ANTIOCH UNIVERSITY

REPORT TO THE BOARD OF TRUSTEES

1997-98 Year End Financial Statements
1998-99 First Quarter Performance

October 16-17, 1998

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OCTOBER 16-17, 1998

I. INTRODUCTION

The first section of this report contains financial information concerning the performance of the University, its campuses and associated units during 1997-98. The second section contains financial information on how the University and its components have performed in the first quarter of the 1998-99 fiscal year. The Datatel Management System and the cooperation of Campus personnel allow us to present the full first quarter of information shortly after the close of the period.

The information contained in this report is presented using the Financial Accounting Standards Board (FASB) 117 reporting standards that became mandatory for independent colleges and universities on July 1, 1995. The objective of this FASB reporting standard is to enhance the relevance, clarity and comparability of financial statements issued by not-for-profit organizations, regardless of the nature of their operation or mission. The information on the 1997-98 fiscal year expands and supplements the material presented in the Audited Financial Statements prepared by Ernst & Young LLP. The material presented in this document provides a more detailed view of the revenues and expenses of the University and is intended to promote the understanding of University operations as a whole and of each of its units. If you are familiar with the terms and format of this Report, you may want to begin reading the 1997-98 Year-End Budget Performance Section on page 1 and then read the summary of the 1998-99 First Quarter Performance on page 52.

II. FORMAT AND CONTENT

The 1997-98 Year-End Financial Review section and the 1998-99 First Quarter Performance section contain summary schedules for the entire University and similar schedules for each campus, the Central Administration, Glen Helen, WYSO Radio, the Antioch Review, and University Wide accounts. Each campus and operating unit has prepared narrative descriptions of the significant events that caused the unit to deviate from its budget. The purpose of the narrative is to provide an overview of how each Campus performed during the prior fiscal year and how well it is managing during the first quarter of the current year. The narratives also provide an opportunity for the President or unit manager to describe the problems he or she has dealt with during the previous year and the opportunities that are being exploited during the current fiscal year.

Revisions to the 1998-99 Capital Budget may be necessary. Under Board of Trustee policy, Trustee approval is required for any non-personnel expenditure of more than $10,000. The Capital Budget that was presented to the Board at the June meeting contains plans for capital expenditures, but during the first quarter of the fiscal year, some Campuses have identified changed conditions as well as unanticipated needs that require changes to their capital improvement plans. In some cases, a campus may need to acquire additional equipment, particularly technology, while in other cases repairs or improvements to the physical plant may be needed.

III. THE FUNCTION SCHEDULE

For the University as a whole and for each of the Campuses and units, both sections of this Report contain two schedules. The first is the Summary by Function. This schedule provides information about Revenues by Type and Operating Expenses by Function. The purpose is to show what happened during the prior fiscal year and what is happening during the current quarter to the various revenue and expense categories. This schedule shows how prior year experience and the budget compare with what has actually happened during the two reporting periods.

In both the Revenues and Operating Expenses sections of this schedule is a reference to "E&G". This abbreviation stands for Educational and General and the Total E&G lines show the Revenues and the Operating Expenses of all functions other than those that are classified as Auxiliary Enterprises. The E&G subtotals are provided to simplify comparison of the revenues and expenses of the primary missions of the University while excluding "support functions" that are not part of the primary missions. Auxiliary Enterprises include support functions such as dining services, housing, bookstore, and similar "businesses".

An additional Revenues item that appears below the Total E&G Revenue totals is Released from Restrictions. The amounts on this line reflect funds that were initially received by the University or Campuses for specific purposes and held until they could be spent to further the specific purpose. Most of this money represents gifts or bequests that have been provided for such things as scholarships or specific program initiatives. Much of the funding of this type is expended in the year it is received but Restricted Funds are often held for several years until they can be expended in accordance with the conditions set out by the donor. For example, scholarship funds that provide for students with certain types of abilities or needs will not be expended until such students can be identified. Restricted Funds do not become part of the Operating Budget until released. Prior to being transferred to the Operating Budget, Restricted Funds are carried in the accounts of the University and invested in accordance with University policy.

Because restricted revenues do not become part of the unrestricted operating funds of the University until they are Released from Restrictions, the amounts shown for Gifts and Grants may vary from the figures reported by the Development Offices for the same period. The Development Offices report gifts on a cash basis, or, as they are received: the Accounting Offices report gifts on an accrual basis, or, when they are received or first pledged. Pledges are commitments that will be realized at a future date and are not expendable until the funds are actually received. Funds that are given for a restricted purpose are invested until they can be expended for the purpose specified by the donor. Several years may pass before a campus can expend a restricted gift as the donor intended, but the restricted gift is recorded by the Development Office when it is received. The financial schedules contained in this report do not reflect restricted revenue until it is expended. Therefore, reports from the Development Office may show higher or lower giving levels than will appear on these schedules.

