249,931</u>
HEART AND VASCULAR DISEASES RESEARCH	93.837	5 R01 HL64794	288,873
KIDNEY DISEASES, UROLOGY AND HEMATOLOGY RESEARCH	93.849	1 R15 DK61952	49,964
EXTRAMURAL RES. PROG. IN THE NEUROSCIENCES AND NEUROLOGICAL DISORDERS	93.853	5 R01 NS32374	505,246

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Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
NATIONAL INSTITUTE OF NEUROLOGICAL DISORDERS & STROKE	93.854	7 R02 NS22979	\$ 105,452
MICROBIOLOGY AND INFECTIOUS DISEASES RESEARCH	93.856	1 R15 AI47165	2,508
MICROBIOLOGY AND INFECTIOUS DISEASES RESEARCH	93.856	2 R15 AI47165	<u>12,781</u>
			15,289
PHARMACOLOGY, PHYSIOLOGY, AND BIOLOGICAL CHEMISTRY RESEARCH	93.859	5 R01 GM48858	151,036
GENETICS AND DEVELOPMENTAL BIOLOGY RESEARCH AND RESEARCH TRAINING	93.862	2 R01 GM50690	226,250
AGING RESEARCH	93.866	1 R15 AG20536	47,289
AGING RESEARCH	93.866	5 R21AG20334	<u>75,349</u>
			<u>122,638</u>
Subtotal Direct Programs			<u>3,067,128</u>
Pass-Through Programs From:			
BAYLOR COLLEGE OF MEDICINE	93.173	PO 4600361215	21,288
CARROLL COUNTY FAMILY AND CHILDREN FIRST COUNCIL	93.556	N/A	8,400
CARROLL COUNTY FAMILY AND CHILDREN FIRST COUNCIL	93.667	N/A	<u>5,979</u>
			14,379
COLUMBIA UNIVERSITY	93.838	HL55397	57,098
COLUMBIA UNIVERSITY	93.857	PO 523577	<u>139,174</u>
			196,272
DUKE UNIVERSITY	93.XXX	Fund Code 303-1609	44,729
MEDICAL COLLEGE OF WISCONSIN	93.242	PO 521968-000	19,042
OHIO DEPARTMENT OF HEALTH	93.913	N/A	6,124
POPULATION COMMUNICATIONS INTERNATIONAL	93.XXX	H75 CCH222210-01	35,542
SOUTHERN ILLINOIS UNIVERSITY	93.866	1 R01 AG19899-01	83,164
UNIVERSITY OF CALIFORNIA DAVIS	93.856	99RA2742-1	6,798
UNIVERSITY OF GEORGIA	93.136	RR274-160/7607034	11,516
UNIVERSITY OF IOWA	93.847	PO 4000089762	50,701
UNIVERSITY OF IOWA	93.847	1 R01 DK64569-01	<u>435</u>
			51,136
UNIVERSITY OF TEXAS M D ANDERSON CANCER CENTER	93.395	5 R01 CA029026	18,769
WASHINGTON COUNTY CHILDRENS SERVICES	93.645	N/A	113
WASHINGTON COUNTY FAMILY AND CHILDREN	93.590	N/A	<u>3,733</u>
			3,846
WASHINGTON COUNTY MENTAL HEALTH AND RECOVERY BOARD	93.XXX	N/A	<u>1,500</u>
Subtotal Pass-Through Programs			<u>514,105</u>
Total U.S. Department of Health & Human Services			<u>3,581,233</u>
U.S. Department of the Interior:			
Direct Programs:			
NOT-FOR-PROFIT AMD RECLAMATION	15.253	CT284-114	2,293
NOT-FOR-PROFIT AMD RECLAMATION	15.253	CT284-129	<u>2,500</u>
			4,793
U S GEOLOGICAL SURVEY - RESEARCH AND DATA ACQUISITION	15.808	01CRAG0025	177,766
U S GEOLOGICAL SURVEY - RESEARCH AND DATA ACQUISITION	15.808	02CRGR0004	<u>188,524</u>
			366,290
NATIONAL SPATIAL DATA INFRASTRUCTURE COOPERATIVE AGREEMENTS PROGRAM	15.809	02HQAG0120	2,731
NATIONAL COOPERATIVE GEOLOGIC MAPPING PROGRAM	15.810	02HQAG0077	<u>9,925</u>
Subtotal Direct Programs			<u>383,739</u>
Pass-Through Programs From:			
RURAL ACTION INC	15.252	N/A	<u>9,900</u>
Subtotal Pass-Through Programs			<u>9,900</u>

