

**An Analysis of the Financial Position**

**of**

**Ohio University**

**Fiscal Years 2014-2020**

**Prepared for AAUP**

**By**

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## Introduction

This update provides an analysis of the financial position of the Ohio University for the fiscal years 2014 through 2020. The analysis contained in this report is based on information contained in the audited financial statements and other information that appears in the annual [Financial Statements of Ohio University](#) and the [Integrated Post-Secondary Educational Data System \(IPEDS\)](#) for the aforementioned years. The data in the tables in this update covers 2015-2020 because of space limitations. Data in the graphs cover the full period 2014-2020.

Most businesses have a goal of earning profit for stockholders. Thus, the financial statements of most businesses are designed to allow stockholders and others concerned with profitability a means to monitor the performance of the business in question.

Universities, colleges, and other non-profit organizations ostensibly have an entirely different purpose. Universities and colleges, in particular, are institutions of higher learning established primarily to create and disseminate knowledge. Universities and colleges receive a significant portion of their funding from donors and governmental entities. These funds are often given with certain restrictions and conditions. Consequently, universities use a system of fund accounting. The primary purpose of fund accounting is to provide trustees, who are legally responsible for running universities, the information to monitor the funds that come into the institution and make sure that they are expended for their intended purpose.

Since the primary purpose of fund accounting systems is to ensure that funds provided by donors and government are expended in the manner they were intended, it has been difficult for faculty to look at a university or college's financial statements and get a true picture of the university's financial health. In the past, financial statements for universities were broken down into various fund groups. In effect, each fund group had its own financial statements and universities could move money between funds making it difficult to understand whether universities had revenues in excess of expenses or whether expenses exceeded revenues.

The Financial Accounting Standards Board (FASB) governs private universities and colleges financial statements. In 1993 the Financial Accounting Standards Board (FASB 117), which governs the way that private colleges and universities report financial data, changed requirements for financial reporting so that they more closely resemble those in for profit businesses.

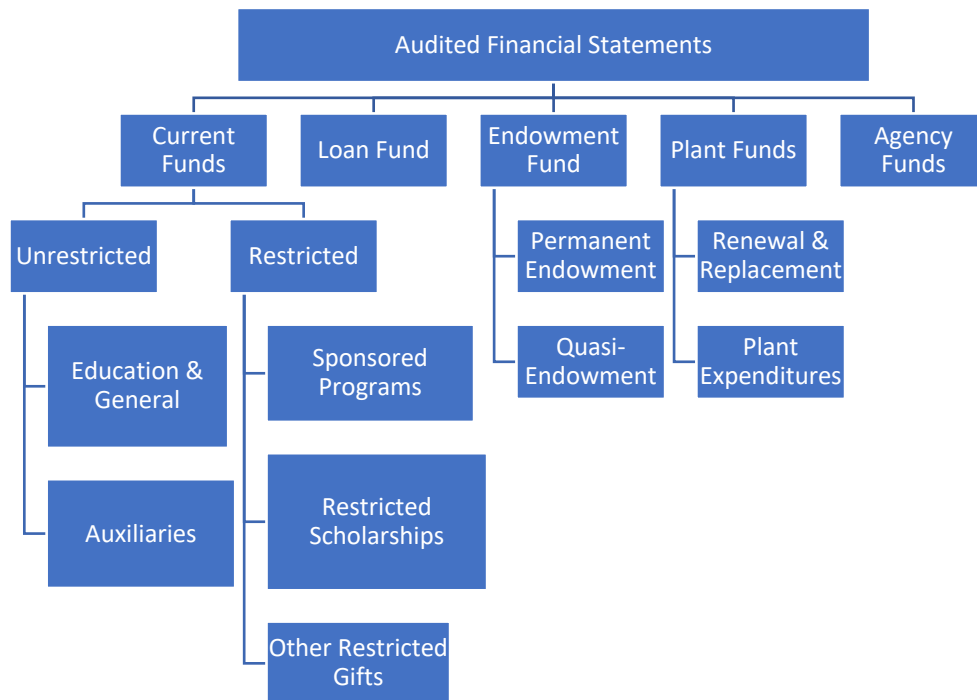
The Governmental Account Standards Board (GASB) governs the reporting of financial data for public universities and colleges. In 2002, public universities and colleges changed their financial statements so that they too more closely resembled those in for profit businesses (GASB 34).

The effect of the changes of GASB and FASB on the way universities and colleges report their financial data was to put it in a format that much more closely aligned with for profit

businesses. In fact, one might argue that this new reporting format reflects the growing corporatization of universities, which are increasingly being run more and more like for-profit enterprises. However, one of the benefits of the new reporting format is that it is now easier for faculty to understand the financial status of their institutions.

Historically, most universities and colleges have had some sort of a faculty budget oversight committee as part of faculty governance institutions. Many of the functions of these budget oversight committees have been taken over by collective bargaining agents at institutions where faculty members have opted to engage in collective bargaining. However, whether an institution has collective bargaining or a traditional budget oversight committee, faculty at most institutions focus on the annual budget of the institution.

Looking only at a university or college’s budget can be misleading. Budgets are plans that normally deal with the current fund. However, universities have the ability to transfer money from one fund to another, so looking only at the current fund does not give a true picture of a university’s finances. Figure 1 below shows the structure of university or college funds.



**Figure 1.**

In addition, since a budget is just a financial plan, institutions have no legal obligation to spend money in accordance with their budgets. For example, a budget may show that money has been allocated for a certain number of faculty positions. However, in any given year a certain number of faculty members leave institutions, e.g., to take jobs elsewhere or retire. Consequently, in any given year a certain number of positions that are budgeted are vacant. Therefore, what a university or college budgets for faculty salaries and benefits is not necessarily what it actually spends. As a result, some percentage of funds for budgeted positions either gets spent elsewhere or accumulates and becomes part of a university or college's net assets.

Moreover, when faculty members retire, and institutions hire replacements, they are often replaced by faculty hired at lower salaries. We refer to this as the swap, wherein institutions swap lower paid for higher paid faculty, but budget as if the higher paid faculty members are still employed. This has the effect of systematically over-estimating expenses.

Budgets also depend on making projections regarding enrollment and other sources of revenue. Administrators are notorious for under-estimating enrollment growth or for assuming that tuition is the only sources of revenue. This tends to systematically under-estimate revenue.

Budgets require estimates of inflation e.g., how much health care costs, energy costs or the cost of library materials will increase. Changing any of these assumptions can drastically alter a budget. For example, for campuses that are located in areas where there is snow administrators may assume that every winter will be have record snow fall and thus over-estimate the cost of snow removal or salt. Where campuses are located in warmer climates, administrators assume that there will be record temperatures and hence over-estimate the cost of air conditioning.

In many cases administrators argue that they are just being risk averse and don't want any negative surprises. While this may be true, consistently over-estimating costs or under-estimating expenses means that actual revenues will exceed actual expenses and lead to the accumulation of reserves. Having reserves is certainly desirable, because they can be used for a "rainy day." However, budgeting as if every day is a "rainy day" means that funds are accumulated in reserves, when they could have been used to support the primary mission of the institution.

Finally, budgets are always balanced, and this creates the impression that institutions spend every dollar of revenue that they take in. This is far from true for most institutions. In general, most universities and colleges will have balanced budgets and yet in most years they will have revenues that are substantially in excess of expenses.

To get a true picture of a college or university's finances, one must look at the actual financial statements, which represent the actual revenues and expenses of the institution. Evaluating a college or university's finances by looking at its budget would be the equivalent of evaluating the performance of a for-profit company by looking at its business plan.

In a for-profit business, revenues are generated through the sale of goods and services. In the process of producing goods and providing services firms incur expenses. The difference between revenues and expenses represents a firm's profit or loss. This profit or loss is one of the primary indicators of how a firm is performing.

As non-profit organizations, most universities and colleges take in revenue in the form of tuition dollars, donations, and governmental support. In the process of carrying out the mission of their institution, universities and colleges also incur expenses. The difference between the revenues and expenses is known as the change in net assets (change in net position). If a university or college's revenue exceeds its expenses, there is an increase in net assets. Conversely, if the expenses exceed the revenues there is a decrease in net assets. Increases (or decreases) in net assets are one of the prime indicators of how a university is performing financially. They are the rough equivalent of profits (or losses).

Financial data is reported either as a stock (a level) or flow (a change). A stock is a snapshot taken at a particular point in time. For example, the amount of money in your savings account is a stock. Flows are measurements that tell us about changes over time, as a particular stock moves from one level to another. Flows always have a time dimension. For example, income is a flow; it is measuring the number of dollars we receive per year.

Universities and colleges have three main financial statements. First there is a **balance sheet** or a **statement of net position (statement of net assets)**. Balance sheets have three main components: **assets, liabilities and net assets**. Assets are things of value owned by a university. Liabilities are claims against a university and net assets are the difference between assets and liabilities. Balance sheets deal primarily with levels, i.e., it is a snapshot of a university or college's finances on the last day of the fiscal year.

Net assets represent the wealth of the institution. A well-presented balance sheet for a particular fiscal year will report on assets, liabilities, and net assets not only at the end of the current fiscal year, but also at the end of the previous fiscal year. (Fiscal years are always associated with the calendar year in which they end. For example, a fiscal year starting on July 1, 2016 and ending on June 30, 2017 is known as "fiscal year 2017" for short).

The full name of the second major financial statement is the **statement of revenues, expenses and changes in net position (changes in net assets)**. In the accounting world, another common name for this statement is the **income statement**. This financial statement shows how a university's finances are changing over a period of time, namely a fiscal year that normally runs from July 1 to June 30 of the following year. This statement therefore deals with flows and measures how a university's revenues and expenses are changing over time.

There is a relationship between stocks and flows or between the balance sheet and income statement. For example, suppose the income statement for a given fiscal year shows revenues that are greater than expenses; then, the same income statement will show a positive change in net assets, and the balance sheet for the same fiscal year will report end-of-year net assets greater than beginning-of-year net assets.

More specifically, the following equation shows an important relationship between the balance sheet and the income statement: the net assets at the beginning of a fiscal year  $t$  (shown on the balance sheet) plus the change in net assets (shown on the income statement) equals the net assets at the end of the fiscal (again, shown on the balance sheet).

$$Net\ Assets_t = Net\ Assets_{t-1} + \Delta Net\ Assets_t$$

Here is a related equation: The change in net assets (shown on the income statement) equals revenue minus expenses (both shown on the income statement) which in turn equals the change in assets minus the change in liabilities (shown on the balance sheet).

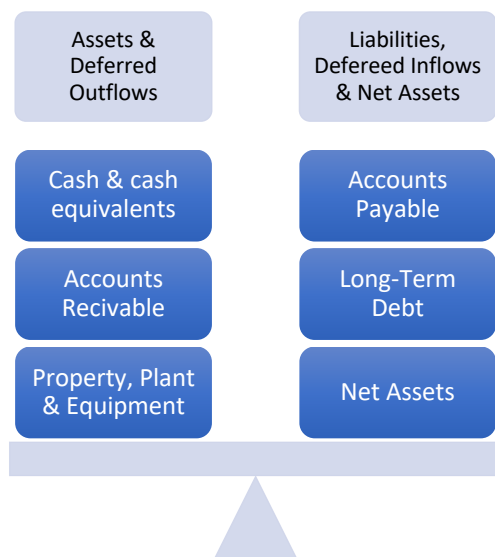
$$\Delta Net\ Assets_t = Revenue_t - Expenses_t = \Delta Assets_t - \Delta Liabilities_t$$

The third major financial statement is the **statement of cash flows**. To understand what the cash flow statement is and why it is needed, one must realize that universities use a system of accrual accounting; this means they book revenues when they earn them and book expenses when they are incurred. However, recognizing revenue is not always the same as collecting cash. For example, a university may send a bill to a student for tuition but not immediately collect the money owed. This shows up on a university's balance sheet as an increase in accounts receivable and is booked as revenue on the income statement (a.k.a. the statement of revenues, expenses and changes in net assets). Thus, the university reports this revenue, but it does not actually have more cash. The role of the cash flow statement is to show the inflows and outflows of cash.

The purpose of this update is to help educate faculty at the Ohio University about the financial status of their institution. The information provided in this report is provided solely for educational purposes. Every effort has been made to ensure that the information in this report is accurate. Any errors or misstatements are purely unintentional, and the author accepts no responsibilities for any damage that may result.

## The Balance Sheet

A balance sheet (statement of financial position or statement of net assets) is a snapshot of the university or college's financial position on the last day of the fiscal year. This statement deals with stocks (levels as opposed to changes). Generally fiscal years begin on July 1 and end on June 30 and when a fiscal year is referred to the number refers to the calendar year in which a particular fiscal year ends. A balance sheet has two sides and represents a balance between assets on the left side and liabilities and changes in net assets on the right side. The equation that summarizes a balance sheet is  $\text{Assets} = \text{Liabilities} + \text{Net Assets}$ . The basic structure of the balance sheet is illustrated in Figure 2 below.



**Figure 2.**

### Assets

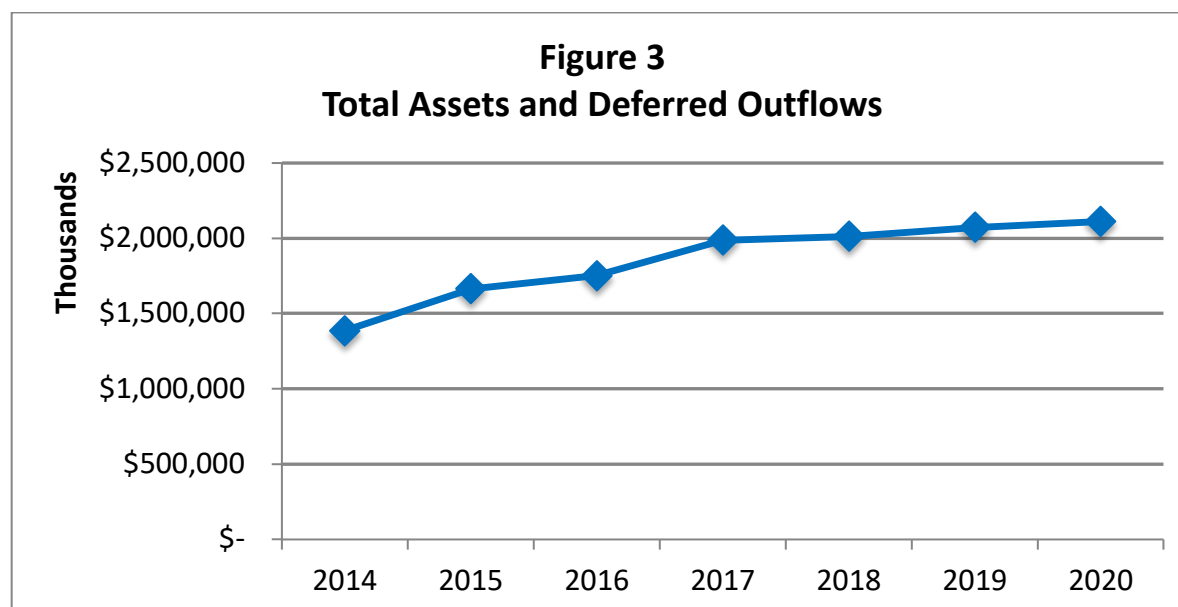
An asset is something that an institution owns that is expected to provide a benefit in the future. Assets can be divided into two classes: **real assets** such as classrooms, laboratories, computers, library books and journals etc., and **financial assets** such as cash that can be used to make student loans and finance current operations, and investments in financial instruments such as endowments which can be used to generate income to defray certain expenses or be liquidated during a period of a financial crisis. Assets increase as resources are obtained and decrease as assets are disposed of or used up.

**Deferred outflows** are consumption of net assets applicable to a future reporting period. For example, if a University makes a payment to a pension fund in the current fiscal year but the payment is for the following fiscal year, there would be a decrease in cash which would lower the value of net assets. But since the payment is for a subsequent year it is offset by a deferred outflow so there is no change in net assets for the current year. So, in this case, adding a deferred outflow gives a better picture of how the University is performing in the current fiscal year.

Table 1 Assets and Deferred Outflows Thousands of \$ For year ending June 30						
	2015	2016	2017	2018	2019	2020
<b>Current Assets</b>						
Cash and cash equivalents	\$67,330	\$36,622	\$58,048	\$72,561	\$101,739	\$96,805
Investments	\$243,265	\$260,326	\$276,220	\$288,902	\$301,338	\$286,982
Accounts and contributions receivable, net	\$61,836	\$56,811	\$74,505	\$70,827	\$56,129	\$52,624
Interest and dividends receivable	\$346	\$750	\$872	\$1,603	\$1,858	\$1,520
Notes receivable, net	\$1,403	\$1,366	\$1,281	\$1,198	\$1,326	\$1,222
Prepaid expenses	\$10,302	\$10,503	\$10,853	\$9,960	\$11,170	\$12,481
Inventories	\$2,985	\$2,755	\$2,841	\$2,580	\$2,967	\$3,156
<b>Total current assets</b>	<b>\$387,468</b>	<b>\$369,134</b>	<b>\$424,619</b>	<b>\$447,631</b>	<b>\$476,528</b>	<b>\$454,790</b>
<b>Noncurrent Assets</b>						
Restricted cash and cash equivalents	\$14,324	\$7,056	\$75,075	\$69,732	\$58,545	\$84,764
Investments - noncurrent	\$257,736	\$232,526	\$234,843	\$225,901	\$225,356	\$210,853
Endowment investments	\$80,603	\$74,948	\$83,343	\$98,995	\$101,488	\$102,829
Notes receivable - noncurrent, net	\$11,977	\$12,121	\$11,076	\$11,210	\$11,662	\$9,849
Assets held for sale		\$88				\$15,025
Capital assets, net	\$909,397	\$967,952	\$1,019,149	\$1,042,192	\$1,067,021	\$1,126,526
<b>Total noncurrent assets</b>	<b>\$1,274,037</b>	<b>\$1,294,691</b>	<b>\$1,423,486</b>	<b>\$1,448,030</b>	<b>\$1,464,072</b>	<b>\$1,549,846</b>
<b>Total assets</b>	<b>\$1,661,505</b>	<b>\$1,663,824</b>	<b>\$1,848,105</b>	<b>\$1,895,661</b>	<b>\$1,940,599</b>	<b>\$2,004,637</b>
<b>Deferred Outflows of Resources</b>						
Deferred outflows related to pensions		\$85,552	\$137,671	\$106,873	\$119,337	\$76,102
Deferred outflows related to OPEB				\$9,214	\$9,871	\$30,376
Deferred outflows - other	\$2,730	\$2,331	\$2,261	\$1,842	\$1,713	\$502
Total deferred outflows of resources	\$2,730	\$87,882	\$139,933	\$117,929	\$130,921	\$106,980
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$1,664,234</b>	<b>\$1,751,707</b>	<b>\$1,988,038</b>	<b>\$2,013,590</b>	<b>\$2,071,520</b>	<b>\$2,111,617</b>



Table 1 shows deferred assets from 2015-2020 and Figure 3 shows assets and deferred outflows for the Ohio University from 2014-2020.



Public universities separate their assets into **current** and **non-current assets**.

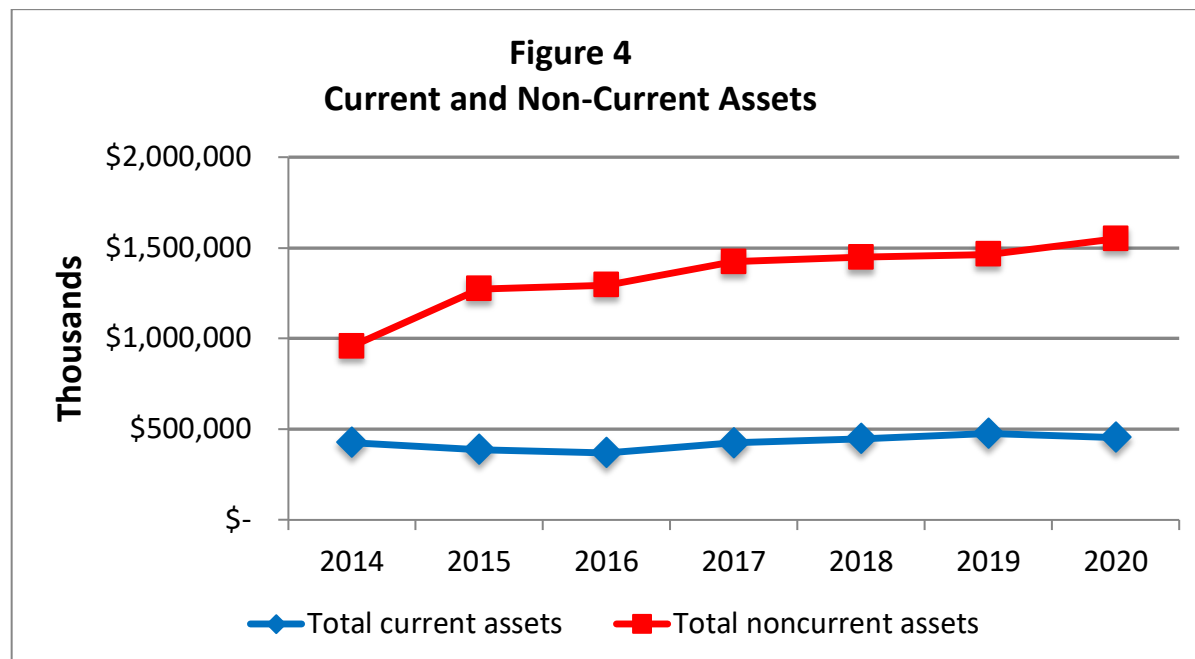
Current assets consist of assets that will be converted to cash or used up during the course of a year. The major items that comprise current assets are cash and cash equivalents, short-term investments, accounts receivable, notes receivable, and inventories.

Cash and cash equivalents consist of physical cash, checking accounts, certificates of deposit, government securities, and money market mutual funds. Accounts receivable represent amounts that are owed to a college or university for services provided (e.g. tuition, room and board) and are reported net of allowances for doubtful accounts, which are amounts the college or university expects that it is unlikely to collect. Notes receivable are amounts owed by other entities such as grants or loans receivable, i.e., money that is owed to the university by granting agencies or for loans. Inventories at universities consist of items like publications (marketing materials) and general merchandise.

Non-current assets consist of accounts receivable, notes receivable, long-term investments, endowment investments and capital assets, all assets that will not be converted to cash or used up during the current year. Capital assets are recorded at historical cost (the amount you paid for the item, or the amount it cost to build the capital asset as opposed to replacement cost), measured net of accumulated depreciation.

Figure 4 shows assets broken down into current and non-current assets. As expected, non-current assets are greater than current assets. In the last six years, current assets have been fairly flat while non-current assets have grown. Current assets declined from 2014 to 2016

almost entirely due to declines in cash and cash equivalents. Between 2016 and 2019 there was a modest increase in current assets, attributed to changes in cash and cash equivalents as well as increases in investments.



Non-current assets increased substantially from \$957.5 million in 2014 to \$1.5 billion in 2020, with most of the increase occurring between 2014 and 2017. The major drivers of non-current assets are investments, endowment and capital assets net of depreciation. Some of the changes in non-current investments appear to be related to movements between current and non-current investments. This is normal and likely reflects the University managing both risk and liquidity. It also appears that the value of investments declined somewhat in 2016 but since then investments and endowment combined have been increasing. Figure 5 shows the University’s cash and investments.

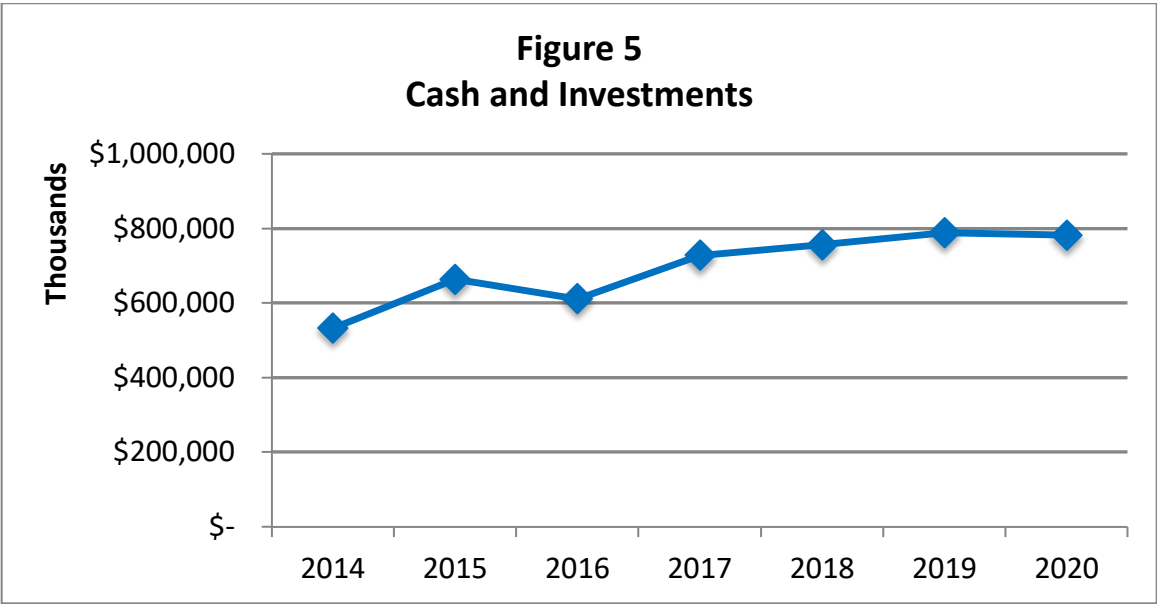


Table 2 and Figure 6 show the book value of capital assets for the University net of accumulated depreciation. Most of the growth in the value of capital assets comes from buildings and improvements and infrastructure. Capital assets are valued at historic costs. The value of capital assets increased from \$765.8 million to \$1.1 billion.

