

# **Heidelberg College**

Accountants' Report and Financial Statements

June 30, 2005 and 2004

# Heidelberg College

June 30, 2005 and 2004

## Contents

<b>Independent Accountants' Report on Financial Statements and Supplementary Information .....</b>	<b>1</b>
<b>Financial Statements</b>	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards .....	15
<b>Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>16</b>
<b>Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs.....</b>	<b>18</b>
<b>Schedule of Findings and Questioned Costs.....</b>	<b>20</b>
<b>Summary Schedule of Prior Audit Findings.....</b>	<b>23</b>



## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Heidelberg College  
Tiffin, Ohio

We have audited the accompanying statements of financial position of Heidelberg College (College) as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heidelberg College as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2005, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

October 11, 2005

**Heidelberg College**  
**Statements of Financial Position**  
**June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,813,328	\$ 3,703,751
Cash, restricted for investment in plant	5,351,112	1,107,473
Certificates of deposit	115,528	534,607
Grants and accounts receivable, net of allowance of \$872,603 and \$822,603	1,861,774	2,194,159
Contributions receivable	2,004,998	331,594
Inventories	302,818	247,488
Prepaid expenses and other assets	390,441	381,545
Notes receivable, net of allowance of \$113,676 in 2005 and 2004	2,083,202	1,963,670
Investments	33,827,737	35,722,063
Contribution receivable from charitable remainder trust	1,018,949	999,208
Property and equipment	<u>38,179,794</u>	<u>32,497,377</u>
Total assets	<u>\$ 87,949,681</u>	<u>\$ 79,682,935</u>
<b>Liabilities</b>		
Accounts payable	\$ 486,095	\$ 1,483,326
Accrued payroll and taxes	1,548,943	1,443,736
Deposits and funds held for others	129,727	77,567
Deferred income	873,361	996,418
Other accrued liabilities	214,674	280,238
Line of credit	1,000,000	500,000
Liability for annuity contracts	487,794	490,568
Accrued postretirement health care benefits	2,502,000	2,070,000
Debt	17,634,155	12,313,333
Advances for federal loans	<u>1,616,048</u>	<u>1,516,567</u>
Total liabilities	<u>26,492,797</u>	<u>21,171,753</u>
<b>Net Assets</b>		
Unrestricted	33,338,067	31,732,502
Temporarily restricted	8,311,293	8,188,517
Permanently restricted	<u>19,807,524</u>	<u>18,590,163</u>
Total net assets	<u>61,456,884</u>	<u>58,511,182</u>
Total liabilities and net assets	<u>\$ 87,949,681</u>	<u>\$ 79,682,935</u>

**Heidelberg College**  
**Statements of Activities**  
**Years Ended June 30, 2005 and 2004**

	2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue, Gains and Other Support</b>				
Student tuition and fees	\$ 19,012,291	\$ —	\$ —	\$ 19,012,291
Student aid	<u>(6,919,696)</u>	<u>—</u>	<u>—</u>	<u>(6,919,696)</u>
	12,092,595	—	—	12,092,595
Auxiliary enterprises	6,861,066	—	—	6,861,066
Grants and contracts	1,586,419	—	—	1,586,419
Private gifts, grants and bequests	1,047,081	2,883,693	1,186,253	5,117,027
Investment return designated for current operations	1,519,318	118,134	—	1,637,452
Interest on loans receivable	27,181	—	—	27,181
Loan collection and late fees	58,595	—	—	58,595
Other	167,647	—	—	167,647
Change in value of split-interest agreements	<u>(102,575)</u>	<u>19,741</u>	<u>31,108</u>	<u>(51,726)</u>
	23,257,327	3,021,568	1,217,361	27,496,256
Net assets released from restrictions	<u>2,898,792</u>	<u>(2,898,792)</u>	<u>—</u>	<u>0</u>
Total revenue, gains and other support	<u>26,156,119</u>	<u>122,776</u>	<u>1,217,361</u>	<u>27,496,256</u>
<b>Expenses</b>				
Instruction	8,325,690	—	—	8,325,690
Research	1,205,429	—	—	1,205,429
Academic support	992,444	—	—	992,444
Student services	3,260,453	—	—	3,260,453
Operation and maintenance of physical plant	2,255,209	—	—	2,255,209
Auxiliary enterprises	4,118,929	—	—	4,118,929
Institutional support	<u>5,229,567</u>	<u>—</u>	<u>—</u>	<u>5,229,567</u>
Total expenses	<u>25,387,721</u>	<u>—</u>	<u>—</u>	<u>25,387,721</u>
<b>Change in Net Assets Before Nonoperating Activities</b>	768,398	122,776	1,217,361	2,108,535
<b>Nonoperating Activities</b>				
Investment return in excess of amounts designated for operations	<u>837,167</u>	<u>—</u>	<u>—</u>	<u>837,167</u>
<b>Change in Net Assets</b>	1,605,565	122,776	1,217,361	2,945,702
<b>Net Assets, Beginning of Year</b>	<u>31,732,502</u>	<u>8,188,517</u>	<u>18,590,163</u>	<u>58,511,182</u>
<b>Net Assets, End of Year</b>	<u>\$ 33,338,067</u>	<u>\$ 8,311,293</u>	<u>\$ 19,807,524</u>	<u>\$ 61,456,884</u>