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Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
Total U.S. Department of the Interior			<u>\$ 393,639</u>
U.S. Department of Justice:			
Direct Programs:			
NATL INSTITUTE OF JUSTICE RESEARCH, EVALUATION, AND DEVELOPMENT PROJECT GRANT 16.560		2002-IJ-CX-K007	212,927
NATL INSTITUTE OF JUSTICE RESEARCH, EVALUATION, AND DEVELOPMENT PROJECT GRANT 16.560		2002-MU-MU-K002	42,784
NATL INSTITUTE OF JUSTICE RESEARCH, EVALUATION, AND DEVELOPMENT PROJECT GRANT 16.560		2002-WG-BX-0004	<u>58,162</u>
Subtotal Direct Programs			<u>313,873</u>
Pass-Through Programs From:			
ATHENS HOCKING VINTON COUNTIES TASC	16.585	N/A	<u>2,388</u>
Subtotal Pass-Through Programs			<u>2,388</u>
Total U.S. Department of Justice			<u>316,261</u>
U.S. Department of Transportation:			
Direct Programs:			
FEDERAL AVIATION ADMINISTRATION	20.XXX	DTFA-02-03-D-00394	20,294
FEDERAL AVIATION ADMINISTRATION	20.XXX	DTFA01-01-C-00071	1,961,538
FEDERAL AVIATION ADMINISTRATION	20.XXX	DTFA01-01-C-00012	618,624
FEDERAL AVIATION ADMINISTRATION	20.XXX	DTFA01-97-C-00078	<u>227,956</u>
			2,828,412
FEDERAL AVIATION ADMINISTRATION - AVIATION RESEARCH GRANTS	20.108	95-G-014	148,175
FEDERAL AVIATION ADMINISTRATION - AVIATION RESEARCH GRANTS	20.108	98-G-002	1,886,616
FEDERAL AVIATION ADMINISTRATION - AVIATION RESEARCH GRANTS	20.108	DTFA-02-D-97036	33,520
FEDERAL AVIATION ADMINISTRATION - AVIATION RESEARCH GRANTS	20.108	2001-G-016	<u>144,359</u>
			2,212,670
Subtotal Direct Programs			<u>5,041,082</u>
Pass-Through Programs From:			
OHIO DEPARTMENT OF TRANSPORTATION	20.XXX	AC SPR-PL-1(33)	1,339
OHIO DEPARTMENT OF TRANSPORTATION	20.XXX	State Job No. 14101(1)	14,906
OHIO DEPARTMENT OF TRANSPORTATION	20.205	10209	158,089
OHIO DEPARTMENT OF TRANSPORTATION	20.205	10210	95,856
OHIO DEPARTMENT OF TRANSPORTATION	20.205	10212	140,232
OHIO DEPARTMENT OF TRANSPORTATION	20.205	11241	11,372
OHIO DEPARTMENT OF TRANSPORTATION	20.205	11251	14,551
OHIO DEPARTMENT OF TRANSPORTATION	20.205	11252	10,518
OHIO DEPARTMENT OF TRANSPORTATION	20.205	11722	177,716
OHIO DEPARTMENT OF TRANSPORTATION	20.205	11842	25,628
OHIO DEPARTMENT OF TRANSPORTATION	20.205	11879	19,391
OHIO DEPARTMENT OF TRANSPORTATION	20.205	11910A	76,308
OHIO DEPARTMENT OF TRANSPORTATION	20.205	20081	40,018
OHIO DEPARTMENT OF TRANSPORTATION	20.205	20119	29,674
OHIO DEPARTMENT OF TRANSPORTATION	20.205	8490	1,555
OHIO DEPARTMENT OF TRANSPORTATION	20.205	8521	4,271
OHIO DEPARTMENT OF TRANSPORTATION	20.205	8891	3,810
OHIO DEPARTMENT OF TRANSPORTATION	20.205	9002	246
OHIO DEPARTMENT OF TRANSPORTATION	20.205	9251	73,647
OHIO DEPARTMENT OF TRANSPORTATION	20.205	9794	73,321
OHIO DEPARTMENT OF TRANSPORTATION	20.205	9800	33,737
OHIO DEPARTMENT OF TRANSPORTATION	20.205	9991	66,807
OHIO DEPARTMENT OF TRANSPORTATION	20.205	AC1SPR-2(37)	18,025
OHIO DEPARTMENT OF TRANSPORTATION	20.205	ODOT 11633	<u>14,282</u>
			1,105,299
TRIOS ASSOCIATES	20.XXX	OU2001-001	226
UNIVERSITY OF AKRON	20.205	11374	16,418
URS CORPORATION	20.XXX	D100001119.01	<u>11,098</u>
Subtotal Pass-Through Programs			<u>1,133,041</u>
Total U.S. Department of Transportation			<u>6,174,123</u>
U.S. Environmental Protection Agency:			
Direct Programs:			
NONPOINT SOURCE IMPLEMENTATION GRANTS	66.460	R-82817101-0	<u>20,548</u>
Subtotal Direct Programs			<u>20,548</u>
Pass-Through Programs From:			
CENTER FOR APPLIED BIOASSESSMENT AND BIOCRITERIA	66.XXX	N/A	97,710

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Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
NORTHEAST OHIO AREA WIDE COORDINATING AGENCY	66.606	PO 20702	\$ 8,129
OHIO ENVIRONMENTAL PROTECTION AGENCY	66.460	C997550001-0	24,857
RURAL ACTION INC	66.460	N/A	6,258
Subtotal Pass-Through Programs			<u>136,954</u>
Total U.S. Environmental Protection Agency			<u>157,502</u>
Total Research and Development Cluster			<u>20,437,583</u>
Other Programs:			
Appalachian Regional Commission:			
Direct Programs:			
APPALACHIAN REGIONAL DEVELOPMENT	23.001	CO-12600E	30,544
APPALACHIAN REGIONAL DEVELOPMENT	23.001	CO-14309-02	31,963
APPALACHIAN REGIONAL DEVELOPMENT	23.001	OH-1444-03	1,545
Subtotal Direct Programs			<u>64,052</u>
Pass-Through Programs From:			
MARIETTA COLLEGE SBDC	23.011	OH-1825-EI-302-00	10,975
Subtotal Pass-Through Programs			<u>10,975</u>
Total Appalachian Regional Commission			<u>75,027</u>
Corporation for National & Community Service:			
Pass-Through Programs From:			
GOVERNORS COMMUNITY SERVICE COUNCIL - AMERICORPS	94.006	00AFSOH036-Y8-F-28	10,800
GOVERNORS COMMUNITY SERVICE COUNCIL - AMERICORPS	94.006	00ASF-J021-03-A017	306,076
GOVERNORS COMMUNITY SERVICE COUNCIL - AMERICORPS	94.006	00ASF-J021-03-A120	131,568
GOVERNORS COMMUNITY SERVICE COUNCIL - AMERICORPS	94.006	00ASFOH036-Y7-F-03	(7,234)
GOVERNORS COMMUNITY SERVICE COUNCIL - AMERICORPS	94.006	00ASFOH036-Y8-F-03	44,165
			<u>485,375</u>
OHIO CAMPUS COMPACT	94.005	N/A	12
OHIO CAMPUS COMPACT	94.005	N/A	1,941
			<u>1,953</u>
Subtotal Pass-Through Programs			<u>487,328</u>
Total Corporation for National & Community Service			<u>487,328</u>
Federal Emergency Management Agency:			
Pass-Through Programs From:			
OHIO EMERGENCY MANAGEMENT AGENCY	83.544	FEMA-1453-DR-000-UZ	67,932
Subtotal Pass-Through Programs			<u>67,932</u>
Total Federal Emergency Management Agency			<u>67,932</u>
National Endowment For The Arts / Humanities:			
Direct Programs:			
NATIONAL ENDOWMENT FOR THE ARTS	45.XXX	02-7700-3005	25,055
PROMOTION OF THE ARTS - GRANTS TO ORGANIZATIONS AND INDIVIDUALS	45.024	03-3400-5092	5,252
PROMOTION OF THE HUMANITIES - CHALLENGE GRANTS	45.130	CI-20004-02	65,387
Subtotal Direct Programs			<u>95,694</u>
Pass-Through Programs From:			
OHIO ARTS COUNCIL	45.026	FY2002-2017	7,279
OHIO HUMANITIES COUNCIL	45.XXX	OHC-M02-154	500
OHIO HUMANITIES COUNCIL	45.XXX	OHC 01-047	7,000
OHIO HUMANITIES COUNCIL	45.129	OHC-03-054	7,518
OHIO HUMANITIES COUNCIL	45.XXX	OHC-R02-211	2,000
			<u>17,018</u>
Subtotal Pass-Through Programs			<u>24,297</u>
Total National Endowment for the Arts / Humanities			<u>119,991</u>
National Science Foundation:			
Pass-Through Programs From:			