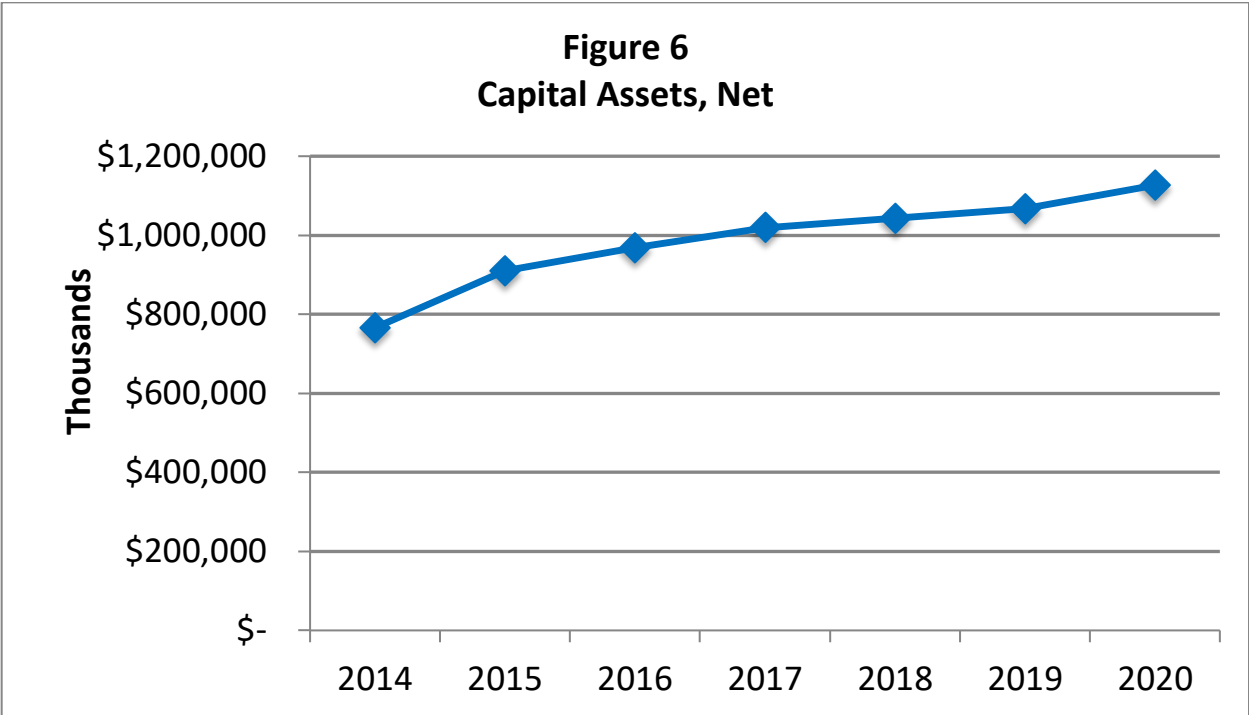
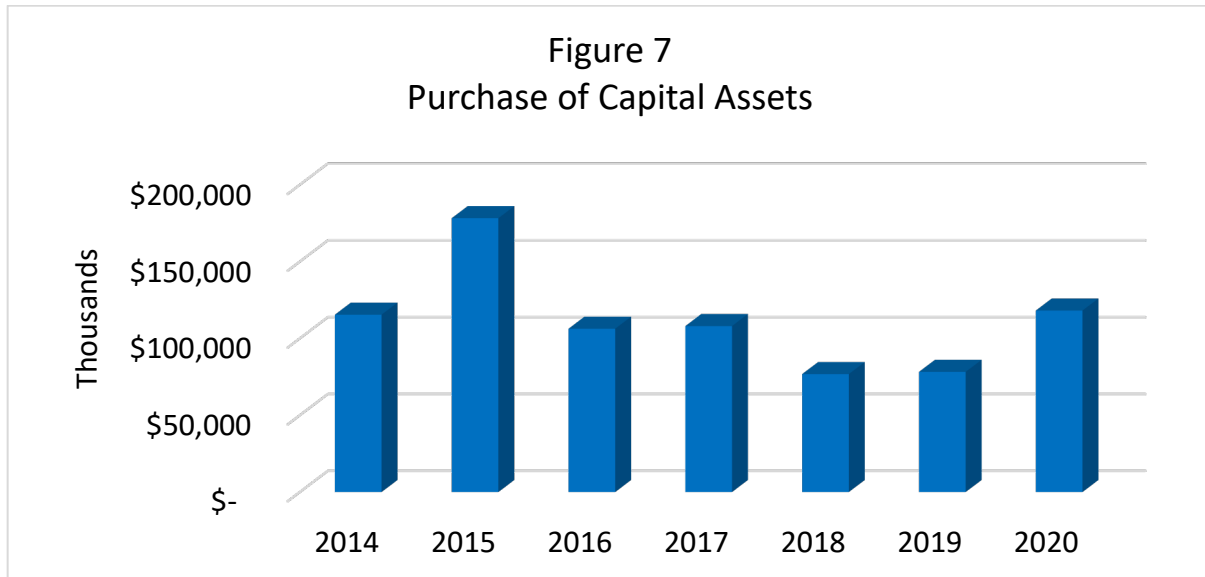


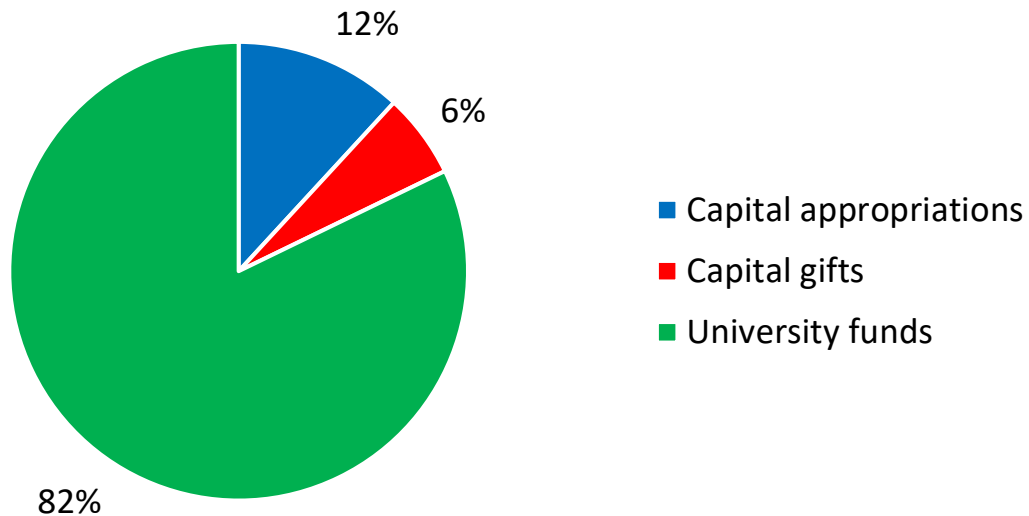
Table 2 Capital Assets, Net Thousands of \$ For year ending June 30						
	2015	2016	2017	2018	2019	2020
Capital assets not being depreciated:						
Land	\$24,979	\$24,891	\$23,979	\$26,046	\$29,909	\$29,909
Land improvements	\$4,701	\$4,701	\$4,701	\$4,701	\$4,701	\$4,701
Construction in progress	\$193,035	\$67,418	\$76,473	\$33,150	\$47,864	\$111,444
Works of art and historical treasures	\$17,055	\$17,084	\$17,912	\$17,919	\$17,919	\$18,576
<b>Total capital assets not being depreciated</b>	<b>\$239,769</b>	<b>\$114,094</b>	<b>\$123,066</b>	<b>\$81,816</b>	<b>\$100,393</b>	<b>\$164,630</b>
Capital assets being depreciated:						
Infrastructure	\$129,924	\$148,154	\$162,227	\$189,396	\$199,642	\$212,395
Buildings	\$948,555	\$1,135,275	\$1,181,298	\$1,260,587	\$1,300,079	\$1,335,364
Machinery and equipment	\$135,368	\$163,438	\$161,064	\$166,605	\$170,736	\$171,934
Library books and publications	\$76,491	\$77,419	\$77,723	\$77,908	\$78,133	\$78,445
Transportation equipment	\$22,853					
<b>Total capital assets being depreciated</b>	<b>\$1,313,190</b>	<b>\$1,524,286</b>	<b>\$1,582,312</b>	<b>\$1,694,495</b>	<b>\$1,748,590</b>	<b>\$1,798,138</b>
<b>Total capital assets</b>	<b>\$1,552,960</b>	<b>\$1,638,379</b>	<b>\$1,705,378</b>	<b>\$1,776,311</b>	<b>\$1,848,983</b>	<b>\$1,962,769</b>
Less accumulated depreciation:						
Infrastructure	\$69,048	\$74,540	\$74,196	\$81,676	\$89,927	\$98,805
Buildings	\$390,789	\$412,381	\$433,230	\$467,056	\$499,401	\$536,192
Machinery and equipment	\$96,288	\$112,885	\$107,158	\$113,400	\$120,422	\$128,325
Library books and publications	\$69,065	\$70,621	\$71,644	\$71,987	\$72,212	\$72,921
Transportation equipment	\$18,372					
<b>Total accumulated depreciation</b>	<b>\$643,563</b>	<b>\$670,427</b>	<b>\$686,228</b>	<b>\$734,119</b>	<b>\$781,962</b>	<b>\$836,243</b>
<b>Total capital assets being depreciated - net</b>	<b>\$669,627</b>	<b>\$853,859</b>	<b>\$896,084</b>	<b>\$960,376</b>	<b>\$966,628</b>	<b>\$961,895</b>
<b>Total Capital, net</b>	<b>\$909,397</b>	<b>\$967,952</b>	<b>\$1,019,149</b>	<b>\$1,042,192</b>	<b>\$1,067,021</b>	<b>\$1,126,526</b>

Figure 7 shows the major capital expenditures undertaken by the Ohio University in the years 2014-2019. These figures come from the Cash Flow statements. Over this seven-year period, the University spent a total of \$781.2 million for the purchase of capital assets, which is an average of \$111.6 million per year.



The University financed these capital expenditures from a combination of capital appropriations, capital grants and gifts, and University funds. University funds are obtained either by borrowing, thereby obligating the University to make interest and principal payments on debt or through the use of funds accumulated over a period of time when revenues were greater than expenses. As shown in Figure 8, of the total amount spent on capital projects from 2014-2020, 12% came from the state, 6% came from capital gifts and grants and the remaining 82% came from the University.

Figure 8  
Sources of Capital Funding 2014-2020



### Liabilities and Deferred Inflows

**Liabilities** are claims on an institution's resources (alternatively, *liabilities* are present obligations to sacrifice resources or future resources that an institution cannot get out of). **Deferred inflows** are acquisitions of net assets applicable to a future reporting period. For example, if a university receives an advanced payment to fund a pension, i.e., cash in a current fiscal year to fund a pension in a subsequent fiscal year it will have an inflow of cash, which is an asset. Other things being equal, an inflow of cash will lead to a higher level of net assets, making the university look wealthier. However, since that cash is to cover activity in a future year it is offset by showing a deferred inflow of resources so that the net position of the pension in the current fiscal year remains unchanged, all other things being equal. Liabilities at public institutions can also generally be divided into current and non-current liabilities. Table 3 shows the liabilities and deferred inflows for the University.

**Current liabilities** are liabilities due within a year. Examples of current liabilities are accounts payable (claims of other businesses or institutions for goods and services), deferred revenue (revenue that has already been received for services that the institution will supply in the next fiscal year, e.g., collecting tuition in one fiscal year for classes that will be offered in the next fiscal year), and the current portion of long-term debt. Here, current again refers to the amount of long-term debt the institution expects to pay during the current year.

Table 3  
Liabilities and Deferred Inflows  
Thousands of \$  
For year ending June 30

	2015	2016	2017	2018	2019	2020
<b>Current Liabilities</b>						
Accounts payable and accrued liabilities	\$75,884	\$71,897	\$74,176	\$73,300	\$81,115	\$74,592
Unearned revenue	\$33,839	\$34,093	\$33,574	\$39,356	\$41,612	\$30,369
Deposits and other liabilities	\$4,363	\$4,666	\$4,415	\$3,679	\$3,220	\$3,897
Long-term debt - current portion	\$18,307	\$18,917	\$18,128	\$18,106	\$15,733	\$13,448
Funds held on behalf of others	\$1,374	\$1,589	\$1,273	\$1,290	\$1,261	\$1,312
<b>Total current liabilities</b>	<b>\$133,767</b>	<b>\$131,162</b>	<b>\$131,565</b>	<b>\$135,731</b>	<b>\$142,940</b>	<b>\$123,618</b>
<b>Noncurrent Liabilities</b>						
Compensated absences	\$18,652	\$18,706	\$18,461	\$18,205	\$18,178	\$18,213
Other noncurrent liabilities	\$488	\$688	\$2,870	\$3,909	\$4,715	\$17,102
Long-term debt	\$544,297	\$525,840	\$635,682	\$617,642	\$601,909	\$647,419
Net pension liability	\$349,061	\$432,897	\$545,779	\$376,369	\$430,565	\$381,641
Net OPEB liability	\$-	\$-	\$-	\$133,642	\$87,483	\$125,214
Refundable advances, federal student loans	\$7,334	\$7,282	\$7,245	\$6,803	\$8,138	\$7,624
Total noncurrent liabilities	\$919,831	\$985,412	\$1,210,037	\$1,156,569	\$1,150,986	\$1,197,212
<b>Total liabilities</b>	<b>\$1,053,599</b>	<b>\$1,116,574</b>	<b>\$1,341,602</b>	<b>\$1,292,301</b>	<b>\$1,293,926</b>	<b>\$1,320,831</b>
<b>Deferred Inflows of Resources</b>						
Deferred inflows related to pensions	\$15,979	\$24,505	\$3,998	\$49,848	\$37,341	\$69,210
Deferred inflows related to OPEB				\$11,865	\$31,399	\$40,598
Deferred gain on bond refunding			\$607	\$576	\$544	\$2,839
<b>Total deferred inflows of resources</b>	<b>\$15,979</b>	<b>\$24,505</b>	<b>\$4,605</b>	<b>\$62,288</b>	<b>\$69,284</b>	<b>\$112,646</b>
<b>Total liabilities &amp; deferred inflows</b>	<b>\$1,069,578</b>	<b>\$1,141,079</b>	<b>\$1,346,208</b>	<b>\$1,354,589</b>	<b>\$1,363,210</b>	<b>\$1,433,477</b>

**Non-current liabilities** consist primarily of capitalized lease obligations and long-term debt obligations that are due in more than one year. Examples of non-current liabilities long-term debt (bonds, notes and capital leases) as well as compensated absences. Compensated absences are liabilities for vacation and sick leave. Finally starting in 2015, universities in states with public pensions were required by GASB 68 to recognize their proportionate share of unfunded liabilities of the pensions and in 2018 GASB 75 required recognition liabilities associated with Other Post-Employment Benefits (OPEB), which consist of health benefits associated with public retirement plans.

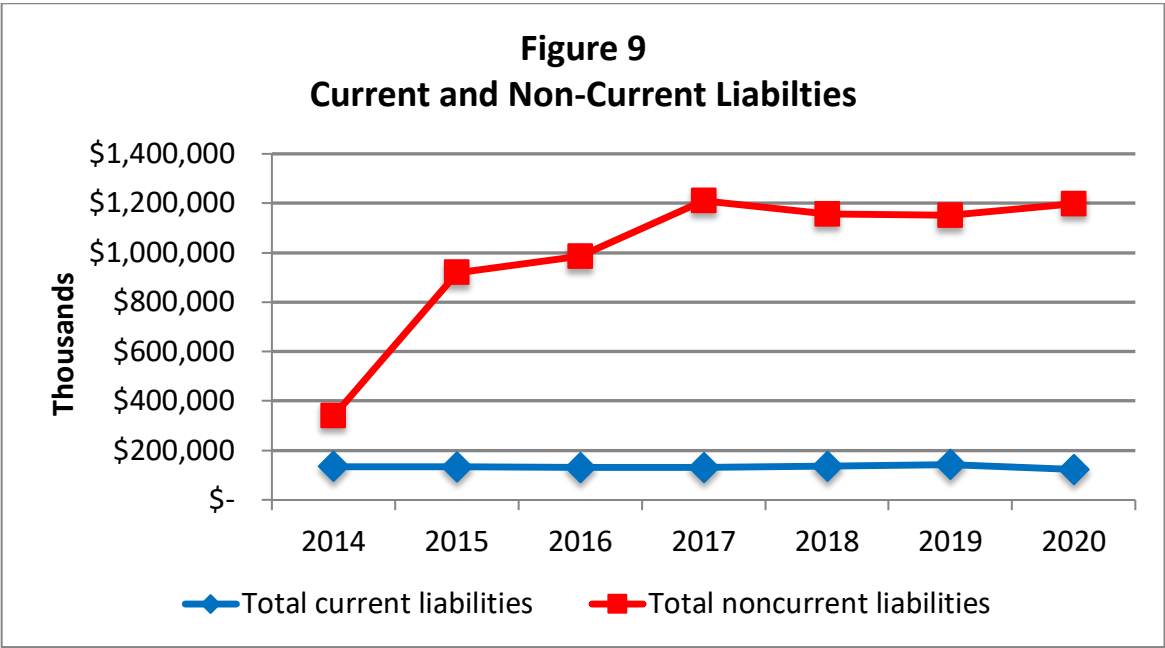
The liabilities for pensions and OPEB are the present value of all future expenses associated with current retirees and everyone who works at an institution who will retire in the future. **Present value** is a concept that derives from the fact if you have a dollar today you can invest that dollar and earn interest. Thus, it is better to have a dollar today than it is to have a dollar a year from now. This means that if you have to spend \$1 in ten years to pay for retirement benefits, you don't need \$1 today.

The present value is the amount that you would need to invest today to generate the money you need to cover your promise to provide benefits in the future. It turns out that this is a very soft number and it depends on whether interest rates are going to rise or fall in the future. It also depends on changes in life expectancy, growth in wages, the cost of health care and how many of your current employees will actually retire and be eligible for benefits. A full discussion of pensions and post-retirement benefits is beyond the scope of this report. However, bond rating agencies and the state of Ohio discount the unfunded liabilities associated with GASB 68 & 75 when calculating certain key performance ratios, because accounting for this liability does not reflect any fundamental change in the institution's performance.

Figure 9 shows the current and non-current liabilities of the University. Current liabilities have been flat over the six-year period from 2014-2020. The major increase in liabilities comes from non-current liabilities in 2015 which was followed by somewhat smaller increases in 2016 and 2017. In 2015 two factors explain the enormous rise in liabilities. First the non-current liabilities increased by \$349.1 million due to the implementation of GASB 68, recognizing unfunded liabilities associated with STRS and OPERS. In 2016 and 2017 net pension liabilities increased by \$83.8 million and \$112.9 million respectively. However, in 2018 the liabilities decreased by \$169.4 million which was likely due to improved investment performance by STRS and OPERS but could also be related to changes in benefit or changes in the discount rate. In 2019 there was again an increase in the net pension liability of \$54.2 million. In 2020, the net pension liability declined by \$48.9 million. Finally, it is important to note that the net pension liability in 2020 was still lower than it was in 2017.

While the net pension liability was declining in 2018 that decline was more than offset by the implementation of GASB 75 requiring the university to show its proportionate share of the OPEB liability. In 2018 this liability was \$133.6 million. Interestingly, this liability declined by \$46.2 million in 2019. This decline was due to significant cuts in STRS health benefits and increased investment returns in the STRS healthcare fund. In 2020, there was a substantial increase in the OPEB liability and given the fact that STRS health benefits are more than 100% funded, this increase is likely due to changes in the unfunded liability for OPERS healthcare.





Again, the changes brought about by GASB 68 & GASB 75 require universities and colleges to show their proportionate share of any unfunded liability in a public pensions system as an institutional liability. This change affects the statement of net position and the statement of changes in revenue, expenses and changes in net position.

The theory behind the change is that pensions and retiree healthcare are part of an “employment exchange.” In other words, employees agree to provide services in exchange for wages, benefits and the promise of a pension in the future. Thus, a pension or retiree healthcare is a form of deferred compensation i.e., it is a “bargained-for benefit” and therefore the unfunded portion must be reported as a liability.

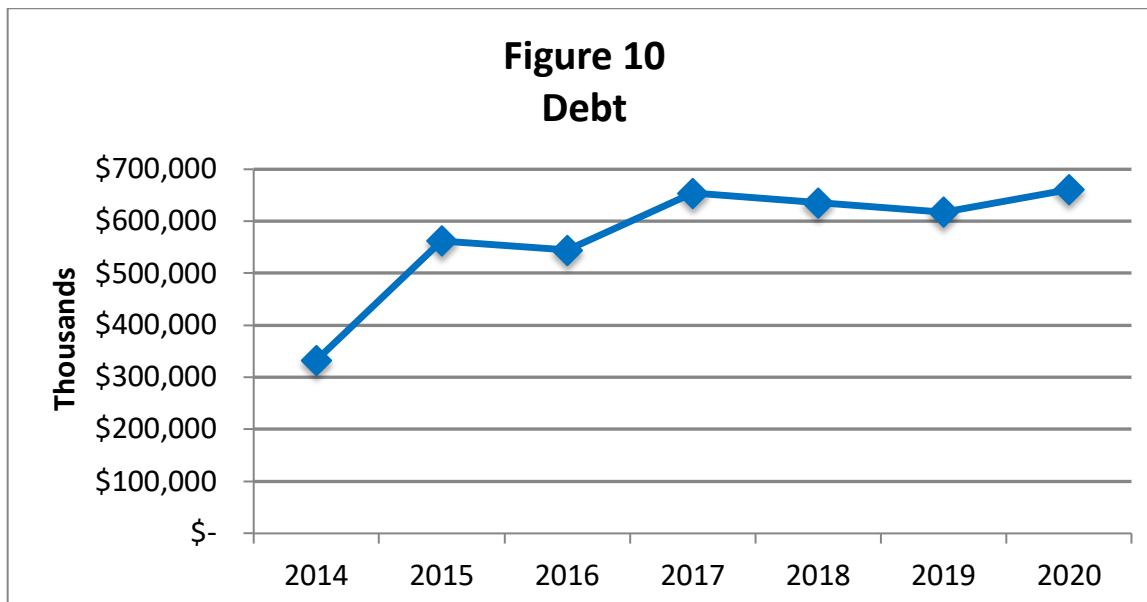
So, in effect, the unfunded pension liability in public systems will be counted twice: once by the retirement system and then again by each individual governmental entity whose employees are covered by the public pension system.

In states where public pensions have significant unfunded liabilities this will have a dramatic effect on a college or university’s net assets. It is even possible that some universities and colleges will show negative unrestricted net assets as a result of this change.

