



STATE OF OHIO
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Board of Trustees
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We have reviewed the Independent Auditor's Report of the University of Akron, Summit County, prepared by Ernst & Young LLP, for the audit period July 1, 2000 through June 30, 2001. 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.

JIM PETRO
Auditor of State

January 31, 2002

The University of Akron

Financial Statements

June 30, 2001 and 2000

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Report of Independent Auditors

Board of Trustees
The University of Akron

We have audited the accompanying balance sheets of The University of Akron, a component unit of the State of Ohio, as of June 30, 2001 and 2000, and the related statements of changes in unallocated fund balances, current funds revenues, expenditures and other changes, changes in current funds allocated fund balances and changes in auxiliary enterprises unrestricted unallocated fund balances for the year ended June 30, 2001. These financial statements are the responsibility of The University of Akron's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Akron as of June 30, 2001 and 2000 and the changes in its fund balances, and its current funds revenues, expenditures and other changes for the year ended June 30, 2001 in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2001 on our consideration of The University of Akron's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



September 21, 2001

THE UNIVERSITY OF AKRON

Balance Sheets

<u>Assets</u>	June 30	
	2001	2000
CURRENT FUNDS		
Unrestricted:		
Educational and general:		
Cash on hand	\$ 107,378	\$ 70,719
Pooled investments, at fair value (note 3)	16,755,762	36,758,893
Accounts receivable, less allowance for doubtful accounts of \$3,293,098 and \$3,124,302 at June 30, 2001 and 2000, respectively (note 4)	6,239,104	5,549,733
Pledges receivable, net (note 4)	1,808	
Inventories, at cost	914,924	906,245
Prepaid expenses and deferred charges	4,391,103	4,258,441
Due from agency funds	625,389	
Total educational and general	29,035,468	47,544,031
Auxiliary enterprises:		
Pooled investments, at fair value (note 3)	3,478,502	3,530,144
Accounts receivable, less allowance for doubtful accounts of \$241,997 and \$219,807, respectively (note 4)	641,910	571,214
Pledges receivable, net (note 4)	10,091	5,669
Inventories, at cost	278,841	250,992
Prepaid expenses and deferred charges	209,843	178,418
Total auxiliary enterprises	4,619,187	4,536,437
Total unrestricted	33,654,655	52,080,468
Restricted:		
Pooled investments, at fair value (note 3)	15,164,383	12,349,796
Accounts receivable (note 4)	7,339,497	6,814,919
Pledges receivable, net (note 4)	896,678	543,396
Prepaid expenses and deferred charges		459
Total restricted	23,400,558	19,708,570
Total current funds	\$ 57,055,213	\$ 71,789,038

See accompanying notes to financial statements.

<u>Liabilities and Fund Balances</u>	<u>June 30</u>	
	<u>2001</u>	<u>2000</u>
CURRENT FUNDS		
Unrestricted:		
Educational and general:		
Accounts payable	\$ 5,997,604	\$ 3,347,520
Payroll taxes, retirement withheld and payable	949,433	1,833,731
Accrued salaries, wages, and benefits	4,422,776	4,307,981
Accrued payroll taxes and retirement	2,666,916	2,715,100
Other accruals	1,888,279	1,992,469
Accrued early retirement incentive plan		23,663,660
Accrued sick leave (note 1)	2,725,950	2,664,315
Deferred income	13,975,713	11,626,482
Other deferred credits and deposits	73,685	74,588
Fund balance:		
Akron campus:		
Allocated	17,602,476	16,707,238
Allocated early retirement incentive plan		(23,032,020)
Allocated internal financing (note 8)	(23,469,630)	
Unallocated	500,000	500,000
Wayne College:		
Allocated	1,402,266	1,474,607
Allocated early retirement incentive plan		(631,640)
Unallocated	300,000	300,000
Total educational and general	29,035,468	47,544,031
Auxiliary enterprises:		
Accounts payable	649,704	493,702
Accrued salaries, wages, and benefits	474,995	458,665
Accrued retirement	16,014	15,944
Accrued early retirement incentive plan		724,534
Accrued sick leave (note 1)	104,549	109,057
Deferred credits	739,594	419,257
Fund balance:		
Allocated	520,981	956,458
Allocated early retirement incentive plan		(724,534)
Allocated internal financing (note 8)	(720,118)	
Unallocated	2,833,468	2,083,354
Total auxiliary enterprises	4,619,187	4,536,437
Total unrestricted	33,654,655	52,080,468
Restricted:		
Accounts payable	695,854	442,308
Accrued salaries and wages	270,782	32,295
Fund balance:		
Allocated	(199,561)	(391,784)
Unallocated	22,633,483	19,625,751
Total restricted	23,400,558	19,708,570
Total current funds	\$ 57,055,213	\$ 71,789,038

(Continued)

