

**THE UNIVERSITY OF AKRON**

**SUMMIT COUNTY**

**JULY 1, 2003 TO JUNE 30, 2004**

**PREPARED BY: PRICEWATERHOUSE COOPERS LLP.**





**Auditor of State  
Betty Montgomery**

Board of Trustees  
The University of Akron

We have reviewed the Independent Auditor's Report of The University of Akron, Summit County, prepared by PricewaterhouseCoopers LLP for the audit period July 1, 2003 through June 30, 2004. 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 Akron is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY  
Auditor of State

January 7, 2005

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**The University of Akron**  
 Report on Federal Awards  
 In Accordance with OMB Circular A-133  
 For the Year Ended June 30, 2004

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# The University of Akron

## Management's Discussion and Analysis

### June 30, 2004

The discussion and analysis of The University of Akron's (The University) annual financial performance provides an overall review of The University's financial activities for the fiscal year ended June 30, 2004. This discussion and analysis views The University's financial performance as a whole; readers should also review the financial statements and related notes to the financial statements to enhance their understanding of The University's financial performance.

#### Using the Annual Financial Report

The annual report consists of this Management's Discussion and Analysis, three separate but interrelated financial statements 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*, and the Report of Independent Auditors. The financial statements are prepared using the accrual basis of accounting, which is similar to the accounting method used by many private-sector companies. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when incurred.

The University's financial statements include the *Statements of Net Assets; Revenues, Expenses and Changes in Net Assets*; and *Cash Flows*. The financial statements focus on the financial condition, results of operations, and cash flows of The University, as a whole.

*The Statement of Net Assets* includes all assets and liabilities, with the difference between the two reported as *net assets*. The assets and liabilities are presented in the order of relative liquidity while *net assets* are categorized as *Invested in capital assets, net of related debt; Restricted*; or *Unrestricted*. Over time, increases or decreases in *net assets* are an indicator of the improvement or erosion of The University's financial health.

*The Statement of Revenues, Expenses, and Changes in Net Assets* presents revenues earned and expenses incurred during the year. The revenues and expenses are classified as either operating or nonoperating. The State of Ohio (State) provides significant operating and capital financial resources to The University, which are classified as Nonoperating revenues; therefore, substantial Operating losses are not uncommon for public colleges and universities across Ohio. For the fiscal years ended June 30, 2004, 2003, and 2002, the State provided approximately \$117 million, \$108 million, and \$113 million for operating and capital purposes while The University's operating losses were approximately \$102 million, \$121 million, and \$112 million for each of those years.

*The Statement of Cash Flows* presents information related to cash inflows and outflows summarized within the activities of *operating, noncapital financing, capital and related financing*, and *investing activities*. Cash flows from *operating* activities generally result from the provision of goods or services in the normal course of doing business and are generally the cash effects of transactions that determine *operating income*. Meanwhile, *noncapital financing activities* typically include borrowing and repaying money for purposes other than acquiring, constructing, or improving capital assets.

**The University of Akron**  
Management's Discussion and Analysis – Continued  
June 30, 2004

Conversely, *Capital and related financing activities* generally include acquiring and disposing of capital assets, borrowing and repaying money for acquiring, constructing, or improving capital assets, and paying for capital assets obtained from vendors on credit. The *investing activities* generally relate to making and collecting loans and acquiring and disposing of debt or equity instruments.

The University is considered a discretely presented unit of the State of Ohio as such, the University's financial activity is also included within the State of Ohio's Comprehensive Annual Financial Report.

The University has two discretely presented component units that are reported in a separate column on The University's financial statements to emphasize that they are legally separate from The University. The University of Akron Foundation (Foundation) and The University of Akron Research Foundation (Research Foundation) are not-for-profit organizations supporting The University. Since the focus of this discussion is on The University, these component units are not included in the amounts below. These component units are described in greater detail in the financial statements and notes to the financial statements.

Due to changes relating to the addition of the component units, certain prior year amounts have been reclassified to conform to current year presentations.

Table 1 summarizes The University's Net Assets at June 30, 2004, 2003, and 2002.

**Table 1**  
**Net Assets (In Thousands)**

	2004	2003	2002
Assets:			
Current assets	\$ 70,332	\$ 72,933	\$ 140,756
Restricted current assets	56,425	76,118	17,325
Noncurrent assets:			
Capital	484,406	414,135	373,550
Other	62,368	58,431	59,324
Total assets	673,531	621,617	590,955
Liabilities:			
Current liabilities	63,460	68,895	84,198
Noncurrent liabilities	239,273	218,219	178,395
Total liabilities	302,733	287,114	262,593
Net assets:			
Invested in capital assets, net of related debt	273,560	254,984	255,084
Restricted:			
Nonexpendable	36,414	32,851	34,305
Expendable	32,691	31,236	24,888
Unrestricted	28,134	15,432	14,085
Total net assets	\$ 370,799	\$ 334,503	\$ 328,362

# The University of Akron

## Management's Discussion and Analysis – Continued

June 30, 2004

*Current assets* include those more highly liquid assets including cash, cash equivalents, and investments; accounts, pledges, student notes, and accrued interest receivable; inventories; and prepaid expenses and deferred charges. Current assets decreased \$2.6 million during 2004, and decreased \$67.8 million during 2003. There were variations among many of the current asset categories, but the principal cause of the decreases are from a \$10.2 million decrease in 2004 and a \$69.4 million decrease in 2003 within Investments held in trust by others. Specifically, The University temporarily invested the proceeds of debt issues until the proceeds were needed to pay for construction costs. During 2004 and 2003, The University continued its progress towards, and paid costs related to, the Landscape for Learning initiative. *A New Landscape for Learning* is a \$200 million blueprint, which includes new academic, student services, and student living buildings plus renovations to several other buildings; improved campus access; and the creation of inviting, park-like open spaces.

*Restricted current assets* consist of cash, cash equivalents, and investments, which resulted from gifts from friends of The University. In these cases, the donors required that the gifts be used for some particular purpose. Restricted current assets decreased \$19.7 million during 2004 and increased \$58.8 million during 2003. The changes are largely attributable to the near-term payment demands of the Landscape for Learning initiative discussed above.

*Noncurrent assets* consist of endowment investments; pledges and student notes receivable; and capital assets. Noncurrent assets increased \$74.2 million during 2004, and \$39.7 million during 2003. While there were variations among the categories, the increase is largely attributable to a \$70.3 million and \$40.6 million increase within Capital assets during 2004 and 2003, respectively, which principally resulted from The University's significant capital project initiative.

*Current liabilities* are those items that mature within one year. The current liabilities include accounts payable; accrued liabilities; deferred revenue; deposits; and the short-term portion of long-term liabilities. Current liabilities decreased \$5.4 million during 2004, and \$15.3 million during 2003. There were variations among many of the current liability categories, but the principal cause of the decreases was a \$5.1 million and \$17.9 million decrease within the short-term portion of long-term liabilities during 2004 and 2003, respectively. Specifically, during 2004, the General receipts bonds issued in 1999 were refinanced to take advantage of current lower interest rates. Due to the lower rates, the current portion of the refinanced bonds has a lower payment in the next fiscal year. During 2003, a \$20 million Bond Anticipation Note (BAN) was retired. The BAN was issued during 2002 to help fund The University's ongoing \$200 million capital projects initiative. The \$20 million decrease was partially offset since \$1.4 million of the \$45.8 million 2003 General receipts bonds were considered short-term in 2003.

*Noncurrent liabilities* consist of Refundable federal student loans; long-term debt including capital leases and the sick leave liability. The most notable change occurred within the long-term liabilities. During 2004, The University entered into a \$22 million agreement to lease a new dorm for the Honors program. Rental payments will be made to a third party for the next 30 years. The University issued \$45.8 million General receipts bond issue during 2003, which resulted in an overall increase from \$165.4 million to \$206 million. As reflected above, the proceeds paid-off the \$20 million BAN and are helping fund the ongoing capital projects initiative.



# The University of Akron

## Management's Discussion and Analysis – Continued

June 30, 2004

Additionally, the Auditor of State and the Office of Budget and Management reexamined the accounting treatment related to the workers' compensation liability. Since 2003, Ohio's General Revenue Fund recognizes the liability related to workers' compensation claims for the State, including The University. Therefore, The University's liability decreased \$2.6 million to \$0 from June 30, 2002 as compared with June 30, 2004 and 2003. The current- and long-term portions decreased from \$300,000 and \$2.3 million, respectively.

As reflected above, *Net assets* represent the difference between assets and liabilities and over time is one indicator of improving or eroding financial health. *Net assets* are categorized as *Invested in capital assets, net of related debt; Restricted; or Unrestricted*. *Restricted net assets* include both expendable and nonexpendable components. During 2004 and 2003, net assets increased approximately 10.8% and 1.8%, respectively, or \$36.3 million and \$6.1 million, respectively.

Table 2 summarizes The University's Changes in Net Assets for the years ended June 30, 2004, 2003 and 2002.

**Table 2**  
**Changes in Net Assets (In Thousands)**

	2004	2003	2002
Operating revenues:			
Tuition and fees	\$ 119,394	\$ 105,913	\$ 91,761
Grants and contracts	43,987	37,879	39,424
Sales and services	9,047	7,707	6,326
Auxiliary enterprises	41,370	37,125	37,195
Other operating revenues	401	558	397
Total operating revenues	<u>214,199</u>	<u>189,181</u>	<u>175,103</u>
Total operating expenses	<u>315,729</u>	<u>310,473</u>	<u>287,074</u>
Operating loss	<u>(101,530)</u>	<u>(121,292)</u>	<u>(111,971)</u>
Nonoperating revenues (expenses)			
State appropriations	97,343	96,421	99,493
Other nonoperating revenues, net	19,021	17,792	(622)
Net nonoperating revenues	<u>116,364</u>	<u>114,213</u>	<u>98,871</u>
Gain (loss) before other changes	<u>14,834</u>	<u>(7,079)</u>	<u>(13,100)</u>
Other changes:			
Capital appropriations	19,397	11,246	12,957
Capital gifts and grants	1,297	1,041	7,781
Additions to permanent endowments	768	932	1,161
Total other changes	<u>21,462</u>	<u>13,219</u>	<u>21,898</u>
Increase in net assets	36,296	6,141	8,799
Net assets:			
Net assets - beginning of year	<u>334,503</u>	<u>328,362</u>	<u>319,563</u>
Net assets - end of year	<u>\$ 370,799</u>	<u>\$ 334,503</u>	<u>\$ 328,362</u>

# The University of Akron

## Management's Discussion and Analysis – Continued

June 30, 2004

The Student tuition and fees increased approximately \$13.5 million or 12.7% during 2004, and \$14.1 million or 15.4% during 2003. The University's student headcount and student enrollments remained largely unchanged between the years; however, The University enacted tuition and fee increases for 2004 and 2003 of 9.9% in each year, along with additional fees and surcharges, which largely created the observed increase in tuition and fees.

The State Appropriations represent the other most significant revenue source for The University. Together, the State Appropriations and Student tuition and fees are the predominant resources used to fund The University's daily operations. The State Appropriations increased \$0.9 million in 2004, and decreased \$3.1 million in 2003. The changes are part of a continued trend over the past few years and are largely attributable to State-level fiscal challenges. While the instructional appropriations have decreased \$0.3 million in 2004 and \$2.9 million in 2003, the increase during 2004 is due to additional funding in other areas such as challenge funding for continuing education.

The State of Ohio also provides capital appropriations to The University. Unlike the operating resources reflected previously, these resources are provided to help with The University's capital needs. The funding is provided through the Ohio Board of Regents (OBR) based upon certain formulas and a capital plan provided by The University. The capital appropriations increased \$8.1 million in 2004, and decreased \$1.7 million for 2003.

The combined Federal, State, Local, and Private Grants and Contracts revenue levels represent The University's continued pursuit of federal, state, local, and private funding for research related activities. Federal revenues represented the largest component of these revenues at \$30.8 million in 2004 and \$27.8 million in 2003, followed by private revenues at \$8.7 million in 2004 and \$7.7 million in 2003. The combined state and local revenues were \$4.5 million in 2004 and \$4.0 million in 2003.

