

THE UNIVERSITY OF AKRON

STATE REGION, SUMMIT COUNTY

SINGLE AUDIT

JULY 1, 2004 THROUGH JUNE 30, 2005

PREPARED BY: PRICEWATERHOUSE COOPERS, LLP



**Auditor of State
Betty Montgomery**

Board of Trustees
University of Akron
302 Buchtel Common
Akron, Ohio 44325

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, 2004 to June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The University of 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 31, 2006

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The University of Akron

Management's Discussion and Analysis

June 30, 2005

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, 2005. 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, 2005, 2004, and 2003, the State provided approximately \$100 million, \$117 million, and \$108 million for operating and capital purposes while The University's operating losses were approximately \$100 million, \$102 million, and \$121 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, 2005

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 component unit of the State of Ohio and 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.

Table 1 summarizes The University's Net Assets at June 30, 2005 and 2004.

Table 1
Net Assets (In Thousands)

	2005	2004
Assets:		
Current assets	\$ 85,552	\$ 70,332
Restricted current assets	80,757	56,425
Noncurrent assets:		
Capital	473,359	472,574
Other	63,122	62,368
Total assets	702,790	661,699
Liabilities:		
Current liabilities	53,809	63,460
Noncurrent liabilities	269,720	239,273
Total liabilities	323,529	302,733
Net assets:		
Invested in capital assets, net of related debt	257,408	261,727
Restricted:		
Nonexpendable	30,057	36,414
Expendable	33,618	32,691
Unrestricted	58,178	28,134
Total net assets	\$ 379,261	\$ 358,966

The University of Akron
Management's Discussion and Analysis – Continued
June 30, 2005

Current assets include those highly liquid assets including cash and cash equivalents; investments; accounts, pledges, student notes, and accrued interest receivable; inventories; and prepaid expenses and deferred charges. Current assets increased \$15.2 million during 2005, and decreased \$2.6 million during 2004. There were variations among many of the current asset categories, but the principal cause of the changes are from a \$14.9 million increase in 2005 within Pooled investments and a \$10.2 million decrease in 2004 within Investments held in trust by others. Specifically, The University temporarily invested operating and endowment funds, along with the proceeds of debt issues until the proceeds were needed to pay for operating or construction costs. During 2005 and 2004, The University also continued its progress towards, and paid costs related to, the Landscape for Learning initiative. *A New Landscape for Learning* is a nearly \$300 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 increased \$24.3 million during 2005 and decreased \$19.7 million during 2004. The changes are largely attributable to the operating funds and 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 decreased \$10.3 million during 2005, and increased \$74.2 million during 2004. While there were variations among the categories, the increase is largely attributable to an \$11 million decrease and a \$70.3 million increase within Capital assets during 2005 and 2004, respectively. The 2004 increase principally resulted from additional buildings in The University's significant capital project initiative. The 2005 decrease was due to a change in accounting policy which now requires that equipment greater than \$5,000 be capitalized and depreciated, when the previous policy was \$1,500. This resulted in an \$11.8 million net reduction of capital equipment. The change in accounting policy is further discussed in the notes to the financial statements.

Current liabilities include all items that mature within one year. The current liabilities include accounts payable; accrued liabilities; accrued interest payable; deferred revenue; deposits; and the short-term portion of long-term liabilities. Current liabilities decreased \$9.7 million during 2005, and \$5.4 million during 2004. There were variations among many of the current liability categories, but the principal cause of the decreases was a \$7.5 million decrease within Deferred revenue and \$5.1 million decrease within the short-term portion of long-term liabilities during 2005 and 2004, respectively. Specifically, beginning in 2005, the tuition related to certain summer credit hours are no longer deferred, but are recognized in the current year. 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.

The University of Akron
Management's Discussion and Analysis – Continued
June 30, 2005

Noncurrent liabilities consist of refundable federal student loans; long-term debt including capital leases and the sick leave liability; and long term deferred revenue. The most notable change occurred within the long-term liabilities. During 2005, The University issued \$34.4 million General receipts bonds to build a new housing facility on Exchange Street. During 2004, The University entered into a \$22 million capital lease agreement to provide a new dormitory for the Honors program. Bond and rental payments will be made for the next 30 years.

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 2005 and 2004, net assets increased approximately 5% and 10.8%, respectively, or \$18 million and \$36.3 million, respectively.

Table 2 summarizes The University's Changes in Net Assets for the years ended June 30, 2005 and 2004.

Table 2
Changes in Net Assets (In Thousands)

	2005	2004
Operating revenues:		
Tuition and fees	\$ 136,482	\$ 119,394
Grants and contracts	39,794	43,987
Sales and services	8,975	9,047
Auxiliary enterprises	45,457	41,370
Other operating revenues	339	401
Total operating revenues	<u>231,047</u>	<u>214,199</u>
Total operating expenses	<u>328,480</u>	<u>315,729</u>
Operating loss	<u>(97,433)</u>	<u>(101,530)</u>
Nonoperating revenues (expenses)		
State appropriations	95,401	97,343
Other nonoperating revenues, net	<u>15,513</u>	<u>19,021</u>
Net nonoperating revenues	<u>110,914</u>	<u>116,364</u>
Gain (loss) before other changes	<u>13,481</u>	<u>14,834</u>
Other changes:		
Capital appropriations	4,904	19,397
Capital gifts and grants	827	1,297
Additions to permanent endowments	<u>1,083</u>	<u>768</u>
Total other changes	<u>6,814</u>	<u>21,462</u>
Increase in net assets	20,295	36,296
Net assets:		
Net assets - beginning of year (as adjusted)	<u>358,966</u>	<u>322,670</u>
Net assets - end of year	<u>\$ 379,261</u>	<u>\$ 358,966</u>

The beginning net assets balance in 2004 was adjusted due to the change in accounting policy previously mentioned. This is further discussed in note 5 of the notes to the financial statements.

The University of Akron

Management's Discussion and Analysis – Continued

June 30, 2005

The Student tuition and fees increased approximately \$17.1 million or 14.3% during 2005, and \$13.5 million or 12.7% during 2004. The University's student headcount and student enrollments remained largely unchanged between the years; however, The University enacted tuition and fee increases for 2005 and 2004 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 decreased \$1.9 million in 2005, and increased \$0.9 million in 2004. 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 \$2.3 million in 2005 and \$0.3 million in 2004, the other changes during 2005 and 2004 are 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 decreased \$14.5 million in 2005, and increased \$8.1 million for 2004.

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 \$31.9 million in 2005 and \$30.8 million in 2004, followed by private revenues at \$4.7 million in 2005 and \$8.7 million in 2004. The combined state and local revenues were \$3 million in 2005 and \$4.5 million in 2004.

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 \$17.6 million during 2005 and \$21.3 million during 2004. Meanwhile, the largest private source for 2005 and 2004 was The Robert Woods Johnson Foundation which provided approximately \$2.6 million and \$2 million, respectively. 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, 2005

Auxiliary Enterprises revenues increased \$4.1 million and \$4.3 million in 2005 and 2004, respectively. The intercollegiate athletics, dining facilities, residence halls, and E.J. Thomas Performing Arts Hall individually provided the predominant revenues within this area. During 2005, the revenues generated from those four areas represented \$12.9 million, \$9 million, \$9.7 million, and \$3.6 million, respectively, or 77.4% of the total \$45.5 million revenues. During 2004, the revenues generated from those four areas represented \$11.8 million, \$7.9 million, \$8 million, and \$3.9 million, respectively, or 76.3% of the total \$41.4 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 \$3.1 million for 2005 and \$3.9 million for 2004.

Investment income, including the unrealized change in fair value of investments totaled \$9.4 million and \$8.1 million during 2005 and 2004, respectively. Investment income increased \$3.2 and \$3.5 million in 2005 and 2004, respectively, which was due to overall change in returns on all investments. 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 \$2 and \$3.8 million net increase within net unrealized appreciation on investments during 2005 and 2004, 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 2005 and 2004, Gifts and grants and additions to permanent endowments totaled \$19.9 million and \$19.6 million, respectively while capital related contributions totaled \$0.8 million and \$1.3 million, respectively. 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 2.9% and 1.9% during 2005 and 2004, respectively. During 2005, the most notable increase occurred within instructional and departmental research which increased \$4 million. The increase was due to recording a portion of summer session teaching salaries during the current year. 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.

The University of Akron

Management's Discussion and Analysis – Continued

June 30, 2005

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 enterprise expenses increased \$5.9 million in 2005 and \$2.4 million during 2004. The largest increases during 2005 and 2004 occurred with the new Recreation Center and the related operating expenses as it opened to the public.

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 decreased approximately \$2.8 million in 2005 and increased \$1.4 million in 2004 due to changing levels of capital asset purchases related to the capital project initiative and the change in accounting policy previously mentioned.

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 \$4.9 million during 2005, while the losses were \$0.6 million during 2004. The 2005 and 2004 losses occurred with the removal and sale of equipment.

