

Miami University

*Financial Statements as of and for the Year Ended
June 30, 2002 and Single Audit Report for the Year
Ended June 30, 2002 and Independent Auditors'
Report*



**Auditor of State
Betty Montgomery**

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We have reviewed the Independent Auditor's Report of Miami University, Butler County, prepared by Deloitte and Touche LLP, for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 29, 2003

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MIAMI UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

The President and Board of Trustees of
Miami University and Mr. Jim Petro,
Auditor of State:

We have audited the accompanying statement of net assets of Miami University (the "University") as of June 30, 2002, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Miami University at June 30, 2002, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, in fiscal year 2002, the University has implemented a new financial reporting model as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Management's Discussion and Analysis on pages 2-9 is not a required part of the basic financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Miami University taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on pages 28-37 presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governmental and Non-Profit Organizations*, and is not a required part of the financial statements. This schedule is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

November 15, 2002

MIAMI UNIVERSITY

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Miami University for the year ended June 30, 2002. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion have been prepared and are the responsibility of university management.

Using the Financial Statements

The university's annual report contains three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Other Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37 and 38. These statements establish standards for external financial reporting and provide a consolidated perspective of the university's assets, liabilities, net assets, revenues, expenses and cash flows.

The financial statements of the university have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when the related liability has been incurred. For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34 and 35.

In addition to the consolidation of the financial information, other significant changes to the financial statements include:

- Assets and liabilities as categorized as either current or non-current. Current assets and liabilities will be consumed or fulfilled within one year.
- Revenues and expenses are now reported as either operating or non-operating. As defined by GASB 35, state appropriations, gifts and investment income are considered non-operating. State capital appropriations are classified as other revenue.
- Expenses for scholarships and fellowships that are used to satisfy tuition, fees and sales and services of auxiliary enterprises, are reported as a reduction of tuition or auxiliary revenue rather than expense. Stipends and other payments made directly to students are still classified as student scholarship expense.
- The federal portion of the Perkins loan net assets were reclassified as a long-term liability.
- An unfunded state liability for Worker's Compensation was required to be reported by the State of Ohio.
- Expenses for capital assets are reported as an addition to capital assets and depreciation expense is reported as an operating expense.

Financial Highlights

Overall, the university's financial position remained strong at June 30, 2002, with total assets of \$657.1 million and liabilities totaling \$123.5 million. During fiscal year 2002, the state's support of instruction decreased by \$4.8 million. By implementing cuts in programming expenses and delaying the start of several new initiatives, the university held tuition increases below 10 percent and did not have to use any reserves. However, the reduction in instructional state support did result a smaller increase in net assets as compared to fiscal year 2001.

In fiscal year 2002, the amount in-state Oxford campus students paid for tuition increased by 8 percent. The reason for this increase in price, or tuition, is inflation, the decrease in state support, and new program initiatives. The universities costs to provide an education did increase again, but as in the past, these costs stayed inline with the Consumer Price Index (CPI). The portion of the tuition increase that is greater than the CPI, is a result of a decline in state support of instruction. In summary, Miami's costs continue to increase at the rate of inflation, while the state support of instruction has not.

Under the State of Ohio's Workers' Compensation program, the university is part of a pool of state agencies and state universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis. The Ohio Bureau of Workers' Compensation (BWC) calculates the estimated amount of cash needed in the subsequent fiscal year to pay the claims for injured workers and sets rates for each participating state agency and university to collect the estimated cash needed in the subsequent one-year period. As these claims will be paid out over a period of time, BWC also actuarially calculates the amounts payable in future years for the entire pool of state agencies and state universities.

As part of the State of Ohio's implementation of GASB Statements No. 34 and 35, the State of Ohio has required each state agency and state university to record a portion of the pool's estimated actuarial liability in its financial statements. The amount allocated to each agency and state university was calculated by the State of Ohio on the basis of actual premium payments paid to BWC during the current fiscal year divided by such payments made by all participating entities. Accordingly, the university's Statement of Net Assets reflects unfunded workers' compensation liabilities of \$10,416,788 at June 30, 2002.

Management acknowledges that its premium payments to BWC through June 30, 2002 were designed to meet the cash needs of the agency and did not cover the full liability resulting from injuries incurred through June 30, 2002 to workers of state agencies and state universities participating in the pool. Consequently, some of the costs resulting from such injuries will be funded from future premium payments to the pool. The decision to record this liability at the state agency and state university level was a result of determinations made by the State of Ohio in its interpretations of the treatment of the unfunded pool obligation. As such, we were required by the State of Ohio to report it on the university's financial statements. In addition, the recording of this liability is based on an allocation of the entire pool on a pro-rata basis to the participating state agencies and state universities. Such amount could differ had a separate actuarial computation by participating state agencies and state universities been performed.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the university as of the end of the fiscal year. The difference between total assets and total liabilities, or net assets, is one indicator of the overall strength of the institution. Also, the overall increase or decrease in total net assets indicates whether the financial position of the institution is improving or declining. Except for capital assets, all other assets and liabilities are measured at a point in time using current values. Capital assets are recorded at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, reports the institution's net equity in property, plant and equipment. The second major category, restricted net assets, reports net assets that are owned by the institution, but the use or purpose of the funds is restricted by an external source or entity. The corpus of the unexpendable restricted net assets is available for investment purposes only. The expendable restricted net assets may be expended by the institution, but must be spent only for the purpose as determined by a donor or external entity. The third category is unrestricted net assets and is separated into two types; allocated and unallocated. Allocated unrestricted net assets are available to the institution, but are allocated for a specific purpose within the institution by university policy, management or the governing board. Unallocated unrestricted net assets are available to be used for any lawful purpose of the institution.

	2002	2001
Assets		
Current assets	\$ 178,061,026	\$ 173,579,905
Capital assets, net of accumulated depreciation	375,016,654	352,035,403
Investments	98,060,540	99,887,847
Other assets	5,971,261	5,715,660
Total assets	\$ 657,109,481	\$ 631,218,815
Liabilities		
Current liabilities	\$ 50,489,439	\$ 50,873,845
Indebtedness	47,401,020	52,962,718
Federal Perkins loan program	6,207,008	6,130,766
Allocation of state unfunded worker's compensation	9,960,736	6,435,387
Other liabilities	9,402,341	9,191,304
Total liabilities	\$ 123,460,544	\$ 125,594,020

	2002	2001
Net assets		
Invested in capital assets, net of related debt	\$ 320,281,245	\$ 292,108,837
Restricted net assets – nonexpendable	53,083,183	61,227,479
Restricted net assets – expendable	33,576,599	34,755,752
Unrestricted net assets – allocated	120,256,798	103,346,833
Unrestricted net assets – unallocated	6,451,112	14,185,894
Total net assets	\$ 533,648,937	\$ 505,624,795
Total liabilities and net assets	\$ 657,109,481	\$ 631,218,815

Total assets of the institution increased 4.1 % or \$25.9 million. This increase was primarily due to the increase in capital assets, net of accumulated depreciation. Specifically, the Roudebush Hall renovation, the Child Development Center, the Walter L. Jr. Gross Student Athlete Development Center, and the Culinary Support Center construction projects that were previously in progress were completed and recorded as capital assets. The other asset categories including current assets and long-term investments experienced modest increases or decreases.

Total liabilities of the institution decreased 1.7% or \$2.1 million. This is the net result of the \$6.0 million payment of debt principal and recording the \$3.3 million increase in the state unfunded worker's compensation as required by the auditor of state. Total current liabilities and other long-term liabilities remained relatively unchanged.

The increase in assets and the decrease in liabilities yielded the overall increase in net assets of \$28.0 million. Specifically, the invested in capital assets, net of related debt increased \$28.2 million due to the completion and capitalization of the construction projects, as previously discussed. The decrease of \$8.1 million in non-expendable restricted net assets is a result of the market decline and the reduction of the endowment fund corpus. The \$16.9 million increase in the unrestricted allocated net assets is a net result of four items; a net increase in the allocated fund, a net decrease in the corpus of the quasi-endowment fund due to market declines, the recording of the state unfunded worker's compensation liability as required by the State of Ohio, and the recording of the proceeds from the Anthem demutualization and sale of stock.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the university's results of operations for the fiscal year. The revenues and expenses are generally reported as either operating or non-operating. Operating revenues are generated by providing goods and services to various customers and constituencies of the institution. Operating expenses are incurred when goods and services are provided by vendors and employees for the overall operations of the university. Non-operating revenues are received without an exchange for goods and services. Interest on debt is the primary example of non-operating expenses. Revenue from state capital appropriations is reported as other revenue.

	2002	2001
Operating revenues		
Student tuition and fees, net	\$ 148,839,525	\$ 136,737,492
Sales and services of auxiliary enterprises, net	75,700,425	71,535,386
Sponsored programs	10,181,134	9,898,270
Other operating revenue	6,209,079	6,066,747
Total operating revenues	240,930,163	224,237,895
Operating expenses		
Instruction and departmental research	127,847,588	121,498,495
Auxiliary enterprises	80,824,404	74,023,302
Institutional support	28,799,434	25,599,002
Academic support	23,221,591	22,030,118
Plant operation and maintenance	22,576,876	21,193,561
Depreciation	21,223,092	14,515,264
Student services	19,101,324	18,187,938
Student scholarships	8,779,312	6,616,081
Other operating expenses	13,497,630	16,195,779
Total operating expenses	345,871,251	319,859,540
Net operating loss	(104,941,088)	(95,621,645)
Non-operating revenues		
State appropriations	83,079,623	87,856,846

	2002	2001
Non-operating revenues (Continued)		
Gifts	\$ 18,868,849	\$ 15,226,217
Other non-operating revenue	17,092,887	12,048,671
Total non-operating revenues	119,041,359	115,131,734
Non-operating expenses	(2,925,622)	(2,897,805)
Other revenues and expenses	16,849,493	23,089,722
Increase in net assets	28,024,142	39,702,006
Net assets at the beginning of year, as restated	505,624,795	465,922,789
Net assets at the end of year	\$ 533,648,937	\$ 505,624,795

Total operating revenue increased by 7.4% or \$16.7 million. The majority of this increase is a result of a modest increase in student enrollment, the increase in the student tuition and fee rates, and the increase in room and board rates.

Total operating expenses increased by 8.1% or \$26.0 million. This increase is mainly due to the 3% average increase in employee salaries, increases in employee benefit costs such as health care insurance, the recording of the increase in the state's unfunded worker's compensation liability, and the increase in program cost to support the increase in student enrollment, educational activities and housing costs.

Non-operating revenues increased by 3.4% or \$3.9 million. This increase is a net result of three significant financial events. First, the state support for instruction and other educational programs decreased by \$4.8 million. Second, with the continued downward trend of the investment market, the fair market value of investments decreased by \$5.2 million. Third, the university received a large, one-time receipt from the demutualization of Anthem Insurance. As a result of this demutualization, the university received over 200,000 shares of Anthem stock. All shares of this stock were sold and the \$12.2 million in proceeds are reported as other non-operating revenue.

State Capital Appropriations, the only item under other revenue, decreased by \$6.2 million. This variation is a result of timing and the completion of several capital projects. It is not a result of a decrease in state capital appropriation. The state supported capital projects that were completed in fiscal year 2002 include the renovation of Roudebush Hall, King Library, Phillips Hall, and the Southwest Book Depository renovation.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the major sources and uses of cash by the institution for the fiscal year. The cash flow analysis is divided into four major areas: Cash Flows from Operating Activities, Cash Flows from Non-capital Financing Activities, Cash Flows from Capital and Related Financing Activities, and Cash Flows from Investing Activities.

