

2003 FINANCIAL REPORT





## Letter

We are pleased to present the consolidated financial report for The Ohio State University for the years ended June 30, 2003 and 2002.

The accompanying financial report indicates that the university's financial health remains sound, despite a difficult state budget environment. Increases in tuition, growth in sponsored research, growth in gifts to the university, and continued improvement in OSU Health System results helped to offset the impact of an \$11 million cut in state support. Total expendable net assets (equity) increased \$105 million to \$980 million at June 30, 2003. University investment results swung from a \$117 million net loss in 2002 to a \$70 million net gain in 2003. And student enrollment trends reflect continued strong demand for an Ohio State education.

Under the leadership of Karen A. Holbrook, who became the university's 13th president on October 1, 2002, Ohio State has maintained its focus on the implementation of the Academic Plan. The Academic Plan, which was adopted in 2000, drives university spending and budgeting priorities. It focuses on six core strategies:

- Build a world-class faculty
- Develop academic programs that define Ohio State as the nation's leading land-grant university
- Enhance the quality of the teaching and learning environment
- Enhance and better serve the student body
- Create a diverse university community
- Help build Ohio's future

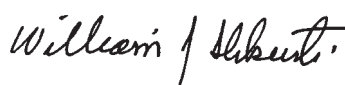
The Management's Discussion and Analysis section of the financial report provides additional details on the university's Academic Plan, including targeted investment areas for 2004 and long-term financial goals that are intended to ensure a continued flow of resources to Academic Plan initiatives.

Achieving Ohio State's academic goals in a time of flat or declining state support will require continued diversification of revenue sources, strategic management of risk, and tough choices. In her recent State of the University address, President Holbrook captured the financial challenges facing the university:

"We will continue to face economic hardships and will need to be more vigilant in conserving resources, controlling expenses, and investing strategically in the programs that best promote our success and excellence. We (will) discontinue programs that are under-producing and streamline administrative functions in order to assure that our students are not short-changed in their education. We will need to generate more of our own resources whenever possible and constantly persuade friends that Ohio State is worthy of their generosity."

We encourage you to read the financial report, and we welcome your interest in this great university. Go Bucks!

Very truly yours,



William J. Shkurti  
Senior Vice President  
for Business and Finance



Greta J. Russell  
University Controller

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## Independent Auditors' Report

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To the Board of Directors of  
The Ohio State University  
Columbus, Ohio

We have audited the accompanying consolidated statements of net assets of The Ohio State University ("The University"), a component unit of the State of Ohio, as of June 30, 2003 and 2002, and the related consolidated statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Ohio State University as of June 30, 2003 and 2002, and their changes in net assets and their cash flows for the years 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 13 is not a required part of the basic financial statements, but is supplementary information required by 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.

*Deloitte & Touche LLP*

October 29, 2003

**Deloitte  
Touche  
Tohmatsu**

## The Ohio State University

# Management's Discussion and Analysis

for the Year Ended June 30, 2003

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The Ohio State University for the year ended June 30, 2003, with comparative information for the year ended June 30, 2002. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

### About The Ohio State University

The Ohio State University is the State of Ohio's flagship research institution and one of the largest universities in the United States of America, with over 57,000 students, 4,700 faculty members, and 16,000 staff members. Founded in 1870 under the Morrill Land Grant Act, the university—which was originally known as the Ohio Agricultural and Mechanical College—has grown over the years into a comprehensive public institution of higher learning, with over 170 undergraduate majors, 110 masters degree programs, and 90 doctoral programs. The university also operates one of the nation's leading academic medical centers, which includes the OSU Health System. The Health System is comprised of three hospitals—The Ohio State University Hospitals, The Arthur G. James Cancer Hospital and Richard J. Solove Research Institute, and University Hospitals East—as well as an inpatient psychiatric care facility, a chemical dependency unit, rehabilitation facility, and 29 outpatient care centers with over 45,000 admissions and 780,000 patient visits annually.

Ohio State is governed by an 11-member Board of Trustees who are responsible for oversight of academic programs, budgets and general administration, and employment of faculty and staff. The governor annually appoints one voting member to a nine-year term and one non-voting student member to a two-year term. The university's 19 colleges, the OSU Health System, and various

academic support units operate largely on a decentralized basis. The Board of Trustees approves annual budgets for university operations, but these budgets are managed at the college and department level.