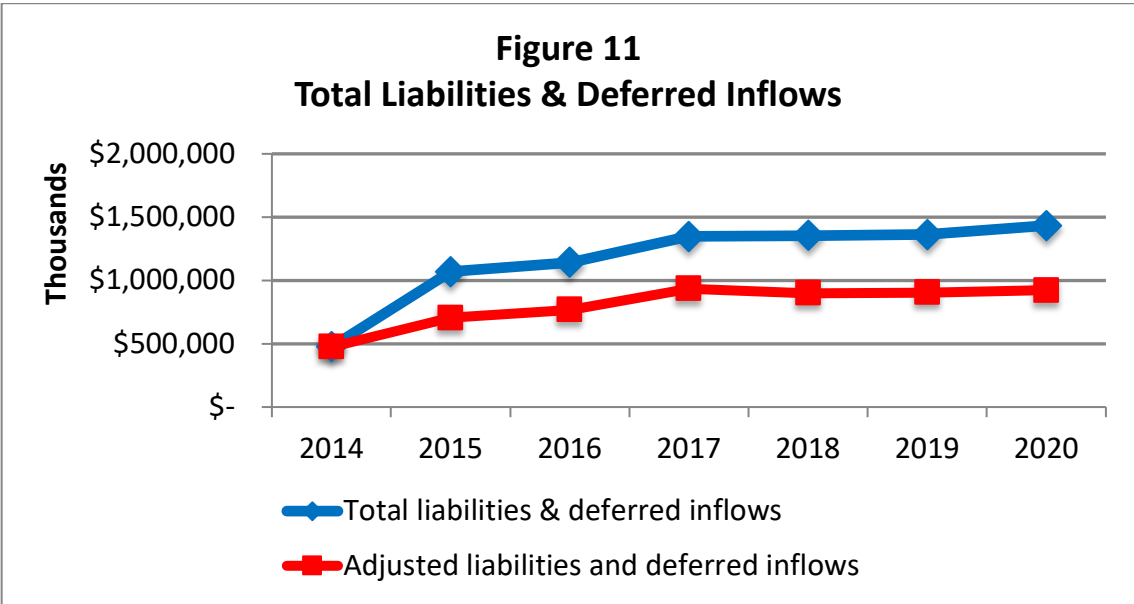
The legal meaning of this change will vary from state to state, depending on pension law in each state. In most states, it is likely that there is no legally enforceable means to collect this liability from institutions, because the benefits and the means of paying for these benefits are determined by state law. Since legislatures and governors can change these laws, a fact that is known to employees when they enter into an employment exchange, individual institutions have no legal or moral obligation to honor these liabilities.

The real impact of these liabilities is to support a neoliberal strategy to alarm the public about these liabilities, which will lead to attacks on defined benefit public pension plans and retiree healthcare resulting in increased calls for the elimination of these plans. It will also allow administrators and trustees to call for cuts in academic programs to reduce the liability, which they may see as endangering an institution’s ability to borrow money in credit markets. However, most administrators understand that this is not a “real liability” for the University so that again when they calculate discretionary fund balances, they also adjust for the impact of the pension and OPEB on unrestricted net assets.

The second major factor affecting non-current liabilities is the additional debt that has been taken on by the University. Figure 10 shows the University’s debt. The University nearly doubled its debt between 2014 and 2017 with debt increasing from \$332.9 million in 2014 to \$562.6 million in 2015 and to \$653.8 million in 2017. Since 2017 total debt has been declining and ended at \$617.6 million in 2019. Surprisingly, in 2020, the University increased its debt by about \$43 million.



Finally, in Figure 11 we show total liabilities and inflows as reported and adjusted for OPEB and Pension liabilities. This shows that the increase in liabilities to both the requirements of GASB 68 and GASB 75 and to increases in debt. The adjusted liabilities and inflows show increases between 2014 and 2017 followed by modest decline in 2018 and remaining essentially unchanged in 2019. In 2020, adjusted liabilities and deferred inflows increased by \$17 million.



**Net Assets**

In for profit businesses, the difference between assets and liabilities is referred to as owner’s equity or stockholder’s equity. In theory, if a business were to sell off all of its assets and pay off all claims against the business, the amount remaining would be the owner’s claims on the business’s resources. In a non-profit organization, the difference between assets plus deferred outflows and liabilities plus deferred inflows is referred to as **net assets**. Since net assets are the difference between assets and liabilities, they represent the wealth of an institution. Therefore, net assets are an important indicator of financial health. In the past, these net assets were referred to as fund balances.

At public universities and colleges there are four general categories of net assets:

1. Net Assets Invested in Capital Assets
2. Non-Expendable Restricted Net Assets
3. Expendable Restricted Net Assets
4. Unrestricted Net Assets

Table 4 shows the net assets of the University. Net assets represent the net accumulation of an institution’s assets over a period of time. Large portions of these net assets consist of the value of land, buildings, books and journals and equipment owned by the university or college. Universities and colleges are required to show accumulated depreciation on their balance sheets for certain real assets such as buildings and some equipment. An increase in net assets means that a university has increased its wealth and conversely a decrease in net assets implies that a university’s wealth has decreased.

Table 4  
Net Assets  
Thousands of \$  
For year ending June 30

	2015	2016	2017	2018	2019	2020
Net investment in capital assets	\$595,030	\$651,057	\$644,054	\$663,338	\$683,457	\$692,388
Restricted:						
Nonexpendable:						
Endowments	\$22,296	\$22,160	\$22,479	\$22,640	\$22,727	\$22,682
Total Restricted Nonexpendable	\$22,296	\$22,160	\$22,479	\$22,640	\$22,727	\$22,682
Expendable:						
Sponsored programs				\$1,905	\$2,315	\$4,182
Component unit funds				\$3,758	\$3,266	\$3,039
Capital projects and debt service funds				\$2,666	\$962	\$253
Loans				\$10,211	\$9,190	\$7,906
Endowments				\$14,442	\$14,097	\$13,064
Total Restricted Expendable	\$34,539	\$32,063	\$31,381	\$32,981	\$29,830	\$28,443
Unrestricted	\$(57,209)	\$(94,652)	\$(56,084)	\$(59,959)	\$(27,703)	\$(65,373)
<b>Total net position</b>	<b>\$594,656</b>	<b>\$610,628</b>	<b>\$641,830</b>	<b>\$659,000</b>	<b>\$708,310</b>	<b>\$678,140</b>

Wealth can be divided into two categories: financial net assets or tangible (real) net assets. **Financial assets** are assets whose value is based on contractual claims e.g. stocks, bonds, mutual funds, bank deposits, etc. **Tangible assets** are physical assets e.g., the land, buildings, equipment, and library books own by a university or college. A university or college's wealth can increase either because it has more real assets or because it has more financial assets. In many cases, the purchase of tangible assets is financed partially by state capital appropriations or by gifts. An increase in state capital appropriations or gifts for capital increases the wealth of an institution. However, the capital funds universities and colleges receive from the state or private donors are restricted and cannot be used for operations, i.e., paying salaries and benefits.

In addition, to these tangible assets, universities and colleges also own financial assets such as stocks and bonds, mutual funds, hedge funds, and shares in private equity funds. Finally, universities also generally hold small amounts of cash and money in checking and savings accounts.

If an increase in total net assets is exclusively due to increases in the value of land, buildings, and equipment, the increase in wealth, while real, does not give university added flexibility with respect to operations. To the extent that a university uses funds it generates

through operations, to purchase land, building, and equipment, it can decide to reallocate these funds for alternative uses. But, when it uses capital funds from the state or from private sources for purchases of land, buildings, and equipment, it cannot reallocate that money for other purposes. However, it should be noted that when buildings are constructed, using capital funds, the new buildings add to operating expenses that could lead to a reallocation of resources.

When the state gives a university money to purchase or renovate a building in the form of a capital appropriation, or a donor gives a university a gift to put up a new building, the value of the university's assets increases. Typically, capital appropriations and gifts cover only a portion of the costs of new construction and renovations. To cover the remainder of the costs universities can use unrestricted net assets, transforming liquid assets into fixed assets, or it can borrow money by selling bonds. When a university sells bonds, it incurs a liability and the difference between the increase in the value of the assets and the increased liability represents the increase in net assets invested in plant.

Since universities purchase fixed assets that will be used over a long period of time, the cash outlay for construction in a given year is not considered an expense on the income statement. What a university does is to break up the cash outlay on construction and renovation by allocating that expenditure over a fixed period of time. The amount of time depends on the particular asset being purchased. The expenditure on a building is typically allocated as an expense over a 30-year period. The allocation of this expenditure over a period of time is known as **depreciation**. Thus, depreciation is a way of allocating the cost of fixed assets over the useful life of those assets. It is an expense and therefore it reduces the net assets of a university.

Each year when a university calculates the value of its net assets invested in plant and equipment it subtracts the depreciation for that year. The sum of all the depreciation that has been subtracted is known as accumulated depreciation. Often people have the impression that depreciation is a way of funding future investments i.e., that **accumulated depreciation** somehow represents a savings account or reserves for future investments and the use the term "funding depreciation." There is no such thing as funding depreciation. It is the case that universities can set aside unrestricted funds that are designated for future investment in plant and equipment, but this has nothing to do with depreciation per se.

Once a university invests money in its physical plant it is unusual for it to sell that asset. If a university were forced to respond to an unexpected shortfall in revenue or unexpected expenses it would have to use its **reserves**, which are financial assets. Thus, **liquid net assets** are an indication of how well a university can react to unforeseen financial emergencies. The term liquid refers to the ease with which an asset can be converted into cash.

One consequence of depreciation can be that it causes the value of net assets to decrease. For example, this happens when a college or university does not put up any new buildings or renovate any existing buildings. The value of investment in capital is net of

accumulated depreciation. If the gross value of capital investment does not change and buildings depreciate every year, increasing accumulated depreciation, then the net value will decrease if the gross value is constant or increases more slowly than the value of accumulated depreciation. This important because it can create a situation where restricted and unrestricted net assets are rising but the overall change in net assets is negative because it is dragged down by accumulated depreciation.

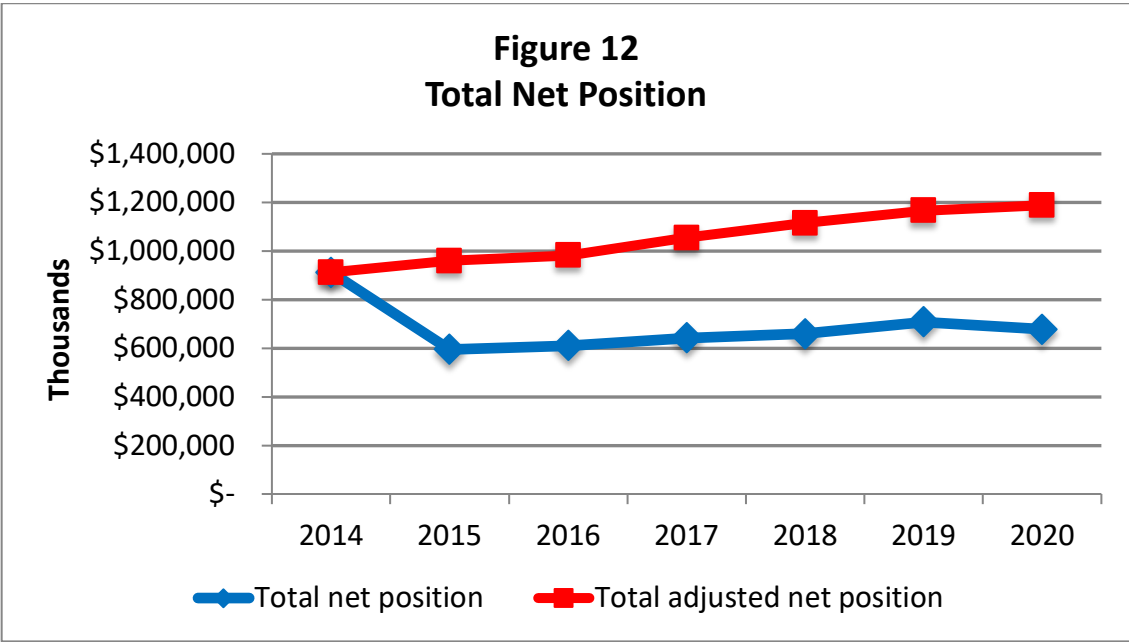
In 2011 the terms “**net position**” and “**change in net position**” were introduced by GASB 63 although many institutions did not implement GASB 63 until 2013. These new terms have now taken the place of “net assets” and “change in net assets” respectively. This difference in terminology is minor and for our purposes, we will use the two pairs of terms interchangeably.

The **net position** is the difference between (assets + deferred outflows of resources) and (liabilities + deferred inflows of resources): net position equals (assets + deferred outflows of resources) minus (liabilities + deferred inflows of resources).

Other things being equal an increase in liabilities lowers the net assets of a college or university. In particular, the reporting requirements for GASB 68 and GASB75 requiring the reporting of unfunded liabilities of state pension systems have significant effects on unrestricted net assets. In many cases, these GASB adjustments result in institutions having negative unrestricted net assets. Unrestricted net assets are a major component of reserves.

But the reality is that Moody’s and other credit rating agencies as well as those in states charged with monitoring the financial health of institutions of higher education recognize the fact that institutions are not actually responsible for these liabilities and therefore, they tend to discount or ignore these increases in liabilities when evaluating the credit worthiness or the financial health of an institution. For example, the Ohio Department of Higher Education uses three key ratios, all of which are impacted by GASB 68 & 75. Here is what they say in response to GASB 68 in particular: “In an effort to appropriately recognize the incorporation of these elements as an accounting change rather than a structural change in the true financial condition of the institution, the Ohio Department of Higher Education will calculate institutional financial ratios from FY2015 onward both including and excluding associated impacts of GASB 68.” <https://www.ohiohighered.org/campus-accountability>

Figure 12 shows the total net position (net assets) for the University. It shows a steady rise in net assets from 2014 though 2020. In 2014 the University had \$912.1 million in net assets and by 2020 net assets had reached \$1.2 billion, an average annual growth rate of 5%. It is noteworthy that while the reported net position declined in 2020 by \$30.2 million, the net position adjusted for GASB 68 and GASB 75 increased \$22.4 million.



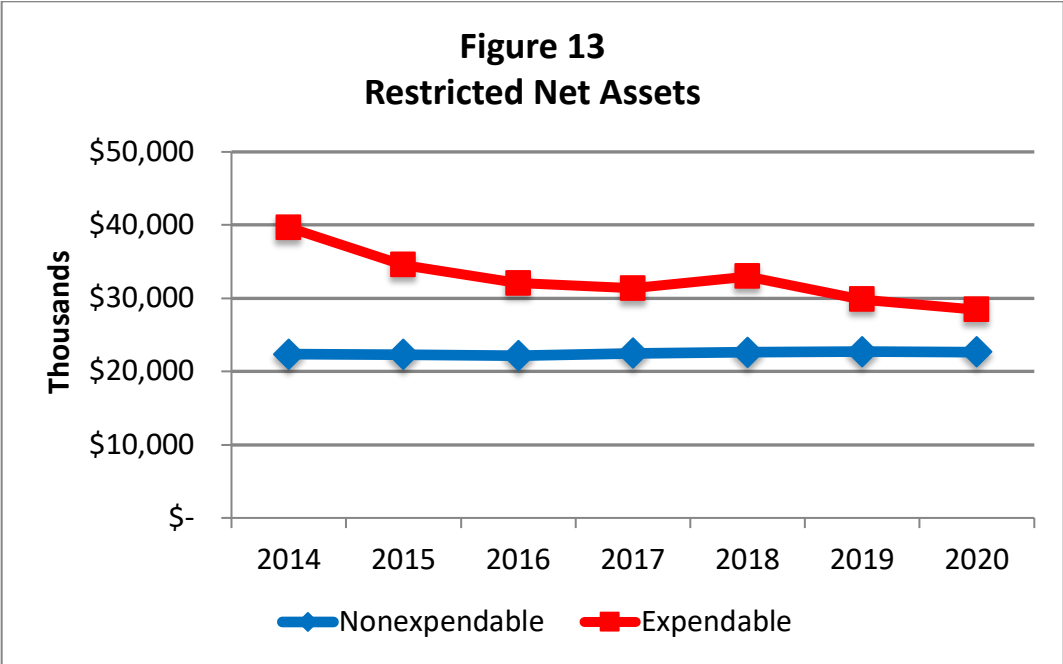
**Restricted and Unrestricted Net Assets**

Universities and colleges also divide their net assets into restricted and unrestricted net assets. **Restricted net assets** are assets net of related liabilities held by a university or college that are designated for specific purposes by external entities, either government agencies or private donors. **Unrestricted net assets** are assets net of related liabilities that can be spent at the discretion of the institution.

Restricted net assets are categorized as **non-expendable** or **expendable**. An example of a restricted non-expendable fund is true endowment where the corpus of the fund must be held in perpetuity and invested to generate income that can be spent for a specific purpose.

Restricted expendable consists of net assets that legally can be used for operations or plant expenditures. So, for example, an institution may sell bonds or receive a capital appropriation for construction and deposit these funds in a trustee account to be spent at a later date. These funds would be considered restricted expendable funds. Other examples of restricted expendable funds are unspent funds associated with grants and sinking funds (think about these as being mandated savings accounts to make future principal and interest payments on debt). Again, these expendable funds are a measure of liquidity, i.e., the ability to deal with unforeseen financial emergencies.

Figure 13 shows restricted non-expendable and restricted expendable net assets. From 2014 to 2019 restricted non-expendable net assets (endowment held by the University) was essentially flat, ranging from a low of \$22.2 million in 2016 to a high of \$22.7 million in 2020. Restricted expendable net assets have been trending down, decreasing from \$39.7 million in 2014 to \$28.4 million in 2020.



**Unrestricted Net Assets**

Finally, we look at unrestricted net assets in Figure 14. Unrestricted net assets give universities more flexibility than restricted net assets. However, one should not assume that just because an asset is restricted that it cannot be used for reallocation. For example, a university or college may be spending a significant amount of unrestricted funds on scholarships and then replace that funding with endowed scholarships. In such a case, there would be no change in unrestricted funds but there would be an increase in restricted funds. However, the unrestricted funds that were being used for scholarships are available for reallocation.

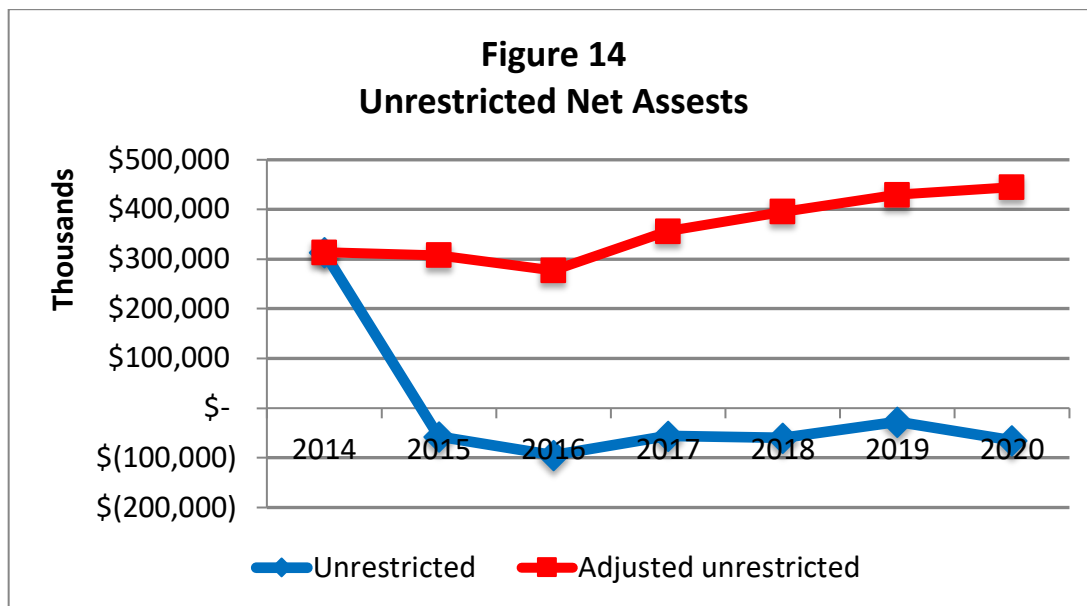
An institution can use unrestricted net assets for any lawful purpose. Many universities claim that the Board of Trustees or management has designated all or most unrestricted net assets for specific purposes. Some of these designations may result from funds being collected by special fees. This type of statement is misleading in the sense that all of the designated fees are the result of board or management policy and that policy can be changed.

For example, while spending money on deferred maintenance may be worthwhile, faculty may believe that a university can address issues of deferred maintenance over a longer period of time making unrestricted funds available for another item faculty believe is more important.



Few institutions have funds that are undesignated. The point that faculty need to understand is that current policies with respect to unrestricted net assets reflect the priorities of the governing board and/or management and may not reflect the priorities of faculty. While faculty cannot collectively bargain over the specific designation of unrestricted net assets, collective bargaining can cause the governing board or management to change its priorities resulting in the reallocation of these funds.

Since GASB 68 and GASB 75 affect unrestricted net assets, adjustments need to be made to understand the true unrestricted net assets that are available as part of the University's reserves. To make the adjustment we take the sum of the deferred outflows related to pensions and OPEB and then subtract the sum of net pension and OPEB liabilities plus deferred inflows from pensions and OPEB. This produces a large negative number which is then subtracted from the reported unrestricted net assets to arrive at adjusted unrestricted net assets.



Without adjustments the unrestricted net assets of the University plunged and were actually negative in 2015-2020. The adjusted unrestricted net assets declined from \$313.6 million in 2014 to \$277.2 million in 2016. However, between 2016 and 2019 adjusted unrestricted net assets increased, rising 55.0%, ending 2019 at \$429.9 million. In 2020, in spite of the University's narrative that it was facing a crisis, its adjusted unrestricted net assets increased again by \$14.1 million to \$444.8 million.

Often times universities designate the use of unrestricted funds. One way of doing this is to create a **quasi-endowment**. Quasi-endowments consist of funds that have been set aside by the university governing board to function as an endowment. However, quasi-endowments are unrestricted and can be spent in any lawful manner in accordance with the wishes of the governing board.

## Evaluating the Balance Sheet

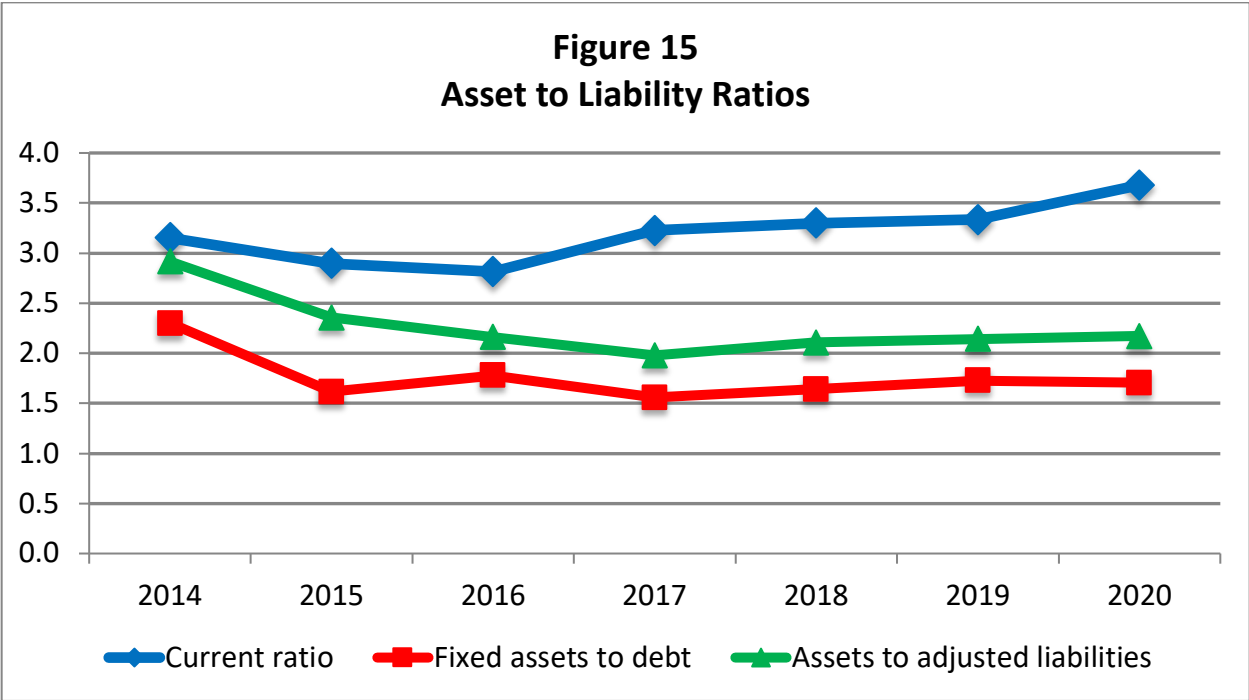
Figure 15 shows several key ratios for the years 2014-2020. These key ratios are also reported in Table 5. First is the ratio of current assets to current liabilities. Current assets consist of unrestricted cash and cash equivalents, inventories, receivables and pledges due within a year, investments that mature within one year, and other short-term assets. Current liabilities include all liabilities payable within one year as well as deferred revenues, which consist primarily of tuition collected in one fiscal year to pay for services offered in a subsequent fiscal year.

The ratio of current assets to current liabilities decreased from 2014 to 2016 and then increased in 2017 and has since remained relatively stable. Normally this ratio is greater than 1 and less than 2.5, so the University has a modestly high level of current assets. In looking at the University's investment position it has relatively high levels of short-term investments. It should be noted that too large a current ratio may impose an opportunity cost on a university. Under normal circumstances a university can earn a higher rate of return on long-term investments than it can earn by holding cash and other short-term investments. But without more detailed knowledge of the inner workings of the University's finances no definitive conclusion can be drawn regarding its current ratio other than to say it should have no problem meeting its current liabilities.