	2002	2001
Net cash used by operating activities	\$ (80,890,807)	\$ (85,018,229)
Net cash provided by non-capital activities	124,073,936	111,571,989
Net cash used for capital and related financing activities	(33,700,707)	(27,853,450)
Net cash provided/(used) by investing activities	(13,219,682)	7,238,700
Net increase/(decrease) in cash	(3,737,260)	5,939,010
Cash & cash equivalents at beginning of year	40,328,016	34,389,006
Cash and cash equivalents at end of year	\$ 36,590,756	\$ 40,328,016

The university's cash and cash equivalents decreased by \$3.7 million due to the negative cash flows used by the capital acquisitions, payment of debt, investment activities, and operating activities. These uses of cash were offset in part by the cash provided by tuition and fees, the state share of instruction, sales by auxiliary enterprises, gifts, and grants.

Capital Assets and Debt Administration

During fiscal year 2002, the university completed several capital construction projects. The completion of major capital construction projects on existing facilities includes the Roudebush Hall renovation, the north chiller plant renovation, and the renovation of Yager stadium. The completion of major capital construction projects on new facilities includes the Child Development Center, the Walter L. Jr. Gross Student Athlete Development Center, and the Culinary Support Center. See footnote 4 for additional information concerning capital assets and the related accumulated depreciation.

The university did not issue any new debt and no bonds were defeased in fiscal year 2002. Scheduled debt payments were made on the 1993 general receipt bonds, the 1998 general receipt bonds, and the outstanding U. S. Department of Education note payable. There were no significant changes in the outstanding capital lease balance or payments during fiscal year 2002. There have been no significant changes in the university's credit rating or debt limitations that may affect future financing. For more detailed information on current outstanding debt, see footnote 6.

Economic Factors That Will Affect the Future

The university management believes that the university is well positioned to continue its strong financial condition and outstanding level of service to students. The university's senate bill 6 ratios, which measure the overall financial condition of the institution and its ability to meet future obligations, continue to surpass the benchmarking standards. The university's current ratio, which measures the institutions ability to satisfy its current obligations, is 3.6, which is good in comparison to industry standards. The university's bond rating continues to be high with an A+ rating from Standard & Poor's.

During fiscal year 2002, the university presented a long-range capital improvement plan that is expected to guide the construction on the Oxford campus through 2020. These projects, which spread over 20 years, have a total cost of over \$500 million, about half of which would come from the state capital appropriations. The remaining funding will come from private funding and bond issuance. The university is currently developing a long-range strategic plan for bond issuance and financing over the next 10-20 years.

Looking toward the future, the fiscal year 2003 preliminary student enrollment figures indicate the university will have another outstanding class of students. All three campuses, Oxford, Hamilton and Middletown, are reporting increases in the number of applications and the quality of the applicants.

One of the university's biggest concerns is the continual decline in instructional funding from the state and its impact on the price paid by students for their education. During fiscal year 2002, the State of Ohio reduced the university's state share of instruction by \$4.8 million. Although the university was able to withstand this reduction without tapping into its reserves, it appears this trend in the reduction of state subsidy may continue in the future. At this time, the financial condition and economic outlook of the state appear to be worsening and the level of state support is very uncertain.

Overall the university's financial position is strong. Over the next fiscal year and beyond, the university will maintain a close watch over internal and external resources in order to maintain or improve its current economic condition.

**Miami University
Statement of Net Assets
June 30, 2002**

ASSETS

Current Assets

Cash and cash equivalents	\$ 36,590,756
Investments - short term	110,627,895
Accounts, pledges and notes receivable, less allowance for doubtful accounts of \$ 3,229,000	26,816,971
Inventories	3,291,443
Prepaid expenses and deferred charges	733,961
Total current assets	<u>178,061,026</u>

Noncurrent Assets

Investments - long term	98,060,540
Pledges and loans receivable - long term, less allowance for doubtful loans of \$ 373,000	5,971,261
Capital assets, net of \$292,278,000 in accumulated depreciation	375,016,654
Total noncurrent assets	<u>479,048,455</u>

Total assets	<u>\$ 657,109,481</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 10,669,422
Accrued salaries and wages	15,272,625
Accrued compensated absences	737,456
Deferred income	10,303,584
Deposits	7,282,547
Long term debt - current portion	5,767,753
Allocation of state unfunded workers' compensation	456,052
Total current liabilities	<u>50,489,439</u>

Noncurrent Liabilities

Accrued compensated absences	9,402,341
Bonds payable	42,054,884
Note payable	2,219,537
Capital leases payable	3,126,599
Federal Perkins loan program	6,207,008
Allocation of state unfunded workers' compensation	9,960,736
Total noncurrent liabilities	<u>72,971,105</u>

Net Assets

Invested in capital assets, net of related debt	320,281,245
Restricted net assets	
Nonexpendable	53,083,183
Expendable	33,576,599
Unrestricted net assets	126,707,910
Total net assets	<u>533,648,937</u>

Total liabilities and net assets	<u>\$ 657,109,481</u>
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See accompanying notes to financial statements.

Miami University
Statement of Revenues, Expenses, and Changes in Net Assets
June 30, 2002

OPERATING REVENUES	
Tuition, fees, and other student charges	\$ 168,342,579
Less allowance for student scholarships	(19,503,054)
Net tuition, fees, and other student charges	<u>148,839,525</u>
Sales and services of auxiliary enterprises	77,873,157
Less allowance for student scholarships	(2,172,732)
Net sales and services of auxiliary enterprises	<u>75,700,425</u>
Federal contracts	6,324,857
Sales and services of educational activities	4,345,379
Private contracts	2,529,535
State contracts	881,779
Local contracts	444,963
Other	1,863,700
Total operating revenues	<u>240,930,163</u>
OPERATING EXPENSES	
Instruction and departmental research	127,847,588
Auxiliary enterprises	80,824,404
Institutional support	28,799,434
Academic support	23,221,591
Plant operation and maintenance	22,576,876
Depreciation	21,223,092
Student services	19,101,324
Student scholarships	8,779,312
Separately budgeted research	6,964,963
Public service	2,119,242
Other	4,413,425
Total operating expenses	<u>345,871,251</u>
Net operating loss	<u>(104,941,088)</u>
NONOPERATING REVENUES	
State share of instruction	83,079,623
Gifts	18,868,849
Federal grants	7,770,618
Other investment income	6,163,125
Endowment income	4,922,176
State grants	3,009,883
Net increase (decrease) in fair value of investments	(17,320,248)
Other	12,547,333
Total nonoperating revenues	<u>119,041,359</u>
NONOPERATING EXPENSES	
Interest on debt	2,704,686
Other	220,936
Total nonoperating expenses	<u>2,925,622</u>
Income before other revenues, expenses, gains or losses	<u>11,174,649</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	
State capital appropriation	<u>16,849,493</u>
INCREASE IN NET ASSETS	\$ 28,024,142
Net assets at beginning of year	792,441,750
Cumulative effect of change in accounting principle	<u>(286,816,955)</u>
Adjusted net assets at the beginning of the year	<u>505,624,795</u>
Net assets at end of year	<u><u>\$ 533,648,937</u></u>

See accompanying notes to financial statements.

Miami University
Statement of Cash Flows
June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition, fees, and other student charges	\$	168,601,742
Sales and services of auxiliary enterprises		79,160,053
Contracts		7,891,236
Other operating receipts		6,395,645
Payments for employee compensation and benefits		(171,988,954)
Payments to vendors for services and materials		(141,587,313)
Student scholarships		(28,282,366)
Loans issues to students and employees		(2,200,772)
Collection of loans from students and employees		2,002,185
Other operating payments		(882,263)
Net cash used by operating activities		(80,890,807)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State share of instruction		83,079,623
Grants for noncapital purposes		10,773,896
Gifts		30,220,417
Net cash provided by noncapital financing activities		124,073,936

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State capital appropriation		23,219,162
Grants for capital purposes		6,605
Other capital and related receipts		223,016
Payments to construct, renovate, or purchase capital assets		(48,717,960)
Principal paid on outstanding debt		(5,964,978)
Interest paid on outstanding debt		(2,466,552)
Net cash used for capital and related financing activities		(33,700,707)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments		502,778,626
Purchases of investments		(542,423,306)
Endowment income		19,464,908
Other investment income		6,960,090
Net cash used by investing activities		(13,219,682)

NET DECREASE IN CASH

\$ (3,737,260)

Cash and cash equivalents at beginning of year

40,328,016

Cash and cash equivalents at end of year

\$ 36,590,756

See accompanying notes to financial statements.

Miami University
Statement of Cash Flows (Continued)
June 30, 2002

Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities

Net Operating Loss per Statement of Revenues, Expenses, and Changes in Net Assets	\$	(104,941,088)
Adjust Sales and services of auxiliary enterprises		
Depreciation expense		21,223,092
Net loss on disposal of capital assets		397,847
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Decrease (increase) in accounts receivable		(5,738,297)
Decrease (increase) in inventories		(275,790)
Decrease (increase) in prepaid expenses		227,784
Decrease (increase) in notes receivable		(144,666)
Increase (decrease) in accounts payable		170,225
Decrease (increase) in accrued salaries		603,208
Increase (decrease) in compensated absences		241,425
Increase (decrease) in deferred income		3,966,665
Increase (decrease) in federal Perkins loans		76,242
Increase (decrease) in Worker's Compensation		3,302,546
Net cash used by operating activities	\$	(80,890,807)

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

Miami University (the university) is a land grant institution chartered by the State of Ohio in 1809 and governed by a Board of Trustees (the board). The board consists of 11 members, including two student members. Members are appointed one each year for nine-year terms by the governor with the advice and consent of the state senate. The two student non-voting members are appointed for two-year staggered terms by the governor with the advice and consent of the senate.

The university's financial statements are included as a discretely presented component unit in the State of Ohio's Comprehensive Annual Financial Report.

Basis for Presentation

Effective July 1, 2001, the university adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37 and 38. These statements establish standards for external financial reporting and provide a comprehensive perspective of the university's assets, liabilities, net assets, revenues, expenditures and cash flows.

On May 2002, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* was issued. This Statement amends GASB Statement No. 14 to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary institution. The provisions of this Statement are effective for financial statements for the fiscal year ending June 30, 2004. The university has not yet determined the impact of this statement on the financial statements.

The financial statements of the university have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recorded when the related liability has been incurred. For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34 and 35.

Cash and Cash Equivalents

Cash consists primarily of cash in banks and money market accounts. Cash equivalents are short-term, highly liquid investments readily convertible to cash, with an original maturity of three months or less.

Investments

Investments that are market traded, such as equity and debt securities, mutual funds, and cash equivalents, are recorded at fair value. The fair value of investments is based on quoted market prices. Real estate is recorded at appraised value.

Inventories

Inventories are stated at the lower of first-in, first-out cost or net realizable value.

Capital Assets

Land, buildings, and equipment are recorded at cost at date of acquisition or market value at date of donation in the case of gifts. Land and collections of works of art and historical treasures are capitalized but not depreciated. Any collection that is not capitalized is charged to operations at the time of purchase. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives are 50 years for buildings, 25 years for infrastructure, library books and land improvements, 20 years for improvements to buildings, and 5 to 7 years for equipment, vehicles and furniture.

Deferred Income

Tuition and fees relating to summer sessions that are conducted in July and August are recorded in the accompanying statement of net assets as deferred income. Deferred income also includes the computer sales in the university bookstore for the fall semester and the amounts received from grants and contract sponsors that have not yet been earned. These will be recorded as revenue in the following fiscal year.

Compensated Absences

Full-time unclassified staff earn vacation at rates of 18 to 22 days per year, based on the term of their employment contract, with a maximum accrual of 40 days. Classified employees earn vacation at rates ranging from 10 to 25 days per year, based on years of service, with a maximum accrual equivalent to the amount earned in three years. Upon retirement, termination, or death, the employee is compensated at the final rate of pay for unused vacation up to the maximum allowed accrual. Faculty accrue no vacation benefits.

Full-time faculty, unclassified and classified staff earn 15 days of sick leave per year and individuals who work less than full-time earn sick leave on a pro-rata basis. There is no limit on the number of sick leave hours that can be accumulated. Upon retirement a staff member with 10 or more years of Ohio public service is paid for one-fourth the value of earned but unused sick leave not to exceed 30 days, based on the employee's rate of pay at the time of retirement. Persons leaving employment for reasons other than retirement are not compensated for unused sick leave.

