

FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION

The University of Toledo  
Years Ended June 30, 2005 and 2004  
With Report of Independent Auditors





**Auditor of State  
Betty Montgomery**

Board of Trustees  
University of Toledo  
2801 W. Bancroft Street  
Rocket Hall Room 174  
Toledo, Ohio 43606

We have reviewed the *Independent Auditor's Report* of the University of Toledo, Lucas County, prepared by Ernst & Young LLP, for the audit period July 1, 2004 through June 30, 2005. 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. The University of Toledo is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

December 8, 2005

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The University of Toledo  
Financial Statements  
and Supplemental Information  
Years Ended June 30, 2005 and 2004

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## Report of Independent Auditors on Basic Financial Statements and Schedule of Expenditures on Federal Awards

The Board of Trustees  
The University of Toledo

We have audited the accompanying statements of net assets of The University of Toledo (the University), a component unit of the State of Ohio, and its discretely presented component unit as of June 30, 2005 and 2004 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

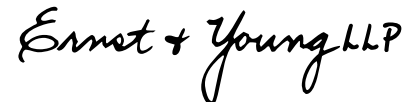
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Toledo and its discretely presented component unit as of June 30, 2005 and 2004 and the changes in its net assets, and cash flows for the years then ended in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

As discussed in Note 3 to the financial statements, in fiscal 2005, the University adopted Government Auditing Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 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, 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 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.

Management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of The University of Toledo taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2005, is presented for the purpose of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



September 30, 2005



## THE UNIVERSITY OF TOLEDO

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position and activity of the University of Toledo (University) as of and for the fiscal years ended June 30, 2005, 2004 and 2003. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion have been prepared by and are the responsibility of University management.

#### Using the Annual Financial Report

The annual financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis--for Public Colleges and Universities*. Financial statements prescribed by GASB Statement No. 35 (the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

On July 1, 2003, the University implemented GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units*. This statement amended GASB Statement No. 14 to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, should be consolidated into the University's financial report. The University has determined that the University of Toledo Foundation meets the GASB 39 criteria for inclusion in the University's financial statements.

The Statements of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on State support could result in operating deficits because State appropriations are required by GASB to be classified as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the University's ability to meet financial obligations as they mature.

### Noteworthy Financial Activity

The University's financial position, as a whole, changed during the fiscal year ended June 30, 2005 compared to the previous year as evidenced by the following:

- The University's total assets increased over the prior year by \$38.3 million or 8%, primarily due to an increase in capital assets.
- Total liabilities increased \$22.7 million or 10.8%, primarily as a result of the issuance of bond anticipation notes.
- The University's net assets increased \$15.6 million from \$269 million to \$284.6 million or 5.8%, of which net investment in capital assets increased by \$6.5 million or 3.8%, unrestricted net assets increased \$6 million or 18.2% and expendable restricted net assets increased by \$3.1 million or 5.7%.
- Operating revenues increased \$11.1 million or 5% during fiscal year ended June 30, 2005. Increased revenues were realized in student tuition and fees, and grants and contracts.
- Operating expenses increased \$6.4 million or 2.1% with the largest changes in the areas of Auxiliary Enterprises, depreciation and research expenditures.
- Nonoperating revenues, expenses and other changes decreased \$7.3 million or 7.4% due to a decrease in investment income, state grants and contracts, capital gifts and state share of instruction.

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information on the University as a whole. Over time, increases or decreases in the University's net assets are one indicator of whether its financial health is improving or deteriorating. Many other non-financial factors must also be considered in assessing the overall health of the University, such as the trend and quality of applicants, freshman class size, student retention, strength of the faculty, condition of the buildings and the safety of the campus.

### Statements of Net Assets

The Statements of Net Assets (SNA) presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the SNA is to present the readers of the financial statements with a financial snapshot of the University of Toledo taken as a whole.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in capital assets. The next category is restricted net assets, which is divided into nonexpendable and expendable. The corpus of the nonexpendable restricted net assets is only available for investment purposes. Expendable

restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The last category is unrestricted net assets, which are available to the University for any lawful purpose of the institution.

From the data presented in the SNA, the readers are able to determine the assets available for continued operations. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the SNA provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Following are condensed Statements of Net Assets of the University as of June 30, 2005, 2004 and 2003 (in thousands).

	2005	2004	Variance 2005 to 2004		2003	Variance 2004 to 2003	
			Amount	Percentage		Amount	Percentage
<b>Assets:</b>							
Current assets	\$ 52,580	\$ 71,630	\$(19,050)	-26.6%	\$ 93,521	\$(21,891)	-23.4%
Capital assets, net	345,388	301,880	43,508	14.4%	281,790	20,090	7.1%
Other assets	120,227	106,347	13,880	13.1%	90,954	15,393	16.9%
<b>Total Assets</b>	<b>518,195</b>	<b>479,857</b>	<b>38,338</b>	<b>8.0%</b>	<b>466,265</b>	<b>13,592</b>	<b>2.9%</b>
<b>Liabilities</b>							
Current liabilities	73,016	45,759	27,257	59.6%	46,212	(453)	-1.0%
Noncurrent liabilities	160,523	165,089	(4,566)	-2.8%	169,235	(4,146)	-2.4%
<b>Total Liabilities</b>	<b>233,539</b>	<b>210,848</b>	<b>22,691</b>	<b>10.8%</b>	<b>215,447</b>	<b>(4,599)</b>	<b>-2.1%</b>
<b>Net Assets</b>							
Investment in capital assets, net of debt	177,347	170,894	6,453	3.8%	163,704	7,190	4.4%
Restricted - nonexpendable	10,031	10,028	3	0.0%	9,997	31	0.3%
Restricted - expendable	58,031	54,888	3,143	5.7%	47,008	7,880	16.8%
Unrestricted	39,247	33,199	6,048	18.2%	30,109	3,090	10.3%
<b>Total Net Assets</b>	<b>\$ 284,656</b>	<b>\$ 269,009</b>	<b>\$ 15,647</b>	<b>5.8%</b>	<b>\$ 250,818</b>	<b>\$ 18,191</b>	<b>7.3%</b>

### Fiscal Year 2005 Compared to 2004

At June 30, 2005, total University assets were \$518.2 million increasing \$38.3 million or 8%. The University's largest asset, investment in capital assets, increased from \$301.9 million to \$345.4 million or 14.4% and current assets decreased \$19 million or 26.6% due to the purchase of long term investments and the use of bond investments for construction related projects.

In fiscal 2005, the University's current assets of \$52.6 million were below current liabilities of \$73 million (current ratio of .72:1 compared to 1.57:1 in prior year). This is consistent with the University's strategic initiative for long term investments and capital projects.

University liabilities were \$233.5 million at June 30, 2005. Long-term debt of \$160.5 million consisted of bonds, notes, and leases payable, of which \$158 million is bonds payable and comprises the largest portion of noncurrent liabilities.

Total net assets increased from \$269 million to \$284.6 million. Unrestricted net assets totaled \$39.2 million, of which 56.6% or \$22.2 million is internally designated for ongoing academic and research programs, capital projects and other initiatives.

### Fiscal Year 2004 Compared to 2003

At June 30, 2004, total University assets were \$479.9 million increasing \$13.6 million or 2.9%. The University's largest asset, investment in capital assets, increased from \$281.8 million to \$301.9 million or 7.1% and current assets decreased \$21.9 million or 23.4% due to the purchase of long term investments and the use of bond investments for construction related projects.

In fiscal 2004, the University's current assets of \$71.6 million were sufficient to cover current liabilities of \$45.7 million (current ratio of 1.57:1 compared to 2.02:1 in 2003).

University liabilities were \$210.8 million at June 30, 2004. Long-term debt of \$165.1 million consisted of bonds, notes, and leases payable, of which \$158.3 million is bonds payable and comprises the largest portion of noncurrent liabilities.

Total net assets increased from \$250.8 million to \$269 million. Unrestricted net assets totaled \$33.2 million, of which 71.2% or \$23.8 million is internally designated for ongoing academic and research programs, capital projects and other initiatives.

### Statements of Revenues, Expenses and Changes in Net Assets

Changes in total net assets are based on the activity reflected in the Statements of Revenues, Expenses and Changes in Net Assets (SRECNA). These statements present operating and nonoperating revenues and expenses recognized or incurred by the University.

In general, operating revenues and expenses result from providing goods and services to the various customers of the University in order to carry out the University mission. Nonoperating revenues are received without an exchange of goods or services. For example, state appropriations are considered nonoperating as they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

Following are condensed statements of revenues, expenses and changes in net assets for each of the three years ended June 30 (in thousands).

	2005	2004	Variance 2005 to 2004		2003	Variance 2004 to 2003	
			Amount	Percentage		Amount	Percentage
Operating revenues							
Student tuition and fees	\$ 135,449	\$ 130,816	\$ 4,633	3.5%	\$117,387	13,429	11.4%
Grants and Contracts	45,785	43,182	2,603	6.0%	41,663	1,519	3.6%
Auxiliary enterprises	47,887	45,715	2,172	4.8%	45,819	(104)	-0.2%
Other operating revenue	6,987	5,256	1,731	32.9%	5,412	(156)	-2.9%
Total operating revenues	236,108	224,969	11,139	5.0%	210,281	14,688	7.0%
Operating expenses							
Educational and general	245,080	242,163	2,917	1.2%	230,575	11,588	5.0%
Auxiliary enterprises	48,911	47,513	1,398	2.9%	48,623	(1,110)	2.3%
Depreciation	18,023	15,956	2,067	13.0%	15,445	511	3.3%
Total operating expenses	312,014	305,632	6,382	2.1%	294,643	10,989	3.7%
Operating loss	(75,906)	(80,663)	4,757	-5.9%	(84,362)	3,699	-4.4%
Nonoperating revenues, expenses and other changes							
State share of instruction	77,812	79,921	(2,109)	-2.6%	79,938	(17)	0.0%
Other nonoperating revenues	15,412	18,163	(2,751)	-15.1%	11,752	6,411	54.6%
Capital appropriations	10,394	8,482	1,912	22.5%	12,654	(4,172)	-33.0%
Nonoperating expenses	(12,065)	(7,712)	(4,353)	56.4%	(9,435)	1,723	-18.3%
Total nonoperating revenues, expenses and other changes	91,553	98,854	(7,301)	-7.4%	94,909	3,945	4.2%
Reallocation of state unfunded workers' compensation liability					4,361		
Increase (decrease) in net assets	15,647	18,191	(2,544)	-14.0%	14,908	3,283	22.0%
Net assets at beginning of year	269,009	250,818			235,910		
Net assets at end of year	\$ 284,656	\$ 269,009	\$ 15,647	5.8%	\$250,818	\$ 18,191	7.3%

### Fiscal Year 2005 Compared to 2004

Significant sources of operating revenues for the University are tuition and fees of \$135.4 million, grants and contracts of \$45.8 million, and auxiliary enterprises sales of \$47.9 million, compared to \$130.8 million, \$43.2 million and \$45.7 million from the prior year.

Operating expenses totaled \$312 million compared to \$305.6 million, which includes depreciation of \$18 million compared to \$15.9 million. Further, research expenditures have increased proportionally to the additional revenue from grants and contracts.

State appropriations were the most significant source of nonoperating revenue, totaling \$77.8 million compared to \$79.9 million, a decrease of \$2.1 million or 2.6%.

Other changes reflect an increase in capital appropriations spending of \$1.9 million the majority of which was utilized in the University's ongoing capital improvement program.

### Fiscal Year 2004 Compared to 2003

The most significant sources of operating revenues for the University are tuition and fees of \$130.8 million, grants and contracts of \$43.2 million, and auxiliary enterprises sales of \$45.7 million, compared to \$117.4 million, \$41.7 million and \$45.8 million from the prior year.

Operating expenses totaled \$305.6 million compared to \$294.6 million, which includes depreciation of \$15.9 million compared to \$15.4 million. Further, research and instruction functional categories have increased proportionally to the additional revenue from grants and contracts.

