

**DRAFT**

## Report of Independent Auditors

Board of Trustees  
The University of Akron

We have audited the accompanying statement of net assets of The University of Akron, a component unit of the State of Ohio, as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides 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, 2002 and the changes in its net assets and cash flow for the year ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the accompanying financial statements, The University of Akron implemented a new financial reporting model as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as of July 1, 2001.

Management's discussion and analysis on pages 2-10 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2002 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.

October 18, 2002

# **The University of Akron**

## Management's Discussion and Analysis

### June 30, 2002

This section of The University of Akron's (The University) annual financial report presents management's discussion and analysis of the financial performance of The University during the fiscal year ended June 30, 2002. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and current known facts. Since this is a transition year for this format, only one year of financial data is presented. In future years a comparative analysis will be presented. The financial statements, footnotes, and this discussion are the responsibility of The University's management.

#### **Using the Annual Financial Report**

This annual report consists of a series of 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 Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from those presented in prior years. The financial statements presented in prior years focused on the accountability of fund groups, while these statements focus on the financial condition of The University, the results of operations, and cash flows of The University as a whole. Major reconciling items to those financial statements were reclassifications of operating and nonoperating revenues, depreciation of capital assets, and reclassifying federal student loan fund balances to liabilities.

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of The University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

**The University of Akron**  
 Management's Discussion and Analysis – Continued  
 June 30, 2002

**Statement of Net Assets**

Assets:	
Current assets	\$ 140,756,355
Restricted current assets	17,325,158
Noncurrent assets:	
Capital	373,549,510
Other	<u>59,323,472</u>
Total assets	590,954,495
Liabilities:	
Current liabilities	84,198,129
Noncurrent liabilities	<u>178,394,527</u>
Total liabilities	262,592,656
Net assets:	
Invested in capital assets, net of related debt	255,084,475
Restricted:	
Nonexpendable	34,305,891
Expendable	24,887,731
Unrestricted	<u>14,083,742</u>
Total net assets	<u>\$ 328,361,839</u>

**Current assets**

Cash and cash equivalents consist of cash in The University's bank accounts and short-term investments with purchased maturities of less than ninety days. Pooled investments are investments in cash equivalents of operating funds held by investment managers. Investments held in trust by others are outstanding balances of the bond and note borrowings yet to be expended. All investments are recorded at fair value.

Receivables relate to several transactions including student tuition and fee billings, third party and outside vendor receivables, grant awards, and auxiliary enterprise sales, such as dining service, intercollegiate athletics, parking, and residence halls. In addition, receivables arise from pledges and unconditional promises to give and financial aid loans which will be received during the next fiscal year. The receivables are net of allowances for doubtful accounts.

Inventories include resale merchandise as well as items for internal consumption. Food, books, and student supplies are the majority of the resale inventory. Inventories maintained for internal departmental use consist of office supplies, fuel, and maintenance supplies.

Other assets include prepaid expenses which are costs that relate to activities applicable to future periods such as expenses relating to summer sessions and insurance. Deferred charges are primarily unamortized deferred bond issuance costs.

**The University of Akron**  
Management's Discussion and Analysis – Continued  
June 30, 2002

**Noncurrent assets**

Endowment investments include marketable securities relating to the endowment net assets. These investments are recorded at fair value. The investments are managed and held by investment managers.

Student notes receivable relate primarily to student loans from the Federal Perkins Loan (FPL) program. As FPL collections occur, the funds become available to be loaned to new students.

Capital assets consist of land, land improvements, buildings, infrastructure, equipment, furniture and books, historical collections, and construction in progress and are reported net of accumulated depreciation.

**Current liabilities**

Accounts payable and accrued liabilities represent amounts due at June 30, 2002 for goods and services, payroll, and withholding taxes incurred prior to the end of the fiscal year.

Deferred revenue represents payments received for services, goods, tuition and fees, or room and board relating to a future period. Examples are summer tuition, fees, and room and board, orientation fees, and awarded grants which have not been expended.

Deposits represent assets belonging to an individual or organization for which The University acts as custodian. An example is the various campus student clubs and organizations.

Current portion of long-term liabilities represents the portion of The University's long-term debt, capital lease obligations, and accrued sick leave payable within the next fiscal year.

**Noncurrent liabilities**

Refundable federal student loans are the outstanding balances of the FPL and Nursing Loan programs as of June 30, 2002.

Long-term liabilities consist of bonds, capital lease obligations, and accrued sick leave for which the principal is due more than one year from the statement of net assets date.

**The University of Akron**  
Management's Discussion and Analysis – Continued  
June 30, 2002

**Net assets**

Net assets represent the difference between The University's assets and liabilities and consist of net assets invested in capital assets, net of related debt, nonexpendable and expendable restricted net assets, and unrestricted net assets.

Restricted nonexpendable net assets consist of endowment gifts with specific restrictions on spending the income on the principal given. Restricted expendable net assets consist of grants from third party agencies with expenditure restrictions, capital project balances, and certain University loan funds.