THE UNIVERSITY OF AKRON

Balance Sheets

<u>Assets</u>	June 30	
	2001	2000
<u>LOAN FUNDS</u>		
Pooled cash in bank (note 3)	\$ 18,292	\$ 26,639
Pooled investments, at fair value (note 3)	1,163,494	757,498
Student notes receivable, less allowance for doubtful notes of \$612,887 and \$788,249, respectively	9,939,255	10,025,749
Total loan funds	\$ 11,121,041	\$ 10,809,886
<u>ENDOWMENT AND SIMILAR FUNDS</u>		
Investments:		
Marketable securities, at fair value (note 3)	\$ 54,050,713	\$ 64,959,478
Pooled investments, at fair value (note 3)	261,515	380,951
Cash surrender value of life insurance	108,102	103,858
Real estate	486,948	475,112
Pledges receivable, net (note 4)	4,800,666	
Total endowment and similar funds	\$ 59,707,944	\$ 65,919,399
<u>PLANT FUNDS</u>		
Unexpended:		
Pooled investments, at fair value (note 3)	\$ 1,082,564	\$ 2,811,992
Investments held in trust by others, at fair value (note 3)	82,873,739	110,184,120
Accrued interest receivable		19,900
Accounts receivable	912,010	
Pledges receivable, net (note 4)		64,336
Total unexpended	84,868,313	113,080,348
Retirement of indebtedness:		
Pooled investments, at fair value (note 3)		906,193
Investments held in trust by others, at fair value (note 3)	4,435,618	4,463,578
Accrued interest receivable	2,511	3,917
Prepaid expenses and deferred charges	1,828,197	1,899,357
Total retirement of indebtedness	6,266,326	7,273,045
Investment in plant:		
Land	17,542,266	17,059,865
Improvements other than buildings	38,094,157	37,434,053
Buildings	337,127,678	320,975,463
Movable equipment, furniture, and library books	160,065,511	151,473,085
Construction in progress	36,812,615	5,770,587
Total investment in plant	589,642,227	532,713,053
Total plant funds	\$ 680,776,866	\$ 653,066,446
<u>AGENCY FUNDS</u>		
Pooled investments, at fair value (note 3)		\$ 452,691
Accounts receivable	\$ 1,228,414	108,271
Pledges receivable (note 4)	11,000	
Total agency funds	\$ 1,239,414	\$ 560,962

See accompanying notes to financial statements

Liabilities and Fund Balances	June 30	
	2001	2000
LOAN FUNDS		
Fund balance:		
U.S. Government grants:		
Perkins Student Loan Fund	\$ 9,279,546	\$ 9,026,543
Nursing Student Loan Fund	1,081,427	1,013,243
	10,360,973	10,039,786
University loan funds:		
Allocated	(15,320)	(24,024)
Unallocated	775,388	794,124
Total loan funds	\$ 11,121,041	\$ 10,809,886
ENDOWMENT AND SIMILAR FUNDS		
Fund balance:		
Allocated - Endowment	\$ (149,248)	\$ 17,977,151
- Quasi-endowment, unrestricted	848,743	4,515,737
Unallocated - Endowment	46,937,117	31,868,967
- Quasi-endowment, unrestricted	12,071,332	11,557,544
Total endowment and similar funds	\$ 59,707,944	\$ 65,919,399
PLANT FUNDS		
Unexpended:		
Accounts payable	\$ 2,843,581	\$ 1,520,026
Bonds payable (note 5)	77,936,508	106,243,508
Deferred revenues		6,119
Other accruals	519,263	256,898
Fund balance - allocated	(14,259)	(89,216)
- unallocated	3,583,220	5,143,013
Total unexpended	84,868,313	113,080,348
Retirement of indebtedness:		
Accrued interest expense	4,416,060	4,454,802
Bonds payable (note 5)	1,828,197	2,881,981
Fund balance - allocated		(28,740)
- unallocated	22,069	(34,998)
Total retirement of indebtedness	6,266,326	7,273,045
Investment in plant:		
Note payable (note 5)		30,358
Capitalized lease obligations (note 6)	7,614,342	5,260,193
Bonds payable (note 5)	81,388,387	53,724,021
Net investment in plant	500,639,498	473,698,481
Total investment in plant	589,642,227	532,713,053
Total plant funds	\$ 680,776,866	\$ 653,066,446
AGENCY FUNDS		
Accrued salaries and wages	\$ 10,192	
Due to current funds, unrestricted	625,389	
Deposits held in custody for others - allocated		\$ (14,346)
- unallocated	603,833	575,308
Total agency funds	\$ 1,239,414	\$ 560,962

THE UNIVERSITY OF AKRON
Statement of Changes in Unallocated Fund Balances
Year ended June 30, 2001

	Unrestricted			Current Funds
	Educational and General	Auxiliary Enterprises	Total Unrestricted	Educational and General
Revenues and other additions (reductions):				
Unrestricted current fund revenues	\$ 217,555,617	\$ 33,887,973	\$ 251,443,590	
State appropriations - restricted				\$ 25,594
Federal grants and contracts - restricted				20,089,457
State grants and contracts - restricted				5,112,904
Local grants and contracts - restricted				579,182
Private gifts, grants, and contracts - restricted				20,535,418
Endowment income - restricted				638,781
Investment income - restricted				9,914
Gain on sale of investments (net)				
Interest on loans receivable				
Other				
Expended for plant facilities (including \$8,839,446 charged to current funds expenditures)				
Retirement of indebtedness				
Rentals charged to current funds				
Unrealized appreciation (depreciation) on investments				192,223
Total revenues and other additions (reductions)	217,555,617	33,887,973	251,443,590	47,183,473
Expenditures and other deductions:				
Educational and general expenditures	211,259,998		211,259,998	41,914,711
Auxiliary enterprises expenditures		31,509,344	31,509,344	
Indirect costs recovered				3,014,746
Refunded to grantors				49,274
Loan cancellations and write-offs				
Administrative and collection costs				
Trustee fees and other expenditures				
Administrative fee				
Expended for plant facilities (including \$3,527,641 not capitalized)				
Retirement of indebtedness				
Interest on indebtedness				
Disposal and write-offs of plant facilities				
Total expenditures and other deductions	211,259,998	31,509,344	242,769,342	44,978,731
Transfers among funds - additions (deductions):				
Mandatory:				
Principal and interest	(2,157,024)	(4,217,993)	(6,375,017)	(191,594)
Loan fund matching grant	(87,172)		(87,172)	
Support for auxiliary debt service	(35,000)	35,000		
Nonmandatory:				
Current allocated fund balance - net	(822,897)	435,477	(387,420)	(192,223)
Support to auxiliary enterprises	(2,123,417)	2,123,417		
Capital improvements	(776,477)		(776,477)	
Allocated early retirement incentive plan	(23,663,660)	(724,534)	(24,388,194)	
Allocated internal financing	23,469,630	720,118	24,189,748	
Unrestricted to endowment (net)	(190,000)		(190,000)	
Endowment to restricted (net)				4,950
Unrestricted to plant	(115,544)		(115,544)	
Restricted to plant				
Plant to endowment				
Loans to restricted				60,156
Endowment income to other funds	205,942		205,942	1,688,559
Total transfers among funds	(6,295,619)	(1,628,515)	(7,924,134)	1,369,848
Net increase (decrease) for year	0	750,114	750,114	3,574,590
Unallocated fund balance at beginning of year	800,000	2,077,685	2,877,685	16,899,192
Adjustments (note 2)		5,669	5,669	543,396
Adjusted fund balance at beginning of year	800,000	2,083,354	2,883,354	17,442,588
Unallocated fund balance at end of year	\$ 800,000	\$ 2,833,468	\$ 3,633,468	\$ 21,017,178