The largest federal source was related to the Office of Education, with the awards for Pell grants the largest area within this source. This source provided nearly \$21.3 million during 2004 and \$19.9 million during 2003. Meanwhile, the largest private source for 2004 and 2003 was The Robert Woods Johnson Foundation which provided approximately \$2 million in each year. The efforts of this grant are directed towards evaluating the results of the national D.A.R.E. program. The state and local revenues consisted of multiple smaller dollar awards.

Auxiliary Enterprises revenues are generated from operations which predominantly exist to furnish goods or services to students, faculty, staff, or the general public. These types of activities are intended to be self-supporting in that the revenues generated are intended to cover the costs of providing the services. The University's auxiliary services include the residence halls, Student Union, intercollegiate athletics, parking services, Rubber Bowl, E.J. Thomas Performing Arts Hall, telecommunications, dining facilities, and Wayne College bookstore.

# The University of Akron

## Management's Discussion and Analysis – Continued

June 30, 2004

Auxiliary Enterprises revenues increased \$4.2 million in 2004, and remained unchanged from 2002 to 2003. The intercollegiate athletics, dining facilities, residence halls, and E.J. Thomas Performing Arts Hall individually provided the predominant revenues within this area. During 2004, the revenues generated from those four areas represented \$11.8 million, \$7.9 million, \$8.0 million, and \$3.9 million, respectively, or 76.3% of the total \$41.3 million revenues. During 2003, the revenues generated from those four areas represented \$10.7 million, \$7.5 million, \$7.3 million, and \$3.5 million, respectively, or 78.1% of the total \$37.1 million revenues.

Sales and services revenue are from certain operations, which provide services to both students and other departments within The University campus. The most significant of these operations was Computer Solutions, which generated sales totaling \$3.9 million for 2004 and \$2.5 million for 2003.

Investment income, including the unrealized change in fair value of investments totaled \$8.1 million and \$5.0 million during 2004 and 2003, respectively. Investment income increased \$3.5 million in 2004 and decreased \$5 million in 2003, which was due to overall change in returns on all investments. During 2002, certain University investments experienced substantial declines in value. Those investments were not redeemed; nevertheless, GASB Statement No. 31 requires those investments be reported at fair value for financial statement reporting purposes. Meanwhile, the \$3.8 and \$4.3 million net increase within unrealized appreciation/depreciation during 2004 and 2003, respectively, occurred because of improved market conditions and the fair value of the investments improved substantially. Once again, those investments were not redeemed, but were adjusted to fair value for financial statement reporting purposes. The University reviewed its investment policies over the past two years and modified its strategies to reduce the portfolio's vulnerability to significant market fluctuations while maintaining certain returns.

The University views continued donor support as a vital ingredient to our continued success. Many student scholarships, capital construction costs, and endowed positions are a result of our very generous contributors. The University receives gifts from a wide array of friends including alumni, the business community, and foundations. Oftentimes, gifts and awards are accompanied by donor restrictions. In those cases, The University maintains a system of internal controls to ensure the gifts are used solely in accordance with the grantor's requirements. For 2004 and 2003, Gifts and grants and additions to permanent endowments totaled \$19.6 million and \$17.9 million, respectively while capital related contributions totaled \$1.3 million and \$1.0 million. Other sources remained stable in terms of dollars between 2002 and 2003.

The Educational and general expenses category is the single largest category of expenses and includes all academic and administrative support salary and benefit related costs. Overall, these expenses increased nearly 1.9% and 7.8% during 2004 and 2003, respectively. During 2004, the most notable increases occurred within Separately budgeted research and Public service, collectively increasing approximately \$4.2 million. Those increases were largely due to increased expenditures in the sponsored research area. During 2003, the most notable increases occurred within Instruction and departmental research and Operation and maintenance of plant, collectively increasing approximately \$10.9 million. Those increases were largely due to rate increases for utilities and additional costs associated with the opening of new buildings on campus.

# The University of Akron

## Management's Discussion and Analysis – Continued

June 30, 2004

Auxiliary Enterprises expenses result from those operations, which as previously reflected, predominantly furnish goods or services to students, faculty, staff, or the general public. Auxiliary Services increased \$2.4 million in 2004 and \$2.1 million during 2003. The largest increase during 2004 occurred with the new Recreation Center and the related operating expenses before it opened to the public. The largest increase during 2003 occurred within the Intercollegiate Athletics area and related to Athletic External Relations and the Football program.

Unlike many items that are expensed when purchased, The University capitalizes most long-term assets. The assets are then expensed over estimated useful lives ranging from 5 years for certain equipment to 40 years for buildings. Generally, Depreciation expense is predictable from year to year taking into account items, which become fully depreciated during the prior year and capital asset additions and deletions for the current year. Depreciation expense increased approximately \$1.3 million in 2004 and 2003 due to increasing levels of capital asset purchases.

The University periodically sells or disposes of obsolete capital assets. Unlike many revenue and expense areas, which tend to be predictable among years, the gains or losses from the disposition of capital assets is often a result of management discretion. The University realized losses totaling \$0.6 million during 2004, while the losses were \$3.8 million during 2003. The 2004 losses occurred with the removal and sale of equipment. The 2003 losses resulted from the demolition of Gardner Student Center and the Central Stores building.

Interest on debt includes the interest incurred during the fiscal year on all debt and capital leases less capitalized interest. During 2003, interest expense decreased \$2.7 million to \$6.6 million and decreased \$0.3 million to \$6.3 million in 2004.

### **Capital Assets and Long-Term Debt Activity**

As previously reflected, The University is in the midst of a major capital expansion. The University uses State capital appropriations, internal resources including the proceeds from debt issues, and gifts and other grants for capital asset expansion throughout the campus. During 2004 and 2003, additions to capital assets approximated \$49.5 million and \$69.5 million, respectively, net of Construction in progress additions. The capital asset activity is reflected in more thorough detail within Note 5 of the financial statements.

The University's long-term debt principally consists of its general receipts bonds, which totaled \$198.4 million in 2004 and \$202.4 million in 2003. During 2004, The University entered into a lease agreement for \$22 million for a new housing complex for the Honors program and refinanced the 1999 General receipts bonds to take advantage of lower interest rates. The University continued to make payments on other outstanding debt for a total of \$5.5 million.

During 2003, The University issued General receipts bonds in the amount of \$45.8 million, retired a \$20 million Bond Anticipation Note, and paid down general receipts bonds by \$2.8 million. The long-term debt activity is reflected in more thorough detail within Note 7 of the financial statements.

**The University of Akron**  
Management's Discussion and Analysis – Continued  
June 30, 2004

**Factors Impacting Future Periods**

The Student Tuition and Fees and State Appropriations are the principal revenue sources, which support The University's annual operations. For both 2004 and 2003, those two revenue sources alone represented \$216.7 million and \$202.3 million, respectively, of our total operating and nonoperating revenues while the aggregate remaining operating and non operating revenues, excluding the change in the fair value of investments, totaled \$139.3 and \$114.1 million.

The University's ability to maintain or expand existing academic programs and to pursue other initiatives will be directly impacted by these two very important revenue sources plus our ability to manage the dramatically increasing employee benefit and energy costs.

## Report of Independent Auditors

To the Board of Trustees of  
The University of Akron:

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of The University of Akron (“The University”) at June 30, 2004 and 2003, and the revenues, expenses and changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The University’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinion.

As described in Note 1, The University adopted the provision of Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations Are Component Units* as of July 1, 2003.

The Management’s Discussion and Analysis (“MD&A”) on pages 1 to 8 is not a required part of the financial statements but is supplemental information required by GASB. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the MD&A information.



In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004 on our consideration of The University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2004. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 stated in all material respects, in relation to the financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

October 15, 2004  
Cleveland, Ohio

# The University of Akron

## Statement of Net Assets

June 30, 2004 and 2003

ASSETS	The University of Akron		Component Units	
	2004	2003	2004	2003
Current assets:				
Cash and cash equivalents	\$ 218,236	\$ 196,975	\$ 36,980	\$ 34,165
Pooled investments	32,773,669	24,056,207	-	-
Investments held in trust by others	2,279,376	12,487,658	-	-
Accounts receivable, net	20,761,942	23,760,645	1,650,995	187,285
Pledges receivable, net	3,107,229	2,600,086	1,224,591	1,988,535
Notes receivable, net	1,772,096	1,395,440	-	-
Accrued interest receivable	193,379	303	-	-
Inventories	1,100,007	1,053,216	-	-
Prepaid expenses and deferred charges	8,126,228	7,382,726	114,985	112,500
Total current assets	70,332,162	72,933,256	3,027,551	2,322,485
Restricted current assets:				
Cash and cash equivalents	21,663,965	52,443,245	1,808,536	989,973
Pooled investments	34,760,894	23,674,389	159,000	-
Total restricted current assets	56,424,859	76,117,634	1,967,536	989,973
Noncurrent assets:				
Endowment investments	46,998,772	43,133,021	122,634,134	109,045,562
Pledges receivable, net	3,642,482	5,135,667	1,020,114	1,961,529
Notes receivable, net	9,753,010	8,547,673	-	-
Prepaid expenses and deferred charges	1,974,138	1,614,717	-	-
Capital assets, net	484,406,054	414,134,520	416,055	335,056
Total assets	673,531,477	621,616,488	129,065,390	114,654,605
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	10,884,271	8,552,488	542,534	647,623
Accrued liabilities	13,101,690	13,653,793	159,465	184,845
Accrued interest payable	3,340,747	4,409,961	-	-
Deferred revenue	31,570,793	32,704,932	990,408	525,999
Deposits	1,093,289	981,727	-	-
Current portion of long-term liabilities	3,468,975	8,591,536	-	-
Total current liabilities	63,459,765	68,894,437	1,692,407	1,358,467
Noncurrent liabilities:				
Refundable federal student loans	11,497,614	11,170,961	-	-
Deferred revenue	1,064,174	1,064,174	-	-
Actuarial liability for annuity/unitrust agreements	-	-	10,318,336	10,803,710
Long-term liabilities	226,711,261	205,984,150	-	-
Total liabilities	302,732,814	287,113,722	12,010,743	12,162,177
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	273,559,805	254,983,802	416,055	335,056
Restricted:				
Nonexpendable:				
Endowment	36,413,681	32,851,261	69,324,110	62,536,029
Expendable:				
Current operations	17,517,595	17,296,581	40,975,798	33,530,832
Loans	801,927	827,626	-	-
Capital projects	13,652,453	13,111,789	-	-
Debt service	719,396	303	-	-
Unrestricted	28,133,806	15,431,404	6,338,684	6,090,511
Total net assets	\$ 370,798,663	\$ 334,502,766	\$ 117,054,647	\$ 102,492,428