The following financial statements reflect all assets, liabilities, and net assets (equity) of the university, the OSU Health System, the Ohio Agricultural Research and Development Center, and the Ohio Supercomputer Center. In addition, these statements include consolidated financial results for a number of legally separate entities subject to Board of Trustees control, including:

- The Ohio State University Research Foundation (which administers sponsored research grants and contracts for the university)
- The Ohio State University Foundation (a fund-raising foundation operating exclusively for the benefit of the university)
- Campus Partners for Community Urban Redevelopment (a nonprofit organization participating in the redevelopment of neighborhoods adjacent to the main Columbus campus)
- Transportation Research Center (an automotive research and testing facility in East Liberty, Ohio)
- OSU Managed Health Care Systems (a nonprofit organization that administers university health care benefits)
- OSU Physicians, Inc. (a new central practice group for physician faculty members of the College of Medicine and Public Health)



The entities listed above meet the “financial accountability” criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. The university’s Board of Trustees has the ability to appoint a voting majority of these organizations’ boards and is able to “impose its will” on these organizations, as defined by GASB Statement No. 14.

On July 1, 2002, the university implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14 to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, should be consolidated into the university’s financial reports. The university has determined that none of its affiliated organizations currently meets the GASB 39 criteria for inclusion in the university’s financial statements.

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### About the Financial Statements

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The university presents its financial reports in a “business type activity” format, in accordance with

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial report includes a Statement of Net Assets, a Statement of Revenues, Expenses and Other

Changes in Net Assets, a Statement of Cash Flows, and Notes to the Financial Statements.

The **Statement of Net Assets** is the university’s balance sheet. It reflects the total assets, liabilities, and net assets (equity) of the university as of June 30, 2003, with comparative information as of June 30, 2002. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Investment assets are carried at market value. Capital assets, which include the university’s land, buildings, improvements, and equipment, are shown net of accumulated depreciation. Net assets are grouped in the following categories:

- Invested in capital assets, net of related debt
- Restricted – Nonexpendable (endowment and annuity funds)
- Restricted – Expendable (primarily current restricted and quasi-endowment funds)
- Unrestricted

The **Statement of Revenues, Expenses, and Other Changes in Net Assets** is the university’s income statement. It details how net assets have increased (or decreased) during the year ended June 30, 2003, with comparative information for Fiscal Year 2002. Tuition revenue is shown net of scholarship allowances, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments.

It should be noted that the required subtotal for net operating income or loss will generally reflect a “loss” for state-supported colleges and universities. This is primarily

due to the way operating and non-operating items are defined under GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all university expenses, except for interest on long-term debt. Operating revenues, however, *exclude* certain significant revenue streams that Ohio State and other public institutions have traditionally relied upon to fund current operations, including state instructional support, current-use gifts, and investment income.

The **Statement of Cash Flows** details how cash has increased (or decreased) during the year ended June 30, 2003, with comparative information for Fiscal Year 2002. It breaks out the sources and uses of university cash into the following categories:

- Operating activities
- Non-capital financing activities
- Capital financing activities
- Investing activities

Cash flows associated with the university's expendable net assets appear in the operating and non-capital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt, and debt repayments. Purchases and sales of investments are reflected as investing activities.

The **Notes to the Financial Statements**, which follow the financial statements, provide additional details on the numbers in the financial statements.

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### Financial Highlights and Key Trends

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The university's financial health remained sound in 2003, despite a difficult state budget environment.

Increases in tuition, growth in sponsored research, growth in gifts to the university, and continued improvement in Health System results helped to offset the impact of an \$11 million cut in state instructional subsidies. Total unrestricted and restricted-expendable net assets increased \$105 million, to \$980 million at June 30, 2003. University plant debt increased \$5 million, to \$586 million at June 30, 2003. University investment results returned to positive territory, with \$70 million of net investment income in 2003.

Student enrollment trends reflect continued strong demand for an Ohio State education. Total autumn quarter 2002 enrollment for all campuses was 57,721, up from 55,737 in autumn 2001. Freshman retention continues to improve as well. 86.5% of the freshmen enrolled in autumn 2001 returned to Ohio State in autumn 2002, up from 86% in the comparable 2000-2001 period.

The following sections provide additional details on the university's financial position and activities for Fiscal Year 2003 and a look ahead at significant economic conditions that are expected to affect the university in the future.

- I. Summary Statements of Net Assets
- II. Summary of Revenues, Expenses, and Other Changes in Net Assets
- III. University Cash Flows Summary

Student enrollment trends reflect continued strong demand for an Ohio State education. Total autumn quarter 2002 enrollment for all campuses was 57,721, up from 55,737 in autumn 2001.

