

The University of Akron

Management's Discussion and Analysis

June 30, 2003

The discussion and analysis of The University of Akron's (The University) annual financial performance provides an overall review of The University's financial activities for the fiscal year ended June 30, 2003. This discussion and analysis views The University's financial performance as a whole; readers should also review the financial statements and related notes to the financial statements to enhance their understanding of The University's financial performance.

Using the Annual Financial Report

The annual report consists of this Management's Discussion and Analysis, three separate but interrelated financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and the Report of Independent Auditors. The financial statements are prepared using the accrual basis of accounting, which is similar to the accounting method used by many private-sector companies. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when incurred.

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents revenues earned and expenses incurred during the year. The revenues and expenses are classified as either operating or nonoperating. The State of Ohio (State) provides significant operating and capital financial resources to The University, which are classified as Nonoperating revenues; therefore, substantial Operating losses are not uncommon for public colleges and universities across Ohio. For the fiscal years ended June 30, 2003 and 2002, the State provided approximately \$108 million and \$113 million for operating and capital purposes while The University's Operating losses were approximately \$119 million and \$112 million for each of those two years.

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

The University of Akron
Management's Discussion and Analysis – Continued
June 30, 2003

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

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

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

Table 1
Net Assets
(In Thousands)

	2003	2002
Assets:		
Current assets	\$ 74,446	\$ 140,756
Restricted current assets	76,118	17,325
Noncurrent assets:		
Capital	414,135	373,550
Other	56,816	59,323
Total assets	621,515	590,954
Liabilities:		
Current liabilities	69,857	84,198
Noncurrent liabilities	217,155	178,395
Total liabilities	287,012	262,593
Net assets:		
Invested in capital assets, net of related debt	254,984	255,084
Restricted:		
Nonexpendable	32,851	34,305
Expendable	31,236	24,888
Unrestricted	15,432	14,084
Total net assets	\$ 334,503	\$ 328,361

The University of Akron

Management's Discussion and Analysis – Continued

June 30, 2003

Current assets include those more highly liquid assets including cash, cash equivalents, and investments; accounts, pledges, student notes, and accrued interest receivable; inventories; and prepaid expenses and deferred charges. Current assets decreased \$66.4 million from \$140.8 million to \$74.4 million. Between 2002 and 2003, there were variations among many of the current asset categories, but the principal cause of the \$66.4 million decrease resulted from a \$69.4 million decrease within Investments held in trust by others. Specifically, The University temporarily invested the proceeds of debt issues until the proceeds were needed to pay for construction costs. During 2003, The University continued its progress towards, and paid costs related to, the Landscape for Learning initiative. *A New Landscape for Learning* is a \$200 million blueprint, which includes new academic, student services, and student living buildings plus renovations to several other buildings; improved campus access; and the creation of inviting, park-like open spaces.

Restricted current assets consist of cash, cash equivalents, and investments, which resulted from gifts from friends of The University. In these cases, the donors required that the gifts be used for some particular purpose. Restricted current assets increased \$58.8 million from \$17.3 million to \$76.1 million. The increase is largely attributable to the near-term payment demands of the Landscape for Learning initiative discussed above..

Noncurrent assets consist of endowment investments; pledges and student notes receivable; and capital assets. Noncurrent assets increased \$38.1 million to \$470.9 million from 2002 to 2003. While there were variations among the categories, the increase is largely attributable to a \$40.6 million increase within Capital assets, which principally resulted from The University's significant capital project initiative.

Current liabilities are those items that mature within one year. The current liabilities include accounts payable; accrued liabilities; deferred revenue; deposits; and the short-term portion of long-term liabilities. Current liabilities decreased \$14.3 million from \$84.2 million to \$69.9 million. There were variations from 2002 to 2003 among many of the current liability categories, but the principal cause of the \$14.3 million decrease was a \$17.9 million decrease within the short-term portion of long-term liabilities. Specifically, a \$20 million Bond Anticipation Note (BAN) was paid-off during 2003. The BAN was issued during 2002 to help fund The University's ongoing \$200 million capital projects initiative. The \$20 million decrease was partially offset since \$1.4 million of the \$45.8 million 2003 General receipts bonds were considered short-term in 2003.

Noncurrent liabilities consist of Refundable federal student loans; long-term debt including capital leases and the sick leave liability. The most notable change occurred within the long-term liabilities. The University issued \$45.8 million General receipts bond issue during 2003, which resulted in an overall increase from \$165.4 million to \$206 million. As reflected above, the proceeds paid-off the \$20 million BAN and are helping fund the ongoing capital projects initiative.