# The University of Akron

## Statement of Revenues, Expenses, and Changes in Net Assets For the Years Ended June 30, 2004 and 2003

	The University of Akron		Component Units	
	2004	2003	2004	2003
<b>REVENUES</b>				
Operating revenues:				
Student tuition and fees (net of scholarship allowance of \$32,488,885 and \$30,848,331)	\$ 119,394,285	\$ 105,912,648	\$ -	\$ -
Federal grants and contracts	30,812,891	27,772,997	14,921	48,957
State grants and contracts	3,535,893	3,509,414	28,524	-
Local grants and contracts	972,538	535,231	-	-
Private grants and contracts	8,665,314	6,123,047	1,735,416	1,006,323
Gifts and contributions	-	-	3,828,597	5,010,563
Sales and services	9,046,889	7,705,425	-	-
Auxiliary enterprises	41,369,913	37,064,976	-	-
Other sources	401,368	557,816	102,942	-
Total operating revenues	214,199,091	189,181,554	5,710,400	6,065,843
<b>EXPENSES</b>				
Operating expenses:				
Educational and general:				
Instruction and departmental research	106,091,697	107,925,344	-	-
Separately budgeted research	18,209,969	16,676,995	486,314	311,659
Public service	14,898,222	12,259,995	-	-
Academic support	25,388,276	25,004,944	-	-
Student services	11,282,220	11,416,778	-	-
Institutional support	41,487,118	39,442,293	503,435	727,065
Operation and maintenance of plant	20,083,384	20,926,974	-	-
Scholarships and fellowships	16,850,869	15,949,699	-	-
Auxiliary enterprises	34,843,911	32,454,880	-	-
Depreciation	25,973,831	24,609,438	-	3,209
Loss on disposal of property	619,905	3,806,096	-	-
Total operating expenses	315,729,402	310,473,436	989,749	1,041,933
Operating income (loss)	(101,530,311)	(121,291,882)	4,720,651	5,023,910
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	97,342,555	96,421,139	-	-
Gifts and grants	8,715,805	6,497,743	-	-
Investment income (net of investment expense of \$1,395,383 and \$1,838,698 for The University, \$1,977,258 and \$1,735,849 for the Component Units)	4,246,341	755,107	1,849,176	2,003,237
Unrealized appreciation (depreciation) on investments, net	3,804,957	4,315,750	14,461,952	(2,793,460)
Interest on debt	(6,341,770)	(6,583,705)	-	-
Transfer of workers' compensation liability to State of Ohio	-	2,635,620	-	-
Distributions to the university	10,089,692	10,477,492	(10,089,692)	(10,477,492)
Distributions on behalf of the university	-	-	(246,072)	(393,490)
Other nonoperating revenues (expenses)	(1,493,684)	(305,930)	137,540	90,369
Net nonoperating revenues (expenses)	116,363,896	114,213,216	6,112,904	(11,570,836)
Income (loss) before other changes	14,833,585	(7,078,666)	10,833,555	(6,546,926)
<b>OTHER CHANGES</b>				
State capital appropriations	19,397,671	11,246,153	-	-
Capital gifts and grants	1,296,908	1,041,386	-	-
Additions to permanent endowments	767,733	932,054	3,728,665	3,611,420
Total other changes	21,462,312	13,219,593	3,728,665	3,611,420
Increase (decrease) in net assets	36,295,897	6,140,927	14,562,220	(2,935,506)
<b>NET ASSETS</b>				
Net assets - beginning of year	334,502,766	328,361,839	102,492,428	105,427,934
Net assets - end of year	\$ 370,798,663	\$ 334,502,766	\$ 117,054,648	\$ 102,492,428

# The University of Akron

## Statement of Cash Flows

June 30, 2004 and 2003

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 119,822,169	\$ 105,744,743
Grants and contracts	44,432,710	42,943,390
Auxiliary enterprises	41,172,030	36,989,955
Sales and service of educational activities	9,046,889	7,705,425
Payments to suppliers	(77,897,262)	(75,554,872)
Payments for compensation and benefits	(196,027,750)	(192,199,386)
Payments for scholarships and fellowships	(9,575,582)	(9,352,433)
Loans issued to students	(2,214,061)	(1,221,261)
Collection of loans to students	1,711,178	1,665,549
Other payments	(3,081,950)	(4,309,468)
Net cash used in operating activities	(72,611,629)	(87,588,358)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	97,342,555	96,421,139
Gifts for other than capital purposes	15,469,543	13,689,559
Private gifts for endowment purposes	700,352	1,401,491
Other payments	(1,493,684)	-
Net cash provided by noncapital financing activities	112,018,766	111,512,189
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	112,990,000	46,453,294
Capital appropriations	18,277,129	11,246,153
Capital grants and gifts received	4,174,941	5,225,517
Purchases of capital assets	(68,598,592)	(63,719,303)
Principal paid on capital debt and leases	(121,634,952)	(25,790,398)
Interest paid on capital debt and leases	(5,272,556)	(6,616,813)
Loans issued for capital purposes	(1,097,643)	-
Collection of loans issued for capital purposes	18,533	-
Net cash used in capital financing activities	(61,143,140)	(33,201,550)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	487,357,019	339,291,891
Interest on investments	4,439,417	754,788
Purchase of investments	(500,818,452)	(278,406,000)
Net cash provided by (used in) investing activities	(9,022,016)	61,640,679
Net increase (decrease) in cash	(30,758,019)	52,362,960
Cash and cash equivalents - beginning of the year	52,640,220	277,260
Cash and cash equivalents - end of the year	\$ 21,882,201	\$ 52,640,220

(continued)

# The University of Akron

## Statement of Cash Flows

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (101,530,311)	\$ (121,291,882)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	25,973,831	24,609,438
Loss on disposal of property	619,905	3,806,096
Changes in assets and liabilities:		
Accounts receivable, net	2,805,815	24,368
Notes receivable, net	(502,883)	444,288
Inventories	(46,791)	62,138
Prepaid expenses and deferred charges	(2,812)	526,659
Accounts payable	1,238,392	(1,577,726)
Accrued liabilities	(552,103)	1,523,409
Deferred revenue	(1,134,139)	4,219,453
Deposits held for others	111,562	(536,254)
Sick leave liability	83,581	283,105
Refundable federal student loans	324,324	318,550
Net cash used in operating activities	<u>\$ (72,611,629)</u>	<u>\$ (87,588,358)</u>

# The University of Akron

Notes to Financial Statements

June 30, 2004 and 2003

## 1. Summary of Significant Accounting and Reporting Policies

### Organization

The University of Akron (The University) is a coeducational, degree granting state university which was established by the General Assembly of the State of Ohio (the State) in 1967 by statutory act under Chapter 3359 of the Revised Code of the State of Ohio. The University offers degrees at the undergraduate, masters, and doctoral levels. In 1972, the Wayne College branch was established in Orrville, Ohio. The University is exempt from federal income taxes under Section 115 of the Internal Revenue Code, except for unrelated business income.

The University, together with Kent State University and Youngstown State University, created a consortium to establish and govern Northeastern Educational Television of Ohio, Inc. (NETO), Channels 45 and 49, Kent, Ohio, and Northeastern Ohio Universities College of Medicine (NEOUCOM), Rootstown, Ohio. These organizations are legally separate from The University; accordingly, their financial activity is not included within the accompanying financial statements, and The University bears no financial liability for these organizations.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, The University's financial statements are included, as a discretely presented component unit within the State of Ohio's Consolidated Annual Financial Report. Transactions with the State relate primarily to appropriations, grants from various state agencies, and payments to the State retirement programs for certain University employees.

Furthermore, in accordance with GASB Statement No. 39, two discretely presented component units are reported in a separate column on The University's financial statements to emphasize that they are legally separate from The University. The University of Akron Foundation (Foundation) and The University of Akron Research Foundation (Research Foundation) are not-for-profit organizations supporting 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 Research Foundation promotes, encourages, and provides assistance to the research activities of The University. Although the University does not control the timing or amount of receipts from the Foundation and the Research Foundation, the majority of resources, or income thereon, which they hold and invest are restricted to support the activities of The University. Because these restricted resources held by the Foundation and Research Foundation can only be used by, or for the benefit of, the University, they are considered component units of The University. Financial statements for the Foundation, may be obtained by writing to The University of Akron Foundation, 302 Buchtel Common, Akron, Ohio 44325-6220. Financial statements for the Research Foundation may be obtained by writing to The University of Akron Research Foundation, Goodyear Polymer Center, 170 University Circle, Akron, Ohio 44325-6220. These component units are described in greater detail in Note 11.

# The University of Akron

Notes to Financial Statements – Continued

June 30, 2004 and 2003

## 1. Summary of Significant Accounting and Reporting Policies - Continued

### Basis of Accounting

The financial statements of The University have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, The University has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), statements and interpretations issued after November 30, 1989, which do not conflict or contradict GASB pronouncements.

### Measurement Focus and Financial Statement Presentation

Operating revenues and expenses generally result from providing educational and instructional services in connection with The University's principal ongoing operations. The principal operating revenues include student tuition. The University also recognizes as operating revenue grants classified as exchange transactions and auxiliary activities. Operating expenses include educational costs, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition including State share of instruction are reported as nonoperating revenues and expenses.

The Foundation and the Research Foundation are not-for-profit organizations that report under 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. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's or the Research Foundation's financial information in The University's financial report for these differences.

### Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments with an initial maturity of three months or less when purchased.

### Investments

Investments are stated at fair value based on quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The University does not invest in derivatives. Unrealized gains and losses on investments are recorded as a nonoperating revenue or expense on the Statement of Revenues, Expenses, and Changes in Net Assets.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2004 and 2003

**1. Summary of Significant Accounting and Reporting Policies - Continued**

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined on the average cost basis.

**Pledges Receivable**

The University records pledges and unconditional promises to give as receivables and revenue in the year the pledge is made. Those that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are made. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met.

**Capital Assets**

Capital assets greater than \$1,500 are recorded at cost or, if acquired by gift, at an appraised value at the date of gift. Infrastructure assets are included in the financial statements and are depreciated. Expenditures for construction in progress are capitalized as incurred and depreciated when put into service. Historical collections, including assets that are held for public exhibition, education, or research in furtherance of public service, which are protected and preserved, are not depreciated. Depreciation is computed using the straight-line method, half-year convention, over the estimated useful life of the asset. When capital assets are sold, or otherwise disposed of, the carrying value of such assets and any accumulated depreciation are removed from the asset accounts and any gain or loss on disposal is recognized. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend the capital asset's life are expensed.

Estimated useful lives are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Land improvements	25 years
Buildings	40 years
Infrastructure	20 years
Equipment and furniture	5 to 15 years
Library books	10 years

# The University of Akron

Notes to Financial Statements – Continued  
June 30, 2004 and 2003

## 1. Summary of Significant Accounting and Reporting Policies - Continued

### Capitalization of Interest

The University capitalizes interest on construction projects until substantial completion of the project. Capitalized interest is amortized on the straight-line basis over the estimated useful lives of such assets. The University applies Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, for its General Receipts Bonds, Series 1999 and Bond Anticipation Notes, Series 2002A. This statement requires capitalization of interest cost of the borrowings less interest earned on investment of the bond proceeds from the date of the borrowing until the assets constructed from the bond proceeds are ready for their intended use.

### Deferred Tuition and Fees Revenue

Deferred revenue includes tuition and fees for summer sessions. Tuition and fees revenue received or expenses incurred for summer sessions completed and graded after June 30 of each year are deferred and recognized in the following fiscal year.

### Compensated Absences

Staff employees earn vacation at rates specified under State law and upon termination are entitled to a maximum payout of the amount earned in the last three years. Full-time administrators and twelve-month faculty earn vacation leave at a rate of 22 days per year, which can be carried over to a maximum accumulation of 44 days with the maximum payable upon termination of employment of 22 days. The University accrued a vacation liability equal to the number of days accrued by each eligible employee up to the maximum allowed by the respective employee group.

All University employees are entitled to a sick leave credit equal to 10 hours for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee, with 10 or more years of service upon retirement, is limited to one-quarter of the accumulated sick leave with a maximum of 240 hours.

### Endowment and Quasi Endowments

The University's Board of Trustees established an investment policy with the objectives of protecting principal and maximizing total investment return without assuming extraordinary risks. It 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%, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2004 and 2003

**1. Summary of Significant Accounting and Reporting Policies - Continued**

**Scholarship Allowances and Student Aid**

Financial aid to students is reported under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method followed by The University, scholarship allowances are computed by allocating the cash payments to students, excluding payments for services, on the ratio of using aid not considered to be third party aid to total aid.

**Federal grants and contracts revenue**

Federal grants and contracts operating revenue consists of sponsored program revenue from federal sources along with student-related grants such as Pell, College Work Study, and Supplemental Educational Opportunity Grant programs. For the years ended June 30, 2004 and 2003, student-related grants amount to approximately \$19.7 million and \$17.4 million, respectively, with the balance of \$11.1 million and \$10.4 million, respectively, related to sponsored programs.

**Net Assets**

Net assets are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes. The resources are invested with only the investment income available for purposes established by the donor or, in the case of funds functioning as endowment, by The University. These purposes include loans, scholarships, and departmental support. Expendable restricted net assets represent funds that have been awarded or gifted for specific purposes, funds used for capital projects and debt service, and funds held in federal loan programs.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to current year presentations.

**Accounting Standards**

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rate risk. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2004. The University does not expect the adoption of this statement to have a material effect on its financial statements.



# The University of Akron

Notes to Financial Statements – Continued

June 30, 2004 and 2003

## 2. Cash and Investments

### Cash

At June 30, 2004 and 2003, the carrying amounts of The University's bank deposits and interest bearing cash equivalents were \$21,882,201 and \$52,640,220 as compared to bank balances of \$22,408,679 and \$53,092,202, respectively. The differences between carrying amounts and bank balances were caused by items in-transit. Of the June 30, 2004 and 2003 bank balances, \$383,538 and \$388,306, respectively, was covered by federal deposit insurance; \$22,025,141 and \$52,703,896, respectively, was uninsured but collateralized with securities held by the Federal Reserve Bank of Cleveland in the depository bank's and The University's name.