Net Assets

As a result of the adoption of GASB Statement No. 34, the previously reported fund balances as of June 30, 2001, are restated as net assets for the same period:

Restatement of Net Assets	
Combined fund balances as previously reported, as of June 30, 2001	\$ 792,441,750
Cumulative effect of change in accounting principal:	
- Accumulated depreciation	(273,571,947)
- Federal Perkins loan program	(6,130,766)
- Worker's Compensation (Note 14)	(7,114,242)
Combined fund balances, restated as net assets, as of June 30, 2001	\$ 505,624,795

Net assets are divided into three major categories. The first category, net invested in capital assets, net of debt, reports the institution's net equity in property, plant and equipment. The second major category is restricted net assets. This category contains net assets that are owned by the institution, but the use or purpose of the funds is restricted by an external source or entity. The corpus of the unexpendable restricted net assets is available for investment purposes only. The expendable restricted net assets may be expended by the institution, but must be spent only for the purpose as determined by a donor or external entity. The income generated from the unexpendable restricted investments and the expendable restricted funds may be used for student loans, scholarship and fellowships, instruction, research, and other needs to support the operation of the university. The third category is unrestricted net assets and is separated into two types; allocated and unallocated. Allocated unrestricted net assets are available to the institution, but are allocated for a specific purpose within the institution by university policy, management or the governing board. Unallocated unrestricted net assets are available to be used for any lawful purpose of the institution.

Net Assets	
Invested in capital assets, net of related debt	\$ 320,281,245
Restricted net assets – nonexpendable	53,083,183
Restricted net assets – expendable	33,576,599
Unrestricted net assets – allocated	120,256,798
Unrestricted net assets – unallocated	6,451,112
Total net assets, as of June 30, 2002	\$ 533,648,937

Tax Status

The university is exempt from federal income taxes under Section 115 of the Internal Revenue Code. As such, the university is subject to federal income taxes only on unrelated business income, if any, under the provisions of Section 511 in the Internal Revenue Code.

Estimates

Management has made, where necessary, estimates and judgments that affect certain amounts reported in the financial statements. The estimates and judgments are based on currently available information, and actual results could differ from those estimates.

(2) Cash and Investments

The university makes investments in accordance with the board's policy, which conforms with the authority granted in the Ohio Revised Code. The purchase of specific investment instruments is at the discretion of the university treasurer within these policy guidelines.

At year-end, the carrying amount of the university's cash and cash equivalents was approximately \$36,591,000 as compared to the bank balances of approximately \$40,388,000. The difference in the carrying amount and the bank balances are caused by deposits in transit and outstanding checks. Approximately \$800,000 was covered by federal depository insurance, and the remaining amount was covered by collateral held by third-party trustees pursuant to paragraph 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions. The university has compensating balance agreements with several banks.

Investments held by the university as of June 30, 2002 are presented below. Investments are categorized according to the level of custodial credit risk involved. The university's investments in U.S. government securities, common and preferred stocks, and corporate bonds and notes are categorized as credit risk category 1, which includes investments that are insured or registered, or securities held by Miami University or its agent in the university's name. The university holds no investments in credit risk category 2, which includes investments that are collateralized with securities held by a pledging financial institution's trust department or agent in the university's name. Likewise, the university holds no investments in credit risk category 3, which are uninsured and unregistered investments held by a trust department or agent, but not in the university's name. Certain other investments are not required to be categorized.

	<i>Fair Value</i>
Investments	
Mutual funds	\$ 75,030,066
U. S. Government securities	63,707,451
Common and preferred stocks	45,135,126
State Treasury Asset Reserve of Ohio (STAROhio)	17,259,496
Limited partnerships	5,901,210
Real estate and other	1,655,086
Total	\$ 208,688,435

Due to significantly higher cash flows at certain times during the year, the amount of the university's investment in each of the above investment categories may be substantially higher during the year than at year-end.

STAROhio is an investment pool managed by the state treasurer's office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. The investment is valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2002.

The hedge funds in which the university invests may include, but are not limited to, investments in equity securities, mutual funds, limited and general partnerships, foreign securities, short sales positions, distressed securities, fixed income securities, options, currencies, commodities, futures and derivatives. The university's objective for investing in these hedge funds is to provide stable, absolute returns that are uncorrelated to fluctuations in the stock and bond markets.

The majority of limited partnerships, private equity, and other investments are carried at estimated fair value provided by the management of these funds as of March 31, 2002 as adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2002. The university believes that the carrying amount is a reasonable estimate of fair value as of June 30, 2002. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements using the equity method of accounting. As of June 30, 2002, the university has made commitments to limited partnerships totaling \$7.0 million that have not yet been funded.

Annually the university establishes a spending rate that defines the total amount of dividends, interest, and realized gains to be distributed from the endowment fund investment pool to other funds. The authorized spending rate for fiscal year 2002 was 4.8 percent of the average quarterly market value of pooled investments for the previous three-year period, or \$4,903,395. Of this amount, \$2,615,173 of accumulated gains was utilized to meet the spending rate. In accordance with donors' stipulations, a portion of the earnings was returned to endowment principal and the balance of \$4,629,274 was distributed for expenditure.

(3) Accounts Receivable

The accounts, pledges and notes receivable as of June 30, 2002, are summarized as follows:

	2002
Accounts Receivable	
Student receivables	\$ 11,287,791
University foundation	4,564,187
State capital appropriations	4,154,986
Grants and contracts	3,388,853
Other receivables	1,226,715
Total accounts receivable	\$ 24,622,532
Less allowance for doubtful accounts	(2,000,000)
Net accounts receivable	\$ 22,622,532
Pledges Receivable	
Pledges receivable	\$ 1,943,513
Less allowance for doubtful pledges	(461,000)
Net pledges receivable	\$ 1,482,513
Notes Receivable	
Federal loan programs	\$ 7,521,794
University and other loan programs	2,302,393
Total notes receivable	\$ 9,824,187
Less allowance for doubtful notes	(1,141,000)
Net notes receivable	\$ 8,683,187
Total	\$ 32,788,232

(4) Capital Assets

The capital assets and accumulated depreciation as of June 30, 2002, are summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets				
Land	\$ 2,294,212	\$ 2,500	\$ 0	\$ 2,296,712
Infrastructure	54,059,594	1,722,310	0	55,781,904
Buildings	353,680,984	36,798,720	0	390,479,704
Land improvements	11,904,125	1,486,532	0	13,390,657
Machinery and equipment	99,316,302	11,494,000	2,645,965	108,164,337
Library books and publications	48,514,961	1,394,928	0	49,909,889
Vehicles	5,373,639	635,907	269,005	5,740,541
Construction in progress	48,196,726	25,380,077	34,376,494	39,200,309
Works of art & historical treasures	2,266,807	63,710	0	2,330,517
Total capital assets	\$ 625,607,350	\$ 78,978,684	\$ 37,291,464	\$ 667,294,570
Less Accumulated Depreciation				
Infrastructure	15,373,928	1,326,797	0	16,700,725
Buildings	168,462,582	9,825,461	0	178,288,043
Land improvements	3,374,765	1,130,234	0	4,504,999
Machinery and equipment	65,623,371	6,549,702	2,269,416	69,903,657
Library books and publications	17,283,436	1,869,208	0	19,152,644
Vehicles	3,453,865	521,690	247,707	3,727,848
Total accumulated depreciation	\$ 273,571,947	\$ 21,223,092	\$ 2,517,123	\$ 292,277,916
Capital assets, net	\$ 352,035,403	\$ 57,755,592	\$ 34,774,341	\$ 375,016,654

(5) Long-term Liabilities

The long-term liabilities as of June 30, 2002, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, Leases, and Notes, Payable					
Bonds payable	\$ 50,069,884	\$ 0	\$ 3,920,000	\$ 46,149,884	\$ 4,095,000
Capital leases payable	6,531,475	220,936	2,000,265	4,752,146	1,625,547
Notes payable	2,311,456	0	44,713	2,266,743	47,206
Total bonds, leases, and notes payable	\$ 58,912,815	\$ 220,936	\$ 5,964,978	\$ 53,168,773	\$ 5,767,753
Other Liabilities					
Compensated absences	9,898,370	5,882,015	5,640,588	10,139,797	737,456
Federal Perkins loans	6,130,766	426,862	350,620	6,207,008	0
Worker's Compensation	7,114,242	3,981,401	678,855	10,416,788	456,052
Total other liabilities	\$ 23,143,378	\$ 10,290,278	\$ 6,670,063	\$ 26,763,593	\$ 1,193,508
Total	\$ 82,056,193	\$ 10,511,214	\$ 12,635,041	\$ 79,932,366	\$ 6,961,261

Additional information regarding the bonds, notes and capital leases is included in Note 6. Also, additional information concerning the Worker's Compensation liability is included in Note 14.

(6) Indebtedness

The bonds are secured by a pledge of general receipts of the university. The note payable is collateralized by certain quasi-endowment investments of the university. The university may at its discretion use, or pledge, to the extent lawfully authorized, such other resources as are available for use in the performance of its obligation under the various trust agreements. The maturity dates, interest rates, and outstanding principal balances as of June 30, 2002, are as follows:

Indebtedness	Maturity Dates	Interest Rates	Outstanding Principal
Bonds Payable			
Series 1998 general receipts	2003 – 2018	4.50% - 4.8%	\$ 30,125,000
Series 1993 general receipts	2003 – 2013	5.10% - 5.8%	16,024,884
Note Payable			
U.S. Department of Education	2003 – 2026	5.5%	2,266,743
Total			\$ 48,416,627

The principal and interest payments for the bonds and notes in future years are as follows:

Year Ended June 30	Principal	Interest	Total
2003	\$ 4,142,206	\$ 2,050,158	\$ 6,192,364
2004	4,319,839	1,860,863	6,180,702
2005	4,507,617	1,670,985	6,178,602
2006	3,855,551	1,485,393	6,219,231
2007	2,560,362	2,240,395	4,853,813
2008 – 2012	12,074,264	8,711,864	19,854,785
2013 – 2017	12,078,954	2,470,128	14,549,082
2018 – 2022	4,270,430	439,195	4,709,625
2023 – 2026	607,404	77,544	684,948
Total	\$ 48,416,627	\$ 21,006,525	\$ 69,423,152

The university has approximately \$4,752,000 in capitalized lease obligations that have varying maturity dates through 2012 and carry implicit interest rates ranging from 4.53 percent to 11.50 percent. The scheduled maturities of these leases as of June 30, 2002, are:

Year Ended June 30	Minimum Lease Payments
2003	\$ 1,874,506
2004	1,353,674
2005	1,188,957
2006	672,597
2007	90,250
2008 – 2012	485,611
Total minimum lease payments	5,665,595
Less amount representing interest	(913,449)
Net minimum lease payments	\$ 4,752,146

(7) Retirement Plans

Substantially all non-student employees participate in contributory retirement plans administered by the State Teachers Retirement System of Ohio (STRS) and the Public Employees Retirement System of Ohio (PERS). Both STRS and PERS are cost-sharing multiple-employer defined benefit pension plans. Both plans provide retirement, disability, postretirement health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute.

STRS and PERS issue stand-alone financial reports. Copies of these reports may be obtained by writing to STRS, 275 East Broad Street, Columbus, OH 43215-3771 or to PERS, 277 East Town Street, Columbus, OH 43215-4642.

University faculty participate in STRS. Contribution rates for STRS are established by the State Teachers Retirement Board, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Contribution rates for fiscal year 2002 were 9.3 percent for employees and 14 percent for employers. For the fiscal year ended June 30, 2001, the Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund (Note 8).

Employees covered by the PERS system are required by state statute to contribute 8.5 percent of their salary to the plan. During calendar year 2001, the university was required to contribute 13.31 percent of covered payroll; 9.01 percent was used to fund pension obligations and 4.3 percent funded the retiree health care program (Note 8). Public safety employees that are a part of the PERS public safety division of the law enforcement program contribute 9 percent of their salary to the plan. For these employees, the university was required to contribute 16.7 percent of covered payroll; 12.4 percent was used to fund pension obligations and 4.3 percent funded the retiree health care program (Note 8).