See accompanying notes to financial statements.

Restricted		Total Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds		
Auxiliary Enterprises	Total Restricted				Unexpended	Retirement of Indebtedness	Investment in Plant
		\$ 251,443,590					
	\$ 25,594	25,594			\$ 14,473,126		
\$ 41,594	20,131,051	20,131,051	\$ 368,449				
	5,112,904	5,112,904			6,263		
	579,182	579,182					
591,930	21,127,348	21,127,348	49,852	\$ 17,615,997	1,935,808		\$ 828,850
64,142	702,923	702,923	1,340				
	9,914	9,914	12,373		5,425,313	\$ 9,376	
			3,379	1,560,240			
			180,125				
			547				
							29,574,258
							2,702,278
					101,694	118,851	
	192,223	192,223	8,704	(21,793,394)	74,957	1,354,970	
697,666	47,881,139	299,324,729	624,769	(2,617,157)	22,017,161	28,740	33,105,386
	41,914,711	253,174,709					
696,703	696,703	32,206,047					
	3,014,746	3,014,746					
	49,274	49,274	5,998				
			202,581				
			135,290				
						71,160	
				1,692,140			
				580,828			
					20,524,104		
						2,821,129	
						9,146,828	
							6,164,369
696,703	45,675,434	288,444,776	343,869	2,272,968	20,524,104	12,039,117	6,164,369
	(191,594)	(6,566,611)			(4,018,891)	10,585,502	
		(87,172)	87,172				
	(192,223)	(579,643)	(8,704)	21,793,394	(74,957)	(28,740)	
		(776,477)					
		(24,388,194)					
		24,189,748					
		(190,000)		190,000			
	4,950	4,950		(4,950)			
		(115,544)					
(567,821)	(567,821)	(567,821)			88,059	27,485	
					567,821		
				391,359	(391,359)		
	60,156	60,156	(60,156)				
	1,688,559	1,894,501	3,239	(1,897,740)			
(567,821)	802,027	(7,122,107)	21,551	20,472,063	(3,052,850)	10,584,247	0
(566,858)	3,007,732	3,757,846	302,451	15,581,938	(1,559,793)	57,067	26,941,017
2,183,163	19,082,355	21,960,040	10,833,910	43,426,511	5,078,677	(34,998)	473,118,345
	543,396	549,065			64,336		580,136
2,183,163	19,625,751	22,509,105	10,833,910	43,426,511	5,143,013	(34,998)	473,698,481
\$ 1,616,305	\$ 22,633,483	\$ 26,266,951	\$ 11,136,361	\$ 59,008,449	\$ 3,583,220	\$ 22,069	\$ 500,639,498

THE UNIVERSITY OF AKRON

Statement of Current Funds Revenues, Expenditures and Other Changes

Year ended June 30, 2001

with comparative totals for year ended June 30, 2000

	Unrestricted		
	Educational and General	Auxiliary Enterprises	Total Unrestricted
Revenues:			
Tuition, fees, and other student charges	\$ 98,883,719		\$ 98,883,719
State appropriations	102,935,307		102,935,307
Federal grants and contracts	1,590,218		1,590,218
State grants and contracts	141,050		141,050
Local grants and contracts	33,277		33,277
Private gifts, grants, and contracts	2,508,491		2,508,491
Endowment income	96,744		96,744
Sales and services	6,351,963	\$ 33,821,764	40,173,727
Unrealized appreciation (depreciation) on investments	945,582	66,209	1,011,791
Other sources	4,069,266		4,069,266
Total revenues	217,555,617	33,887,973	251,443,590
Expenditures and mandatory transfers:			
Educational and general:			
Instruction and departmental research	97,462,511		97,462,511
Separately budgeted research	4,281,366		4,281,366
Public service	4,750,558		4,750,558
Academic support	27,668,513		27,668,513
Student services	12,371,605		12,371,605
Institutional support	29,557,334		29,557,334
Operation and maintenance of plant	18,669,712		18,669,712
Scholarships and fellowships	16,624,588		16,624,588
Early retirement incentive program	(126,189)		(126,189)
Total educational and general expenditures	211,259,998	0	211,259,998
Auxiliary Enterprises		31,509,344	31,509,344
Mandatory transfers for:			
Principal and interest	2,157,024	4,217,993	6,375,017
Loan fund matching grant	87,172		87,172
Support for auxiliary debt service	35,000	(35,000)	
Total mandatory transfers	2,279,196	4,182,993	6,462,189
Total expenditures and mandatory transfers	213,539,194	35,692,337	249,231,531
Nonmandatory transfers and additions/(deductions):			
Nonmandatory transfers for:			
Current allocated fund balance - net	(822,897)	435,477	(387,420)
Support to auxiliary enterprises	(2,123,417)	2,123,417	
Capital improvements	(776,477)		(776,477)
Allocated early retirement incentive plan	(23,663,660)	(724,534)	(24,388,194)
Allocated internal financing	23,469,630	720,118	24,189,748
Allocated sick leave			
Unrestricted to endowment (net)	(190,000)		(190,000)
Endowment to restricted (net)			
Unrestricted to plant	(115,544)		(115,544)
Restricted to plant			
Loans to restricted			
Endowment income transfer to other funds	205,942		205,942
Excess of restricted receipts over transfers to revenue			
Indirect costs recovered			
Refunded to grantors			
Net increase(decrease) in unallocated fund balance	\$ 0	\$ 750,114	\$ 750,114

See accompanying notes to financial statements.