### Investments

In accordance with the *Policies of the Board of Trustees of The University*, the types of investments which may be purchased include United States government securities, federal agency securities, common and preferred stocks, obligations of commercial banks including certificates of deposit, repurchase agreements, notes, debentures, banker's acceptances and commercial paper, obligations of corporations, municipal notes and bonds, investment programs offered by The Commonfund and shares of the State Treasury Asset Reserve (STAR Ohio). University policy requires that depository banks pledge collateral for funds on deposit, including certificates of deposit, with a market value at all times at least equal to the uninsured amount of the deposit or instrument. The fair value of investments represents published market quotations.

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Pooled investments:				
Repurchase agreement	\$ 1,917,000	\$ 1,917,000	\$ 2,244,000	\$ 2,244,000
STAR Ohio	41,285,813	41,285,813	24,143,522	24,143,522
Mutual Funds	-	-	21,005,082	21,343,074
U.S. agencies	25,050,192	24,331,750	-	-
Total	68,253,005	67,534,563	47,392,604	47,730,596
Endowment investments:				
Marketable securities:				
U.S. Treasury	2,929,627	2,937,683	2,648,645	2,762,558
U.S. agencies	971,161	971,161	1,249,785	1,249,785
Common stocks	33,962,919	35,121,090	34,552,477	30,659,348
Preferred stocks	55,400	52,630	55,400	47,644
U.S. and corporate bonds	7,620,071	7,543,146	7,765,108	7,840,586
The Commonfund:				
Private & Small Cap. Equity	168,149	216,242	271,545	255,847
Cash surrender value of life insurance	3,332	3,332	5,169	5,169
Real estate:				
The Commonfund:				
Endowment Realty	179,303	153,488	320,303	312,084
Total	45,889,962	46,998,772	46,868,432	43,133,021
Investments held in trust by others:				
STAR Ohio	-	-	8,173,810	8,173,810
U.S. agencies	2,279,376	2,279,376	4,313,848	4,313,848
Total	2,279,376	2,279,376	12,487,658	12,487,658
Total investments	\$ 116,422,343	\$ 116,812,711	\$ 106,748,694	\$ 103,351,275

# The University of Akron

Notes to Financial Statements – Continued  
June 30, 2004 and 2003

## 2. Cash and Investments - Continued

GASB Statement No. 3 requires The University to categorize investments to give an indication of the level of custodial credit risk assumed. Category 1 includes investments that are insured or registered for which securities are held by The University or its agent in the name of The University. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of The University. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in The University's name.

The U. S. Treasury and agencies securities and corporate bonds were invested through banks that keep the securities in their names in safekeeping accounts at the Federal Reserve Bank and are therefore Category 3 investments. The Government Securities Act of 1986 requires banks to segregate these securities from the bank assets and keep them free of any lien, charge or claim of any third party. The cost value of these investments was \$40,767,427 and \$39,226,468 and the fair value of these investments was \$39,980,116 and \$39,753,851 at June 30, 2004 and 2003, respectively. The preferred and common stocks were handled by investment managers, and were held in The University's name and are, therefore, Category 1 investments. The cost value of these investments was \$34,018,319 and \$34,607,877 and the fair value of these investments was \$35,173,720 and \$30,706,992 at June 30, 2004 and 2003, respectively.

The Commonfund (The Fund) is a nonprofit membership corporation which provides investment management services for its member colleges, universities and independent schools and offers a series of pooled investment funds. The Fund invests in funds with off balance sheet risk strategies. The University does not have available information to determine their exposure to credit, market or legal risk. STAR Ohio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004 and 2003. The deposits held in The Fund and STAR Ohio are not classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The cost value of these funds was \$41,633,265 and \$32,909,180 and the fair value of these funds was \$41,655,543 and \$32,885,263 at June 30, 2004 and 2003, respectively. The cash surrender value of life insurance also is not classified by risk category and both its cost and fair value were \$3,332 and \$5,169 at June 30, 2004 and 2003, respectively.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2004 and 2003

**3. Accounts and Notes Receivable**

Accounts and notes receivable at June 30, 2004 and 2003 consisted of the following:

	2004	2003
Accounts receivable, net:		
Federal, state, local and governments, foundations, and companies, net of allowance for doubtful accounts of \$1,630,792 and \$966,420, respectively	\$ 8,013,683	\$ 9,414,286
Student receivables, net of allowance for doubtful accounts of \$11,165,721 and \$7,785,412, respectively	10,967,873	12,295,183
Other, net of allowance for doubtful accounts of \$295,572 and \$275,505, respectively	1,780,386	2,051,176
Total accounts receivable, net	20,761,942	23,760,645
Notes receivable, net:		
Student notes receivables, net of allowance for doubtful notes of \$885,080 and \$800,321, respectively	10,445,995	9,943,113
Other notes receivable	1,079,111	-
Total notes receivable, net	11,525,106	9,943,113
Accounts and notes receivable, net	\$ 32,287,048	\$ 33,703,758

**4. Pledges Receivable**

Unconditional promises to give to The University recorded as pledges receivable at June 30, 2004 and 2003 were as follows:

	2004		2003	
	Pledges Receivable	Current Portion	Pledges Receivable	Current Portion
Total pledges receivable	\$ 7,661,020	\$ 3,426,519	\$ 8,814,447	\$ 2,877,257
Less: amount estimated to be uncollectible	(769,484)	(319,290)	(847,801)	(277,171)
Less: unamortized discount	(141,825)	-	(230,893)	-
Pledges receivable, net	6,749,711	\$ 3,107,229	7,735,753	\$ 2,600,086
Less: current portion	(3,107,229)		(2,600,086)	
Pledges receivable, noncurrent portion	\$ 3,642,482		\$ 5,135,667	

As of June 30, 2004 and 2003, The University has approximately \$2,479,000 and \$1,419,000, respectively, in numerous outstanding pledges, which are considered to be intentions to give and are contingent upon future events. These pledges are not recorded as pledges receivable because they do not represent unconditional promises to give.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2004 and 2003

**5. Capital Assets**

Changes in capital assets during fiscal 2004 were as follows:

	Balance July 1, 2003	Additions/ Transfers	Reductions/ Transfers	Balance June 30, 2004
Nondepreciable capital assets:				
Land	\$ 18,856,794	\$ 401,988	\$ -	\$ 19,258,782
Historical collections	2,784,837	1,374,911	-	4,159,748
Construction in progress	<u>53,541,901</u>	<u>85,302,937</u>	<u>39,267,357</u>	<u>99,577,481</u>
Total nondepreciable capital assets	<u>75,183,532</u>	<u>87,079,836</u>	<u>39,267,357</u>	<u>122,996,011</u>
Depreciable capital assets:				
Land improvements	38,977,063	388,500	3,378,347	35,987,216
Buildings	403,418,308	34,162,611	-	437,580,919
Infrastructure	7,661,230	1,463,002	-	9,124,232
Equipment, furniture and books	<u>172,618,717</u>	<u>13,186,366</u>	<u>37,281,847</u>	<u>148,523,236</u>
Total depreciable capital assets	<u>622,675,318</u>	<u>49,200,479</u>	<u>40,660,194</u>	<u>631,215,603</u>
Total capital assets	<u>697,858,850</u>	<u>136,280,315</u>	<u>79,927,551</u>	<u>754,211,614</u>
Less accumulated depreciation:				
Land improvements	17,308,603	1,420,046	3,378,347	15,350,302
Buildings	147,406,371	12,874,580	-	160,280,951
Infrastructure	2,771,544	390,130	-	3,161,674
Equipment, furniture and books	<u>116,237,812</u>	<u>11,289,075</u>	<u>36,514,254</u>	<u>91,012,633</u>
Total accumulated depreciation	<u>283,724,330</u>	<u>25,973,831</u>	<u>39,892,601</u>	<u>269,805,560</u>
Capital assets, net	<u>\$ 414,134,520</u>	<u>\$ 110,306,484</u>	<u>\$ 40,034,950</u>	<u>\$ 484,406,054</u>

**6. Workers' Compensation Liability**

The University participates in the State's self-insured worker's compensation plan (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 Worker's Compensation (the Bureau) based on estimates that incorporate past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the State's 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 State required that The University carry an allocation of unfunded liabilities at June 30, 2002. The elimination of the allocation of state unfunded workers' compensation is a result of the State assuming this liability as of June 30, 2003.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2004 and 2003

**7. Long-term Liabilities**

Changes in long-term liabilities during fiscal 2004 were as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes payable:					
General receipts rental note - Series 2003A, 6.628% (imputed), due serially through 2034	\$ -	\$ 42,720,000	\$ -	\$ 42,720,000	\$ 1,080,000
General receipts rental note - Series 2003B, 8.923% (imputed), due serially through 2018	-	9,030,000	-	9,030,000	645,000
Unamortized discount, Series 2003A	-	(25,835,000)	-	(25,835,000)	(1,080,000)
Unamortized discount, Series 2003B	-	(3,915,000)	-	(3,915,000)	(645,000)
<b>Total notes payable</b>	<b>-</b>	<b>22,000,000</b>	<b>-</b>	<b>22,000,000</b>	<b>-</b>
Bonds payable:					
General receipts bonds - Series 1997A, 3.65% to 6.0%, due serially through 2022	27,395,000	-	1,350,000	26,045,000	1,420,000
General receipts bonds - Series 1999, 4.8 to 5.125%, due serially through 2010	129,155,000	-	115,700,000	13,455,000	-
General receipts bonds - Series 2003A, 1.5% to 5.0%, due serially through 2033	45,815,000	-	1,445,000	44,370,000	1,110,000
General receipts refunding bonds - Series 2004, 3.465%, due serially through 2029	-	130,405,000	-	130,405,000	-
Series 2004 bond premium	-	(16,051,754)	(160,518)	(15,891,236)	(642,070)
Capital improvements, 5.668% to 7%, due serially through 2005	9,635	-	4,817	4,818	4,818
<b>Total bonds payable</b>	<b>202,374,635</b>	<b>114,353,246</b>	<b>118,339,299</b>	<b>198,388,582</b>	<b>1,892,748</b>
Capitalized lease obligations	8,833,911	65,259	2,558,236	6,340,934	921,917
Sick leave liability	3,367,140	89,664	6,084	3,450,720	654,310
<b>Totals</b>	<b>\$ 214,575,686</b>	<b>\$ 136,508,169</b>	<b>\$ 120,903,619</b>	<b>230,180,236</b>	<b>\$ 3,468,975</b>
Less: current portion				3,468,975	
<b>Long-term liabilities</b>				<b>\$ 226,711,261</b>	

The general receipts bonds, Series 1997A, Series 1999, Series 2003A, and Series 2004, and the General receipts rental notes, Series 2003A and 2003B, are payable from and secured by a first pledge and lien on the general receipts of The University, excluding State appropriations.

# The University of Akron

Notes to Financial Statements – Continued

June 30, 2004 and 2003

## 7. Long-term Liabilities - continued

On September 1, 2003, The University issued \$51.75 million of General Receipts Rental Notes, Series 2003A and Series 2003B. These notes guarantee The University's obligation to pay rent under a master lease to Akron Student Housing Associates, LLC (ASHA) for a student residence hall. The aggregate principal amount of these notes is equal to the sum of the payments of rent The University is required to make under the master lease. The unamortized discount and imputed interest rate are based on the payment schedules used by ASHA for their financing of the project.

On March 10, 2004, The University issued \$130.4 million of General Receipts Refunding Bonds, Series 2004 to refund \$113.0 million of outstanding General Receipts Bonds, Series 1999. The University entered into an interest rate exchange agreement (swap agreement) with a swap counterparty on a notional amount equal to the aggregate principal amount of the Series 2004 Bonds. This was for the purpose of hedging the exposure of The University against interest rate fluctuations arising from the variable rates borne by the Series 2004 Bonds. Under the swap agreement, The University will be the fixed rate payor, and the swap counterparty will be the floating rate payor, paying a floating rate based on the USD-LIBOR-BBA Index, which may vary from the actual rate payable by The University on the Series 2004 Bonds. With proper notice, The University can convert the existing variable rate computation mode from/to a daily, weekly, or monthly rate. Additionally, The University can convert the outstanding debt from variable to fixed. The fair value of the swap agreement is (\$400,474) at June 30, 2004. There was no agreement at June 30, 2003.