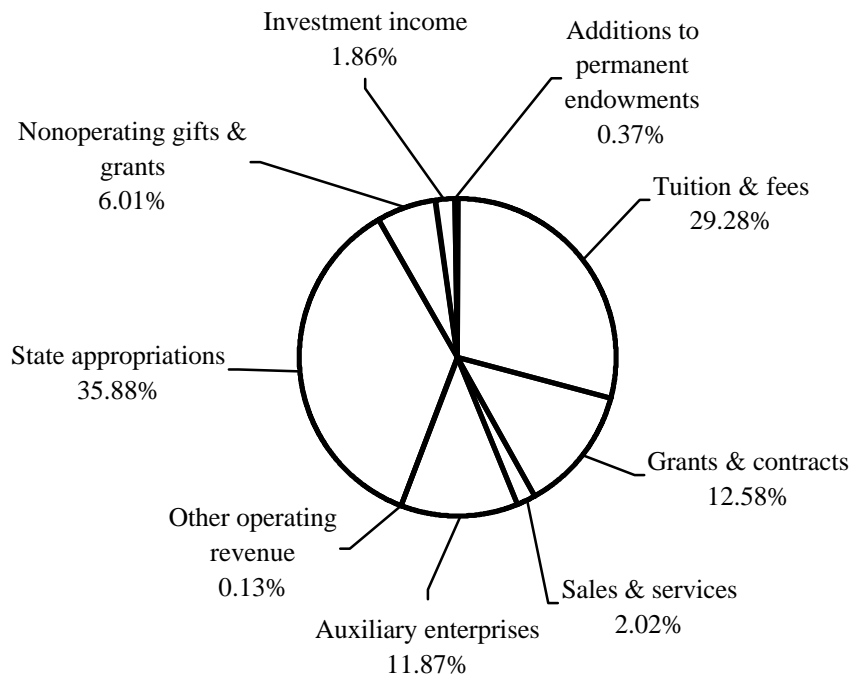
Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to The University such as donors or grant agencies. This includes funds that have been reserved by The University for specific purposes as well as amounts that have been contractually committed for goods and services, which have not yet been received. Also included are normal working capital balances maintained for departmental and auxiliary enterprise activities.

**Statement of Revenues, Expenses and Changes in Net Assets**

Operating revenues:	
Tuition and fees	\$ 91,760,923
Grants and contracts	39,424,034
Sales and services	6,326,188
Auxiliary enterprises	37,195,417
Other operating revenues	396,550
Total operating revenues	<u>175,103,112</u>
Total operating expenses	<u>287,074,077</u>
Operating loss	<u>(111,970,965)</u>
Nonoperating revenues (expenses)	
State appropriations	99,493,258
Other nonoperating revenues, net	(622,074)
Net nonoperating revenues	<u>98,871,184</u>
Loss before other changes	<u>(13,099,781)</u>
Other changes:	
Capital appropriations	12,957,033
Capital gifts and grants	7,780,482
Additions to permanent endowments	1,161,216
Total other changes	<u>21,898,731</u>
Increase in net assets	8,798,950
Net assets:	
Net assets - beginning of year as restated	<u>319,562,889</u>
Net assets - end of year	<u>\$ 328,361,839</u>

**The University of Akron**  
Management's Discussion and Analysis – Continued  
June 30, 2002

**Total revenues**



**Operating revenues**

Tuition and fees includes all tuition and fees for educational purposes and is recorded net of tuition discount.

Grants and contracts includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded as operating revenue only to the extent that the funds have been expended for exchange transactions. Nonexchange revenues are recorded when received, or when eligibility criteria have been met and are recorded as nonoperating revenue.