## I. Summary Statements of Net Assets

(in thousands)

	2003	2002
Cash and current investments	\$836,704	\$759,536
Current receivables, inventories and prepaid expenses	384,685	345,874
Total current assets	1,221,389	1,105,410
Restricted cash and cash equivalents	16,125	24,343
Noncurrent notes and pledges receivable	92,515	107,069
Endowments and other long-term investments	1,017,094	1,011,568
Capital assets, net of accumulated depreciation	1,869,355	1,762,814
Total noncurrent assets	2,995,089	2,905,794
Total assets	\$4,216,478	\$4,011,204
Accounts payable and accrued expenses	\$272,636	\$260,501
Deferred revenues and deposits	138,787	139,259
Commercial paper and current portion of bonds, notes and lease obligations	349,206	285,072
Other current liabilities	9,496	13,900
Total current liabilities	770,125	698,732
Noncurrent portion of bonds, notes and lease obligations	237,027	296,034
Other noncurrent liabilities	171,781	208,659
Total noncurrent liabilities	408,808	504,693
Total liabilities	\$1,178,933	\$1,203,425
Invested in capital assets, net of related debt	\$1,266,371	\$1,181,708
Restricted – nonexpendable net assets	791,188	751,317
Restricted – expendable net assets	445,238	457,521
Unrestricted net assets	534,748	417,233
Total net assets	\$3,037,545	\$2,807,779

**I** Total university **cash and current investment** balances increased \$77 million, primarily due to a \$23 million increase in current gift receipts and a \$44 million increase in OSU Health System cash and investments. The Statement of Cash Flows, which is discussed in more detail below, provides additional details on sources and uses of university cash.

The market value of the university's **endowment and other long-term investments** increased \$6 million, to \$1.02 billion at June 30, 2003, due to market appreciation and additions to the endowment that were offset by distributions made from the endowment fund. The Endowment Fund operates with a long-term investment goal



of preserving the purchasing power of the principal in a diversified portfolio.

**Capital assets**, which include the university's land, buildings, improvements, equipment, and library books, grew \$107 million, to \$1.87 billion at June 30, 2003. The university depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from five years (for computer equipment) to 100 years (for certain building components such as foundations).

Several major construction projects are currently underway or in advanced planning stages, including:

- ▼ *Stanley J. Aronoff Laboratory* (Life Sciences Research Building) – At June 30, work was almost completed on this \$27 million facility, which will provide 107,000 square feet of laboratory and office space for College of Biological Sciences faculty, staff, and students in the departments of entomology; evolution, ecology and organismal biology; and plant biology. The five-story building is located between the Botany and Zoology Building and the 12th Avenue Parking Garage.
- ▼ *Graduate and Professional Student Housing* – Also nearing completion at June 30 was the \$31 million Graduate and Professional Student Housing complex, which is located in the south campus area on Neil Avenue. Students began moving into this new complex during summer 2003.
- ▼ *Knowlton School of Architecture* (A) – Construction continues on the new \$33 million home for the university's Architecture, City and Regional Planning, and Landscape Architecture programs on north campus across from the Fisher College of Business.
- ▼ *Physical Sciences Research Building* – Construction continues on the new

\$53 million home for the university's Department of Physics, on the site of the old Welding Engineering building.

- ▼ *Ross Heart Hospital* – Construction is underway on an \$82 million heart hospital, which is being built on the former site of the Rhodes Hall auditorium. This facility will include inpatient services, outpatient services, clinical and administrative support staff areas, and cardiac rehabilitation services.
- ▼ *New Recreation Center* (B) – Construction is underway on a new 604,800-square-foot recreation center to replace Larkins Hall. The \$140 million facility will house a 50-meter swimming pool and diving well, recreation, class and lap pools, 16 basketball courts, six multi-purpose rooms, squash courts, racquetball courts, and a 28,000-square-foot fitness center.
- ▼ *Hagerty and Page Hall* (C) *Renovations* – Extensive renovations are underway in these main campus buildings. After a \$24 million rehabilitation, Hagerty Hall will house a portion of the College of Humanities. Page Hall is undergoing a \$16 million renovation and will house the John Glenn Institute for Public Service and Public Policy and the School of Public Policy and Management.
- ▼ *Biomedical Research Tower* (D) – Construction is set to begin in Fiscal Year 2004 on a 10-story, \$151 million biomedical research facility that will house up to 120 faculty and 400 additional researchers for the College of Medicine and Public Health.
- ▼ *William Oxley Thompson Memorial Library Renovation* – Planning continues on a \$99 million renovation of the university's main library, which will include an addition to the building, new landscaping of the surrounding area, and an expansion of the Library Book Depository.





The university's estimated future capital commitments, based on contracts and purchase orders, total approximately \$357 million at June 30, 2003.

Total university debt, in the form of **commercial paper, bonds, notes, and capital lease obligations**, increased \$5 million, to \$586 million at June 30, 2003. During 2003, the university issued \$121 million of commercial paper and short-term notes payable. Both issues are secured by the general receipts of the university. The university used these debt proceeds to retire commercial paper previously issued for interim financing of construction projects, to retire old bonds issued at higher interest rates, and to fund current capital expenditures.