Beginning in 1999, full-time faculty and unclassified employees with less than five years of service credit became eligible to participate in an alternative retirement program. The Ohio Department of Insurance has designated eight companies as eligible to serve as plan providers for the alternative retirement program. The Board of Trustees has established the employer contribution as an amount equal to the amount which the university would have contributed to the respective state retirement system in which the employee would participate, less any amounts required to be remitted to the state retirement systems.

The payroll for employees covered by STRS and PERS for the year ended June 30, 2002, was \$65,624,000 and \$69,754,000 respectively. The payroll for employees electing the alternative retirement program was \$22,004,000.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The university's contributions each year are equal to its required contributions. University contributions for the current and two preceding years are summarized below.

	Employer Contribution		
	STRS	PERS	Alternative Programs
2002	\$ 9,652,601	\$ 9,116,823	\$ 2,544,209
2001	8,971,857	6,906,966	3,298,704
2000	8,655,826	8,543,517	1,543,141

(8) Other Postemployment Benefits

In addition to the pension benefits described in Note 7, STRS and PERS provide postretirement health care coverage to retirees and their dependents. Health care coverage for disability recipients and primary survivor recipients is also provided. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. A portion of the employer contribution (4.5 percent for STRS and 4.3 percent for PERS) is allocated to fund the health care benefits.

The STRS health care plan is advance funded, but not on an actuarially determined basis. The net health care costs paid by the plan were \$301 million for the year ended June 30, 2001, the date of its most recent audited financial report. The plan's net assets available to fund future health care benefits totaled \$3.26 billion as of June 30, 2001. At that date there were 102,132 eligible benefit recipients in the STRS plan.

PERS health care benefits are advanced-funded on an actuarially determined basis. The amount of employer contributions actually made to fund post-employment benefits was \$2.9 billion. The actuarial value of the Retirement System's net assets available for other post-employment benefits was \$11.7 billion as of December 31, 2000. At that date the actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14.4 billion and \$2.6 billion, respectively. The number of active contributing participants was 411,076.

(9) Related Organization

The Miami University Foundation (the foundation) is a separate not-for-profit entity organized for the purpose of promoting educational and research activities of the university. The foundation's board of trustees consists of 28 members. Eight of the members or twenty-nine percent are appointed by the university, while the foundation's board of trustees appoints 20 members or 71 percent.

Assets and financial activity of the foundation are not reported in the university's financial statements. Amounts received by the university from the foundation are restricted and are included in gifts in the accompanying financial statements. The foundation values its investments at fair value.

Effective January 1, 2002, the foundation changed its fiscal year-end from December 31 to June 30. The normal 12-month fiscal year ended on December 31, 2001 and was followed by a 6-month fiscal year, which ended on June 30, 2002. The annual spending distribution from the foundation to the university was made by distributing one-half of the normal amount as of December 31 and a full distribution as of June 30. Financial information for both periods is presented below.

Summary financial information for the foundation as of December 31, 2001, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at end of year	\$ 828,923	\$ 37,746,752	\$ 91,705,566	\$ 130,281,241
Change in net assets for the year	(138,106)	(10,520,995)	(6,803,044)	(17,462,145)
Distributions to Miami University	4,690,280	0	0	4,690,280

Summary financial information for the foundation as of June 30, 2002, the date of its most recent audited financial report, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at end of year	\$ 776,751	\$ 28,934,913	\$ 89,905,494	\$ 119,617,158
Change in net assets for the year	(52,172)	(8,811,839)	(1,800,072)	(10,664,083)
Distributions to Miami University	5,176,344	0	0	5,176,344

(10) Commitments

At June 30, 2002, the university is committed to future contractual obligations for capital expenditures of approximately \$21 million. These commitments are being funded from the following sources:

	Contractual Obligations
Approved state appropriations not expended	\$ 7,963,656
University funds	13,294,807
Total	\$ 21,258,463

(11) Risk Management

The university's employee health insurance program is a self-insured plan administered by Anthem Blue Cross/Blue Shield ("Anthem"). The university's risk exposure is limited to 110% of estimated claims in any given year, which reduces its exposure to material financial loss. To further reduce potential loss exposure, the university has also established a reserve for health insurance stabilization of \$1.5 million.

Health insurance claims are accrued based upon estimates of the claims liabilities made by Anthem. These estimates are based on past experience, current claims outstanding, and medical inflation trends. As a result, the actual claims experience may differ from the estimate. An estimate of claims incurred but not reported in the amount of \$3,198,600 is included in the accrued salaries and wages as of June 30. The change in the total liability for actual and estimated claims is summarized below:

	2002	2001
Liability at beginning of year	\$ 3,574,133	\$ 2,995,642
Claims incurred	16,163,057	13,994,949
Claims paid	(16,213,288)	(13,779,458)
Increase in estimated claims incurred but not reported	400,000	363,000
Liability at end of year	\$ 3,923,902	\$ 3,574,133

The university participates in a consortium with other state-assisted universities for the acquisition of commercial property and casualty insurance. The property insurance program has been in place for more than seven years and has had no material losses. The casualty program has been in place for three years and has had no material losses. The university also carries commercial insurance for liability and other risks.

(12) Contingencies

The university receives grants and contracts from certain federal, state, and local agencies to fund research and other activities. The costs, both direct and indirect, that have been charged to the grants or contracts are subject to examination and approval by the granting agency. It is the opinion of the university's administration that any disallowance or adjustment of such costs would not have a material effect on the financial statements.

The university is presently involved as a defendant or codefendant in various matters of litigation. The university's administration believes that the ultimate disposition of any of these matters would not have a material adverse effect upon the financial condition of the university.

(13) Anthem Demutualization

During fiscal year 2002, Anthem Insurance converted from a mutual insurance company to a stock insurance company, a reorganization called demutualization. As a result of this conversion, the university received over 200,000 shares of Anthem stock. All shares of this stock were sold and the \$12,223,675 in proceeds are reported under Other Non-operating revenue in the Statement of Revenues, Expenses and Changes in Net Assets.

(14) Unfunded Workers' Compensation Liability

Under the State of Ohio's Workers' Compensation program, the university is part of a pool of state agencies and state universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis. The Ohio Bureau of Workers' Compensation (BWC) calculates the estimated amount of cash needed in the subsequent fiscal year to pay the claims for injured workers and sets rates for each participating state agency and university to collect the estimated cash needed in the subsequent one-year period. As these claims will be paid out over a period of time, BWC also actuarially calculates the amounts payable in future years for the entire pool of state agencies and state universities.

As part of the State of Ohio's implementation of GASB Statements No. 34 and 35, the State of Ohio has required each state agency and state university to record a portion of the pool's estimated actuarial liability in its financial statements. The amount allocated to each agency and state university was calculated by the State of Ohio on the basis of actual premium payments paid to BWC during the current fiscal year divided by such payments made by all participating entities. Accordingly, the university's Statement of Net Assets reflects unfunded workers' compensation liabilities of \$10,416,788 at June 30, 2002.

Management acknowledges that its premium payments to BWC through June 30, 2002 were designed to meet the cash needs of the agency and did not cover the full liability resulting from injuries incurred through June 30, 2002 to workers of state agencies and state universities participating in the pool. Consequently, some of the costs resulting from such injuries will be funded from future premium payments to the pool. The decision to record this liability at the state agency and state university level was a result of determinations made by the State of Ohio in its interpretations of the treatment of the unfunded pool obligation. As such, we were required by the State of Ohio to report it on the university's financial statements. In addition, the recording of this liability is based on an allocation of the entire pool on a pro-rata basis to the participating state agencies and state universities. Such amount could differ had a separate actuarial computation by participating state agencies and state universities been performed.

MIAMI UNIVERSITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002**

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/ Grant Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE			
U.S. Department of Education:			
Federal Supplemental Educational Opportunity Grant	84.007	P007A013315	\$ 836,862
Federal Pell Grant 00/01	84.063	P063P001321	11,666
Federal Pell Grant 01/02	84.063	P063P011321	<u>6,274,768</u>
Total Federal Pell Grants			<u>6,286,434</u>
Federal Work Study 00/01	84.033	P033A003315	34,834
Federal Work Study 01/02	84.033	P033A013315	<u>576,865</u>
Total Federal Work Study			<u>611,699</u>
Total Student Financial Assistance			<u>7,734,995</u>

See Notes to the Schedule of Expenditures of Federal Awards.

(Continued)

MIAMI UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/ Grant Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER			
U.S. Department of Agriculture:			
Tripsacum Germplasm Development	10.2	USDA	\$ 3,360
Characterization of Proteins Involved in Chromosome Cohesion in Arabidopsis	10.206	00-35301-9341	<u>40,771</u>
Total U.S. Department of Agriculture - Direct Programs			<u>44,131</u>
Pass-Through Programs From -			
OUACH: The Role of Unionids in the Upper Ouachita River	10.652	08-99-09-CCS-001	<u>2,550</u>
Total U.S. Department of Agriculture			<u>46,681</u>
U.S. Department of Commerce:			
Bowling Green State University: Local Government Economic Development	11.303	06-66-04460	6,809
Economic and Community Development Policy in Local Governments	11.303	06-66-04616	14,522
Graduate Research Fellowship	11.42	NA170R1193	16,250
Summer Undergraduate Research Fellowships	11.609	70NANB1H0033	6,508
NIST Summer Undergraduate Research Fellowship Program	11.609	70NANB2H0070	<u>4,296</u>
Total U.S. Department of Commerce - Direct Programs			<u>48,385</u>
Pass-Through Programs From:			
OSURF: Digestive Physiology as it Relates to Food Preference as a Mechanism			
Explaining Differential Bioaccumulation of Lopophilic Pollutants	11.417	RF 848503	1,371
OSU: Identification of Hexagenia (Ephemeroptera: Ephemeridae) Species in Western Lake Erie	11.417	NA86RG0053/OSURG 735485	3,568
OSU: Heritability of Heat Tolerance in the Zebra Mussel, Dreissena polymorpha	11.417	740188	722
OSU: Effects of Round Goby on Yellow Perch-amphipod Interactions Within Zebra			
Mussels Colonies and Macrophyte Beds	11.417	NA86RG0053 - OSU 738940	10,745
OSU: Role of Detritivores in PCB Trophodynamics in Western Basin of Lake Erie	11.417	742658	<u>817</u>
Total U.S. Department of Commerce - Pass-Through Programs			<u>17,223</u>
Total U.S. Department of Commerce			<u>65,608</u>
U.S. Department of Defense:			
Constructing Meaning Around Separation, Captivity and Reunification and Effects on Family Life	12.XXX	N00244-01-C-0027	36,377
Office of Naval Research: Resiliency and Adaptation of Repatriated POWs from the Persian Gulf War	12.3	N00014-00-1-0950	14,186
Summer Undergraduate Mathematical Sciences Research Institute	12.901	MDA904-01-1-0054	63,313
Summer Undergraduate Mathematical Sciences Research Institute	12.901		<u>53,801</u>
Total U.S. Department of Defense			<u>167,677</u>

See Notes to the Schedule of Expenditures of Federal Awards.