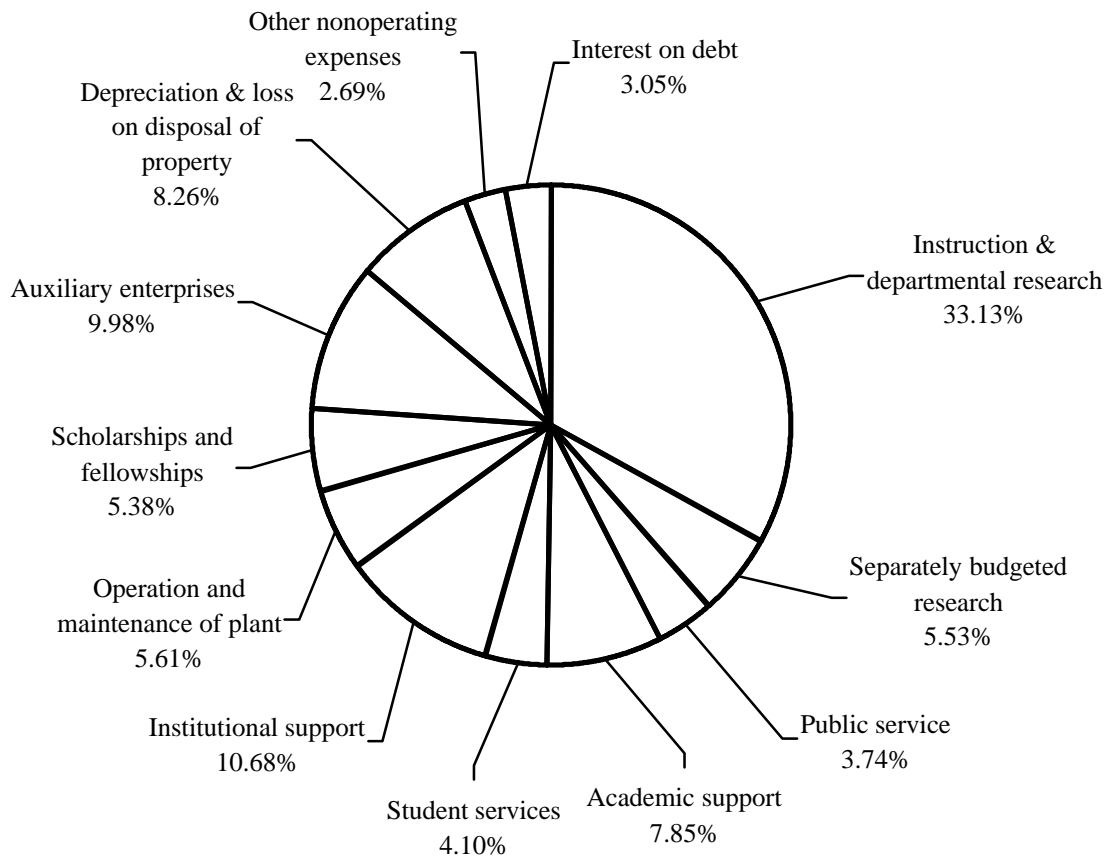
Sales and services consist of revenues from educational activities which incidentally create goods or services that may be sold to students, faculty, staff, and the general public.

Auxiliary enterprises consist of various enterprise entities that exist predominantly to furnish goods or services to students, faculty, staff or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting. Auxiliary enterprises include: residence halls, Gardner Student Center, intercollegiate athletics, parking services, Rubber Bowl, E.J. Thomas Performing Arts Hall, telecommunications, dining facilities, and Wayne College bookstore.

Other operating revenue includes rentals, commissions, and rebates.

**The University of Akron**  
 Management's Discussion and Analysis – Continued  
 June 30, 2002

**Total expenses**



**Operating expenses**

Operating expenses by function were as follows:

Instruction and departmental research	\$ 100,917,051
Separately budgeted research	16,834,068
Public service	11,393,889
Academic support	23,911,356
Student services	12,496,870
Institutional support	32,533,518
Operation and maintenance of plant	17,076,295
Scholarships and fellowships	16,379,183
Auxiliary enterprises	30,383,791
Depreciation	23,268,823
Loss on disposal of property	1,879,233
<b>Total operating expenses</b>	<b><u>\$ 287,074,077</u></b>

**The University of Akron**  
Management's Discussion and Analysis – Continued  
June 30, 2002

**Nonoperating revenues (expenses)**

Nonoperating revenue is comprised primarily of State of Ohio (the State) appropriations for higher education funding. The University received appropriated funds for operations, research, and for capital.

Gifts includes amounts given to The University from nongovernmental organizations and individuals.

Investment income includes interest income, net of related expenses, from pooled cash and investments and the unrealized gains and losses on those investments.

Interest on debt includes the interest incurred during the fiscal year on all debt and capital leases outstanding less capitalized interest.

Other nonoperating revenues (expenses) consist of other administrative costs and refunds not related to The University's operating activity.

**Other changes**

State capital appropriations consist of receipts from the State for capital component funding, which is used to make debt principal payments.

Capital grants and gifts consist of gifts and pledges made to The University from nongovernmental organizations and individuals for capital projects.

Additions to permanent endowments consist of gifts received by The University where the donor has specified that only the investment earnings from such gift can be expended for the purpose designated by the donor. The principal cannot be expended.

**The University of Akron**  
Management's Discussion and Analysis – Continued  
June 30, 2002

**Statement of Cash Flows**

Cash and cash equivalents provided (used) by:	
Operating activities	\$ (89,817,319)
Noncapital financing activities	111,619,762
Capital financing activities	(42,184,597)
Investing activities	<u>20,533,744</u>
Net increase in cash	151,590
Cash and cash equivalents – beginning of the year	<u>125,670</u>
Cash and cash equivalents – end of the year	<u>\$ 277,260</u>

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

The Statement of Cash Flows has five parts. The first part is operating cash flows, which presents the net cash used in operating activities. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities including the cash used for capital acquisition and construction. The fourth section reflects the cash flows from investing and shows the purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash to operating income or loss reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

Major sources of cash included student tuition and fees, state appropriations, auxiliary activities, and grants and contracts. The largest payments were for suppliers, employees, and purchases of capital assets.

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

The University utilizes State capital appropriations, internal funds, and gifts and other grants for capital asset expenditures. State capital appropriations are on a biennium basis and individual institutions capital funding allocations are based largely on enrollment. During 2002, The University received \$15.0 million in State capital appropriations and \$7.8 million in grants and gifts for purchases of capital assets.