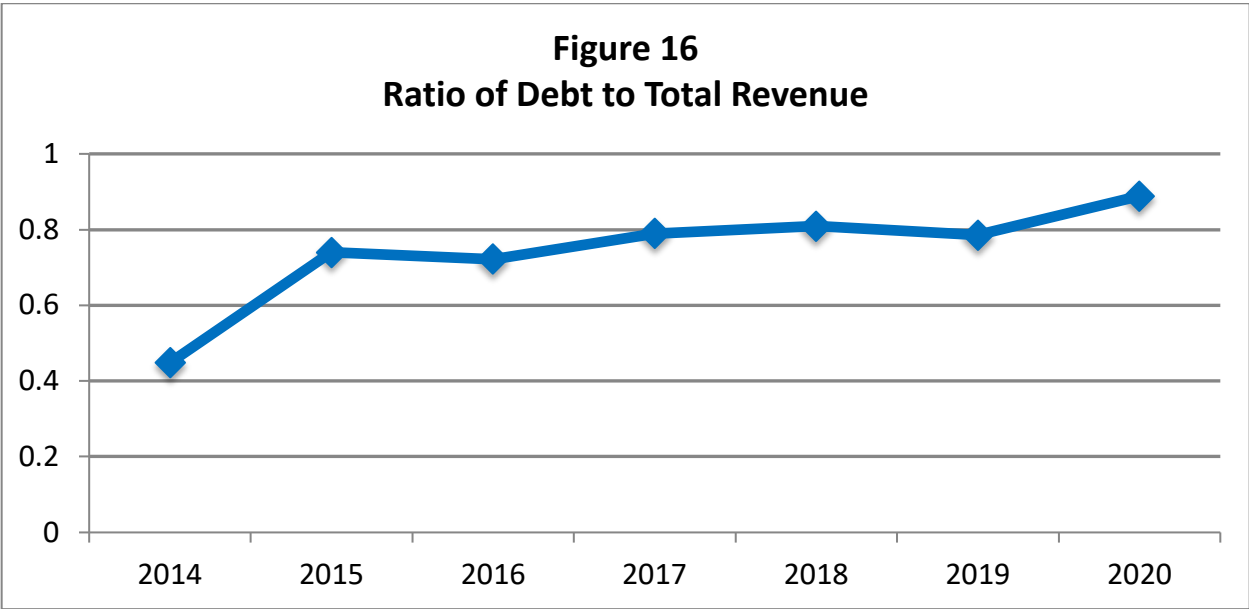
Table 5 Asset to Liability Ratios For year ending June 30						
	2015	2016	2017	2018	2019	2020
Current ratio	2.90	2.81	3.23	3.30	3.33	3.68
Fixed assets to debt	1.62	1.78	1.56	1.64	1.73	1.70
Adjusted assets & outflows to Adjusted liabilities & inflows	2.36	2.16	1.98	2.11	2.14	2.17

Another indicator of financial health is the ratio of fixed assets to long-term debt, which is also shown in Figure 15. The ratio of fixed assets to debt decreased significantly between 2014 and 2017. This reflects the doubling of debt between 2014 and 2017, which has weakened the University's balance sheet. However, in 2018 and 2019 there were modest improvements in this indicator. Unfortunately, in 2020, this indicator declined due to the additional debt taken on by the University, although the change was small.

Figure 15 also shows the ratio of total assets to total adjusted liabilities. This shows much the same picture as the ratio of fixed assets to debt, illustrating the importance of these two items in the University's balance sheet. This indicator improved in 2020 to 2.17, the highest it has been since 2015.

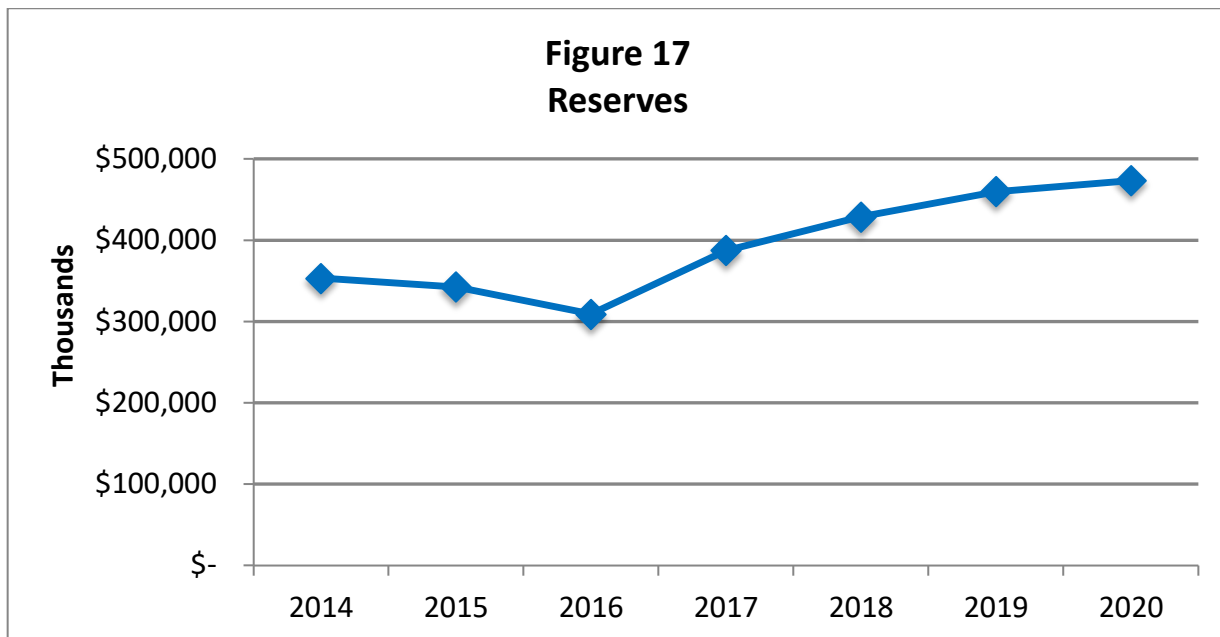


Rising levels of debt per se are not necessarily a problem. One indicator of the burden of debt on an institution is the ratio of debt to total revenue. Figure 16 shows that the ratio of debt to total revenue. This ratio increased significantly in 2015 and trended upward until 2018. In 2019 there was a slight decline in this ratio. In general, this shows that the debt taken on by the University has become more of a burden in recent years although the burden is not a major cause for concern.



Reserves consist of **expendable net assets** which is the sum of all unrestricted and restricted expendable net assets. It is important to note that reserves are not simply a pile of cash and investments but are cash and investments minus known liabilities i.e., claims on university resources by external agents. The concept of reserves is important because they represent net assets that provide universities with flexibility to deal with unforeseen events such as temporary declines in enrollment or unexpected expenses. Reserves for the University are shown in Figure 17 and are also shown in Table 6.

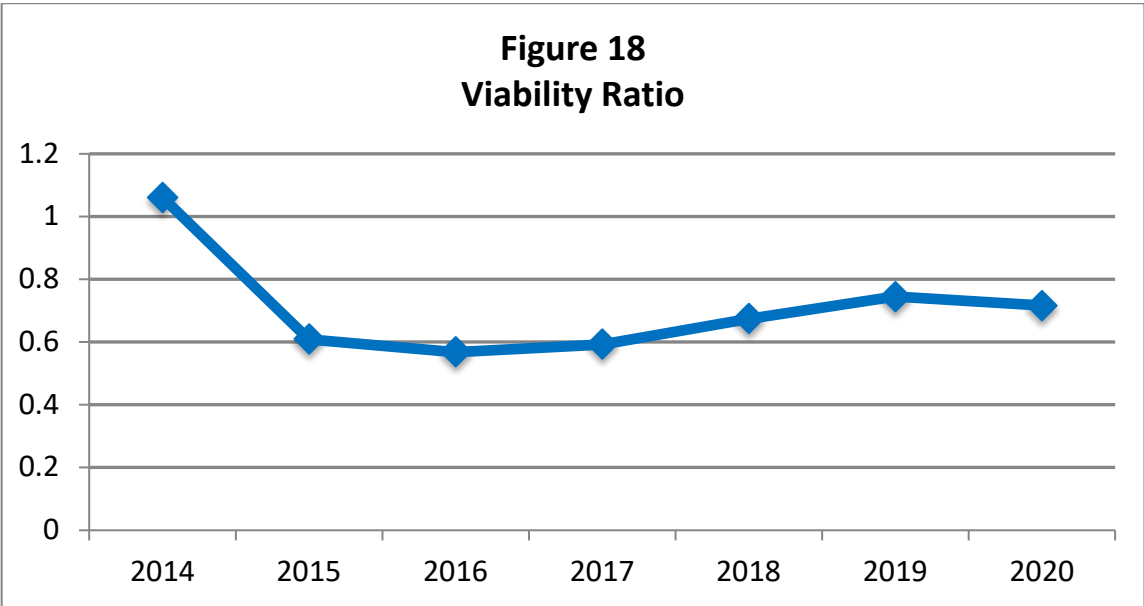
Reserves dropped from \$353.3 million in 2014 to \$342.4 million in 2015. They dropped again to \$309.3 million in 2016. The decline in reserves is likely due to increased capital expenditures in 2015 and a decline in the value of cash and investments in 2016 due to weakness in financial markets. However, since 2016 reserves have been rising, going from \$309.3 million in 2016 to \$473.3 million in 2020.



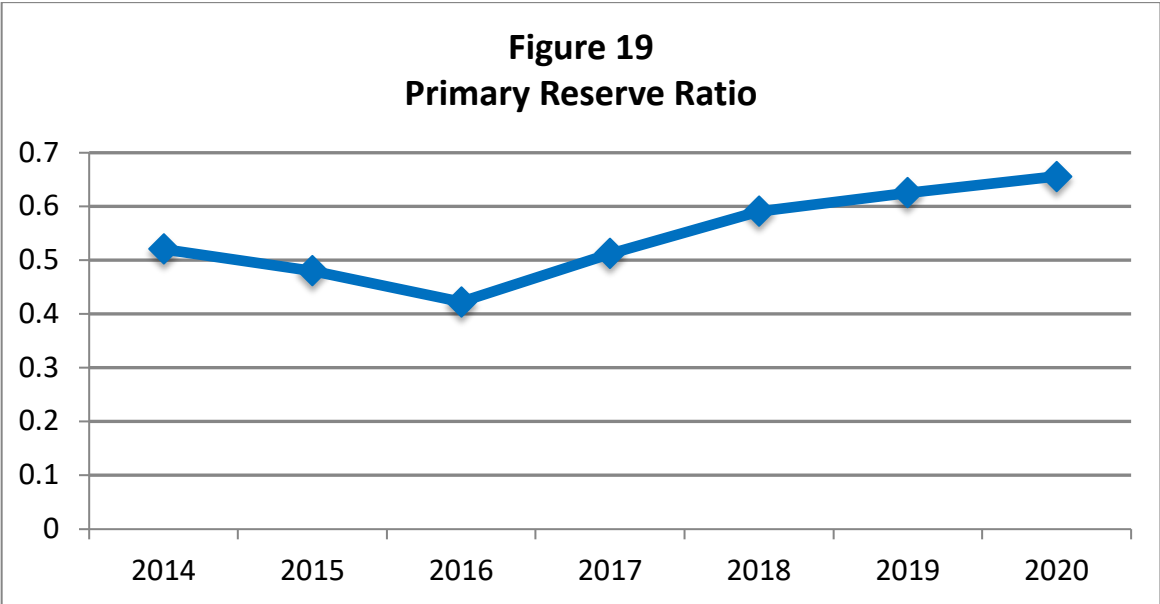
How do we evaluate the level of reserves at a university? How big a reserve should the university maintain? To answer these questions, we will take a look at a couple of key ratios also shown in Table 6 that are important indicators of financial health.

Table 6 Expendable and Non-Expendable Net Assets Thousands of \$ For year ending June 30						
	2015	2016	2017	2018	2019	2020
Non-Expendable	\$22,296	\$22,160	\$22,479	\$22,640	\$22,727	\$22,682
Expendable	\$342,371	\$309,262	\$387,403	\$428,659	\$459,706	\$473,254
Financial Assets	\$364,667	\$331,421	\$409,882	\$451,299	\$482,432	\$495,935
Debt	\$562,604	\$544,757	\$653,810	\$635,748	\$617,642	\$660,867
Operating Expenses & interest payments	\$712,830	\$731,608	\$756,298	\$725,461	\$734,833	\$721,285
Ratios:						
Viability Ratio	0.61	0.57	0.59	0.67	0.74	0.72
Primary Reserve Ratio	0.48	0.42	0.51	0.59	0.63	0.66

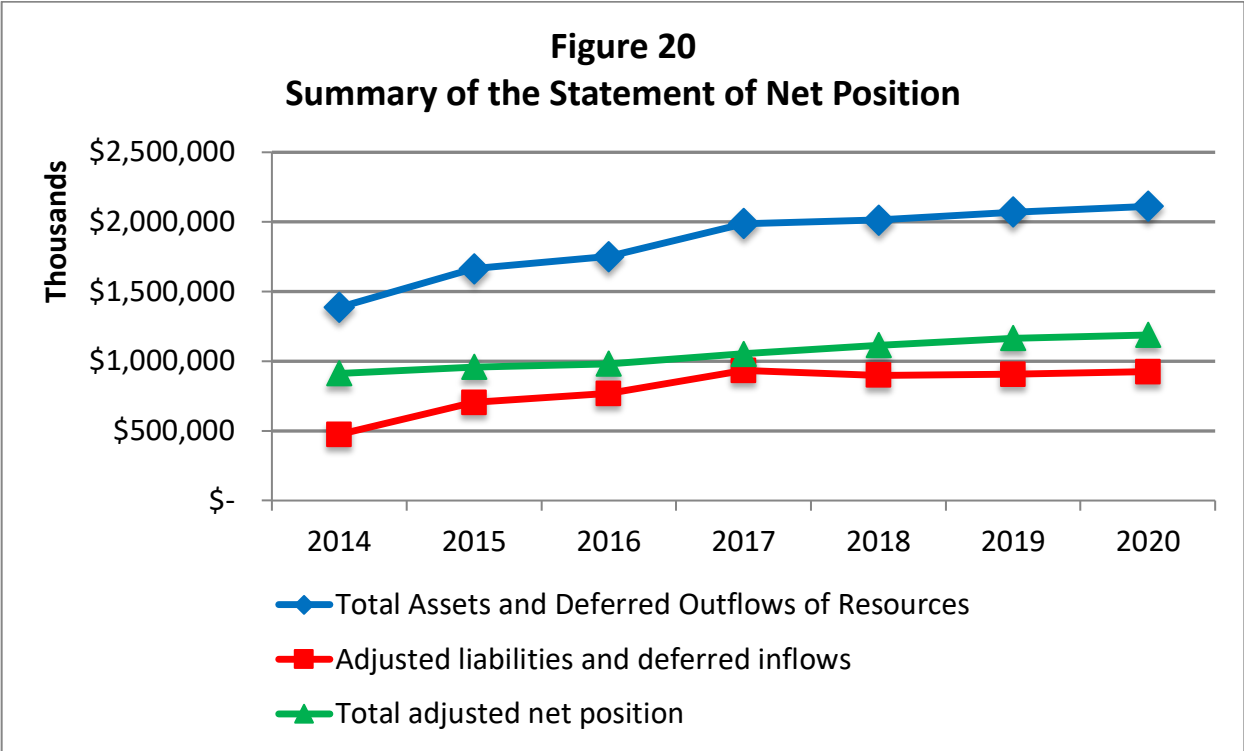
First is the **viability ratio**, which is the ratio of expendable net assets (aka reserves) to debt. Viability ratios are also shown in Figure 18. In 2014, the viability ratio was 1.06, which meant that the University had sufficient expendable net assets to pay 106 % of its long-term debt. The viability ratio fell dramatically to 0.61 in 2015 and declined to a low 0.57 in 2016. These declines were primarily the result of the increased debt taken on by the University coupled with a modest decline in reserves. Since 2017 the viability ratio has been rising, reaching 0.74 in 2019. The change in the last two years represents a significant improvement in the University’s viability ratio. While this level of debt is not excessive, it is nonetheless a weight on the University’s balance sheet.



The second ratio in table 5 is the **primary reserve ratio**, which is also shown in Figure 19. The primary reserve ratio is the ratio of expendable net assets to expenses. Between 2014 and 2016 there was a decline in the primary reserve ratio. Since then, the primary reserve ratio has been increasing and it ended 2020 at 0.66. Thus in 2020 the University had enough expendable net assets to cover 66% of its expenses or enough to cover more than 7.9 months of operating expenses. With respect to operating expenses this is a very high level of reserves.



Up to this point we have looked at all of the major components in the balance sheet (statement of net position). Figure 20 shows the three major components together adjusted for accounting changes (OPEB and Pensions). These adjustments are important in evaluating the financial health of an institution because the accounting changes do not reflect the underlying performance of the University. It shows that assets and outflows are increasing faster than liabilities and inflows with the result that there has been an increase in net position.

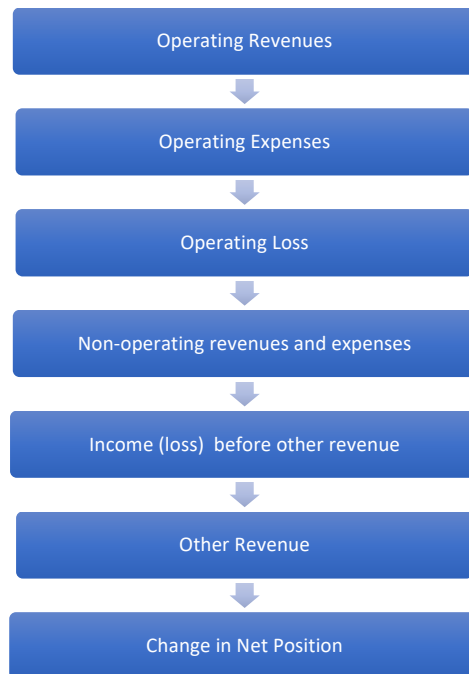


In conclusion, Ohio University has a relatively strong balance sheet with increasing reserves that are at levels high enough to provide an adequate cushion to deal with unforeseen events. The only real weakness in its balance sheet is the level of debt accumulated by the University.

## The Income Statement

The second major financial statement is the statement of revenues, expenses and changes in net assets (change in net position) or the statement of activities. This financial statement shows how an institution's finances are changing over a period of time, namely a fiscal year that normally runs from July 1 to June 30 of the following year. Again, fiscal years are always associated with the calendar year in which the fiscal year ends. So, for example, from July 1, 2019 to June 30, 2020 is known as fiscal year 2020. This statement deals with flows (changes as opposed to levels) and measures how the college or university's revenues and expenses are changing over time. Figure 21 shows the basic structure of the statement of revenues, expenses and changes in net position at public universities and colleges.

There are two ways of keeping track of revenues and expenses. The cash method is the one most of us are familiar with. Using the cash method if a paycheck were deposited in a person's checking account on January 1, 2020 for work done in December of 2019, it would have been considered income for 2020. Similarly, if a person purchased a good or service and paid for it in December of 2019 but the good or service delivered in January 2020 it would have been considered an expense incurred in 2019.



**Figure 21.**



Most businesses, including universities, account for revenues and expenses using the **accrual method** of accounting. This means they book revenues and expenses in the year the good or service is delivered, which may differ from the year when cash is received. For example, a paycheck received on January 1, 2021 for work performed in December of 2020 would count as revenue in 2020. Similarly, an expense paid for in 2021 for a service delivered in 2020 would count as an expense in 2020, because that is when the good or service was delivered. Accrual accounting is used because it provides a more accurate picture of an institution's financial situation.

## Revenue

Revenue is the inflow of resources to a university or college for the services it provides. Revenue at public universities and colleges is divided into “**operating revenue**” and “**non-operating**” revenue. Operating revenue comes primarily from student tuition and fees. Other sources of operating revenue are grants and contracts, sales, and auxiliaries. **Sales** occur when a university or college provides some sort of a service to the community and charges for offering that service. **Auxiliaries** are operations that generate revenue that are unrelated to the core mission of a university or college such as parking, intercollegiate athletics, running a student union, food service, or running a bookstore.

Non-operating revenues include state appropriations, gifts, and investment income. Recently, GASB has started counting Pell Grants as non-operating revenue, so at a number of institutions it appears that operating revenue from Federal grants declined. However, this reclassification has no effect on a university's bottom line; it simply involves moving a portion of federal grants and contracts to another section of the income statement (Statement of Revenues, Expenses and Change in Net Position).

When looking at investment income great care must be taken. Investment income includes interest and dividends, but it also includes capital gains and losses. Investments are valued at “fair market” value, which means when the stock market or bond prices go up the value of an institution's investments go up and when the stock market or bond prices go down the value of an institution's investments go down. In most cases, large swings in the value of investments are due to unrealized gains or losses, meaning that they are paper gains or losses.

For that reason, when calculating income (losses) before other revenue (“net income”) for universities or colleges, many bond rating services subtract the value of investment income and add 4% of the value of investments taken over a three-year rolling period. This provides a less volatile estimate of revenues from investments. Paper gains or losses are often quite large. For example, in 2008 and 2009 after the stock market crash associated with the great recession, many institutions showed significant losses, i.e., they had a negative change in net assets, and administrators told faculty that the world was coming to an end. They used these losses to justify furloughs and cuts in benefits. Although the crash in 2020 was relatively short-lived, it too did not stop administrators from claiming that they had lost reserves. However, on a cash basis in almost all of these institutions cash inflows exceeded their cash outflows. In most cases, within two years, following the 2008-9 crash and mere months for the 2020 crash, these very same institutions had recouped all of their investment losses and in fact their investments reached new record levels.

## **Expenses**

Expenses, for the most part, represent an outflow of resources from a university or college (costs incurred). There are operating and non-operating expenses. Operating expenses can be listed by **functional categories** or they can be listed as **natural categories** such as wages and benefits or purchases of goods and services. It is often the case that the “natural classification,” which contains personnel costs, are not reported in the main financial statements, but are reported in the notes to the financial statements. A Functional report of operating expenses includes instructional expenses, expenses for public service, administrative services such as academic support and institutional support, plant operations and maintenance, scholarships and fellowships, expenses for auxiliary operations, and depreciation.

Table 7 below provides definitions of GASB aligned functional expenses from the Integrated Public Educational Data System (IPEDS).

**Table 7**  
**GASB Aligned Definitions of Functional Expenses From IPEDS**

Instruction:	<p>A functional expense category that includes <u>expenses</u> of the colleges, schools, departments, and other instructional divisions of the institution and expenses for departmental research and public service that are not separately budgeted. Includes general academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and regular, special, and extension sessions. Also includes expenses for both credit and non-credit activities. Excludes expenses for academic administration where the primary function is administration (e.g., academic deans). Information technology expenses related to instructional activities if the institution separately budgets and expenses information technology resources are included (otherwise these expenses are included in academic support). <u>GASB</u> institutions include actual or allocated costs for operation and maintenance of plant and depreciation.</p>
Research:	<p>A functional expense category that includes <u>expenses</u> for activities specifically organized to produce research outcomes and commissioned by an agency either external to the institution or separately budgeted by an organizational unit within the institution. The category includes institutes and research centers, and individual and project research. This function does not include non-research sponsored programs (e.g., training programs). Also included are information technology expenses related to research activities if the institution separately budgets and expenses information technology resources (otherwise these expenses are included in academic support.) <u>GASB</u> institutions include actual or allocated costs for operation and maintenance of plant and depreciation.</p>
Public Service:	<p>A functional expense category that includes <u>expenses</u> for activities established primarily to provide non-instructional services beneficial to individuals and groups external to the institution. Examples are conferences, institutes, general advisory service, reference bureaus, and similar services provided to particular sectors of the community. This function includes expenses for community services, cooperative extension services, and public broadcasting services. Also includes information technology expenses related to the public service activities if the institution separately budgets and expenses information technology resources (otherwise these expenses are included in academic support). Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.</p>
Academic Support:	<p>A functional expense category that includes <u>expenses</u> of activities and services that support the institution's primary missions of instruction, research, and public service. It includes the retention, preservation, and display of educational materials (for example, libraries, museums, and galleries); organized activities that provide support services to the academic functions of the institution (such as a demonstration school associated with a college of education or veterinary and dental clinics if their primary purpose is to support the instructional program); media such as audiovisual services; academic administration (including academic deans but not department chairpersons); and formally organized and separately budgeted academic personnel development and course and curriculum development expenses. Also included are information technology expenses related to academic support activities; if an institution does not separately budget and expense information technology resources, the costs associated with the three primary programs will be applied to this function and the remainder to institutional support. Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.</p>

**Table 7 (Continued)**  
**GASP Aligned Definitions of Functional Expenses From IPEDS**

Student Services:	A functional expense category that includes <u>expenses</u> for admissions, registrar activities, and activities whose primary purpose is to contribute to students emotional and physical well-being and to their intellectual, cultural, and social development outside the context of the formal instructional program. Examples include student activities, cultural events, student newspapers, intramural athletics, student organizations, supplemental instruction outside the normal administration, and student records. Intercollegiate athletics and student health services may also be included except when operated as self-supporting auxiliary enterprises. Also may include information technology expenses related to student service activities if the institution separately budgets and expenses information technology resources (otherwise these expenses are included in institutional support.) Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.
Institutional Support:	A functional expense category that includes <u>expenses</u> for the day-to-day operational support of the institution. Includes expenses for general administrative services, central executive-level activities concerned with management and long range planning, legal and fiscal operations, space management, employee personnel and records, logistical services such as purchasing and printing, and public relations and development. Also includes information technology expenses related to institutional support activities. If an institution does not separately budget and expense information technology resources, the IT costs associated with student services and operation and maintenance of plant will also be applied to this function.
Operation and Maintenance of Plant:	A functional expense category that includes <u>expenses</u> for operations established to provide service and maintenance related to campus grounds and facilities used for educational and general purposes. Specific expenses include utilities, fire protection, property insurance, and similar items. This function <b>does</b> include amounts charged to <u>auxiliary enterprises</u> , <u>hospitals</u> , and <u>independent operations</u> . Also includes information technology expenses related to operation and maintenance of plant activities if the institution separately budgets and expenses information technology resources (otherwise these expenses are included in <u>institutional support</u> ). Institutions may, as an option, distribute <u>depreciation</u> expense to this function.
Auxiliaries:	Expenses for essentially self-supporting operations of the institution that exist to furnish a service to students, faculty, or staff, and that charge a fee that is directly related to, although not necessarily equal to, the cost of the service. Examples are residence halls, food services, student health services, intercollegiate athletics (only if essentially self-supporting), college unions, college stores, faculty and staff parking, and faculty housing. Institutions include actual or allocated costs for operation and maintenance of plant, interest and depreciation.
Scholarships & Fellowships:	Outright grants-in-aid, trainee stipends, tuition and fee waivers, and prizes awarded to students by the institution, including Pell grants. Awards to undergraduate students are most commonly referred to as "scholarships" and those to <u>graduate students</u> as "fellowships." These awards do not require the performance of services while a student (such as teaching) or subsequently as a result of the scholarship or fellowship. The term does not include <u>loans to students</u> (subject to repayment), <u>College Work-Study Program (CWS)</u> , or awards granted to a parent of a student because of the parent's <u>faculty</u> or staff status. Also not included are awards to students where the selection of the student recipient is not made by the institution.