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Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
KENTUCKY SCIENCE AND TECHNOLOGY	47.076	KSTC123-ESR0086188-01-02/02-05	\$ 71,532
UNIVERSITY OF TENNESSEE	47.076	OR1102-001.04	<u>425,925</u>
Subtotal Pass-Through Programs			<u>497,457</u>
Total National Science Foundation			<u>497,457</u>
Small Business Administration: Pass-Through Programs From:			
ADENA VENTURES	59.051	N/A	29,700
ADENA VENTURES	59.051	N/A	<u>202,205</u>
			231,905
JEFFERSON COUNTY CHAMBER OF COMMERCE	59.XXX	ECDD 02-110	2,174
OHIO DEPARTMENT OF DEVELOPMENT	59.037	ECDD 02-011	<u>111,783</u>
Subtotal Pass-Through Programs			<u>345,862</u>
Total Small Business Administration			<u>345,862</u>
Social Security Administration: Pass-Through Programs From:			
OHIO HEALTHCARE ASSOCIATION	96.001	N/A	<u>6,895</u>
Subtotal Pass-Through Programs			<u>6,895</u>
Total Social Security Administration			<u>6,895</u>
U.S. Agency for International Development: Pass-Through Programs From:			
ASSOCIATION LIAISON OFFICE	02.XXX	HNE-A-00-97-00059-00	<u>26,910</u>
Subtotal Pass-Through Programs			<u>26,910</u>
Total U.S. Agency for International Development			<u>26,910</u>
U.S. Department of Agriculture: Direct Programs:			
RURAL BUSINESS ENTERPRISE GRANTS	10.769	INNOVATION CENTER	1,625
DISTANCE LEARNING AND TELEMEDICINE LOANS AND GRANTS	10.855	OHIO 704-A16	<u>130,481</u>
Subtotal Direct Programs			<u>132,106</u>
Pass-Through Programs From:			
OHIO DEPARTMENT OF EDUCATION	10.559	N/A	27,067
OHIO VALLEY REGIONAL DEVELOPMENT COMMISSION	10.200	N/A	<u>179</u>
Subtotal Pass-Through Programs			<u>27,246</u>
Total U.S. Department of Agriculture			<u>159,352</u>
U.S. Department of Commerce: Direct Programs:			
GRANTS FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT FACILITIES	11.300	05-79-03506	119,319
GRANTS FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT FACILITIES	11.300	06-01-04525	2,389,183
PUBLIC TELECOMMUNICATIONS FACILITIES-PLANNING AND CONSTRUCTION	11.550	39-02-99014	<u>152,556</u>
Subtotal Direct Programs			<u>2,661,058</u>
Pass-Through Programs From:			
BOWLING GREEN STATE UNIVERSITY	11.303	06-66-04616/06-66-04741	<u>20,731</u>
Subtotal Pass-Through Programs			<u>20,731</u>
Total U.S. Department of Commerce			<u>2,681,789</u>
U.S. Department of Defense: Pass-Through Programs From:			
OHIO DEPARTMENT OF DEVELOPMENT	12.002	MBDD 03-013	<u>25,870</u>
Subtotal Pass-Through Programs			<u>25,870</u>
Total U.S. Department of Defense			<u>25,870</u>

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Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
U.S. Department of Education:			
Direct Programs:			
NATL RESOURCE CTR & FELLOWSHIPS PROG.-LANGUAGE & AREA OR LANGRAGE & INTL STU 84.015A		P015A000006	\$ 209,375
NATL RESOURCE CTR & FELLOWSHIPS PROG.-LANGUAGE & AREA OR LANGRAGE & INTL STU 84.015A		P015A000161	177,993
NATL RESOURCE CTR & FELLOWSHIPS PROG.-LANGUAGE & AREA OR LANGRAGE & INTL STU 84.015B		P015B000161	203,143
NATL RESOURCE CTR & FELLOWSHIPS PROG.-LANGUAGE & AREA OR LANGRAGE & INTL STU 84.015B		P015B030005	<u>119,558</u>
			710,069
INTERNATIONAL RESEARCH AND STUDIES	84.017A	P017A000011	86,737
OVERSEAS - FACULTY RESEARCH ABROAD	84.019A	P019A020007	43,089
Trio Cluster			
TRIO - STUDENT SUPPORT SERVICES	84.042A	P042A010213	269,131
TRIO - UPWARD BOUND	84.047A	P047A990189	<u>318,180</u>
Subtotal Trio Cluster			587,311
FUND FOR THE IMPROVEMENT OF POSTSECONDARY EDUCATION	84.116J	P116J990004	63,216
SPECIAL EDUCATION - TECHNOLOGY AND MEDIA SERVICES FOR INDIVIDUALS WITH DISABIL	84.327A	H327A990023	9,532
CHILDCARE ACCESS MEANS PARENTS IN SCHOOL	84.335A	P335A010099	12,766
PREPARING TOMORROW'S TEACHERS TO USE TECHNOLOGY	84.342A	P342A000235	<u>117,233</u>
Subtotal Direct Programs			<u>1,629,953</u>
Pass-Through Programs From:			
AREA LABOR MANAGEMENT COORDINATING COUNCIL	84.341	N/A	(1,000)
ATHENS CITY SCHOOL DISTRICT	84.257C	043521-T151-03	129,048
COLUMBUS STATE COMMUNITY COLLEGE	84.243	VETP 2002-01-FB	124,927
COMMUNITY ACTION COMMISSION OF BELMONT COUNTY	84.314	N/A	5,821
CORPORATION FOR PUBLIC BROADCASTING	84.XXX	6781	22,195
FEDERAL HOCKING LOCAL SCHOOL DISTRICT	84.257C	045914-T1S1-03	387,010
INSTITUTE OF SCHOOLS OF THE FUTURE	84.XXX	N/A	41,942
MIAMI UNIVERSITY	84.XXX	400180-160222-002E-413B-4	19,161
MIAMI UNIVERSITY	84.XXX	400180-160222-002E-413B-5	13,905
MIAMI UNIVERSITY	84.XXX	400180-160222-002E-413B-7	<u>14,904</u>
			47,970
NELSONVILLE YORK CITY SCHOOL DISTRICT	84.338	N/A	423
OHIO BOARD OF REGENTS	84.116	N/A	26,245
OHIO BOARD OF REGENTS	84.281	01-48	46,782
OHIO BOARD OF REGENTS	84.281	01-50	54,978
OHIO BOARD OF REGENTS	84.334A	P334A990378-00	<u>448,104</u>
			576,109
OHIO DEPARTMENT OF EDUCATION	84.XXX	063024-ST-S1-02	83,187
OHIO DEPARTMENT OF EDUCATION	84.002	063024-AB-SL-2001C	5,384
OHIO DEPARTMENT OF EDUCATION	84.002	063024-AB-SL-2002/2003	380,688
OHIO DEPARTMENT OF EDUCATION	84.002	2002-SS-007	270
OHIO DEPARTMENT OF EDUCATION	84.314B		<u>51</u>
			469,580
PUBLIC BROADCASTING SERVICE	84.295A	R295A00002	32,674
WARREN WILSON COLLEGE	84.116	N/A	8,287
WARREN WILSON COLLEGE	84.116	N/A	<u>7,500</u>
			15,787
Subtotal Pass-Through Programs			<u>1,852,486</u>
Total U.S. Department of Education			<u>3,482,439</u>
U.S. Department of Health & Human Services:			
Direct Programs:			
CENTER OF EXCELLENCE	93.157	6 D34 HP 04027	289,019
ALLIED HEALTH SPECIAL PROJECTS	93.191	1 D37 HP 00807	41,987