During fiscal year 1997, The University defeased certain bonds and Certificates of Participation (COP's) by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in The University's financial statements. On June 30, 2004 and 2003, \$2,075,000 and \$2,230,000, respectively, of bonds and COP's outstanding are considered defeased.

Interest expense, net of interest income, related to the borrowings was capitalized as part of the cost of construction. At June 30, 2004 and 2003, interest on borrowings for the Series 1999 and Series 2004A bonds was \$5,506,979 and \$7,220,585, respectively, while the interest earnings on the proceeds were \$175,919 and \$4,105,437, respectively. Substantial completion on outstanding projects was determined to be 63.0% and 39.9%, respectively, resulting in net capitalized interest of \$1,972,492 and \$2,803,738, respectively. At June 30, 2004, interest on borrowings for the Series 2003A bonds was \$1,865,881 and earnings on the proceeds were \$264,701. Substantial completion on outstanding projects was determined to be 46.0% resulting in net capitalized interest of \$864,638. There was no capitalized interest for the Series 2003A bonds in fiscal year 2003. At June 30, 2003, interest on borrowings for the Series 2002A notes was \$387,883 and earnings on the construction funds were \$208,057, resulting in net capitalized interest of \$179,826.

# The University of Akron

Notes to Financial Statements – Continued

June 30, 2004 and 2003

## 7. Long-term Liabilities - continued

The aggregate annual principal maturities for the general receipt rental notes, general receipt bonds, general receipt refunding bonds, and capital improvements for fiscal years subsequent to June 30, 2004 are as follows:

Fiscal year:	Principal	Interest	Total
2005	\$ 1,892,747	\$ 10,703,241	\$ 12,595,988
2006	2,542,930	10,454,263	12,997,193
2007	6,547,930	10,103,379	16,651,309
2008	7,192,930	9,767,149	16,960,079
2009	6,607,930	9,431,488	16,039,418
2010-2014	35,669,649	42,248,123	77,917,772
2015-2019	41,054,649	34,068,654	75,123,303
2020-2024	48,154,649	24,054,952	72,209,601
2025-2029	54,320,167	13,319,455	67,639,622
2030-2034	16,405,000	2,184,194	18,589,194
	<u>\$ 220,388,581</u>	<u>\$ 166,334,898</u>	<u>\$ 386,723,479</u>

The University leases certain office facilities and computer and duplicating equipment under operating leases. Total rental expense under operating leases during the years ended June 30, 2004 and 2003 amounted to \$1,104,450 and \$892,981, respectively.

The University's capital leased assets consist of a student residence hall, educational facilities and computer, duplicating, telecommunications, and other equipment. Capital leased assets by major classes at June 30, 2004 are as follows:

Land	\$ 140,000
Building	3,572,366
Movable equipment	4,983,274
	<u>\$ 8,695,640</u>

Future minimum lease payments as of June 30, 2004 under all capital leases with an initial or remaining noncancelable lease term in excess of one year, along with the present value of net minimum capital lease payments, are as follows:

Fiscal Year:	
2005	\$ 1,157,032
2006	880,424
2007	746,741
2008	460,169
2009	195,223
2010-2013	3,882,740
Total minimum lease payments	\$ 7,322,329
Less amount representing interest	981,395
Present value of net minimum capital lease payments	<u>\$ 6,340,934</u>

# The University of Akron

Notes to Financial Statements – Continued

June 30, 2004 and 2003

## 7. Long-term Liabilities - continued

The University's bookstore facilities and operations are leased to an outside operator. The lease provides for annual rental receipts of approximately \$500,000 and contingent rentals based upon gross sales. There were no contingent rentals earned in fiscal 2004 or 2003. During fiscal 2004 and 2003, The University also received rental receipts approximating \$192,000 and \$288,000, respectively, from renting various other campus facilities under the terms of operating lease agreements.

## 8. State Support

The University is a State-assisted institution of higher education, which receives a student-based State share of instruction (appropriation) from the State. This State share of instruction is determined annually based upon a formula devised by the State. In addition to the State share of instruction, the State also provides certain capital funding and assistance for major academic facilities. The capital funding is provided through the Ohio Board of Regents (OBR) from revenue bond proceeds issued by the Ohio Public Facilities Commission (OPFC). The capital assets are transferred from the OBR to The University upon completion. Costs incurred during construction are included in construction in progress.

University facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of The Treasurer of State. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the State.

As a result of the above described financial assistance provided by the State to The University, outstanding debt issued by OPFC is not included within The University's financial statements. In addition, appropriations by the State's General Assembly to the Board of Regents for payment of debt service are not reflected as appropriation revenue received by The University, and the related debt service payments are not recorded in The University's accounts.

The Ohio Board of Regents adopts a two-year operating budget that includes line items to fund infrastructure investments for higher education. The Capital Component program is an appropriation line item in the Ohio Board of Regents operating budget. The program was designed to add flexibility to the capital funding process and to provide incentives for the efficient use of state capital funding provided to higher education institutions. The Capital Component constitutes a reform of capital funding for higher education as part of the capital funding policy adopted in 1997. This new capital funding policy provided state-assisted institutions of higher education with the annual debt service equivalent of capital appropriations that the institution otherwise could have received via the new formula-based higher education capital budget. The formula is driven by considering existing space shortages on campus, student enrollments, and other campus activities (i.e. non-credit activities, community service functions and research). Thus, if the formula allocation exceeds the amount requested, 10% of the difference is paid to the institution for 15 years in the form of Excess Capital Component Allocation (Capital Component). The University intends to use this Capital Component toward funding the debt service obligation of the Series 1999, 2003A, and 2004 Bond Issues.



# The University of Akron

Notes to Financial Statements – Continued  
June 30, 2004 and 2003

## 9. Employee Benefit Plans

### Retirement Plans

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS and SERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits for plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3307 of the Ohio Revised Code (ORC).

Both STRS and SERS issue stand-alone financial reports. The STRS' Comprehensive Annual Financial Report may be obtained by writing to State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3371 and the SERS' Comprehensive Annual Financial Report may be obtained by writing to School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. The ORC provides statutory authority for employee and employer contributions. The employee contribution rates for STRS and SERS are 10% of covered payroll and The University is required to contribute 14% of covered payroll for both programs. The University's contributions to STRS and SERS for the years ending June 30, 2004, 2003, and 2002 were \$9,620,002, \$9,707,923, and \$9,035,195, and \$6,484,297, \$6,129,061, and \$5,715,435, respectively, equal to the required contributions for each year.

### Other Postretirement Employee Benefits

The University also provides certain health care benefits for dependents of retired employees and life insurance benefits for retired employees. Substantially all of The University's employees hired prior to 1992 may become eligible for those benefits if they reach normal retirement age while working for The University. During fiscal 2004 and 2003, the cost of dependent health care and retiree life insurance benefits, recognized as expense when claims and premiums were paid, totaled \$1,450,000 and \$1,391,513, respectively.

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, The State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2003, benefits are funded on a pay-as-you-go basis through an allocation of employer contributions equal to 1% of covered payroll to a Health Care Reserve Fund from which health care benefits are paid. The balance in the Health Care Reserve Fund was \$2.8 billion at June 30, 2003, the latest available information. For the year ended June 30, 2003, the net health care costs paid by STRS were \$352,301,000 and there were 108,294 eligible benefit recipients.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2004 and 2003

**9. Employee Benefit Plans - Continued**

The ORC gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees, with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2003, the most recent data available, the allocation rate is 5.83%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, prorated for partial service credit. For 2003, the minimum pay has been established as \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003, the latest available information, were \$204,930,737. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits were \$303.6 million. The number of participants currently receiving health care benefits is approximately 50,000.

**Alternative Retirement Plan**

In 1997, the State approved an Alternative Retirement Plan (ARP) for full-time academic and administrative employees which allows new employees and those with less than five years of service to opt out of STRS and SERS and contribute to one of the ARPs formed as Section 401(a) defined contribution plans. The legislation, as amended, requires employees to contribute to the ARPs at the same rates as previously stated for STRS and SERS employee contributions, while the employer contributes 3.50% of their 14.00% STRS employer contribution to STRS and no funding to SERS. The University holds one-half of one percent for administrative expenses. The employer contribution rate is based on independent actuarial studies. The University's contributions for ARP employees for the years ending June 30, 2004, 2003, and 2002 were \$2,574,706, \$2,598,782, and \$2,423,718, respectively, equal to the required contributions for each year. The ARPs do not provide postretirement benefits other than pension and death benefits.

**10. Litigation, Commitments, and Contingencies**

The University has been named as a defendant in a number of suits alleging various matters. It is the opinion of The University's management that disposition of the pending matters will not have a material adverse effect on the financial statements.

# The University of Akron

Notes to Financial Statements – Continued

June 30, 2004 and 2003

## 10. Litigation, Commitments, and Contingencies - Continued

In addition to purchasing insurance to cover potential losses from certain litigation, The University participates in a risk pool, along with other State universities, for commercial property coverage. Each university contributes on a basis equal to their percentage of the total insurable value of the pool. Future contributions will be adjusted based upon each university's loss history. Each university has a base deductible of \$100,000. The next \$250,000 of any one claim is the responsibility of the pool, which has a total annual aggregate limit of \$700,000. The commercial property insurer is liable for the amount of any claim in excess of \$350,000, or \$100,000 in the event the pool has reached its annual aggregate.

The University receives grants and contracts from certain federal and state agencies to fund research and other activities. The federal grants are audited annually in accordance with Office of Management and Budget Circular A-133. Federal agencies also may conduct additional audits under federal law or regulations or may arrange for funding the cost of such additional audits be independent auditing firms. The state grants are subject to review and audit by the grantor agencies or their designee. Such federal or state audits could lead to a request for reimbursement by the grantor agency for expenditures disallowed under the terms of the grant. No significant costs have been questioned to date, and management believes that any disallowance or adjustment of such costs would not have a material adverse effect on the financial statements.

The University is currently in contract negotiations with the University of Akron Chapter of the American Association of University Professors (AAUP) which represents full-time faculty members. The AAUP has filed an unfair labor practice complaint with the State of Ohio State Employment Relations Board regarding several bargaining subjects. The outcome of the complaint is unknown at this time, and management believes that any adjustment of costs related to this complaint would not have a material adverse effect on the financial statements.