Interest on debt includes the interest incurred during the fiscal year on all debt and capital leases less capitalized interest. During 2005, interest expense increased \$5.1 million to \$11.5 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 issuances, and gifts and other grants for capital asset expansion throughout the campus. During 2005 and 2004, additions to capital assets approximated \$105.1 million and \$51 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 \$230.9 million in 2005 and \$198.4 million in 2004. During 2005, The University issued General receipts bonds in the amount of \$34.4 million for a new housing complex and paid down general receipts bonds by \$2.5 million. 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. 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, 2005

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 2005 and 2004, those two revenue sources alone represented \$231.9 million and \$216.7 million, respectively, of our total operating and nonoperating revenues while the aggregate remaining operating and nonoperating revenues, excluding the change in the fair value of investments, totaled \$127.4 and \$139.3 million, respectively.

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”) (a component unit of the State of Ohio) at June 30, 2005 and 2004, and the revenues, expenses and changes in net assets and cash flows for the years 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 audits 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.

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 7, 2005 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, 2005. 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 audits.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 7, 2005
Cleveland, Ohio

The University of Akron

Statement of Net Assets

June 30, 2005 and 2004

ASSETS	The University of Akron		Component Units	
	2005	2004	2005	2004
Current assets:				
Cash and cash equivalents	\$ 231,593	\$ 218,236	\$ 75,523	\$ 36,980
Pooled investments	47,693,526	32,773,669	-	-
Investments held in trust by others	3,498,179	2,279,376	-	-
Accounts receivable, net	21,905,807	20,761,942	346,313	1,650,995
Pledges receivable, net	3,817,725	3,107,229	1,134,810	1,224,591
Notes receivable, net	2,131,691	1,772,096	-	-
Accrued interest receivable	501,295	193,379	-	-
Inventories	1,316,413	1,100,007	-	-
Prepaid expenses and deferred charges	4,455,953	8,126,228	144,240	114,985
Total current assets	85,552,182	70,332,162	1,700,886	3,027,551
Restricted current assets:				
Cash and cash equivalents	16,669,723	21,663,965	1,789,443	1,808,536
Pooled investments	64,087,698	34,760,894	1,058,903	159,000
Total restricted current assets	80,757,421	56,424,859	2,848,346	1,967,536
Noncurrent assets:				
Endowment investments	49,277,661	46,998,772	133,301,405	122,634,134
Pledges receivable, net	2,185,697	3,642,482	931,619	1,020,114
Notes receivable, net	9,769,895	9,753,010	-	-
Prepaid expenses and deferred charges	1,888,889	1,974,138	-	-
Capital assets, net	473,358,451	472,573,543	504,296	416,055
Total assets	702,790,196	661,698,966	139,286,552	129,065,390
LIABILITIES				
Current liabilities:				
Accounts payable	5,633,042	10,884,271	774,919	542,534
Accrued liabilities	13,265,057	13,101,690	157,189	159,465
Accrued interest payable	5,056,566	3,340,747	-	-
Deferred revenue	24,049,521	31,570,793	1,131,514	990,408
Deposits	1,046,180	1,093,289	-	-
Current portion of long-term liabilities	4,758,906	3,468,975	-	-
Total current liabilities	53,809,272	63,459,765	2,063,622	1,692,407
Noncurrent liabilities:				
Refundable federal student loans	11,421,743	11,497,614	-	-
Deferred revenue	1,064,174	1,064,174	-	-
Actuarial liability for annuity/unitrust agreements	-	-	9,677,825	10,318,336
Long-term liabilities	257,234,366	226,711,261	-	-
Total liabilities	323,529,555	302,732,814	11,741,447	12,010,743
NET ASSETS				
Invested in capital assets, net of related debt	257,407,577	261,727,294	382,116	416,055
Restricted:				
Nonexpendable:				
Endowment	30,057,240	36,413,681	73,391,597	69,324,110
Expendable:				
Current operations	17,950,421	17,517,595	46,547,768	40,975,798
Loans	545,324	801,927	-	-
Capital projects	15,091,453	13,652,453	-	-
Debt service	31,075	719,396	-	-
Unrestricted	58,177,551	28,133,806	7,223,624	6,338,684
Total net assets	\$ 379,260,641	\$ 358,966,152	\$ 127,545,105	\$ 117,054,647

The University of Akron
Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004

	The University of Akron		Component Units	
	2005	2004	2005	2004
REVENUES				
Operating revenues:				
Student tuition and fees (net of scholarship allowance of \$34,950,811 and \$32,488,885)	\$ 136,481,826	\$ 119,394,285	\$ -	\$ -
Federal grants and contracts	31,864,566	30,812,891	65,254	14,921
State grants and contracts	2,176,274	3,535,893	64,937	28,524
Local grants and contracts	812,017	972,538	-	-
Private grants and contracts	4,941,619	8,665,314	2,193,617	1,735,416
Gifts and contributions	-	-	8,582,435	3,828,597
Sales and services	8,974,673	9,046,889	-	-
Auxiliary enterprises	45,456,835	41,369,913	-	-
Other sources	339,250	401,368	125,903	102,942
Total operating revenues	231,047,060	214,199,091	11,032,146	5,710,400
EXPENSES				
Operating expenses:				
Educational and general:				
Instruction and departmental research	110,163,712	106,091,697	-	-
Separately budgeted research	18,045,482	18,209,969	570,776	486,314
Public service	13,817,657	14,898,222	-	-
Academic support	27,584,428	25,388,276	-	-
Student services	10,865,303	11,282,220	-	-
Institutional support	43,290,233	41,487,118	550,250	503,435
Operation and maintenance of plant	21,667,887	20,083,384	-	-
Scholarships and fellowships	18,683,064	16,850,869	-	-
Auxiliary enterprises	40,780,441	34,843,911	-	-
Depreciation	23,005,306	25,973,831	30,545	-
Loss on disposal of property	576,510	619,905	-	-
Total operating expenses	328,480,023	315,729,402	1,151,571	989,749
Operating (loss) income	(97,432,963)	(101,530,311)	9,880,575	4,720,651
NONOPERATING REVENUES (EXPENSES)				
State appropriations	95,400,540	97,342,555	-	-
Gifts and grants	9,249,551	8,715,805	173,373	-
Investment income (net of investment expense of \$1,106,482 and \$1,395,383 for The University, \$2,181,434 and \$1,977,258 for the Component Units)	7,426,261	4,246,341	2,134,932	1,849,176
Unrealized appreciation on investments, net	1,987,241	3,804,957	4,599,111	14,461,952
Interest on debt	(11,458,491)	(6,341,770)	-	-
Distributions to the university	9,570,002	10,089,692	(9,570,002)	(10,089,692)
Distributions on behalf of the university	-	-	(189,801)	(246,072)
Other nonoperating revenues (expenses)	(1,262,029)	(1,493,684)	122,146	137,540
Net nonoperating revenues (expenses)	110,913,075	116,363,896	(2,730,241)	6,112,904
Income before other changes	13,480,112	14,833,585	7,150,334	10,833,555
OTHER CHANGES				
State capital appropriations	4,903,892	19,397,671	-	-
Capital gifts and grants	827,115	1,296,908	-	-
Additions to permanent endowments	1,083,370	767,733	3,340,124	3,728,665
Total other changes	6,814,377	21,462,312	3,340,124	3,728,665
Increase in net assets	20,294,489	36,295,897	10,490,458	14,562,220
NET ASSETS				
Net assets - beginning of year (as adjusted)	358,966,152	322,670,255	117,054,647	102,492,427
Net assets - end of year	\$ 379,260,641	\$ 358,966,152	\$ 127,545,105	\$ 117,054,647

The University of Akron

Statement of Cash Flows

June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 123,661,960	\$ 119,822,169
Grants and contracts	40,238,896	44,432,710
Auxiliary enterprises	45,319,041	41,172,030
Sales and service of educational activities	8,974,673	9,046,889
Payments to suppliers	(79,499,727)	(77,897,262)
Payments for compensation and benefits	(205,253,493)	(196,027,750)
Payments for scholarships and fellowships	(9,022,110)	(9,575,582)
Loans issued to students	(2,517,449)	(2,214,061)
Collection of loans to students	2,027,809	1,711,178
Other payments	(5,991,187)	(3,081,950)
Net cash used in operating activities	(82,061,587)	(72,611,629)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	95,400,540	97,342,555
Gifts for other than capital purposes	18,610,397	15,469,543
Private gifts for endowment purposes	958,821	700,352
Other payments	(1,262,029)	(1,493,684)
Net cash provided by noncapital financing activities	113,707,729	112,018,766
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	34,375,000	112,990,000
Capital appropriations	4,639,813	18,277,129
Capital grants and gifts received	2,337,120	4,174,941
Purchases of capital assets	(23,918,413)	(68,598,592)
Principal paid on capital debt and leases	(989,221)	(121,634,952)
Interest paid on capital debt and leases	(13,174,310)	(5,272,556)
Loans issued for capital purposes	-	(1,097,643)
Collection of loans issued for capital purposes	113,160	18,533
Net cash provided by (used in) capital financing activities	3,383,149	(61,143,140)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	306,000,208	487,357,019
Interest on investments	7,734,177	4,439,417
Purchase of investments	(353,744,561)	(500,818,452)
Net cash used in investing activities	(40,010,176)	(9,022,016)
Net decrease in cash	(4,980,885)	(30,758,019)
Cash and cash equivalents - beginning of the year	21,882,201	52,640,220
Cash and cash equivalents - end of the year	\$ 16,901,316	\$ 21,882,201