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Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
HEALTH CAREERS OPPORTUNITY PROGRAM	93.822	5 D18 HP 02889	\$ 400,629
Subtotal Direct Programs			<u>731,635</u>
Pass-Through Programs From:			
AREA AGENCY ON AGING	93.043	N/A	4,164
ATHENS COUNTY DEPT. OF JFS	93.XXX	N/A	3,929
ATHENS COUNTY DEPT. OF JFS	93.558	N/A	(503)
ATHENS COUNTY DEPT. OF JFS	93.558	N/A	405,898
			<u>409,324</u>
BELMONT DEPARTMENT OF JOB AND FAMILY SERVICES	93.558	N/A	2,598
CASE WESTERN RESERVE UNIVERSITY	93.969	5 D31 HP-70113	39,965
COLUMBIANA COUNTY DEPARTMENT OF JOB AND FAMILY SER	93.XXX	N/A	1,645
CORP FOR OHIO APPALACHIAN DEVELOPMENT	93.569	N/A	11,789
CORP FOR OHIO APPALACHIAN DEVELOPMENT	93.569	N/A	4,946
			<u>16,735</u>
GIANFAGNA INC	93.XXX	N/A	9,084
HEALTH RESOURCES AND SERVICES ADMINISTRATION	93.192	5 D36 HP 00009	113,015
HEALTH RESOURCES AND SERVICES ADMINISTRATION	93.379	5 D15 HP 10438	(176)
			<u>112,839</u>
LAWRENCE COUNTY DEPARTMENT OF JOBS AND FAMILY SERV	93.XXX	N/A	64,917
MEDICAL COLLEGE OF OHIO	93.107	F2003-4 PO#03-22187	103,397
NATIONAL YOUTH SPORTS PROGRAM	93.570	03-308	869
NATIONAL YOUTH SPORTS PROGRAM	93.570	NYSPP 03-306	50,000
			<u>50,869</u>
OHIO DEPARTMENT OF ALCOHOL AND DRUG ADDICTION	93.959	05-00405-00-CPREV-P-02-9945	29,324
OHIO DEPARTMENT OF DEVELOPMENT	93.XXX	GOAR 03-031	183,388
OHIO DEPARTMENT OF HUMAN SERVICES	93.XXX	C-02-04-0514	449,261
OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES	93.XXX	N/A	49,400
OHIO STATE UNIVERSITY RESEARCH FOUNDATION	93.110	MC00049	18,047
OHIO STATE UNIVERSITY RESEARCH FOUNDATION	93.181	RF00743316	19,610
			<u>37,657</u>
ROSS COUNTY DEPARTMENT OF JOBS AND FAMILY SERVICE	93.XXX	N/A	21,750
SOUTHERN CONSORTIUM FOR CHILDREN	93.XXX	N/A	1,500
Subtotal Pass-Through Programs			<u>1,587,817</u>
Total U.S. Department of Health & Human Services			<u>2,319,452</u>
U.S. Dept of Housing and Urban Development:			
Direct Programs:			
CDBG/BROWNSFIELD ECONOMIC DEVELOPMENT INITIATIVE	14.246	B-01-SP-OH-0485	31,120
Total U.S. Department of Housing and Urban Development			<u>31,120</u>
U.S. Department of the Interior:			
Direct Programs:			
NATIVE AMERICAN GRAVES PROTECTION AND REPATRIATION ACT	15.922	39-02-GP-310	22,917
Subtotal Direct Programs			<u>22,917</u>
Total U.S. Department of the Interior			<u>22,917</u>
U.S. Department of Justice:			
Pass-Through Programs From:			
VINTON COUNTY JUVENILE DRUG COURT	16.XXX	N/A	4,145
Subtotal Pass-Through Programs			<u>4,145</u>
Total Department of Justice			<u>4,145</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