The university's plant debt includes variable rate demand bonds that mature at various dates through 2032. Governmental Accounting Standards Board Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the balance sheet classification of these bonds. Under GASB Interpretation No. 1, outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation No. 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as

current liabilities. These obligations totaled \$213 million and \$227 million at June 30, 2003 and 2002, respectively.

On September 11, 2003, the university closed on two bond issues totaling \$355 million. Approximately \$112 million of the proceeds were used to refund debt outstanding at June 30, 2003. The remainder was used to fund various construction projects around campus.

**Accounts payable and accrued expenses** increased \$12 million, primarily due to increases in payables to vendors for goods and services (up \$35 million compared with June 30, 2002) and increases in self-insurance accruals for medical malpractice and employee health plans (up \$9 million). These increases were partially offset by minor timing differences in the remittance of payroll withholdings and employee benefit contributions (down \$33 million compared with June 30, 2002).

Other non-current liabilities decreased \$37 million, primarily due to the elimination of the **unfunded workers' compensation liability** recorded at June 30, 2002. Under the State of Ohio's workers' compensation program, public employer state agencies, including state universities and university hospitals, pay workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis. The Bureau of Workers' Compensation determines a rate for each governmental agency that will generate premium collections equal to the losses anticipated to be paid in the coming year. As part of the GASB 34/35 implementation in 2002, the State of Ohio allocated the **unfunded workers' compensation liabilities** for public employer state agencies to the individual agencies and instructed state-assisted universities to incorporate these allocated liabilities in their financial reports.

In 2003, the Auditor of State and the Office of Budget and Management agreed to re-examine the state's allocation policy. 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 financial statements reflect an **extraordinary item for the reallocation of unfunded workers' compensation liabilities to the State of Ohio** of \$53 million, which reduces this liability to \$0 at June 30, 2003.

**II** Net **tuition and fees** increased \$51 million, to \$393 million in 2003, a 15% increase over 2002. Under the two-tiered pricing structure introduced by the university in 2003, tuition rates increased 19% for new undergraduate students at the Columbus campus and 9% for returning students. These increases were implemented in response to continuing reductions in state instructional subsidies.

**Grant and contract revenues** increased \$57 million, to \$482 million in 2003, primarily due to a \$38 million increase in sponsored research programs administered by The Ohio State University Research Foundation. Federal grants and contracts accounted for \$28 million of the increase; private OSURF grants increased \$9 million. Other areas with significant increases include the Transportation Research Center (up \$4 million) and federal Pell student aid grants (up \$3 million).

Fiscal Year 2003 saw moderate growth in total **educational and general expenses**. Total E&G expenses increased approximately 8%, to \$1.36 billion. Additional details are provided in the chart on page 10.

## II. Summary of Revenues, Expenses, and Other Changes in Net Assets

(in thousands)

	2003	2002
<b>Operating Revenues:</b>		
Tuition and fees, net	\$ 392,609	\$ 341,371
Grants and contracts	482,228	425,012
Auxiliary enterprises sales and services, net	141,543	129,521
OSU Health System sales and services, net	819,015	711,753
Departmental sales and other operating revenues	127,474	90,796
Total operating revenues	1,962,869	1,698,453
<b>Operating Expenses:</b>		
Educational and general	1,360,612	1,261,284
Auxiliary enterprises	164,130	141,423
OSU Health System	809,584	701,310
Depreciation	140,608	147,775
Total operating expenses	2,474,934	2,251,792
Net operating income (loss)	(512,065)	(553,339)
<b>Non-operating revenues (expenses):</b>		
State share of instruction and line-item appropriations	437,363	446,115
Gifts – current use	79,144	69,123
Net investment income (loss)	69,754	(117,319)
Other non-operating revenues (expense)	(19,036)	(18,287)
Income (loss) before other revenues, expenses, gains or losses	55,160	(173,707)
State capital appropriations	56,878	50,342
Private capital gifts	18,213	20,917
Additions to permanent endowments	46,026	32,429
Income (loss) before extraordinary item	176,277	(70,019)
<b>Extraordinary item:</b>		
Reallocation of unfunded workers' compensation liability to State of Ohio	53,489	-
Increase (decrease) in net assets	229,766	(70,019)
Net assets – beginning of year	2,807,779	2,877,798
Net assets – end of year	\$3,037,545	\$2,807,779



Total **instructional and departmental research** expenses increased 7% in 2003. This increase is primarily due to faculty/staff salary increases, which averaged 4.5%, increased benefit costs, and the inclusion of first-year expenses associated with OSU Physicians, Inc. **Separately budgeted research** increased 14%, reflecting the continued growth in the volume of federal sponsored research. **Operation and maintenance of plant** decreased 7%, primarily due to the distribution of budget and expense for space rentals from central university administration to the College of Medicine and Public Health. Budget reallocations, in response to the state budget cuts, held down the overall increase in other E&G categories.