The University of Akron

Management's Discussion and Analysis – Continued

June 30, 2003

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

As reflected above, *Net assets* represent the difference between assets and liabilities and over time is one indicator of improving or eroding financial health. *Net assets* are categorized as *Invested in capital assets, net of related debt; Restricted; or Unrestricted*. *Restricted net assets* include both expendable and nonexpendable components. Net assets increased approximately 2% or \$6.1 million to \$334.5 million from 2002 to 2003.

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

Table 2
Changes in Net Assets
(In Thousands)

	2003	2002
Operating revenues:		
Tuition and fees	\$ 105,913	\$ 91,761
Grants and contracts	39,468	39,424
Sales and services	7,712	6,326
Auxiliary enterprises	38,105	37,195
Other operating revenues	558	397
Total operating revenues	191,756	175,103
Total operating expenses	310,473	287,074
Operating loss	(118,717)	(111,971)
Nonoperating revenues (expenses)		
State appropriations	96,421	99,493
Other nonoperating revenues, net	13,338	(622)
Net nonoperating revenues	109,759	98,871
Loss before other changes	(8,958)	(13,100)
Other changes:		
Capital appropriations	11,246	12,957
Capital gifts and grants	2,915	7,781
Additions to permanent endowments	938	1,161
Total other changes	15,099	21,899
Increase in net assets	6,141	8,799
Net assets:		
Net assets - beginning of year	328,362	319,563
Net assets - end of year	\$ 334,503	\$ 328,362

The University of Akron

Management's Discussion and Analysis – Continued

June 30, 2003

The Student tuition and fees increased approximately \$14.1 million or 15.4% from 2002 to 2003. The University's student headcount and student enrollments remained largely unchanged between the years; however, The University enacted tuition and fee increases for 2003 of 9.9%, along with additional fees and surcharges, which largely created the observed increase in tuition and fees.

The State Appropriations represent the other most significant revenue source for The University. Together, the State Appropriations and Student tuition and fees are the predominant resources used to fund The University's daily operations. The State Appropriations decreased \$3.1 million to \$96.4 million in 2003. The 3.1% decrease is part of a continued trend over the past few years and is largely attributable to State-level fiscal challenges.

The State of Ohio also provides capital appropriations to The University. Unlike the operating resources reflected previously, these resources are provided to help with The University's capital needs. The funding is provided through the Ohio Board of Regents (OBR) based upon certain formulas and a capital plan provided by The University. The capital appropriations decreased \$1.7 million to \$11.2 million for 2003.

The combined Federal, State, Local, and Private Grants and Contracts approximated \$39.5 million for both 2002 and 2003. The aggregate revenue levels represent The University's continued pursuit of federal, state, local, and private funding for research related activities. For 2003, federal revenues represented the largest component of these revenues at \$27.8 million followed by private revenues at \$7.7 million, while the combined state and local revenues were \$4 million.

The largest federal source was related to the Research and Development Cluster (Cluster), which was sponsored by the National Science Foundation. That Cluster provided nearly \$3.9 million during 2003. Meanwhile, the largest private source was the Robert Wood Johnson Foundation. The efforts of this grant are directed towards evaluating the results of the national D.A.R.E. program. The state and local revenues consisted of multiple smaller dollar awards.

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

Auxiliary Enterprises revenues increased 2.4% or \$.9 million to \$38.1 million from 2002. The intercollegiate athletics, dining facilities, residence halls, and E.J. Thomas Performing Arts Hall individually provided the predominant revenues within this area. The revenues generated from those four areas represented \$10.7 million, \$7.5 million, \$7.3 million, and \$3.5 million, respectively, or 76.1% of the total \$38.1 million revenues.

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

The University of Akron

Management's Discussion and Analysis – Continued

June 30, 2003

Investment income, including the unrealized change in fair value of investments totaled \$5 million and (\$2.2) million during 2003 and 2002, respectively. Investment income decreased \$5 million, which was due to overall lower returns on all investments. During 2002, certain University investments experienced substantial declines in value. Those investments were not redeemed; nevertheless, GASB Statement No. 31 requires those investments be reported at fair value for financial statement reporting purposes. Meanwhile, the \$12.3 million net change within unrealized appreciation/depreciation between 2002 and 2003 occurred because of improved market conditions and the fair value of the investments improved substantially. Once again, those investments were not redeemed, but were adjusted to fair value for financial statement reporting purposes. The University reviewed its investment policies over the past two years and modified its strategies to reduce the portfolio's vulnerability to significant market fluctuations while maintaining certain returns.