Federal Agency/Pass-Through Grantor	CFDA No.	Federal/Pass-Through Grant Number	Expenditures
U.S. Department of State:			
Direct Programs:			
JOINT STUDENT CONSULTING	19.XXX	S-ESCAPE-03-GR-044 (DD)	\$ 46,491
2001 SUMMER INSTITUTE FOR ENGLISH	19.XXX	AEMA-1129	1,626
PROFESSIONAL EXCHANGES-ANNUAL OPEN GRANT	19.415	S-ESCAPE-02-GR-100(MA)	105,548
EDUCATIONAL EXCHANGE FULLBRIGHT AMERICAN STUDIES INSTITUTE	19.418	S-ECAAE-03-GR-091(IY)	153,714
EDUCATIONAL EXCHANGE FULLBRIGHT AMERICAN STUDIES INSTITUTE	19.418	N/A	<u>13,587</u>
			320,966
U S INFORMATION AGENCY	82.XXX	IA-ASLJ-G9190295	<u>27,599</u>
Subtotal Direct Programs			<u>348,565</u>
Pass-Through Programs From:			
INSTITUTE FOR INTERNATIONAL EDUCATION	19.402	N/A	<u>124,403</u>
Subtotal Pass-Through Programs			<u>124,403</u>
Total Department of State			<u>472,968</u>
U.S. Department of Transportation:			
Direct Programs:			
FEDERAL AVIATION ADMINISTRATION - RUNWAY EXPANSION PHASE II	20.106	3-39-0006-0701	3,766,391
FEDERAL AVIATION ADMINISTRATION - AIRPORT IMPROVEMENT PROGRAM	20.106	3-39-0006-0802	<u>29,137</u>
Total U.S. Department of Transportation			<u>3,795,528</u>
U.S. Environmental Protection Agency:			
Pass-Through Programs From:			
MIDWEST BIODIVERSITY INSTITUTE	66.606	N/A	108,893
OHIO DEPARTMENT OF NATURAL RESOURCES	66.460	N/A	35,618
OHIO DEPARTMENT OF NATURAL RESOURCES	66.460	N/A	<u>5,609</u>
			41,227
OHIO ENVIRONMENTAL PROTECTION AGENCY	66.460	02(h)EPA-04	19,072
OHIO ENVIRONMENTAL PROTECTION AGENCY	66.460	C999500900-0	<u>7,832</u>
			26,904
RURAL ACTION INC	66.460	N/A	1,722
RURAL ACTION INC	66.460	N/A	<u>11,834</u>
			13,556
VINTON COUNTY SOIL AND WATER DISTRICT	66.460	N/A	<u>9,616</u>
Subtotal Pass-Through Programs			<u>200,196</u>
Total U.S. Environmental Protection Agency			<u>200,196</u>
U.S. Peace Corp:			
Direct Programs:			
PEACE CORPS STRATEGY AGREEMENT	08.XXX	N/A	<u>12,822</u>
Subtotal Direct Programs			<u>12,822</u>
Total U.S. Peace Corp			<u>12,822</u>
Total Other Programs			<u>14,836,000</u>
TOTAL FEDERAL AWARDS			<u>\$ 143,089,485</u>

**OHIO UNIVERSITY
(A COMPONENT UNIT OF THE STATE OF OHIO)**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented using the cash basis of accounting in which expenditures are recognized when paid.

Subrecipient—Of the federal expenditures presented in the Schedule, the Ohio University (the “University”) provided federal awards to subrecipients as follows:

CFDA No.	Program Title	Expended
10.200	Grants for Agricultural Research, Special Research Grants	\$ 4,633
11.300	Grants for Public Works and Economic Development Facilities	87,004
12.420	Military Medical Research and Development	17,012
12.800	Air Force Defense Research Sciences Program	5,249
15.808	U S Geological Survey - Research and Data Acquisition	287,853
20.108	Federal Aviation Administration - Aviation Research Grants	167,240
20.205	Ohio Department of Transportation - Highway Planning & Construction	39,857
23.011	Marietta College - Appalachian State Research, Technical Assistance and Demonstration Projects	1,654
43.XXX	Integrated Guidance and Control	495,193
43.XXX	NASA Synthetic Vision	1,350
47.049	Mathematical and Physical Sciences	47,557
47.074	Biological Sciences	2,500
59.037	Small Business Development Center	41,669
81.XXX	Ambient Fine Particulate Matter	21,128
81.XXX	Novel Invest or IRN Cross Sec.	11,201
81.089	Fossil Energy Research and Development	78,501
84.116J	Fund for the Improvement of Postsecondary Education	40,241
84.327A	Special Education Technology and Media Services for Individuals with Disabilities	6,497
93.173	Research Related to Deafness and Communication Disorders	180,983
93.273	Alcohol Research Programs	11,769
93.279	Drug Abuse Research Programs	78,469
93.556	Promoting Safe and Stable Families	1,000
93.837	Heart and Vascular Diseases Research	197,677
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	153,330
94.006	AmeriCorps	3,300
		<u>\$1,982,867</u>

2. NONCASH FEDERAL AWARDS

During the year ended June 30, 2003, the University did not receive nonmonetary assistance.

3. FEDERAL LOAN PROGRAMS ADMINISTERED

The University had the following loan balances outstanding at June 30, 2003:

	Year Ended June 30, 2003
Perkins Loan Program	\$ 7,717,920
Disadvantaged Students Loan	483,949
Health Professional Student Loans (HPSL)	<u>2,282,062</u>
 Total	 <u>\$10,483,931</u>

* * * * *



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Ohio University
Athens, Ohio

We have audited the financial statements of Ohio University (the "University") as of and for the year ended June 30, 2003, and have issued our report thereon dated October 30, 2003. We conducted our audit 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.

COMPLIANCE

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees

in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the University in a separate letter dated October 30, 2003.

This report is intended solely for the information and use of the Board of Trustees and management of the University, federal awarding agencies, state funding agencies, pass-through entities, and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte, Touche LLP

October 30, 2003



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees
Ohio University
Athens, Ohio

COMPLIANCE

We have audited the compliance of Ohio University (the "University") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

INTERNAL CONTROL OVER COMPLIANCE

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in

order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the University as of and for the year ended June 30, 2003, and have issued our report thereon dated October 30, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of the University. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees and management of the University, federal awarding agencies, state funding agencies, pass-through entities, and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte Touche LLP

October 30, 2003

**OHIO UNIVERSITY
(A COMPONENT UNIT OF THE STATE OF OHIO)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2003**

PART I—SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. Our audit of the financial statements did not disclose a reportable condition in internal controls.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings which are required to be reported by OMB Circular A-133.
7. The major programs were the Student Financial Aid Cluster, the Airport Improvement Program (CFDA 20.106), and Grants for Public Works and Economic Development Facilities (CFDA 11.300) which are included in the Schedule of Expenditures of Federal Awards.
8. A threshold of \$1,603,626 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Auditee did qualify as a low risk auditee as that term is defined in OMB Circular A-133.

PART II—FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION

No matters are reportable.