(Continued)

MIAMI UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/ Grant Number	Federal xpenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
U.S. Department of the Interior:			
Embryological Study of Opuntia Corallicola, a Rare Species of Cactus in the Florida Keys	15.608	1448-40181-00-G-134	\$ 268
Systematics of Amphipods of the Gammarus pecos Species Complex in New Mexico and Texas	15.615	1448-20181-00-J618	4,045
Continued Operation of the NADP/NTN Precipitation Chemistry Station at Oxford, OH	15.808	00HQSA0057	654
Operation of the NADP/NTN Precipitation Chemistry Station at Oxford, OH	15.808	02HQPR00076	3,008
Implementing Web-based Solutions for Satellite Data Presentation, Analysis and Understanding	15.808	01CRAG0025	<u>24,869</u>
Total U.S. Department of the Interior			<u>32,844</u>
U.S. Department of Justice:			
Effective Prevention Practitioner Conference Evaluation	16.XXX	--	1,132
Drug Free Communities/The Coalition for a Healthy Community-Oxford Area	16.729	--	<u>92,072</u>
Total U.S. Department of Justice			<u>93,204</u>
National Aeronautics and Space Administration:			
Graviperception in Starch-Deficient Plants in Biorack	43.002	NAG 2-1017-5	155
Analysis of a Novel Sensory Mechanism in Root Phototropism	43.002	NCC2-1200	<u>67,512</u>
Total National Aeronautics and Space Administration - Direct Programs			<u>67,667</u>
Pass-Through Programs From -			
Ohio Aerospace Institute: Expanding the Ohioview Geospatial Digital Library	43.001	NAG3-2629	<u>38,021</u>
Total National Aeronautics and Space Administration			<u>105,688</u>
National Endowment for Humanities -			
Cuban Writers in the United States, 1848-1882	45.16	FA-36642-01	<u>35,000</u>
National Science Foundation:			
Investigations on Normal and Paracompact Spaces	47.049	DMS-9977099	24,522
Research Experience for Undergraduates in Chemistry at Miami University	47.049	CHE9987557	63,349
Acquisition of a 400 MHz Solid-State NMR Spectrometer	47.049	CHE-0116333	128,692
Acquisition of a Stopped-Flow UV-Vis Spectrophotometer	47.049	CHE0076936	4,445
Banach Space Structures of L p-spaces and non-commutative Hardy Spaces	47.049	DMS-0096696	12,289
Summer Undergraduate Mathematical Sciences Research Institute	47.049	DMS0096577	39,627

See Notes to the Schedule of Expenditures of Federal Awards.

(Continued)

MIAMI UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/Grant Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
National Science Foundation (Continued):			
The Santa Rosa-Calico Volcanic Field: A Case Study of Magmatic Processes	47.05	EAR-0106144	\$ 29,275
Determination of Site Occupancy in Multiply-Occupied Atomic Sites	47.05	EAR-9804768	3,436
Collaborative Research: The Palygorskite-Sepiolite to Smectite Transformation and the Influence on Reactive Surface Sites	47.05	EAR-0001251	2,196
Collaborative Research: Osmium Isotopes, PGE and Trace Element Systematics in Kamchatka Sub-Arc Mantle: Implications for Slab-Mantle	47.05	EAR-9902956	26,503
Acquisition of a Thermal Ionization Mass Spectrometer for Geochemical and Geochronological Applications	47.05	EAR-0116033	6,044
Texas A&M: Structural Studies of Leg-153 (MARK Area)	47.05	USSSP 153-20816 & 20850	44
Phylogeny of Heterocystous Cyanobacteria and Evolution of Nitrogen Fixation Genes	47.074	DEB-9973340	13,844
Context-Dependence in Hippocampal Place Fields: Experimental Investigation/Dentate Gyrus-Hilus System	47.074	IBN-9816612	2,565
Ecophysiological Correlates of Vertebrate Cold Hardiness	47.074	IBN-9817087	40,653
Study of Glyoxalase II in Arabidopsis. Thaliana	47.074	MCB-9817083	124,836
Molecular Characterization of Genes/Candidates for Determinants of Neuronal Identity	47.074	IBN-0096108	50,752
Ecological Studies	47.074	DEB-0196336	20,579
3-Ketoacyl Synthases: Modification and Characterization	47.074	MCB-9728786	47,743
Insect Cold-Hardiness and Diapause: Regulatory Relationships	47.074	IBN-0090204	26,683
Insect Cold-Hardiness and Diapause: Regulatory Relationships	47.074	IBN-9728573	1,403
Analysis of Chromosome Condensation and Cohesion in Arabidopsis	47.074	MCB-9982367	50,958
Phyhal Biomechanics in Pathogenic Oomycetes	47.074	IBN-9985546	110,649
Phylogeny, Biogeography and Systematics of Erithalis and Ernodea (Rubiaceae) in the Caribbean Basin	47.074	DEB-9807089	2,772
Research Experience for UG in Human-Dominated Landscapes	47.074	DBI-0097393	20,806
Dissertation Research: Disentangling the Effects of Female Choice, Contest C	47.074	IBN-0206473	83
Omnivorous Fish and the Stability of Aquatic Food Webs	47.074	DEB-9982124	99,161
Willard Sherman Turrell Herbarium Improvement	47.074	DBI-9808577	34,083
Stroud Water Research Center: Dissolved Organic Matter Biogeochemistry: Linking Ecosystem Processes	47.074	DEB-9904047	74,232
Tacit Coordination of Collective Action in a Multiple-task Environment	47.075	1910	82,311
Leadership Alliance in the Biological Sciences; Joining Molecular Biology and Ecology with Research	47.076	ESI-9819374	138,043
Bridging the Gap: Equity in Systemic Reform	47.076	REC-9602137	87,889
Collaborative Research: Undergraduate Instruction in Combinatorial Chemistry	47.076	DUE-0127205	14,948
Renovation of Hughes Hall Chemistry Research Facilities	47.077	STI-9602322	283,223
Microbial Mediation of Trace Metal Cycling in Four Stratified Antarctic Lakes	47.078	OPP-9814837	49,546
Total National Science Foundation			<u>1,718,184</u>

See Notes to the Schedule of Expenditures of Federal Awards.

(Continued)

MIAMI UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/ Grant Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
U.S. Environmental Protection Agency:			
Economics in Ecological Risk Assessment	66.5	CR827003-01-0	\$ 51,792
Multi-level Indicators of Ecosystem Integrity in Alpine Lakes of the Sierra Nevada	66.5	R 827643-01-0	359,578
EPA Graduate Research Fellowship	66.607	U-915570-01-3	<u>5,249</u>
Total U.S. Environmental Protection Agency - Direct Programs			<u>416,619</u>
Pass-Through Programs From:			
Battelle: Operation of a USEPA National Dioxin Air Monitoring Station at Oxford, OH	66.XXX	P.O. 171429	53
Harding ESE Inc.: Operation of the U.S.EPA National Dry Deposition Network Station at MU International Technology Corp:	66.XXX	S68D98112-SITEOP-122	3,641
Research at the U.S. EPA Test and Evaluation Facility	66.XXX	99211-99-001	611
Research at the U.S. EPA Test and Evaluation Facility-Base-Op	66.XXX	PEI-3810	7,609
Shaw E&I: U.S. EPA Test and Evaluation Facility Base Operations	66.XXX	P.O. 175652	<u>45,886</u>
Total U.S. Environmental Protection Agency - Pass-Through Programs			<u>57,800</u>
Total U.S. Environmental Protection Agency			<u>474,419</u>
U.S. Department of Energy:			
Magnetic Nanoscale Physics	81.049	DE-FG02-86ER45281	<u>63,286</u>
Pass-Through Programs From:			
Fluor Daniel Fernald: American Chestnut Restoration Project	81.XXX	96SS000294	2,704
Fluor Daniel Fernald: Representative Vegetation Test Plots	81.XXX	96SS000294	2,387
Fluor Daniel Fernald: Intern Program	81.XXX	--	<u>11,085</u>
Total U.S. Department of Energy - Pass-Through Programs			<u>16,176</u>
Total U.S. Department of Energy			<u>79,462</u>
U.S. Department of Education:			
Fullbright-Hays Research Abroad: A Case Study of Soviet Terror: Identity, Culture, and Violence in Khar'kov, 1880-1941	84.019	PO19A000003	631
Evaluation of SPECTRA+ Arts in Education Program	84.351D	S351D010120	<u>10,745</u>
Total U.S. Department of Education - Direct Programs			<u>11,376</u>
Pass-Through Programs From -			
Ohio Board of Regents: Challenges and Support: Inquiry Teaching and Learning in Mathematics	84.281	--	<u>500</u>
Total U.S. Department of Education			<u>11,876</u>

See Notes to the Schedule of Expenditures of Federal Awards.

(Continued)

MIAMI UNIVERSITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002**

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/ Grant Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
U.S. Department of Health and Human Services:			
Genetics of Susceptibility to Helminthic Infection	--	R01 A137091-04A2	\$ 91,164
An Outcome-Based System for Assessing the Quality of Caregiver Support Services	93.052	P.O. W20562 12192001	52,152
Iron Uptake in Actinobacillus actinomycetemcomitans	93.121	1 R01 DE13657-01	27,584
The Neural Substrates of Adaptive Jaw Movement	93.121	2 R15 DE12248-02A1	47,645
Sensorimotor Regulation of Reproductive Behavior	93.242	ETN:1316402089A1	21,037
A Multicomponent Model of Self-Concept Formation	93.242	7 R01 MH660645-03	75,719
Relating Categories to Perceptual Representations	93.242	1R03MH5881201	17,176
Cortical Mechanisms of Spatial Vision	93.39	1 R15 EY 13953-01	14,223
Iron Acquisition by Haemophilus Aegyptius	93.39	1R15A37781-01	234
Structure-Function Studies of Lys2p of Candida Albicans	93.39	1R15GM55912-01A2	15,040
Ab Initio Studies of Biomolecules	93.39	2R15GM526780-02	34,673
Ab Initio Studies of Complexes of Nucleic Acid Bases	93.39	R15 GM59586-01A1	31,018
Synthesis and Conformational Study of Helix/Sheet Mimics	93.39	1R15GM60263-01A1	25,243
Organization of a Cytochrome P450 Gene Cluster in Mice	93.39	1R15GM5595101A1	77,712
Ribosome-binding and translation of leaderless mRNA	93.39	1R15GM65120-01	1,102
Integrin-like Proteins in Signal Transduction	93.39	1R15GM57806-01	39,677
Magnetic Resonance Studies of Membrane Proteins	93.39	1 R15 GM60259-01	24,960
Analyses of a Dynein Heavy Chain Mutation in Tetrahymena	93.39	1 R15 GM59855-01	43,915
Nuclear Organization During Adenovirus Infection	93.393	1R15 CA82111-01	33,925
Estimating the Cost Shift from Informal to Formal Care in Aging MRDD Families	93.63	01-9A	267
Estrogen Affects the Prolactin Response to Angiotensin II	93.847	1R15DK54065-01	24,974
Amphibian Urinary Bladder: Novel Glucose Transport Model	93.847	1 R115 DK54034-01A2	48,503
Mechanisms of Orphanin's Effects on Prolactin Release	93.847	1 R15 DK56139-01A1	31,227
Neurotrophin Regulation of Perihelical Neurons	93.853	R5NS43173A	1,128
Neurotrophin Regulation of Cerebrouascular Axons	93.854	1R15NS3640301A1	39,459
Genetics of H. Aegyptius Brazilian Purpuric Fever Clone	93.856	1 R15 AI44776-01A1	40,897
Chlamydial Evasion of IFN-Mediated Immunity	93.856	1 R21 AI45836-01A1	12,974
Chlamydial Evasion of IFN-Mediated Immunity	93.856	1 R01 AI45836-01A2	76,747
Metallo Beta Lactamase from X Maltophilia	93.856	1R29AI40052-04	70,649
Genetic and Environmental Influences on Childhood Growth	93.865	1 R01HD40377-01A1	17,314
Lay Explanations of Diabetes and Self Care: A Multi-Ethnic, Multi-Site Study	93.866	8-R3AG19583A	42,536
Tannins as Biological Antioxidants	93.933	1R15CA77806-01	19,037
Total U.S. Department of Health and Human Services - Direct Programs			<u>1,099,911</u>
Pass-Through Programs From:			
Ohio Board of Regents: How do They Utilize Health and Long Term Care Services	93.XXX	--	19,369
Springfield City II: Clark County Wellness Block Grant and Abstinence	93.235	--	2,644
Ohio Department of Aging: Family Support Project	93.631	90DF0011	2,984
University of Cincinnati: Muscle Lactate Production in Sepsis	93.859	R01 GM54775-04A1	11,703
Total U.S. Department of Health and Human Services - Pass-Through Programs			<u>36,700</u>
Total U.S. Department of Health and Human Services			<u>1,136,611</u>

See Notes to the Schedule of Expenditures of Federal Awards.