Current-use **gifts** to the university increased \$10 million, to \$79 million in 2003.

difficult to project whether or not this trend will continue.

**Additions to permanent endowments** increased \$14 million, to \$46 million in 2003. A total of 188 new named endowments were established in 2003, including 17 new chairs or professorships, 109 new scholarship or fellowship funds, and 62 new funds supporting programs throughout the university. University management believes the five-year average of about \$40 million per year in gift additions to the endowment will continue.

**Private capital gifts**, which are restricted for the purchase or construction of capital assets, decreased \$3 million, to \$18 million in 2003. About \$14.5 million in new pledges to capital projects were received during 2003. University management believes gift income to these types of accounts will continue at the \$15-\$20 million per year level for the next few years.

## Educational and General Expenses

(in thousands)

	2003	2002
Instruction and departmental research	\$ 569,710	\$ 530,027
Separately budgeted research	303,057	265,426
Public service	114,916	110,727
Academic support	90,786	86,661
Student services	62,356	56,473
Institutional support	110,144	101,708
Operation and maintenance of plant	68,154	72,995
Scholarships and fellowships	41,489	37,267
<b>Total</b>	<b>\$1,360,612</b>	<b>\$1,261,284</b>

During 2003, the number of individuals and organizations making donations to the university rose to an all-time high of 102,777, compared with 96,832 donors in 2002. This increase in donors is significant, in that in most years at least 90% of the donors give to current-use funds. Also, there was a significant increase in gifts of \$10,000 or more to current-use funds in 2003. It is

Revenues and expenses for the university's **auxiliary enterprises** continued to grow in 2003. Revenues from auxiliary sales and services increased \$12 million, led by the Department of Athletics (up \$6 million) and the Blackwell Inn (up \$5 million). Athletics also saw a \$5 million increase in **other operating revenues**, primarily due to increased sales of Ohio State apparel and similar items. Expenses for auxiliary operations increased \$23 million. Major contributors to the increase included the Department of Athletics (up \$9 million), Housing, Food Service, and Event Centers (up \$6 million), and the Blackwell Inn (up \$5.5 million). Fiscal Year 2003 was the Blackwell Inn's first full year of operations.

**The Ohio State University Health System's** financial status remained stable during Fiscal Year 2003. Total sales and services revenues grew by \$107 million (15%) during 2003, due to increased patient volumes and

rate increases for selected services, while an increase in intensity of services continues. Cost of labor, supplies, and services continued to increase during Fiscal Year 2003. Consolidated Health System expenses (excluding depreciation, interest, and inter-fund transfers) increased \$108 million, due to higher patient volumes, greater utilization of contract nurses, higher salary and benefit costs, increased malpractice costs, and higher cost of doing business. Health System net income (including depreciation, interest, and inter-fund transfers) increased \$3.7 million, to \$8.1 million in 2003.

A neutral equity market coupled with a strong fixed income market resulted in a **net investment income** of \$70 million in 2003. This figure includes \$43 million of interest and dividends and \$27 million net appreciation in the fair market value of university investments.

**III** Total university cash flows swung from a \$272 million increase to a \$77 million decrease in 2003. Net cash flows from operating activities declined \$63 million, as increases in disbursements for salaries, employee benefits, and payments to vendors for supplies and services more than offset increased receipts for tuition, grants and contracts, and sales and services. Net cash flows from capital financing activities declined \$192 million due to a combination of increased payments for capital assets and a reduction in debt issuance activity. Net cash flows from investing activities declined, reflecting \$122 million of net purchases of temporary investments in 2003.

### **Economic Factors That Will Affect the Future**

The State of Ohio's budget for the 2004-2005 biennium calls for minimal increases in state instructional subsidies and line-item

## **III. University Cash Flows Summary**

*(in thousands)*

	2003	2002
Net cash flows from operating activities	\$(387,450)	\$(324,847)
Net cash flows from noncapital financing activities	578,294	544,453
Capital appropriations and gifts for capital projects	76,797	67,175
Proceeds from issuance of bonds and notes payable	124,461	264,464
Payments for purchase and construction of capital assets	(246,072)	(195,431)
Principal and interest payments on capital debt	(140,976)	(129,757)
Net cash flows from investing activities	(82,084)	45,950
Net increase (decrease) in cash	\$ (77,030)	\$ 272,007

appropriations. Based on the governor's and the Ohio Senate's funding recommendations earlier this year, the university's Board of Trustees approved 2004 tuition increases of 9% for continuing undergraduate students and 9%, plus an additional \$100 per quarter, for new undergraduate students, effective summer quarter. However, these initial increases were set in anticipation of higher levels of state support than were eventually realized.