The University views continued donor support as a vital ingredient to our continued success. Many student scholarships, capital construction costs, and endowed positions are a result of our very generous contributors. The University receives gifts from a wide array of friends including alumni, the business community, and foundations. Oftentimes, gifts and awards are accompanied by donor restrictions. In those cases, The University maintains a system of internal controls to ensure the gifts are used solely in accordance with the grantor's requirements. For 2003 and 2002, Gifts and grants and additions to permanent endowments totaled \$13.4 million and \$12.3 million, respectively while capital related contributions decreased \$4.9 million. The \$4.9 million decline was the result of a very generous one-time contribution for the Medina County University campus and the Guzzetta Hall addition during 2002. Other sources remained stable in terms of dollars between 2002 and 2003.

The Educational and general expenses category is the single largest category of expenses and includes all academic and administrative support salary and benefit related costs. Overall, these expenses increased nearly 7.8% to \$249 million. The most notable increases occurred within Instruction and departmental research and Operation and maintenance of plant, collectively increasing approximately \$10.9 million. Those increases were largely due to rate increases for utilities and additional costs associated with the opening of new buildings on campus.

Auxiliary Enterprises expenses result from those operations, which as previously reflected, predominantly furnish goods or services to students, faculty, staff, or the general public. Auxiliary Services increased \$2.1 million or 6.8% to \$32.5 million. The largest increase occurred within the Intercollegiate Athletics area and related to Athletic External Relations and the Football program.

Unlike many items that are expensed when purchased, The University capitalizes most long-term assets. The assets are then expensed over estimated useful lives ranging from 5 years for certain equipment to 40 years for buildings. Generally, Depreciation expense is predictable from year to year taking into account items, which become fully depreciated during the prior year and capital asset additions and deletions for the current year. Depreciation expense increased \$1.3 million to \$24.6 million due to increasing levels of capital asset purchases in the past two years.

The University of Akron
Management's Discussion and Analysis – Continued
June 30, 2003

The University periodically sells or disposes of obsolete capital assets. Unlike many revenue and expense areas, which tend to be predictable among years, the gains or losses from the disposition of capital assets is often a result of management discretion. The University realized losses totaling \$1.9 million during 2002, while the losses were \$3.8 million during 2003. The 2003 losses resulted from the demolition of Gardner Student Center and the Central Stores building.

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

Capital Assets and Long-Term Debt Activity

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

The University's long-term debt principally consists of its general receipts bonds, which total \$202.4 million. During 2003, The University issued General receipts bonds in the amount of \$45.8 million, retired a \$20 million BAN, and paid down general receipts bonds by \$2.8 million. The long-term debt activity is reflected in more thorough detail within Note 7 of the financial statements.

Factors Impacting Future Periods

The Student Tuition and Fees and State Appropriations are the principal revenue sources, which support The University's annual operations. For both 2003 and 2002, those two revenue sources alone represented \$202.3 million and \$191.3 million of our total operating and nonoperating revenues while the aggregate remaining operating and non operating revenues, excluding the change in the fair value of investments, totaled \$114.1 and \$122.1 million.

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

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
The University of Akron:

In our opinion, the accompanying statement of net assets and the related statements of revenues, expenses and changes in net assets and cash flows, present fairly, in all material respects, the financial position of the University of Akron (the "University"), a component unit of the State of Ohio, at June 30, 2003, and its revenues, expenses and changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the University as of June 30, 2002 and for the year then ended were audited by other auditors whose report dated October 18, 2002 expressed an unqualified opinion on those statements.

The Management's Discussion and Analysis (MD&A) on pages 1 to 7 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the MD&A information.

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2003 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 13, 2003

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

To the Board of Trustees of
The University of Akron:

We have audited the financial statements of the University of Akron (the "University"), a component unit of the State of Ohio, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