PART IV—SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

Ohio University

*Independent Accountants' Report on the Application of
Agreed-Upon Procedures to the University's Accounting
Records and System of Internal Accounting Control as
they Relate to the University's Intercollegiate Athletics
Programs for the Year Ended June 30, 2003*

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Dr. Robert Glidden
President
Ohio University
Columbus, Ohio

We have audited the financial statements of The Ohio University and Subsidiaries (the "University") as of and for the year ended June 30, 2003, and have issued our unqualified report thereon dated October 30, 2003. We have also applied certain procedures requested by you, as discussed below, to the University's accounting records and system of internal accounting control as they relate to the University's Intercollegiate Athletics Programs for the year ended June 30, 2003, solely to assist the University in complying with NCAA Bylaw 6.2.3.1 for the year ended June 30, 2003. The University's management is responsible for the University's compliance with those requirements. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

Statement of Revenues and Expenditures—Agreed-Upon Substantive Procedures

- a. We obtained the accompanying Statement of Revenues and Expenditures (the "Statement") for the year ended June 30, 2003, as prepared by management and shown in the Exhibit to this report. We noted the arithmetic accuracy of the amounts in the Statement and agreed the amounts in the Statement to the University's general ledger. We made analytical comparisons to both the budgeted amounts and the 2002 amounts. The Intercollegiate Athletics Department provided explanations for the fluctuations.
- b. Through discussions with the University's Assistant Director of Athletics, we obtained an understanding of the ticket revenue cycle, and we agreed football, men's basketball and women's basketball ticket sales, as recorded in the Statement to the "Event Audit and Recap for Events", reports for the year ended June 30, 2003.
- c. We agreed concession revenues recorded in the Statement to the *Concession Profit and Loss Statement* for the year ended June 30, 2003. Concession revenues per the Statement were agreed to the University's general ledger. We recalculated concession revenues within \$832 or 3%.
- d. We obtained signed contracts and other supporting documentation for revenues and expenditures resulting from guarantee agreements and agreed amounts to appropriate supporting detail on a test basis, noting no exceptions.
- e. We agreed gift revenues recorded in the Department of Athletics' accounts for the year ended June 30, 2003, to the amounts recognized by Ohio University Foundation for the same period, noting no differences.

- f. We compared investment income earned on endowed funds to the balances of the endowed fund accounts. We found income earned on endowed funds to be reasonable based on balances in the endowed funds.
- g. We obtained the Ohio University Foundation—Intercollegiate Athletics June 30, 2003 report from the Ohio University Foundation and noted that no individual contributions received during the year ended June 30, 2003 were in excess of 10% of total contributions for the year.

Because the above procedures “a” through “g” do not constitute an audit in accordance with auditing standards generally accepted in the United States of America, we do not express an opinion on any of the accounts or items referred to above. Had we performed additional procedures or had we performed an audit of the financial statements of the Intercollegiate Athletics Department of Ohio University in accordance with auditing standards generally accepted in the United States of America, matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and do not extend to the financial statements of Ohio University or its Intercollegiate Athletics Department taken as a whole.

Outside Organizations—Agreed-Upon Substantive Procedures

- h. We obtained from the management of Ohio University the following list of outside organizations and their related financial activities for the year ended June 30, 2003, as they relate to the Intercollegiate Athletics Programs of the University. We agreed total revenues and expenditures, or total cash receipts and cash disbursements, of all booster organizations for the year ended June 30, 2003 with amounts obtained from the official responsible for each respective booster organizations.

	<u>The Ohio University Foundation</u>	<u>Green and White Club</u>	<u>Total</u>
Beginning cash balance **	\$ 669,493	\$ 64,116	\$ 733,609
Add: cash receipts	554,689	86,959	641,648
Other	<u>58,372</u>	<u>(68,310)</u>	<u>(9,938)</u>
	1,282,554	82,765	1,365,319
Less: contributions to or on behalf of program	<u>(584,002)</u>	<u>(19,479)</u>	<u>(603,481)</u>
Ending cash balance	<u>\$ 698,552</u>	<u>\$ 63,286</u>	<u>\$ 761,838</u>

These amounts are not recorded in the University’s general ledger.

** The beginning balances do not agree to the prior year report. We verified the accuracy of the beginning balances above with accounting records of The Ohio University Foundation and The Green and White Club.

- i. We agreed total revenues and expenditures and/or total cash receipts and cash disbursements of all service organizations for the year ended June 30, 2003 with amounts obtained directly from each respective service organization.

Because the above procedures “h” through “i” do not constitute an audit in accordance with auditing standards generally accepted in the United States of America, we do not express an opinion on any of the accounts or items referred to above. Had we performed additional procedures or had we performed an

audit of the financial statements of the Intercollegiate Athletics Department of Ohio University in accordance with auditing standards generally accepted in the United States of America, matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and do not extend to the financial statements of Ohio University or its Intercollegiate Athletics Department taken as a whole.

Internal Accounting Control Related to Intercollegiate Athletics—Agreed-Upon Procedures

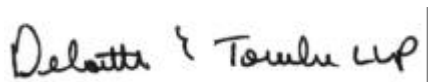
The management of Ohio University is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate. Our procedures and findings are as follows:

- j. We obtained and read the organization chart for the Department of Athletics. We read the available documentation of the accounting systems and procedures. We also made certain inquiries of management regarding departmental organization, control consciousness, competency of personnel, adequate safeguarding and control of records and assets.
- k. We obtained an understanding of the Ticket Sales and Team Travel expenditure cycles by testing a sample of transactions. No exceptions were noted.

Agreed-upon procedures "j" through "k" applied to certain aspects of the University's system of internal accounting control were more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. Because the scope of our work was limited to applying agreed-upon procedures "j" through "k" to certain aspects of the system of internal accounting control, we are unable to express and do not express an opinion on whether the system of internal accounting control of Ohio University in effect for the year ended June 30, 2003, taken as a whole, was sufficient to meet the objectives stated above.

This report is intended solely for the information and use of the President and management of Ohio University and is not intended to be and should not be used by anyone other than these specified parties.