## Depreciation and other Non-Cash Expenses

Historically (pre GASB-34), universities and colleges did not account for depreciation of fixed assets. Therefore, at the end of a fiscal year if revenues and other additions exceeded expenditures, universities experienced an increase in “fund balances.” An increase in fund balances was the equivalent to an increase in net position (increase in net assets) except that net position (net assets) also account for depreciation.

When colleges or universities purchase a fixed asset that will be used over a long period of time, the amount of money they spend on construction is not considered an expense on the income statement. What universities and colleges do is to break up the money they spend on construction and renovation by allocating that expenditure over a fixed period of time. The amount of time depends on the particular type of asset being purchased. The expenditure on a building is typically allocated as an expense over a 30-year period. The allocation of this expenditure over a period of time is known as depreciation. Thus, depreciation is a way of allocating the cost of fixed assets over the useful life of those assets. It is an expense and therefore it reduces the net assets of a university or college.

Depreciation is an expense, but it is a non-cash expense. Depreciation is a way of allocating the cost of fixed capital over the useful life of an asset. In theory, the cost related to the use of a fixed asset in a given year depends on the wear and tear on fixed assets. It is important for any business to consider the cost of producing a good or service so that it can charge a price for the good or service that at a minimum covers the cost of production. However, unlike other expenses, depreciation does not involve making cash payments to some entity external to a college or university. When an institution has an expense for wages or utilities it writes a check to cover those expenses, which reduce a college or university’s cash holdings. When a college or university claims depreciation as an expense, it reduces its net income or the change in net assets on paper but there is no actual outflow of cash. So, it is possible for an institution to have losses every year but still but still meet all of its financial obligations as long as those losses do not exceed depreciation expenses.

When a university or college puts up a building it writes a check to cover the cost of construction. That represents a cash outflow, but it is not an expense. It is characterized as a capital expenditure, which is not the same as an every-day operating expense. The reason for this different treatment is that a building is an asset that will last for a number of years. When a building is acquired, the cost is not counted as an expense; the depreciation on the building is counted as an expense over the life of the building, usually many years. What depreciation does is to allocate the cost of construction, as an expense, allegedly over the useful life of the asset. However, if you look at actual depreciation schedules you will notice that there are assets that are fully depreciated, but they are still in use. The day that a building becomes fully depreciated does not mean it is ready to be condemned.

Depreciation in the for-profit sector is an important tool for businesses to reduce their tax liability. As an expense, it reduces their net income and hence reduces their tax liability. Most depreciation schedules are not necessarily related to the actual useful life of an asset but are artifacts of the tax code (technically called MACRS for modified accelerated cost recovery system). For example, there are different methods of depreciation, straight-line, sum of years, reducing balance, and units of activity. The total amount that is depreciated (expensed) over the “life of the asset” is the same, but some methods allow for even levels of expenses over the life of the asset, while others allow for larger expenses in the beginning and smaller expenses as the asset gets closer to being fully depreciated. For-profit corporations use different depreciation schedules to try and maximize tax avoidance. Of course, this is not a problem for universities, as they generally have no tax liabilities and so most use straight-line depreciation.

It is important to understand that depreciation is calculated based on the book value or the historic cost of purchasing an asset. This means that this expense does not consider actual replacement cost or the actual cost of renovations.

Public sector non-profits, governed by the Governmental Accounting Standards Board (GASB), did not start accounting for depreciation until 2002.

Recently a number of university and college CFOs have started advocating “fully funding depreciation.” What does this mean? In the past, when universities developed budgets (plans for spending), they ignored depreciation. **“Fully funding depreciation”** just means adding depreciation as an expense when developing a budget. If there is no additional revenue added to the budget, adding an additional expense just means reallocating resources – in other words, cutting certain expenses with the goal of building reserves.

“Fully funding depreciation” is just a subterfuge to disguise the fact that a university or college administration is simply making a choice about resource allocation. Politically, if the President announces we have no money for raises because we want to build our reserves, faculty are likely to challenge the assertion that a university or college cannot afford raises. However, if the President can simply say, in our budget revenues equal expenses and without additional revenue there is no money for faculty raises, faculty are more willing to accept this bad news. Sound familiar?

Adding depreciation to the budget artificially adds expenses, and amounts to a shell game to hide the fact that the administration has simply made a conscious decision that building reserves for the future is more important than paying faculty and other employees in the present.

There are additional problems with adding depreciation to a budget. First, the current funds budget is supposed to be an operating budget. Most businesses have an operating budget and a capital budget. The operating budget deals with day-to-day operations. The capital budget is a plan for how to purchase new capital assets or renovate existing assets, when they have reached the end of their useful life. Adding depreciation expenses to a budget is just a way of reducing planned spending in other areas such as instruction, because all operating budgets ultimately need to be balanced. Mixing the operating budget and the capital budget together, however, is not a standard business practice and makes little sense.

There is a reason that most businesses and governments (here the federal government is an exception) separate their operating budget from their capital budget. One reason is that operations need to be funded out of current revenue, i.e., one cannot borrow money to fund current operations on an ongoing basis. However, borrowing is typically an option to fund capital expenditures. Another reason not to mix the two together is that the state provides some funding in the form of a “state appropriation” for operations and it also has a separate “capital appropriation”. Capital spending can also be financed by using reserves, borrowing, or through the receipt of capital gifts.

At a small number of select universities and colleges with large endowments, public and private alike, capital expenditures are largely funded from endowments or donated funds. However, at most public universities, capital gifts tend to be smaller, and most capital funding comes from borrowing or capital appropriations.

Other non-cash expenses can also distort the actual health of an institution. In a for-profit business it is more important that any post-retirement benefits be funded by assets. Post-retirement benefits are a liability because a business or institution has promised to pay these benefits in the future. As long as the benefits are not too large relative to overall expenses and the institution or business continues to exist it can meet its obligations from current expenses. This is a pay-as-you-go situation.

If a business or institution were to go bankrupt having not set aside sufficient assets to meet future claims (liabilities) then retirees would lose some or all of their retirement benefits. However, no public institutions of higher education have gone bankrupt since they started offering post-retirement benefits and many have post-retirement benefits that are totally unfunded i.e., no assets have been set aside to meet future obligations. Forcing public institutions to abandon pay-as-you-go is simply a pretense for cutting public pensions and post-retirement health benefits.

Finally, the changes brought about by GASB 68 and GASB 75 have distorted the reporting of functional expenses. As a result, unless an institution chooses to report functional expenses adjusted for GASB 68 and GASB 75, it is impossible to make historical comparisons of functional expenses, e.g., answer the question what percentage of operating expenses go to instruction v. the percentage that goes to institutional support (administration). Also, even before the implementation of GASB 68 and GASB 75 many institutions started moving certain expenses into the instruction category, which has also made comparisons over time problematic. As a result, in this report to get a sense of how resources are being allocated we will use data from IPEDS on wages and salaries in the functional areas to get a sense of how the allocation of resources is changing over time. Wages and salaries are pure numbers and are what get reported on W-2 forms.

### **Operating Losses**

The difference between operating revenues and operating expenses is known as the operating loss. In publicly funded or assisted institutions, the difference between operating revenues and operating expenses will almost always be negative. This is because public institutions of higher education rely on state appropriations (some more than others; in Midwestern states, these appropriations are less than 1/3 of total revenues; in California, they are more than 1/2), which are not counted as part of operating revenue. This is simply an accounting quirk. If an administrator claims that a university or college is running an operating loss, faculty members should be aware of the fact that almost all public institutions run operating losses and these losses in and of themselves are meaningless.

### **Income (Loss) before Other Revenues**

The difference between non-operating revenues and non-operating expenses is known as net non-operating revenues. The sum of operating losses and net non-operating revenues is known as income (loss) before other revenue and can be referred to as “net income.” Net income can be an important indicator of how well a university or college is performing financially.



## Changes in Net Assets

However, there are three other major sources of revenue for colleges and universities. These are capital appropriations, capital grants, and gifts and additions to permanent endowments. These sources of revenue are restricted and either the corpus (principal) cannot be spent or the funds are earmarked specifically for capital projects and as such cannot be used to support salary and benefits directly. Nevertheless, when institutions receive capital appropriations and gifts, it frees up funds generated through operations which otherwise would have to be used to support capital projects. Therefore, funding for capital projects, whether by state appropriation or by gift, is an important source of revenue. Unfortunately, capital appropriations and gifts tend to be lumpy (high in some years, very small in others) and so it may be difficult to count on them as part of a regular revenue stream. However, most colleges and universities have a fairly good idea of a certain minimum level of increases in their permanent endowment as well as capital appropriations and gifts and can factor these revenues into their spending plans.

The sum of Income (losses) before other revenue (“net income”) along with capital appropriations and gifts and increases to permanent endowment is equal to the increase or decrease in net assets. The **change in net assets (change in financial position)** is in effect the bottom line for an institution in a given year. If there is an increase in net assets, the flow of revenue into the institution has been greater than expenses and if there is a decrease in net assets the institution has experienced a loss. However, it is important to remember that losses can reflect non-cash expenses such as unrealized losses on investments, disposal of assets, and depreciation.

- $\text{Change in Net Assets} = \text{Total Revenue} - \text{Total Expenses}$
- $\text{Total Revenue} = \text{Total Expenses} + \text{Change in Net Assets}$

Another impact of GASB 68 and GASB 75 is that they affect the change in net position. An increase in a liability, in this case the pension liability, is treated as an expense in accrual account. To calculate an adjusted change in net position, calculate the net position in year t (investment in capital, net + restricted non-expendable net assets + restricted expendable net assets + adjusted unrestricted net assets) and subtract adjusted net assets from year t-1.

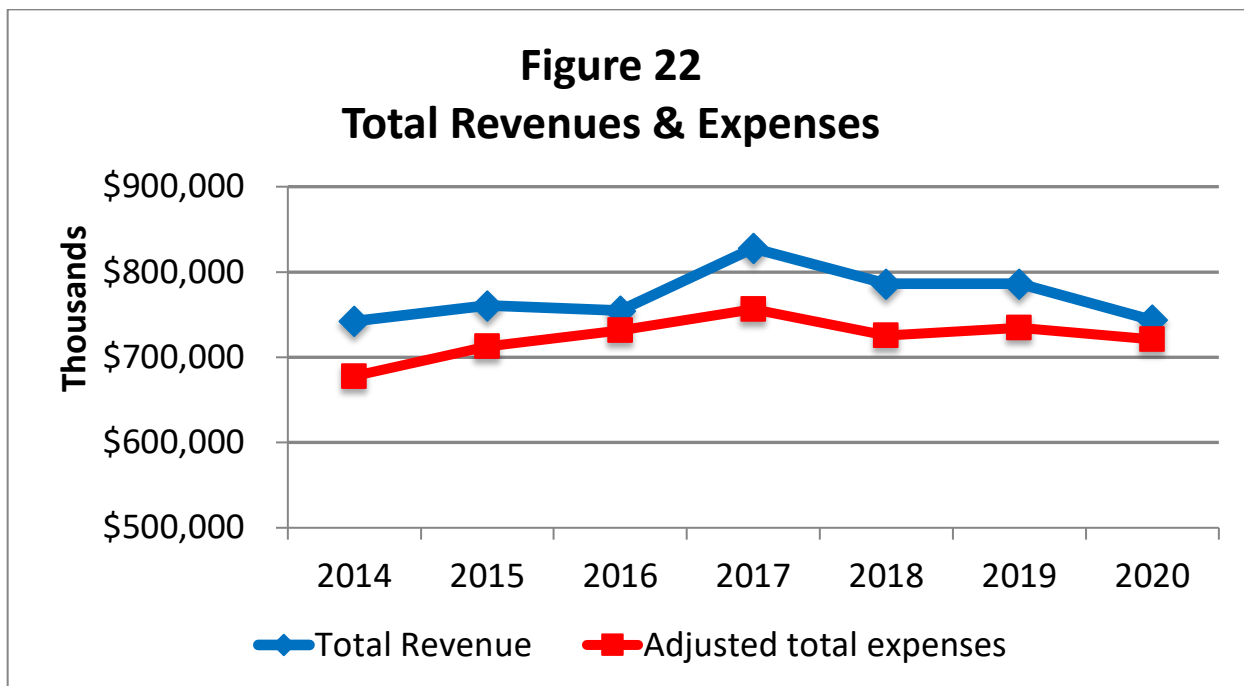
- $\text{Adjusted Change in Net Assets} = \text{Adjusted Net Assets (t)} - \text{Adjusted Net Assets (t-1)}$
- $\text{Adjusted Change in Net Assets} = \text{Total revenue} - \text{Adjusted Total Expenses}$
- $\text{Adjusted Total Expenses} = \text{Total Revenue} - \text{Adjusted Change in Net Assets}$

## Total Revenue and Total Expenses

Table 8 shows the consolidated position of the University for the years 2014-2019. Figure 22 shows total revenue and total adjusted expenses for the University. (The lower end of the graph has been scaled to start at \$500 million to make it easier to see the distinct lines in the graph). Total revenue rose from \$742.3 million in 2014 to \$827.8 million in 2017. In 2018 there was a significant decline in revenue and in 2019 total revenue was essentially unchanged.

Total expenses, (adjusted for GASB 68 and GASB 75) increased from \$678 million in 2014 to \$756.3 million in 2017 and then declined in 2018 to \$725.5 million. In 2019 expenses increased to \$734.8 million.

But the major takeaway from looking at Figure 22 is that in every year between 2014 and 2020 the University's revenues exceeded its expenses, resulting in a positive change in net position. In 2020, after adjusting expenses for GASB 68 and 75, the University's revenues exceed its expenses by \$22.4 million.



**Table 8**  
**Revenues, Expenses and Change in Net Position**  
Thousands of \$  
For year ending June 30

	2015	2016	2017	2018	2019	2020
<b>Operating Revenues</b>						
Student tuition and fees	\$392,062	\$404,588	\$413,460	\$412,553	\$413,999	\$401,961
Less: Pell grants	\$(32,661)	\$(30,796)	\$(29,327)	\$(30,542)	\$(30,319)	\$(27,467)
Less: Other scholarships	\$(38,489)	\$(43,977)	\$(44,311)	\$(43,131)	\$(47,169)	\$(51,780)
<b>Net Student tuition and fees</b>	<b>\$320,911</b>	<b>\$329,815</b>	<b>\$339,822</b>	<b>\$338,879</b>	<b>\$336,510</b>	<b>\$322,714</b>
Auxiliary enterprises	\$114,799	\$114,302	\$115,815	\$111,206	\$112,280	\$82,528
Less: Pell grants-room and board	\$(2,328)	\$(2,533)	\$(2,588)	\$(3,076)	\$(2,772)	\$(2,153)
Less: Other scholarships-room and board	\$(7,992)	\$(9,237)	\$(10,261)	\$(11,074)	\$(11,228)	\$(9,546)
<b>Net Auxiliary enterprises</b>	<b>\$104,479</b>	<b>\$102,532</b>	<b>\$102,966</b>	<b>\$97,056</b>	<b>\$98,280</b>	<b>\$70,829</b>
Federal grants and contracts	\$26,844	\$24,023	\$26,054	\$23,561	\$25,299	\$26,358
State and other grants and contracts	\$8,634	\$8,062	\$8,467	\$9,021	\$11,303	\$7,112
Private grants and contracts	\$13,687	\$11,534	\$11,650	\$9,602	\$10,648	\$17,550
Royalties	\$10,133	\$6,642	\$4,740	\$5,404	\$5,379	\$2,994
Sales and services	\$14,055	\$21,996	\$22,205	\$21,697	\$19,016	\$15,680
Other sources	\$33,963	\$30,154	\$44,955	\$12,997	\$13,552	\$10,187
<b>Total operating revenues</b>	<b>\$532,706</b>	<b>\$534,758</b>	<b>\$560,858</b>	<b>\$518,218</b>	<b>\$519,987</b>	<b>\$473,423</b>
<b>Operating Expenses</b>						
<b>Educational and general:</b>						
Instruction	\$248,199	\$259,123	\$286,783	\$208,744	\$253,032	\$275,362
Research	\$44,751	\$38,952	\$42,870	\$40,117	\$41,553	\$39,358
Public service	\$28,081	\$30,259	\$30,614	\$21,716	\$28,397	\$29,793
Academic support	\$79,379	\$80,761	\$85,968	\$66,937	\$80,064	\$78,100
Student services	\$51,153	\$56,039	\$58,134	\$37,682	\$49,373	\$53,658
Institutional support	\$60,032	\$59,941	\$61,456	\$39,124	\$49,307	\$55,630
Operation and maintenance of plant	\$52,841	\$50,392	\$52,130	\$36,754	\$44,852	\$51,523
Student aid	\$8,648	\$8,480	\$9,322	\$8,955	\$10,304	\$15,401
Depreciation	\$37,919	\$43,021	\$48,941	\$53,134	\$56,416	\$58,330
Auxiliary enterprises	\$76,920	\$82,931	\$86,673	\$79,813	\$88,621	\$82,216
<b>Total operating expenses</b>	<b>\$687,922</b>	<b>\$709,898</b>	<b>\$762,890</b>	<b>\$592,975</b>	<b>\$701,919</b>	<b>\$739,371</b>
<b>Operating Loss</b>	<b>\$(155,216)</b>	<b>\$(175,140)</b>	<b>\$(202,032)</b>	<b>\$(74,757)</b>	<b>\$(181,932)</b>	<b>\$(265,948)</b>

Table 8 (Continued)  
Revenues, Expenses and Change in Net Position  
Thousands of \$  
For year ending June 30

	2015	2016	2017	2018	2019	2020
<b>Nonoperating Revenue (Expenses)</b>						
State appropriations	\$159,028	\$161,462	\$163,057	\$166,023	\$171,866	\$176,388
Federal grants - Pell	\$38,067	\$36,158	\$34,704	\$36,438	\$35,944	
Federal grants nonexchange	\$1,938	\$2,044	\$2,313	\$2,259	\$2,689	\$8,344
State and other grants nonexchange	\$2,528	\$5,338	\$5,643	\$6,037	\$5,404	\$32,168
Private gifts	\$4,840					\$2,830
Investment income, net	\$2,512	\$(4,401)	\$43,823	\$28,985	\$29,554	\$6,243
Interest on debt	\$(18,554)	\$(24,169)	\$(26,316)	\$(27,683)	\$(27,923)	\$21,219
Other nonoperating expense	\$(273)	\$(4,351)	\$(7,348)	\$(7,406)	\$(6,778)	\$(27,969)
Net nonoperating revenue	\$190,085	\$172,081	\$215,877	\$204,653	\$210,757	\$(6,548)
Income (Loss) Before Other Revenue	\$34,869	\$(3,059)	\$13,844	\$129,896	\$28,825	\$212,675
Other Revenue						\$(53,273)
State capital appropriations	\$13,957	\$13,802	\$12,462	\$19,617	\$11,917	\$12,662
Capital grants and gifts	\$4,819	\$5,223	\$4,887	\$8,579	\$8,717	\$10,429
Additions to permanent endowments	\$12	\$5	\$9	\$8	\$6	\$12
Total other revenue	\$18,789	\$19,030	\$17,358	\$28,204	\$20,640	\$23,103
<b>Increase in Net Position</b>	<b>\$53,658</b>	<b>\$15,971</b>	<b>\$31,202</b>	<b>\$158,099</b>	<b>\$49,465</b>	<b>\$(30,170)</b>
<b>Net Position</b>						
Beginning of year	\$912,119	\$594,656	\$610,628	\$641,830	\$659,000	\$708,310
Adjustment for change in accounting principle (see Note 1)	\$(371,120)			\$(140,928)	\$(155)	
Beginning of year, as restated	\$540,998			\$500,901	\$658,845	-
End of year	\$594,656	\$610,628	\$641,830	\$659,000	\$708,310	\$678,140

## Revenues

The largest single source of revenue at Ohio University is tuition and fees which is followed by state appropriations. During this period the gross tuition rose every year except in 2018 and gross tuition in 2019 was slightly higher than it was in 2017. In 2020 gross tuition was down 2.9%. This reduction is definitely related to the decline in enrollment. It is also worth noting that there was an even sharper 9.8% decline in Pell Grants that are included in gross tuition. This suggests that a disproportionate decline in enrollment is among lower-income students.

Figure 23 shows the trends in net student tuition and fees and state appropriations. Between 2014 and 2017 net tuition revenue rose from \$320.9 million to \$413.5 million. However, in both 2018 and 2019 net tuition revenue declined to \$338.9 million in 2018 and \$336.5 million in 2019. In 2020 there was an even sharper decline in net tuition, which declined to \$322.7 million, a decline of 4.1%.

Clearly a big part of the decline in net tuition revenue in 2019 and 2020 is related to sharp increases in scholarships. In general, the demand for higher education is inelastic so that when institutions raise prices, the percentage decline in the quantity demanded is smaller than the percentage increase in price so that total revenues increase. Conversely, lowering prices when demand is inelastic will reduce revenue. Perhaps this is what Ohio University's administration believed would happen when they positioned Ohio University's tuition to be lower than Miami, but higher than Ohio State, the University of Cincinnati, Bowling Green and Kent State. A classic problem in Oligopoly occurs when demand is inelastic if all firms raise their prices. But if one firm raises their price while others hold their prices, demand for the firm raising its price can become elastic and in that case revenues will fall. But classic demand behavior may not always apply to industries where it is very difficult to judge quality and price becomes a proxy for quality. This is probably why Miami University has been able to raise its tuition without experience a decline in enrollment. Finally, enrollment can also be affected by the job that a university does in marketing itself and efforts it makes to recruit students. Over the last three years, enrollment at Miami and Bowling Green has been flat, while it increased at Ohio State, the University of Cincinnati and fell at Kent State and Ohio University.