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

PricewaterhouseCoopers LLP

October 13, 2003

The University of Akron

Statement of Net Assets

June 30, 2003 and 2002

ASSETS	June 30	
	2003	2002
Current assets:		
Cash and cash equivalents	\$ 95,138	\$ 145,070
Pooled investments	24,056,207	20,610,962
Investments held in trust by others	12,487,658	81,857,422
Accounts receivable, net	23,760,645	23,278,550
Pledges receivable, net	2,600,086	2,945,566
Student notes receivable, net	1,395,440	1,476,626
Accrued interest receivable	303	622
Inventories	1,053,216	1,115,354
Prepaid expenses and deferred charges	8,997,443	9,326,183
Total current assets	74,446,136	140,756,355
Restricted current assets:		
Cash and cash equivalents	52,443,245	132,190
Pooled investments	23,674,389	17,192,968
Total restricted current assets	76,117,634	17,325,158
Noncurrent assets:		
Endowment investments	43,133,021	44,575,814
Pledges receivable, net	5,135,667	5,836,883
Student notes receivable, net	8,547,673	8,910,775
Capital assets, net	414,134,520	373,549,510
Total assets	621,514,651	590,954,495
LIABILITIES		
Current liabilities:		
Accounts payable	8,450,651	10,730,536
Accrued liabilities	13,653,793	12,130,384
Accrued interest payable	4,409,961	4,376,853
Deferred revenue	33,769,106	28,642,279
Deposits	981,727	1,517,981
Workers' compensation liability	0	299,792
Current portion of long-term liabilities	8,591,536	26,500,304
Total current liabilities	69,856,774	84,198,129
Noncurrent liabilities:		
Refundable federal student loans	11,170,961	10,694,446
Workers' compensation liability	0	2,335,828
Long-term liabilities	205,984,150	165,364,253
Total liabilities	287,011,885	262,592,656
NET ASSETS		
Invested in capital assets, net of related debt	254,983,802	255,084,475
Restricted:		
Nonexpendable:		
Endowment	32,851,261	34,305,891
Expendable:		
Current operations	17,296,581	16,064,578
Loans	827,626	792,313
Capital projects	13,111,789	7,999,383
Debt service	303	31,457
Unrestricted	15,431,404	14,083,742
Total net assets	\$ 334,502,766	\$ 328,361,839

The University of Akron

Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended June 30, 2003 and 2002

	June 30	
	2003	2002
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowance of \$30,848,331 and \$25,540,205)	\$ 105,912,648	\$ 91,760,923
Federal grants and contracts	27,772,997	25,320,218
State grants and contracts	3,509,414	2,894,132
Local grants and contracts	535,231	434,940
Private grants and contracts	7,650,831	10,774,744
Sales and services	7,711,858	6,326,188
Auxiliary enterprises	38,105,425	37,195,417
Other sources	557,816	396,550
Total operating revenues	191,756,220	175,103,112
EXPENSES		
Operating expenses:		
Educational and general:		
Instruction and departmental research	107,925,344	100,917,051
Separately budgeted research	16,676,995	16,834,068
Public service	12,259,995	11,393,889
Academic support	25,004,944	23,911,356
Student services	11,416,778	12,496,870
Institutional support	39,442,293	32,533,518
Operation and maintenance of plant	20,926,974	17,076,295
Scholarships and fellowships	15,949,699	16,379,183
Auxiliary enterprises	32,454,880	30,383,791
Depreciation	24,609,438	23,268,823
Loss on disposal of property	3,806,096	1,879,233
Total operating expenses	310,473,436	287,074,077
Operating loss	(118,717,216)	(111,970,965)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	96,421,139	99,493,258
Gifts and grants	12,521,014	11,069,277
Investment income (net of investment expense of \$1,838,698 and \$1,999,684)	755,107	5,823,469
Unrealized appreciation (depreciation) on investments, net	4,315,750	(8,048,208)
Interest on debt	(6,583,705)	(9,289,824)
Transfer of workers' compensation liability to State of Ohio	2,635,620	0
Other nonoperating revenues (expenses)	(305,930)	(176,788)
Net nonoperating revenues	109,758,995	98,871,184
Loss before other changes	(8,958,221)	(13,099,781)
OTHER CHANGES		
State capital appropriations	11,246,153	12,957,033
Capital gifts and grants	2,914,942	7,780,482
Additions to permanent endowments	938,053	1,161,216
Total other changes	15,099,148	21,898,731
Increase in net assets	6,140,927	8,798,950
NET ASSETS		
Net assets - beginning of year	328,361,839	319,562,889
Net assets - end of year	\$ 334,502,766	\$ 328,361,839