The University's long-term debt is comprised of its bond anticipation notes, general receipts bonds and capital lease obligations. During 2002, The University issued \$5.2 million in new capital lease obligations and paid \$1.7 million in connection with debt maturities and \$3.5 million on capital lease obligations.

**The University of Akron**  
Management's Discussion and Analysis – Continued  
June 30, 2002

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

The current portion of long-term debt increased this year when The University issued \$20 million bond anticipation notes (BANs) to fund campus capital improvements. The University will issue additional long-term general receipts debt in the Spring of 2003 when the BANs mature. The bond issue of approximately \$40 million will cover the maturing BANs; the Fieldhouse/Golf Practice Facility; a portion of the Guzzetta Hall addition and several other small projects. Declaration of Official Intent documents have been executed for each project.

More detailed information about The University's capital assets and long-term debt and capital lease obligations is presented in Notes 6 and 8, respectively, of the financial statements.

**Factors Impacting Future Periods**

The level of State support, compensation increases, student tuition and fee increases, energy, and healthcare cost increases impact The University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. State appropriations contributes the largest percent of general operations revenue not including grant, contracts and auxiliary revenues. The level of State support is therefore one of the key factors influencing The University's financial condition.

# The University of Akron

## Statement of Net Assets

June 30, 2002

### ASSETS

#### Current assets:

Cash and cash equivalents (note 3)	\$ 145,070
Pooled investments (note 3)	20,610,962
Investments held in trust by others (note 3)	81,857,422
Accounts receivable, net (note 4)	23,278,550
Pledges receivable, net (note 5)	2,945,566
Student notes receivable, net (note 4)	1,476,626
Accrued interest receivable	622
Inventories	1,115,354
Prepaid expenses and deferred charges	9,326,183

Total current assets 140,756,355

#### Restricted current assets:

Cash and cash equivalents (note 3)	132,190
Pooled investments (note 3)	17,192,968

Total restricted current assets 17,325,158

#### Noncurrent assets:

Endowment investments (note 3)	44,575,814
Pledges receivable, net (note 5)	5,836,883
Student notes receivable, net (note 4)	8,910,775
Capital assets, net (note 6)	373,549,510

Total assets 590,954,495

### LIABILITIES

#### Current liabilities:

Accounts payable	10,730,536
Accrued liabilities	12,130,384
Accrued interest payable	4,376,853
Deferred revenue	28,642,279
Deposits	1,517,981
Workers' compensation liability (note 7)	299,792
Long-term liabilities (note 8)	26,500,304

Total current liabilities 84,198,129

#### Noncurrent liabilities:

Refundable federal student loans	10,694,446
Workers' compensation liability (note 7)	2,335,828
Long-term liabilities (note 8)	165,364,253

Total liabilities 262,592,656

### NET ASSETS

Invested in capital assets, net of related debt 255,084,475

#### Restricted:

##### Nonexpendable:

Endowment 34,305,891

##### Expendable:

Current operations 16,064,578

Loans 792,313

Capital projects 7,999,383

Debt service 31,457

Unrestricted (note 10) 14,083,742

Total net assets \$ 328,361,839

# The University of Akron

## Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended June 30, 2002

### REVENUES

#### Operating revenues:

Student tuition and fees (net of scholarship allowance of \$25,540,205)	\$ 91,760,923
Federal grants and contracts	25,320,218
State grants and contracts	2,894,132
Local grants and contracts	434,940
Private grants and contracts	10,774,744
Sales and services	6,326,188
Auxiliary enterprises	37,195,417
Other sources	<u>396,550</u>
Total operating revenues	175,103,112

### EXPENSES

#### Operating expenses:

##### Educational and general:

Instruction and departmental research	100,917,051
Separately budgeted research	16,834,068
Public service	11,393,889
Academic support	23,911,356
Student services	12,496,870
Institutional support	32,533,518
Operation and maintenance of plant	17,076,295
Scholarships and fellowships	16,379,183
Auxiliary enterprises	30,383,791
Depreciation	23,268,823
Loss on disposal of property	<u>1,879,233</u>

Total operating expenses 287,074,077

Operating loss (111,970,965)

### NONOPERATING REVENUES (EXPENSES)

State appropriations	99,493,258
Gifts and grants	11,069,277
Investment income (net of investment expense of \$1,999,684)	5,823,469
Unrealized depreciation on investments, net	(8,048,208)
Interest on debt	(9,289,824)
Other nonoperating revenues (expenses)	<u>(176,788)</u>

Net nonoperating revenues 98,871,184

Loss before other changes (13,099,781)

### OTHER CHANGES

State capital appropriations	12,957,033
Capital gifts and grants	7,780,482
Additions to permanent endowments	<u>1,161,216</u>

Total other changes 21,898,731

Increase in net assets 8,798,950

### NET ASSETS

Net assets - beginning of year as restated (note 2)	<u>319,562,889</u>
Net assets - end of year	<u>\$ 328,361,839</u>