(continued)

The University of Akron

Statement of Cash Flows

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (97,432,963)	\$ (101,530,311)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	23,005,306	25,973,831
Loss on disposal of property	576,510	619,905
Changes in assets and liabilities:		
Accounts receivable, net	(1,946,339)	2,805,815
Notes receivable, net	(489,640)	(502,883)
Inventories	(216,406)	(46,791)
Prepaid expenses and deferred charges	4,168,163	(2,812)
Accounts payable	(2,534,048)	1,238,392
Accrued liabilities	163,367	(552,103)
Deferred revenue	(7,521,272)	(1,134,139)
Deposits held for others	(47,109)	111,562
Sick leave liability	57,755	83,581
Refundable federal student loans	155,089	324,324
Net cash used in operating activities	<u>\$ (82,061,587)</u>	<u>\$ (72,611,629)</u>

The University of Akron

Notes to Financial Statements

June 30, 2005 and 2004

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 44325-2130. Activity of these component units are described in greater detail in Note 10.

The University of Akron

Notes to Financial Statements – Continued

June 30, 2005 and 2004

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, 2005 and 2004

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 \$5,000 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, 2005 and 2004

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, Series 2003, and Series 2004B, and its General Receipts Refunding Bonds, Series 2004. 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 Revenue

Deferred revenue includes tuition and fees relating to summer sessions that are conducted in July and August. Deferred revenue also includes amounts received in advance from grant and contract sponsors that have yet been earned under the terms of the agreements. The amounts which are deferred are recognized as revenue 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, 2005 and 2004

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, 2005 and 2004, student-related grants amount to approximately \$20.3 million and \$19.7 million, respectively, with the balance of \$11.6 million and \$11.1 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. As discussed in Note 5, The University changed its method for the capitalization of equipment. Prior periods have been adjusted to reflect this change. The change resulted in a decrease of fiscal year 2004 net assets of \$11,832,511 to the reported balance of \$358,966,152.

Accounting Standards

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for fiscal periods beginning after December 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, 2005 and 2004

2. Cash and Investments

Cash

At June 30, 2005 and 2004, the carrying amounts of The University's bank deposits and interest bearing cash equivalents were \$16,901,316 and \$21,882,201 as compared to bank balances of \$19,089,618 and \$22,408,679, respectively. The differences between carrying amounts and bank balances were caused by items in-transit. Of the June 30, 2005 and 2004 bank balances, \$18,633,412 and \$22,025,141, 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.

	2005 Fair Value	2004 Fair Value
Pooled investments:		
Repurchase agreement	\$ -	\$ 1,917,000
STAR Ohio	22,399,300	41,285,813
The Commonfund:		
Short Term Fund	20,014,190	-
U.S. agencies	69,367,734	24,331,750
Total	111,781,224	67,534,563
Endowment investments:		
Marketable securities:		
U.S. Treasury	2,630,954	2,937,683
U.S. agencies	1,587,729	971,161
Common stocks	36,686,162	35,121,090
Preferred stocks	53,184	52,630
U.S. and corporate bonds	7,973,705	7,543,146
The Commonfund:		
Private & Small Cap. Equity	216,683	216,242
Cash surrender value of life insurance	3,332	3,332
Real estate:		
The Commonfund:		
Endowment Realty	125,912	153,488
Total	49,277,661	46,998,772
Investments held in trust by others:		
U.S. agencies	3,498,179	2,279,376
Total investments	<u>\$ 164,557,064</u>	<u>\$ 116,812,711</u>

The University of Akron

Notes to Financial Statements – Continued

June 30, 2005 and 2004

2. Cash and Investments - Continued

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. The Commonfund 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. 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 of each year.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, as amended by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, require certain disclosures related to interest rate and credit risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. To limit exposure to these risks, The University's investment policies set guidelines for maturities based on investment type (short-term or intermediate), and require that a majority of the holdings consist of domestic (U.S.) securities of investment grade (at least rated BBB or BAA) as rated by a nationally recognized statistical rating organization.

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

Investment	Rating (S&P)	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	Totals
STAR Ohio	AAA	\$ 22,399,300	\$ -	\$ -	\$ 22,399,300
Commonfund–Short Term Fund	AAA	10,007,095	-	-	10,007,095
	AA	2,001,419	-	-	2,001,419
	A	3,802,696	-	-	3,802,696
Total Commonfund–Short Term Fund		15,811,210	-	-	15,811,210
U.S. agencies	AAA	20,817,134	43,616,777	4,933,800	69,367,711
U.S. and corporate bonds	AAA	3,255,478	-	-	3,255,478
	AA	419,280	-	-	419,280
	A	259,249	-	-	259,249
	BBB	732,985	-	-	732,985
	BB	223,140	-	-	223,140
	B	404,126	-	-	404,126
	Below B	41,065	-	-	41,065
Total U.S. and corporate bonds		5,335,323	-	-	5,335,323
Totals		\$ 64,362,967	\$ 43,616,777	\$ 4,933,800	\$ 112,913,544

The University of Akron
Notes to Financial Statements – Continued
June 30, 2005 and 2004

3. Accounts and Notes Receivable

Accounts and notes receivable at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Accounts receivable, net:		
Federal, state, local and governments, foundations, and companies, net of allowance for doubtful accounts of \$1,443,084 and \$1,630,792, respectively	\$ 8,745,571	\$ 8,013,683
Student receivables, net of allowance for doubtful accounts of \$12,633,698 and \$11,165,721, respectively	12,305,490	10,967,873
Other, net of allowance for doubtful accounts of \$335,146 and \$295,572, respectively	854,746	1,780,386
Total accounts receivable, net	21,905,807	20,761,942
Notes receivable, net:		
Student notes receivables, net of allowance for doubtful notes of \$1,215,885 and \$885,080, respectively	10,935,636	10,445,995
Other notes receivable	965,950	1,079,111
Total notes receivable, net	11,901,586	11,525,106
Accounts and notes receivable, net	\$ 33,807,393	\$ 32,287,048

4. Pledges Receivable

Unconditional promises to give to The University recorded as pledges receivable at June 30, 2005 and 2004 were as follows:

	2005		2004	
	Pledges Receivable	Current Portion	Pledges Receivable	Current Portion
Total pledges receivable	\$ 6,628,024	\$ 4,147,666	\$ 7,661,020	\$ 3,426,519
Less: amount estimated to be uncollectible	(520,002)	(329,941)	(769,484)	(319,290)
Less: unamortized discount	(104,600)	-	(141,825)	-
Pledges receivable, net	6,003,422	\$ 3,817,725	6,749,711	\$ 3,107,229
Less: current portion	(3,817,725)		(3,107,229)	
Pledges receivable, noncurrent portion	\$ 2,185,697		\$ 3,642,482	

As of June 30, 2005 and 2004, The University has approximately \$2,419,000 and \$2,479,000, 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, 2005 and 2004

5. Capital Assets

On July 1, 2004, The University increased the capitalization threshold on moveable equipment from \$1,500 to \$5,000. All items which cost less than the increased threshold were removed along with any associated accumulated depreciation which had been recorded. The following table presents the effect of the change for fiscal year 2004:

	Total capital assets	Total accumulated depreciation	Total capital assets, net
Balance – as previously reported	\$ 754,211,614	\$ 269,805,560	\$ 484,406,054
Assets removed:			
Historical collections	246,407	-	246,407
Equipment, furniture and books	<u>35,549,201</u>	<u>23,963,097</u>	<u>11,586,104</u>
Total assets removed	<u>35,795,608</u>	<u>22,963,097</u>	<u>11,832,511</u>
Balance – as adjusted	<u>\$ 718,416,006</u>	<u>\$ 245,842,463</u>	<u>\$ 472,573,543</u>

Changes in capital assets during fiscal 2005 were as follows:

	Balance July 1, 2004 (as adjusted)	Additions/ Transfers	Reductions/ Transfers	Balance June 30, 2005
Nondepreciable capital assets:				
Land	\$ 19,258,782	\$ 1,605,990	\$ 550,884	\$ 20,313,888
Historical collections	3,913,341	25,500	-	3,938,841
Construction in progress	<u>99,577,481</u>	<u>19,560,961</u>	<u>115,899,669</u>	<u>3,238,773</u>
Total nondepreciable capital assets	<u>122,749,604</u>	<u>21,192,451</u>	<u>116,450,553</u>	<u>27,491,502</u>
Depreciable capital assets:				
Land improvements	35,987,216	5,598,802	583,651	41,002,367
Buildings	437,580,919	110,284,560	-	547,865,479
Infrastructure	9,124,232	2,884,780	-	12,009,012
Equipment, furniture and books	<u>112,974,035</u>	<u>5,907,920</u>	<u>15,473,540</u>	<u>103,408,415</u>
Total depreciable capital assets	<u>595,666,402</u>	<u>124,676,062</u>	<u>16,057,191</u>	<u>704,285,273</u>
Total capital assets	<u>718,416,006</u>	<u>145,868,513</u>	<u>132,507,744</u>	<u>731,776,775</u>
Less accumulated depreciation:				
Land improvements	15,350,302	1,524,549	583,651	16,291,200
Buildings	160,280,951	15,151,598	-	175,432,549
Infrastructure	3,161,674	498,825	-	3,660,499
Equipment, furniture and books	<u>67,049,536</u>	<u>5,830,334</u>	<u>9,845,794</u>	<u>63,034,076</u>
Total accumulated depreciation	<u>245,842,463</u>	<u>23,005,306</u>	<u>10,429,445</u>	<u>258,418,324</u>
Capital assets, net	<u>\$ 472,573,543</u>	<u>\$ 122,863,207</u>	<u>\$ 122,078,299</u>	<u>\$ 473,358,451</u>

The University of Akron
Notes to Financial Statements – Continued
June 30, 2005 and 2004

6. Long-term Liabilities

Changes in long-term liabilities during fiscal 2005 were as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Notes payable:					
General receipts rental note - Series 2003A, 6.628% (imputed), due serially through 2034	\$ 42,720,000	\$ -	\$ 1,080,000	\$ 41,640,000	\$ 1,080,000
General receipts rental note - Series 2003B, 8.923% (imputed), due serially through 2018	9,030,000	-	645,000	8,385,000	645,000
Unamortized discount, Series 2003A	(25,835,000)	-	(1,080,000)	(24,755,000)	(1,080,000)
Unamortized discount, Series 2003B	(3,915,000)	-	(645,000)	(3,270,000)	(505,000)
Total notes payable	22,000,000	-	-	22,000,000	140,000
Bonds payable:					
General receipts bonds - Series 1997A, 3.65% to 6.0%, due serially through 2022	26,045,000	-	1,420,000	24,625,000	1,495,000
General receipts bonds - Series 1999, 4.8 to 5.125%, due serially through 2010	13,455,000	-	-	13,455,000	-
General receipts bonds - Series 2003A, 1.5% to 5.0%, due serially through 2033	44,370,000	-	1,110,000	43,260,000	1,550,000
General receipts refunding bonds - Series 2004, 3.465%, due serially through 2029	130,405,000	-	-	130,405,000	-
Series 2004 bond premium	(15,891,236)	-	(642,070)	(15,249,166)	(642,070)
General receipts bonds - Series 2004B, 2.00% to 5.00%, due serially through 2035	-	34,375,000	-	34,375,000	630,000
Capital improvements, 5.668% to 7%, due serially through 2005	4,818	-	4,818	-	-
Total bonds payable	198,388,582	34,375,000	1,892,748	230,870,834	3,032,930
Capitalized lease obligations	6,340,934	259,228	986,199	5,613,963	746,325
Sick leave liability	3,450,720	67,546	9,791	3,508,475	839,651
Totals	<u>\$ 230,180,236</u>	<u>\$ 34,701,774</u>	<u>\$ 2,888,738</u>	261,993,272	<u>\$ 4,758,906</u>
Less: current portion				<u>4,758,906</u>	
Long-term liabilities				<u>\$ 257,234,366</u>	

The general receipts bonds, Series 1997A, Series 1999, Series 2003A, and Series 2004B, the general receipts refunding bonds, 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, 2005 and 2004

6. Long-term Liabilities - continued

On November 3, 2004 The University issued \$34.4 million of General Receipts Bonds, Series 2004B, including a premium in the amount of \$560,429. These bonds are being used to provide funding for a campus housing project.

The General Receipts Rental Notes, Series 2003A and Series 2003B, 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.

During fiscal year 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 (\$7,976,498) and (\$400,474) at June 30, 2005 and 2004, respectively.

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, \$2,075,000 of bonds and COP's outstanding were considered defeased. There were no outstanding bonds and COP's as of June 30, 2005.

Interest expense, net of interest income, related to the borrowings was capitalized as part of the cost of construction. At June 30, 2004, interest on borrowings for the Series 1999 bonds and Series 2004 refunding bonds was \$5,506,979, while the interest earnings on the proceeds were \$175,919. Substantial completion on outstanding projects was determined to be 63.0%, resulting in net capitalized interest of \$1,972,492. There was no capitalized interest for the Series 1999 bonds and Series 2004 refunding bonds in fiscal year 2005. At June 30, 2005 and 2004, interest on borrowings for the Series 2003A bonds was \$1,788,300 and \$1,865,881, respectively, and earnings on the proceeds were \$170,733 and \$264,701, respectively. Substantial completion on outstanding projects was determined to be 88.0% and 46.0%, respectively, resulting in net capitalized interest of \$194,108 and \$864,638, respectively. At June 30, 2005, interest on borrowings for the Series 2004B bonds was \$937,685 and earnings on the proceeds were \$558,784, resulting in net capitalized interest of \$378,901. There was no capitalized interest for the Series 2004B bonds in fiscal year 2004.

The University of Akron
Notes to Financial Statements – Continued
June 30, 2005 and 2004

6. Long-term Liabilities - continued

The aggregate annual principal maturities for the general receipt rental notes, general receipt bonds, and general receipt refunding bonds for fiscal years subsequent to June 30, 2005 are as follows:

Fiscal year:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,172,930	\$ 11,954,957	\$ 15,127,887
2007	7,192,930	11,591,323	18,784,253
2008	7,852,930	11,241,217	19,094,147
2009	7,282,930	10,888,006	18,170,936
2010	7,682,930	10,519,725	18,202,655
2011-2015	39,964,649	47,466,297	87,430,946
2016-2020	47,744,649	38,097,565	85,842,214
2021-2025	54,489,649	26,661,997	81,151,646
2026-2030	55,537,237	13,686,257	69,223,494
2031-2035	21,950,000	2,576,572	24,526,572
	<u>\$ 252,870,834</u>	<u>\$ 184,683,916</u>	<u>\$ 437,554,750</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, 2005 and 2004 amounted to \$1,304,000 and \$1,104,000, 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, 2005 are as follows:

Building	\$ 3,572,366
Movable equipment	<u>2,041,597</u>
	<u>\$ 5,613,963</u>

Future minimum lease payments as of June 30, 2005 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:	
2006	\$ 958,211
2007	817,850
2008	503,005
2009	213,274
2010	3,682,892
2011-2013	<u>204,580</u>
Total minimum lease payments	\$ 6,379,812
Less amount representing interest	<u>765,849</u>
Present value of net minimum capital lease payments	<u>\$ 5,613,963</u>

The University of Akron

Notes to Financial Statements – Continued

June 30, 2005 and 2004

6. 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 2005 or 2004. During fiscal 2005 and 2004, The University also received rental receipts approximating \$396,000 and \$192,000, respectively, from renting various other campus facilities under the terms of operating lease agreements.

7. 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, 2004, and 2004B Bond Issues.

The University of Akron

Notes to Financial Statements – Continued

June 30, 2005 and 2004

8. 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, 2005, 2004, and 2003 were \$9,607,315, \$9,620,002, and \$9,707,923, and \$6,986,513, \$6,484,297, and \$6,129,061, 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 2005 and 2004, the cost of dependent health care and retiree life insurance benefits, recognized as expense when claims and premiums were paid, totaled \$1,477,000 and \$1,450,000, 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, 2004, 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 \$3.1 billion at June 30, 2004, the latest available information. For the year ended June 30, 2004, the net health care costs paid by STRS were \$268,739,000 and there were 111,853 eligible benefit recipients.

The University of Akron

Notes to Financial Statements – Continued
June 30, 2005 and 2004

8. 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, 2004, the most recent data available, the allocation rate is 4.91%. 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 2004, the minimum pay has been established as \$25,400. 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, 2004, the latest available information, were \$223,443,805. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million. The number of participants currently receiving health care benefits is approximately 62,000.

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, 2005, 2004, and 2003 were \$2,478,743, \$2,574,706, and \$2,598,782, respectively, equal to the required contributions for each year. The ARPs do not provide postretirement benefits other than pension and death benefits.

9. 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, 2005 and 2004

9. 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 outcome of the negotiations is unknown at this time, but management believes that any adjustment of costs related to any settlement would not have a material adverse effect on the financial statements.

The University has been appropriated \$21,424,000 from the State for buildings and renovations, of which \$466,000 has been expended as of June 30, 2005. In addition, as of June 30, 2005, several University-funded construction projects will cost an estimated \$41,140,000 to complete.