State appropriations were the most significant source of nonoperating revenue, totaling \$79.9 million for both years.

Other changes reflect a decrease in capital appropriations of \$4.2 million due to the timing of use in the University's ongoing capital improvement program.

### Statements of Cash Flows

The primary purpose of the Statements of Cash Flows (SCF) is to provide relevant information about the cash receipts and payments during the year. The SCF helps users assess the University's ability to generate future net cash flows, meet its obligations as they come due, and the needs for external financing.

The SCF is split into five sections. The first section includes operating cash flows (the net cash provided/used in operating activities). The second section includes cash flows from noncapital financing activities, which reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section includes cash flows from capital and related financing activities including the cash used for capital acquisition and construction. The fourth section includes the cash flows from investing which reflects the purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash to operating income (loss) as reflected in the SRECNA.

Following are condensed statements of cash flows for the three years ended June 30, (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided by (used in):			
Operating activities	\$ (54,003)	\$ (67,490)	\$ (70,778)
Noncapital financing activities	88,810	89,661	85,074
Capital and related financing activities	(47,282)	(16,776)	(16,932)
Investing activities	<u>18,022</u>	<u>(1,580)</u>	<u>2,654</u>
Net change in cash	5,547	3,815	18
Cash and cash equivalents at beginning of year	<u>4,105</u>	<u>290</u>	<u>272</u>
Cash and cash equivalents at end of year	<u>\$ 9,652</u>	<u>\$ 4,105</u>	<u>\$ 290</u>

#### Fiscal Year 2005 Compared to 2004

Major sources of cash included student tuition and fees (\$134.3 million compared to \$130.1 million), state appropriations (\$77.8 million compared to \$79.9 million), auxiliary activities (\$47.2 million compared to \$45.1 million), and grants and contracts (\$44.5 million compared to \$43.4 million). The largest payments were for suppliers and employees (\$285.9 million compared to \$291 million).

#### Fiscal Year 2004 Compared to 2003

Major sources of cash included student tuition and fees (\$130.1 million compared to \$118.6 million), state appropriations (\$79.9 million in each year), auxiliary activities (\$45.1 million compared to \$46 million), and grants and contracts (\$43.4 million compared to \$40.2 million). The largest payments were for suppliers and employees (\$291 million compared to \$278.5 million).

#### Capital Assets and Debt Administration

##### Capital Assets

The University has an ongoing capital improvement program consisting of new construction and the renovation of existing facilities. During the fiscal year ended June 30, 2005, renovation projects were completed on Snyder Memorial, Parks Tower Residence Hall, Nitschke Hall, Recreation Center, parking structures, Transportation Center, Palmer Hall, Student Union and Libbey Hall.

The University has planned capital improvements for the fiscal year ending June 30, 2006 of approximately \$4.8 million. Renovation projects are scheduled for Center for Visual Arts, University Computer Center, University Hall, Health Education, Student Union, Carter Hall, Student Recreation Center, Health and Human Services and infrastructure improvements for parking lots, campus signage, water line replacements and electrical upgrades. Construction on the new residence hall is estimated to cost \$50.6 million with planned completion for fall term

2005. Capital improvement projects are expected to be funded from a variety of sources including gifts, State capital appropriations, debt financing, and University funds.

The University had \$345.4 million in capital assets, net of accumulated depreciation of \$239.3 million at June 30, 2005 compared to \$302 million in capital assets for the prior fiscal year. The charges for depreciation included in the SRECNA total \$18 million and \$15.9 million for the fiscal years ended June 30, 2005 and 2004 respectively. Detailed information about the University's capital assets is presented in the notes to the financial statements.

#### Debt Administration

The University has a strong financial position and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. Standard & Poor's Rating Services assigns an underlying rating ranging from A to AAA on rated insured bond issues. Moody's Investor Services, Inc. also assigns an underlying rating ranging from A1 to A3. The University's underlying ratings are A and A2, respectively.

#### Economic Factors That Will Affect the Future

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support, and the cost of employee compensation, health care, and utilities.

The economic position of the University is closely tied to the economic condition of the State, as all state universities in Ohio receive State financial assistance for both operations and designated capital improvements through appropriations by the Legislature. These appropriations contribute substantially to the successful maintenance and operation of the University.

The Board of Trustees approved a 6% increase in student fees. Enrollment numbers as of the census day indicated a decrease in students for the Fall semester of 1.5%.

#### Requests for Information

This financial report is designed to provide a general overview of The University of Toledo finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Thomas H. Page, Controller, Mail Stop 325, Rocket Hall 1740, 2801 W. Bancroft Street, Toledo, Ohio 43606.



**The University of Toledo**  
**Statements of Net Assets**  
**June 30, 2005 and 2004**  
(Dollars in thousands)

	<u>University</u>		<u>Foundation</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>				
Current Assets				
Cash and cash equivalents (note 2)	\$ 9,652	\$ 4,105	\$ 389	\$ 1,042
Short-term investments (note 3)	3,086	3,317		
Accounts receivable, net (note 4)	24,670	21,429	336	295
Contributions receivable, net allowance for uncollectible			1,582	1,657
Inventories	368	383		
Investments held by bond trustee (note 3)	10,538	37,245		
Notes receivable, net (note 4)	2,487	2,439	64	137
Other assets	1,779	2,712	71	68
<b>Total Current Assets</b>	<b>52,580</b>	<b>71,630</b>	<b>2,442</b>	<b>3,199</b>
Noncurrent Assets				
Endowment and loan investments (note 3)	42,269	36,310	100,788	89,900
Notes receivable, net (note 4)	12,658	13,009	91	155
Long-term investments (note 3)	62,019	53,553		33
Contributions receivable, net allowance for uncollectible			3,045	3,057
Deferred bond issuance costs	3,281	3,475		
Capital assets, net (note 5)	345,388	301,880	3,545	245
<b>Total Noncurrent Assets</b>	<b>465,615</b>	<b>408,227</b>	<b>107,469</b>	<b>93,390</b>
<b>Total Assets</b>	<b>518,195</b>	<b>479,857</b>	<b>109,911</b>	<b>96,589</b>
<b><u>LIABILITIES</u></b>				
Current Liabilities				
Accounts payable and accrued liabilities	30,763	19,688	837	992
Deferred revenue	13,483	11,464		
Deposits	289	381		
Compensated absences - current portion (note 6)	9,617	9,145		
Long-term liabilities - current portion (note 6)	18,864	5,081	64	137
<b>Total Current Liabilities</b>	<b>73,016</b>	<b>45,759</b>	<b>901</b>	<b>1,129</b>
Noncurrent Liabilities				
Compensated absences (note 6)	2,608	2,803		
Long-term liabilities (note 6)	157,915	162,286	5,560	4,024
<b>Total Noncurrent Liabilities</b>	<b>160,523</b>	<b>165,089</b>	<b>5,560</b>	<b>4,024</b>
<b>Total Liabilities</b>	<b>233,539</b>	<b>210,848</b>	<b>6,461</b>	<b>5,153</b>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	177,347	170,894	3,545	245
Restricted for:				
Nonexpendable	10,031	10,028	47,126	46,593
Expendable	58,031	54,888	46,234	36,300
Unrestricted	39,247	33,199	6,545	8,298
<b>Total Net Assets</b>	<b>\$ 284,656</b>	<b>\$ 269,009</b>	<b>\$ 103,450</b>	<b>\$ 91,436</b>

See notes to financial statements

**The University of Toledo**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2005 and 2004**  
(Dollars in thousands)

	University		Foundation	
	2005	2004	2005	2004
<b>Revenues</b>				
Operating revenues:				
Student tuition and fees, net of student aid of \$23,108 and \$22,134	\$ 135,449	\$ 130,816		
Federal grants and contracts	31,182	29,323		
State grants and contracts	6,886	6,833		
Local grants and contracts	1,522	1,508		
Private grants and contracts	6,195	5,518		
Sales and services	4,278	3,380		
Auxiliary enterprises , net of student aid of \$3,357 and \$2,987	47,887	45,715		
Gift			\$ 9,322	\$ 6,138
Other operating revenues	2,709	1,876	620	644
Total operating revenues	236,108	224,969	9,942	6,782
<b>Expenses</b>				
Operating expenses:				
Instruction	120,867	120,917		
Research	17,727	16,268	119	118
Public service	4,955	4,736		
Academic support	29,592	28,964	2,537	2,750
Student services	18,493	18,848		
Institutional support	24,069	24,021	1,766	1,607
Student aid	13,133	12,907	1,519	1,285
Operation and maintenance of plant	16,244	15,502	949	1,840
Depreciation	18,023	15,956	115	55
Auxiliary enterprises	48,911	47,513	599	698
Total operating expenses	312,014	305,632	7,604	8,353
Operating (loss) income	(75,906)	(80,663)	2,338	(1,571)
<b>Nonoperating Revenues (Expenses)</b>				
State share of instruction	77,812	79,921		
Income (loss) after state share of instruction	1,906	(742)	2,338	(1,571)
State grants and contracts	5,558	6,624		
Gifts	3,083	3,898		
Investment income	6,667	6,900	8,560	12,900
Interest on debt	(5,759)	(5,901)		
Other nonoperating (expenses) revenues	(6,248)	(1,794)	276	431
Total other nonoperating revenues	3,301	9,727	8,836	13,331
Income before other changes	5,207	8,985	11,174	11,760
<b>Other Changes</b>				
Capital appropriations	10,394	8,482		
Capital grants, gifts, and contracts	102	734		
Addition to permanent endowment	2	7	840	1,601
Asset disposal	(58)	(17)		
Total other changes	10,440	9,206	840	1,601
Increase in net assets	15,647	18,191	12,014	13,361
<b>Net assets</b>				
Net assets at beginning of year	269,009	250,818	91,436	78,075
Net assets at end of year	\$ 284,656	\$ 269,009	\$ 103,450	\$ 91,436

See notes to financial statements

**The University of Toledo**  
**Statements of Cash Flows**  
**Year Ended June 30, 2005 and 2004**  
(Dollars in thousands)

	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 134,274	\$ 130,162
Grants and contracts	44,468	43,372
Sales and services of educational activities	3,715	3,279
Payments to suppliers	(138,462)	(145,918)
Payments to employees	(147,470)	(145,138)
Loans issued to students	(2,922)	(2,752)
Collection of loans from students	2,525	2,493
Auxiliary enterprise charges	47,160	45,136
Other	2,709	1,876
Net cash from operating activities	(54,003)	(67,490)
<b>Cash flows from noncapital financing activities</b>		
State share of instruction	77,812	79,921
Student direct lending receipts	104,755	81,611
Student direct lending disbursements	(102,420)	(82,415)
Gifts, grants, and contracts	8,643	10,529
Agency Transactions	20	15
Net cash from noncapital financing activities	88,810	89,661
<b>Cash flows from capital and related financing activities</b>		
Purchases of capital assets	(61,588)	(33,939)
Principal paid on capital debt	(5,446)	(6,076)
Capital appropriations	10,037	9,751
Proceeds from debt issuance	14,860	18,137
Capital grants and gifts	337	1,220
Interest paid on capital debt	(5,482)	(5,869)
Net cash from capital and related financing activities	(47,282)	(16,776)
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	329,918	321,037
Interest on investments	3,234	2,235
Purchase of investments	(315,130)	(324,852)
Net cash from investing activities	18,022	(1,580)
Net increase in cash	5,547	3,815
Cash and cash equivalents - beginning of year	4,105	290
Cash and cash equivalents - end of year	\$ 9,652	\$ 4,105

See notes to financial statements

**The University of Toledo**  
**Statements of Cash Flows – Continued**  
**Year Ended June 30, 2005 and 2004**  
(Dollars in thousands)

	<b>2005</b>	<b>2004</b>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (75,906)	\$ (80,663)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	18,023	15,956
(Increase) decrease in assets:		
Accounts receivable, net	(5,797)	(660)
Inventories	(15)	22
Other current assets	933	(1,019)
Notes receivable, net	303	(274)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	10,196	(1,339)
Deferred revenue	(2,018)	484
Compensated absences	278	3
	\$ (54,003)	\$ (67,490)

See notes to financial statements

**THE UNIVERSITY OF TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2005  
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Note 1 - Reporting Entity, Basis of Presentation, and Summary of Significant Accounting Policies

The accompanying financial statements consist of the University of Toledo (University) and the University of Toledo Foundation (Foundation).