Columbus, Ohio
December 1, 2003

**OHIO UNIVERSITY
DEPARTMENT OF ATHLETICS**

Exhibit

**STATEMENT OF REVENUES AND EXPENDITURES
YEAR ENDED JUNE 30, 2003 (UNAUDITED)**

	Football Total	Men's Basketball	Women's Basketball	Other Sports	Non Program Specific	Total Fiscal Year Ending June 2003
REVENUES:						
Ticket sales	\$ 265,161	\$ 286,534	\$ 5,156	\$ 5,743	\$ -	\$ 562,594
Guarantees	775,000	40,000	4,000	2,000		821,000
NCAA and tournament					753,182	753,182
Royalties	6,306	2,790	36	42,483	953,217	1,004,832
Program sales and advertising	1,570	1,000	50	40	251,990	254,650
Concessions					28,540	28,540
Commissions					6,155	6,155
Parking	24,575	33,865			43,524	101,964
Gifts—restricted	23,314	9,649	3,000	45,751	24,547	106,261
Support from university					8,661,240	8,661,240
TOTAL REVENUE	<u>1,095,926</u>	<u>373,838</u>	<u>12,242</u>	<u>96,017</u>	<u>10,722,395</u>	<u>12,300,418</u>
EXPENDITURES:						
Coaching salaries	806,782	384,276	270,138	1,133,915	-	2,595,111
Other salaries					1,913,316	1,913,316
Films					3,382	3,382
Travel—team	254,969	93,721	77,417	347,785	39,432	813,323
Travel—recruiting	90,823	42,525	43,814	61,196	(348)	238,010
Financial aid	1,407,875	228,099	196,755	2,108,711	323,279	4,264,720
Maintenance and general administration	197,895	80,511	127,104	46,974	65,848	518,331
Equipment	43,198	10,871	9,550	182,878	647,785	894,283
Publicity				283	80,990	81,273
Insurance		500			129,052	129,552
Telephone	13,460	5,090	7,958	7,972	77,322	111,802
Entertainment	1,060	709	163	5,988	4,899	12,819
TOTAL EXPENDITURES	<u>2,816,062</u>	<u>846,302</u>	<u>732,899</u>	<u>3,895,702</u>	<u>3,284,957</u>	<u>11,575,922</u>
NONMANDATORY TRANSFERS						
PLANT FUNDS TRANSFER					133,316	133,316
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES						
	<u>\$(1,720,136)</u>	<u>\$(472,464)</u>	<u>\$(720,657)</u>	<u>\$(3,799,685)</u>	<u>\$ 7,304,122</u>	<u>\$ 591,180</u>

Note: This schedule was prepared by a representative of the Department of Athletics.

***University Medical Associates, Inc.
(formerly The Ohio University
Osteopathic Medical
Center, Inc.)***

*Financial Statements for the
Year Ended January 31, 2003 and
Independent Auditors' Report*

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
University Medical Associates, Inc.
(formerly The Ohio University Osteopathic Medical Center, Inc.)

We have audited the accompanying statement of assets and shareholder's equity (modified cash basis) of University Medical Associates, Inc. ("UMA") (formerly The Ohio University Osteopathic Medical Center, Inc.) as of January 31, 2003, and the related statement of revenues collected and expenses paid for the year then ended. These financial statements are the responsibility of the UMA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the assets and shareholder's equity of University Medical Associates, Inc. as of January 31, 2003, and its revenues collected and expenses paid for the year then ended, on the modified cash basis of accounting described in Note 2.

A handwritten signature in cursive script that reads "Deloitte & Touche".

October 3, 2003

UNIVERSITY MEDICAL ASSOCIATES, INC.

STATEMENT OF ASSETS AND SHAREHOLDER'S EQUITY (MODIFIED CASH BASIS) AS OF JANUARY 31, 2003

ASSETS

CURRENT ASSETS:

Cash	\$ 49,405
Short-term investments—at cost	56,073
Employee and other advances	<u>556</u>

Total current assets 106,034

INVESTMENT IN UNCONSOLIDATED AFFILIATE 25,741

TOTAL ASSETS \$ 131,775

SHAREHOLDER'S EQUITY

SHAREHOLDER'S EQUITY:

Common stock, at stated capital, no par value	\$ 500
Additional paid-in capital	2
Retained earnings	<u>131,273</u>

Total shareholder's equity 131,775

TOTAL SHAREHOLDER'S EQUITY \$ 131,775

See notes to financial statements.

UNIVERSITY MEDICAL ASSOCIATES, INC.

STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID YEAR ENDED JANUARY 31, 2003

REVENUES COLLECTED:

Patient services—net	\$ 8,477,344
Other professional services	1,711,932
Investment income	51,991
Gain on sale of unconsolidated affiliate	<u>2,098</u>

Total revenues collected 10,243,365

EXPENSES PAID:

Human resources	6,921,508
Ohio University contractual obligation	2,828,298
Medical services	58,150
Physical resources	165,952
General and administrative	<u>241,279</u>

Total expenses paid 10,215,187

REVENUES COLLECTED IN EXCESS OF EXPENSES PAID

28,178

RETAINED EARNINGS—Beginning of year

103,095

RETAINED EARNINGS—End of year

\$ 131,273

See notes to financial statements.

UNIVERSITY MEDICAL ASSOCIATES, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JANUARY 31, 2003

1. DESCRIPTION OF BUSINESS

The University Medical Associates, Inc. (formerly The Ohio University Osteopathic Medical Center, Inc.) hereafter referred to as UMA (a component unit of Ohio University) is a professional association formed under Chapter 1785 of the Revised Code of Ohio for the purpose of organizing licensed physicians and surgeons, who are faculty members of the Ohio University College of Osteopathic Medicine (the "College"), into a multi-specialty faculty group practice. The sole purpose for which this professional association is formed is to render medical care, consultation, diagnosis and treatment through physicians and surgeons licensed to practice medicine in the State of Ohio.

For a significant portion of UMA's operations, UMA utilizes the College's services, facilities, tangible personal and real property, office space, equipment, personnel, library, research facilities and records, and the goodwill attendant to affiliation with the College. In accordance with the Clinical Practice Agreement, UMA has agreed to pay Ohio University, designated for the College, for these benefits. The payment is to be made annually based upon the formula specified in the Clinical Practice Agreement.

Effective January 2, 1999, UMA entered into a contract with Emergency Medicine Physicians of Athens County, Ltd. ("EMP"), as an independent contractor, to provide physician coverage and perform certain administrative duties for O'Bleness Memorial Hospital Emergency Room and Urgent Care Center ("Emergency Room"). This agreement between EMP and UMA is for a two-year period with a right to renew on a year-to-year basis thereafter. Under this agreement, EMP performs all services associated with operation of the Emergency Room. EMP retains all amounts billed and collected for the Emergency Room services. EMP reimburses UMA for emergency/urgent care physicians services furnished by UMA's physicians. UMA maintains malpractice insurance coverage for its physicians.

For the year ended January 31, 2003, EMP reimbursed \$651,113 to UMA under this contractual agreement. This revenue was classified as a component of other professional services in the accompanying statement of revenues collected and expenses paid.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—UMA's financial statements are prepared on the modified cash basis of accounting and do not include an amount for accounts receivable, accounts payable or accrued expenses and liabilities. Revenues are recognized when collected, and expenses are recognized when paid.

Fiscal Year—UMA's fiscal year is the year ending on January 31. Fiscal years are designated in the financial statements and notes by the calendar year in which the fiscal year ends.