Recognizing the difficult financial challenges facing Ohio State, the governor and legislature allowed the university to raise tuition above the 9.9% tuition cap placed on most state institutions—up to a maximum of 12.9% above the prior academic year. After the enactment of the state budget and with the realization that state support was below expectations, the university's Board of Trustees approved an additional 3.9% tuition increase for continuing undergraduate students and an additional \$50 per quarter for new students, resulting in overall 2004 tuition increases of 12.9% for both groups. These additional increases are effective fall quarter and bring the total 2004 tuition and fees for a

## Fiscal Year 2004 Undergraduate Tuition at Ohio Public Universities

	New Students
Miami University	\$ 8,353
University of Cincinnati	\$ 7,623
Bowling Green	\$ 7,408
Ohio University	\$ 7,128
Kent State	\$ 6,882
University of Akron	\$ 6,809
<b>Ohio State - Main Campus</b>	<b>\$ 6,624</b>
University of Toledo	\$ 6,428
Cleveland State	\$ 6,072
Wright State	\$ 5,892
Youngstown State	\$ 5,448
Shawnee State	\$ 4,734
Central State	\$ 4,287
<b>State Average</b>	<b>\$ 6,438</b>

new undergraduate student at the Columbus campus to \$6,624, which is slightly above the average for Ohio's 13 public universities.

As the proportion of state support in the university's revenue mix declines, Ohio State's financial profile increasingly resembles that of a large private institution—dependent on a combination of tuition revenues, grants and contracts, gifts, sales of goods and services, and investment returns to fund its land-grant missions of teaching, research, and public service. Strategic management of risk will become increasingly important as the university becomes more entrepreneurial and more diverse in its revenue sources.

The Academic Plan, which was adopted in 2000, drives university spending and budgeting priorities. It focuses on six core strategies:

- Build a world-class faculty
- Develop academic programs that define Ohio State as the nation's leading land-grant university
- Enhance the quality of the teaching and learning environment
- Enhance and better serve the student body
- Create a diverse university community
- Help build Ohio's future

In support of the Academic Plan, the university implemented changes in its annual budget process in 2003, which are collectively known as "budget restructuring." The new budget process is intended to align the allocation of resources with the Academic Plan and decentralize much of the decision making about expenditure priorities to the college and vice presidential level.

The university has selected four critical Academic Plan initiatives for targeted investment in 2004:

### *Build a World-Class Faculty and Staff –*

For 2004, the university provided average pay increases of approximately 3.5% (1% above market) and an estimated 8.5% increase in the university share of employee benefit costs. Salary increases were funded by a combination of revenue growth (for faculty salaries), reallocations of existing budgets, not filling vacant positions, and reductions in operating costs.

### *Develop Strong Academic Programs –*

Initiatives in this area include budget re-basing and selective investments from the provost's Strategic Investment funds and the President's Reserve, a \$2 million allocation to increase research capacity at the Comprehensive Cancer Center, \$1.2 million to fund expansion of laboratory animal facilities, and additional funding for compliance with federal research guidelines.

### *Enhance the Teaching and Learning*

*Environment* – Revenues generated from the tuition increases will fund \$3.7 million in student technology enhancements. Additional funding will also be provided to support the Office of Instructional Technology, increase the safety of off-campus neighborhoods, and improve the appearance of the campus.

### *Enhance and Serve the Student Body –*

Approximately 30% of the anticipated growth in 2004 general funds revenues (over \$17 million) has been allocated to increase student financial aid. Financial aid funds are increased at a rate that ensures that students who are otherwise qualified will not be denied admission for financial reasons. Additional funding also will be provided to improve Enrollment Services and add freshman seminar programs. To support extracurricular activities including student governments, clubs, and student-sponsored activities, the university has begun a three-year phased implementation of a student activity fee. In 2004, all full-time first-year

undergraduate and graduate students will begin paying the \$15 per quarter fee.

To assure a continued flow of resources to the activities and functions of the Academic Plan, the university has set the following long-term financial goals:

- A 0.5% to 1.0% operating margin in the General Fund
- A Rainy Day fund equal to 1% of total annual operating revenues
- Targeted reserves in selected areas of special risk (e.g. malpractice, utilities, etc.)
- At least 30 days of operating cash
- Debt service at no more than 5% of annual operating expenses and a bond rating of at least "AA"
- Multi-year commitments of General Funds do not exceed 1% of current-year revenues

In addition to meeting these specific financial goals, the university is committed to a continuing effort to diversify its revenue base and more effectively control spending. Diversification of revenue includes expanding private giving, increasing federal dollars and sponsored research, and leveraging partnerships with private companies and other nonprofit organizations.