Reporting Entity - The University is a component unit of the State of Ohio (State), as established by the General Assembly of the State in 1967 by statutory act under Chapter 3360 of the Revised Code of the State. Prior to that time, the University was a municipal university. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations, grants from various state agencies, Ohio workers' compensation program and payments to the State retirement programs for certain University employees.

The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501 (c) (3), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 through 514.

In 2004, the University retroactively implemented Governmental Accounting Standards Board (GASB) Statement No. 39 *Determining Whether Certain Organizations are Component Units*, which requires the University to reflect the Foundation as a discretely presented component unit in the financial statements based on the significance of its relationship with the University. The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

The Foundation is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The twenty-eight member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipt from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

**THE UNIVERSITY OF TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2005  
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During the years ended June 30, 2005 and 2004 the Foundation transferred approximately \$4,095 and \$5,399, respectively, to the University for both restricted and unrestricted purposes. Certain marketable investments of the University are pooled with marketable investments of the Foundation. The Foundation manages these funds and receives from the University a management fee equal to 1.35% of the fair market value of the University's share of the pooled investments. For the years ended June 30, 2005 and 2004, the University incurred management fees paid or payable to the Foundation of \$496 and \$409, respectively. Requests for additional information or financial statements should be addressed to The University of Toledo Foundation, Driscoll Center MS 318, 2801 W Bancroft Street, Toledo, Ohio 43606.

Basis of Presentation - The financial statements have been prepared to incorporate all fund groups utilized by the University. These statements have been prepared in conformity with generally accepted accounting principles as prescribed by the GASB and require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Operating revenues and expenses generally result from providing educational and instructional services in connection with the University's principal ongoing operations. The principal source of operating revenues of the University is student tuition. The University also recognizes as operating revenue auxiliary enterprises and exchange transactions. Operating expenses include educational and instructional costs, administrative expenses and depreciation expense. All items not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the University's policy to use restricted resources first, then unrestricted as they are needed.

Summary of Significant Accounting Policies

1. Cash and cash equivalents consist of cash on hand and demand deposits with banks. All investments with maturities less than 90 days are considered cash and cash equivalents.
2. Investments in marketable securities are carried at fair value as established by the major securities market. Investment income includes realized and unrealized gains and losses on investments, amortization of premium and discount, interest income, and dividends.
3. Inventories are stated at the lower of cost (first in, first out basis) or market.

**THE UNIVERSITY OF TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2005

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4. Capital assets are stated at historical cost or fair value at date of donation in the case of gifts. When capital assets are sold or otherwise disposed of, the carrying value of such assets is removed from the asset accounts, along with the related accumulated depreciation. Depreciation has been recorded in accordance with GASB. The University has a rare book collection and manuscript collection in the library that is not capitalized since it represents historical works of art that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means.
5. Deferred bond issuance costs for the General Receipts Bonds have been capitalized in the Other Assets category on the Statements of Net Assets and are being amortized over the life of the bonds on the straight-line method, which approximates the interest method.
6. University employees earn vacation and sick leave based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding their limitation are forfeited. The liability and expense incurred are recorded at year-end as long-term and short-term liabilities in the Statements of Net Assets, and as a component of operating expense in the Statements of Revenues, Expenses, and Changes in Net Assets.
7. Compensatory time may be given in lieu of overtime pay to classified employees who work in excess of the regular schedule. Management estimates that the future cost associated with the payment of compensatory time earned as of June 30, 2005 is not significant to the financial statements as a whole and will not have a material impact on the future operations when paid.
8. Summer term tuition and fees, and corresponding expenses relating to various sessions falling in the fiscal year are recognized in the fiscal year they occur. The portion of sessions falling into the next fiscal year are recorded as deferred revenue and prepaid expenses in the Statements of Net Assets and will be recognized in the following year.
9. State appropriations are recognized when received. Restricted funds are recognized as revenue only to the extent expended.
10. Interest on construction projects is capitalized until substantial completion of the project.
11. The University's and the Foundation's Board of Trustees established an investment policy for the endowment and quasi endowments with the objectives of protecting principal and maximizing total investment return without assuming extraordinary risks. It

**THE UNIVERSITY OF TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**

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is the goal of the University to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 5% of the three year market average, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings.

Note 2 – Cash and Cash Equivalents

Cash balances are combined into one pool for making daily cash and investment transactions. GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires cash and cash equivalents held by the University to be categorized into the following credit risk categories:

1. Insured or collateralized with securities held by the University, or by its agent in the University's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the University's name.
3. Uncollateralized.

At June 30, 2005, the carrying amount of the University's cash and cash equivalents for all funds was \$9,652. Items in transit and outstanding checks cause the difference in the carrying amount of \$9,652 and the bank balance of \$517. Of the bank balance, \$100 was covered by federal depository insurance (category 1) and \$417 was insured by a financial institution collateral pool (category 2).

Note 3 – Investments

The Board approved revisions to the University's investment policy effective November 2003. The policy establishes investment objectives, strategies and measures for evaluation. The University's policy complies with the State of Ohio regulations provided by legislation. The University adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, which requires certain additional disclosures related to the interest rate, credit, foreign currency and custodial risks associated with interest-bearing investments as of June 30, 2005.

The University's investment policy authorizes the investment of non-endowed funds in the following investments:

- Obligation of the US Treasury and other federal agencies
- Municipal and state bonds
- Certificate of deposit
- Repurchase agreements
- Mutual funds and mutual fund pools
- Money market funds



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- Commercial paper
- Bankers acceptances
- Corporate bonds and stock
- Asset backed securities
- Mortgage pools and mortgage related securities
- Guaranteed investment contracts

The University's investment policy authorizes the investment of endowed funds in the following investments:

- Obligation of the US Treasury and other federal agencies
- Municipal and state bonds
- Certificate of deposit
- Repurchase agreements
- Mutual funds and mutual fund pools
- Money market funds
- Corporate bonds and stocks
- Mortgages and collateralized mortgage obligations

The cost and fair values, exclusive of accrued interest, of investments at June 30, consisted of the following:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Corporate bonds	\$ 18,284	\$ 18,304	\$ 9,140	\$ 9,495
Corporate stock	25,023	30,710	21,616	25,341
Municipal Bonds	2,025	2,020		
U.S. Government/agency obligations	51,061	50,556	87,180	86,526
	<u>96,393</u>	<u>101,590</u>	<u>117,936</u>	<u>121,362</u>
Common and collective trust funds	14,830	15,340	6,750	7,719
STAR Ohio			362	362
Real estate	982	982	982	982
	<u>\$ 112,205</u>	<u>\$ 117,912</u>	<u>\$ 126,030</u>	<u>\$ 130,425</u>

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

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As of June 30, 2005, the University had the following interest-bearing investments and maturities.

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1 Year	1 - 5	6 - 10	Greater than 10
US Government	\$ 3,628	\$ 1,025	\$ 2,354	\$ 249	\$
US Government Agencies	46,928	8,297	29,599	3,054	5,978
Corporate Bonds	18,304	5,966	6,347	1,191	4,800
Municipal Bonds	2,020	955	555		510
Total	\$ 70,880	\$ 16,243	\$ 38,855	\$ 4,494	\$ 11,288

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information – as commonly expressed in terms of the credit ratings issued by the nationally recognized statistical rating organizations (NRSRO's) such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings – provides a current depiction of potential variable cash flows and credit risk.

The credit ratings of the University's interest-bearing investments at June 30, 2005 are as follows:

Credit Rating (Moody's)	Total	U.S. Government Obligation	U.S. Agency Obligations	Corporate Bonds	Municipal Bonds
Aaa	\$ 63,125	\$ 3,628	\$ 46,928	\$ 10,549	\$ 2,020
Aa	2,663			2,663	
A	4,575			4,575	
Baa	517			517	
Total	\$ 70,880	\$ 3,628	\$ 46,928	\$ 18,304	\$ 2,020

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2005, the University had no exposure to foreign currency risk.

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*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The University's investment of \$982 in real estate and \$15,340 in common and collective trusts are not evidenced by securities that exist in physical or book entry form. The remaining investments are uninsured and unregistered with securities held by the counter party's trust department or agent in the University's name.

Note 4 – Accounts and Notes Receivable

The accounts and notes receivable, shown net of allowances for uncollectible accounts at June 30, are summarized as follows:

	2005	2004
Accounts receivable:		
Tuition and Fees	\$ 4,790	\$ 3,560
Sales and services	1,841	1,506
Auxiliary services	2,884	2,336
Grants and contracts	13,565	12,140
Interest receivable	379	466
Interest receivable - endowments	66	56
Plant fund	1,145	1,365
Total accounts receivable - net of allowances	24,670	21,429
Notes receivable:		
Current	2,487	2,439
Non current	12,658	13,009
Total notes receivable - net of allowances	15,145	15,448
Total accounts and notes receivables - net of allowances	\$ 39,815	\$ 36,877

Accounts receivable relate to several transactions, including tuition and fees, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services. Accounts receivable are recorded net of allowance for uncollectible accounts of \$1,799 and \$2,011 for fiscal 2005 and 2004 respectively. Student notes receivable are recorded net of allowance for uncollectible accounts of \$760.

Note 5 – Capital Assets

Capital assets are recorded at cost or if acquired by gift at the fair market value as of the date of donation.

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Assets are capitalized with a cost of \$100 or greater with the exception of equipment, which is capitalized at a cost of \$5 or greater. Depreciation is recognized on a straight-line basis over the estimated useful life of the asset, as follows:

Classification	Life
Infrastructure	15 to 25 years
Buildings	40 years
Building Additions	15 to 40 years
Equipment	5 years

Capital assets consist of the following as of June 30:

	Balance June 30, 2004	Additions	Reallocation/ Reductions	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 18,008	\$ 2,650	\$	\$ 20,658
Land improvements	1,706			1,706
Construction in progress	38,589	49,853	(18,029)	70,413
Total capital assets, not being depreciated	58,303	52,503	(18,029)	92,777
Capital assets, being depreciated:				
Infrastructure	47,943	752	21	48,716
Buildings	381,852	3,531	17,391	402,774
Equipment	36,406	5,420	(1,438)	40,388
Total capital assets, being depreciated	466,201	9,703	15,974	491,878
Less accumulated depreciation:				
Infrastructure	20,561	2,082		22,643
Buildings	173,448	12,720		186,168
Equipment	28,615	3,221	(1,380)	30,456
Total	222,624	18,023	(1,380)	239,267
Total capital assets, being depreciated, net	243,577	(8,320)	17,354	252,611
<b>Capital Assets, net</b>	<b>\$ 301,880</b>	<b>\$ 44,183</b>	<b>\$ (675)</b>	<b>\$ 345,388</b>

Note 6 – Long-term Liabilities

On January 27, 2005, the University issued \$13 million in General Receipt Bond Anticipation Notes, Series 2005A to finance the acquisition and installation of steam and chilled water utility

**THE UNIVERSITY OF TOLEDO**  
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equipment, new telecommunications equipment to serve new and existing campus facilities, and the acquisition of a building for use as office and research space.

On March 1, 2004, the University issued \$14.1 million General Receipt Bonds, Series 2004 to refund and redeem the General Receipt Bonds, Series 1994 in the amount of \$13.2 million with an effective interest rate of 4.35% and the remainder of the issue being used to fund the bond issuance cost and the call premium. The University will reduce the debt payments over the next 20 years by \$833 securing an economic gain of \$341.