# The University of Akron

## Statement of Cash Flows

June 30, 2002

### CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 89,497,719
Grants and contracts	39,369,563
Auxiliary enterprises	36,542,924
Sales and service of educational activities	6,326,188
Payments to suppliers	(71,415,335)
Payments for compensation and benefits	(177,251,786)
Payments for scholarships and fellowships	(10,800,845)
Loans issued to students	(1,960,240)
Collection of loans to students	1,512,094
Other payments	<u>(1,637,601)</u>
Net cash used by operating activities	(89,817,319)

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	99,493,258
Gifts for other than capital purposes	10,820,782
Private gifts for endowment purposes	<u>1,305,722</u>
Net cash provided by noncapital financing activities	111,619,762

### CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Proceeds from capital debt	20,088,800
Capital appropriations	12,957,033
Capital grants and gifts received	4,934,431
Purchases of capital assets	(65,248,928)
Principal paid on capital debt and leases	(5,665,316)
Interest paid on capital debt and leases	<u>(9,250,617)</u>
Net cash used by capital financing activities	(42,184,597)

### CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	684,017,455
Interest on investments	4,909,570
Purchase of investments	<u>(668,393,281)</u>
Net cash provided by investing activities	<u>20,533,744</u>

Net increase in cash	151,590
Cash and cash equivalents - beginning of the year	<u>125,670</u>
Cash and cash equivalents - end of the year	<u><u>\$ 277,260</u></u>

(continued)

# The University of Akron

## Statement of Cash Flows

June 30, 2002

### RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (111,970,965)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	23,268,823
Loss on disposal of property	1,879,233
Changes in assets and liabilities:	
Accounts receivable, net	(8,648,780)
Student notes receivable, net	(448,146)
Inventories	78,411
Prepaid expenses and deferred charges	(2,900,200)
Accounts payable	114,058
Accrued liabilities	911,734
Deferred revenue	5,523,593
Deposits held for others	914,148
Sick leave liability	253,536
Refundable federal student loans	326,366
State share of workers' compensation liability	880,870
Net cash used in operating activities	<u>\$ (89,817,319)</u>

# The University of Akron

Notes to Financial Statements

June 30, 2002

## 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 (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*, The University's financial statements are included, as a discrete entity, in 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.

### 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 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 service 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 University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

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

**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.

**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 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.

**Capital Assets**

Capital assets greater than \$1,500 are recorded at cost or, if acquired by gift, at an appraised value at 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 and is not allocated to the functional expenditure categories. When capital assets are sold, or otherwise disposed of, the carrying value of such assets and any accumulated depreciation are removed from asset accounts and investment in capital assets. 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.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

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

Estimated useful lives are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Land Improvements	25 years
Buildings	40 years
Infrastructure	20 years
Equipment	5 to 15 years
Library Books	10 years

**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.

**Deferred Tuition and Fees Revenue**

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

**Compensated Absences**

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

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.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

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

**Scholarship Allowances and Student Aid**

Financial aid to students is reported in the financial statements 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 in the financial statements 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, scholarships 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.

**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 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.

**Endowment and Similar Funds**

The University's Board of Trustees has 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.

**Accounting Standards**

The GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB Statement No. 39 establishes criteria to determine if organizations that are legally separate, tax-exempt entities should be discretely presented as component units. Application of this standard is required for fiscal 2004. The impact of GASB Statement No. 39 on financial reporting and the results of financial position has not been determined.

# The University of Akron

Notes to Financial Statements – Continued

June 30, 2002

## 2. GASB Statements No. 34 and 35

In fiscal year 2002, The University adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public College and Universities* effective July 1, 2001. The University follows the "business-type" activities, which provides for the following components of The University's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements including a Statement of Net Assets, Statement of Revenues, Expenditures and Changes in Net Assets, and Statement of Cash Flows, for The University as a whole
- Notes to the Financial Statements

GASB Statements No. 34 and No. 35 also require capitalization of assets and recording of depreciation, elimination of internal revenue and expense charges, recording revenue net of discounts and allowances, the required allocation of the State workers' compensation liability (see Note 7) and removal of capital related items from revenue and expenses. Certain amounts previously reported as scholarship expenses are reported as an allowance against tuition and related revenues. Certain loan and scholarship funds have been reclassified from fund balance to liabilities at July 1, 2001.

The University's prior year fund balances were restated to reflect net assets as follows:

Total fund balances at July 1, 2001, as previously reported	\$ 596,462,878
Accumulated depreciation of capital assets	(256,208,620)
Refundable federal student loan fund balance reclassified as a liability	(10,360,974)
Recording contract advances as deferred revenue	(8,172,894)
Allocation of the State's workers' compensation liability	(1,754,750)
Other	(402,751)
Net assets at July 1, 2001, as restated	<u>\$ 319,562,889</u>

## 3. Cash and Investments

### Cash

At June 30, 2002, the carrying amounts of The University's bank deposits and interest bearing cash equivalents for all funds were \$132,190 as compared to bank balances of \$1,325,428. The differences between carrying amounts and bank balances were caused by items in-transit. Of the June 30, 2002 bank balances, \$218,397 was covered by federal deposit insurance; \$1,107,031 was 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.

# The University of Akron

Notes to Financial Statements – Continued

June 30, 2002

## 3. Cash and Investments - Continued

### 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 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 University pools certain of its investments for investment purposes. The fair value of investments represents published market quotations.