See Notes to Financial Statements

**2004**

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 17,824,333	\$ —	\$ —	\$ 17,824,333
<u>(6,693,512)</u>	<u>—</u>	<u>—</u>	<u>(6,693,512)</u>
11,130,821	—	—	11,130,821
5,886,433	—	—	5,886,433
3,125,191	—	—	3,125,191
1,220,002	2,278,448	1,499,507	4,997,957
1,089,348	120,976	—	1,210,324
26,163	—	—	26,163
24,610	—	—	24,610
326,118	—	—	326,118
<u>(8,646)</u>	<u>104,742</u>	<u>(74,437)</u>	<u>21,659</u>
22,820,040	2,504,166	1,425,070	26,749,276
<u>313,147</u>	<u>(313,147)</u>	<u>—</u>	<u>0</u>
<u>23,133,187</u>	<u>2,191,019</u>	<u>1,425,070</u>	<u>26,749,276</u>
7,421,120	—	—	7,421,120
1,809,922	—	—	1,809,922
952,827	—	—	952,827
2,603,825	—	—	2,603,825
2,432,824	—	—	2,432,824
3,908,922	—	—	3,908,922
<u>3,672,533</u>	<u>—</u>	<u>—</u>	<u>3,672,533</u>
<u>22,801,973</u>	<u>—</u>	<u>—</u>	<u>22,801,973</u>
331,214	2,191,019	1,425,070	3,947,303
<u>3,358,912</u>	<u>—</u>	<u>—</u>	<u>3,358,912</u>
3,690,126	2,191,019	1,425,070	7,306,215
<u>28,042,376</u>	<u>5,997,498</u>	<u>17,165,093</u>	<u>51,204,967</u>
<u>\$ 31,732,502</u>	<u>\$ 8,188,517</u>	<u>\$ 18,590,163</u>	<u>\$ 58,511,182</u>