On November 19, 2002, the University issued \$104.5 million General Receipt Bonds, Series 2002, with a variable interest rate, to finance the construction of a residence hall, improve dining facilities and currently refund and redeem the General Receipts Bonds, Series 1992A in the amount of \$46.1 million with an effective interest rate of 5.88%. A total of \$47 million of the proceeds was utilized to pay the call premium of \$921 and redeem all of the outstanding 1992 bonds on December 1, 2002. As a result the 1992 bonds are no longer outstanding, and the liability for those bonds has been removed from the Statement of Net Assets. The University refunded and redeemed the 1992 bonds to reduce its total debt service payments over the next 20 years by \$7.4 million and to secure an economic gain of \$1.8 million.

On December 1, 2002, the University entered into interest rate swap agreements with Bear Stearns & Co., Inc. and Bank One N.A. for \$104.5 million to hedge the exposure against interest rate fluctuations arising from the variable interest rates on the Series 2002 Bonds. Based on the swap agreements, the University owes interest calculated at an average fixed rate of 4.35% to the counterparties to the swap agreements. In return, the counterparties owe the University interest at a variable rate based on two indices: (1) 67% of the London Interbank Offered Rate (LIBOR) rate on 42% of the notional amount; and (2) 71% of LIBOR on 58% of the notional amount. Only the net difference in interest payments is actually exchanged with the counterparties. The University continues to pay interest to the bondholders at the variable rate provided by the bonds; however, during the term of the swap agreements, the University effectively pays a fixed rate on the debt. The swap agreements expire on June 20, 2020 (\$47.5 million) and June 1, 2032 (\$57 million) and can only be terminated by the University at its sole option. If the swap agreements terminated at June 30, 2005, the University would be liable for a termination payment of approximately \$11.5 million (as of September 30, 2005 \$8.7 million). The swap agreements fair value is estimated using the zero-coupon method, whereby the future net settlement payment as required by the swap is calculated, then discounted using the spot rates implied by the current yield curve. The University will be exposed to variable rates only if the counter-parties to the swap default or if the University terminates the swap agreement.

On February 1, 2001, the University issued \$35 million General Receipts Bonds, Series 2001 to finance construction of a residence hall.

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On October 1, 1998, the University issued \$13.5 million General Receipts Bonds, Series 1998. Of this amount, \$10.4 million, with an average interest rate of 4.8%, were used to advance-refund \$9.5 million of outstanding Series 1992B Bonds with an average interest rate of 5.8%. The net proceeds of \$1.2 million (after payment of issuance costs of \$146) were deposited with an escrow trustee for all future debt service payments on the Series 1992B Bonds. As a result, the Series 1992B Bonds are considered defeased and the liability for those bonds has been removed from bonds outstanding as of June 30, 2004. The debt defeased remains outstanding as of June 30, 2005. The remaining \$3.1 million was used to finance capital projects.

The University issued General Receipts Bonds in the amount of \$15.5 million in February 1994 to finance construction of student housing. Series 1992A and 1992B General Receipt Bonds were issued in August 1992. The Series 1992A Bonds financed the advance refunding of Series 1990 Bonds and a portion of Series 1988 Bonds, and the Series 1992B Bonds financed capital projects. The balance of debt issuance defeased in substance in prior years that remains outstanding as of June 30, 2005 is \$26.6 million.

The principal and interest payments of all of the 2004, 2002, 2001, and 1998 Series General Receipts Bonds and the 2005 General Receipts Bond Anticipation Notes are collateralized by the pledge of the general receipts of the University. The bond indentures have various restrictive covenants with which the University management believes they have complied.

The University entered into three debt agreements and a refinancing agreement during fiscal 2003. In September 2002, the University entered into a debt agreement to complete funding for the athletic training facility on the Scott Park campus, which bears an interest rate of 200 basis points over LIBOR for an estimated 3.96%. In November 2002, the University entered into two debt agreements for the purchase of video equipment and land, which bear interest rates of 5.35% and 4.75% respectively. In April 2003, existing debt and lease agreements were refinanced at an interest rate of 2.98% for the fiber optic network and equipment purchases.

The University entered into an agreement in September 1999 to finance the purchase of a scoreboard, which bears interest at 7.5%. These agreements are classified as notes payable.

The University leases a building, fiber optic network, athletic turf, and equipment under capital lease agreements. An asset of \$14.8 million, representing the cost of the building and equipment, and a corresponding liability for the lease obligation are recorded in the financial statements.

Interest expense, net of interest income, related to the borrowing was capitalized as part of the cost of construction. Interest capitalized during Fiscal 2005 was \$1.4 million, net of interest income of \$781 and Fiscal 2004 was \$2 million net of investment income of \$167.

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Long-term liabilities consist of the following as of June 30:

	Due Dates	Interest Rate	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005	Current
General receipts series 1998, serial and term bonds:							
Advance refund prior general receipt bonds (part of 1992), Student Union renovations	1999-2020	3.6 to 5.0%	\$ 10,760	\$	\$ 490	\$ 10,270	\$ 515
General receipts series 2001, serial and term bonds:							
Student housing	2002-2030	4.25 to 5.22%	33,475		760	32,715	800
General receipts series 2002, serial and term bonds:							
Student housing and advance refund general receipt series 1992	2003-2032	various	100,000		1,990	98,010	1,995
General receipts series 2004, serial and term bonds:							
Advance refund prior general receipt bond (1994)	2005-2025	2.0 to 4.125%	14,110	-	40	14,070	500
General receipts series 2005A, Anticipation Notes:							
Renovations	2006	3.25%	-	13,000	-	13,000	13,000
Lease obligations	1996-2017	various	8,594	1,860	2,023	8,431	1,982
Notes payable	1999-2018	various	428	-	145	283	72
Compensated absences			11,948	925	648	12,225	9,617
			\$179,315	\$ 15,785	\$ 6,096	189,004	\$28,481
Less current portion long-term liabilities			14,226			28,481	
Long-term liabilities			\$165,089			\$ 160,523	

Principal and interest on long-term debt are payable from general receipts. The obligations are generally callable. The future amounts of principal and interest payments required by the bond agreements are as follows:

	Principal	Interest	Total
2006	\$ 16,810	\$ 7,297	\$ 24,107
2007	3,955	6,708	10,663
2008	4,235	6,530	10,765
2009	9,325	6,327	15,652
2010	4,630	5,945	10,575
2011 - 2015	26,165	26,289	52,454
2016 - 2020	28,670	19,389	48,059
2021 - 2025	12,270	14,464	26,734
2026 - 2030	9,880	11,703	21,583
2031 - 2032	52,125	4,055	56,180
Total	\$ 168,065	\$ 108,707	\$ 276,772

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The future amounts of principal and interest payments required by the lease agreements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,982	\$ 286	\$ 2,268
2007	1,752	221	1,973
2008	1,610	162	1,772
2009	1,641	108	1,749
2010	440	60	500
2011 - 2015	865	120	985
2016 - 2017	<u>141</u>	<u>4</u>	<u>145</u>
Total	<u>\$ 8,431</u>	<u>\$ 961</u>	<u>\$ 9,392</u>

The future amounts of principal and interest payments required by the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 72	\$ 12	\$ 84
2007	76	9	85
2008	33	6	39
2009	9	5	14
2010	10	4	14
2011 - 2015	56	14	70
2016 - 2018	<u>27</u>	<u>2</u>	<u>29</u>
Total	<u>\$ 283</u>	<u>\$ 52</u>	<u>\$ 335</u>

Note 7 – Retirement Benefits

The University contributes to two cost-sharing multiple-employer defined benefit plans: (1) Public Employees Retirement System of Ohio (PERS), and (2) State Teachers Retirement System of Ohio (STRS). Both plans provide retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code (ORC). PERS and STRS issue stand-alone financial reports. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 466-2085 for PERS, and 275 East Broad Street, Columbus, Ohio, 43215-3771 or by calling (614) 227-4090 for STRS.



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The funding policy for the above plans is as follows:

*PERS:* The ORC provides statutory authority for employee and employer contributions and administers three separate pension plans as described below:

*Traditional Pension Plan* – A cost sharing, multiple-employer defined benefit pension plan.

*Member-Directed Plan* – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulated retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

*Combined Plan* – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by PERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulated retirement assets in a manner similar to the Member-Directed Plan.

During 2005, PERS employees contributed 8.5% of their salary to the plan and the University contributed 13.31% of covered payrolls to the plan. Law enforcement employees contributed 10.1% of their salary and the University contributed 16.7% of covered payrolls. The total employer contributions to PERS for the years ended June 30, 2003, 2004, and 2005 were \$6,840, \$7,112 and \$7,011, respectively, which were equal to 100% of the required contributions for each year.

*STRS:* STRS is a statewide retirement plan for licensed teachers and other faculty members and provides a choice of three retirement plan options.

*Defined Benefit Plan (DB Plan)* – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of final average salary is reached. For members with 35% or more years of Ohio contribution service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest as specified rates are

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matched by an equal amount from other STRS funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

*Define Contribution Plan (DC Plan)* – Benefits are established under Sections 3307.80 to 3307.89 of the ORC. For members who select the DC Plan all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

*Combined Plan* – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retiree member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

The ORC provides statutory authority for employee and employer contributions. During 2004, STRS employees contributed 10% of their salary to the plan and the University contributed 14.0% of covered payrolls to the plan. The total employer contributions to STRS for the years ended June 30, 2003, 2004, and 2005 were \$8,188, \$8,290 and \$8,284, respectively, which were equal to 100% of the required contributions for each year.

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system (ARP) for academic and

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administrative university employees of public institutions of higher education who are currently covered by the State Teachers Retirement System or Public Employees Retirement System. The University of Toledo board of trustees adopted such a plan effective April 1999. This plan is a defined contribution plan under IRS section 401(a). The total employer contribution to ARP for the years ended June 30, 2003, 2004, and 2005, were \$2,374, \$2,731 and \$2,893, respectively.

Eligible employees (those who are full-time and salaried) have 90 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in STRS or PERS and who elect to participate in the alternate retirement program must contribute their share of retirement contributions (10% STRS or 8.5% PERS) to one of eight private providers approved by the State Department of Insurance. For employees who elect an ARP, employers are required to remit employer contributions to STRS Ohio at a rate of 3.5%. The employer contribution is the lower of a rate determined by independent actuarial study or the portion of the STRS Ohio DC Plan employer contribution rate that is allocated to the defined benefit unfunded liability. PERS does not require an employer contribution for employees electing an ARP. The University plan provides these employees with immediate plan vesting.

A retiree of STRS or PERS is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Note 8 – Postemployment Benefits

In addition to the pension benefits described in note 6, the Ohio Revised Code provides the statutory authority requiring the University to fund postretirement health care through employer contributions to PERS and STRS.

PERS provides postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate for state employers was 13.31% of covered payroll; 4% was the portion that

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was used to fund health care for the year. The law enforcement employer rate for 2004 was 16.70% and 4% was used to fund health care.

OPEB's are advance-funded on an actuarially determined basis. Summary of assumptions are as follows:

*Actuarial Review* – The assumptions and calculations were based on the latest actuarial review performed as of December 31, 2003.

*Funding Method* – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

*Assess Valuation Method* – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

*Investment Return* – The investment assumption rate for 2003 was 8%.

*Active Employee Total Payroll* – An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%.

*Health Care* – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

At year-end 2004, the number of active contribution participants totaled 369,885. The amount of \$10.5 billion represents the actuarial value of PERS' net assets available for OPEB's at December 31, 2003. The actuarial accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the PERS retirement board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures PERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the

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health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the health care benefits are not guaranteed and the cost of the coverage paid from STRS funds shall be included in the employer's contribution rate, currently 14% of covered payroll.

The STRS board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was \$3.1 billion at June 30, 2004.

For the year ended June 30, 2004, the net health care costs paid by STRS were \$268,739. There were 111,853 eligible benefit recipients.

Note 9 - Contingencies and Commitments

In the normal course of its activities, the University is a party to various legal actions. The University intends to vigorously defend itself against all claims and is of the opinion that the outcome of current legal actions will not have a material effect on the University's financial position.

The University carries commercial insurance to cover various general liability risks and blanket business interruption and liability coverage through the Inter-University Council Insurance Consortium (IUCIC). Through this group, the University maintains a \$100 deductible and a pre-funded group deductible of \$350 per occurrence, with an annual aggregate stop loss of \$700. No material losses were reported during 2005.