Restricted Funds should not be confused with Endowment Funds. Endowment Funds are also separated from unrestricted revenues and are also limited to specific purposes as provided by their donor. The primary difference is that the principal of Endowment Funds must be retained in perpetuity and only the annual income can be expended to satisfy the purpose of the donor. On the other hand, the principal amount of a restricted gift can be used as soon as a valid purpose has been identified. Income from the Endowment Funds appear as a Revenue Item on the Endowment Income line.

The schedules in this Report for Antioch University as well as the schedule for Central Administration and the University Wide Expenses contain an additional line, "Net Overhead for Central Ops." This line has been added on these three schedules to more clearly display the cost of central operations. Ordinarily, the Overhead used to support the Central Administration and the University Wide Expenses budget would appear as a "negative expense" entry, but the Board of Trustees has requested that central operations be displayed more in keeping with the way the budgets of the individual Campuses are displayed. Accordingly, this line has been added to these three schedules and appears as a quasi-revenue entry. It shows how much is transferred from the operating units to meet the costs of central operations and it clearly separates the "revenue" of the central operations from their expenses and makes it easier to see the true cost of these units.

The Operating Expenses section of the Function schedule provides financial information for each of the primary activities or programs. Each operating department of the University is classified in accordance with its primary function. For example, the Languages Department of the College is classified as Instruction and all of its expenditures will be combined with those of other teaching departments and reported on the Instruction line of the Function schedules. A list of the Cost Centers that comprise each of the Functions is presented on page 90.

In the first section of this Report, the columns of the Summary by Function schedules present information about the actual activity of the two prior years, the budget for 1997-98 and the actual experience for 1997-98. The last four columns provide comparisons of the 1997-98 actual experience with the budget for that year and a comparison of how the 1997-98 actuals compare with the actuals from 1996-97. The dollar variance is given for these comparisons and a percentage of variance is also provided. Similar information is provided in the second section of this Report, but the data and comparisons are for the first quarter of the fiscal year.

FASB 117 requires the presentation of information on an accrual basis, but the actual management of the University also depends on maintaining an appropriate cash flow so that current obligations can be met. The schedules in this Report contain a Conversion to Cash Basis section which identifies those expenses and revenue sources that must be considered when adjusting from an accrual basis to a cash basis. These items are primarily concerned with equipment and facilities which, although occurring in one fiscal year, are depreciated over their useful life. Accumulated depreciation is shown as an offset to the Depreciation Expense that is included as a part of the Plant Maintenance function. Borrowing proceeds, if any, associated with the expenditures shown are reflected on a separate line as are the Principle Payments necessary to retire the loans of previous years.

The Conversion to Cash Basis section also shows the use of any Prior Year Reserves. Prior Year Reserves are maintained by the University as "funded" or "unfunded". Whenever a campus ends the year with an operating surplus, this sum is recorded and carried forward on the books. If the University has sufficient surplus cash at year-end, the surplus is funded and invested in an interest bearing account for the benefit of that campus. If there is not sufficient cash to cover the surplus, the uncovered portion becomes a credit to the unfunded reserve. Campuses may propose the use of their Funded Prior Year Reserves in the annual budget, or they may request the Chancellor's permission to use Funded Reserves to meet unexpected expenses during the year.

IV. THE CATEGORY SCHEDULE

The second major schedule used in both sections of this Report is the Summary by Category. On this schedule, the Revenues reported on the Function Schedule are condensed to a single line. For the University as a whole, the Central Administration and the University Wide Expenses schedules, a second line is added to show the Net Overhead for Central Ops. Although technically not a revenue item, it is treated as a quasi-revenue on this schedule so that these three units and the Campuses can be presented in similar ways.

Operating Expenses from the Function schedule are presented by category (e.g., Salaries & Wages, Benefits, Supplies). These categories show how expenditures have been made by the kinds of goods and services purchased. The components of each of the Expense categories is listed in detail on page 91.

A section of these schedules shows the Contingency/Reserves that the Campuses are required or encouraged to budget. The "Campus Contingency, Mandatory" amount is budgeted at 2% of net student-derived revenue and this sum can be released by the Chancellor during the year in order to meet unexpected expenses or to offset lower than anticipated revenues. Campuses that are meeting their revenue targets may also request release of these funds to pay for special capital improvements that they might not otherwise have been able to make. These requests can be honored only when the University as a whole is performing well.