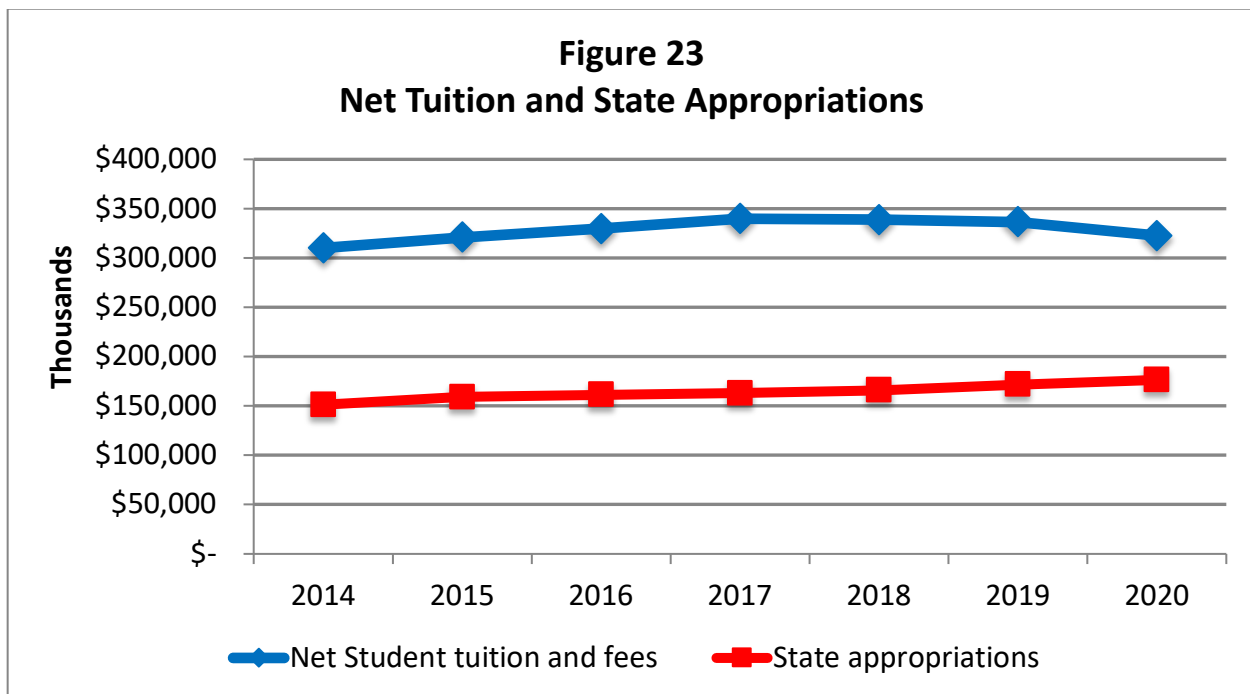
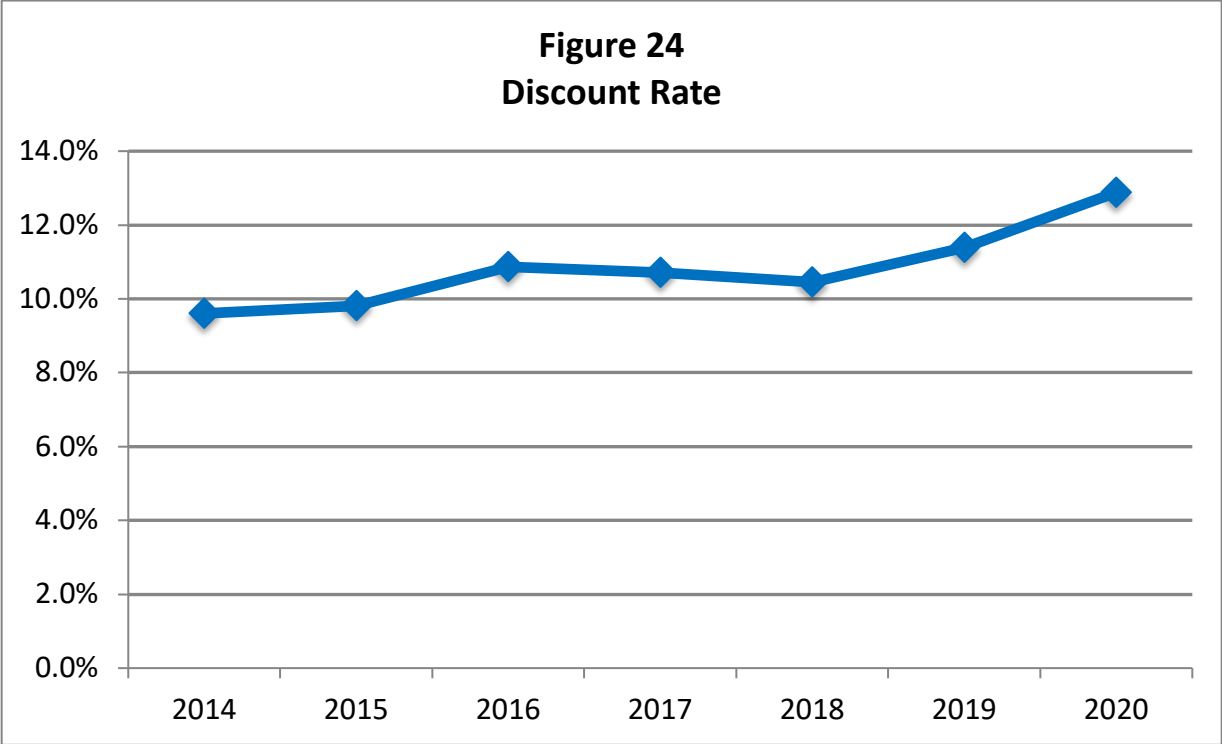


Figure 24 shows how the discount rate has changed over time. From 2014 to 2016 the discount rate increased from 9.6% to 10.9%. This was followed by two consecutive years with the discount rate falling so that by the end of 2018 it was 10.5%. Then in 2019 it increased to 11.4% and in 2020 it was 12.9%.



In contrast with tuition, Figure 23 shows that the state appropriation has increased every year since 2014. In 2014 the state appropriation was \$151.3 million and by 2019 it had risen to \$171.9 million. In 2020 the state appropriation increased again to \$176.4 million, an average annual increase of 2.6%.

Changes in **auxiliary revenues** are also part of the total revenue story at the University. Between 2014 and 2017, auxiliary revenues increased from \$72.8 million to \$86.7 million. In 2018 auxiliary revenues declined sharply to \$79.8 million but then rebounded to \$88.6 million in 2019. In 2020 auxiliary revenues again declined to \$82.2 million. Without a more detailed breakdown of auxiliary revenues, it is impossible to say more about what is driving recent changes in auxiliary revenue but clearly this deserves a closer look.

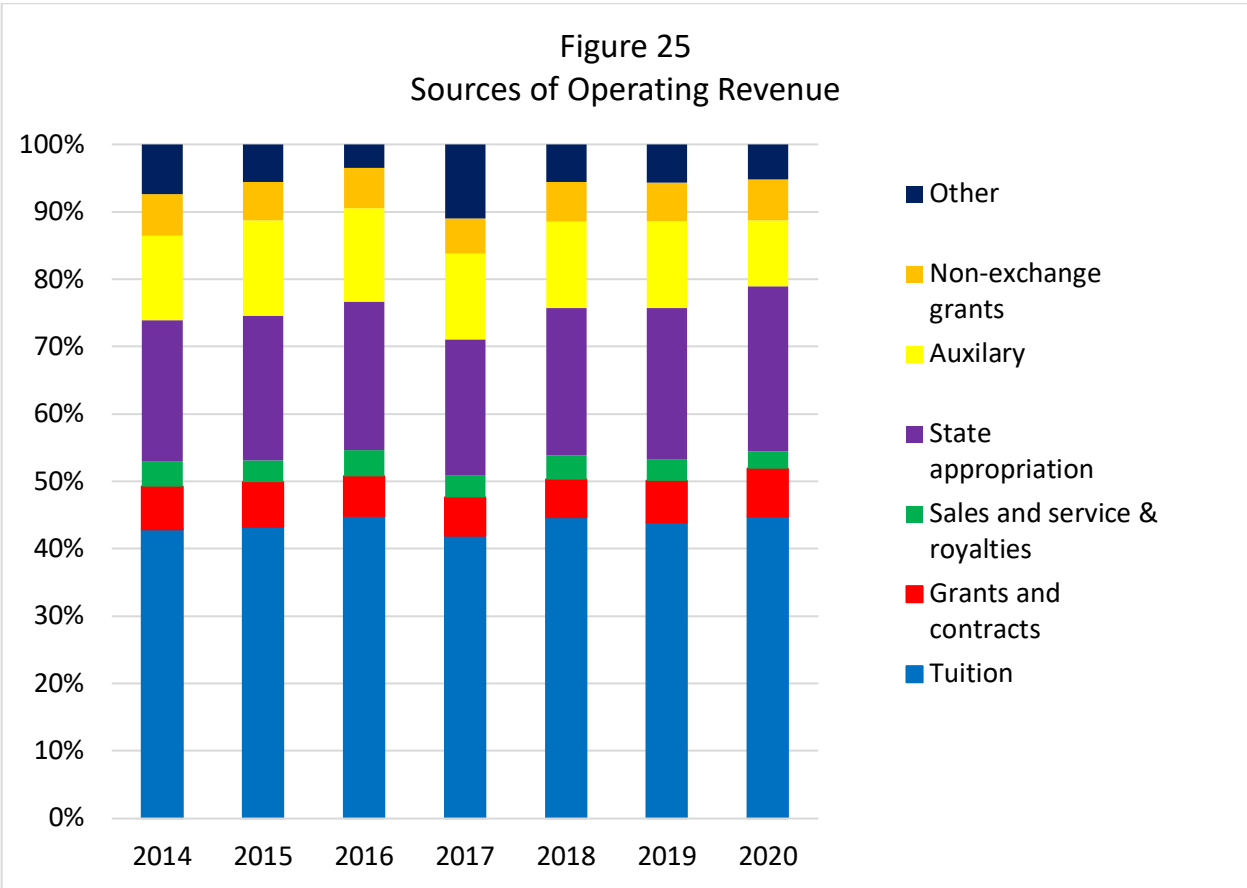


Figure 25 shows a summary of the major sources of revenue for the University’s operations. The next largest source of operating revenue after tuition and state appropriation is revenue from auxiliary operations. Auxiliary operations include dormitories, vending, food service, bookstore, parking and intercollegiate athletics.

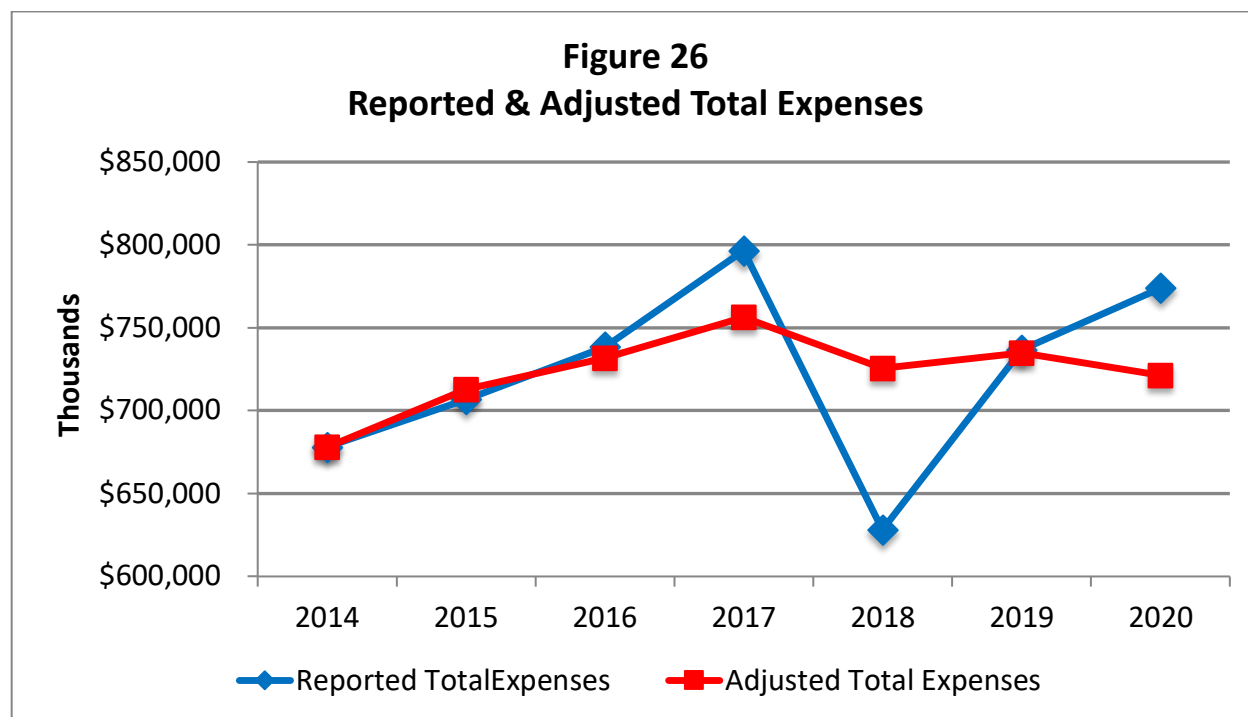
Other sources of operating revenue are grants and contracts (mostly research), non-exchange grants, which are grants given for financial aid e.g., Pell grants. Other smaller sources of revenue come from sales and services as well as royalties. Finally, the category of other revenue which is volatile because it includes investment income. Investment income consists mainly of unrealized gains and losses.

**Expenses**

Analyzing expenses has become more difficult with GASB 68 and GASB 75. To understand why this is the case we need to look at how GASB 68 and GASB 75 affect the calculation of expenses. When there is an increase in an unfunded liability either in the pension or in OPEB it leads to a reduction in unrestricted and hence total net assets, all other things equal. But remember the change in net assets is also the difference between total revenue and total expenses. On rare occasions there is a change in assets which could affect revenue but the reality is most of the changes in the balance sheet caused by GASB 68 and GASB 75 are on the liabilities side of the ledger. This means that when there is an increase in an unfunded liability

on the balance sheet it shows up as an increase in expenses on the income statement. If there is a reduction in the unfunded liability it shows up as a reduction in expenses. However, these increases or decreases in expenses are not actual cash expenses i.e., the University is not required to write a check to cover an increase in these expenses nor does it write fewer checks if these expenses go down.

Reported and adjusted total expenses are shown in Figure 26. I have purposely changed the origin to start at \$600 million to magnify the differences between the two lines. In 2014 there is no difference because neither GASB 68 nor GASB 75 were in effect. In 2015 and 2016 the effects of GASB 68 both show that total expenses were increasing but in 2015 the reported change in net assets was greater than the adjusted change in net assets because reported expenses were about \$6 million below adjusted expenses, where adjusted expenses remove the impact of GASB changes. In 2016, reported expenses were greater than adjusted expenses by about \$6.8 million. But in 2017 and 2018 the divergence between reported and adjusted expenses diverged more dramatically. In 2019 the difference narrowed with reported expenses coming in at just \$1.8 million above adjusted expenses. Finally, in 2020 reported expenses and adjusted expenses again diverged with reported expenses being greater than adjusted expenses.



These changes in expenses brought about by GASB 68 and GASB 75 show up as benefit expenses leading to changes in compensation. Within the functional spending categories different proportions of the total expenses go to wages and salaries. Since a large portion of benefits are proportional to wages and salaries, the increases and decreases in expenses, caused by changes in unfunded liabilities, affect the expenses disproportionately. In other



words, one cannot just estimate the change in total expenses, caused by the changes in unfunded liabilities, and then allocate them proportionately to each functional category.

Another complicating factor is Ohio University has two pensions (STRS and OPERS) and both of these pensions have different levels and changes in their unfunded liabilities. If the changes in unfunded liabilities are greater in STRS than in OPERS the impact will be greater on reported instructional expenses than on other functional expenses. Some universities and colleges provide estimates of functional expenses in the notes to their financial statements, but Ohio University does not provide these estimates.

To get a sense of how changes in unfunded liabilities affect the estimate of expenses Figure 27 shows the difference between reported total expense and the adjusted total expense. If the number is negative, then the adjusted total expense is greater than the reported total expense. If the number is positive, then the adjusted total expense is less than the reported total expense. In the years where the bars are red, reported expenses understate actual expenses and conversely when the bars are blue, they overstate actual expenses.

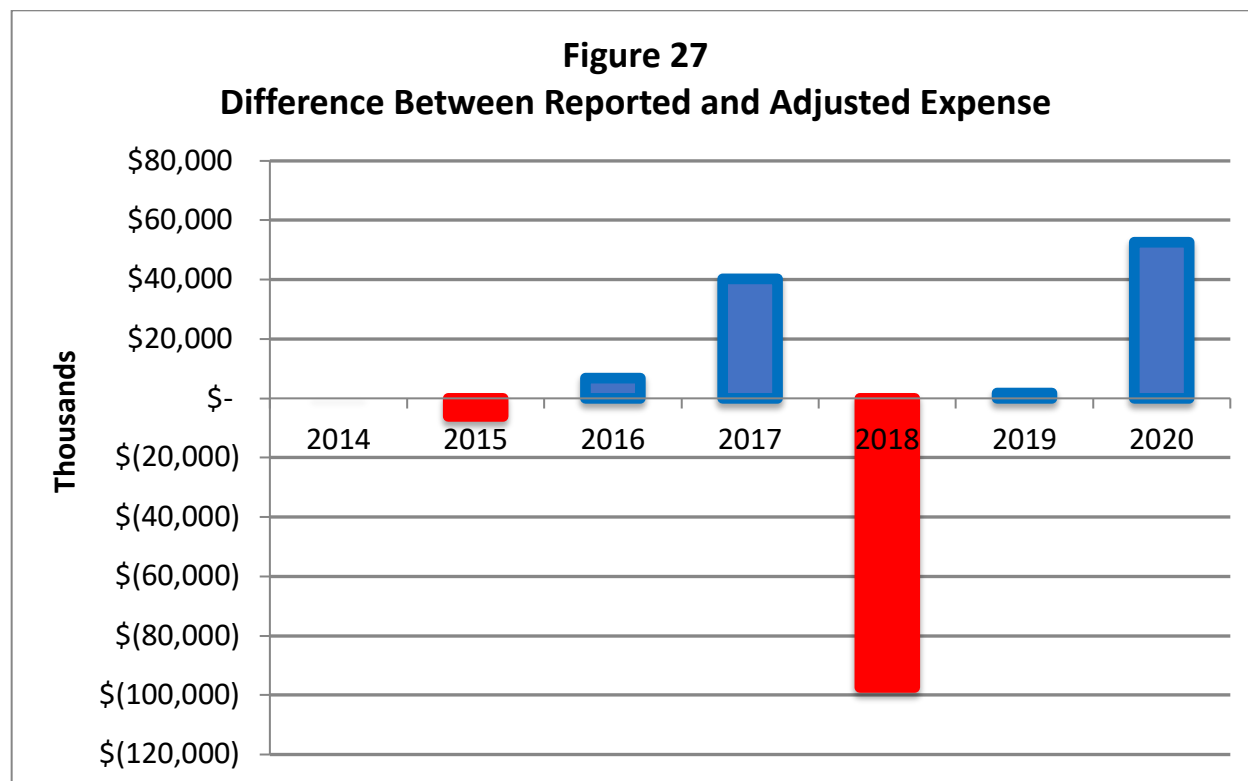


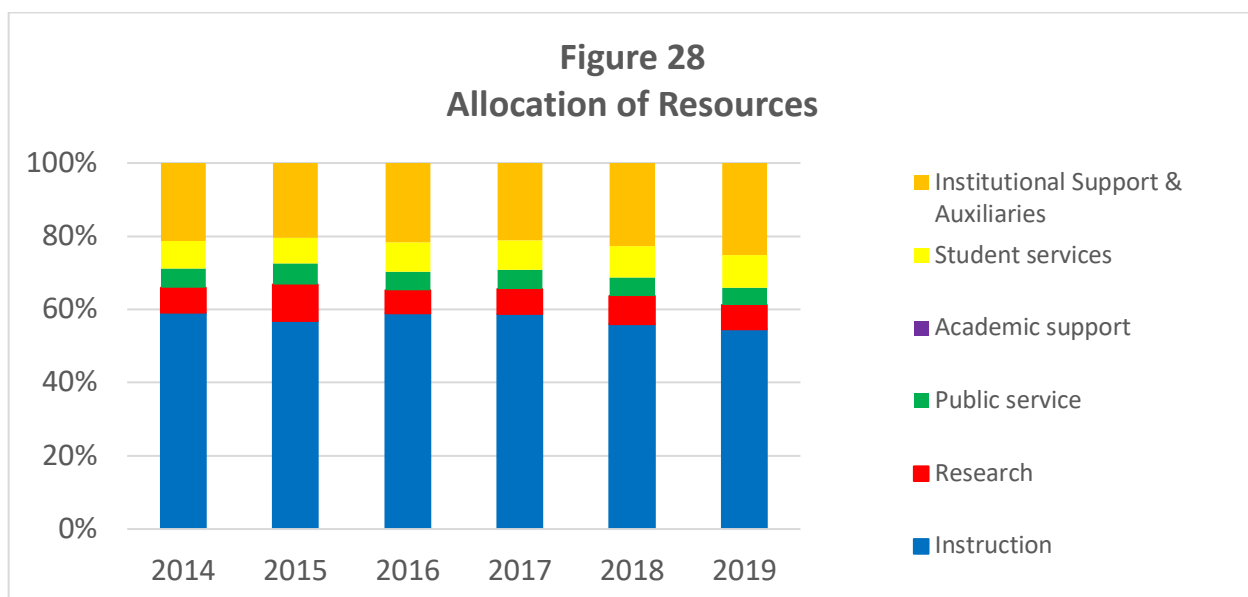
Table 9 Wages and Salaries Thousands of \$ For year ending June 30						
	2015	2016	2017	2018	2019	2020
Instruction	\$172,545	\$178,217	\$185,931	\$170,517	\$164,229	
Research	\$29,889	\$19,060	\$21,578	\$23,927	\$20,068	
Public service	\$17,631	\$15,382	\$16,572	\$15,173	\$14,266	
Academic support	\$43,131	\$42,657	\$43,415	\$42,115	\$48,844	
Student services	\$21,600	\$24,187	\$25,254	\$26,246	\$26,608	
Institutional support	\$36,917	\$38,773	\$39,135	\$35,138	\$18,714	
Operation and maintenance of plant	\$26,439					
Auxiliary enterprises	\$24,795	\$26,654	\$27,943	\$34,076	\$57,121	
<b>Total wages &amp; salaries</b>	<b>\$372,946</b>	<b>\$344,930</b>	<b>\$359,828</b>	<b>\$347,192</b>	<b>\$349,850</b>	

Table 9 provides a better picture of how resources are being allocated in the functional categories. These data come from the Integrated Post-Secondary Data System (IPEDS). IPEDS reports on wages and salaries by functional category and these numbers are not affected by the implementation of GASB 68 and GASB 75. (Unfortunately, this IPEDS data is not yet available for 2020 so Table 9 has not been updated.) Wages and salaries for instruction include all salary payments made for teaching, including overload pay and pay for part-time faculty as well as graduate students. Table 8 shows wages and salaries for functional categories.

First, looking at the data in Table 9 we see that IPEDS changed the way it reports on expenses for operations and maintenance after 2015. Current Instructions for submitting data to IPEDS say that when reporting wages and salaries under functional expenses, wages and salaries for operations and maintenance of plant should be omitted because they will be reported elsewhere. So, in analyzing the data in Table 9 we omit consideration of wages and salaries for operations and maintenance of plant so that the time series data are consistent. [See IPEDS Survey Materials Instructions.](#)

Second, there seems to be an obvious problem with the reporting of wages and salaries for institutional support and auxiliary enterprises in 2019. It seems highly unlikely that spending on salaries for institutional support declined by 47% in a single year. That would imply that the University fired nearly half of all its central administration. At the same time, they report expenses for auxiliary enterprises increased by 68% in a single year and again this seems highly unlikely given the fact that revenue for auxiliary enterprises only increased by 1.3%. So, for consistency sake, I have combined the spending on wages and salaries for institutional support and auxiliary spending. The distribution of wages and salaries is shown in Figure 28. It shows that since 2017 the percentage of spending on wages and salaries for instruction declined from 52% of reported wages and salary to just 47% while over the same time period spending on institutional support and auxiliaries rose from 19% to 22%. Also, since 2017 instructional

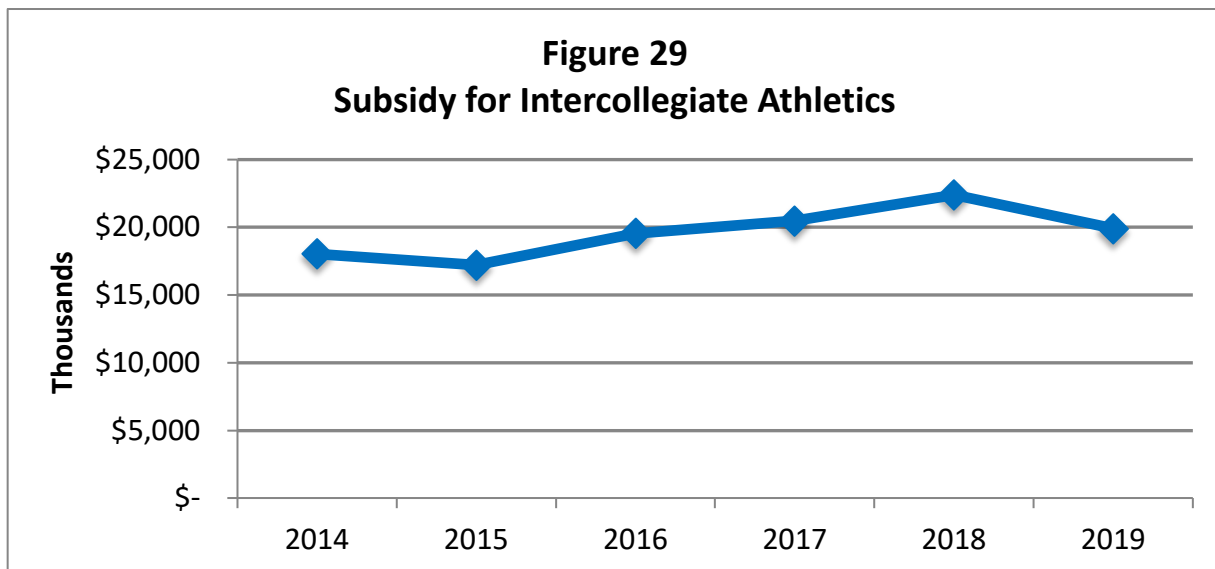
salaries have fallen from 24.6% to 22.3% of adjusted total expenses. That amounts to a reduction of spending on faculty salaries of \$16.4 million.