	Cost	Fair Value
Pooled investments:		
Repurchase agreement	\$ 2,820,000	\$ 2,820,000
STAR Ohio	16,357,486	16,357,486
The Commonfund:		
Operating Fund	11,337,435	11,337,435
Intermediate Fund	7,520,428	7,289,009
Total	38,035,349	37,803,930
Marketable securities:		
U.S. Treasury	2,639,813	2,695,289
U.S. agencies	1,247,907	1,247,907
Common stocks	33,395,397	25,958,333
Preferred stocks	55,400	45,982
U.S. and corporate bonds	14,215,935	13,921,133
The Commonfund:		
Private & Small Cap. Equity	293,234	324,669
Short-Term Fund	8,846	8,846
Total	51,856,532	44,202,159
Cash surrender value of life insurance	6,575	6,575
Real estate:		
The Commonfund:		
Endowment Realty	334,759	367,080
Investments held in trust by others:		
U.S. agencies	64,814,137	64,814,137
STAR Ohio	17,043,285	17,043,285
Total	81,857,422	81,857,422
Total investments	\$ 172,090,637	\$ 164,237,166

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**3. Cash and Investments - Continued**

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

The U. S. Treasury and agencies securities and corporate bonds were invested through banks that keep the securities in their names in safekeeping accounts at the Federal Reserve Bank and are therefore Category 3 investments. The Government Securities Act of 1986 requires banks to segregate these securities from the bank assets and keep them free of any lien, charge or claim of any third party. The cost value of these investments was \$85,737,792 and the fair value of these investments was \$85,498,466 at June 30, 2002. The preferred and common stocks were handled by investment managers, and were held in The University's safe deposit box and are, therefore, Category 1 investments. The cost value of these investments was \$33,450,797 and the fair value of these investments was \$26,004,315 at June 30, 2002.

The Commonfund (The Fund) is a nonprofit membership corporation which provides investment management services for its Member colleges, universities and independent schools and offers a series of pooled investment funds. The Fund invests in funds with off balance sheet risk strategies. The University does not have available information to determine their exposure to credit, market or legal risk. STAR Ohio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002. The deposits held in The Fund and STAR Ohio are not classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The cost value of these funds was \$52,895,473 and the fair value of these funds was \$52,727,810 at June 30, 2002. The cash surrender value of life insurance also is not classified by risk category and both its cost and fair value were \$6,575 at June 30, 2002.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**4. Accounts and Student Notes Receivable**

Accounts and student notes receivable at June 30, 2002 consisted of the following:

	June 30, 2002 Balance
Federal, state, local and other governments, foundations and companies, net of allowance for doubtful accounts of \$1,229,205	\$10,694,356
Student notes receivables, net of allowance for doubtful notes of \$845,783	10,387,401
Student receivables, net of allowance for doubtful accounts of \$5,164,807	11,183,997
Other, net of allowance for doubtful accounts of \$242,286	1,400,197
Accounts and student notes receivable, net	<u>\$33,665,951</u>

**5. Pledges Receivable**

Unconditional promises to give to The University recorded as pledges receivable at June 30, 2002 were as follows:

	Pledges Receivable	Current Portion
Total pledges receivable	\$ 9,686,994	\$ 3,098,144
Less: amount estimated to be uncollectible	(464,884)	(152,578)
unamortized discount	(439,661)	
Pledges receivable, net	8,782,449	\$ 2,945,566
Less: current portion	(2,945,566)	
Pledges receivable, noncurrent portion	<u>\$ 5,836,883</u>	

As of June 30, 2002, The University has approximately \$1,969,000 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, 2002

**6. Capital Assets**

Changes in capital assets during fiscal 2002 were as follows:

	July 1, 2001 Balance	Additions	Reductions/ Transfers	June 30, 2002 Balance
Nondepreciable capital assets:				
Land	\$ 17,542,266	\$ 1,102,403		\$ 18,644,669
Historical collections	2,143,773	47,390		2,191,163
Construction in progress	<u>36,812,616</u>	<u>47,924,919</u>	<u>\$ 30,829,370</u>	<u>53,908,165</u>
Total nondepreciable capital assets	<u>56,498,655</u>	<u>49,074,712</u>	<u>30,829,370</u>	<u>74,743,997</u>
Depreciable capital assets:				
Land improvements	38,094,157	298,828		38,392,985
Buildings	331,518,837	30,826,578	4,333,160	358,012,255
Infrastructure	5,608,840	307,878		5,916,718
Equipment, furniture and books	<u>157,921,738</u>	<u>15,570,302</u>	<u>3,886,295</u>	<u>169,605,745</u>
Total depreciable capital assets	<u>533,143,572</u>	<u>47,003,586</u>	<u>8,219,455</u>	<u>571,927,703</u>
Total capital assets	<u>589,642,227</u>	<u>96,078,298</u>	<u>39,048,825</u>	<u>646,671,700</u>
Less accumulated depreciation:				
Land improvements	14,468,999	1,418,839		15,887,838
Buildings	136,462,321	10,660,931	3,060,133	144,063,119
Infrastructure	2,202,296	259,306		2,461,602
Equipment, furniture and books	<u>103,075,004</u>	<u>10,929,747</u>	<u>3,295,120</u>	<u>110,709,631</u>
Total accumulated depreciation	<u>256,208,620</u>	<u>23,268,823</u>	<u>6,355,253</u>	<u>273,122,190</u>
Capital assets, net	<u>\$ 333,433,607</u>	<u>\$ 72,809,475</u>	<u>\$ 32,693,572</u>	<u>\$ 373,549,510</u>