**Heidelberg College**  
**Statements of Cash Flows**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating Activities</b>		
Change in net assets	\$ 2,945,702	\$ 7,306,215
Items not requiring (providing) cash		
Depreciation and amortization	1,436,058	1,405,889
Contributions restricted for long-term investment	(1,186,253)	(1,499,507)
Gain on disposal of property	—	(4,164)
Realized and unrealized gain on investments	(1,495,942)	(3,662,988)
Change in allowance for uncollectible accounts	50,000	(190)
Changes in		
Accounts receivable	282,385	(150,053)
Contributions receivable	(1,693,145)	1,246,423
Notes receivable	(119,532)	33,642
Prepaid expenses and other assets	(8,896)	255,416
Inventories	(55,330)	(68,545)
Accounts payable	170,553	(124,030)
Accrued payroll and expenses	471,643	168,667
Deposits and funds held for others	52,160	9,847
Deferred income	(123,057)	(305,767)
Liability for annuity contracts	(2,774)	19,821
Advances for federal loans	<u>99,481</u>	<u>(34,796)</u>
Net cash provided by operating activities	<u>823,053</u>	<u>4,595,880</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(8,286,259)	(5,673,985)
Change in certificates of deposit	419,079	(12,413)
Purchase of investments	(10,305,850)	(17,316,853)
Sales and maturities of investments	<u>13,696,118</u>	<u>14,312,787</u>
Net cash used in investing activities	<u>(4,476,912)</u>	<u>(8,690,464)</u>
<b>Financing Activities</b>		
Payments on long-term debt	(543,333)	(440,000)
Proceeds from long-term debt	5,864,155	—
Proceeds from line of credit	500,000	500,000
Proceeds from contributions restricted for investment in endowment	<u>1,186,253</u>	<u>1,499,507</u>
Net cash provided by financing activities	<u>7,007,075</u>	<u>1,559,507</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	3,353,216	(2,535,077)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>4,811,224</u>	<u>7,346,301</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 8,164,440</u>	<u>\$ 4,811,224</u>
<b>Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 2,813,328	\$ 3,703,751
Cash, restricted for investment in plant	<u>5,351,112</u>	<u>1,107,473</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 8,164,440</u>	<u>\$ 4,811,224</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 292,483	\$ 123,711
Property and equipment purchases in accounts payable	—	1,167,784

# Heidelberg College

## Notes to Financial Statements

### June 30, 2005 and 2004

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***General***

Heidelberg College (College) was incorporated as a not-for-profit organization in 1850, under the laws of the State of Ohio. The College is an independent, church-related, liberal arts educational institution offering undergraduate and graduate degrees. The primary sources of revenue are from tuition and auxiliary services.

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

##### ***Cash and Cash Equivalents***

The College considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005, the College's cash accounts exceeded federally insured limits by approximately \$6,700,000.

##### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

##### ***Inventory***

Inventory consists primarily of books and supplies and is stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) method.

##### ***Income Taxes***

The College is exempt from federal income taxes under Section 501(c)(3) of the U. S. Internal Revenue Code. The College is not considered to be a private foundation.

**Heidelberg College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

***Promises to Give***

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

***Property and Equipment***

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The College provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	10 – 50
Furnishings and equipment	5 – 10

***Student Accounts and Notes Receivable***

Student accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the semester unless the student has signed a payment plan. Accounts that are past due without payments for three consecutive months, and have had no response to the due diligence process are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist of amounts due under the Federal Perkins Loan Program and are stated at their outstanding principal amounts, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The College provides an allowance for doubtful notes, which is based upon a review of outstanding loans, historical collection information and existing conditions. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student. Loans with a delinquent balance greater than 90 days and still accruing interest amount to approximately \$312,000 at June 30, 2005.

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

# Heidelberg College

## Notes to Financial Statements

### June 30, 2005 and 2004

#### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

#### ***Deferred Revenue***

Income from prepaid tuition is deferred and recognized over the periods to which the tuition relates.

#### ***Government Grants***

Support funded by grants is recognized as the College performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

#### ***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Certain costs have been allocated among the program, management and general and fund-raising categories based on the estimates of time spent by College personnel and other methods.

#### ***Reclassifications***

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 financial statement presentation. These reclassifications had no effect on the change in net assets.

**Heidelberg College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 2: Contributions Receivable**

	<u>2005</u>	<u>2004</u>
	<b>Temporarily Restricted</b>	<b>Temporarily Restricted</b>
Due within one year	\$ 719,759	\$ 131,750
Due within one to five years	1,565,521	199,844
Due in more than five years	<u>50,000</u>	<u>—</u>
	2,335,280	331,594
Less:		
Allowance for uncollectible contributions	(150,000)	—
Unamortized discount	<u>(180,282)</u>	<u>—</u>
	<u>\$ 2,004,998</u>	<u>\$ 331,594</u>

**Note 3: Investments**

The College's investments at market value are as follows:

	<u>2005</u>	<u>2004</u>
U. S. Government and agency securities	\$ 2,901,350	\$ 2,800,699
Real estate and land contracts	71,770	71,771
Corporate bonds	596,494	539,347
Common stocks	24,621,247	17,732,154
Mutual Funds	<u>5,636,876</u>	<u>14,578,092</u>
Total	<u>\$ 33,827,737</u>	<u>\$ 35,722,063</u>

Included in the above investment totals for 2005 and 2004 are \$161,889 and \$160,210, respectively, relating to assets held for a charitable remainder trust, of which the College is the trustee.