The newly restructured budget process provides greater incentives for both academic and academic support units to manage their costs. The university will continue to review its core business processes for additional cost savings and examine activities that can be discontinued so that resources can be reallocated to priority needs identified in the Academic Plan.

The OSU Health System will be challenged by a national trend to meet a continued increase in demand for health services from an aging population and greater expectations. In Fiscal Year 2004, admissions are projected to increase by 1,500 or 3.3%, and outpatient clinic visits are expected to

increase by 42,000 or 5.4%. Included are Emergency Department visits, which are expected to increase by 3,400 or 3.8%. The Health System will continue to be challenged by the increasing cost of nurses and medical technicians, mounting malpractice costs, increased supplies and service costs, and higher costs for research and technology including pharmaceuticals.

The Health System as part of the Medical Center continues to support investment in research and teaching initiatives, which will result in the delivery of additional leading-edge clinical services while fulfilling its academic mission. In response to the increased demand for services, the Health System has a number of initiatives underway including: the Ross Heart Hospital to open in the Fall of 2004, patient throughput initiatives, potential expansion of the James Cancer Hospital, as well as the opening of entrance and exit ramps to State Route 315 to improve access to the Medical Center. The Health System, in conjunction with OSU Physicians, Inc., also has initiated a combined self-insured malpractice program in 2004, which is expected to benefit the Medical Center. Despite these challenges, the Health System expects to improve its financial position in the face of these challenges and the changing health care environment during the upcoming year. The Health System will continue to play its role in supporting the Medical Center and its goal of becoming a leading research, educational, and patient care provider in the United States by 2008.

In 2003, the university demonstrated the ability to make continued progress towards its academic goals in a difficult state budget environment. University management believes that Ohio State will maintain its sound financial position and is positioned to continue its progress towards a top-tier ranking among the nation's public institutions.

In 2003, the university demonstrated the ability to make continued progress towards its academic goals in a difficult state budget environment.



THE OHIO STATE UNIVERSITY

June 30, 2003 and 2002  
(in thousands)

	2003	2002
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 255,222	\$ 324,034
Temporary investments	581,482	435,502
Accounts receivable, net	284,059	255,063
Notes receivable – current portion, net	10,400	11,500
Pledges receivable – current portion, net	12,750	10,757
Accrued interest receivable	15,752	14,025
Inventories and prepaid expenses	61,724	54,529
<b>Total Current Assets</b>	<b>1,221,389</b>	<b>1,105,410</b>
Noncurrent Assets:		
Restricted cash and cash equivalents	16,125	24,343
Notes receivable, net	49,016	50,809
Pledges receivable, net	43,499	56,260
Endowment investments	974,382	967,972
Other long-term investments	42,712	43,596
Capital assets, net	1,869,355	1,762,814
<b>Total Noncurrent Assets</b>	<b>2,995,089</b>	<b>2,905,794</b>
<b>Total Assets</b>	<b>\$4,216,478</b>	<b>\$4,011,204</b>
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts payable and accrued expenses	\$272,636	\$260,501
Deposits and deferred revenues	138,787	139,259
Commercial paper and current portion of bonds, notes and leases payable	349,206	285,072
Compensated absences – current portion	4,926	4,976
Obligations under annuity and life income agreements – current portion	4,570	5,281
State allocation of unfunded workers' compensation liability – current portion	-	3,643
<b>Total Current Liabilities</b>	<b>770,125</b>	<b>698,732</b>
Noncurrent Liabilities:		
Bonds, notes and leases payable	237,027	296,034
Compensated absences	59,615	56,351
Obligations under annuity and life income agreements	43,915	39,405
Refundable advances for Federal Perkins loans	31,170	35,337
State allocation of unfunded workers' compensation liability	-	49,846
Other noncurrent liabilities	37,081	27,720
<b>Total Noncurrent Liabilities</b>	<b>408,808</b>	<b>504,693</b>
<b>Total Liabilities</b>	<b>1,178,933</b>	<b>1,203,425</b>
Net Assets:		
Invested in capital assets, net of related debt	1,266,371	1,181,708
Restricted:		
Nonexpendable	791,188	751,317
Expendable	445,238	457,521
Unrestricted	534,748	417,233
<b>Total Net Assets</b>	<b>3,037,545</b>	<b>2,807,779</b>
<b>Total Liabilities and Net Assets</b>	<b>\$4,216,478</b>	<b>\$4,011,204</b>