The University participates in a State pool of agencies and universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating state agencies and universities in the Plan are accrued by the Ohio Bureau of Workers' Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the worker's compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the worker's compensation claims of participating State agencies and universities.

The University is also self-insured for unemployment compensation and substantially all employee health benefits. Liabilities for estimates of losses retained by the University for outstanding claims and claims incurred but not reported under self-insurance programs have been

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based on the University's experience and actuarial valuation. Settlements have not exceeded insurance coverage in each of the past three years.

Changes in such liabilities for the years ended June 30 are as follows:

	<u>2005</u>	<u>2004</u>
Unpaid claims - July 1	\$ 2,971	\$ 3,537
Incurred claims	18,984	18,230
Claim payments	<u>(18,732)</u>	<u>(18,796)</u>
Unpaid claims - June 30	<u>\$ 3,223</u>	<u>\$ 2,971</u>

Note 10 – Natural Classification of Expenses

Operating expenses by natural classification for the year ended June 30 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Salaries, wages, benefits	\$ 201,343	\$ 202,625
Compensation non-payroll	28,857	24,573
Supplies	16,062	16,239
Travel and entertainment	6,938	6,091
Information and communication	7,535	7,366
Occupancy	13,048	13,584
Scholarship expense	13,393	12,907
Depreciation	18,023	15,956
Other	<u>6,815</u>	<u>6,291</u>
Total operating expenses	<u>\$ 312,014</u>	<u>\$ 305,632</u>

# Supplemental Information

The University of Toledo

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Student Financial Aid—Cluster</b>			
<i>U.S. Department of Education:</i>			
Federal Supplemental Education Opportunity Grants	84.007	N/A	\$ 2,206,045
Federal Work-Study Program	84.033	N/A	57,061
Federal Perkins Loan Program	84.038	N/A	57,172
Federal Pell Grant Program	84.063	N/A	12,676,781
<b>Total Student Financial Aid—Cluster</b>			<u>14,997,059</u>
<b>Research and Development—Cluster</b>			
<i>U.S. Department of Agriculture:</i>			
Cooperative Forestry Research:			
Direct	10.202	01JV11231300-103	26,952
Direct	10.202	02JVH231300-011	115,603
			<u>142,555</u>
Grants for Agriculture Research—Special Research Grants			
Direct	10.200	200238870-01934	6,818
Direct	10.200	200338870-02061	33,391
Direct	10.200	200338894-02032	292,597
Direct	10.200	200438898-02140	675,296
Pass-through from:			
Ohio State University Research Foundation	10.200	RF01010203	108,438
			<u>1,116,540</u>
Grants for Agriculture Research—Competitive Research Grants			
Direct	10.206	200138873-11523	36,498
Pass-through from:			
Ohio State University Research Foundation	10.206	OSURF 743441	106,085
			<u>142,583</u>
Grants for Agriculture Research—Basic and Applied Research			
Direct	10.001	58-3607-1193	787,471
Direct	10.001	58-3604-4209	7,241
Direct	10.001	58643530073	593,338
Direct	10.001	58-3607-4-119	138,323
Direct	10.001	(1)	14,612
Pass-through from:			
Ohio State University Research Foundation	10.001	PO#RF0092114	82,979
			<u>1,623,964</u>
Higher Education Challenge Grants			
	10.217	02JV11272164-005	10,144
Biotechnology Risk Assessment Research			
Direct	10.219	200239454-12773	9,325
Direct	10.219	200333120-13957	91,522
			<u>100,847</u>
Fund for Rural America_Research, Education, and Extension Activities			
Pass-through from:			
Heidelberg College	10.224	(1)	11,574
Forestry Research			
Direct	10.652	SRS 04CA11301470	175,631
Direct	10.652	43360440254	679
Direct	10.652	SRS 03CA11330147	4,885
			<u>181,195</u>
Soil and Water Conservation			
	10.902	68-5E34-01-186	29,980
<b>Total U.S. Department of Agriculture</b>			<u>3,359,382</u>



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Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>U.S. Department of Commerce:</i>			
<i>Sea Grant Support</i>			
Pass Through From:			
SUNY	11.417	(1)	6,046
Illinois -Indiana Seagrant	11.417	(1)	77,421
Ohio Seagrant Program	11.417	(1)	21,657
			105,124
Economic Development - Technical Assistance			
Pass Through From:			
University of Cincinnati	11.303	(1)	3,913
Total U.S. Department of Commerce			109,037
<i>U.S. Department of Navy:</i>			
Basic and Applied Scientific Research:			
Direct	12.300	N00014030533	97,762
Direct	12.300	N00014-05-1-0397	978
Total U.S. Department of Navy			98,740
<i>U.S. Department of Army, Department of Defense:</i>			
Collaborative Research and Development			
Pass-through from:			
Orbital Research, Inc.	12.114	(1)	28,466
Impact Engineering	12.114	(1)	6,102
University of Michigan-DOD	12.114	M000269	7,019
			41,587
Military and Medical Research Development			
Direct	12.420	DAMD17-03-1-0743	81,117
Direct	12.420	DAMD17-02-1-0149	114,280
			195,397
Basic Scientific Research			
Direct	12.431	DAAD19-03-1-0012	690,686
Direct	12.431	DAAD19-03-1-0080	6,209
			696,895
Total U.S. Department of Army			933,879
<i>U.S. Department of Airforce, Department of Defense:</i>			
Air Defense Research Sciences Program			
Direct	12.800	F29601-02-C-0304	307,691
Pass-through from:			
Universal Technologies Inc.	12.800	(1)	686,219
Orbital Research, Inc.	12.800	FA 930005C0010	1,794
			995,704
<i>U.S. Department of Defense:</i>			
Research Technology and Development			
Pass-through from:			
Orbital Research, Inc.	12.910	(1)	12,347
Advanced Technology Institute	12.910	2001-32	62,940
Advanced Technology Institute	12.910	(1)	42,483
			117,770
Mathematical Sciences Grant Program			
Direct	12.901	(1)	12,834
Direct	12.901	(1)	989
			13,823
Total U.S. Department of Defense			131,593

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Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>U.S. Department of the Interior:</i>			
Water Desalination Research and Development Program:			
Pass-through from Central State University	15.506	04FC811041	11,145
Assistance to State Water Resources Research Institutes			
Pass-through from Ohio State University Water Resource Center	15.805	(1)	25,110
Cooperative Research Units Program			
Direct	15.812	J23400040044	16,178
Total U.S. Department of Interior			<u>52,433</u>
<i>U.S. Department of Justice:</i>			
Edward Byrne Memorial State and Local Law Enforcement			
Assistance Discretionary Grant Program:			
Direct	16.580	(1)	3,207
<i>National Aeronautics and Space Administration:</i>			
Aerospace Education Services Program:			
Direct	43.001	NAG5-8054	8,148
Direct	43.001	NCC5-673	27,929
Direct	43.001	NGT5-50469	23,817
Pass-through from:			
Ohio Aeronautical Institute	43.001	R300100275-4018	12,486
Institute for Global Environmental Strategy	43.001	PO 011013	2,264
Ohio Space Grant Consortium	43.001	(1)	9,945
			<u>84,589</u>
Technology Transfer:			
Direct	43.002	NCC3524	(263)
Direct	43.002	NCC3-102	160,331
Direct	43.002	NAG5-8183	5,988
Direct	43.002	NNC04AA53A	97,226
Direct	43.002	NAG8-1838	91,722
Direct	43.002	NNC04AA38A	61,602
Direct	43.002	NAG5-9376	49,822
Direct	43.002	NNC04AA25A	87,794
Direct	43.002	NAG5-11440	60,559
Direct	43.002	NAG5-12320	8,302
Direct	43.002	NNC04AA24A	79,190
Direct	43.002	NNC04AA19A	11,076
Direct	43.002	NAG32505	157,763
Direct	43.002	NNC04AA16A	161,714
Direct	43.002	NAG32338	1
Direct	43.002	NCC3-605	(27,057)
Direct	43.002	NAG3-2594	10,826
Direct	43.002	NAG32408	(1,682)
Direct	43.002	NAS3-01116	132,152
Direct	43.002	NGT3-52375	4,124
Direct	43.002	NCC3-907	439
Direct	43.002	NAG3-2646	13,164
Direct	43.002	NCC3-916	153,452
Direct	43.002	NCC3-922	3,746
Direct	43.002	NCC3-925	168,050
Direct	43.002	NCC3-924	130,135
Direct	43.002	NAG3-2674	95,951
Direct	43.002	NNC04GA24G	137,292
Direct	43.002	NCC3-923	3,789
Direct	43.002	NCC3-926	88,114
Direct	43.002	NCC3-939	3,789
Direct	43.002	NAG3-2756	85,550

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Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>National Aeronautics and Space Administration (continued):</i>			
Direct	43.002	NCC3-954	106,885
Direct	43.002	NCC3-1012	34,765
Direct	43.002	NAG3-2859	179,014
Direct	43.002	NCC3-995	170,431
Direct	43.002	NCC3-1068	13,417
Direct	43.002	C73325A	(1)
Direct	43.002	NCC3-1046	25,043
Direct	43.002	NNG04GD31G	48,197
Direct	43.002	NAG5-12186	46,276
Direct	43.002	NNG04GQ37G	2,529
Direct	43.002	NNC04AA67A	163,711
Direct	43.002	NNG05GA97G	15,073
Direct	43.002	NNC05AA21A	22,733
Direct	43.002	NCC3222	35,150
Direct	43.002	NNC04AA74A	346,169
Direct	43.002	NNC04GB44G	80,577
Direct	43.002	NNC05AA12A	81,334
Direct	43.002	NNC05AA09A	81,502
Direct	43.002	NCC3923	82,764
Direct	43.002	NNC05AA08A	136,776
Direct	43.002	NNC05AA10A	149,626
Direct	43.002	NNC05AA04A	164,598
Direct	43.002		1,100
Direct	43.002		1,354
Direct	43.002		3,789
Direct	43.002		3,789
Direct	43.002		64,473
Direct	43.002		102,749
Direct	43.002		169,675
Pass-through from:			
Bowling Green State University	43.002	NAG3-2790	66,649
Ohio Aeronautical Institute	43.002	R300100172-40108	811
Ohio Aeronautical Institute	43.002	R300200375-40108	2,981
Marlin Space Science	43.002	03-0032	16,545
Innovative Technologies Application Company	43.002	(1)	410
Jet Propulsion Laboratory	43.002	2615-WD	31,721
Space Telescope Institute	43.002	(1)	20,946
Space Telescope Institute	43.002	HST- AR09921.01-A	45,267
			<u>4,553,489</u>
Total National Aeronautics and Space Administration			4,638,078
<i>National Science Foundation:</i>			
Engineering Grants:			
Direct	47.041	CTS-0331778	54,110
Direct	47.041	ECS-0238779	41,315
Direct	47.041	BES-0449188	7,510
Direct	47.041	DMI-0323679	39,808
Direct	47.041	BES-078748	15,594
Direct	47.041	ECS-0403930	70,125
Pass-through:			
Catacel, Inc.	47.041	(1)	30,235
Texas A&M	47.041	TA&MCTS-0421310	6,189
University of Texas	47.041	UTA02-040	24,568
			<u>289,454</u>