The following schedules summarize the investment return and its classification in the statements of activities for the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Dividends and interest (net of expenses of \$116,704 and \$84,963)	\$ 978,677	\$ 906,248
Net realized and unrealized gains on investments	<u>1,495,942</u>	<u>3,662,988</u>
Total return on investments	2,474,619	4,569,236
Investment return designated for current operations	<u>(1,637,452)</u>	<u>(1,210,324)</u>
Investment return in excess of amounts designated for current operations	<u>\$ 837,167</u>	<u>\$ 3,358,912</u>

**Heidelberg College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

The College has a spending rate policy for its endowment fund investments which states that the sum equal to 5% of a rolling average of the market value of the last eight quarters of the endowment fund investment balance will be spent on current operations.

**Note 4: Property and Equipment**

The College's property and equipment are as follows:

	<b>2005</b>	<b>2004</b>
Buildings and improvements	\$ 29,490,248	\$ 28,565,232
Furnishings and equipment	<u>18,892,206</u>	<u>18,095,682</u>
	48,382,454	46,660,914
Accumulated depreciation	<u>(23,739,951)</u>	<u>(22,474,917)</u>
	24,642,503	24,185,997
Land and land improvements	2,221,668	2,158,561
Construction in progress	<u>11,315,623</u>	<u>6,152,819</u>
	<u>\$ 38,179,794</u>	<u>\$ 32,497,377</u>

**Note 5: Beneficial Interest in Charitable Remainder Trust**

The College is the beneficiary of two charitable remainder trusts administered by separate banks. Under the terms of the trusts, the College has the irrevocable right to receive the net assets of these trusts at the end of the trust's term. The portion of the trust attributable to the future interest of the College is recorded in the statements of financial position as a contribution receivable. The contribution receivable is recorded at the present value of the expected future cash flows discounted at 8% and applicable mortality tables. The estimated value of the expected future cash flows is \$1,018,949 and \$999,208 at June 30, 2005 and 2004, respectively.

The College also administers a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term, which is the designated beneficiary's lifetime. At the end of the trust's term, the remaining assets are available for the College's use. The portion of the trust attributable to the future interest of the College is recorded in the statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trust are recorded at fair market value in the College's statements of financial position. On an annual basis, the College revalues the liability to make distributions to the designated beneficiary based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 7% and applicable mortality tables.

**Heidelberg College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 6: Line of Credit**

The College has a \$1,000,000 revolving bank line of credit expiring in March 2006. At June 30, 2005 and 2004, there was \$1,000,000 and \$500,000, respectively, borrowed against this line. The line is collateralized by gross unrestricted institutional revenue of the College. Interest is at the bank's prime rate plus .1%, which was 6.35% on June 30, 2005, and is payable monthly.

**Note 7: Debt**

Debt consists of the following:

	<b>2005</b>	<b>2004</b>
Variable Rate Demand Revenue Bonds of 1997, variable interest that is reset weekly (2.37% at June 30, 2005). Interest is payable monthly. The bonds are due in annual maturities through September 1, 2017. The bonds are collateralized by facilities, full faith and credit of the College, and a letter of credit guaranteeing repayment to the trustee.	\$ 4,765,000	\$ 5,010,000
Variable Rate Demand Revenue Bonds of 1999, variable interest that is reset weekly (2.37% at June 30, 2005). Interest is payable monthly. The bonds are due in annual maturities through September 1, 2019. The bonds are collateralized by facilities, full faith and credit of the College, and a letter of credit guaranteeing repayment to the trustee.	3,830,000	3,995,000
Variable Rate Demand Revenue Bonds of 2003, variable interest that is reset weekly (2.32% at June 30, 2005). Interest is payable monthly. The bonds are due in annual maturities through September 1, 2024. The bonds are collateralized by facilities, full faith and credit of the College, and a letter of credit guaranteeing repayment to the trustee.	3,175,000	3,275,000
Variable Rate Demand Revenue Bonds of 2004, variable interest that is reset weekly (2.30% at June 30, 2005). Interest is payable monthly. The bonds are due in annual maturities through June 30, 2024. The bonds are collateralized by facilities, full faith and credit of the College, and a letter of credit guaranteeing repayment to the trustee.	5,000,000	—
Note payable, interest free, payable in monthly payments of \$4,167, final payment due March 2005, unsecured	—	33,333