**7. Workers' Compensation Liability**

The University participates in the State's self-insured worker's compensation plan (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating State agencies and universities in the Plan are accrued by the Ohio Bureau of Worker's Compensation (the Bureau) based on estimates that incorporate past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the State's Plan annually fund the worker's compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the worker's compensation claims of participating State agencies and universities. With the assistance of consulting actuaries, the Bureau calculated estimated worker's compensation obligations for the State of \$727.0 million at June 30, 2002 and \$559.3 million at June 30, 2001 to be paid in future periods. The State allocated the University's pro-rata share of the estimated liability on the basis of the University's share of actual cash payments (premiums and administrative costs) to the Bureau in the preceding fiscal year divided by such payments made by all participating entities. The University restated its prior year (July 1, 2001) fund balances and recorded the estimated liability at June 30, 2001 of \$1.755 million. The allocated liability of \$2.636 million at June 30, 2002 has been recorded with the increase of \$0.881 million included in fiscal 2002 operating expenses.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**8. Long-term liabilities**

Changes in long-term liabilities were as follows:

	July 1, 2001 <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	June 30, 2002 <u>Balance</u>	<u>Current Portion</u>
Note payable:					
Bond anticipation notes – Series 2002A, 2.5%, due June 27, 2003		\$ 20,000,000		\$ 20,000,000	\$ 20,000,000
Bonds payable:					
General receipts bonds – Series 1997A, 3.65% to 6.0%, due serially through 2022	\$ 30,005,000		\$ 1,275,000	28,730,000	1,335,000
General receipts bonds - Series 1999, 5.895%, due serially through 2029	130,985,000		345,000	130,640,000	1,485,000
Capital improvements, 5.668% to 7%, due through 2003	<u>163,092</u>		<u>76,729</u>	<u>86,363</u>	<u>76,728</u>
Total bonds payable	161,153,092	0	1,696,729	159,456,363	2,896,728
Capitalized lease obligations	7,614,342	5,248,669	3,538,852	9,324,159	3,161,295
Sick leave liability	<u>2,830,499</u>	<u>254,176</u>	<u>640</u>	<u>3,084,035</u>	<u>442,281</u>
Totals	<u>\$ 171,597,933</u>	<u>\$ 25,502,845</u>	<u>\$ 5,236,221</u>	191,864,557	<u>\$ 26,500,304</u>
Less: current portion				<u>26,500,304</u>	
Long-term liabilities				<u>\$ 165,364,253</u>	

The University issued \$20 million of Bond Anticipation Notes (BAN), Series 2002A, on June 27, 2002 including a bond premium in the amount of \$156,800. The net proceeds of the BAN were used to provide funding for campus capital improvements. The note will be repaid by general receipts bonds expected to be issued by The University in fiscal 2003.

The general receipts bonds, Series 1997A and Series 1999, and the bond anticipation note, Series 2002A, are payable from and secured by a first pledge and lien on the general receipts of The University, excluding State appropriations.

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, 2002, \$7,900,000 of bonds and COP's outstanding are considered defeased.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**8. Long-term Liabilities - continued**

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, 2002, interest on borrowings was \$7,260,215 and earnings on the construction funds were \$4,105,437, resulting in net capitalized interest of \$3,154,778.

The aggregate annual principal maturities for the bond anticipation note, general receipt bonds, and capital improvements for fiscal years subsequent to June 30, 2002 are as follows:

Fiscal year:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 22,896,728	\$ 9,194,970	\$ 32,091,698
2004	4,064,818	8,536,010	12,600,828
2005	4,254,817	8,337,970	12,592,787
2006	4,465,000	8,116,736	12,581,736
2007	4,695,000	7,873,471	12,568,471
2008-2012	25,470,000	35,521,565	60,991,565
2013-2017	26,585,000	28,454,072	55,039,072
2018-2022	34,425,000	20,069,999	54,494,999
2023-2027	35,420,000	10,250,548	45,670,548
2028-2029	17,180,000	1,001,650	18,181,650
	<u>\$ 179,456,363</u>	<u>\$ 137,356,991</u>	<u>\$ 316,813,354</u>

The University leases certain office facilities and computer and duplicating equipment under operating leases. Total rental expense under operating leases during the year ended June 30, 2002 amounted to \$1,340,609. The total amount included operating expense that was month-to-month rentals.