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Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>National Science Foundation (continued):</i>			
Mathematical and Physical Sciences:			
Direct	47.049	INT-9901383	733
Direct	47.049	CHE-0342927	173,159
Direct	47.049	AST-0307686	59,431
Direct	47.049	DMR-0355171	44,812
Direct	47.049	AST-0307307	69,959
Direct	47.049	MCB-0314034	71,297
Direct	47.049	CHE-0407542	74,530
Direct	47.049	PHY-0353899	61,404
Direct	47.049	PHY-0097367	649
Direct	47.049	DMR0219328	141,775
Direct	47.049	PHY-0140295	36,911
Direct	47.049	040784	35,495
Pass-through:			
ITN Energy Systems, Inc.	47.049	(1)	4,584
			<u>774,739</u>
Geosciences:			
Direct	47.050	GEO-0222905	94,808
Pass-through:			
Ohio State University Research Foundation	47.050	RF#849226	78,951
			<u>173,759</u>
Computer and Information Science and Engineering:			
Direct	47.070	ANI-0228913	(3,906)
Pass-through:			
Kansas State University	47.070	(1)	3,149
			<u>(757)</u>
Biological Sciences:			
Direct	47.074	MCB-0446218	48,636
Direct	47.074	DEB-0456972	67,571
Direct	47.074	DEB-0129405	111,575
Direct	47.074	MCB-0196103	14,518
Direct	47.074	DEB0129405	10,593
Direct	47.074	MCB-0346960	132,032
Direct	47.074	IBN-0344105	64,336
Direct	47.074	IBN-0401758	14,485
Direct	47.074	MCB 03469960-03	2,934
			<u>466,680</u>
Social, Behavioral, and Economic Sciences:			
Direct	47.075	OISE-352974000	6,278
Direct	47.075	SES-0243872	15,384
Direct	47.075	SES-0318239	48,571
Direct	47.075	SES-0243872	56,492
			<u>126,725</u>
Education and Human Resources:			
Direct	47.076	(1)	8,650
Direct	47.076	(1)	28,309
Direct	47.076	EHR-0227899	211,179
			<u>248,138</u>
Total National Science Foundation			<u>2,078,738</u>

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>Environmental Protection Agency:</i>			
Great Lakes Program:			
Direct	66.469	GL965518-010	9,529
Environmental Protection Consolidated Research:			
Direct	66.600	R-82820601-0	1,968
Surveys, Studies, Investigation and Special Purpose Grants:			
Direct	66.606	XP-97558001	87,717
Pass-through from:			
University of Illinois	66.606	(1)	9,352
			97,069
Environmental Information Exchange Network Grant Program and Related Assistance			
Direct	66.708	NP-96502901-0	93,181
State Indoor Radon Grants:			
Pass-through from:			
Ohio Department of Health	66.032	48-4002-2-BA-04	26,169
Ohio Department of Health	66.032	(1)	13,377
			39,546
Training and Fellowships for the EPA:			
Pass-through from:			
University of Illinois	66.608	UILL2530946	16,834
Total Environmental Protection Agency			258,127
<i>U.S. Department of Energy:</i>			
Office of Science Financial Assistance Program:			
Direct	81.049	(1)	36,362
Pass-through from:			
University of New Mexico	81.049	(1)	16,204
Wayne State University	81.049	446643	22,742
			75,308
Inventions and Innovations:			
Pass-through from:			
University of Hawaii - Manoa Natural Energy	81.036	PO#Z578912	(64)
Office of Scientific and Technical Information:			
Pass-through from:			
Midwestern Optoelectronics	81.064		2,328
Renewable Energy Research and Development:			
Pass-through from:			
First Solar Inc	81.087	(1)	1
National Renewable Energy Laboratory	81.087	(1)	3,147
National Renewable Energy Laboratory	81.087	ZXL544205-01	14,833
National Renewable Energy Laboratory	81.087	NDJ23063001	23,478
National Renewable Energy Laboratory	81.087	ZXL54420501	46,812
National Renewable Energy Laboratory	81.087	XAT-4-33624-06	327,077
National Renewable Energy Laboratory	81.087	NDS-1-30630-02	124,255
National Renewable Energy Laboratory	81.087	NDJ-2-30630-08	205,029
			744,632
Total U.S. Department of Energy			822,204

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>U.S. Department of Health and Human Services:</i>			
Biological Response to Environmental Health Hazards:			
Direct	93.113	1R15ES11048-01	12,462
Oral Disease and Disorders Research:			
Direct	93.121	1R21DE14486-01A1	64,733
Research Related to Deafness and Communication Disorders			
Direct	93.173	1R03DC00532501A1	76,343
Pass-through from:			
Wright State University	93.173		34,342
Bowling Green State University	93.173	1R01 DC035770-5	35,139
			145,824
Mental Health Research Grants:			
Pass-through from:			
Case Western Reserve University	93.242	N01MH32004	12,415
Cognitive Pharmaceuticals	93.242	1R43MH06743001A2	39,589
			52,004
Substance Abuse and Mental Health Services_Projects of Regional and National Significance:			
Pass-through from:			
Toledo Hospital	93.243	(1)	11,453
Drug Abuse and Addiction Research Programs:			
Direct	93.279	1R03DA14999-01A1	50,576
Grants for Education, Prevention, and Early Detection of Radiogenic Cancers and Diseases:			
Direct	93.257	R01 CA09102001A1	2,446
Academic Research Enhancement Award			
Direct	93.390	7R15GM5762602	(627)
Direct	93.390	1R15GM071405-01	30,193
			29,566
Cancer Treatment Research			
Direct	93.395	1R15CA10638001A1	56,169
Cancer Biology Research			
Direct	93.396	7R01CA90837-02	151,198
Direct	93.396	7R01CA092172-02	188,314
Pass-through from:			
Ridgeway Biosystems	93.396	CH#003286	20,562
			360,074
Heart and Vascular Diseases Research			
Direct	93.837	R01HL6030103	35,240
Arthritis, Musculoskeletal and Skin Diseases Research			
Direct	93.846	1R03AR4755990-01	27,785
Diabetes, Endocrinology and Metabolism Research			
Direct	93.847	1R15DK067059-01	80,920
Direct	93.847	5R29DK51274	(207)
			80,713
Extramural Research Programs in the Neurosciences and Neurological Disorders			
Direct	93.853	2R15NS35305-02	50,095
Direct	93.853	2R01NS03117308A1	245,622
Direct	93.853	1R01NS04564401A2	59,952
Direct	93.853	(1)	32,034
			387,703

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>U.S. Department of Health and Human Services (continued):</i>			
Allergy, Immunology and Transplantation Research			
Pass-through from:			
University of Texas	93.855	1RO1A143061	24,693
Microbiology and Infectious Diseases Research			
Direct	93.856	2RO1AI18427-19	107,371
Direct	93.856	2RO1AI045147-06	32,992
Direct	93.856	2RO1AI4514701A1	203,384
Direct	93.856	1R15AI50641-01A1	29,265
			373,012
Biomedical Research and Research Training			
Direct	93.859	1R01GM62140-01	189,596
Direct	93.859	1R15GM073758-01	943
Direct	93.859	1R01GM072667	5,344
Direct	93.859	1R15GM072529-01	8,000
			203,883
Child Health and Human Development Extramural Research			
Direct	93.865	1R15HD045296-01	53,205
Aging Research			
Pass-through from:			
Cognitive Pharmaceuticals	93.866	(1)	28,211
Cognitive Pharmaceuticals	93.866	(1)	271
			28,482
Nursing Research			
Pass-through from:			
University of Louisville	93.361		376
University of Louisville	93.361	03-0421	10,691
University of Louisville	93.361	03-0161	37,587
			48,654
Developmental Disabilities Projects of National Significance:			
Pass-through from:			
Medical College of Georgia	93.631	MCG0112178	(220)
Total U.S. Department of Health and Human Services			2,048,457
<i>U.S. Department of Labor:</i>			
Employment and Training Administration Pilots, Demonstrations, and Research Projects:			
Direct	17.261	AF-14587-05-60	9,918
<i>U.S. Department of Education:</i>			
Education Research, Development and Dissemination:			
Direct	84.305	(1)	12,675
Pass-through from:			
University of Virginia	84.305	(1)	11,174
			23,849
Special Education Personnel Preparation to Improve Services and Results for Children with Disabilities:			
Pass-through from:			
University of Connecticut Health Center	84.325	(1)	78
Total U.S. Department of Education			23,927
<i>U.S. Department of Veteran Affairs:</i>			
Veterans Domiciliary Care:			
Direct	64.008	VETERNASAFF	3,206

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>U.S. Department of Transportation:</i>			
Highway Planning and Construction			
Pass-through from:			
Ohio Department of Transportation	20.205	20336	86,594
Ohio Department of Transportation	20.205	20313	64,436
Ohio Department of Transportation	20.205	ODOT-9797	9,876
Ohio Department of Transportation	20.205	ODOT-1478	(1,032)
Ohio Department of Transportation	20.205	11236	35,277
Ohio Department of Transportation	20.205	20063	38,788
			233,939
University Transportation Centers Program			
Pass-through from:			
Ohio Department of Transportation	20.801	(1)	30,024
Total Highway Planning and Construction			263,963
<b>Total Research and Development-Cluster</b>			<b>15,830,593</b>
 <b>Other Programs</b>			
<i>U.S. Department of Army:</i>			
Basic Scientific Research			
Pass-through from:			
Academy of Applied Sciences	12.431	(1)	4,199
Academy of Applied Sciences	12.431	(1)	19,440
			23,639
 <i>U.S. Department of Interior:</i>			
National Cooperative Geologic Mapping Program			
Direct	15.810	02HQAG0146	952
 <i>U.S. Department of State:</i>			
<i>Educational Exchange_Fulbright American Studies Institutes</i>			
Pass-through from:			
Tech Teacher	19.418	(1)	30,334
 <i>U.S. Department of Veterans Affairs:</i>			
All Volunteer Force-Educational Assistance			
Pass-through from:			
Vet Voc	64.124	(1)	178,689
Post-Vietnam Era Veterans' Educational Assistance			
Pass-through from:			
ACES	64.120	(1)	37,268
U.S. Army ROTC	64.120	(1)	269,350
U.S. Marine	64.120	(1)	5,755
Coast Guard	64.120	(1)	18,721
Ohio National Guard	64.120	(1)	1,261
Naval Ed Training	64.120	(1)	3,744
Army/Army Tank	64.120	(1)	23,924
BGSU USAF ROTC	64.120	(1)	38,871
			398,894
Total U.S. Department of Veterans Affairs			577,583
 <i>U.S. Department of Health and Human Services:</i>			
Undergraduate Scholarship Program for Individuals from Disadvantaged Backgrounds			
Pass-through from:			
Ohio Department of Jobs and Family Services	93.187	(1)	57,047
Family Support Payments to States_Assistance Payments			
Pass-through from:			
WIA	93.560	(1)	147,273
N.O. WIA	93.560	(1)	7,764
			155,037



The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>U.S. Department of Health and Human Services (continued):</i>			
Temporary Assistance for Needy Families:			
Pass-through from:			
Lucas County Department of Human Services	93.558	(1)	35,376
Lucas County Department of Human Services	93.558	(1)	18,376
			53,752
Community Services Block Grant Discretionary Awards:			
Pass-through from:			
National Youth Sports Program	93.570	04-1177	57,882
National Youth Sports Program	93.570	NYSP-GSC	4,169
National Youth Sports Program	93.570	(1)	10,778
National Youth Sports Program	93.570	(1)	11,864
			84,693
Social Services Block Grant (SSBG)			
Block Grants for Prevention and Treatment of Substance Abuse			
Pass-through:			
Lucas County Commissioners	93.959	(1)	3,270
Ohio Department of Aging	93.959	(1)	22,677
			25,947
Total U.S. Department of Health and Human Services			376,476
<i>National Aeronautic Space Administration:</i>			
Aerospace Education Services Program:			
Direct	43.001	EEC-0230588	330
Pass-through:			
Govt Training	43.001	(1)	33,617
			33,947
Technology Transfer:			
Direct	43.002	(1)	6
Pass-through:			
Ohio Aeronautical Institute	43.002	(1)	1,979
Ohio Aeronautical Institute	43.002	(1)	34,038
			36,023
Total National Aeronautic Space Administration			69,970
<i>National Science Foundation:</i>			
Education and Human Resources:			
Direct	47.076	ESI-9731306	6,456
Direct	47.076	DUE-0126910	12,706
Direct	47.076	DUE-0220796	61,457
Pass-through:			
Ohio State University Research Foundation	47.076	HRD-0331560	31,763
Georgia Institute of Technology	47.076	C36-A98-G1	68,591
			180,973
<i>Environmental Protection Agency:</i>			
Environmental Education and Training Program:			
Direct	66.950	X8-830760-01	7,123
<i>U.S. Department of Energy:</i>			
Training and Fellowships for the EPA:			
Pass-through from:			
DOE-Los Alamos Laboratory	81.117	CH#1012565	3,492
<i>U.S. Department of Housing and Urban Development:</i>			
Resident Opportunity and Supportive Services	14.870	(1)	12,138