The University has been appropriated \$28,104,000 from the State for buildings and renovations, of which \$13,423,000 has been expended as of June 30, 2004. In addition, as of June 30, 2004, several University-funded construction projects will cost an estimated \$30,600,000 to complete.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2004 and 2003

**11. Component units**

Detail of the component units' net assets at June 30, 2004 and 2003 are as follows:

	2004			2003		
	Foundation	Research Foundation	Totals	Foundation	Research Foundation	Totals
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 36,980	\$ -	\$ 36,980	\$ 34,165	\$ -	\$ 34,165
Accounts receivable, net	1,430,381	220,614	1,650,995	58,223	129,062	187,285
Pledges receivable, net	1,224,591	-	1,224,591	1,988,535	-	1,988,535
Prepaid expenses and deferred charges	-	114,985	114,985	-	112,500	112,500
Total current assets	2,691,952	335,599	3,027,551	2,080,923	241,562	2,322,485
Restricted current assets:						
Cash and cash equivalents	-	1,808,536	1,808,536	-	989,973	989,973
Pooled investments	-	159,000	159,000	-	-	-
Total restricted current assets	-	1,967,536	1,967,536	-	989,973	989,973
Noncurrent assets:						
Endowment investments	122,634,134	-	122,634,134	109,045,562	-	109,045,562
Pledges receivable, net	1,020,114	-	1,020,114	1,961,529	-	1,961,529
Capital assets, net	416,055	-	416,055	335,056	-	335,056
Total assets	126,762,255	2,303,135	129,065,390	113,423,070	1,231,535	114,654,605
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	126,030	416,504	542,534	350,846	296,777	647,623
Accrued liabilities	109,157	50,308	159,465	132,054	52,791	184,845
Deferred revenue	-	990,408	990,408	-	525,999	525,999
	235,187	1,457,220	1,692,407	482,900	875,567	1,358,467
Noncurrent liabilities:						
Actuarial liability for annuity/unitrust agreements	10,318,336	-	10,318,336	10,803,710	-	10,803,710
Total liabilities	10,553,523	1,457,220	12,010,743	11,286,610	875,567	12,162,177
<b>Net assets</b>						
Invested in capital assets, net	416,055	-	416,055	335,056	-	335,056
Restricted:						
Nonexpendable	69,324,110	-	69,324,110	62,536,029	-	62,536,029
Expendable	40,975,798	-	40,975,798	33,530,832	-	33,530,832
Unrestricted	5,492,769	845,915	6,338,684	5,734,543	355,968	6,090,511
Total net assets	\$116,208,732	\$ 845,915	\$117,054,647	\$102,136,460	\$ 355,968	\$102,492,428

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2004 and 2003

**11. Component units - Continued**

Detail of the component units' revenues, expenses, and changes in net assets at June 30, 2004 and 2003 are as follows:

	2004			2003		
	Foundation	Research Foundation	Totals	Foundation	Research Foundation	Totals
<b>Revenues</b>						
Operating revenues:						
Federal grants and contracts	\$ -	\$ 14,921	\$ 14,921	\$ -	\$ 48,957	\$ 48,957
State grants and contracts	-	28,524	28,524	-	-	-
Private grants and contracts	-	1,735,416	1,735,416	-	1,006,323	1,006,323
Gifts and contributions	3,828,597	-	3,828,597	5,010,563	-	5,010,563
Other sources	-	102,942	102,942	-	-	-
Total operating revenues	3,828,597	1,881,803	5,710,400	5,010,563	1,055,280	6,065,843
<b>Expenses</b>						
Operating expenses:						
Educational and general:						
Separately budgeted research	-	486,314	486,314	-	311,659	311,659
Institutional support	503,435	-	503,435	727,065	-	727,065
Depreciation	-	-	-	3,209	-	3,209
Total operating expenses	503,435	486,314	989,749	730,274	311,659	1,041,933
Operating income	3,325,162	1,395,489	4,720,651	4,280,289	743,621	5,023,910
<b>Nonoperating revenues (expenses)</b>						
Investment income, net	1,835,985	13,191	1,849,176	1,997,972	5,265	2,003,237
Unrealized appreciation (depreciation) on investments	14,302,952	159,000	14,461,952	(2,793,460)	-	(2,793,460)
Distributions to the university	(9,009,709)	(1,079,983)	(10,089,692)	(9,967,279)	(510,213)	(10,477,492)
Distributions on behalf of the university	(246,072)	-	(246,072)	(393,490)	-	(393,490)
Other nonoperating revenues	135,290	2,250	137,540	89,793	576	90,369
Net nonoperating revenues (expenses)	7,018,446	(905,542)	6,112,904	(11,066,464)	(504,372)	(11,570,836)
Gain (loss) before other changes	10,343,608	489,947	10,833,555	(6,786,175)	239,249	(6,546,926)
<b>Other changes</b>						
Additions to permanent endowments	3,728,665	-	3,728,665	3,611,420	-	3,611,420
Increase (decrease) in net assets	14,072,273	489,947	14,562,220	(3,174,755)	239,249	(2,935,506)
<b>Net assets</b>						
Net assets – beginning of year	102,136,460	355,968	102,492,428	105,311,215	116,719	105,427,934
Net assets – end of year	\$116,208,733	\$ 845,915	\$116,895,648	\$102,136,460	\$ 355,968	\$102,492,428

**The University of Akron**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Catalog Federal Domestic Assistance</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Student Financial Aid Cluster</b>			
Department of Education:			
Direct programs:			
Federal Pell Grant Program	84.063		\$ 17,283,456
Federal Supplemental Educational Opportunity Grant	84.007		989,038
Federal College Work-Study	84.033		1,139,501
Federal Perkins Loans	84.038		324,324
<b>Total Department of Education - Student Financial Aid Cluster</b>			<b><u>19,736,319</u></b>
<b>Research and Development Cluster</b>			
Department of Agriculture:			
Direct programs:			
Grants for Agriculture - Competitive Research Grants	10.206		148,171
Initiative for Future Agriculture and Food Systems	10.302		182,953
University of Arizona - Agricultural Research-Basic and Applied Research	10.001		59
Total Department of Agriculture			<u>331,183</u>
Department of Commerce:			
Direct program:			
NIST - Measurement and Engineering Research and Standards	11.609		60,603
Department of Defense:			
Direct programs:			
ONR - Basic and Applied Scientific Research	12.300		111,325
United States Army - Basic Scientific Research	12.431		57,355
USAF - Air Force Defense Research Sciences Program	12.800		739,405
National Security Agency - Mathematical Sciences Grants Programs	12.901		7,137
Pass-through programs:			
UARF-Creative Action LLC Basic and Applied Scientific Research	12.300	N00014-03-M-0254	10,394
Mississippi State University-Basic and Applied Scientific Research	12.300	N00014-02-1-0450	45,111
Cleveland Clinic - Military Medical Research and Development	12.420	DAMD17-01-1-0673	43,675
NEOUCOM - Military Medical Research and Development	12.420	DAMD17-03-1-0082	33,378
Battelle - Basic Scientific Research	12.431	DAAH04-96-C0086	(4,893)
Psych Systems & Research Inc. - Basic Scientific Research	12.431	DASW01-03-C-0003	101,355
University of Dayton - Air Force Defense Research Sciences Program	12.800	F33615-00-D-5008	(685)
Foster Miller, Inc. - Air Force Defense Research Sciences Program	12.800	F33615-01-C-2112	(23,053)
Foster Miller, Inc. - Air Force Defense Research Sciences Program	12.800	F33615-02-C-2294	80,069
MIT - Research and Technology Development	12.910	F49620-01-0447	110,751
Santa Fe Science and Technology - Research and Technology Development	12.910	MDA972-99-C-0004	(648)
Total Department of Defense			<u>1,310,676</u>
Department of the Interior:			
Pass-through program:			
Cuyahoga Valley National Park	15.AAT		35,625
Department of Justice:			
Direct program:			
National Institute Justice Research, Evaluation, and Development Project Grants	16.560		20,426
Pass-through programs:			
A.B.T. Associates - NIJ Research, Evaluation, and Development Project Grants	16.560		584
NORC-ADAM Program - NIJ Research, Evaluation, and Development Project Grants	16.560		43,425
Ohio Criminal Justice - Bryne Formula Grant Program	16.579	2003-DG-B01-7403	54,148
Oriana House - Drug Court Discretionary Grant Program	16.585		36
Total Department of Justice			<u>118,619</u>

*See accompanying notes to the Schedule of Expenditures of Federal Awards*

**The University of Akron**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2004

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Catalog Federal Domestic Assistance</b>	<b>Pass Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
Department of State			
Pass-through program:			
Axiom Resource Management, Inc. - Educational Partnerships Program	19.424	SINLEC	27,443
Department of Transportation:			
Direct program:			
NHTSA State and Community Highway Safety	20.600		9,378
Pass-through programs:			
Ohio Department of Transportation - Highway Planning and Construction	20.205	AC-SPR-2(37)	277,993
Ohio Department of Transportation - Highway Planning and Construction	20.205	E036(641)	32,857
Ohio Department of Transportation - Highway Planning and Construction	20.205	E040(613)	34,767
Total Department of Transportation			354,995
Appalachian Regional Commission			
Pass-through program:			
Ohio Department of Development - Appalachian Area Development	23.002		5,229
National Aeronautics and Space Administration:			
Direct program:			
Technology transfer	43.002		1,563,123
Pass-through programs:			
USRA/NCMR - Technology Transfer	43.002	NCC3-975	4,603
UARF-Physical Sciences - Technology Transfer	43.002	NAS1-02066	(1,485)
University of Toledo-Technology Transfer	43.002	NNC04GA24G	6,266
The Ohio State University Research Foundation-Technology Transfer	43.002	NCC3-1086	29,064
Morehouse School of Medicine-Technology Transfer	43.002	NCC2-1322	7,846
Ohio Aerospace Institute-Technology Transfer	43.002	NCC-959	61,382
Old Dominion University - Technology Transfer	43.002	NAG1-01043	22,479
Total National Aeronautics and Space Administration			1,693,278
National Science Foundation:			
Direct programs:			
Engineering Grants	47.041		1,016,183
Mathematical and Physical Sciences	47.049		1,921,949
Geosciences	47.050		264,928
Biological Sciences	47.074		323,516
Social, Behavioral, and Economic Sciences	47.075		120,915
Educational and Human Resources	47.076		403,171
Pass-through programs:			
University of Nebraska - Engineering Grants	47.041	DMI-0100354	53,894
Michigan State University - Engineering Grants	47.041	EEC-9980325	1,458
University of Kentucky Research Foundation - Engineering Grants	47.041	CTS-0218977	38,492
Cleveland Clinic Foundation - Engineering Grants	47.041	EEC-9820538	78
Virginia Polytech Institute - Engineering Grants	47.041	CMS-0219701	29,758
Drexel University - Engineering Grants	47.041	ECS-0304453	25,187
Wayne State University - Mathematical and Physical Sciences	47.049	CHE-0211696	20,397
University of South Carolina - Geosciences	47.050	OCE-0117112	30,410
Kent State University	47.067	DMR-9714254	(4,425)
Case Western Reserve University	47.073	ECD-9108700	17
National Academies - Social, Behavioral, and Economic Sciences	47.075	INT-0002341	6,538
West Virginia University - Educational and Human Resources	47.076	EHR-0090472	54,273
Mississippi State University - Educational and Human Resources	47.076	EPS-0082979	14,083
University of Oregon - Educational and Human Resources	47.076	DUE-0088847	10,386
Total National Science Foundation			4,331,208

*See accompanying notes to the Schedule of Expenditures of Federal Awards*

**The University of Akron**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Catalog Federal Domestic Assistance</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency:			
Pass-through programs:			
Ohio EPA - Nonpoint Source Implementation Grants	66.460	C999500900-0	46,904
Ohio EPA - Nonpoint Source Implementation Grants	66.460	C997550001-0	41,357
Total Environmental Protection Agency			88,261
Department of Energy:			
Direct programs:			
Department of Energy	81.000		92,813
Office of Science Financial Assistance Program	81.049		136,146
University Coal Program	81.057		95,359
Pass-through programs:			
University of Pittsburgh - Fossil Energy Research and Development	81.089	DE-FC26-01NT41196	35,324
University of Pittsburgh - Fossil Energy Research and Development	81.089	FC26-98FT40143	(3,013)
Parsons Infrastructure & Technology Group-Fossil Energy Research and Development	81.089	DE-AM26-99FT40463	41,567
Total Department of Energy			398,196
Department of Education:			
Direct programs:			
Preparing Tomorrow's Teachers to Use Technology	84.342A		156,911
Fund for the Improvement of Postsecondary Education	84.116Z		337,001
National Institute on Disability and Rehabilitation Research	84.133A		113,319
Pass-through programs:			
Ohio Rehabilitation Services Commission-Vocational Rehabilitation Grants	84.126		1,954
Brain Injury - National Institute on Disability and Rehabilitation Research	84.133A	H133A010607	23,000
Alliance Schools - Fund for the Improvement of Education	84.215S	R215S020123	45,097
Total Department of Education			677,282
Department of Health and Human Services:			
Direct programs:			
Special Programs for the Aging	93.048		63,168
Nurse Anesthetist Traineeships	93.124		7,023
Centers for Disease Control	93.262		39,530
Biomedical Imaging Research	93.286		12,610
Advanced Education Nursing Grant Program	93.358		55,580
Basic Nurse Education, Practice and Retention Grants	93.359A		295,046
Nursing Research	93.361		212,247
Academic Research Enhancement Award	93.390		(1,110)
Cancer Treatment Research	93.395		53,127
Community Services Block Grant Discretionary Awards, Community Food, and Nutrition	93.571		2,205
Heart and Vascular Diseases Research	93.837		1,085
Lung Diseases Research	93.838		3,883
Diabetes, Endocrinology, and Metabolism Research	93.847		43,556
Digestive Diseases and Nutrition Research	93.848		9,084
Vision Research	93.867		51,168
Minority Access to Research Careers	93.880		7,216
Scholarships for Health Profession Students	93.925		36,871