**Heidelberg College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
Note payable, due April 2008, payable in semiannual installments of principal and interest of \$46,279 and one lump sum payment of \$801,365 on April 29, 2008, at 6.75%, secured by certificate of deposit at bank of \$210,000	\$ <u>864,155</u>	\$ <u>—</u>
	\$ <u>17,634,155</u>	\$ <u>12,313,333</u>

The future maturities of long-term debt are as follows:

2006	\$ 723,985
2007	761,350
2008	1,558,820
2009	810,000
2010	850,000
Thereafter	<u>12,930,000</u>
	<u>\$ 17,634,155</u>

The bonds are structured as a long-term lease with the State of Ohio Higher Education Facility Commission. Upon the termination of the lease, ownership of the respective facilities will be transferred to the College. The bond indenture contains several covenants including the following:

1. Submission of an audit report within 150 days after year end.
2. The College must notify the bank of any material litigation issues within 20 days of learning of such issues.
3. The College must not exceed a 2-to-1 liabilities to unrestricted net asset ratio.
4. The College's net revenue, determined by the bond document, must be greater than 100% of the debt service requirements that year.
5. Additional long-term debt greater than \$9,000,000 requires prior bank approval.

**Note 8: Annuities Payable**

The College has been the recipient of several gift annuities which require future payments to the donors or their named beneficiaries. The assets received from the donor are recorded at fair market value. The College has recorded a liability at June 30, 2005 and 2004 of \$487,794 and \$490,568, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates of between 4.75% and 9.00%.

**Heidelberg College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 9: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2005</u>	<u>2004</u>
Instruction	\$ 228,291	\$ 237,177
Academic support	463,904	440,604
Scholarships	571,755	614,763
Facilities	5,777,062	5,680,846
Other	251,332	215,919
Contribution receivable from charitable remainder trust	<u>1,018,949</u>	<u>999,208</u>
	<u>\$ 8,311,293</u>	<u>\$ 8,188,517</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets are restricted to:

	<u>2005</u>	<u>2004</u>
Investment in perpetuity, the income of which is expendable to support		
Instruction	\$ 1,973,225	\$ 1,886,385
Academic support	752,594	752,594
Scholarships	12,836,504	12,089,347
Facilities	1,599,812	1,216,448
Any activity of the organization	<u>2,645,389</u>	<u>2,645,389</u>
	<u>\$ 19,807,524</u>	<u>\$ 18,590,163</u>

***Net Assets Released From Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2005</u>	<u>2004</u>
Purpose restrictions accomplished		
Instruction	\$ 92,921	\$ 85,888
Academic support	32,804	30,660
Scholarships	43,008	50,646
Facilities	2,638,231	62,120
Other	<u>91,828</u>	<u>83,833</u>
	<u>\$ 2,898,792</u>	<u>\$ 313,147</u>

**Heidelberg College**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 10: Employee Benefits**

The College has a defined-contribution pension plan administered by the Teachers Insurance and Annuity Association College Retirement Equities Fund. The plan covers substantially all full-time administrative officers, faculty and certain staff. During 2005 and 2004, the plan required employer contributions ranging from 6% to 9% of employees gross wages and individual contributions ranging from 3% to 6%. Employer benefit expense under this plan was \$576,264 and \$508,524 for 2005 and 2004, respectively.