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>U.S. Department of Justice:</i>			
Police Corps:			
Direct	16.712	96UMWX1196	(4)
Direct	16.712	2003-PO-R-058	154,150
Direct	16.712	2001-POR088	22,339
Direct	16.712	2001-PO-R008	317,468
Total U.S. Department of Justice			<u>493,953</u>
 <i>U.S. Department of Labor:</i>			
WIA Incentive Grants:			
Pass-through from:			
State of Ohio Bureau of Workforce Services	17.267	G-04-15-0313	641,425
Total U.S. Department of Labor			<u>641,425</u>
 <i>National Endowment for the Humanities:</i>			
Promotion of Humanities Federal State Partnership:			
Pass-through from:			
Ohio Humanities Council	45.129	OHC-M05-053	1,000
 <i>U.S. Department of Education:</i>			
Trio Cluster			
TRIO_Student Support Services			
Direct	84.042	PO42A010487	189,047
Direct	84.024	24P50045-97	555
Direct	84.047	PO47A990864	(252)
Direct	84.047	PO447A030119	408,551
Total U.S. Department of Education - Trio Cluster			<u>597,901</u>
 Rehabilitation Services_Vocational Rehabilitation Grants to States			
Pass-through from:			
BVR	84.126	(1)	800,329
Javits Gifted and Talented Students Education Grant Program			
Direct	84.206	S206A040096	149,019
Fund for the Improvement of Education			
Pass-through from:			
Toledo Public Schools	84.215	(1)	3,766
Research in Special Education:			
Direct	84.324	H324M980197	130
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education:			
Direct	84.333	P333A020055	58,087
Gaining Early Awareness and Readiness for Undergraduate Programs			
Direct	84.334	P334A000134	653,024
Pass-through from:			
Bowling Green State University	84.334	(1)	135,456
			<u>788,480</u>
 Business and International Education Programs			
	84.153	P153A000003	(3)
 Title I Grants to Local Educational Agencies			
Pass-through from:			
Ohio Board of Regents	84.010	02-38	1,629
 Migrant Education_State Grant Program:			
Pass-through from:			
Ohio Department of Education	84.011	6099	2,000
Ohio Board of Regents	84.011	(1)	16,060
Ohio Department of Education	84.011	(1)	29,854
			<u>47,914</u>

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<i>U.S. Department of Education (continued):</i>			
Vocational Education - Basic Grants to States:			
Pass-through from:			
Ohio Department of Education	84.048	VEPD-CB-05UT	88,796
Ohio Department of Education	84.048	(1)	6,850
Ohio Department of Education	84.048	(1)	5,224
Pass-through from:			
Toledo Public Schools	84.048	(1)	111
			<u>100,981</u>
Safe and Drug-Free Schools and Communities National Program:			
Pass-through from:			
Toledo Public Schools	84.184	PO#102131	33,321
Safe and Drug-Free Schools and Communities States Program:			
Pass-through from:			
Alcohol and Drug Addiction Services of Lucas County	84.186	(1)	1,035
Tech-Prep Education:			
Pass-through from:			
Ohio Department of Education	84.243	(1)	250,986
Ohio Department of Education	84.243	VETP200423FB0630	(14,637)
			<u>236,349</u>
Eisenhower Professional Department State Grants:			
Pass-through from:			
Ohio Board of Regents	84.319	01-58	16
Special Education - State Program Improvement Grants for Children with Disabilities:			
Pass-through from:			
Ohio Department of Education	84.323	063099-ST-S1-02	20,611
Special Education - State Personnel Development			
Direct	84.325	H325N990053	2,231
Direct	84.325	H325A020104	370,714
			<u>372,945</u>
Teacher Quality Enhancement Grants			
Direct	84.336	P336B040031	2,487
Direct	84.336	P336B040031	194,558
Pass-through from:			
Ohio Board of Regents	84.336	02-41	2,160
			<u>199,205</u>
Improving Teacher Quality State Grants:			
Direct	84.367	P342A010125	23,370
Pass-through from:			
Ohio Board of Regents	84.367	03-24	52,430
Ohio Board of Regents	84.367	03-44	5,228
Ohio Board of Regents	84.367	03-45	120,159
			<u>201,187</u>
Innovative Education Program Strategies:			
Pass-through from:			
National Writing Project	84.298	92-OH02 #8	21,515
Total U.S. Department of Education			<u>3,634,417</u>
<b>Total Other Programs</b>			<u>6,053,475</u>
<b>TOTAL FEDERAL EXPENDITURES</b>			<u>\$ 36,881,128</u>

(1) No pass through entity identifying number is available for this program.

# The University of Toledo

## Notes to the Schedule of Expenditures of Federal Awards

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The University of Toledo (the University) and is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with requirement of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the financial statements.

### **2. Family Education Loan Program (CFDA No. 84.032)**

The University acts as the intermediary for students obtaining Family Education Loans from lending institutions. The lending institution is responsible for billings and collections of the loans. The University assists the lending institution by processing the applications and forwarding checks from the lending institutions to the students. Loans advanced to students during the fiscal year ended June 30, 2005 totaled \$89,401,663.

### **3. Federal Perkins Loan Program (CFDA No. 84.038)**

Revolving loan funds are established to maintain Perkins loans. Repayments of principal and interest are deposited back into the program for new loans. The University is responsible for administering the program, including the approving, disbursing and collecting of the loans. The outstanding balance as of June 30, 2004 totaled \$16,234,943 and loan expenditures for the year ended June 30, 2005 totaled \$57,172. As of June 30, 2005, the outstanding Perkins loans totaled \$15,807,115.

## The University of Toledo

### Notes to the Schedule of Expenditures of Federal Awards (continued)

#### 4. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the University provided federal awards to subrecipients as follows:

Sub-Grantee	Federal CFDA Number	Amount Provided
Dalhousie University	81.049	\$1,498
Midwest Optoelectronics	47.076	22,824
EISC, Inc.	47.076	636
International Institute	10.001	2,800
Camet Research, Inc.	10.200	2,170
Hull & Associates, Inc.	10.200	43,561
University of Michigan	10.200	47,127
Bowling Green State University	10.200	283,754
International Institute	10.001	2,300
Lamb Learning Group	84.367	13,000
Edison Welding Institute	66.708	5,454
Illinois Institute	81.087	6,000
Hull & Associates, Inc.	10.206	25,000
Beta Analytic Inc.	11.417	2,380
University of Illinois at Champaign	11.417	2,250
University of Wisconsin	11.417	2,500
Resource International	20.205	10,120
COSI - Toledo	93.570	5,000
Denison University	43.002	7,900
Teledyne Continental	43.002	235,519
Medical College of Ohio	93.837	6,509
University of Cincinnati	47.076	7,214
EISC, Inc.	47.076	1,820
Midwest Optoelectronics	47.076	2,183
Owens Community College	47.076	10,000
National Composite Center	12.431	5,665
University of Maryland	10.219	42,789
University of Michigan	10.200	409
Beijing Forestry	10.652	2,000
Center For Plant Ecology and Biodiversity Conservation	10.652	4,500
Fudan University	10.652	2,000
Miami University	84.206	27,125
Water Quality Laboratory	66.606	3,120

## The University of Toledo

### Notes to the Schedule of Expenditures of Federal Awards (continued)

Edison Welding Institute	66.708	4,686
EISC, Inc.	66.708	17,478
Techsolve, Inc.	66.708	9,698
ERES	20.205	21,684
Lawrence Technologic	20.205	27,500
Resource International	20.205	1,380
Toledo Botanical Garden	84.367	6,265
HIP Investigations Inc.	16.712	5,700
Testamerica Analytic	10.206	3,538

#### **5. Indirect Costs**

The University recovers indirect costs by means of predetermined fixed indirect cost rates. The predetermined fixed rates are a result of negotiated agreements with the U.S. Department of Health and Human Services. The fixed rate effective for the period July 1, 2000 to June 30, 2005 for on-campus research is 46% of modified total direct costs, and the off-campus rate is 26% of modified total direct costs.

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

Board of Trustees  
The University of Toledo

We have audited the financial statements of The University of Toledo as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States 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**

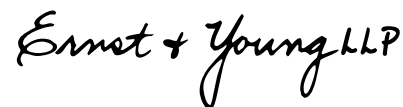
In planning and performing our audit, we considered The University of Toledo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The University of Toledo'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*.

We noted certain matters that we reported to management of the University in a separate letter dated September 30, 2005.

This report is intended solely for the information and use of the Board of Trustees, management, 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.



September 30, 2005

Report of Independent Auditors on Compliance and on  
Internal Control Over Compliance  
in Accordance with OMB Circular A-133

Board of Trustees  
The University of Toledo

### Compliance

We have audited the compliance of The University of Toledo 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 University of Toledo'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 University of Toledo's management. Our responsibility is to express an opinion on The University of Toledo's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 of Toledo'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 of Toledo's compliance with those requirements.

In our opinion, The University of Toledo 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.

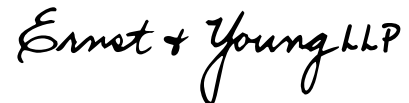


## Internal Control Over Compliance

The management of The University of Toledo 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 of Toledo'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 internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the 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, management, 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.



September 30, 2005

The University of Toledo

Schedule of Findings and Questioned Costs

June 30, 2005

**Part I - Summary of Auditor's Results**

**Financial Statement Section**

- (i) Type of auditor's report issued: Unqualified
- (ii) Internal control over financial reporting:
- Material weakness(es) identified?        yes   X   no
- Reportable condition(s) identified not considered to be material weaknesses?        yes   X   none reported
- (iii) Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards Section**

- (viii) Dollar threshold used to determine Type A programs: \$1,106,434
- (ix) Auditee qualified as low-risk auditee?   X   yes        no
- (v) Type of auditor's report on compliance for major programs? Unqualified
- (iv) Internal control over compliance:
- Material weakness(es) identified?        yes   X   no
- Were reportable condition(s) identified not considered to be material weakness(es)?        yes   X   none reported
- (vi) Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))?        yes   X   no

The University of Toledo

Schedule of Findings and Questioned Costs (continued)

**Part I - Summary of Auditor's Results (continued)**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
(vii) Identification of major programs: 84.007, 84.032, 84.033, 84.038, 84.063, 84.334	Student Financial Aid Cluster Gaining Early Awareness and Readiness for Undergraduate Programs

**Part II—Financial Statement Findings Section**

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements for which *Government Auditing Standard* requires reporting in a Circular A-133 audit.

None

**Part III—Federal Award Findings and Questioned Costs Section**

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 Section .510. Where practical, findings should be organized by federal agency or pass-through entity.

None

## Independent Auditor's Report on Applying Agreed-Upon Procedures

Dr. Daniel M. Johnson, President  
The University of Toledo

We have performed the procedures enumerated below, which were agreed to by The University of Toledo (the University) and the National Collegiate Athletic Association (NCAA), solely to assist you with respect to complying with NCAA bylaws for the year ended June 30, 2005. The University's management is responsible for the accompanying Schedule of Revenues and Expenditures. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in 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.

The procedures and the associated findings are as follows:

### **I. Schedule of Revenues and Expenditures and Internal Controls**

1. We obtained the Schedule of Current Revenues, Expenditures and Other Changes (Schedule 1) for the Department of Intercollegiate Athletics (the Athletic Department) for the year ended June 30, 2005, as prepared by management. We recomputed the subtotal and total line items on Schedule 1 and agreed all the amounts on Schedule 1 to management's detailed worksheets and to the detailed accounting records. We found no exceptions as a result of these procedures.
2. We performed a comparison of the current revenues and expenditures per Schedule 1 for fiscal years 2005 and 2004. We obtained the following explanation for variations greater than \$100,000 and 10% of each revenue and expenditure line item in the aggregate from management.
  - a) Other sports revenue increased \$118,501, or 95%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase was due to the Motor City Bowl game, which the University participated in 2005.