*See accompanying notes to the Schedule of Expenditures of Federal Awards*



**The University of Akron**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2004

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Catalog Federal Domestic Assistance</b>	<b>Pass Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
Department of Health and Human Services - continued:			
Pass-through programs:			
VNA-Special Programs for the Aging Title IV & Title II Discretionary Projects	93.048	90AM2747	50,512
Stella Maris - Consolidated Knowledge Development and Application (KD&A) Program	93.230		130,915
ADASBCC-Consolidated Knowledge Development and Application (KD&A) Program	93.230	1 H79 TI13505-01	99,316
Ohio Rehabilitation Services Commission-Traumatic Brain Injury State Demo. Grant Prg	93.234	1 H82 MC 00006-01	12,769
Community Health-SAMHSA-Projects of Regional and National Significance	93.243	1 H79 TI4463-01	65,420
ADASBCC-SAMHSA-Project of Regional and National Significance	93.243	1 H79 TI14109-01	48,336
University of Pittsburgh-Nursing Research	93.361	5 R01 NR004749-07	5,121
Ohio Dept. of Jobs and Family Services-Foster Care Title IV-E	93.658		24,776
Case Western Reserve University - Aging Research	93.866	P50AG08012-12	207
Indiana University - Vision Research	93.867	R01 EY11365-06A1	26,437
Ohio Dept. of Health-HIV Care Formula Grants	93.917		12,640
Ohio Dept. of Mental Health-Block Grants for Community Mental Health Services	93.958		46,148
ODADAS - Block Grants for Prevention and Treatment of Substance Abuse	93.959		169,603
Total Department of Health and Human Services			1,584,489
<b>Total Research and Development Cluster</b>			<b>11,017,087</b>
<b>Child Nutrition Cluster</b>			
Department of Agriculture:			
Pass-through programs:			
Ohio Department of Education - Summer Food Service Program for Childre	10.559		14,259
Firestone Endowment-Summer Food Service Programs for Children	10.559		1,229
NCAA Youth Sports-Summer Food Service Program for Children	10.559		11,221
Total Department of Agriculture			<b>26,709</b>
<b>Special Education Cluster</b>			
Department of Education:			
Pass-through program:			
Barberton Decker Center - Special Education Preschool Grant	84.173		<b>77,568</b>
<b>TRIO Cluster</b>			
Department of Education:			
Direct programs:			
TRIO Talent Search	84.044A		408,653
TRIO Upward Bound	84.047A		456,628
TRIO Upward Bound Math/Science	84.047M		269,228
TRIO McNair Post Baccalaureate Achievement	84.217A		122,592
<b>Total TRIO Cluster</b>			<b>1,257,101</b>
<b>Other Programs</b>			
<b>Instruction</b>			
Department of Defense:			
Pass-through program:			
State of Ohio-National Guard Military Operations and Maintenance (O&M) Projects	12.401		13,571
National Science Foundation:			
Direct program:			
Education and Human Resources	47.076		13,612
Pass-through program:			
The Ohio State University Research Foundation-Education and Human Resources	47.076	HRD-0331560	10,127
Total National Science Foundation			23,739

*See accompanying notes to the Schedule of Expenditures of Federal Awards*

**The University of Akron**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Catalog Federal Domestic Assistance</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Education:			
Direct programs:			
Graduate Assistance in Areas of National Need	84.200A		191,528
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A		281,347
Pass-through program:			
Services and Results for Children with Disabilities	84.325	H325D030008	20,980
Total Department of Education			<u>493,855</u>
Department of Health and Human Services:			
Direct programs:			
Comprehensive Geriatric Education Program	93.265		130,770
Nurse Education, Practice and Retention Grants	93.359		119,958
Pass-through program:			
Ohio Department of Job & Family Services-Foster Care Title IV-E	93.658		35,040
Total Department of Health and Human Services			<u>285,768</u>
<b>Total Instruction</b>			<b><u>816,933</u></b>
<b>Public Service</b>			
Department of Agriculture:			
Pass-through program:			
Center for Child Development - Child and Adult Care Food Program	10.558		19,200
Department of Defense:			
Direct programs:			
Air Force ROTC Uniform	12.000		20,853
Army ROTC	12.000		1,024
Total Department of Defense			<u>21,877</u>
Department of Housing and Urban Development:			
Pass-through programs:			
City of Akron/Knight Family Foundation	14.000		95
AMHA - Elder Screening - Federally Assisted Low Income Housing Drug Elimination	14.193		5,275
Total Department of Housing and Urban Development			<u>5,370</u>
Department of Justice:			
Direct programs:			
Discretionary Drug and Criminal Justice Assistance Program	16.580		83,561
Ohio Criminal Justice-Byrne Formula Grant Program	16.579		64,747
Community Partnership-Drug Free Communities Support Program Grant	16.729		15,390
Total Department of Justice			<u>163,698</u>
Department of State:			
Direct program:			
Education Partnerships Program	19.424		28,039
Small Business Administration:			
Pass-through program:			
Akron Small Business Development Center	59.037		10,093

*See accompanying notes to the Schedule of Expenditures of Federal Awards*

**The University of Akron**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2004

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Catalog Federal Domestic Assistance</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Education:			
Direct program:			
Fund for the Improvement of Education	84.215K		99,799
Pass-through programs:			
Ohio Department of Education - Vocational Education Basic Grants to States	84.048		56,003
University of Illinois - National Institute on Disability and Rehabilitation Research	84.133	H133B30069	28,487
Ohio Board Regents - Eisenhower Professional Development - Federal Activities	84.168		332
Ohio Department of Education - Even Start State Education Agencies	84.213C		156,788
Ohio Department of Education - Tech Prep Education	84.243		117,008
Ohio Board Regents - Improving Teacher Quality State Grants	84.367		114,543
Total Department of Education			<u>572,960</u>
Department of Health and Human Services:			
Direct program:			
Community Services Block Grant Discretionary Awards-Community Food and Nutrition	93.571		23,384
Pass-through programs:			
SPAHEC - Model State Supported Area Health Education Centers	93.107		26,894
Trumbull County Private Industry Council	93.558		(31)
Holmes County - Temporary Assistance for Needy Families	93.558		179,232
NCAA Youth Sports - Community Services Block Grant Discretionary Awards	93.570		94,568
Barberton Decker Center - Job Opportunities for Low Income Individuals	93.593		163,869
OBR/CSCC Job Prep - Job Opportunities for Low Income Individuals	93.593		96
Barberton Decker Center - Social Services Block Grant	93.667		249,189
NOVA Southeastern University - Academic Administrative Units in Primary Care	93.984	5 D12 HP 00045-03	3,078
Total Department of Health and Human Services			<u>740,279</u>
Corporation for National and Community Service:			
Pass-through programs:			
Center for Healthy Communities - Learn and Serve America Higher Education	94.005		1,012
Wright State University - Learn and Serve America Higher Education	94.005		(304)
Corporation for National and Community Service-Learn and Serve America Higher Educ.	94.006	03ACH-K729-04-A147	21,508
Total Corporation for National and Community Service			<u>22,216</u>
<b>Total Public Service</b>			<u><b>1,583,732</b></u>
<b>Total Other Programs</b>			<u><b>2,400,665</b></u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$ 34,515,449</b></u>

*See accompanying notes to the Schedule of Expenditures of Federal Awards*

# The University of Akron

## Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2004

### (1) Summary of Significant Accounting Policies

#### (a) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant transactions of The University of Akron (the "University") recorded on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the University has expended the funds in accordance with the grant agreement.

#### (b) Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the Schedule. During the year ended June 30, 2004, the University disbursed funds to subrecipients in the amount of \$910,172.

The University is also the subrecipient of federal funds which have been subject to testing and are reported as expenditures and listed separately as pass-through programs.

#### (c) Facilities and Administrative Costs

The University recovers facilities and administrative costs by means of predetermined rates. The predetermined rates are a result of negotiated agreements with the U.S. Department of Health and Human Services. The predetermined rates are 47% for on-campus research and 26% for off-campus research until June 30, 2004.

### (2) Loan Advances

The following schedule represents total loans advanced to students by the University and balances outstanding for the Perkins and Nursing Student Loan Programs for the year ended June 30, 2004:

	<b>CFDA Numbers</b>	<b>Advances</b>	<b>Outstanding Balances</b>
Perkins Loan Program	84.038	\$ 2,028,869	\$ 11,042,672
Nursing Student Loan Program	93.364	\$ 283,951	\$ 1,066,035

### (3) Federal Family Education Loan Program

During the year ended June 30, 2004, the University processed applications for the following loan amounts under the Federal Family Education Loan Program which includes Stafford Loans, unsubsidized Stafford Loans and Parent Plus Loans for Undergraduate Students.

	<b>CFDA Number</b>	<b>Advances</b>
Federal Family Education Loan Program	84.032	\$ 93,936,521

# The University of Akron

Notes to Schedule of Expenditures of Federal Awards, Continued  
For the Year Ended June 30, 2004

## (4) Reconciliation

The following schedule is a reconciliation of total expenditures as shown on the Schedule to the revenue shown as federal grants and contracts on the Statement of Revenues, Expenses and Changes in Net Assets (the "Statement"), which is included as part of the University's financial statements:

Expenditures per the Schedule	\$ 34,515,449
Perkins Loan funds excluded from federal grants on the Statement	(324,324)
State grants	(1,168,512)
Local grants	(216,278)
Private grants	(2,340,981)
Sales	(19,200)
Indirect costs excluded from federal grants on Statement	(34,178)
Change in deferred revenue from federal grants	<u>400,915</u>
Federal grants and contracts as shown on the Statement	<u>\$ 30,812,891</u>

Current restricted funds derived from appropriations, gifts or grants may be used only to meet current expenditures for the purposes specifically identified by sponsoring agencies. The appropriations, gifts or grants are recognized as revenue in the University's external financial statements as expended. Therefore, expenditures per the Schedule agree with federal grants and contracts revenue on the Statement, except as noted above.

**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***

To the Board of Trustees of  
The University of Akron:

We have audited the financial statements of The University of Akron (“The University”), a component unit of the State of Ohio, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The University’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of The University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*PricewaterhouseCoopers LLP*

October 15, 2004  
Cleveland, Ohio

**Report of Independent Auditors on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

To the Board of Trustees of  
The University of Akron:

Compliance

We have audited the compliance of The University of Akron (“The University”), a component unit of the State of Ohio, 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, 2004. The University’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’s management. Our responsibility is to express an opinion on The University’s compliance based on our audit.

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

In our opinion, The University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.





### Internal Control Over Compliance

The management of The University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*PricewaterhouseCoopers LLP*

October 15, 2004  
Cleveland, Ohio

**The University of Akron**  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2004

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

**Financial Statements:**

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	___ yes	<u>X</u> no
Reportable condition(s) identified that are not considered to be material weaknesses?	___ yes	<u>X</u> none reported
Noncompliance material to financial statements noted?	___ yes	<u>X</u> no

**Federal Awards:**

Internal control over major programs:		
Material weakness(es) identified?	___ yes	<u>X</u> no
Reportable condition(s) identified that are not considered to be material weaknesses?	___ yes	<u>X</u> none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	___ yes	<u>X</u> no
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
--------------------	---

Various	Student Financial Aid
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Dollar threshold used to distinguish between Type A and Type B programs:	\$1,035,463
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Auditee qualified as low-risk auditee?	<u>X</u> yes	___ no
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**The University of Akron**  
Schedule of Findings and Questioned Costs, Continued  
For the Year Ended June 30, 2004

**Section II - Financial Statement Findings**

No matters were reported.

**Section III - Summary of Current Year Findings and Questioned Costs**

No current year findings or questioned costs.

**The University of Akron**  
Schedule of Findings and Questioned Costs, Continued  
For the Year Ended June 30, 2004

**Section I - Summary of Prior Year Findings**

**Finding 03-1: The University Needs to Implement Monitoring Controls Over the Performance of the Principal Investigators.**

Audit Finding

The University does not have controls in place to monitor the Principal Investigators responsibilities to the applicable Federal Awarding Agencies.

Status

We have developed a close out checklist to follow which has been used by management to monitor Principal Investigators at a higher level. This checklist will be formally implemented for the Sponsored Program accountants during fiscal year 2005. This was not noted in the current year as a finding.