The University of Akron
Notes to Financial Statements – Continued
June 30, 2005 and 2004

10. Component units

Detail of the component units' net assets at June 30, 2005 and 2004 are as follows:

	2005			2004		
	Foundation	Research Foundation	Totals	Foundation	Research Foundation	Totals
Assets						
Current assets:						
Cash and cash equivalents	\$ 75,523	\$ -	\$ 75,523	\$ 36,980	\$ -	\$ 36,980
Accounts receivable, net	139,796	206,517	346,313	1,430,381	220,614	1,650,995
Pledges receivable, net	1,134,810	-	1,134,810	1,224,591	-	1,224,591
Prepaid expenses and deferred charges	-	144,240	144,240	-	114,985	114,985
Total current assets	1,350,129	350,757	1,700,886	2,691,952	335,599	3,027,551
Restricted current assets:						
Cash and cash equivalents	-	1,789,443	1,789,443	-	1,808,536	1,808,536
Pooled investments	-	1,058,903	1,058,903	-	159,000	159,000
Total restricted current assets	-	2,848,346	2,848,346	-	1,967,536	1,967,536
Noncurrent assets:						
Endowment investments	133,301,405	-	133,301,405	122,634,134	-	122,634,134
Pledges receivable, net	931,619	-	931,619	1,020,114	-	1,020,114
Capital assets, net	382,116	122,180	504,296	416,055	-	416,055
Total assets	135,965,269	3,321,283	139,286,552	126,762,255	2,303,135	129,065,390
Liabilities						
Current liabilities:						
Accounts payable	144,616	630,303	774,919	126,030	416,504	542,534
Accrued liabilities	111,465	45,724	157,189	109,157	50,308	159,465
Deferred revenue	-	1,131,514	1,131,514	-	990,408	990,408
Total current liabilities	256,081	1,807,541	2,063,622	235,187	1,457,220	1,692,407
Noncurrent liabilities:						
Actuarial liability for annuity/unitrust agreements	9,677,825	-	9,677,825	10,318,336	-	10,318,336
Total liabilities	9,933,906	1,807,541	11,741,447	10,553,523	1,457,220	12,010,743
Net assets						
Invested in capital assets, net	382,116	-	382,116	416,055	-	416,055
Restricted:						
Nonexpendable	73,391,597	-	73,391,597	69,324,110	-	69,324,110
Expendable	46,547,768	-	46,547,768	40,975,798	-	40,975,798
Unrestricted	5,709,882	1,513,742	7,223,624	5,492,769	845,915	6,338,684
Total net assets	\$126,031,363	\$ 1,513,742	\$127,545,105	\$116,208,732	\$ 845,915	\$117,054,647

The University of Akron
Notes to Financial Statements – Continued
June 30, 2005 and 2004

10. Component units - Continued

Detail of the component units' revenues, expenses, and changes in net assets at June 30, 2005 and 2004 are as follows:

	2005			2004		
	Foundation	Research Foundation	Totals	Foundation	Research Foundation	Totals
Revenues						
Operating revenues:						
Federal grants and contracts	\$ -	\$ 65,254	\$ 65,254	\$ -	\$ 14,921	\$ 14,921
State grants and contracts	-	64,937	64,937	-	28,524	28,524
Private grants and contracts	-	2,193,617	2,193,617	-	1,735,416	1,735,416
Gifts and contributions	8,582,435	-	8,582,435	3,828,597	-	3,828,597
Other sources	-	125,903	125,903	-	102,942	102,942
Total operating revenues	8,582,435	2,449,711	11,032,146	3,828,597	1,881,803	5,710,400
Expenses						
Operating expenses:						
Educational and general:						
Separately budgeted research	-	570,776	570,776	-	486,314	486,314
Institutional support	550,250	-	550,250	503,435	-	503,435
Depreciation	-	30,545	30,545	-	-	-
Total operating expenses	550,250	601,321	1,151,571	503,435	486,314	989,749
Operating income	8,032,185	1,848,390	9,880,575	3,325,162	1,395,489	4,720,651
Nonoperating revenues (expenses)						
Gifts and grants	-	173,373	173,373	-	-	-
Investment income, net	2,086,412	48,520	2,134,932	1,835,985	13,191	1,849,176
Unrealized appreciation (depreciation) on investments	4,549,111	50,000	4,599,111	14,302,952	159,000	14,461,952
Distributions to the university	(8,116,409)	(1,453,593)	(9,570,002)	(9,009,709)	(1,079,983)	(10,089,692)
Distributions on behalf of the university	(189,801)	-	(189,801)	(246,072)	-	(246,072)
Other nonoperating revenues	121,009	1,137	122,146	135,290	2,250	137,540
Net nonoperating revenues (expenses)	(1,549,678)	(1,180,563)	(2,730,241)	7,018,446	(905,542)	6,112,904
Gain (loss) before other changes	6,482,507	627,827	7,150,334	10,343,608	489,947	10,833,555
Other changes						
Additions to permanent endowments	3,340,124	-	3,340,124	3,728,665	-	3,728,665
Increase (decrease) in net assets	9,822,631	627,827	10,490,458	14,072,273	489,947	14,562,220
Net assets						
Net assets – beginning of year	116,208,732	845,915	117,054,647	102,136,459	355,968	102,492,427
Net assets – end of year	\$126,031,363	\$1,513,742	\$127,545,105	\$116,208,732	\$ 845,915	\$117,054,647

The University of Akron
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog Federal Domestic Assistance	Pass Through Entity Identifying Number	Federal Expenditures
Student Financial Aid Cluster			
Department of Education:			
Direct programs:			
Federal Pell Grant Program	84.063		\$ 17,625,126
Federal Supplemental Educational Opportunity Grant	84.007		1,440,577
Federal College Work-Study	84.033		1,209,175
Federal Perkins Loans	84.038		155,088
Total Department of Education - Student Financial Aid Cluster			20,429,966
Research and Development Cluster			
Department of Agriculture:			
Direct programs:			
Grants for Agriculture-Competitive Research Grants	10.206		49,532
Initiative for Future Agriculture and Food Systems	10.302		155,262
Total Department of Agriculture			204,794
Department of Commerce:			
Direct programs:			
Center for Sponsored Coastal Ocean Research, Coastal Ocean Program	11.478		29,491
NIST-Measurement and Engineering Research and Standards	11.609		49,635
Total Department of Commerce			79,126
Department of Defense:			
Direct programs:			
ONR-Basic and Applied Scientific Research	12.300		112,741
United States Army-Basic Scientific Research	12.431		84,055
National Geospatial Intelligence Agency-Basic, Applied and Advanced Research	12.630		62,549
USAF-Air Force Defense Research Sciences Program	12.800		715,499
National Security Agency-Mathematical Sciences Grants Programs	12.901		2,114
Pass-through programs:			
UARF-Creative Action LLC-Basic and Applied Scientific Research	12.300	N00014-03-M-0254	984
Mississippi State University-Basic and Applied Scientific Research	12.300	N00014-02-1-0450	6,408
Psych Systems & Research Inc.-Basic Scientific Research	12.431	DASW01-03-C-0003	22,597
NEUCOM-Military Medical Research and Development	12.420	DAMD17-03-1-0082	27,961
University of Dayton-Air Force Defense Research Sciences Program	12.800	F33615-00-D-5008	(1,798)
UARF-Applied Sciences-Air Force Defense Research Sciences Program	12.800	F33615-02-M-5026	(6,905)
UARF-Integr Smart Struct-Air Force Defense Research Sciences Program	12.800		43,320
UARF-UES Inc.-Air Force Defense Research Sciences Program	12.800	F33615-03-C-2348	5,195
Foster Miller, Inc.-Air Force Defense Research Sciences Program	12.800	F33615-02-C-2294	(84)
Universal Technology Corporation-Air Force Defense Research Sciences Program	12.800		22,292
Case Western Reserve University-Air Force Defense Research Sciences Program	12.800	F49620-03-1-0128	4,458
Air Force Research Laboratory/Dayton Area Graduate Studies Institute- Air Force Defense Research Sciences Program	12.800		7,617
MIT-Research and Technology Development	12.910	F49620-01-0447	73,594
Total Department of Defense			1,182,597
Department of the Interior:			
Pass-through program:			
Cuyahoga Valley National Park	15.AAT		49,472
Department of Justice:			
Pass-through programs:			
Oriana House-Drug Court Discretionary Grant Program	16.585		8
NORC-ADAM Program-NIJ Research, Evaluation, and Development Project Grants	16.560		(4,646)
Ohio Criminal Justice-Bryne Formula Grant Program	16.579	2003-DG-B01-7403	52,672
Community Partnership-Summit County-Drug-Free Communities Support Program Grants	16.728	2003-ND-FX-0156	5,019
Total Department of Justice			53,053