Cash—Cash includes cash on-hand and deposits with financial institutions.

Investments—Highly liquid investments purchased with a maturity of three months or less are classified as short-term investments. Short-term investments are recorded at cost, which approximates fair market value.

Contractual Obligation to Ohio University—For the year ended January 31, 2003, UMA is obligated to pay Ohio University \$1 million and the excess of gross receipts over expenses, as defined, pursuant to UMA's Clinical Practice Agreement.

Income Taxes—UMA uses the modified cash basis of accounting for income tax reporting purposes. There are no significant differences in revenues and expenses for financial and tax reporting purposes for fiscal year 2003. As of January 31, 2003, UMA has net operating loss carryforwards of \$13,454 for tax reporting purposes.

Use of Estimates—The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

3. INVESTMENT IN UNCONSOLIDATED AFFILIATE

In fiscal year 1998, UMA purchased a 25% interest in Southeastern Ohio Health Alliance (the "Alliance"), an Ohio Limited Liability Corporation, for \$55,000. In fiscal year 2002, the Alliance was sold for \$72,000. In fiscal year 2003, UMA had an additional gain from the sale of \$2,098.

In fiscal year 2002, UMA purchased a 25% interest in Access Health Athens, an Ohio limited liability corporation, for \$250. In fiscal year 2003, UMA recorded investment income using the equity method of accounting, relating to the Access Health investment totaling \$37,597.

4. COMMON STOCK

UMA has 500 authorized shares of common stock, no par value, of which 251 shares were issued and outstanding during fiscal year 2003. The stated value of the outstanding shares of common stock is \$500.

No share of common stock shall be issued to any person who is not a physician duly licensed to practice medicine in the State of Ohio. Shareholders have no pre-emptive right to subscribe for additional issues of stock, and issued shares are held subject to the rights of purchase and transfer restrictions contained in UMA's Code of Regulations. During fiscal year 2003, all of the outstanding shares of common stock were held by the President of UMA.

5. DEFERRED PROFIT SHARING PLAN

Effective February 1, 1984, UMA established a deferred profit sharing plan under Section 401(k) of the Internal Revenue Code covering substantially all employees. Eligibility requirements are one year of service defined as a 12-month period with more than 1,000 hours of service, and a minimum of 21 years of age. UMA's annual contribution is 50% of each eligible employee's elected contribution up to 3% of the employee's total salary. Total profit-sharing contribution was \$116,778 for the fiscal year ended January 31, 2003, and is included in human resources expenses on the statement of revenues collected and expenses paid.

6. PROMISSORY NOTE PAYABLE

During fiscal year 2003, UMA had a revolving promissory note agreement with a bank having an available credit limit of \$600,000. On January 31, 2003, UMA had no borrowings outstanding under the revolving promissory note agreement. Interest on borrowings under this agreement is paid at the prime rate, which was 4.25% at January 31, 2003. The promissory note is collateralized by accounts receivable. No interest expense was paid in 2003.

7. LEASES

UMA leases certain clinical facilities and equipment under operating lease agreements. Facility leases are primarily on a month-to-month basis except for two leases that expire in June 2004 and September 2005, with monthly lease payments of \$3,393 and \$2,388, respectively. Total lease expense was \$160,450 for the year ended January 31, 2003. Future minimum payments, by year, with initial terms of one year or more, consist of the following at January 31, 2003:

2004	\$ 69,374
2005	45,622
2006	14,328
2007	-
2008	-
Thereafter	-

8. COMMITMENTS AND CONTINGENCIES

Regulation—The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

The Board of Directors has adopted a policy regarding compliance and integrity, and management believes that UMA is in compliance with fraud and abuse as well as other applicable government laws and regulations. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the results of any regulatory actions, if any, will not be material to UMA's financial position.

Physician Contractual Agreements—All of the physicians employed by UMA are under contractual arrangements which include three basic types: 1) fixed annual salary, 2) fixed rate per shift and 3) fixed rate per hour. The expenses paid related to these contracts are classified as human resource expenses on the accompanying statement of revenues collected and expenses paid.

Professional Liabilities—There are several lawsuits, pending claims and incidents that occurred in the past whereby claims have been made and may be asserted against UMA for which the ultimate liability, if any, has not been determined. UMA carries malpractice insurance on a claims made basis with annual coverage limits of \$2,000,000 per occurrence, and \$4,000,000 in the aggregate per physician.

Management believes that the future costs relating to all pending malpractice claims and incidents are within the scope of UMA's insurance coverages and subject to reimbursement by the insurance carrier to

the extent costs are within the coverage limitations. However, management cannot currently predict the amount of future costs, if any, that may be outside the coverage limitations. Any such unreimbursed costs would be borne by UMA and recorded in the accompanying financial statements when paid.

UMA's former insurance carrier, which insured UMA's malpractice claims on an occurrence basis for the eleven-year period ended January 31, 1997, has been placed into liquidation by the Ohio Department of Insurance. As a result, claims may not be totally reimbursed by the former insurance carrier and/or covered by the Ohio Department of Insurance.

No malpractice claims were settled during fiscal 2003.

9. SUBSEQUENT EVENTS

Effective July 1, 2003, UMA legally changed its name to University Medical Associates, Inc. UMA. Also on this date, UMA converted to a new business model whereby all employees associated with delivering medical care are now employees of UMA. Prior to July 1, 2003, only the physicians were employed by UMA and all associated personnel were employees of Ohio University (the "University"). UMA leased the services of these individuals from the University.

On July 1, 2003, UMA formed a captive insurance company. This company, the University Medical Associates Insurance SPC LTD ("UMA Insurance"), was formed to provide malpractice coverage for UMA and OUCOM. UMA Insurance is domiciled in the Cayman Islands and is currently in the process of being licensed. UMA Insurance retains the first layer of coverage (\$250,000) and reinsures the next layer (\$750,000) through Lloyd's of London. Policy limits are \$1,000,000 per occurrence and \$3,000,000 in the aggregate per physician. As part of this conversion all physicians employed by UMA at June 30, 2003 were tailed out at policy limits of \$2,000,000 per occurrence and \$4,000,000 in the aggregate per physician with the previous carrier, The Doctor's Company.

On August 29, 2003 the necessary paperwork was filed with the State of Ohio initiating UMA's change to a 501(c)(3) Not-for-Profit organization. UMA management, along with their attorney, is in the process of preparing the IRS filing seeking tax-exempt status.

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OHIO UNIVERSITY

ATHENS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 1, 2004**