THE OHIO STATE UNIVERSITY  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,  
 AND OTHER CHANGES IN NET ASSETS**

Years Ended June 30, 2003 and 2002  
 (in thousands)

	2003	2002
<b>Operating Revenues:</b>		
Student tuition and fees (net of scholarship allowances of \$70,760 and \$66,761, respectively)	\$ 392,609	\$ 341,371
Federal grants and contracts	269,859	234,066
State grants and contracts	34,482	35,726
Local grants and contracts	24,272	21,260
Private grants and contracts	153,615	133,960
Sales and services of educational departments	85,716	58,187
Sales and services of auxiliary enterprises (net of scholarship allowances of \$9,206 and \$8,916, respectively)	141,543	129,521
Sales and services of the OSU Health System (net of charity care of \$20,942 and \$18,906, respectively)	819,015	711,753
Other operating revenues	41,758	32,609
Total Operating Revenues	<u>1,962,869</u>	<u>1,698,453</u>
<b>Operating Expenses:</b>		
Educational and General:		
Instructional and department research	569,710	530,027
Separately budgeted research	303,057	265,426
Public service	114,916	110,727
Academic support	90,786	86,661
Student services	62,356	56,473
Institutional support	110,144	101,708
Operation and maintenance of plant	68,154	72,995
Scholarships and fellowships	41,489	37,267
Auxiliary enterprises	164,130	141,423
OSU Health System	809,584	701,310
Depreciation	140,608	147,775
Total Operating Expenses	<u>2,474,934</u>	<u>2,251,792</u>
Operating Loss	(512,065)	(553,339)
<b>Non-operating Revenues (Expenses):</b>		
State share of instruction and line-item appropriations	437,363	446,115
Gifts	79,144	69,123
Net investment income (loss)	69,754	(117,319)
Interest expense on plant debt	(17,594)	(15,821)
Other non-operating revenues (expenses)	(1,442)	(2,466)
Net Non-operating Revenue (Expense)	<u>567,225</u>	<u>379,632</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	55,160	(173,707)
State capital appropriations	56,878	50,342
Private capital gifts	18,213	20,917
Additions to permanent endowments	46,026	32,429
Income (Loss) Before Extraordinary Item	<u>176,277</u>	<u>(70,019)</u>
Extraordinary item:		
Reallocation of unfunded workers' compensation liability to the State of Ohio	53,489	-
Increase (Decrease) in Net Assets	229,766	(70,019)
Net Assets – Beginning of Year	<u>2,807,779</u>	<u>2,877,798</u>
Net Assets – End of Year	<u>\$3,037,545</u>	<u>\$2,807,779</u>

The accompanying notes are an integral part of these financial statements.

THE OHIO STATE UNIVERSITY  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2003 and 2002  
 (in thousands)

	2003	2002
<b>Cash Flows from Operating Activities:</b>		
Tuition and fee receipts	\$ 293,367	\$ 265,673
Grant and contract receipts	485,406	423,675
Receipts for sales and services	1,034,908	912,635
Payments to or on behalf of employees	(1,163,616)	(1,045,231)
University employee benefit payments	(294,941)	(233,981)
Payments to vendors for supplies and services	(747,729)	(661,839)
Payments to students and fellows	(35,713)	(33,858)
Student loans issued	(11,176)	(11,313)
Student loans collected	17,090	13,633
Student loan interest and fees collected	1,637	2,013
Other receipts (payments)	33,317	43,746
Net cash provided (used) by operating activities	<u>(387,450)</u>	<u>(324,847)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
State share of instruction and line-item appropriations	437,363	446,115
Gift receipts for current use	89,911	66,801
Additions to permanent endowments	46,026	32,429
Drawdowns of federal direct loan proceeds	203,013	194,960
Disbursements of federal direct loans to students	(200,684)	(196,636)
Disbursements of loan proceeds to related organization	(1,017)	(84)
Amounts received for annuity and life income funds	8,190	5,383
Amounts paid to annuitants and life beneficiaries	(4,391)	(5,075)
Agency funds receipts	5,566	5,058
Agency funds disbursements	(5,683)	(4,498)
Net cash provided (used) by noncapital financing activities	<u>578,294</u>	<u>544,453</u>
<b>Cash Flows from Capital Financing Activities:</b>		
Proceeds from capital debt	124,461	264,464
State capital appropriations	58,584	46,258
Gift receipts for capital projects	18,213	20,917
Payments for purchase or construction of capital assets	(246,072)	(195,431)
Principal payments on capital debt and leases	(121,833)	(113,961)
Interest payments on capital debt and leases	(19,143)	(15,796)
Net cash provided (used) by capital financing activities	<u>(185,790)</u>	<u>6,451</u>

























