EXHIBIT C

Educational and General	Restricted		Total Current Funds	
	Auxiliary Enterprises	Total Restricted	Unallocated	
			2001	2000
			\$ 98,883,719	\$ 93,186,751
			102,935,307	98,816,564
\$ 18,922,377	\$ 41,602	\$ 18,963,979	20,554,197	18,469,147
3,987,690		3,987,690	4,128,740	5,280,638
489,382		489,382	522,659	630,723
16,508,230	617,237	17,125,467	19,633,958	17,703,951
2,198,626	37,864	2,236,490	2,333,234	1,687,045
			40,173,727	36,842,350
			1,011,791	(701,924)
			4,069,266	3,808,385
<u>42,106,305</u>	<u>696,703</u>	<u>42,803,008</u>	<u>294,246,598</u>	<u>275,723,630</u>
3,628,484		3,628,484	101,090,995	99,046,592
11,911,536		11,911,536	16,192,902	14,316,082
5,847,109		5,847,109	10,597,667	9,824,645
1,495,598		1,495,598	29,164,111	28,527,696
253,664		253,664	12,625,269	12,064,098
2,416,284		2,416,284	31,973,618	28,880,291
31,663		31,663	18,701,375	18,686,856
16,330,373		16,330,373	32,954,961	30,782,383
			(126,189)	5,092,498
<u>41,914,711</u>	<u>0</u>	<u>41,914,711</u>	<u>253,174,709</u>	<u>247,221,141</u>
	696,703	696,703	32,206,047	29,297,236
191,594		191,594	6,566,611	4,477,152
			87,172	88,347
			0	0
<u>191,594</u>	<u>0</u>	<u>191,594</u>	<u>6,653,783</u>	<u>4,565,499</u>
<u>42,106,305</u>	<u>696,703</u>	<u>42,803,008</u>	<u>292,034,539</u>	<u>281,083,876</u>
(192,223)		(192,223)	(579,643)	7,293,690
			0	0
			(776,477)	(850,000)
			(24,388,194)	(1,130,939)
			24,189,748	0
			0	(165,308)
			(190,000)	(200,000)
4,950		4,950	4,950	0
			(115,544)	0
	(567,821)	(567,821)	(567,821)	0
60,156		60,156	60,156	0
1,688,559		1,688,559	1,894,501	1,610,864
5,077,168	963	5,078,131	5,078,131	4,958,422
(3,014,746)		(3,014,746)	(3,014,746)	(2,427,807)
(49,274)		(49,274)	(49,274)	0
<u>\$ 3,574,590</u>	<u>\$ (566,858)</u>	<u>\$ 3,007,732</u>	<u>\$ 3,757,846</u>	<u>\$ 3,728,676</u>

THE UNIVERSITY OF AKRON

Statement of Changes in Current Funds Allocated Fund Balances

Year ended June 30, 2001

	Balance July 1, 2000	Transfers from (to) Unallocated Fund Balance	Balance June 30, 2001
Akron Campus			
Educational and general:			
Reserve for changing enrollment	\$ 1,000,000		\$ 1,000,000
Reserve for unemployment compensation	200,000		200,000
Reserve for fire loss	100,000		100,000
Reserve for insurance liability	1,000,000		1,000,000
Campus reserve	1,000,000		1,000,000
Reserve for departmental carryover	11,351,048	\$ (2,597,476)	8,753,572
Reserve for departmental sales accounts carryover	1,258,372	275,807	1,534,179
Reserve for encumbrances	1,963,971	323,006	2,286,977
Reserve for capital component		1,948,259	1,948,259
Reserve for unrealized appreciation (depreciation) on investments	(1,166,093)	945,582	(220,511)
Subtotal	16,707,298	895,178	17,602,476
Early retirement incentive plan	(23,032,020)	23,032,020	
Internal financing		(23,469,630)	(23,469,630)
Total educational and general	(6,324,722)	457,568	(5,867,154)
Auxiliary enterprises:			
Reserve for subsequent year	680,239	(601,440)	78,799
Reserve for encumbrances	388,201	99,754	487,955
Reserve for unrealized appreciation (depreciation) on investments	(111,982)	66,209	(45,773)
Subtotal	956,458	(435,477)	520,981
Early retirement incentive plan	(724,534)	724,534	
Internal financing		(720,118)	(720,118)
Total auxiliary enterprises	231,924	(431,061)	(199,137)
Restricted:			
Reserve for unrealized appreciation (depreciation) on investments	(391,784)	192,223	(199,561)
Total restricted	(391,784)	192,223	(199,561)
Total Akron campus	\$ (6,484,582)	\$ 218,730	\$ (6,265,852)
Wayne College			
Educational and general:			
Reserve for changing enrollment	\$ 275,000	\$ 100,000	\$ 375,000
Reserve for contingency	50,000		50,000
Reserve for departmental carryover	465,921	65,353	531,274
Reserve for subsequent year	145,000		145,000
Reserve for encumbrances	154,637	156,690	311,327
Reserve for departmental sales accounts carryover	9,049	(19,384)	(10,335)
Reserve for early retirement incentive plan	375,000	(375,000)	
Subtotal	1,474,607	(72,341)	1,402,266
Early retirement incentive plan	(631,640)	631,640	
Total educational and general	842,967	559,299	1,402,266
Total Wayne College	\$ 842,967	\$ 559,299	\$ 1,402,266

See accompanying notes to financial statements.