(Continued)

MIAMI UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/ Grant Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER (Continued)			
U.S. Air Force:			
Pass-Through Programs From:			
Technirep: Simulation-Based Design System for Multi-Stage Manufacturing Processes	12.XXX	--	\$ 65,645
Wright State University: Applying Evolutionary Computation to the Design of Pattern Recognition Systems	12.XXX	F33615-99-C-1441;PO BG 5078 0	<u>31,883</u>
Total U.S. Air Force			<u>97,528</u>
U.S. Department of Labor -			
Conference for Pension and Retirement Research	17.XXX	ORDER B9303473	<u>83</u>
Total Research and Development Cluster			<u>4,064,865</u>
INSTRUCTIONAL			
U.S. Department of State:			
Quality Improvement Methods for Business: Instructional Enhancement for Kiev State University of Trade Economics			
	19.405	ASJL-0333	120,726
Analysis, Budgets and Development: Exchanging to Enhance Armenia's Transition to a Market Economy	19.405	IA-ASJL-G9190230	<u>120,994</u>
Total U.S. Department of State			<u>241,720</u>
National Aeronautics and Space Administration:			
Pass-Through Programs From:			
OAI: Educational Liaison Staff Position	43.001		16,100
Ohio Space Grant Consortium: The Miami Mission to Mars Project	43.001		1,009
Space Telescope Science Institute: The Miami Mission to Mars Project	43.001	HST-ED-90232.01-A	<u>14,903</u>
Total National Aeronautics and Space Administration			<u>32,012</u>
National Endowment for Humanities:			
The History, Uses and Reverberations of the Tales Collected by the Brothers Grimm			
	45.163	FV-22344-00	<u>44,403</u>
Pass-Through Programs From -			
Ohio Humanities Council: Philosophy for Children-Taking the Humanities Seriously	45.163	OHC-01-061	<u>2,262</u>
Total National Endowment for Humanities			<u>46,665</u>
National Science Foundation:			
Summer Undergraduate Mathematical Sciences Research Institute			
	47.049		12,246
Chinese Continental Scientific Drilling Project			
	47.05		2,295
Dragonfly Quest: An Inquiry-Driven Science Program for Informal Settings			
	47.076	ESI-9804318	59,555
1985 Teacher Enhancement in Molecular Biology and Recombinant DNA Technology			
	47.076	ESI-9618727	1,223
Furthering Advances Toward Learner-Centered Education			
	47.076	DUE-9850015	9,098
To Adapt and Adopt Workshop Chemistry			
	47.076	DUE-9950575	91,703
Increasing the Impact			
	47.076	DUE 9950011	450,158
Using Chemistry to Enhance the Technical Workforce in the Innovation Age			
	47.076	DUE-0101400	<u>3,949</u>
Total National Science Foundation			<u>630,227</u>
U.S. Department of Energy -			
Institute of Paper Science and Technology: Energy Challenge '99			
	81.087	--	<u>2,682</u>

See Notes to the Schedule of Expenditures of Federal Awards.

(Continued)

MIAMI UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/ Grant Number	Federal Expenditures
INSTRUCTIONAL (Continued)			
U.S. Department of Education:			
Ohio Writing Project	84.298	92-OH01	\$ 27,604
Developing Faculty Learning Communities to Transform Campus Culture for Learning	84.116	P116B010714	41,252
National Program to Train Speech-Language Pathologists in Classroom Performance	84.325	--	43,974
Project Mentor - Preparing Tomorrows Teachers to Use Technology	84.342A	--	<u>169,179</u>
Total U.S. Department of Education - Direct Programs			<u>282,009</u>
Pass-Through Programs From:			
Ohio Board of Regents:			
ACTIVE Chemistry: Adding Context + Technology + Inquiry = Very Exciting (ACTIVE 3	84.281	00-32	84,424
ACTIVE Chemistry: Adding Context + Technology + Inquiry = Very Exciting Chemistry	84.281	01-37	5,957
Sustaining and Supporting Standards-Based Math Reform for NW LSD	84.281	01-36	159
Geometry for Middle Childhood	84.281	9-36	8,585
Using Native American Stories to Attain Ohio Elementary School Competency-Based Science Standards	84.281	00-30	95,398
Using Native American Stories to Attain Ohio Elementary School Competency-Based Science Standards	84.281	01-33	7,072
Dragonfly for Diversity Leadership: Building Inquiry Science Teams	84.281	01-34	29,133
Sustaining Model for Inquiry Driven Systemic Reform from Lebanon Area Schools	84.281	01-32	19,637
The Dragonfly District Program: A Model for Inquiry-Driven Systemic Reform/ Lebanon Schools and MU	84.281	00-33	48,807
Blending Reading, Investigating, and Discovery into the Goals of Elementary Science (BRIDGES II)	84.281	9-39	5,529
Blending Reading, Investigating, and Discovery into the Goals of Elementary Science (BRIDGES III)	84.281	00-35	103,958
Blending Reading, Investigating, and Discovery into the Goals of Elementary Science IV	84.281	01-39	22,302
Technology Conversion: Web Conversion of Chemistry with Toys Courses	84.281	--	5,012
Teaching Science with TOYS - Targeting Ohio IV	84.281	00-34	78,313
Teaching Science with TOYS - Targeting Ohio V	84.281	01-40	19,580
Math by Inquiry: Developing Fundamental Understanding of Elementary Mathematics	84.281	01-35	9,670
Ohio Department of Education: OSI-Discovery	84.281	--	<u>128,428</u>
Total U.S. Department of Education - Pass-Through Programs			<u>671,964</u>
Total U.S. Department of Education			<u>953,973</u>
U.S. Department of Health and Human Services:			
Preconcentrators Based on Self-Assemble Reagents	93.39	1 R15 GM64390-01	19,849
Social Influences on Dispersal in Males and Females	93.39	MH57115-01A2	<u>26,303</u>
Total U.S. Department of Health and Human Services - Direct Programs			<u>46,152</u>

See Notes to the Schedule of Expenditures of Federal Awards.

(Continued)

MIAMI UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grant/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-Through/ Grant Number	Federal Expenditures
INSTRUCTIONAL (Continued)			
U.S. Department of Health and Human Services (Continued):			
Pass-Through Programs from:			
Ohio Department of Health: Tobacco Prevention Program	93.283	09-4-01-P-CJ-392	\$ 5,646
Ohio Department of Health: Tobacco Prevention Program	93.283	09-4-001-2-CJ-01	58,558
Butler County Alcohol and Drug Addiction Service Board II: MU Substance Abuse and Violence Prevention Project	93.959	09-09961-01-HEDUC-P-01-972	5,483
Butler County Alcohol and Drug Addiction Service Board: MU High Risk Drinking Prevention Initiative	93.959	09-08040-00-HEDUC-P-02-972	21,959
Case Western: Geriatric Education Center Site	93.969	CFDA 93.9699 AH 70041-06	2,554
Total U.S. Department of Health and Human Services - Pass-Through Programs			<u>94,200</u>
Total U.S. Department of Health and Human Services			<u>140,352</u>
Total Instructional			<u>2,047,631</u>
PUBLIC SERVICE			
U.S. Department of Education -			
Increasing Expectations for Student Academic Effort	84.116	P116B61444-98	<u>4,653</u>
National Science Foundation:			
Temporary Appointment to NSF Staff: Program Director, Division of Undergraduate Education	47.076	0-MOR-773	13,691
Intergovernmental Personnel Agreement	47.076	ESI-9908386	45,941
Total National Science Foundation			<u>59,632</u>
Total Public Service			<u>64,285</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$13,911,776</u></u>

MIAMI UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

1. **Basis of Accounting**—The supplementary schedule of expenditures of federal (and state) awards is prepared on the accrual basis of accounting. Amounts presented are total federal expenditures for each program. Catalog of Federal Domestic Assistance (“CFDA”) numbers are presented for those programs for which such numbers are available.

The dollar threshold used to distinguish between Type A and Type B Programs was \$417,353.

2. **Pass-Through Awards**—Miami University (the “University”) receives certain federal awards from pass-through awards of the State. The amounts received are commingled by the State with other funds and cannot be separately identified. The total amount of such pass-through awards is included on the supplementary schedule of expenditures of federal awards.
3. **Federal Perkins Loan Program**—Amounts reported in the schedule of expenditures of federal awards for the Federal Perkins Loan Program represent administrative and collection costs. Outstanding loans at June 30, 2002, under the Federal Perkins Loan Program were \$7,521,794. New Federal Perkins Loans of \$1,345,148 were advanced to students in 2002. The University received a federal capital contribution of \$22,247 and made a matching contribution of \$7,416 to the Federal Perkins Loan fund in 2002.
4. **Federal Family Education Loan Program**—While no amounts are listed in the schedule of expenditures of federal awards, the University also participates in the Federal Family Education Loan Program, which includes subsidized and unsubsidized Federal Stafford Loans (“Stafford”) and Federal PLUS Loans (“PLUS”). The dollar amounts are not listed in the schedule of expenditures of federal awards as the University is not the recipient of the funds. However, such programs are considered a component of student financial assistance at the University. New loans processed for students during the year ended June 30, 2002, were as follows:

Federal Family Education Loan Program:

Stafford:

Subsidized	\$ 18,336,667
Unsubsidized	16,104,831
PLUS	7,863,143

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

The President and Board of Trustees of
Miami University and Mr. Jim Petro,
Auditor of State:

We have audited the financial statements of Miami University (the "University") as of and for the year ended June 30, 2002, and have issued our report thereon dated November 15, 2002, which includes an explanatory paragraph related to the adoption of Governmental Accounting Standards Board Statement No. 35. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. In addition, we noted certain immaterial instances of noncompliance that we have reported to management of Miami University, in a separate letter dated November 15, 2002.

Internal Control Over Financial Reporting

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

However, we have communicated other observations involving the internal control over financial reporting to the management of the University in a separate letter dated November 15, 2002.

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This report is intended solely for the information and use of the Board of Trustees, the management of the University, the U.S. Department of Education, other applicable U.S. Government Agencies, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 15, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

The President and Board of Trustees of
Miami University and Mr. Jim Petro,
Auditor of State:

Compliance

We have audited the compliance of Miami University (the "University") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The University's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 02-01.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the Board of Trustees, the management of the University, the U.S. Department of Education, other applicable U.S. Government Agencies, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 15, 2002

MIAMI UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2002

Part I—Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unqualified	
Internal control over financial reporting: Material weakness(es) identified?	_____ Yes	<u> X </u> No
Reportable condition(s) identified not considered to be material weaknesses?	_____ Yes	<u> X </u> No
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	_____ Yes	<u> X </u> No
Reportable condition(s) identified not considered to be material weaknesses?	_____ Yes	<u> X </u> No
Type of auditors' report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	<u> X </u> Yes	_____ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster Number
Various	Student Financial Assistance
Various	Research and Development Cluster
47.076	National Science Foundation Grants
84.281	U.S. Department of Education Grants

Dollar threshold used to distinguish between Type A and Type B programs	\$417,353
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Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No
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MIAMI UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2002 (Concluded)

Part II—Financial Statements Findings

Findings relating to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters are reportable.

Part III—Federal Award Findings and Questioned Costs

Finding 02-01: Resolution of variances identified through time and effort reconciliations.

Federal Program Information: National Science Foundation (“NSF”), CFDA No. 47.076 and Research and Development Cluster (R&D).

Salary amounts billed to the applicable Federal agency are based on budget amounts.

The University performs reconciliations between employee time and effort reports and amounts billed to the applicable Federal agency. However, any of the identified variances resulting from the reconciliations are not resolved.

Condition: Within our sample procedures for allowable costs billed to CFDA No. 47.076, one out of the seven selections related to payroll expenditures had an identified variance as a result of the reconciliation process. For allowable costs selections billed to R&D, NSF CFDA No. 47.074, one out of the three selections related to payroll expenditures had an identified variance.