One of the major expenses for the University is its **subsidy for intercollegiate athletics**. Table 10 contains data on revenue and expenses for intercollegiate athletics that the University provides to the NCAA and is generally available on the State of Ohio Auditor’s website. This data is also published annually by [USA Today](#). (Again, updated expenses for intercollegiate athletics are not yet available so Table 10 and Figure 29 cannot be updated.)

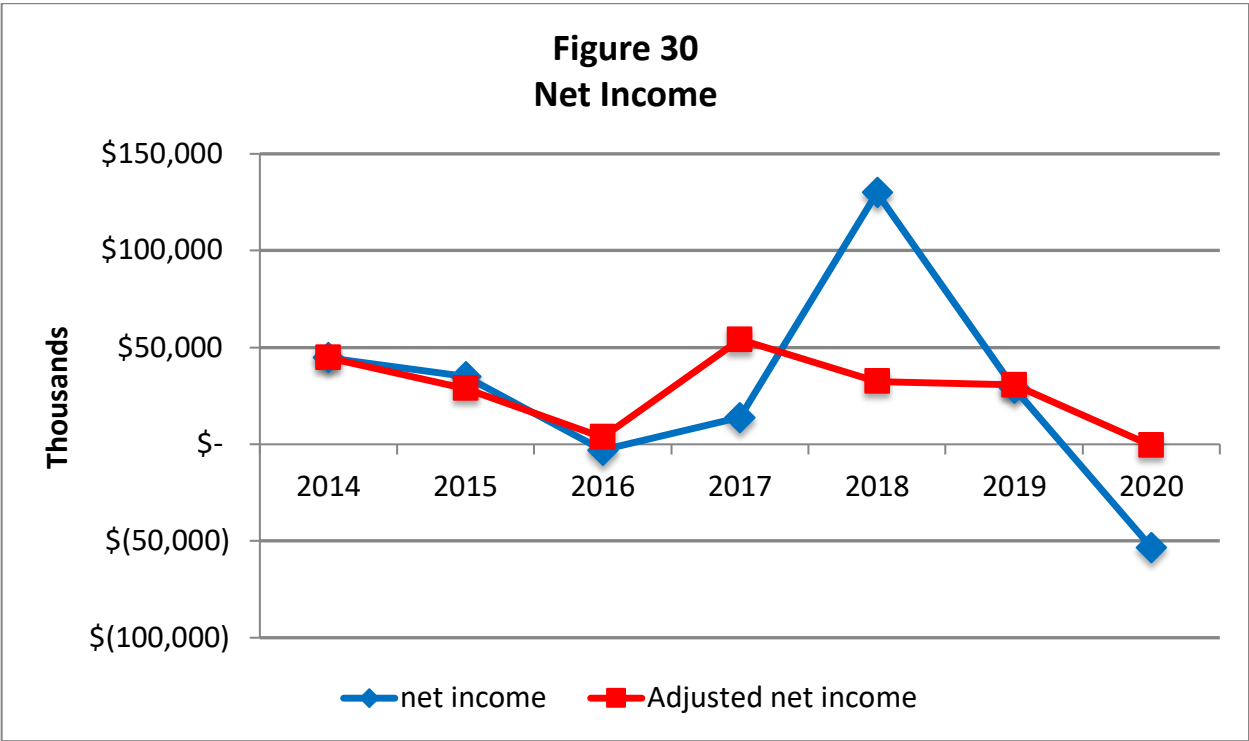
	2015	2016	2017	2018	2019	2020
Ticket Sales	\$1,220	\$1,316	\$1,182	\$1,049	\$1,123	
Contributions	\$3,048	\$3,332	\$2,085	\$4,870	\$3,723	
Rights/Licensing	\$3,995	\$4,414	\$5,903	\$5,040	\$7,747	
Student Fees	\$16,355	\$17,759	\$17,536	\$-	\$-	
School Funds	\$2,455	\$2,504	\$2,554	\$19,832	\$19,992	
Other	\$1,636	\$2,558	\$2,975	\$2,518	\$2,177	
<b>Total Revenues</b>	<b>\$28,709</b>	<b>\$31,883</b>	<b>\$32,235</b>	<b>\$33,310</b>	<b>\$34,763</b>	
Coaching/Staff	\$8,075	\$8,386	\$8,748	\$9,055	\$9,839	
Scholarships	\$7,214	\$8,415	\$7,987	\$8,403	\$8,734	
Facilities/ Overhead	\$1,829	\$3,599	\$4,222	\$7,775	\$5,119	
Other	\$9,992	\$10,770	\$11,664	\$10,636	\$10,985	
<b>Total Expenses</b>	<b>\$27,110</b>	<b>\$31,169</b>	<b>\$32,621</b>	<b>\$35,869</b>	<b>\$34,677</b>	
<b>Net Income</b>	<b>\$1,599</b>	<b>\$714</b>	<b>\$(387)</b>	<b>\$(2,559)</b>	<b>\$86</b>	

The net income does not really tell the story. In reality the University provides a massive subsidy to intercollegiate athletics, because two major sources of revenue for intercollegiate athletics are student fees and school funds. These two sources are fungible but as students, parents, and the public including the state legislature have become more aware of these massive subsidies the University has chosen to eliminate student fees as a source of subsidy and shift the entire subsidy to “school funds”. But that of course begs the question of what are “school funds”? Put simply they are tuition and fees along with state appropriations and other unrestricted sources of revenue. Ticket sales, which would be part of auxiliary revenues are a drop in the bucket when compared to overall revenues. Figure 29 shows the subsidy for intercollegiate athletics.



### Income (loss) Before Other Revenue

The University’s income (loss) before other revenue represents its net income generated from operations. **It is important to note that even in cases where this is negative there may not be cause for alarm if the loss is due to unrealized losses on investments or to depreciation.** The University had an **average adjusted net income** of \$32.4 million over the last six years with a low of \$3.7 million in 2016 and a high of \$54.1 million in 2017.



**Change in Net Assets (Net Position)**

So far, we have looked at revenues used in operations and operating expenses. Now we turn to the difference between revenues and expenses which is the change in net assets or the change in net position. But before we do look at the change in net position, we need to recognize that there is additional revenue and some expense that figure into the University’s bottom line.

The revenue in the financial statement is broken out into operating revenue and non-operating revenue. Most of what is in non-operating revenue is in fact revenue that is used in operations and is only classified as non-operating because it is revenue that the University receives that is not in exchange for services. So technically the state appropriation or Pell grants are not operating revenue, but this is really a difference without a distinction.

We also have not discussed some expenses that fall into the non-operating category, those being interest on debt, and loss on disposal of capital assets. It is also possible for universities to show unrealized gains and losses on investments. For Ohio University its investment revenue has been positive in five of the last six years, but investment income has been volatile. Loss on disposal of assets is a non-cash loss whereas interest payments on debt involve the transfer of cash but are not considered an operational expense, because they come from financing capital outlays.

That brings us to three other forms of revenue that figure into the bottom line but are not used for operations. Those forms of revenue relate to capital spending and contributions to the University's endowment. With respect to capital spending we have capital appropriations, money given by the state to the University for construction and capital grants and gifts, and money that is donated to the University for capital projects. Finally, we have money that is given to the University's endowment.

The change in net assets or change in net position is the difference between all of the revenue that the University that flows into the University minus all of the expenses, which generally involve an outflow of resources in the current year.

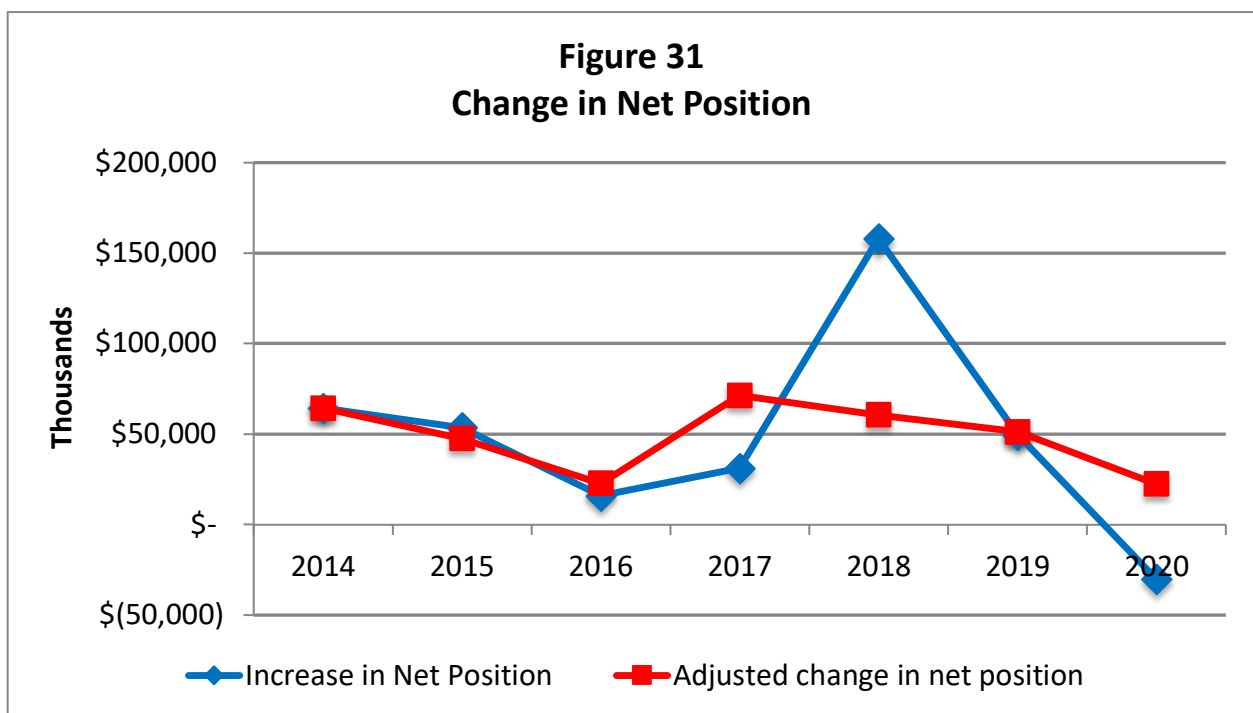
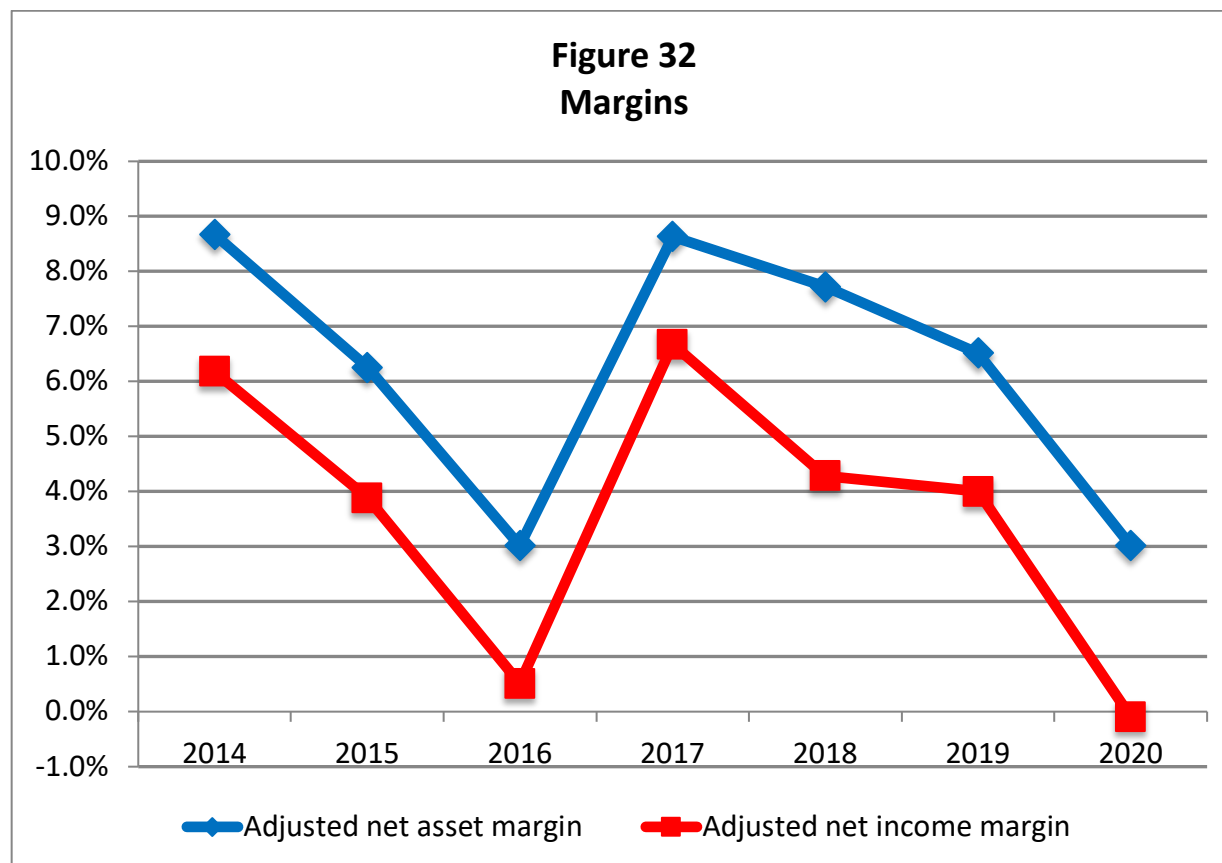


Figure 31 shows the change in net position for the University from 2014-2020 as reported and adjusted for accounting changes related to the treatment of OPEB and pensions. A spike in net position is often caused by an unusually large capital appropriation. Ohio University has had an average capital appropriation of \$13.2 million in the last six year, with a low of 7.3 million in 2014 and a high of \$19.6 million in 2018. The other significant revenue line that figures into the calculation of the change in net position are capital grants and gifts. The average level of capital grants and gifts in the last six years was \$7.4 million. What we see is that there is much greater volatility in the reported change in net position than in the adjusted change in net position. This volatility is caused entirely by volatility in the unfunded liabilities for pensions and healthcare in STRS and OPERS. Adjusted change in net position trended down from 2014 though 2016 and then increased in 2017. Since 2017 it has been trending down. Nevertheless, it has remained positive over the entire period from 2014-2020. So, the bottom

line is that the University's revenues have been greater than its expenses every year during the period covered in this update.

Last in this section we look at the margins for the Ohio University. **Margins** measure the change in net position or net income as a percent of revenue. Figure 32 shows the adjusted net income margin (adjusted net income divided by true operating revenues) and the net asset margin (adjusted change in net position divided by total revenue).



It is important to look at these margins because the raw numbers alone do not tell the whole story. Every industry has standards or norms for what constitutes good net income margins. In higher education, Margins for changes in net assets (net position) that are in the range of 1%-2.9% are considered good, margins that are in the 3%-4.9% are very good and margins above 5% are outstanding. Generally, speaking net income margins tend to run about 1%-3% lower than net assets margins. While there is some volatility in this data, which is expected, the margins for Ohio University are generally outstanding. So, in conclusion Ohio University's performance with respect to income has generally been outstanding over the last six years.

## The Cash Flow Statement

Universities use a system of accrual accounting, which means they book revenues when they earn them and book expenses when they are incurred. However, recognizing revenue is not always the same as collecting cash. For example, a university may send a bill to a student for tuition but not immediately collect the money that is owed. This shows up on the university's balance sheets as an increase in accounts receivable and is booked on the statement of revenues, expenses and changes in net position as revenue. While the institution shows an increase in revenue it does not actually have more cash. Hence the role of the cash flow statement is to show the inflows and outflows of cash.

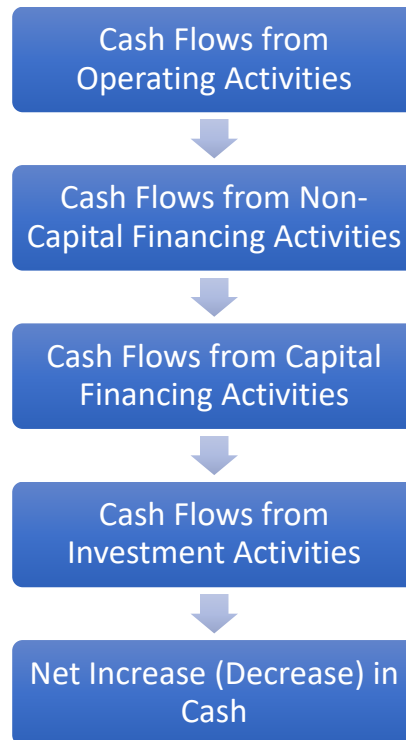
The Statement of Cash Flows at public colleges and universities has four major components (See Figure 33). First, cash flows from operations, which includes inflows in the form of tuition and fees, grants and contracts, sales and services and outflows in the form of payments to employees, suppliers and students. The second major component is cash flows from non-capital financing activities. The most important item in this category is state appropriations. Also, now shown in this category are Federal direct lending receipts and Federal direct lending disbursements as well as gift and grants for non-capital purposes. Third are cash flows from capital and related financing activities which include inflows in the form of capital appropriations and capital grants and outflows in the form of purchases of capital assets as well as outflows for principal and interest payments. Finally, there are cash flows from investing activities such as the purchase and sale of investments and interest received on investments.

The cash flow from operations shows the actual inflow and outflow of resources used to fund the operation of a college or university. Operating cash flows can be calculated directly by counting all inflows and outflows of cash (the direct method) or they can be calculated indirectly starting with the change in net assets and adjusted for changes in assets and liabilities as well as considering other non-cash expenses as well as non-cash revenue such as paper gains on investments.

At public institutions **operating cash flow** is the sum of cash flows from operations plus cash flows from non-capital financing activities. One of the major differences between operating cash flows and income (loss) before other revenue (net income) is that net income includes depreciation as an expense. However, since depreciation is a non-cash expense it does not represent an outflow of cash i.e., it is an expense only on paper. Another non-cash expense is changes in unrealized gains and losses on investments. If the value of investments increases, say because stock prices rise, that is recorded in the income statement as revenue, even if the stocks have not been sold. Conversely, when the value of investments falls, say because the value of stocks has fallen, that gets recorded in the income statement as an expense. But in reality, these gains and losses are paper gains and losses and have little to do with how the institution is performing in the short run. Cash flows are also not subject to accrual adjustments and therefore are not affected by changes brought about by GASB 68 and GASB 75. So, looking at cash flows that are generated from operations is a more important indicator of performance



than say the change in net position and operating cash flow is one of the most important indicators of how a college or university is doing from a financial perspective.



**Figure 33.**

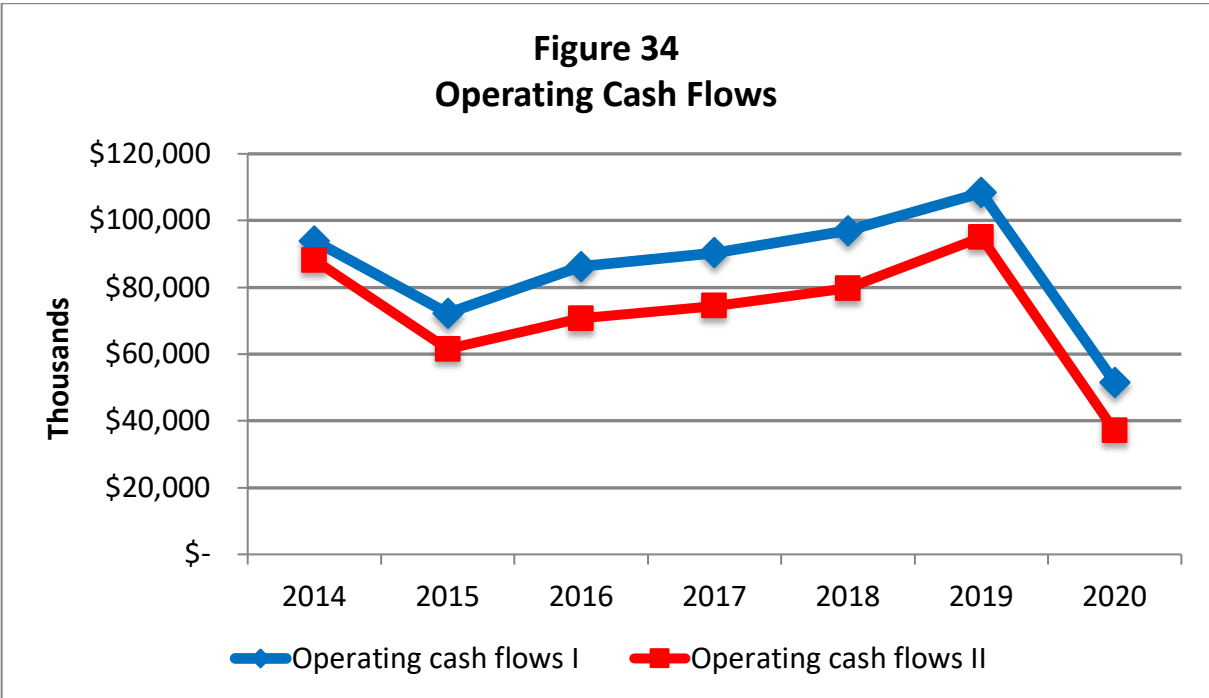
Table 11 and Figure 34 below shows the Statement of Cash Flows for the University from 2014-2019. Operating cash flows can be defined in two ways: (I) operating activities plus net cash provided by non-capital financing activities or (II) operating activities plus net cash provided by non-capital financing activities minus interest payments on debt plus investment income. Both measures show the University has healthy operating cash flows.