THE UNIVERSITY OF AKRON

Statement of Changes in Auxiliary Enterprises Unrestricted
Unallocated Fund Balances

Year ended June 30, 2001
with comparative totals for year ended June 30, 2000

	Residence Halls	Gardner Student Center	Inter- collegiate Athletics	Parking Services
Revenues	\$ 6,069,989	\$ 1,235,483	\$ 7,864,057	\$ 3,786,105
Expenditures	4,510,819	1,356,757	8,322,630	1,827,759
Transfers among funds - additions (deductions):				
Mandatory:				
Principal and interest	(1,695,719)			(2,216,667)
Support from current unrestricted educational and general for debt service				
Nonmandatory:				
Current allocated fund balance	(83,338)	254,847	10,739	168,316
Support from (to) current unrestricted educational and general	700,000		433,869	
Early retirement incentive plan	(256,758)	(68,973)		
Internal financing	234,595	71,628		
Total transfers	(1,101,220)	257,502	444,608	(2,048,351)
Net increase (decrease) for the year	457,950	136,228	(13,965)	(90,005)
Unallocated fund balance at beginning of year	693,789	88,599	8,296	522,598
Prior period adjustments (note 2)			5,669	
Adjusted fund balance at beginning of year	693,789	88,599	13,965	522,598
Unallocated fund balance at end of year	\$ 1,151,739	\$ 224,827	\$ 0	\$ 432,593

See accompanying notes to financial statements.

Rubber Bowl	E.J. Thomas Performing Arts Hall	Telecom- munications	Dining Facilities	Akron Campus Subtotal	Wayne College Bookstore	Totals	
						2001	2000
\$ 100,569	\$ 4,353,369	\$ 2,950,496	\$ 6,908,359	\$ 33,268,427	\$ 619,546	\$ 33,887,973	\$ 30,461,253
401,155	4,800,787	2,800,224	6,934,007	30,954,138	555,206	31,509,344	28,782,773
	(274,838)	(30,769)		(4,217,993)		(4,217,993)	(4,041,298)
35,000				35,000		35,000	35,000
3,466	(24,195)	124,840	(19,198)	435,477		435,477	(63,929)
262,120	767,428			2,163,417	(40,000)	2,123,417	1,925,755
	(310,062)		(88,741)	(724,534)		(724,534)	(40,492)
	318,276		95,619	720,118		720,118	
300,586	476,609	94,071	(12,320)	(1,588,515)	(40,000)	(1,628,515)	(2,184,964)
0	29,191	244,343	(37,968)	725,774	24,340	750,114	(506,484)
0	110,280	105,922	75,557	1,605,041	472,644	2,077,685	2,589,838
				5,669		5,669	
0	110,280	105,922	75,557	1,610,710	472,644	2,083,354	2,589,838
<u>\$ 0</u>	<u>\$ 139,471</u>	<u>\$ 350,265</u>	<u>\$ 37,589</u>	<u>\$ 2,336,484</u>	<u>\$ 496,984</u>	<u>\$ 2,833,468</u>	<u>\$ 2,083,354</u>

THE UNIVERSITY OF AKRON

Notes to Financial Statements

June 30, 2001 and 2000

1. Summary of Significant Accounting and Reporting Policies

Organization

The University of Akron (The University) is a coeducational, degree granting state university and was established by the General Assembly of the State of Ohio 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*, The University's financial statements are included, as a discrete entity, on the State of Ohio's Consolidated Annual Financial Report.

Accrual and Fund Accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental colleges and universities as prescribed by the American Institute of Certified Public Accountants' Audit Guide. Under this accounting method, resources for various purposes are classified into funds in accordance with specified activities or objectives, with separate accounts maintained for each fund. For reporting purposes, funds with similar characteristics are combined in fund groups, and all financial transactions are recorded and reported by such fund groups, described as follows:

- **Current Funds** include all funds which are available for current operations. They consist of *unrestricted funds*, which are available for general operating purposes; *auxiliary enterprise funds*, which are available for the operation of various auxiliaries; and *restricted funds*, which are available for current operating purposes subject to donor and grantor restrictions. Restricted funds are recorded as revenues only to the extent that such funds were expended.
- **Loan funds** include resources available for loans to students. Loans granted are receivables of the fund until repaid, at which time the money becomes available for new loans.

The University of Akron

Notes to Financial Statements - Continued

1. Summary of Significant Accounting and Reporting Policies - Continued

- **Endowment and Similar Funds** include resources 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. All realized gains and losses on sales of investments in this fund group are treated as principal transactions.
- **Plant Funds** include unexpended funds which are to be used for the acquisition of properties, funds restricted or designated for retirement of indebtedness incurred in connection with the acquisition of properties, reserves for repairs and replacements, and The University's investment in institutional properties and related indebtedness.
- **Agency Funds** include amounts held in custody for University-related organizations and others.

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. The University does not invest in derivatives. The University records its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on investments are recorded in the statement of changes in allocated fund balances. The University has established allocated fund balances in which these unrealized gains and losses are recorded in order to segregate balances subject to market fluctuation.

Inventories

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

Interfund Activity

Interfund borrowings are recorded in each fund as due to/due from other funds.

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. 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.

Compensated Absences

Staff employees earn vacation at rates specified under State of Ohio 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. At June 30, 2001 and 2000, The University had 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) of \$3,539,025 and \$3,476,874, respectively.

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. At June 30, 2001 and 2000, the total current unrestricted accrued sick leave liability amounted to \$2,830,499 (\$2,725,950 educational and general and \$104,549 auxiliary enterprises) and \$2,773,372 (\$2,664,315 educational and general and \$109,057 auxiliary enterprises), respectively.

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 received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met.