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, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog Federal Domestic Assistance	Pass Through Entity Identifying Number	Federal Expenditures
Department of State			
Pass-through program:			
Axiom Resource Management, Inc.-Educational Partnerships Program	19.424	SINLEC	10,574
Department of Transportation:			
Direct program:			
NHTSA State and Community Highway Safety	20.600		69,248
Pass-through programs:			
Ohio Department of Transportation-Highway Planning and Construction	20.205		35,037
Ohio Department of Transportation-Highway Planning and Construction	20.205	E051106	228
Ohio Department of Transportation-Highway Planning and Construction	20.205	AC-SPR-2(37)	204,221
Ohio Department of Transportation-Highway Planning and Construction	20.205	E040(613)	91,659
Ohio Department of Transportation-Highway Planning and Construction	20.205	E036(641)	131,148
Total Department of Transportation			531,541
Appalachian Regional Commission			
Pass-through program:			
Ohio Department of Development-Appalachian Area Development	23.002		(203)
National Aeronautics and Space Administration:			
Direct program:			
Technology transfer	43.002		1,623,383
Pass-through programs:			
Syscom Technology-Technology Transfer	43.002	03-S1.03-8271	3,916
Morehouse School of Medicine-Technology Transfer	43.002	NCC2-1322	4,669
Ohio Aerospace Institute-Technology Transfer	43.002	NCC-959	19,251
Old Dominion University-Technology Transfer	43.002	NAG1-01043	8
Total National Aeronautics and Space Administration			1,651,227
National Foundation of Arts and the Humanities:			
Direct program:			
Promotion of the Humanities	45.161		37,721
National Science Foundation:			
Direct programs:			
Engineering Grants	47.041		982,083
Mathematical and Physical Sciences	47.049		1,856,861
Geosciences	47.050		285,064
Biological Sciences	47.074		359,294
Social, Behavioral, and Economic Sciences	47.075		70,403
Educational and Human Resources	47.076		541,108
Pass-through programs:			
University of Nebraska-Engineering Grants	47.041	DMI-0100354	(380)
Michigan State University-Engineering Grants	47.041	EEC-9980325	651
University of Kentucky Research Foundation-Engineering Grants	47.041	CTS-0218977	39,017
Virginia Polytech Institute-Engineering Grants	47.041	CMS-0219701	27,237
Drexel University-Engineering Grants	47.041	ECS-0304453	46,184
The Ohio State University Research Foundation-Engineering Grants	47.041	EEC-0425626	7,768
University of Arkansas-Engineering Grants	47.041	EEC-0405382	13,086
University of Colorado-Natural Hazards Research & Applications Information Center - Engineering Grants	47.041	CMS-2018780	274
Wayne State University-Mathematical and Physical Sciences	47.049	CHE-0211696	30,890
Mississippi State University-Mathematical and Physical Sciences	47.049	EPS-0082979	(13)
University of South Carolina-Geosciences	47.050	OCE-0117112	2,770
Case Western Reserve University	47.073	ECD-9108700	(17)
National Academies-Social, Behavioral, and Economic Sciences	47.075	INT-0002341	748
West Virginia University-Educational and Human Resources	47.076	EHR-0090472	15,548
University of Oregon-Educational and Human Resources	47.076	DUE-0088847	876
Total National Science Foundation			4,279,452

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, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Catalog Federal Domestic Assistance	Pass Through Entity Identifying Number	Federal Expenditures
Environmental Protection Agency:			
Pass-through program:			
Ohio EPA-Nonpoint Source Implementation Grants	66.460	C997550001-0	(1,461)
Department of Energy:			
Direct programs:			
Department of Energy	81.000		109,317
Office of Science Financial Assistance Program	81.049		223,808
University Coal Program	81.057		40,245
Pass-through programs:			
University of Pittsburgh	81.000	DE-FC26-01NT41196	334
Parsons Infrastructure & Technology Group-Fossil Energy Research and Development	81.089	DE-AM26-99FT40463	21,619
Total Department of Energy			395,323
Department of Education:			
Direct programs:			
Fund for the Improvement of Postsecondary Education	84.116Z		376,750
National Institute on Disability and Rehabitational Research	84.133A		263,704
Preparing Tomorrow's Teachers to Use Technology	84.342A		414,942
Pass-through programs:			
Ohio Department of Education-Supplemental Education Services	84.000		20,414
Oregon Health & Science University-Nat's Institute on Disability	84.133A	H133A031724	27,173
Alliance Schools-Fund for the Improvement of Education	84.215S	R215S020123	31,592
Total Department of Education			1,134,575
Department of Health and Human Services:			
Direct programs:			
Nurse Anesthetist Traineeships	93.124		14,169
Drug Abuse Research Program	93.279		34,198
Biomedical Imaging Research	93.286		114,849
Advanced Education Nursing Grant Program	93.358		61,510
Basic Nurse Education, Practice and Retention Grants	93.359		(7,229)
Basic Nurse Education, Practice and Retention Grants	93.359A		137,922
Nursing Research	93.361		129,318
Cancer Treatment Research	93.395		11,776
Heart and Vascular Diseases Research	93.837		81,412
Diabetes, Endocrinology, and Metabolism Research	93.847		35,818
Vision Research	93.867		37,087
Scholarships for Health Profession Students	93.925		13,084
Pass-through programs:			
VNA-Special Programs for the Aging Title IV & Title II Discretionary Projects	93.048	90AM2747	66,276
Indiana University-Research Related To Deafness And Communication Disorders	93.173	R01 DC006436	55,331
Stella Maris-Consolidated Knowledge Development and Application (KD&A) Program	93.230		33,806
ADASBCC-Consolidated Knowledge Development and Application (KD&A) Program	93.230	1 H79 TI13505-01	133,038
Ohio Rehabilitation Services Commission-Traumatic Brain Injury State Demo. Grant Prg	93.234	1 H82 MC 00006-01	2,032
Community Health-SAMHSA-Projects of Regional and National Significance	93.243	1 H79 TI15677-01	29,984
Community Health-SAMHSA-Projects of Regional and National Significance	93.243	1 H79 TI14463-01	73,462
ADASBCC-SAMHSA-Project of Regional and National Significance	93.243	H79TI16543-01	18,410
ADASBCC-SAMHSA-Project of Regional and National Significance	93.243	1 H79 TI14109-01	69,024
University of Pittsburgh-Nursing Research	93.361	5 R01 NR004749-07	39,557
Kent State University-Temporary Assistance	93.558		38,094
Ohio Dept. of Jobs and Family Services-Foster Care Title IV-E	93.658		24,119
University of Akron Research Foundation-Heart and Vascular Diseases Research	93.837	1R4HL077984-01	20,675
Indiana University-Vision Research	93.867	R01 EY11365-06A1	11,475
Ohio Department of Health-HIV Care Formula Grants	93.917		37,360
Visiting Nurse Assoc. Healthcare Partners-Assistance Programs for Chronic Disease Prevention	93.945	H75/CCH523892-01	58,168
Ohio Dept. of Mental Health-Block Grants for Community Mental Health Services	93.958		102,885
ODADAS-Block Grants for Prevention and Treatment of Substance Abuse	93.959		134,310
Total Department of Health and Human Service:			1,611,920

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, 2005

<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>
Corporation For National And Community Service:			
Pass-through program			
Ohio Campus Compact-Learn and Serve America, School and Community Based Programs	94.004		2,500
Total Research and Development Cluster			11,222,211
Child Nutrition Cluster			
Department of Agriculture:			
Pass-through programs:			
Ohio Department of Education-Summer Food Service Program for Children	10.559A		6,908
Ohio Department of Education-Summer Food Service Program for Children	10.559M		5,353
NCAA Youth Sports-Summer Food Service Program for Children	10.559		25,491
Total Department of Agriculture			37,752
Special Education Cluster			
Department of Education:			
Pass-through program:			
Barberton Decker Center-Special Education Preschool Grants	84.173		7,883
TRIO Cluster			
Department of Education:			
Direct programs:			
TRIO Talent Search	84.044A		527,031
TRIO Upward Bound	84.047A		347,266
TRIO Upward Bound Math/Science	84.047M		320,154
TRIO McNair Post Baccalaureate Achievement	84.217A		208,746
Total TRIO Cluster			1,403,197
Other Programs			
Instruction			
Department of Defense:			
Pass-through program:			
State of Ohio-National Guard Military Operations and Maintenance (O&M) Projects	12.401		21,647
Department of Labor:			
Direct program:			
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		9,537
National Science Foundation:			
Direct program:			
Education and Human Resources	47.076		48,754
Pass-through program:			
The Ohio State University Research Foundation-Education and Human Resources	47.076	HRD-0331560	40,036
Total National Science Foundation			88,790
Department of Education:			
Direct programs:			
Graduate Assistance in Areas of National Need	84.200A		45,090
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A		57,480
Pass-through programs:			
Kent State University-Special Education-			
Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	H325D030008	67,770
Ohio Dept of Education-Supplemental Educational Services Evaluation	84.000		24,485
Total Department of Education			194,825