**Finding 03-2: The University Needs to Monitor the TRIO Programs Principal Investigator's Approval of Allowable Costs.**

Audit Finding

The University does not have proper controls in place to monitor the Principal Investigator's approval of costs charged to grants in the TRIO Programs Cluster.

Status

We now review all charges to the TRIO Programs Cluster each month and we also compare charges versus the budget for grants. This was not noted in the current year as a finding.

**Report of Independent Auditors on the  
Application of Agreed-Upon Procedures**

Dr. Luis M. Proenza  
President  
The University of Akron

Dear Dr. Proenza:

We have performed the procedures enumerated below, which were agreed to by management of The University of Akron (“The University”), solely to assist the University in complying with National Collegiate Athletic Association Constitution 6.2.3.1. Management of The University is responsible for the Statement of Revenues and Expenditures and internal control over the Athletics Department. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those 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. Our procedures and findings are as follows:

**I. Statement of Revenues and Expenditures Agreed-Upon Procedures**

- a. We obtained the Statement of Revenues and Expenditures (the “Statement”) for the Intercollegiate Athletics Programs and supporting worksheets for the year ended June 30, 2004. The Statement, as prepared by the management of The University, is included in this report. We recalculated the addition of the amounts on the Statement and compared the amounts on the Statement to management’s worksheets. No exceptions were found as a result of these comparisons. We agreed the amounts on management’s worksheets to the applicable series of accounts in The University’s general ledger. We noted no differences between the amounts in the applicable series of accounts in the general ledger and the amounts on the worksheets. We compared actual revenues and expenditures for the year ended June 30, 2004 to actual amounts recorded for the previous year and budgeted amounts for the current year. We calculated the differences and obtained explanations for significant fluctuations and variances.

Dr. Luis M. Proenza

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- b. We compared classifications of revenues and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.
- c. We agreed any single contribution from an “outside” organization that constituted more than 10 percent of all contributions donated to the Intercollegiate Athletics Programs to the supporting documentation.
- d. We obtained from management the football and men’s basketball athletic ticket office reports for each home game and agreed the ticket sales amounts to the athletic business office cash reports provided by management.

We noted immaterial differences between amounts on the athletic ticket office reports and the amounts on the athletic business office cash reports that related to money appropriately deferred into future periods.

We identified and reviewed aspects of The University’s internal control unique to the Intercollegiate Athletics Programs. This review included a review of the general control environment and internal control procedures unique to intercollegiate athletics in order to ensure that recorded revenues are complete and expenditures are properly authorized. We obtained an understanding of specific components of the internal control environment and accounting system that are unique to intercollegiate athletics that were not reviewed in connection with the audit of the financial statements of The University.

## II. Booster Organizations

- a. Athletic Department management represented that The University of Akron Foundation was the only “outside organization” which had expenditures for or on behalf of The University’s Intercollegiate Athletics Programs. Based on our performance of the procedures described in this report, we noted no there “outside organization.”
- b. We obtained a Schedule of Financial Activities of the Zip Athletic Club and Varsity “A” Association.
- c. We confirmed directly with The University of Akron Foundation the financial information on Appendix II. We noted that none of these expenditures have been recorded in Appendix I or the University’s financial statements. We confirmed with The University of Akron Foundation that all activities of the Zip Athletic Club and Varsity “A” Association are recorded on The University of Akron Foundation’s books.

**Dr. Luis M. Proenza**

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- d. We reviewed the audited financial statements of The University of Akron Foundation, which administers the Zip Athletic Club and Varsity "A" Association, for the year ended June 30, 2004, which reflected an unqualified opinion. We also reviewed the auditor's report to the Board of The University of Akron Foundation regarding the internal control structure at The University of Akron Foundation. That letter did not identify any material weaknesses in internal control and did not recommend any changes in procedures.
- e. Management informed us of The University's procedures for gathering information on the nature and extent of booster group activity for or on behalf of The University's Intercollegiate Athletics Programs.

We were not engaged to and did not conduct an examination of the University's system of internal control over financial reporting, the objective of which would be the expression of an opinion on the suitability of design of internal control over financial reporting of the University as of June 30, 2004. Accordingly, we do not express such an opinion. We were also not engaged to and did not conduct an examination and report on the operating effectiveness of the University's internal control over financial reporting as of June 30, 2004. Accordingly, we do not express such an opinion on its operating effectiveness. Had we performed additional procedures, or had we made an examination of the system of internal control over financial reporting, other matters might have come to our attention that would have been reported to you. This report relates only to the procedures specified above and does not extend to the financial statements of The University.

This report is intended solely for the information and use of University management and governing boards, and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

October 15, 2004  
Cleveland, Ohio

**The University of Akron**  
**Statement of Revenues and Expenditures-For The Intercollegiate Athletics**  
**Programs**  
**For the year ended June 30, 2004**

**Appendix I**

	<u>Football</u>	<u>Basketball</u>	<u>Other Sports</u>	<u>Non-Program Specific</u>	<u>Total</u>
<b>OPERATING REVENUE:</b>					
Ticket sales	\$ 148,704	\$ 170,271	\$ 20,039		\$ 339,014
Game guarantees	450,000	40,000	8,500		498,500
Conference revenue			80	\$ 582,440	582,520
Student general fee	3,050,600	679,899	4,183,295	1,643,881	9,557,675
Program sales				6,543	6,543
Radio and TV rights				201,885	201,885
<b>Gifts:</b>					
Unrestricted	39,263	7,966	36,143	83,228	166,600
Restricted	19,163	50,367	344,803	102,929	517,262
Restricted sports camp	9,780	51,800	108,806		170,386
<b>Endowment Income:</b>					
Restricted	28,422				28,422
<b>Federal Grant:</b>					
Restricted		1,024	3,169		4,193
Other Income	4,670	3,754	6,461	444,565	459,450
<b>Total Operating Revenue</b>	<b>\$ 3,750,602</b>	<b>\$ 1,005,081</b>	<b>\$ 4,711,296</b>	<b>\$ 3,065,471</b>	<b>\$ 12,532,450</b>
<b>OPERATING EXPENDITURES</b>					
Coaches' salaries	\$ 665,788	\$ 199,554	\$ 788,621		\$ 1,653,963
Other salaries	87,343	87,388	217,850	\$ 1,160,980	1,553,561
<b>Travel:</b>					
Team	345,230	114,452	589,477		1,049,159
Recruiting	56,482	31,882	84,728	88,121	261,213
Financial aid	1,406,814	210,059	2,103,057	104,860	3,824,790
Game guarantees	225,000	5,700	2,250		232,950
<b>Maintenance and</b>					
general administration	786,646	264,374	773,940	1,440,006	3,264,966
Equipment purchases	21,358		1,525	9,019	31,902
Publicity		648	1,334	168,374	170,356
Insurance	10,006	2,942	19,489	8,631	41,068
Telephone	56,792	29,512	61,222	95,180	242,706
Entertainment / Meals	89,150	18,718	76,927	82,211	267,006
<b>Total Operating Expenditures</b>	<b>\$ 3,750,609</b>	<b>\$ 965,229</b>	<b>\$ 4,720,420</b>	<b>\$ 3,157,382</b>	<b>\$ 12,593,640</b>
<b>Nonmandatory transfers for</b>					
Current Allocated Fund					
Balance in (out)	7	(24,854)	9,124	(2,312)	(18,035)
Transfer from (to) other Auxiliary	-	-	-	(\$55,484)	(55,484)
<b>Excess of Revenues</b>					
over Expenditures	\$ -	\$ 14,998	\$ -	\$ (149,707)	\$ (134,709)
<b>Unallocated Fund Balance at</b>					
beginning of year	0	0	0	345,675	345,675
<b>Unallocated Fund Balance at</b>					
end of year	\$ 0	\$ 14,998	\$ 0	\$ 195,968	\$ 210,966



**The University of Akron  
Schedule of Financial Activities  
For the year ended June 30, 2004**

**Appendix II**

The University of Akron Foundation confirmed that the financial activities of the Zip Athletic Club and Varsity "A" Association were recorded on the books of The University of Akron Foundation and are not included in either the Statement of Revenues and Expenditures for Intercollegiate Athletics Programs (Appendix I) or the books of The University.

**Zip Athletic Club**

NCAA Violation Fee - Football Enforcement Services	Athletic Administration	3,852
Increase in Dan Hipsher's Salary	Athletic Administration	2,610
Transfer from UA 6-39637 to Fund Hipsher Salary Increase	Athletic Administration	(3,772)
Superior Beverage Group - E. Michigan, Howard, CalPoly, & C. Florida	Athletic Administration	1,896
Heritage Carpet - Carpet at JAR 76	Athletic Administration	1,266
Superior Beverage Group - Zipfest @KSU vs. UA Game	Athletic Administration	1,249
Airline Flight - Cleveland to Orlando - AFCA Coached Conference	Athletic Administration	592
Alcohol for Christmas Dinner for Athletic Department	Athletic Administration	324
Superior Beverage Group - Alcohol - Zipfest @KSU vs. UA Game	Athletic Administration	265
Airline Flight - Cleveland to Orlando - AFCA Coached Conference	Athletic Administration	230
Supplies for Christmas Dinner for Athletic Department	Athletic Administration	201
Food and Drinks for Athletic Department Party	Athletic Administration	189
Mercury Luggage - Garment Bag, UA Zip Embroidery	Athletic Administration	61
Superior Beverage Group - Zipfest @KSU vs. UA Game	Athletic Administration	60
Memorial Donation to Joseph Mazzaferro	Athletic Administration	50
Memorial Donation to Vincent P. Kopy Endowment	Athletic Administration	50
Memorial Donation to Lawrence A. Marino, Jr.	Athletic Administration	30
Kraley, Greg - Men's Basketball @ Cincinnati	Athletic Administration	26
Memorial Donation to Herb Burns	Athletic Administration	25
Transfer to UA 7-72612 - Jackson Field Improvement Project	Athletic Facility Enhancement	454,538
Transfer to UA 7-72612 - Jackson Field Improvement Project	Athletic Facility Enhancement	97,189
Transfer to UA 6-39638 - Football Camp	Football	5,000
Collegiate Series Mass Mix	Football	4,200
Preswick Country Club - Football Reception	Football	134
Firestone Country Club - Invitational - Catering, Drinks, Fees, etc.	Golf	24,200
Firestone Country Club Catering Expenses	Golf	15,814
Transfer to UA 3-05501 - Supplies / Services / Travel	Golf	11,000
Calusa Pines Golf Shop - Golf Merchandise, etc. - McCreedy Outing	Golf	10,429
Transfer to UA 6-39628 - Salary / Fringes 2003-04	Golf	9,000
Golf World - Subscriptions to Magazines	Golf	2,781
Calusa Pines Golf Shop - Golf Merchandise, - McCreedy Outing	Golf	822
International Academy Soccer Program - 4th Deposit	Soccer	17,000
International Academy Soccer Program - 5th Deposit	Soccer	7,000
Travel - Soccer Team - 10/23 - 10/24, 2004	Soccer	1,000
Printing Services (Auction Program)	Soccer	322
Martin University Center Invoice #58233 (June 18, 2004, 20 people - Ken Lolla)	Soccer	260
Meal Replacement Bars	Soccer	225
Meal Replacement Bars	Soccer	222
Rex Ruppels Art Paint Supply (Soccer Auction)	Soccer	86
Subway - Silent Auction Meeting	Soccer	75
Lolla, Kenneth	Soccer	54
Martin University Center Invoice #54647	Soccer	7
Total		<u><u>670,562</u></u>

**Varsity "A" Association**

Athletic Administration	Athletic Administration	7,000
Wire to UA 6-37189 for Porky Dudich Scholarship Account	Athletic Administration	25
Football	Football	5,000
Football	Football	1,040
Brochures for Golf Outing	Golf	858
Power Media - Golf Outing Sponsor Signs	Golf	500
UA Polos for Golf Outing	Golf	107
Volleyball	Volleyball	1,000
Volleyball	Volleyball	465
Women's Soccer	Women's Soccer	1,000
Women's Track	Women's Track	1,000
		<u><u>17,995</u></u>





**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**THE UNIVERSITY OF AKRON  
SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 10, 2005**