The University of Akron

Notes to Financial Statements - Continued

1. Summary of Significant Accounting and Reporting Policies - Continued

Investments in Plant Assets

Investments in plant assets are recorded at cost or, if acquired by gift, at an appraised value at date of gift. Additions to plant fund assets are generally capitalized while replacements, repairs, and renovations are recorded as expenditures of current funds. In accordance with generally accepted accounting principles for state-assisted colleges and universities, The University's practice is not to provide for depreciation.

Deferred Income

Deferred income in the current unrestricted fund consists of prepaid student tuition and fees for summer sessions.

Accounting Standards

The GASB has issued Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. GASB Statement No. 35 establishes comprehensive financial reporting standards including the basis financial statements and required supplementary information for public colleges and universities within the financial reporting guideline of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Application of this standard is required for fiscal 2002. GASB Statement No. 35 is expected to have a significant impact on financial reporting but no impact on the results or historical financial position of The University. The impact on future operating results as a result of adopting GASB Statement No. 35 has not been determined.

2. Adjustments

The University adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which establishes accounting and financial standards for nonexchange transactions involving financial or capital resources and clarifies when these transactions should be recognized. The implementation of this Statement, recorded as a retroactive restatement, increased the July 1, 2000 unallocated fund balances of certain fund groups, as previously reported, by \$1,193,538 as follows:

Unrestricted current funds, auxiliary enterprises	\$	5,669
Restricted current funds		543,396
Plant funds, unexpended		64,336
Plant funds, investment in plant		<u>580,136</u>
Total	\$	<u>1,193,538</u>

The impact of adoption of GASB Statement No. 33 in fiscal years prior to 2000 was considered immaterial.

The University of Akron

Notes to Financial Statements - Continued

3. Cash and Investments

Cash

At June 30, 2001 and 2000, the carrying amounts of The University's bank deposits and interest bearing cash equivalents for all funds were \$18,234 and \$26,639 as compared to bank balances of \$959,426 and \$2,170,607, respectively. The differences between carrying amounts and bank balances were caused by items in-transit. Of the June 30, 2001 and 2000 bank balances, \$286,046 and \$235,902, respectively, were covered by federal deposit insurance; \$673,380 and \$1,934,705, respectively, were uninsured but collateralized with securities held by the Federal Reserve Bank of Cleveland in the depository bank's and The University's name.

The University pools its operating cash for investment purposes. All investment income for these pooled items is credited to the current unrestricted educational and general fund.

Investments

In accordance with the *Policies of the Board of Trustees of The University*, the types of investments which may be purchased by The University 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 acceptance 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 University pools certain of its investments for investment purposes. All investment income for these pooled items is credited to the current unrestricted educational and general fund. The fair value of investments represents published market quotations.

	2001		2000	
	Cost	Fair Value	Cost	Fair Value
Current, loan, endowment, plant, and agency funds:				
Repurchase agreement	\$ 2,787,000	\$ 2,787,000	\$ 1,555,000	\$ 1,555,000
STAR Ohio	1,800,900	1,800,900	1,004,400	1,004,400
The Commonfund:				
Operating Fund	1,824,511	1,824,511	3,266,727	3,266,727
Intermediate Fund	17,735,941	17,305,237	31,067,286	29,636,192
Bond Fund	14,256,719	14,188,572	22,893,119	22,485,839
Total	<u>38,405,071</u>	<u>37,906,220</u>	<u>59,786,532</u>	<u>57,948,158</u>

The University of Akron

Notes to Financial Statements - Continued

3. Cash and Investments - Continued

The Commonfund (The Fund) is a nonprofit membership corporation which provides investment management services for its Member colleges, universities and independent schools and offers a series of pooled investment funds. The Fund invests in funds with off balance sheet risk strategies. The University does not have available information to determine their exposure to credit, market or legal risk. State Treasurer Asset Reserve Fund (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, 2001. The deposits held in The Commonfund and STAR Ohio are not classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The book value of these funds was \$63,221,000 and \$85,665,356 at June 30, 2001 and 2000, respectively. The fair value of these funds was \$66,931,951 and \$89,363,683 at June 30, 2001 and 2000, respectively. The cash surrender value of life insurance also is not classified by risk category and both its book and fair value were \$108,102 and \$103,858 at June 30, 2001 and 2000, respectively.

4. Receivables

Accounts Receivable at June 30, 2001 and 2000, consisted of the following:

	2001		2000	
	Unrestricted	Restricted	Unrestricted	Restricted
Current funds:				
Federal, state, local and other governments, foundations and companies, net of allowance for unrestricted doubtful accounts of \$804,309 and \$745,045, respectively	\$2,713,736	\$7,339,497	\$2,720,228	\$6,814,919
Student receivables, net of Allowance for doubtful accounts of \$2,521,378 and \$2,407,886, respectively	3,458,440		2,378,587	
Other, net of allowance for doubtful accounts of \$209,408 and \$191,178, respectively	708,838		1,022,132	
Plant funds, unexpended	912,010			
Agency funds	1,228,414			
Total	<u>\$9,021,438</u>	<u>\$7,339,497</u>	<u>\$6,120,947</u>	<u>\$6,814,919</u>

The University of Akron

Notes to Financial Statements - Continued

4. Receivables - Continued

Unconditional promises to give recorded as pledges receivable at June 30, 2001 and 2000 were as follows:

	<u>2001</u>	<u>2000</u>
Unrestricted current funds:		
Educational and general	\$ 1,808	
Auxiliary enterprises	11,830	\$ 6,652
Restricted current funds	1,164,092	630,166
Endowment and similar funds	5,000,000	
Plant funds, unexpended		75,000
Agency funds	<u>11,000</u>	
	6,188,730	711,818
Less—amount estimated to be uncollectible	97,676	68,155
Less—unamortized discount	<u>370,811</u>	<u>30,262</u>
Total pledges receivable, net	<u>\$ 5,720,243</u>	<u>\$ 613,401</u>

As of June 30, 2001, the University has approximately \$2,347,000 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. These pledges are not accrued as pledges receivable because they do not represent unconditional promises to give. It is not practicable to estimate the ultimate realizable value of these pledges or the period over which they might be collected.