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, 2005

<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 Health and Human Services:			
Direct programs:			
Comprehensive Geriatric Education Program	93.265		186,518
Nurse Education, Practice and Retention Grants	93.359		266,018
Pass-through programs:			
SPAHEC-Model State Supported Area Health Education Centers	93.107		92
Ohio Department of Job & Family Services-Foster Care Title IV-E	93.658		29,284
Total Department of Health and Human Services			<u>481,912</u>
Total Instruction			<u>796,711</u>
Public Service			
Department of Agriculture:			
Pass-through program:			
Center for Child Development-Child and Adult Care Food Program	10.558		26,086
Department of Defense:			
Direct programs:			
Air Force ROTC Uniform	12.000		9,323
Army ROTC	12.000		194
Total Department of Defense			<u>9,517</u>
Department of Housing and Urban Development:			
Direct program:			
Community Outreach Partnership Center Program	14.511		6,132
Pass-through program:			
AMHA-Elder Screening-Federally Assisted Low Income Housing Drug Elimination	14.193		(11)
Total Department of Housing and Urban Development			<u>6,121</u>
Department of Justice:			
Direct program:			
Discretionary Drug and Criminal Justice Assistance Program	16.580		86,525
Pass-through programs:			
Community Partnership-Drug Free Communities Support Program Grant	16.729		875
Community Partnership-Drug Free Communities Support Program Grant	16.729	1998-JN-FX-0103	11,746
Total Department of Justice			<u>99,146</u>
Department of State:			
Direct program:			
Education Partnerships Program	19.424		1,319
Appalachian Regional Commission			
Pass-through program:			
Ohio Department of Development-Appalachian Area Development	23.002		10,967
Small Business Administration:			
Pass-through program:			
Akron Small Business Development Center	59.037		68,452
Department of Education:			
Direct program:			
Fund for the Improvement of Education	84.215K		72,653
Pass-through programs:			
Ohio Department of Education -Vocational Education Basic Grants to States	84.048		73,802
Ohio Board Regents-Eisenhower Professional Development-Federal Activities	84.168		528
Ohio Department of Education-Even Start State Education Agencies	84.213C		138,775
Ohio Department of Education-Tech Prep Education	84.243		148,898
Cleveland State University / Ohio Dept of Education-Reading First State Grants	84.357	062950RSSI03AS4036CS	1,252,256
Ohio Board Regents-Improving Teacher Quality State Grants	84.367		115,691
Ohio Dept of Education-Highly Qualified Teacher Grants	84.367		3,573
Total Department of Education			<u>1,806,176</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, 2005

<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 Health and Human Services:			
Direct program:			
Community Services Block Grant Discretionary Awards-Community Food and Nutrition	93.571		39,088
Pass-through programs:			
SPAHEC-Model State Supported Area Health Education Centers	93.107		24,216
Holmes County-Temporary Assistance for Needy Families	93.558		62,161
NCAA Youth Sports-Community Services Block Grant Discretionary Awards	93.570		69,518
Barberton Decker Center-Job Opportunities for Low Income Individuals	93.593		16,653
Barberton Decker Center-Social Services Block Grant	93.667		25,323
Ohio Department of Health-HIV Care Formula Grants	93.917		10,039
ODADAS-Block Grants for Prevention and Treatment of Substance Abuse	93.959	COME-ADA-WP0451	9,514
Total Department of Health and Human Services			256,512
Corporation for National and Community Service:			
Pass-through program:			
Corporation for National and Community Service-Learn and Serve America Higher Educ.	94.006	03ACH-K729-04-A147	44,249
Department of Homeland Security			
Pass-through program:			
Ohio Emergency Management Agency-State Domestic Preparedness Equipment Support	97.004	2003-MU-T3-0015	296,686
Total Public Service			2,625,231
Total Other Programs			3,421,942
Total Expenditures of Federal Awards			\$ 36,522,951

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, 2005

(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, 2005, the University disbursed funds to subrecipients in the amount of \$1,815,064.

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, 2005.

(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, 2005:

	CFDA Numbers	Advances	Outstanding Balances
Perkins Loan Program	84.038	\$ 2,352,114	\$ 11,699,627
Nursing Student Loan Program	93.364	\$ 299,870	\$ 1,217,405

(3) Federal Family Education Loan Program

During the year ended June 30, 2005, 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.

	CFDA Number	Advances
Federal Family Education Loan Program	84.032	\$ 112,032,002

The University of Akron

Notes to Schedule of Expenditures of Federal Awards, Continued
For the Year Ended June 30, 2005

(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	\$ 36,522,951
Perkins Loan funds excluded from federal grants on the Statement	(155,088)
State grants	(1,622,921)
Local grants	(56,695)
Private grants	(2,857,098)
Sales	(30,002)
Indirect costs excluded from federal grants on Statement	69,471
Change in deferred revenue from federal grants	<u>(6,052)</u>
Federal grants and contracts as shown on the Statement	<u>\$ 31,864,566</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, 2005, and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the University in separate letter dated October 7, 2005.

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 7, 2005
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, 2005. 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, 2005.

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. However, we noted certain immaterial instances of noncompliance that we have reported to management of the University in separate letter dated October 7, 2005.

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 7, 2005
Cleveland, Ohio

The University of Akron
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2005

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	Research and Development
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Dollar threshold used to distinguish between Type A and Type B programs:	\$1,095,689
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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, 2005

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, 2005

Section I - Summary of Prior Year Findings

No prior year findings or questioned costs.

**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 evaluating whether the accompanying Statement of Revenue and Expenses of the University's Intercollegiate Athletics Department is in compliance with the National Collegiate Athletics Association ("NCAA") Bylaw 6.2.3.1 for the year ended June 30, 2005. Management of the University is responsible for the Statement of Revenues and Expenses for the University's Intercollegiate Athletics Department (the "Statement") and the Statement's compliance with those requirements. 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:

- A. We obtained the Statement of Revenues and Expenses (the "Statement") of the Athletics Department (the "Athletics Department") and supporting worksheets for the year ended June 30, 2005, and compared each of the revenue and expense amounts on the Statement to management's worksheets.

No exceptions were found as a result of these comparisons.

- B. We agreed all amounts on management's worksheets to the University's general ledger.

No differences between the amounts in the general ledger and the amounts on the worksheets were noted.

- C. We agreed each contribution of cash, services or goods, that were received by the University's Athletics Department and that constituted 10% or greater of all contributions received by the University's Athletics Department during the year ended June 30, 2005 to supporting documentation maintained by the University's development office.

No exceptions were noted as a result of these comparisons.

- D. We selected a sample of three operating revenue receipt accounts for the year ended June 30, 2005 and compared revenue receipts to supporting documentation maintained by the University.

No exceptions were noted as a result of these comparisons.

- E. We selected all home ticket office sales reports for football and men's basketball during the year ending June 30, 2005 and recalculated revenues totals related to tickets sold and agreed the ticket revenues to the general ledger. We recalculated totals of complimentary tickets and unsold tickets appearing on the ticket office sales reports.

No exceptions were noted for the items recalculated and the comparisons.

We further reviewed the two football guarantees during the year ending June 30, 2005 and traced the signed contracts to the actual payment.

No exceptions were noted through the results of our procedures.

- F. We selected a sample of twenty-five students who received institutional financial aid during the year ended June 30, 2005 and agreed the award amount per the student's account detail to the related award letter.

No exceptions were noted for the items tested.

- G. We obtained a listing of coaches employed by the institution for the year ended June 30, 2005. We specifically selected coaches for football, men's and women's basketball and a selection of seven other coaches and obtained the related contracts. We agreed the coaches' salaries per the contracts to the amounts recorded by the institution in the Statement. We obtained W-2's and

1099's for the coaches selected and agreed amounts appearing in the W-2's and 1099's to the related expenses in the Statement.

No exceptions were noted as a result of these comparisons.

- H. We obtained copies of the University's recruiting and travel policies and read the policies and compared the policies to the NCAA policies.

No differences were noted between the University's and the NCAA policies.

- I. We selected a sample of three expense accounts for the year ended June 30, 2005 and compared the expense transactions to supporting documentation maintained by the University.

No exceptions were noted as a result of these comparisons.