The University's capital leased assets consist of dormitory and educational facilities and computer, duplicating, telecommunications, and other equipment. Capital leased assets by major classes at June 30, 2002 are as follows:

Land	\$ 140,000
Building	3,572,366
Movable equipment	<u>10,359,649</u>
	<u>\$ 14,072,015</u>

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**8. Long-term Liabilities - continued**

Future minimum lease payments as of June 30, 2002 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:	
2003	\$ 3,617,472
2004	2,609,784
2005	375,558
2006	222,998
2007	113,131
2008-2010	<u>3,807,849</u>
Total minimum lease payments	\$ 10,746,792
Less amount representing interest	<u>1,422,633</u>
Present value of net minimum capital lease payments	<u><u>\$ 9,324,159</u></u>

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. Contingent rentals earned in fiscal 2002 totaled \$17,286.

The University also received rental payments of approximately \$205,000 during fiscal 2002 from the rental of various other campus facilities under the terms of operating lease agreements. There were no contingent rentals earned during 2002.

**9. 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 provides the funding for and constructs major academic plant facilities, except for auxiliary enterprises, on The University's 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  
June 30, 2002

**9. 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 Statement of Net Assets. 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 Capital Component not reflected on The University's Statement of Net Assets to be received and recorded when appropriated by the State is as follows by fiscal year:

Fiscal Year:	<u>Capital Component</u>
2003	\$ 2,032,843
2004	2,032,843
2005	2,032,843
2006	2,032,843
2007	2,032,843
2008-2012	10,164,215
2013-2016	<u>1,878,266</u>
Total	<u>\$ 22,206,696</u>

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

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**10. Unrestricted Net Assets**

The unrestricted net asset balance at June 30, 2002 includes the following:

Quasi-endowments	\$ 17,128,201
Reserve for changing enrollment	1,375,000
Reserve for unemployment compensation	200,000
Reserve for fire loss	100,000
Reserve for insurance liability	1,000,000
Campus reserve	1,000,000
Reserve for contingency	50,000
Reserve for subsequent year	513,702
Reserve for departmental carryover	14,038,635
Reserve for departmental sales accounts carryover	1,224,672
Reserve for encumbrances	1,074,096
Reserve for capital component	2,223,892
Reserve for unrealized depreciation on investments, net	(1,803,233)
Internal financing	(26,825,320)
Remaining for other purposes	2,784,097
	<hr/>
Unrestricted net assets	<u>\$ 14,083,742</u>

Expenditures of quasi-endowment funds require approval by the Board of Trustees.

**11. 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 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, 2002, 2001, and 2000 were \$9,035,195, \$8,733,237, and \$9,198,244, and \$5,715,435, \$5,345,395, and \$5,031,535, respectively, equal to the required contributions for each year.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**11. Employee Benefit Plans - Continued**

**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 2002, the cost of dependent health care and retiree life insurance benefits, recognized as expense when claims and premiums were paid, totaled \$1,023,362.

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. 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 \$3.256 billion at June 30, 2001. For the year ended June 30, 2001, the net health care costs paid by STRS were \$300,772,000 and there were 102,132 eligible benefit recipients.

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, 2001, the most recent data available, the allocation rate is 9.80%. 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 2001, 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, 2001 were \$161,439,934. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits were \$315.7 million. The number of participants currently receiving health care benefits is approximately 50,000.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**11. Employee Benefit Plans - Continued**

**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 year ending June 30, 2002 were \$2,423,718. The ARPs do not provide postretirement benefits other than pension and death benefits.

**12. 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 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 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 management believes that any disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

The University has been appropriated approximately \$48,255,000 of funds from the State for buildings and renovations, of which approximately \$21,202,000 has been expended as of June 30, 2002. In addition, several University-funded construction projects will cost an estimated \$67,400,000 to complete as of June 30, 2002.

**The University of Akron**  
Notes to Financial Statements – Continued  
June 30, 2002

**12. 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 directors. 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 \$550,000 was charged in fiscal year 2002. The Foundation's financial activity is not included in The University's financial statements. During the year ended June 30, 2002, the Foundation distributed \$9,766,704 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 \$140,000 at June 30, 2002 with remaining lease obligations of \$43,200.

At June 30, 2002 The University had receivables representing scholarships and other fund transfers of \$39,344 from the Foundation.

Summary financial information of the Foundation at June 30, 2002 is as follows:

	Net Assets	Revenues, net	Expenditures Exclusive of Direct Distributions
Unrestricted	\$ 6,193,394	\$ 8,772,305	\$ 1,420,407
Temporarily restricted	38,308,717	(16,480,240)	
Permanently restricted	60,809,104	152,214	
	<u>\$ 105,311,215</u>	<u>\$ (7,555,721)</u>	<u>\$ 1,420,407</u>

Due to unrealized losses on the Foundation's investments, temporarily restricted net revenues are reported as a negative amount. The Foundation's investments had a cost value of \$119,623,253 and a fair value of \$109,408,744 at June 30, 2002.

The University of Akron Research Foundation (the Research Foundation) is a legally separate nonprofit organization, exempt from federal income tax, formed in 2001 to assist in furthering research activities of The University. The Research Foundation maintains a self-appointing board of directors. Management has determined that the Research Foundation is not a component unit of The University as defined by GASB Statement No. 14. The Research Foundation's financial activity is not included in The University's financial statements.