5. Debt

Debt at June 30, 2001 and 2000, consisted of the following:

	<u>2001</u>	<u>2000</u>
Note payable:		
Note payable, interest free, due through May 1, 2001		<u>\$ 30,358</u>
Bonds payable:		
General receipts bonds - Series 1997A, 3.65% to 6.0%, due serially through 2022	\$ 30,005,000	\$ 31,280,000
General receipts bonds - Series 1999, 5.895%, due serially through 2029	130,985,000	131,320,000
Capital improvements, 5.668% to 7%, due through 2003	<u>163,092</u>	<u>249,510</u>
Total bonds payable	<u>\$ 161,153,092</u>	<u>\$ 162,849,510</u>

The general receipts bonds, Series 1997A and Series 1999, will be 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

5. Debt - Continued

The aggregate annual principal maturities for fiscal years subsequent to June 30, 2001 are as follows:

Fiscal year:	Bonds
2002	\$ 1,696,728
2003	2,896,728
2004	4,064,818
2005	4,254,818
2006	4,465,000
2007 and thereafter	<u>143,775,000</u>
	<u>\$ 161,153,092</u>

During fiscal year 1999, The University began construction on several campus-wide projects associated with the General Receipts Bonds, Series 1999. Interest expense, net of interest income, related to the borrowings was capitalized as part of the cost of construction. At June 30, 2001 and 2000, interest on borrowings was \$7,274,414 and \$6,067,734, respectively and earnings on the construction funds were \$5,574,587 and \$5,867,131, respectively resulting in of capitalized interest of \$1,699,827 and \$200,603, 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, 2001, \$8,530,000 of bonds and COP's outstanding are considered defeased.

6. Leases

The University leases certain office facilities and computer and duplicating equipment under operating leases (see Note 9). Total rental expense under operating leases during the years ended June 30, 2001 and 2000, amounted to \$1,288,878 and \$2,324,763, respectively. Included in the operating expense were month-to-month rentals amounting to \$1,288,878 and \$2,306,413 in fiscal year 2001 and 2000, respectively.

The University's capital leased assets consist of dormitory and educational facilities and computer, duplicating, telecommunications, and other equipment (see Note 10). Capital leased assets by major classes at June 30, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Land	\$ 207,620	\$ 345,732
Building	4,079,746	5,104,746
Movable equipment	<u>6,468,296</u>	<u>2,599,669</u>
	<u>\$ 10,755,662</u>	<u>\$ 8,050,147</u>

The University of Akron

Notes to Financial Statements - Continued

6. Leases - Continued

Future minimum lease payments as of June 30, 2001 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:	Capital Leases
2002	\$ 5,401,174
2003	1,678,691
2004	904,598
2005	99,576
2006	25,385
Total minimum lease payments	\$ 8,109,424
Less amount representing interest	495,082
Present value of net minimum capital lease payments	\$ 7,614,342

The University is lessor under an agreement whereby its bookstore facilities and operations have been leased to an outside bookstore operator through December 2002. The lease provides for annual rentals ranging from \$600,000 to \$700,000 and contingent rentals based upon gross sales. There were no such contingent rentals earned in 2001 or 2000.

The University also received rental payments of approximately \$242,000 and \$240,000 in 2001 and 2000, respectively, from the rental of various other campus facilities under the terms of operating lease agreements, including contingent rentals of approximately \$19,000 in both 2001 and 2000.

7. State Support

The University is a state-assisted institution of higher education which receives a student-based subsidy from the State of Ohio (State). This subsidy is determined annually based upon a formula devised by the State.

In addition to the student subsidies, the State provides the funding for and constructs major academic plant facilities, except for auxiliary enterprises, on The University campus. Funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn results in the construction and subsequent transfer of the facility to The University by the Ohio Board of Regents. Costs incurred during construction are included in construction in progress. Upon completion of a facility, the Board of Regents turns control over to The University.

The University of Akron

Notes to Financial Statements - Continued

7. State Support - Continued

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 on The University's balance sheet. In addition, the 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.

The Capital Component not reflected on the University's balance sheet to be received and recorded when appropriated by the State of Ohio is as follows by fiscal year:

Fiscal Year:	Capital Component
2002	\$ 1,948,259
2003	1,948,259
2004	1,948,259
2005	1,948,259
2006	1,948,259
2007 and thereafter	<u>13,229,484</u>
Total	<u>\$ 22,970,779</u>

The University intends to use this Capital Component toward funding the debt service obligation of the Series 1999 Bond Issue.

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, 45 North Fourth Street, Columbus, Ohio 43215. The ORC provides statutory authority for employee and employer contributions. The employee contribution rates for STRS and SERS are 9.3% and 9%, respectively, 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, 2001, 2000, and 1999 were \$8,733,237, \$9,198,244, and \$9,984,006, and \$5,345,395, \$5,031,535, and \$4,777,242, respectively, equal to the required contributions for each year.

Early Retirement Incentive Plan

On December 2, 1992, the Board of Trustees approved an Early Retirement Incentive Program to be effective July 1, 1993, which permits The University to purchase up to five years of additional service credit toward retirement for faculty and staff who meet certain state eligibility requirements. Additional flexibility allowed for three open enrollment periods during fiscal years 1993-94, 1995-96, and 1997-98. On September 25, 1996, a fourth open enrollment period was approved for fiscal year 1999-2001. This plan is available for both STRS and SERS members. The University's total costs associated with this plan amounted to \$55,960,295 (\$54,380,325 to the current unrestricted fund and \$1,579,970 to the auxiliary enterprises fund).