- J. We obtained audited financial statements for The University of Akron Foundation, which administers the Zip Athletic Club and Varsity "A" Association, for the year ended June 30, 2005. We agreed the amounts in those financial statements to amounts appearing in the Statement, which were agreed to the University's general ledger.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the compliance of the accompanying Statement. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of 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 31, 2005

The University of Akron
Statement of Revenues and Expenditures -
For The Intercollegiate Athletics Programs
For the year ended June 30, 2005

Appendix I

	<u>Football</u>	<u>Basketball</u>	<u>Other Sports</u>	<u>Non-Program Specific</u>	<u>Total</u>
OPERATING REVENUE:					
Ticket sales	\$ 154,312	\$ 208,174	\$ 23,853	\$ -	\$ 386,339
Game guarantees	675,000	40,000	10,500	-	725,500
Conference revenue	-	-	40	653,640	653,680
Student general fee	2,896,228	678,962	4,636,192	2,048,232	10,259,614
Program sales				4,875	4,875
Radio and TV rights				210,657	210,657
Gifts:					-
Unrestricted	33,693	9,556	21,233	88,059	152,541
Restricted	49,527	78,203	370,378	78,793	576,901
Restricted sports camp	17,566	58,912	120,309		196,787
Endowment Income:					-
Restricted	26,513	-	-		26,513
Federal Grant:					-
Restricted	2,032	2,009	4,790		8,831
Other Income	5,329	2,431	10,072	519,004	536,836
Total Operating Revenue	\$ 3,860,200	\$ 1,078,247	\$ 5,197,367	\$ 3,603,260	\$ 13,739,074
OPERATING EXPENDITURES					
Coaches' salaries	\$ 658,778	\$ 195,079	\$ 882,034	\$ -	\$ 1,735,891
Other salaries	174,943	146,883	194,009	1,392,587	1,908,422
Travel:			-		
Team	322,001	105,498	590,809	-	1,018,308
Recruiting	93,080	41,409	95,810	85,995	316,294
Financial aid	1,670,476	245,372	2,331,913	153,953	4,401,714
Game guarantees	-	9,962	500	39,992	50,454
Maintenance and general administration	754,115	273,611	936,030	1,630,773	3,594,529
Equipment purchases	-	-	-	24,837	24,837
Publicity				180,432	180,432
Insurance	7,028	805	20,235	4,781	32,849
Telephone	50,625	27,195	50,116	103,613	231,549
Entertainment / Meals	116,674	23,228	87,684	48,145	275,731
Total Operating Expenditures	\$ 3,847,720	\$ 1,069,042	\$ 5,189,140	\$ 3,665,108	\$ 13,771,010
Nonmandatory transfers for Current Allocated Fund					
Balance in (out)	(12,480)	(9,205)	(8,227) #	(254)	(30,166)
Transfer from (to) other Auxiliary	-	-	-	(37,008)	(37,008)
Excess of Revenues over Expenditures	\$ -	\$ -	\$ -	\$ (99,110)	\$ (99,110)
Unallocated Fund Balance at beginning of year	-	14,998	-	195,968	210,966
Unallocated Fund Balance at end of year	\$ -	\$ 14,998	\$ -	\$ 96,858	\$ 111,856

**The University of Akron
Schedule of Financial Activities
For the year ended June 30, 2005**

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

Description	Department	Amount
ZipFest Purchases	Athletic Administration	\$ 2,131
Final Four Meal with Donors	Athletic Administration	386
Portrait of Dr. Proenza	Athletic Administration	300
Wine/Beer for Department Christmas party	Athletic Administration	250
Beer for Athletic Department party	Athletic Administration	107
Wine/Beer for Department Christmas party	Athletic Administration	93
Beer for UA Basketball game	Basketball	120
Super 108 , SP-101, frieight	Football	7,190
Ten Computers	Football	5,290
Football Banquet DS Inv202680	Football	5,283
MRX Collegiate Nutrition	Football	5,040
Pry-Rental Car	Football	2,787
Computer Store Charges	Football	2,642
UA Account No. 6-39638	Football	2,500
Wool jackets/ embroidery	Football	2,441
Case-Football Recruit Weekend	Football	2,161
Signs & Helmet magnets	Football	1,933
Pry-Rental Car	Football	1,890
Beverages & Trailer Rental -Freedom Fest at Rubber Bowl	Football	1,810
Liquor/Beer purchases for Football games	Football	1,575
Pry-Rental Car	Football	1,510
Meals at Café Piscitelli's for football -8/28/04	Football	1,444
Payment of 28 Beer Workers at football games	Football	1,400
60 Flexbands	Football	1,050
Football Staff Clinician 7/8/04 -7/9/04	Football	1,000
Nori - Repair Vehicle - Ford Explorer	Football	1,000
Smith -Gas, Meals, Hotel for Nashville, Tenn. - football camp	Football	962
T-Shirts, Jackets, Embroidery	Football	902
Martin -Football Camp worker	Football	750
Lunch for staff - for the Holidays	Football	660
Brookhart -travel/meals-Pebble Beach, CA	Football	634
Refinish/paint Chevy Impala	Football	459
Neujahr- Airflights -Cleveland, Kansas City, Chicago	Football	456
Team Bowling event -7/29/04	Football	452
Stay over charges for beer sellers - Freedom Fest	Football	450
Nori - Repair Vehicle - Mazda MX6	Football	434
Delong jackets/ embroidery	Football	416

**The University of Akron
Schedule of Financial Activities
For the year ended June 30, 2005**

Zip Athletic Club

Appendix II

Description	Department	Amount
Dynacord Cobra Line array system	Football	\$ 400
Pry-Rental Car	Football	381
Meals for Coaching staff- Central Florida trip	Football	330
Williams - Air travel -Akron to Tampa	Football	328
Bleil - Hotel	Football	310
Bleil - Hotel	Football	287
Bleil - Hotel	Football	272
Ferri - gas/tolls -All Pro Football Clinic	Football	270
Ferri - Car Rental/gas/tolls -All Pro Football Clinic & Ink cartridges	Football	265
Alford -Gas, tolls to Iowa State Football Clinic	Football	264
11 meals for departing of employee dinner	Football	257
Smith -Football Camp worker	Football	250
Addidas shirts	Football	221
Wally Waffle-Football Coaches	Football	195
Pry-Fort Lauderdale	Football	188
Brookhart -Gas, Meals, Hotel - OSU camp	Football	182
Brookhart -car rental/gas/hotel/meals -Cincinnati, OH	Football	181
Brookhart -Hotel/travel -meeting with Buffalo Bills coach	Football	180
Case - Hotel - professional development	Football	177
Bleil - Hotel	Football	173
Meals/snacks - Central Florida trip	Football	145
Alford - courtesy car	Football	123
Bleil - Hotel	Football	116
Neujahr -Dinner -professional development	Football	107
Williams - Air travel -Akron to Tampa (flight change)	Football	101
Gift certificates for office workers	Football	100
Bleil - Windshield repair / Meals for staff at Scout.com	Football	89
Addidas shirts	Football	87
Replace battery in dealer car	Football	67
Meals on 6/17 to 6/19 at Ohio State Football Camp	Football	65
2 Oil changes - Chevrolet Malibu / Impala	Football	54
Lunch for Secretary Day with staff	Football	47
Addidas shirts	Football	31
Addidas shirts	Football	31
Shirts and embroidery	Football	18
Addidas shirts	Football	17
Shirts and embroidery	Football	6
Shirts and embroidery	Football	4
UA Account No. 6-39628 - Lease Golf Van and Plasma TV	Golf	14,305
Golf World Subscriptions	Golf	2,873
Reimbursement by sponsors for Invitational expenses- 5/24/2004	Golf	(4,914)

**The University of Akron
Schedule of Financial Activities
For the year ended June 30, 2005**

Appendix II

Zip Athletic Club

<u>Description</u>	<u>Department</u>	<u>Amount</u>
Renovate JAR 61 -Messina Floor Covering	Soccer	\$ 8,747
Renovate JAR 61	Soccer	5,479
Renovate JAR 61	Soccer	4,806
Martin Univ. Ctr #65873 at Soccer Auction	Soccer	3,883
UA Account No. 3-05701 - Supplemental funds for 4 athletes -summer 05	Soccer	3,620
Lolla-Recruiting -Professional Development	Soccer	1,761
UA Account No. 3-05701 - Supplemental funds for athlete -summer 05	Soccer	1,525
Renovate JAR 61	Soccer	1,449
Soccer Locker room Flooring	Soccer	874
Renovate JAR 61	Soccer	763
20 Magnetic Cardholders for personnel and recruiting	Soccer	618
Soccer Alumni reception - 4/9/05	Soccer	617
500 Soccer Newsletters	Soccer	595
Meal replacement bars	Soccer	567
Lolla-Silent Auction	Soccer	553
Meal replacement bars	Soccer	460
Renovate JAR 61	Soccer	353
FedEx-Silent Auction Invitations	Soccer	335
Mailer Cards - Silent Auction	Soccer	335
Vitamins/Meal replacement bars	Soccer	290
Renovate JAR 61	Soccer	238
Dinner - Silent Auction meeting	Soccer	134
Envelopes - Silent Auction	Soccer	85
Move Electrical Outlet	Soccer	58
Pizza - Auction committee meeting	Soccer	16
UA Account No. 7-72688 - Softball Complex improvements	Softball	58,200
		TOTAL \$ 174,852

Varsity "A" Association

<u>Description</u>	<u>Department</u>	<u>Amount</u>
Wire to UA 3-05001 for sponsorship of 2004-05 athletic awards	Athletic Administration	\$ 11,000
Wire to UA 6-37189 for Porky Dudich Scholarship Account	Athletic Administration	298
68 Admisssion tickets -Hall of Fame inductees	Basketball	340
Catering -boxed lunches	Softball	654
Sully's -Canopy at Firestone stadium	Softball	250
US Post Office- Flags/stamps	Softball	47
		TOTAL \$ 12,589



**Auditor of State
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THE UNIVERSTIY 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 14, 2006**