**Table 11**  
**Cash Flows**  
**Thousands of \$**  
**For the year ending June 30**

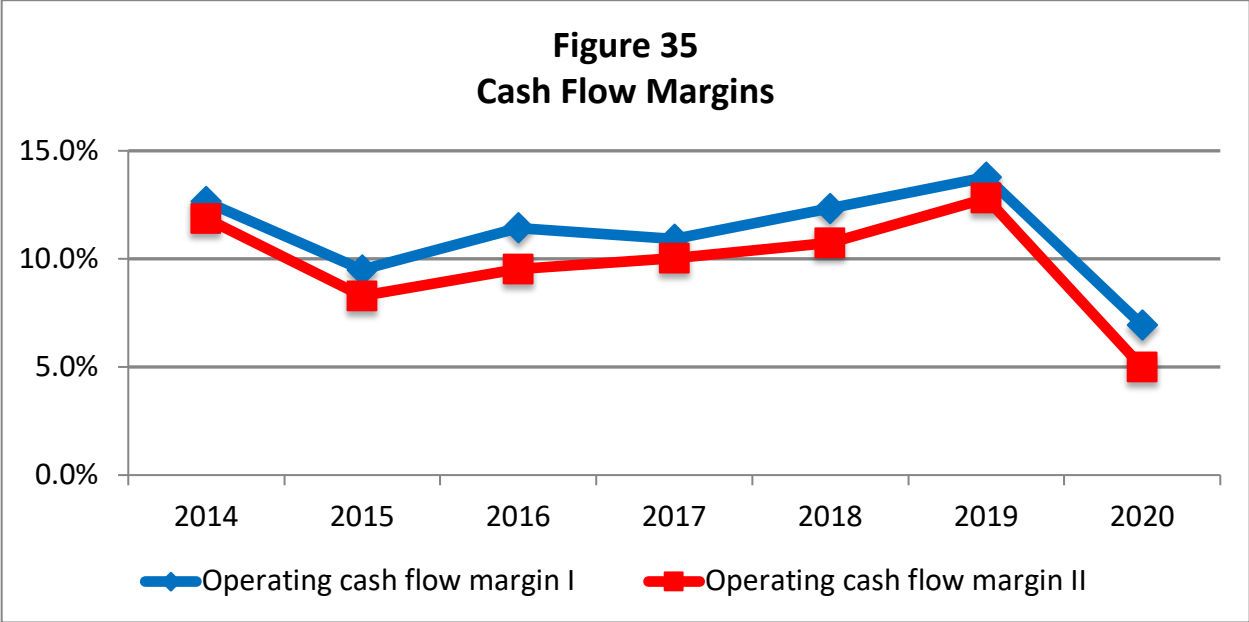
	2015	2016	2017	2018	2019	2020
<b>Cash Flows from Operating Activities</b>						
Student tuition and fees	\$313,705	\$330,462	\$337,118	\$339,370	\$333,457	\$322,899
Grants and contracts	\$44,081	\$48,145	\$46,384	\$40,392	\$50,616	\$40,840
Payments to suppliers	\$(157,182)	\$(168,361)	\$(151,575)	\$(157,489)	\$(139,923)	\$(144,665)
Payments to or on behalf of employees	\$(438,857)	\$(455,905)	\$(474,175)	\$(458,514)	\$(463,386)	\$(459,505)
Payments for scholarships and fellowships	\$(32,194)	\$(40,300)	\$(37,570)	\$(36,893)	\$(32,744)	\$(39,242)
Loans issued to students	\$(2,699)	\$(2,905)	\$(2,066)	\$(2,454)	\$(1,125)	\$(976)
Collection of loans from students	\$2,464	\$2,662	\$2,285	\$2,231	\$2,098	\$2,893
Auxiliary enterprise sales	\$102,507	\$105,700	\$103,362	\$96,928	\$97,592	\$70,816
Royalties	\$10,678	\$7,720	\$2,448	\$220	\$12,587	\$4,530
Sales and services	\$9,401	\$26,452	\$26,809	\$24,942	\$16,992	\$17,136
Other receipts	\$19,821	\$23,004	\$29,784	\$36,066	\$14,170	\$9,987
<b>Net cash used in operating activities</b>	<b>\$(128,274)</b>	<b>\$(123,325)</b>	<b>\$(117,196)</b>	<b>\$(115,201)</b>	<b>\$(109,668)</b>	<b>\$(175,286)</b>
<b>Cash Flows from Noncapital Financing Activities</b>						
State appropriations	\$159,028	\$161,462	\$163,057	\$166,023	\$171,866	\$176,388
Gifts and grants for other than capital purposes	\$47,386	\$43,545	\$42,669	\$44,741	\$44,043	\$49,598
Federal direct student loan program receipts	\$201,349	\$214,431	\$219,738	\$223,651	\$218,732	\$209,333
Federal direct student loan program disbursements	\$(204,387)	\$(211,710)	\$(219,825)	\$(223,833)	\$(217,954)	\$(209,478)
Student organization agency transactions	\$(2,895)	\$1,795	\$1,939	\$1,561	\$1,302	\$1,000
<b>Net cash provided by noncapital financing activities</b>	<b>\$200,480</b>	<b>\$209,524</b>	<b>\$207,578</b>	<b>\$212,143</b>	<b>\$217,990</b>	<b>\$226,842</b>

**Table 11 (Continued)**  
**Cash Flows**  
**Thousands of \$**  
**For the year ending June 30**

	2015	2016	2017	2018	2019	2020
<b>Cash Flows from Capital Financing Activities</b>						
Proceeds from capital debt	\$250,000		\$156,150	\$66		\$222,575
State capital appropriations	\$14,259	\$11,400	\$13,699	\$17,649	\$14,287	\$13,903
Capital grants and gifts received	\$4,896	\$4,633	\$4,680	\$8,579	\$4,246	\$10,429
Purchases of capital assets	\$(178,248)	\$(106,311)	\$(108,049)	\$(76,797)	\$(78,229)	\$(118,137)
Principal paid on capital debt and leases	\$(16,862)	\$(17,178)	\$(57,872)	\$(16,210)	\$(16,210)	\$(179,349)
Interest paid on capital debt and leases	\$(20,493)	\$(26,213)	\$(26,801)	\$(30,007)	\$(29,483)	\$(28,795)
<b>Net cash used in capital financing activities</b>	<b>\$53,552</b>	<b>\$(133,668)</b>	<b>\$(18,193)</b>	<b>\$(96,720)</b>	<b>\$(105,388)</b>	<b>\$(79,375)</b>
<b>Cash Flows from Investing Activities</b>						
Proceeds from sales and maturities of investments	\$389,285	\$200,415	\$120,943	\$139,327	\$82,226	\$293,933
Investment income	\$9,763	\$10,727	\$10,860	\$12,741	\$16,157	\$14,252
Purchase of investments	\$(646,754)	\$(201,649)	\$(114,547)	\$(143,121)	\$(83,325)	\$(259,081)
<b>Net cash provided by investing activities</b>	<b>\$(247,706)</b>	<b>\$9,493</b>	<b>\$17,257</b>	<b>\$8,947</b>	<b>\$15,058</b>	<b>\$49,104</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>\$(121,949)</b>	<b>\$(37,976)</b>	<b>\$89,446</b>	<b>\$9,170</b>	<b>\$17,992</b>	<b>\$21,284</b>
Cash and Cash Equivalents - Beginning of year	\$203,602	\$81,654	\$43,677	\$133,123	\$142,293	\$160,285
Cash and Cash Equivalents - End of year	\$81,654	\$43,677	\$133,123	\$142,293	\$160,285	\$181,568



The cash flow margin is one of the key indicators used by Moody’s and other credit rating agencies when looking at the financial health of an institution. The cash flow margins are shown in Figure 35. The cash flow margins for Ohio University are generally very high. In 2020 there was a sharp drop in operating cash flows and a similar decline in the cash flow margin. The decline is due to declines in tuition, but also because of a nearly equal decline in grants and contracts, increased spending to pay suppliers, increased payments for scholarships and fellowships and a decline in royalties. But the biggest single change was a \$26.8 million decline in auxiliary enterprise sales.



In conclusion, Ohio University has had a very strong operating cash flow performance in the last six years.

### Summary Indices and Conclusions

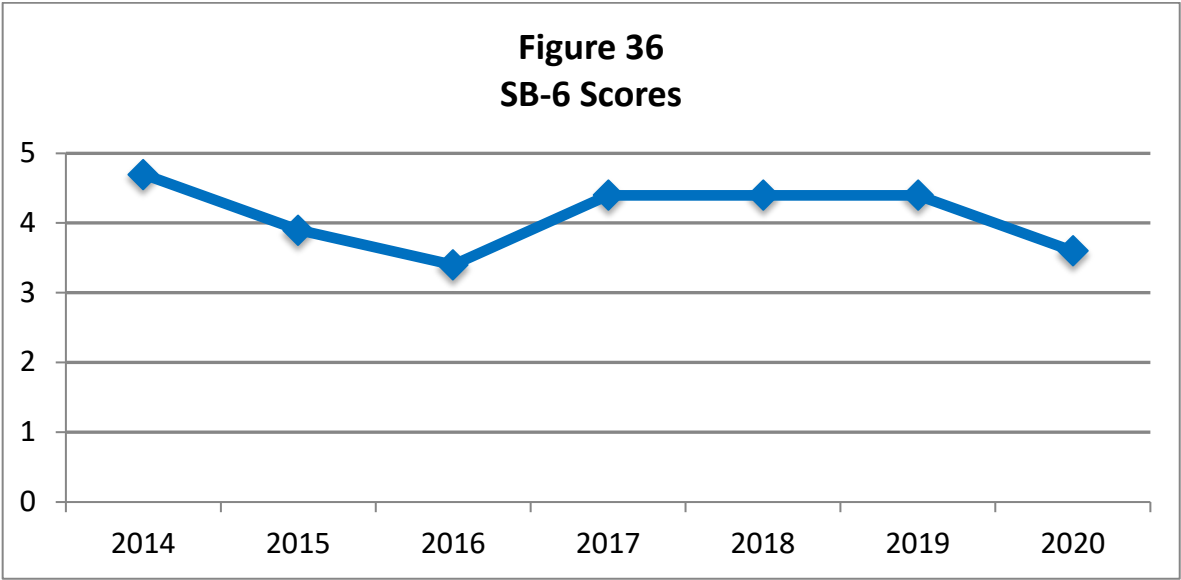
If the financial statements are like report cards, **summary indices** are like a GPA. These indices can be used to summarize the overall financial status of the institution. In this report we will present two summary indices. First, we will present **SB-6 scores**, which is a measure used by the Ohio Department of Higher Education to evaluate the financial performance of colleges and universities in Ohio. This index relies only on three indicators: 1) the viability ratio, 2) the primary reserve ratio and 3) the net asset ratio.

The first two ratios involve looking at the University’s reserves. The first is based solely on the balance sheet and looks at the ratio of reserves to debt which accounts for 30% of the score. The next ratio looks again at reserves but in relation to expenses, so it involves the balance sheet and the income statement. It is the most important factor with a 50% weight. Finally, the third ratio measures the change in net position as a percent of total revenue so both indicators are coming from the income statement and it has a 20% weight in the score.

The SB-6 score is obtained by assigning a score to each ratio on a scale of 0 to 5 and then taking a weighted average of the scores, using the weights described above. One of the major problems with the SB-6 score is that it has no indicators from the cash flow statement, it relies heavily on reserves, and the scores are subject to threshold effects that occur when a small change in an indicator at a threshold causes a significant change in a score. But we present these scores because of their importance in Ohio.

Table 12 SB-6 Scores For year ending June 30						
	2015	2016	2017	2018	2019	2020
Viability Score	3	2	3	3	3	3
Primary Reserve Score	4	4	5	5	5	5
Net Asset Score	5	4	5	5	5	1
<b>Composite Score</b>	<b>3.9</b>	<b>3.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>3.6</b>

The SB-6 scores adjusted for GASB 68 and GASB 75 are presented in Table 12 and Figure 36. The major factor causing the declines in the University's scores in 2015 and 2016 were increases in debt and declines in reserves. In 2020 the University's SB-6 score declined to 3.6. This is still a solid score. It should be noted that Ohio University had the second highest SB-6 score in 2019, with OSU and Miami University tied for first, each with SB-6 scores of 4.7, among Ohio's 13 state universities. How the University will compare with other institutions in 2020 will not be known until SB-6 scores for other institutions are released later this year.



Perhaps the best summary index is available is one development by Moody's Investors Service known as **Moody's Score Card for Higher Education**. The score card considers four broad areas of performance: 1) market profile, 2) operating performance, 3) wealth and liquidity, and 4) Leverage.

Figure 37 shows the detailed categories and the weight that is accorded each of the factors in the score card.

EXHIBIT 1

**Global Higher Education Scorecard**

Broad Factors	Factor Weighting	Sub-Factors	Sub-Factor Weighting
Market Profile	30%	<b>Scope of Operations</b>	15%
		Operating Revenue (\$000)	
		<b>Reputation and Pricing Power</b>	5%
		Annual Change in Operating Revenue (%)	
		<b>Strategic Positioning</b>	10%
Operating Performance	25%	<b>Operating Results</b>	10%
		Operating Cash Flow Margin (%)	
		<b>Revenue Diversity</b>	15%
		Maximum Single Contribution (%)	
Wealth & Liquidity	25%	<b>Total Wealth</b>	10%
		Total Cash & Investments (\$000)	
		<b>Operating Reserve</b>	10%
		Spendable Cash & Investments to Operating Expenses (x)	
		<b>Liquidity</b>	5%
		Monthly Days Cash on Hand	
Leverage	20%	<b>Financial Leverage</b>	10%
		Spendable Cash & Investments to Total Debt (x)	
		<b>Debt Affordability</b>	10%
		Total Debt to Cash Flow (x)	
Total Scorecard-Indicated Outcome			100%

**Figure 37.**

Each of the sub-categories in Figure 37 is given a score that corresponds to 8 broad ratings categories shown in Figure 38.

Aaa	Aa	A	Baa	Ba	B	Caa	Ca
1	3	6	9	12	15	18	20

**Figure 38.**

Then each score is then multiplied by the weights in Figure 11 resulting in an average weighted factor score. The average weighted factor score is then mapped one of Moody’s 20 credit ratings shown in Figure 39.

## Scorecard Outcome

Scorecard Outcome	Aggregate Weighted Factor Score
Aaa	$x \leq 1.5$
Aa1	$1.5 < x \leq 2.5$
Aa2	$2.5 < x \leq 3.5$
Aa3	$3.5 < x \leq 4.5$
A1	$4.5 < x \leq 5.5$
A2	$5.5 < x \leq 6.5$
A3	$6.5 < x \leq 7.5$
Baa1	$7.5 < x \leq 8.5$
Baa2	$8.5 < x \leq 9.5$
Baa3	$9.5 < x \leq 10.5$
Ba1	$10.5 < x \leq 11.5$
Ba2	$11.5 < x \leq 12.5$
Ba3	$12.5 < x \leq 13.5$
B1	$13.5 < x \leq 14.5$
B2	$14.5 < x \leq 15.5$
B3	$15.5 < x \leq 16.5$
Caa1	$16.5 < x \leq 17.5$
Caa2	$17.5 < x \leq 18.5$
Caa3	$18.5 < x \leq 19.5$
Ca	$x > 19.5$

Figure 39.

Figure 40 for public universities show how each of the subcategories are assigned a score by Moody's. In general, Moody's requires higher levels of performance among private non-profits than among public institutions for each particular credit rating score. This reflects Moody's view that private institutions are more likely to fail than public institutions, which have the state as a back stop.



### Appendix III: Public University Quantitative Scorecard Ranges

	Sub-factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
<b>Factor 1: Market Profile (30%)</b>									
Scope of Operations	15%	≥ 2,700,000	< 2,700,000 ≥ 400,000	< 400,000 ≥ 75,000	< 75,000 ≥ 40,000	< 40,000 ≥ 30,000	< 30,000 ≥ 15,000	< 15,000 ≥ 8,000	< 8,000
Operating Revenue (\$000)									
Reputation and Pricing Power Annual Change in Operating Revenue (%)	5%	≥ 8	< 8 ≥ 6	< 6 ≥ 4	< 4 ≥ 2	< 2 ≥ 0	< 0 ≥ -6	< -6 ≥ -11	< -11
Strategic Positioning	10%	Exceptional	Excellent	Very Good	Good	Fair	Poor	Very Poor	*
<b>Factor 2: Operating Performance (25%)</b>									
Operating Results Operating Cash Flow Margin (%)	10%	≥ 20	< 20 ≥ 11	< 11 ≥ 4.5	< 4.5 ≥ 1	< 1 ≥ -2	< -2 ≥ -3.5	< -3.5 ≥ -5	< -5
Revenue Diversity Maximum Single Contribution (%)	15%	≤ 35	> 35 ≤ 50	> 50 ≤ 67	> 67 ≤ 75	> 75 ≤ 82	> 82 ≤ 88	> 88 ≤ 95	> 95
<b>Factor 3: Wealth &amp; Liquidity (25%)</b>									
Total Wealth Total Cash & Investments (\$000)	10%	≥ 2,500,000	< 2,500,000 ≥ 100,000	< 100,000 ≥ 25,000	< 25,000 ≥ 10,000	< 10,000 ≥ 2,300	< 2,300 ≥ 900	< 900 ≥ 350	< 350
Operating Reserve Spendable Cash & Investments to Operating Expenses (x)	10%	≥ 1	< 1 ≥ 0.5	< 0.5 ≥ 0.15	< 0.15 ≥ 0.05	< 0.05 ≥ 0.044	< 0.044 ≥ 0.038	< 0.038 ≥ 0.032	< 0.032
Liquidity Monthly Days Cash on Hand	5%	≥ 260	< 260 ≥ 140	< 140 ≥ 50	< 50 ≥ 25	< 25 ≥ 14	< 14 ≥ 8	< 8 ≥ 6	< 6
<b>Factor 4: Leverage (20%)</b>									
Financial Leverage Spendable Cash & Investments to Total Debt (x)	10%	≥ 3	< 3 ≥ 0.75	< 0.75 ≥ 0.2	< 0.2 ≥ 0.12	< 0.12 ≥ 0.06	< 0.06 ≥ 0.035	< 0.035 ≥ 0.021	< 0.021
Debt Affordability Total Debt to Cash Flow (x)	10%	> 0 ≤ 4	> 4 ≤ 10	> 10 ≤ 16	> 16 ≤ 22	> 22 ≤ 34	> 34 ≤ 46	> 46 ≤ 58	> 58 < 0

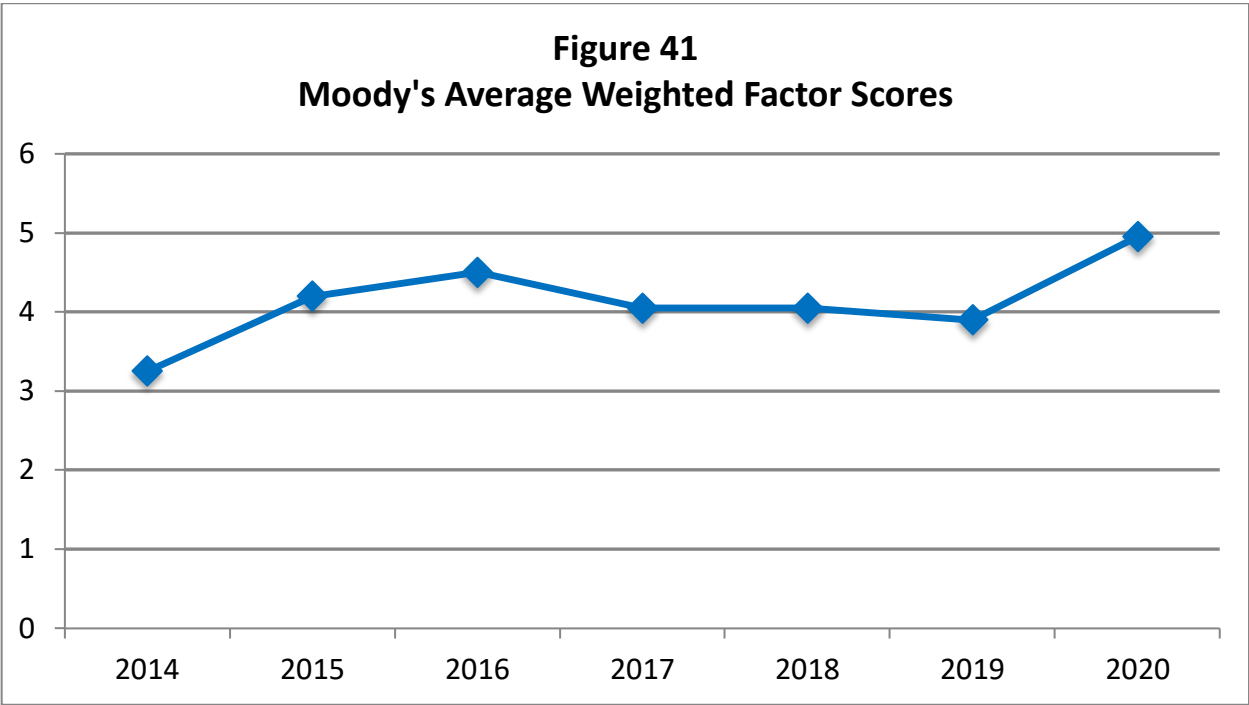
\* We have opted to merge the Caa & below rating categories for Strategic Positioning given the similar characteristics at these rating categories.

**Figure 40.**

Table 13 shows the weighted average weighted factor score for the University for the years 2015-2020. It also shows the credit ratings that are associated with these scores. The scores range from 20 to 1 where a 1 is a Aaa crediting rating, which is Moody's highest credit rating. In general, high scores get low credit ratings and low scores get high credit ratings.

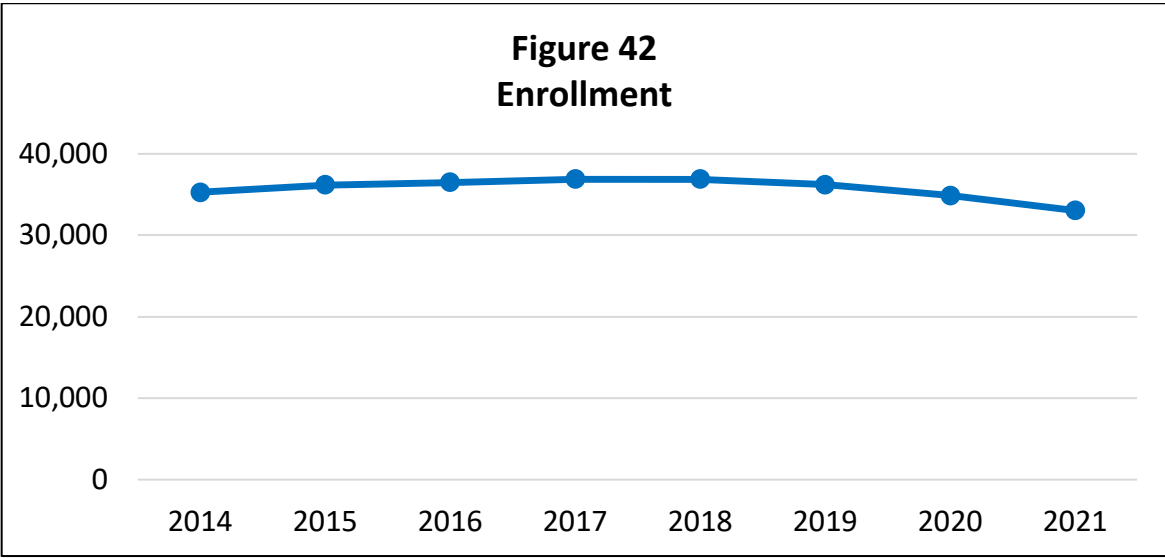
Table 13 Moody's Weighted Average Scores For the year ending June 30						
	2015	2016	2017	2018	2019	2020
<b>Score</b>	<b>4.20</b>	<b>4.50</b>	<b>4.05</b>	<b>4.05</b>	<b>3.70</b>	<b>4.95</b>
<b>Moody's Rating</b>	<b>Aa3</b>	<b>Aa3</b>	<b>Aa3</b>	<b>Aa3</b>	<b>Aa3</b>	<b>A1</b>

The scores for the University are very good scores. Aa3 is the fourth highest score out of 20 that Moody's. Figure 41 shows the scores for the University. There was a slight upward trend in the scores from 2014-2016 but since then the scores have trended down. The downward trend shows that the University is improving although the change is very small. In 2020 there was an increase Moody's Average Weighted Factor Score which shows a decline in financial health and this score could lead to a downgrade of the University's credit rating.



The last time Moody’s did an actual rating update for the University was in February 2020 and it assigned the University an Aa3 rating with a stable outlook. This is consistent with the scores shown in Table 13 and Figure 41. Moody’s gives the rating noting high levels of cash and investments in relation to expenses, which it notes are “well above similarly rated public university peers.” They also note that they expect financial performance to weaken in 2020 but still expect the University to “maintain low double-digit cash flow margins.” Moody’s also does note that Ohio University’s market segment is highly competitive and says that weak high school demographics are also a challenge that will add operating stress and notes that declining enrollment presents a challenge.

Figure 42 shows enrollment from Fall of 2013 through the Fall of 2020 which corresponds to FY2014-FY2021. Enrollment looks to have been trending down even before the pandemic. Clearly the declines are due to more than just challenging demographics. Overall, university enrollment in Ohio reached a peak in 2013 started declining in 2014. Between 2014 and 2019 enrollment at Ohio’s universities excluding Ohio University declined 3% and during the same period enrollment at Ohio University increased 2.7%. But between 2019 and 2021 enrollment at Ohio University declined 8.8% compared to a 2.4% decline at other state universities in Ohio.



In conclusion, through FY 2019, the University was in very good condition financially, but faces some headwinds as evidenced by its performance in 2020. Clearly declining revenue because of declining enrollments is an issue. After looking at the 2020 data it seems likely that the pandemic will ultimately have a negative impact on the University, **but this impact should be temporary now that we have started vaccinating people in OH.**

Clearly there are other underlying problems, beyond the demographics and the pandemic that have affected the University’s financial performance. Demographics are of course a problem for all institutions in Ohio, but those changes alone cannot explain the declining performance of the University. Ohio as a state has a relatively low proportion of its population that has a 4-year degree so there is room for Ohio to expand enrollment in higher education but that will take a commitment at the state level to devote more resources to higher education to open higher education to groups that have traditionally been underrepresented at our institutions.

The decline of tuition revenue in 2020 was partially offset by declines in payments to or on behalf of employees. But as I noted earlier in this report there were other declines in revenue related to grants and contracts and auxiliaries and increases in payments to suppliers as well as increased debt that contributed to deterioration of the University’s financial position. Ultimately, the declining revenue beyond what might be expected because of demographics and the temporary declines due to the pandemic is likely due to poor decision making and misplaced priorities of the administration and should not be used to justify shifting resources from instruction to administration.