During fiscal year 2001, The University's Board of Trustees approved a payoff of the outstanding liability from available current fund cash management reserves to realize interest savings. Along with this payoff, the Board of Trustees established an internal commitment to systematical repay these funds over the next ten years. At June 30, 2001, the total Early Retirement Incentive Program payoff balance, subject to the internal commitment, was \$24,189,748 (\$23,469,630 to the current unrestricted fund and \$720,118 to the auxiliary enterprises fund). The University has established allocated fund balances in which these commitments are recorded in order to segregate these amounts.

The University of Akron

Notes to Financial Statements - Continued

8. Employee Benefit Plans - Continued

The aggregate minimum annual payments required to retire the internal commitment for fiscal years subsequent to June 30, 2001 are as follows:

Fiscal Year:	Current Unrestricted	Auxiliary Enterprises	Total
2002	\$ 2,851,423	\$ 87,490	\$ 2,938,913
2003	2,851,423	87,490	2,938,913
2004	2,851,423	87,490	2,938,913
2005	2,851,423	87,490	2,938,913
2006	2,851,423	87,490	2,938,913
2007 and thereafter	14,257,116	437,451	14,694,567
Total minimum payments	28,514,231	874,901	29,389,132
Less amount representing interest	5,044,601	154,783	5,199,384
Total minimum principal payments	<u>\$ 23,469,630</u>	<u>\$ 720,118</u>	<u>\$ 24,189,748</u>

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. For 2001 and 2000, the cost of dependent health care and retiree life insurance benefits, recognized as expense when claims and premiums were paid, totaled \$903,977 and \$835,229, respectively.

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, 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. Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions equal to 4.5% 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 \$3.419 billion at June 30, 2000. For the year ended June 30, 2000, the net health care costs paid by STRS were \$283,137,000 and there were 99,011 eligible benefit recipients.

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 contribution is allocated to providing health care benefits. At June 30, 2000, the most recent data available, the allocation rate is 8.45%. 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 fiscal 2000, the minimum pay has been established as \$12,400. 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, 2000 were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits were \$252.3 million. The number of participants currently receiving health care benefits is approximately 50,000.

Alternative Retirement Plan

In 1997, the State approved an Alternative Retirement Plan (ARP) for full-time academic and administrative employees which allows new employees and those with less than five years of service to opt out of STRS and SERS and contribute to one of the ARPs formed as Section 401(a) defined contribution plans. The legislation required employees to contribute at the same rates as stated above, while the employer continued to contribute 5.76% to STRS and 3.10% to SERS. Contributions to the ARPs are 7.74% for STRS ARP members and 10.40% for SERS ARP members. The University holds one-half of one percent for administrative expenses. The employer contribution rate is based on independent actuarial studies. ARP participant earnings for the year ending June 30, 2001 were \$10,351,960. 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 all pending litigation will not have a material adverse effect on the financial statements of The University.

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 deductible 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 limit.

The University of Akron

Notes to Financial Statements - Continued

9. Litigation, Commitments, and Contingencies - Continued

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 any additional audit work necessary to carry out their responsibilities under federal law or regulations and may arrange for funding the cost of such additional audits. 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 to the grantor agency for expenditures disallowed under the terms of the grant. No significant costs have been questioned to date, and any disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

The University has been appropriated approximately \$23,600,000 of funds from the State of Ohio for building and renovation, of which approximately \$9,100,000 has been expended as of June 30, 2001. In addition, several University-funded construction projects will cost an estimated \$81,485,000 to complete as of June 30, 2001. These projects will be funded by using previously borrowed funds and gifts from outside donors.

10. Related Party Transactions

The University of Akron Foundation (the Foundation) is a legally separate nonprofit organization, exempt from federal income tax, formed in 1967 to assist in developing and increasing the facilities of The University. The Foundation maintains a self-appointing board of trustees. Management has determined that the Foundation is not a component unit of The University as defined by GASB Statement No. 14. Certain services were performed by The University for the Foundation for which an administrative fee of \$500,000 was charged in both fiscal years 2001 and 2000. The Foundation's financial activity is not included in The University's financial statements. During the years ended June 30, 2001 and 2000, the Foundation distributed \$8,982,054 and \$6,806,618, respectively, to The University, and the balance of earnings was reinvested for future development of The University.

The University had assets under capital lease agreements with the Foundation aggregating \$715,000 and \$853,112 at June 30, 2001 and 2000, with remaining lease obligations of \$94,929 and \$172,710, respectively. Rental payments by The University to the Foundation under the terms of an operating lease agreement for fiscal years 2001 and 2000 were \$0 and \$18,350, respectively (see Note 6).

At June 30, 2001 and 2000, The University had receivables representing scholarships and other fund transfers of \$443,253 and \$124,877, respectively, from the Foundation.

The University of Akron

Notes to Financial Statements - Continued

10. Related Party Transactions - Continued

Summary financial information of the Foundation at June 30, 2001 is as follows:

	Net Assets	Revenues, net	Expenditures Exclusive of Distributions
Unrestricted	\$ 8,608,200	\$ 10,072,154	\$ 1,132,678
Temporarily restricted	54,964,324	(35,420,474)	111,019
Permanently restricted	60,481,523	(3,257,712)	(111,019)
	<u>\$ 124,054,047</u>	<u>\$ (28,606,032)</u>	<u>\$ 1,132,678</u>

The Foundation's investments had a book value of \$122,643,952 and a market value of \$127,793,265 at June 30, 2001. Due to unrealized losses on the Foundation's investments, revenues are reported as a negative amount in the audited statements.

11. Subsequent Event (unaudited)

As of September 21, 2001, the book value of The University's investments are \$197.8 million and the fair value of these investments are \$188.4 million. The University has the ability and intent to hold investment assets and continues to evaluate whether unrealized losses are temporary. Decline in investment values considered to be other than temporary will be accounted for in the same manner as realized losses.