The "Campus Program Contingency, Discretionary" is a reserve amount determined by the individual campus. Depending on the volatility of its programs, a campus may elect to hold an additional sum above the Mandatory amount to offset possible revenue fluctuations. The amount of this Reserve is determined by the Campus, and the Campus determines when this Revenue should be released for expenditure. Not all Campuses elect to place funds in this Reserve.

The Liquidity Reserve is equal to 1.25% (1.5% for Seattle) of the net tuition and fee Revenue of each Campus. The Liquidity Reserve is not available for expenditure for any purpose, but the amounts budgeted are added to the Liquidity Reserve each year and allowed to accumulate in order to restore the financial integrity of the University. The bond issues that have financed facilities at New England, Seattle, and retired debt for the College require the University to operate with an excess of revenue over expenses in each year. In order to satisfy this ratio requirement and to build for the time when the University can satisfy Moody Investors Service requirements for a bond rating, this money is accumulated during the year in a University-wide account. At the end of l997-98, the second year in which the Liquidity Reserve has been in operation, the University accumulated $653,770. This sum is identified with each campus through a series of sub-accounts and has been invested in accordance with University policy. A schedule showing the Funded and Unfunded Reserves as well as the Liquidity Reserve balance for each of the Campuses is contained on page 51.

The Overhead section of the Summary by Category schedule shows the assessments that are made against each Campus in order to support operations of the University. The assessments are made at the rate of 13.75% of net student revenue. Net student revenue excludes tuition generated by new programs less than two years in operation, tuition discounts and waivers, and uncollectable tuition and fees. From the overhead, Rebates from the University are transferred to the individual campuses as is the Subsidy from Overhead. Campuses which receive Rebates and Subsidies will show negative amounts in these schedules because the transfer is shown as a negative expense rather than as a Revenue. Although these transfers are income to the receiving campus, from the standpoint of the University they represent only the reassignment of revenue from one campus to another.

Depreciation is a major expense for the University, and is carried centrally because all facilities are held in the corporate name of the University. Both the Depreciation Expense and the Add Back Depreciation entries appear in the University Wide Expenses section on pages 87 and 88.

The columns for 1997-98 and for the first quarter of 1998-99 on the Category schedules are identical to those on the Function schedules.

1997-98 YEAR END-END BUDGET REPORT

The financial performance of Antioch University in 1997-98 did not match its performance in 1996-97, even though the College performed better than it has in several years. As a whole, the Total Increase in Net Assets (Excess Revenue over Expenses) was $827,400 compared with an increase of $1,817,344 in 1996-97. Performance in 1997-98 was not as good on this measure as the average increase of the three years between 1993-94 and 1995-96, $1,025,167. Still, it is appreciably better than the $210,269 increase recorded in 1995-96.

Of the six operating units, only Southern California showed a decrease in Net Assets for the year. The College posted an increase in Net Assets of $1,531,238, more than double the $728,934 reported in 1996-97. The 1997-98 increase for the College reflects the use of $600,000 of realized gains from the endowment fund for the purchase of capital equipment and improvements.

For the University as a whole, tuition and fee income was $1,650,564 (4.25%) below budgeted levels due to soft enrollments, although tuition income increased by $966,268 (2.67%) over the preceding year.

On a Total Increase in Unrestricted Cash basis (Net Cash Basis Budget) the University ended 1997-98 at $718,959 compared with $440,171 in the prior year.

UNRESTRICTED STATEMENT OF ACTIVITIES

The Statement of Activities is most comparable to the Income Statement of a for-profit organization. The purpose of the Statement of Activities is to summarize operations of the 1997-98 fiscal year. The full Statement of Activities for the entire University is contained in the Audited Financial Statements prepared by Ernst & Young. Their statement contains the Unrestricted, Temporarily Restricted, and Permanently Restricted funds and thereby provides a complete picture of the entire "bottom line." The schedule contained in this report focuses on Unrestricted funds because they constitute the operating revenues and expenses of the campuses and the University as a whole. By looking at the increase or decrease in Net Assets it is possible to get a quick understanding of how well the University performed during the fiscal year. Last year the "bottom line" showed an increase in Net Assets of $1,817,344. This year, the Statement of Activities shows an increase in Net Assets of $827,400

The interaction of two components play a major role in the annual change in Net Assets; one is depreciation and the other is gains on the endowment. Because all assets are held in the name of the University, depreciation is presented in the University Wide section of this Report. Deprecation accounts for 80% of the University Wide operating expenses and depreciation increased this year by $511,158 primarily because of the Seattle building. The expenses in University Wide are offset by unrealized gains in the value of the University's Endowment and other investments. In 1997-98, unrealized gains were $781,500 less than in 1996-97 and this means that there was less revenue to offset the additional depreciation. Revenue in University Wide is $600,000 lower than in the prior year because this amount was converted to realized gains and transferred to the College, as authorized by the Board. Because of these factors, University Wide on the Statement of Activities shows a decrease in Net Assets in 1997-98 of $-1,164,534 compared to a decrease of $-189,705 in 1996-97. The key point is that the performance of the stock market has significant influence over the change in Net Assets.

STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position presents information similar to what can be found on the Balance Sheet of a for-profit organization. The official Statement of Financial Position is contained in the Audited Financial Statements prepared by Ernst & Young, but that schedule does not provide detail for the individual campuses. The Statement of Financial Position contained in this Report shows the Total Assets, Total Liabilities, and Total Liabilities and Net Assets. Because depreciation and most physical assets are recorded on a University-wide basis, the Total Assets and Total Liabilities and Net Assets do not balance except at the Total University level.

The Statement of Financial Position is only a snapshot of the condition of the University at one particular moment in time, June 30, 1998. However, it does provide insight into the financial status at the close of business for 1997-98 and when compared to the Statement from the prior year can be a useful indicator of the financial direction of the University. On June 30, 1997 the Total Liabilities and Net Assets of the University was $73,254,887. At June 30, 1998 this figure had increased by $2,642,734 to a total of $75,897,621

UNRESTRICTED REVENUE

The 1997-98 Total Educational and General (E&G) Revenue for the entire University was $-180,894 below the budgeted level. In 1996-97 we were $-225,352 below the budgeted level. Tuition revenue was 4.25% below budget but 2.67% above tuition received in the prior year.

Net Tuition and Fee income was 81.7% of all E&G Revenues in 1997-98. Although Total E&G Revenue was only $180,894 below budget, the Tuition and Fee income was $1,650,563 below budget. Three of the five Campuses had tuition income below their budgets and the sum of the negative variance for these three was $1,953,619. The following table compares budgeted and actual Tuition and Fee income.

Tuition and Fee Income
1997-98 Year-End

	1997-98 Budgeted Revenue	1997-98 ActualRevenue	Variance
Antioch College	10,578,843	9,598,204	-980,639
Glen Helen	128,425	121,709	-6,716
New England	8,100,325	8,224,966	124,641
Seattle	6,900,577	7,085,708	185,131
Southern California	7,941,605	7,439,528	-502,077
McGregor	5,183,834	4,712,931	-470,903
TOTALS	**$38,833,609**	**$37,183,046**	**$-1,650,563**

Tuition Discounts are the scholarship and aid assistance funded by the campuses. The College awarded more than 87% of the $2,484,257 given to students in 1997-98. Tuition Discounts at the College grew 6.19% over 1996-97, but this rate was below the 7.92% increase in College Tuition and Fee Income. Had the College realized its budgeted Tuition and Fee income level, the difference in the growth rates would have been considerably greater.

The enrollment decline in Southern California has been discussed in previous reports, but income levels there are of major concern because the 1997-98 tuition shortfall was only partially covered from funded reserves. The deficit at Southern California was not approved and the Campus has no remaining funded reserves to cover any future tuition shortfall. Continued low tuition income will require additional spending reductions in order to balance the budget.

New England and Seattle were able to exceed their budgeted Tuition and Fee levels.

McGregor was significantly below its budgeted Tuition and Fee target, but was able to limit spending to avoid a deficit.

Grants revenue declined 9% from budget and 8.37% below the level of the prior year. Total Contracts income was up $92,746 over budget due to increases of $61,335 at Seattle and $80,998 at McGregor which more than offset a drop of $54,896 at New England.

Other Income was up 106.38% above budget but was down 16.92% from the prior year. The major portion of this additional revenue is from realized and unrealized gains on University investments and reflects the positive activity of Wall Street during the past year. Much of the additional revenue is unrealized and therefore, not available for expenditure although it does add to our assets. The transfer of $600,000 of realized gains provided considerable relief for cash operations although we continue to operate during periods of the year with insufficient cash.

UNRESTRICTED OPERATING EXPENSES

For the University as a whole, E&G Expenses were $1,172,717, or 2.43%, below budget but 2.79% above prior year expenditures. E&G Expenses were above the level of the prior year at all campuses although the percentage increases range from nearly flat at New England (.03%) to 12.13% at Seattle, due to costs associated with the new building. Overall, the increase in total year-to-year expenditures tracked inflation. The growth in the percentage increase for faculty and staff salaries (2.56%) from 1996-97 to 1997-98 was below the overall year-to-year growth percentage for all expenses. The total Cost of Salaries and Wages was .60% lower than budgeted.