- b) Miscellaneous revenue increased \$992,077, or 122%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase is due to \$28,000 of concert sales revenue and approximately \$825,000 in barter revenue recorded in the current year.
- c) Guarantee revenue increased \$464,500, or 1,161%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase is due to \$250,000 from the University of Minnesota and \$175,000 from the University of Kansas for playing football games away from home.
- d) Private gifts and grants decreased \$107,575, or 20%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that this line item includes donations from the University of Toledo Foundation (the Foundation), which were transferred to the Athletic Department. The Foundation decreased their transfers of individual sport monies to the Athletic Department in the current year. The monies are not transferred from the Foundation until the Athletic Department has a need.
- e) Supplies expense increased \$203,771, or 290%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase is due to an increase in game bowl revenues, which could be used for various supplies in the current year.
- f) Guarantees and media decreased \$181,972, or 46%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that there was an increase is due to the decline in the caliber of teams the University played at home in the current year. Lower caliber teams have smaller contracted amounts.
- g) Travel and entertainment increased \$261,270, or 132%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase is a result of the University's successful football teams travel to the championship and bowl games in the current year.
- h) Information and communications expense increased \$531,803, or 167%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the majority of the increase relates to approximately \$425,000 of an increase in marketing and promotional activities to promote the University's athletic programs.

- i) Baseball and Women's track expense increased \$185,878, or 51% and \$101,236, or 26%, respectively. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that in the prior year scholarship costs were not included in each individual sports account as an expense.
  - j) Basketball expense increased \$140,476, or 15%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase is a result of an additional game which included flying and that prior year scholarship costs were not included in each individual sports account as an expense.
  - k) Training and equipment expense increased \$112,500, or 21%. We were informed by certain officials of the Athletic Department who have responsibility for financial and accounting matters that the increase is a result of operational costs and insurance.
3. We performed a comparison of actual current revenues and expenditures per Schedule 1 to the budgeted amounts obtained from management. We obtained management's explanation for variations greater than \$50,000 and 10% of each current revenue and expense line item in the aggregate, which included the following:
- a) The actual sports revenue exceeded the budgeted amount by \$573,162, or 31% due to increased ticket sales arising from the University's increased promotions and performance at sporting events.
  - b) The budgeted amount of private gifts and grants revenue exceeded the actual amount by \$72,628, or 17% due to the Foundation not providing any funds in the current year for Men's Golf and other Olympic sports.
  - c) The actual other revenue exceeded the budgeted amount by \$1,121,842, or 167% due to the football championship, bowl games, and NCAA monies not being included in the budget.
  - d) The actual supplies expense exceeded the budgeted amount by \$222,543, or 432% due to the football team purchasing uniforms for the championship and bowl games.
  - e) The actual travel and entertainment expense exceeded the budgeted amount by \$314,567, or 217% due to the football team having to travel to the championship and bowl games.

- f) The actual information and communications expense exceeded the budgeted amount by \$427,178, or 101% due to higher than anticipated phone and printing costs.
  - g) The budgeted amount of other expenses exceeded the actual amount by \$4,775,147, or 93% due to scholarship costs being included in this line item instead of as an individual sports expense.
  - h) The actual total sports expense exceeded the budgeted amount by \$4,922,342, or 91% due to scholarship costs being included in the various sports budgets rather than in other expenses, where it was budgeted.
  - i) The actual amount of occupancy expense exceeded the budgeted amount by \$64,973, or 102% due to miscellaneous utilities and maintenance expenses not included in the budget.
- 4. We obtained a description of accounts and compared classifications of revenues and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.
  - 5. We obtained the organization chart prepared by management and made certain inquiries. We also obtained documentation of accounting systems and procedures and made certain inquiries of management regarding control consciousness, competence of personnel and protection of records and equipment. We randomly selected 25 daily ticket window reconciliations from July 1, 2004 to June 30, 2005 and also one football, men's basketball, and volleyball gate sale reconciliations from the same time period. We found no exceptions as a result of these procedures. We also found that the internal audit department has performed its own audit procedures related to intercollegiate athletics.
  - 6. We were informed that the Athletic Department follows the University's policies and procedures for acquiring, approving, depreciating, and disposing of assets. Capital assets are recorded at cost at the date of acquisition or if acquired by gift at the fair market value as of the date of donation. Assets are capitalized with a cost of \$100,000 or greater with the exception of equipment, which is capitalized at a cost of \$5,000 or greater. Depreciation is recognized on a straight-line basis over the estimated useful life of the asset. When capital assets are sold or otherwise disposed of, the carrying value of such assets is removed from the asset accounts, along with the related accumulated depreciation.

7. The Athletic Department has two outstanding notes payable to the Foundation for the purchase of baseball training facilities and video equipment. We recalculated the annual maturities and agreed these to supporting documentation and the accounting records. The future amounts of principal and interest payments on the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 64,087	\$ 6,155	\$ 70,242
2007	67,087	3,155	70,242
2008	23,795	400	24,195
Total	<u>\$ 154,969</u>	<u>\$ 9,710</u>	<u>\$ 164,679</u>

8. We obtained the game reports for all ticket sales during the year, recomputed the totals and agreed the revenue to the University's accounting records. We found a difference of \$23,742, or 1.5% between the ticket sales detail and the accounting records. We also selected the Temple University football game report ticket reconciliation and agreed the information to the Performance Sales Report. We found no exception as a result of this procedure.
9. We selected the University of Kansas and University of Minnesota game guarantee agreements and compared them to the University's accounting records. We found no exceptions as a result of these procedures.
10. We agreed a cash receipt from the Mid American Conference for broadcast and television revenue to the University's accounting records. We determined that there is no direct agreement between the Mid American Conference and the University regarding the revenue the University will receive; therefore, the University estimated the revenue at year-end. Subsequent to year end, the University was paid an additional \$25,537 above the estimate. We agreed the sports medicine marketing agreement with The Toledo Hospital for royalties, advertisements, and sponsorships revenue to the University's accounting records. We found no exceptions as a result of these procedures.
11. We randomly selected eight student aid recipients and agreed the account information and aid to their aid award letter. We found no exceptions as a result of these procedures.
12. We obtained the detail of away-game settlement reports and a copy of the contract with Temple University and agreed the contracted amount to the related expense in the University's accounting records. We found no exceptions as a result of these procedures.



13. We selected eight coaches and support staff employed and paid by the University. We agreed the amounts paid to the contracts, W-2's, and recorded expense in the accounting records. We found no exceptions as a result of these procedures.
14. We read the University's recruiting expense and team travel policies and compared them to the NCAA policies and noted they were comparable.
15. We compared contributions, received directly by the Athletic Department in excess of 10% of total contributions to the accounting records of the University. We identified three contributions of \$128,605, \$100,486, and \$192,416 from the Foundation that exceeded 10% of all contributions for the year ended June 30, 2005. We found such information to be in agreement. We also noted that the gift documentation was intended for the general use of the Athletic Department and was received directly by the Foundation and then distributed to the University.

## II. Booster Organizations

- a. We obtained the following list of booster organizations and the related financial activities for the year ended June 30, 2005 from the Foundation.

	Beginning Cash Balance	Cash Receipts	Contributions To or On Behalf of Program	Other	Ending Cash Balance
The Rocket Fund	\$ 39,135	\$ 441,381	\$ 407,235	\$ -	\$ 73,281
The Varsity T- Group	11,336	119,608	100,942	-	30,002
Downtown Coaches Association	1,909	128,585	30,000	97,415	3,079
Dugout Club	9,812	59,882	50,709	-	18,985
<b>Total All Funds</b>	<b>\$ 62,192</b>	<b>\$ 749,456</b>	<b>\$ 588,886</b>	<b>\$ 97,415</b>	<b>\$ 125,347</b>

- b. We confirmed the financial activities of the booster organizations directly with their officers. We found no exceptions as a result of these confirmations.
- c. We agreed beginning cash balances to the prior year schedule and ending balances to the Foundation's accounting records. The amounts included in the above schedule are not included in Schedule 1 unless contributed directly to the University by the outside organization. We found no exceptions as a result of these procedures.
- d. We received the audited financial statements of the Foundation, which administers the booster organizations, for the year ended June 30, 2005, which reflected an unqualified opinion.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items, including Schedule 1 and item II (a) above or on the effectiveness of the internal control over financial reporting, respectively. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

*Ernst & Young LLP*

September 30, 2005

The University of Toledo  
 Schedule of Current Revenues, Expenditures, and  
 Other Changes Intercollegiate Athletics

Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Sports:			
Basketball	\$ 366,870	\$ —	\$ 366,870
Football	1,329,181	—	1,329,181
Other sports	243,317	—	243,317
Concession sales, parking, and other miscellaneous revenues	1,768,488	39,425	1,807,913
Guarantees	504,500	—	504,500
Broadcasts and telecasts rights	39,463	—	39,463
Private gifts and grants	367,372	55,946	423,318
Advertising	606,912	—	606,912
Total revenues	<u>5,226,103</u>	<u>95,371</u>	<u>5,321,474</u>
Expenditures and mandatory transfers:			
Administrative and general:			
Salaries and wages	1,324,141	—	1,324,141
Staff benefits	345,797	—	345,797
Supplies	274,042	—	274,042
Guarantees	211,441	—	211,441
Travel and entertainment	459,663	—	459,663
Information and communications	849,778	—	849,778
Other	68,471	40,348	108,819
Total administrative and general	<u>3,533,333</u>	<u>40,348</u>	<u>3,573,681</u>
Sports:			
Baseball	544,190	3,215	547,405
Basketball	1,059,991	9,469	1,069,460
Football	3,734,636	433	3,735,069
Swimming	2,024	—	2,024
Track	138,461	1,444	139,905
Golf	223,921	2,645	226,566
Tennis	210,806	1,228	212,034
Women's softball	388,130	494	388,624
Women's basketball	840,423	8,671	849,094
Women's track	487,230	725	487,955
Women's volleyball	571,923	5,427	577,350
Women's tennis	303,312	25	303,337
Women's swimming	467,419	5,307	472,726
Women's soccer	425,115	10,800	435,915
Women's golf	243,979	—	243,979
Cheerleading and other	42,321	—	42,321
Training and equipment	631,214	5,140	636,354
Total sports	<u>10,315,095</u>	<u>55,023</u>	<u>10,370,118</u>

The University of Toledo  
 Schedule of Current Revenues, Expenditures, and  
 Other Changes Intercollegiate Athletics (continued)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Expenditures and mandatory transfers, cont.:			
Operation and maintenance of plant:			
Salaries and wages	115,269	-	115,269
Staff benefits	37,125	-	37,125
Supplies	69,310	-	69,310
Repair and maintenance	93,584	-	93,584
Utilities	186,120	-	186,120
Other	74,643	-	74,643
Total operation and maintenance of plant	<u>576,051</u>	<u>-</u>	<u>576,051</u>
Total expenditures	<u>14,424,479</u>	<u>95,371</u>	<u>14,519,850</u>
Mandatory transfers to investment in plant fund	<u>88,131</u>	<u>-</u>	<u>88,131</u>
Total expenditures and mandatory transfers	<u>14,512,610</u>	<u>95,371</u>	<u>14,607,981</u>
Nonmandatory transfers and additions:			
Allocated fund	(862,909)	-	(862,909)
Interfund transfers	10,149,416	-	10,149,416
Excess of restricted disbursements over receipts	-	2,182	2,182
Net increase in fund balance	<u>\$ -</u>	<u>\$ 2,182</u>	<u>\$ 2,182</u>



**Auditor of State  
Betty Montgomery**

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**UNIVERSITY OF TOLEDO  
LUCAS 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  
DECEMBER 27, 2005**