Cause: The University has no policy for resolving differences found as the result of reconciliations performed between employee time and effort reports and amounts billed to the applicable Federal agency.

Criteria: Paragraph 7(m)(1) of Attachment B to Office of Management and Budget Circular A-122 (“Circular A-122”), *Cost Principles for Non-Profit Organizations* states “Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by responsible officials of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports.”

Questioned Costs: CFDA No. 47.076—\$5,387 underbilled to the grant, R&D Cluster—\$933 overbilled to the grant.

Recommendation: The University should implement a policy to resolve significant differences noted as a result of the reconciliation process in a timely manner to ensure that underlying records and documentation support actual charges to the Federal grants.

Management Corrective Action Plan: The University has established a policy to pursue significant variances that are a result of the reconciliation of payroll charges to the time and effort reports. This policy will be fully implemented beginning with the time and effort reports collected for the Fall semester of fiscal year 2003. The Grants and Contracts Office will be responsible for implementing the policy and pursuing all identified variances.

MIAMI UNIVERSITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2002

01-1

Federal Program: Research and Development Cluster; CFDA Number 47.076, National Science Foundation; CFDA Number 84.281, U.S. Department of Education.

Condition: The University's employees participating in activities for which Federal funding is received complete time and effort reports using the "after the fact activity records" method. It was noted that time and effort reports were not reconciled to the actual charges billed to the Federal agency funding the grant. Payroll expense included in billings was based upon budgeted amounts as stated on the employees' appointment form, and not on actual time worked. During fiscal year 2001, the University did not properly reconcile time spent to the charges billed to the respective federal agency.

Current Year Status: The University has been preparing reconciliations of payroll charges billed to the applicable federal agency and actual time spent throughout fiscal year 2002.

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Miami University

*Independent Accountants' Report on the
Application of Agreed-Upon Procedures to the
University's Accounting Records and System of
Internal Accounting Control as they Relate to the
University's Intercollegiate Athletics Programs for
the Year Ended June 30, 2002*

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INDEPENDENT AUDITORS' REPORT

Dr. James C. Garland, President
Miami University
Oxford, Ohio

We have audited the financial statements of Miami University ("University") as of and for the year ended June 30, 2002, and have issued our report thereon dated November 15, 2002, which report contained an explanatory paragraph regarding the adoption of new reporting standards. We have also applied certain procedures requested by you, as discussed below, to the University's accounting records and system of internal accounting control as they relate to the University's Intercollegiate Athletics Programs for the year ended June 30, 2002, solely to assist the University in complying with NCAA Bylaw 6.2.3.1 for the year ended June 30, 2002. The University's management is responsible for compliance with those requirements. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

Revenues and Expenditures

- a. We obtained the Intercollegiate Athletics Statement of Revenues and Expenditures for the year ended June 30, 2002, as prepared by management and presented as the Exhibit to this report. We agreed the amounts included therein to the general ledger and made analytical comparisons to the 2001 amounts. The Intercollegiate Athletics Department provided explanations for the fluctuations.
- b. We read documentation related to, and discussed with University personnel, the University's methodology for allocating student fees to intercollegiate athletics, and we ascertained that the amounts recorded for this source of athletics program funding appeared to be recorded using such methodology.
- c. We obtained signed contracts and other supporting documentation for revenues and expenditures resulting from guarantee agreements, and agreed recorded amounts to appropriate supporting detail on a test basis, and no exceptions were noted.
- d. We read documentation related to, and discussed with University personnel, the University's methodology for recognizing gift revenue in the attached Intercollegiate Athletics Department Statement of Revenues and Expenditures. Revenue is recognized as expenses are incurred and reimbursement is requested, rather than when gifts are received.

- e. We ascertained through the listing of all contributions made during the year ended June 30, 2002, that no individual contribution received by the Athletics Office for intercollegiate athletics constituted more than 10% of all contributions received for intercollegiate athletics.

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

Internal Accounting Control Related to Intercollegiate Athletics

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

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

- f. We read documentation related to and discussed with University personnel the general control environment as it relates to the athletics department, considering the following: (1) departmental organization, (2) control consciousness of department employees, (3) competency of personnel, (4) safeguarding and control of department records and assets, and (5) controls over interactions with data processing.
- g. We traced fifteen random selections of ticket sales cash receipts to the deposit slip, reconciliation of the cash drawer, and the statistics sheet that details attendance for each game, and noted no exceptions.
- h. We obtained support for fifteen travel related expenditures and ten non-travel related expenditures made by the intercollegiate athletics department, and noted no exceptions.

Agreed-upon procedures “f” through “h” applied to certain aspects of the University’s system of internal accounting control were more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. Because the scope of our work was limited to applying agreed-upon procedures “f” through “h” to certain aspects of the system of internal accounting control, we are unable to express, and we do not express, an opinion on whether the system of internal accounting control of Miami University in effect as of and for the year ended June 30, 2002, taken as a whole, was sufficient to meet the objectives stated above.

* * * * *

This report is intended solely for the information and use of the finance committee, management and National Collegiate Athletic Association and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 15, 2002

MIAMI UNIVERSITY

INTERCOLLEGIATE ATHLETICS DEPARTMENT STATEMENT OF REVENUES AND EXPENDITURES YEAR ENDED JUNE 30, 2002

	Football Total	Men's Basketball Total	Women's Basketball Total	Men's Other Sports Total	Women's Other Sports Total	Non-Program Specific Total	Total	
							2002	2001
Revenues:								
Student activity fees	\$ 1,245,233	\$ 470,930	\$ 571,207	\$ 1,335,067	\$ 2,534,310	\$ 1,458,033	\$ 7,614,780	\$ 7,055,600
Ticket sales	828,927	256,749	5,583	106,352	-	-	1,197,611	697,460
Guarantees	743,900	25,000	6,736	8,000	10,000	-	793,636	650,636
Program advertising	-	-	-	-	-	5,000	5,000	14,500
Programs and merchandise	-	-	-	-	-	1,857	1,857	3,005
Advertising, promotions and special events	-	5,150	116	3,764	1,340	13,511	23,881	332,734
Vending proceeds	-	-	-	-	-	36,450	36,450	27,717
Seminars and workshops	693	3,710	290	4,407	7,427	4,636	21,163	19,984
Federal grant—work study	-	-	-	-	-	1,612	1,612	-
Other	15,884	760	1,060	14,170	109,200	185,120	326,194	239,836
Temporary investment income	-	-	-	-	-	100,000	100,000	100,000
Endowment income	-	-	-	9,117	-	78,334	87,451	81,236
Gifts	21,748	13,210	32,794	323,600	6,967	246,521	644,839	965,810
Tournaments	-	-	-	4,106	-	549,380	553,486	640,063
Total revenues	2,856,385	775,509	617,786	1,808,583	2,669,244	2,680,455	11,407,961	10,828,581
Expenditures:								
Financial aid	1,158,079	176,359	129,174	567,363	896,362	61,220	2,988,557	2,729,964
Coaches salaries	523,952	204,625	147,759	335,497	609,798	-	1,821,631	1,554,622
Other salaries and wages	82,400	28,284	37,311	101,372	65,233	1,257,250	1,571,850	1,464,935
Staff benefits	168,544	67,518	50,256	123,371	203,975	364,830	978,493	829,193
Team travel	254,572	108,373	110,806	254,696	408,326	4,874	1,141,646	957,173
Travel	19,452	5,157	5,575	13,365	17,894	82,806	144,249	119,872
Recruiting	111,157	34,608	30,840	80,944	103,251	20,415	381,215	356,774
Equipment and supplies	179,721	28,001	22,240	152,933	188,184	308,690	879,770	1,041,158
Maintenance and general administration	98,055	15,520	19,205	36,220	38,519	38,237	245,756	222,884
Game expenses	47,439	36,269	38,994	26,633	78,738	28,718	256,791	260,257
Tournaments	-	-	-	-	-	-	-	-
Telephone	19,802	10,878	7,902	16,570	16,907	65,032	137,092	124,414
Postage	19,085	8,364	9,254	9,356	17,721	27,933	91,712	90,365
Guarantees	40,000	5,000	1,500	11,500	-	-	58,000	24,628
Complimentary ticket expense	-	-	-	-	-	-	-	-
Textbooks	36,944	6,107	4,925	23,711	34,686	-	106,372	96,734
Printing and advertising	6,825	2,405	2,604	7,734	8,909	116,747	145,225	144,600
Hospitality	44,279	5,445	4,853	28,471	6,009	53,130	142,187	135,400
Services	46,153	25,039	667	34,735	28,309	279,416	414,320	395,925
Other	9,875	2,450	1,781	8,568	3,739	160,010	186,423	114,967
Total expenditures	2,866,334	770,402	625,646	1,833,039	2,726,560	2,869,308	11,691,289	10,663,864
Excess (deficit) of revenues over expenditures	\$ (9,949)	\$ 5,107	\$ (7,860)	\$ (24,456)	\$ (57,316)	\$ (188,853)	\$ (283,328)	\$ 164,717

WMUB RADIO

***(A Noncommercial Public Radio Station Owned
and Operated by Miami University)***

***Financial Statements for the Year Ended June 30,
2002 and Independent Auditors' Report***

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WMUB RADIO

(A Noncommercial Public Radio Station Owned and Operated by Miami University)

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Miami University:

We have audited the accompanying statement of net assets of WMUB Radio, a noncommercial public radio station owned and operated by Miami University, (the "Station") as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the management of the Station. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Station as of June 30, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Station has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities" (as amended), GASB Statement No. 37, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures."

Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Station's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 22, 2002, on our consideration of the Station's internal control over financial reporting and its tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

November 22, 2002

WMUB RADIO

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of WMUB, a noncommercial public radio station owned and operated by Miami University, (the Station) for the year ended June 30, 2002. Next year this discussion will cover two years as the financial statements will be comparative. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion have been prepared and are the responsibility of Station management.

Using the Financial Statements

The Station's annual report contains three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37 and 38. These statements establish standards for external financial reporting and provide a consolidated perspective of the station's assets, liabilities, net assets, revenues, expenditures and cash flows.

The financial statements of the Station have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recorded when the related liability has been incurred. For financial reporting purposes, WMUB is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34 and 35.

In addition to the consolidation of the financial information, other significant changes to the financial statements include:

- Assets are categorized as either current or non-current. Current assets will be consumed or fulfilled within one year.
- Depreciation expense is reported as an operating expense.

Financial Highlights

Overall, WMUB's financial position remained strong at June 30, 2002, with total assets of \$532,848. Revenue from the state of Ohio through the Ohio Educational Telecommunications Network Commission grants declined because of budget shortfalls at the state level, but local fundraising was up in overall memberships and special projects.

Statement of Net Assets

The Statement of Net Assets presents the assets and net assets of WMUB as of the end of the fiscal year. Net assets is one indicator of the overall strength of the Station. Also, the overall increase or decrease in total net assets indicates whether the financial strength of the institution is improving or declining. Miami University maintains cash accounts that support the operations of the Station. All of the Station's receipts and disbursements are reflected in these accounts, as the Station does not maintain its own separate account. As a result, the Station has net accounts receivable or payable from Miami University. The net accounts receivable are measured at a point in time using current values. Capital assets are recorded at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, reports the Station's net equity in property and equipment. The second major category, restricted net assets, reports net assets that are owned by the Station, but the use or purpose of the funds is restricted by an external source or entity. The Station does not have any restricted net assets. The third category is unrestricted net assets.

Assets

Current assets	\$ 212,404
----------------	------------

Capital assets, net	<u>320,444</u>
---------------------	----------------

Total assets	<u>\$ 532,848</u>
---------------------	--------------------------

Net assets

Invested in capital assets	\$ 320,444
----------------------------	------------

Unrestricted net assets	<u>212,404</u>
-------------------------	----------------

Total net assets	<u>\$ 532,848</u>
-------------------------	--------------------------

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents WMUB's results of operations for the fiscal year. The revenues and expenses are generally reported as either operating or non-operating. Operating revenue is generated by an annual Community Service Grant from the Corporation for Public Broadcasting and the state of Ohio, administered through an annual grant from the Ohio Educational Telecommunications Network Commission. Operating expenses have been incurred to vendors and employees for providing goods or services for the overall operations of the Station. Non-operating revenues are received without an exchange for goods and services. Non-operating revenues include an appropriation, donated facilities, and administrative support from its licensee, Miami University, membership revenue, and contributions from area businesses (program underwriting).