**Note 11: Postretirement Benefit Plan**

The College sponsors a defined-benefit postretirement plan that covers both salaried and nonsalaried employees. The plan provides postretirement health care coverage to eligible retirees and certain eligible employees. In 2003, the College approved to close the benefit plan to new hires after July 1, 2003. The College pays for 40% of the annual premium along with claims incurred after Medicaid benefits. The College uses a June 30 measurement date for the plan. The following table sets forth the plan's funded status and amounts recognized in the statements of financial position:

	<b>2005</b>	<b>2004</b>
Benefit obligation	\$ (2,502,000)	\$ (2,070,000)
Fair value of plan assets	—	—
Funded status and accrued benefit cost recognized in the statements of financial position	\$ <u>(2,502,000)</u>	\$ <u>(2,070,000)</u>
	<b>2005</b>	<b>2004</b>
Benefit cost	\$ 500,000	\$ 498,112
Benefits paid	68,000	68,551
	<b>2005</b>	<b>2004</b>
Weighted-average assumptions used to determine benefit obligations and benefit costs		
Discount rate	6.25%	6.25%

For measurement purposes, a 5-11% annual increase in the per capita cost of covered health care benefits was assumed for 2005 and 2004.

# Heidelberg College

## Notes to Financial Statements

### June 30, 2005 and 2004

The total amount of benefits expected to be paid from the plan by the College and the participants during each of the next five years and thereafter are as follows:

2006	\$	143,000
2007		155,000
2008		171,000
2009		190,000
2010		210,000
2011 – 2015		1,160,000

#### Note 12: Related Parties

Transactions with related parties are as follows:

	2005	2004
Insurance expense	\$ 244,009	\$ 212,406
Cash and cash equivalents	210,000	500,000
Note payable	864,155	—
Investment	100,027	35,593

#### Note 13: Functional Expenses

The College's expenses on a functional basis are as follows:

	2005	2004
Educational		
Instructional	\$ 9,133,055	\$ 8,292,071
Research	1,241,512	1,848,847
Academic support	1,170,605	1,145,020
Student services	3,731,792	3,112,285
Auxiliary enterprises	<u>4,698,518</u>	<u>4,534,157</u>
Total educational	19,975,482	18,932,380
General and administrative	4,564,267	3,367,129
Fund raising	<u>964,676</u>	<u>587,427</u>
Total expenses	<u>\$ 25,504,425</u>	<u>\$ 22,886,936</u>

#### Note 14: Claims and Litigation

The College is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The College administration believes the ultimate dispositions of the actions will not have a material effect on the financial statements of the College.

## **Supplementary Information**

**Heidelberg College**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2005**

Cluster Title	Federal/Pass-Through Entity	Federal CFDA Number	Amount
Student Financial Aid Cluster			
Federal Supplemental Education Opportunity Grant Program	Department of Education	84.007	\$ 180,884
Federal Family Education Loan Program	Department of Education	84.032	5,704,196
Federal Work-Study Program	Department of Education	84.033	95,198
Federal Perkins Loan Program	Department of Education	84.038	3,038,576
Federal Pell Grant Program	Department of Education	84.063	1,026,325
Funds for the Improvement of Post- Secondary Education	Department of Education	84.116Z	401,216
Funds for the Improvement of Post- Secondary Education	Department of Education	84.116Z	71,792
Surveys, Studies, Investigations and Special Grants	Environmental Protection Agency	66.616	22,945
Lake Ontario H2O Quality	Environmental Protection Agency	N/A	6,422
Water Quality Lab	Environmental Protection Agency	93.283	267,033
OME	Environmental Protection Agency	66.469	<u>44,634</u>
			<u>\$ 10,859,221</u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The College had \$2,132,056 of Federal Perkins loans outstanding at June 30, 2005. The loan balances outstanding are also included in the federal expenditures presented in the schedule.
3. Of the federal expenditures presented in this schedule, the College did not provide any federal awards to subrecipients.



## **Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Trustees  
Heidelberg College  
Tiffin, Ohio

We have audited the financial statements of Heidelberg College (College) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 11, 2005. 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College'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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-1.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD LLP

October 11, 2005



## Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

Board of Trustees  
Heidelberg College  
Tiffin, Ohio

### Compliance

We have audited the compliance of Heidelberg College (College) 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, 2005. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the compliance of Heidelberg College 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 College'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 College's compliance with those requirements.

In our opinion, Heidelberg College 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, 2005.

### Internal Control Over Compliance

The management of Heidelberg College 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 College'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 the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the College's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 11, 2005



**Heidelberg College**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2005**

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding	Questioned Costs
05-1	<p><b>Criteria or Specific Requirement</b> – The College must maintain proper segregation of duties to ensure that there is adequate internal control over financial reporting.</p> <p><b>Condition</b> – The College is not always able to separate the accounting functions enough to ensure complete segregation of duties.</p> <p><b>Effect</b> – Errors or irregularities may be inadvertently missed.</p> <p><b>Cause</b> – Limited number of accounting personnel.</p> <p><b>Recommendation</b> – We recommend that the College put in place, to the best of its ability, controls to separate functions that could lead to possible errors or fraudulent activity.</p> <p><b>View of Responsible Officials and Planned Corrective Actions</b> – The College will continue to assess the adequacy of the internal control structure for proper segregation of duties.</p>	\$ 0

**Findings Required to be Reported by OMB Circular A-133**

Reference Number	Finding	Questioned Costs
05-2	<p><b>Federal Program</b> – Student Financial Aid Cluster, Federal Family Education Loan Program, CFDA 84.032.</p> <p><b>Grant Period</b> – July 1, 2004 through June 30, 2005.</p> <p><b>Criteria or Specific Requirement</b> – Return of Title IV funds are required to be made to lenders and/or students within 30 days of the college becoming aware the student has withdrawn. (34 CFR 668.22)</p> <p><b>Condition</b> – 4 of 14 returns of funds performed by the College were not performed within 30 days of the College becoming aware of the withdrawal. The correct amount of the return of funds was returned, so there are no questioned costs.</p> <p><b>Context</b> – Out of a population of 14 with return of funds of approximately \$35,000, all items were for compliance testing. Out of the entire population selected, there were four instances, with a total return of funds of approximately \$9,000 that were not returned within the required timeframe.</p>	\$ 0

**Heidelberg College**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2005**

Reference Number	Finding	Questioned Costs
	<p><b>Effect</b> – The College is not in full compliance with 34 CFR 668.22.</p> <p><b>Cause</b> – There was a delay in the paperwork from one office to another, resulting in the College failing to meet the 30-day requirement.</p> <p><b>Recommendation</b> – We recommend management ensure personnel are aware of the time period in which return of funds must be submitted to the lender or student and ensure funds are returned timely.</p> <p><b>View of Responsible Officials and Planned Corrective Actions</b> – The College is aware of the 30-day period to return funds. We plan to review withdrawals on a monthly basis so we can catch any oversights in the required time period. We plan to implement this procedure immediately with special attention in the fall semester.</p>	

**Heidelberg College**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2005**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
04-3	<p><b>Federal Program</b> – Department of Education - 84.032 Federal Family Educational Loan Program.</p> <p><b>Criteria</b> – College must report student status changes to the lender or other appropriate party within 30 days, or include the status change in a student status confirmation report within 60 days.</p> <p><b>Condition</b> – Out of a sample of thirty students, there were five instances where the College did not notify the lender or appropriate party within the required time frame.</p> <p><b>Context</b> – Noncompliance with grant requirements.</p> <p><b>Effect</b> – Lenders not aware of student status changes.</p> <p><b>Cause</b> – Third party clearinghouse is not forwarding the student status changes to the lenders within the 60-day time window.</p>	Resolved
04-4	<p><b>Federal Program</b> – 84.032 Federal Family Educational Loan Program and 84.038 Federal Perkins Loan Program.</p> <p><b>Criteria</b> – College must notify the students or the parents of their right to cancel all or a portion off the funds credited to the students account.</p> <p><b>Condition</b> – Out of a sample of thirty students, there were thirty instances where the College did not notify students or their parents of their rights to cancel the loan fund.</p> <p><b>Context</b> – Noncompliance with grant requirements.</p> <p><b>Effect</b> – Students and their parents are not aware of their option to cancel the loan funds.</p> <p><b>Cause</b> – Notification is not being sent to the students or their parents due to the College not being aware of the requirement.</p>	Resolved