Operating revenues

Corporation for Public Broadcasting grant	\$ 139,682
In-Kind contributions— Ohio Educational Telecommunications	131,169
Ohio Educational Telecommunications grant	<u>47,668</u>
Total operating revenue	<u>318,519</u>

Operating expenses

Program services

Programming and production	647,482
Broadcasting	103,297
Program information	<u>52,704</u>
Total program services	<u>803,483</u>

Support services

Administrative	280,855
Management and general	221,586
Fund raising	53,443
Underwriting	17,665
Depreciation	<u>32,808</u>
Total support services	<u>606,357</u>

Total operating expenses	<u>1,409,840</u>
Net operating loss	<u>(1,091,321)</u>

Non-operating revenues	
Appropriation from Miami University	\$ 589,221
Donated facilities and administrative support	280,855
Membership revenue	180,265
Business and underwriting support	61,072
Net revenue from special fund raising activity	12,880
Foundations and other non-profits	11,085
Other	<u>60</u>
Total non-operating revenues	<u>1,135,438</u>
Income before other revenues	44,117
Other revenues	<u>6,053</u>
Increase in net assets	50,170
Net assets at the beginning of year, as restated	<u>482,678</u>
Net assets at the end of year	<u>\$ 532,848</u>

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the major sources and uses of cash by the Station for the fiscal year. The cash flow analysis is divided into three major areas: Cash Flows from Operating Activities, Cash Flows from Noncapital Financing Activities, and Cash Flows from Capital and Related Financing Activities.

Net cash used by operating activities	\$ (777,658)
Net cash provided by noncapital activities	854,583
Net cash used for capital and related financing	<u>(5,519)</u>
Net increase in cash equivalents	71,406
Cash equivalents at beginning of year	<u>140,998</u>
Cash equivalents at end of year	<u>\$ 212,404</u>

Economic Factors That Will Affect the Future

Station management believes that WMUB is positioned to continue its strong financial condition and level of service to listeners and Miami University. Programming improvements initiated in 1998 are continuing to result in higher audiences listening levels, which in turn lead to increases in membership and underwriting revenue. While there has been some loss in State of Ohio support due to cutbacks in the appropriation for the Ohio Educational Telecommunications Network Commission grants, local fundraising through membership campaigns has so far made up for those losses and more.

During fiscal year 2002, the Station, for the first time, presented a major off-air special event that brought in significant revenue. Other such events are being explored and planned for. New programs and services for membership development are in the works for fiscal year 2003.

One of the Station's biggest concerns on the revenue side are the continual declines in funding from the State of Ohio grant (OETNC) and from the Corporation for Public Broadcasting appropriations in Congress. At this time, the financial condition and economic outlook of the state appears to be worsening and the level of state support is uncertain. In October 2002 the Federal Communications Commission approved standards for digital terrestrial radio broadcasting. Stations will be required to generate additional support to pay for digital conversion. While the State of Ohio is on record as supporting partial funding of these costs from the state, appropriations have not yet been made.

Overall WMUB's financial position is strong. Over the next fiscal year and beyond, the Station will maintain a close watch over internal and external resources in order to maintain or improve its current economic condition.

Tolliver C. Callison, III
General Manager, WMUB

WMUB RADIO

(A Noncommercial Public Radio Station Owned and Operated by Miami University)

STATEMENT OF NET ASSETS

JUNE 30, 2002

ASSETS

CURRENT ASSETS—Net accounts receivable from Miami University	\$ 212,404
NONCURRENT ASSETS—Capital assets, net of \$569,984 in accumulated depreciation	<u>320,444</u>
TOTAL ASSETS	<u><u>\$ 532,848</u></u>

NET ASSETS

INVESTED IN CAPITAL ASSETS	\$ 320,444
UNRESTRICTED NET ASSETS	<u>212,404</u>
TOTAL NET ASSETS	<u><u>\$ 532,848</u></u>

See accompanying notes to financial statements.

WMUB RADIO

(A Noncommercial Public Radio Station Owned and Operated by Miami University)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2002

OPERATING REVENUES:	
Corporation for Public Broadcasting grant	\$ 139,682
In-kind contributions—Ohio Educational Telecommunications	131,169
Ohio Educational Telecommunications (OET) Grant	<u>47,668</u>
Total operating revenues	<u>318,519</u>
OPERATING EXPENSES:	
Program services:	
Programming and production	647,482
Broadcasting	103,297
Program information	<u>52,704</u>
Total program services	<u>803,483</u>
Supporting services:	
Administrative support	280,855
Management and general	221,586
Fund raising	53,443
Underwriting	17,665
Depreciation	<u>32,808</u>
Total supporting services	<u>606,357</u>
Total operating expenses	<u>1,409,840</u>
NET OPERATING LOSS	<u>(1,091,321)</u>
NONOPERATING REVENUES:	
Appropriation from Miami University	589,221
Donated facilities and administrative support	280,855
Membership revenue	180,265
Business and underwriting support	61,072
Net revenue from special fund raising activity	12,880
Foundations and nonprofits	11,085
Other	<u>60</u>
Total nonoperating revenues	<u>1,135,438</u>
INCOME BEFORE OTHER REVENUES	44,117
OTHER REVENUES—OET Capital Grant	<u>6,053</u>
INCREASE IN NET ASSETS	<u>50,170</u>
NET ASSETS—Beginning of year	1,019,854
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	<u>(537,176)</u>
RESTATED NET ASSETS AT THE BEGINNING OF THE YEAR	<u>482,678</u>
NET ASSETS—End of year	<u>\$ 532,848</u>

See accompanying notes to financial statements.

WMUB RADIO

(A Noncommercial Public Station Owned and Operated by Miami University)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Corporation for Public Broadcasting grant	\$ 139,682
Receipts from Ohio Educational Telecommunications grant	47,668
Payments for programming and production	(516,313)
Payments for broadcasting	(103,297)
Payments for program information	(52,704)
Payments for management and general	(221,586)
Payments for fund raising	(53,443)
Payments for underwriting	(17,665)
	<hr/>
Net cash used by operating activities	(777,658)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Appropriation from Miami University	589,221
Membership revenue	180,265
Business and underwriting support	61,072
Foundations and nonprofits	11,085
Other noncapital receipts	12,940
	<hr/>
Net cash provided by noncapital financing activities	854,583

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Grants for capital purposes	6,053
Payments to purchase capital assets	(11,572)
	<hr/>
Net cash used for capital and related financing activities	(5,519)

NET INCREASE IN CASH EQUIVALENTS 71,406

CASH EQUIVALENTS:

Beginning of year	<hr/>
	140,998
End of year	\$ <hr/> <hr/>
	212,404

Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities Year Ended June 30, 2002

NET OPERATING LOSS, PER STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS \$(1,091,321)

ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Depreciation expense	32,808
Donated facilities and administrative support	280,855
	<hr/>

Net cash used in operating activities \$

 (777,658)

WMUB RADIO

(A Noncommercial Public Radio Station Owned and Operated by Miami University)

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—WMUB Radio (Station) is owned and operated by Miami University (University), a governmental institution of higher education. The license for the Station is issued by the Federal Communications Commission to the President and Board of Trustees of the University. The Station is administered as a division of University Communications.

Basis for Presentation—Effective July 1, 2001, the Station adopted Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38. These statements establish standards for external financial reporting and provide a comprehensive perspective of the Station’s assets, net assets, revenues, expenditures and cash flows. For financial reporting purposes, the Station is considered a special-purpose government engaged in business-type activities as defined by GASB Statement No. 34 and 35.

The financial statements of the Station have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when the related liability has been incurred.

Net Accounts Receivable from Miami University—Miami University maintains cash accounts that support the operations of the Station. All of the Station’s receipts and disbursements are reflected in these accounts, as the Station does not maintain its own separate account. As a result, the Station has net accounts receivable or payable from Miami University. For the purposes of the Statement of Cash Flows, the net accounts receivable from Miami University is considered a cash equivalent.

Capital Assets—Buildings, equipment and furniture and fixtures are recorded at cost at date of acquisition or market value at date of donation in the case of gifts. The Station uses a capitalization threshold of \$1,200. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives are 50 years for buildings and 5 to 7 years for equipment.

Net Assets—As a result of the adoption of GASB Statements 34 and 35, the previously reported fund balances as of June 30, 2001 are restated as net assets for the same period as follows:

Restatement of Net Assets

Combined fund balances, as previously reported, as of June 30, 2001	\$1,019,854
Cumulative effect of a change in accounting principal— Accumulated depreciation	<u>(537,176)</u>
Combined fund balances, restated as net assets, as of June 30, 2001	<u>\$ 482,678</u>

GASB Statements 34 and 35 require net assets to be divided into three major categories. The first category, net invested in capital assets, net of related debt, reports the Station's net equity in property, plant and equipment. The second major category is restricted net assets. This category contains net assets that are owned by the institution, but the use or purpose of the funds is restricted by an external source or entity. The Station does not have any restricted net assets. The third category is unrestricted net assets, which are available to be used for any lawful purpose of the Station.

Revenue Recognition—Grants or contributions that reimburse the Station for expenses incurred are deemed to be earned and are reported as revenue when the Station has incurred expenses in compliance with the specific restrictions of the grant. Certain contributions and grants, such as the Corporation for Public Broadcasting grant and the Ohio Educational Telecommunications grant, are recorded as revenue when received.

Donated Facilities and Administrative Support—Donated facilities from the University consist of office and studio space, use of the broadcast tower and occupancy costs, and are recorded as revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets in accordance with allocation guidelines provided by the Corporation for Public Broadcasting ("CPB").

Donated facilities support is determined by an assessment of the square footage assigned to the Station and the cost per square foot of providing various types of physical plant support. Administrative support from the University consists of allocated services and certain other expenses incurred by the University on behalf of the Station and an allocation of the University's total institutional support.

In-kind Support—In-kind support provided by the Ohio Educational Telecommunications Network Commission is recorded based on a statement provided by the agency. Expense is allocated based on the determination of the nature of the in-kind support provided.

Use of Estimates—Management has made estimates in preparing the financial statements based on currently available information that affects certain of the amounts reflected in the financial statements. Actual results could differ from these estimates.

2. CAPITAL ASSETS

The capital assets and accumulated depreciation as of June 30, 2002, are summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets:				
Building, antenna and tower	\$ 330,386			\$ 330,386
Studio and broadcast equipment	<u>548,470</u>	<u>\$ 11,572</u>	<u>\$ -</u>	<u>560,042</u>
	878,856	11,572		890,428
Less: accumulated depreciation	<u>537,176</u>	<u>32,808</u>		<u>569,984</u>
Capital assets, net	<u>\$ 341,680</u>	<u>\$ (21,236)</u>	<u>\$ -</u>	<u>\$ 320,444</u>

3. INCOME TAXES

The University is exempt from Federal income taxes under Section 115 of the Internal Revenue Code (IRC). As such, the University is subject to Federal income taxes only on net unrelated business income, if any, under the provisions of Section 511 of the IRC.

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

To the Board of Trustees of
Miami University:

We have audited the financial statements of WMUB Radio, a noncommercial public radio station owned and operated by Miami University (the "Station"), as of and for the year ended June 30, 2002, and have issued our report thereon dated November 22, 2002 in which we included an explanatory paragraph discussing the Station's implementation of Statements of Governmental Accounting Standards Board No.'s 35, 37 and 38. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

This report is intended solely for the information and use of the Board of Trustees of Miami University, management and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 22, 2002



**Auditor of State
Betty Montgomery**

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MIAMI UNIVERSITY

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 18, 2003**