The University of Akron

Statement of Cash Flows

June 30, 2003 and 2002

	June 30	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 105,744,743	\$ 89,497,719
Grants and contracts	44,471,174	39,369,563
Auxiliary enterprises	38,030,404	36,542,924
Sales and service of educational activities	7,711,858	6,326,188
Payments to suppliers	(75,656,709)	(71,415,335)
Payments for compensation and benefits	(192,199,386)	(177,251,786)
Payments for scholarships and fellowships	(9,352,433)	(10,800,845)
Loans issued to students	(1,221,261)	(1,960,240)
Collection of loans to students	1,665,549	1,512,094
Other payments	(4,309,468)	(1,637,601)
	(85,115,529)	(89,817,319)
Net cash used in operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	96,421,139	99,493,258
Gifts for other than capital purposes	12,994,448	10,820,782
Private gifts for endowment purposes	1,395,492	1,305,722
	110,811,079	111,619,762
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	46,453,294	20,088,800
Capital appropriations	11,246,153	12,957,033
Capital grants and gifts received	3,351,961	4,934,431
Purchases of capital assets	(63,719,303)	(65,248,928)
Principal paid on capital debt and leases	(25,790,398)	(5,665,316)
Interest paid on capital debt and leases	(6,616,813)	(9,250,617)
	(35,075,106)	(42,184,597)
Net cash used in capital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	339,291,891	684,017,455
Interest on investments	754,788	4,909,570
Purchase of investments	(278,406,000)	(668,393,281)
	61,640,679	20,533,744
Net cash provided by investing activities		
Net increase in cash	52,261,123	151,590
Cash and cash equivalents - beginning of the year	277,260	125,670
Cash and cash equivalents - end of the year	\$ 52,538,383	\$ 277,260

(continued)

The University of Akron

Statement of Cash Flows

June 30, 2003 and 2002

	June 30	
	2003	2002
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (118,717,216)	\$ (111,970,965)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	24,609,438	23,268,823
Loss on disposal of property	3,806,096	1,879,233
Changes in assets and liabilities:		
Accounts receivable, net	24,368	(8,648,780)
Student notes receivable, net	444,288	(448,146)
Inventories	62,138	78,411
Prepaid expenses and deferred charges	526,659	(2,900,200)
Accounts payable	(1,679,563)	114,058
Accrued liabilities	1,523,409	911,734
Deferred revenue	4,219,453	5,523,593
Deposits held for others	(536,254)	914,148
Sick leave liability	283,105	253,536
Refundable federal student loans	318,550	326,366
Workers' compensation liability	0	880,870
Net cash used in operating activities	<u>\$ (85,115,529)</u>	<u>\$ (89,817,319)</u>

The University of Akron

Notes to Financial Statements

June 30, 2003

1. Summary of Significant Accounting and Reporting Policies

Organization

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

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

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

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 before November 30, 1989, which do not conflict or contradict GASB pronouncements.

Measurement Focus and Financial Statement Presentation

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

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

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

Capital Assets

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

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

1. Summary of Significant Accounting and Reporting Policies - Continued

Estimated useful lives are as follows:

Classification	Estimated Life
Land improvements	25 years
Buildings	40 years
Infrastructure	20 years
Equipment and furniture	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 and Bond Anticipation Notes, Series 2002A. This statement requires capitalization of interest cost of the borrowings less interest earned on investment of the bond proceeds from the date of the borrowing until the assets constructed from the bond proceeds are ready for their intended use.

Deferred Tuition and Fees Revenue

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

Compensated Absences

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

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

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

1. Summary of Significant Accounting and Reporting Policies - Continued

Scholarship Allowances and Student Aid

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

Net Assets

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

Endowment and Quasi Endowments

The University's Board of Trustees established an investment policy with the objectives of protecting principal and maximizing total investment return without assuming extraordinary risks. It is the goal of The University to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 5%, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings.

Accounting Standards

The GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provides criteria for determining whether certain organizations that are affiliated with primary reporting entities should be reported as component units of the primary reporting entities based on the nature and significance of their relationship with them. The statement is effective for years beginning after June 15, 2003. It is expected that The University of Akron Foundation and The University of Akron Research Foundation will be component units of The University for fiscal year ending June 30, 2004.

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

2. Cash and Investments

Cash

At June 30, 2003 and 2002, the carrying amounts of The University's bank deposits and interest bearing cash equivalents were \$52,538,383 and \$277,260 as compared to bank balances of \$53,092,202 and \$1,325,428, respectively. The differences between carrying amounts and bank balances were caused by items in-transit. Of the June 30, 2003 and 2002 bank balances, \$388,306 and \$218,397, respectively, was covered by federal deposit insurance; \$52,703,896 and \$1,107,031, respectively, was uninsured but collateralized with securities held by the Federal Reserve Bank of Cleveland in the depository bank's and The University's name.

Investments

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

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

2. Cash and Investments - Continued

The fair value of investments represents published market quotations.

	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Pooled investments:				
Repurchase agreement	\$ 2,244,000	\$ 2,244,000	\$ 2,820,000	\$ 2,820,000
STAR Ohio	24,143,522	24,143,522	16,357,486	16,357,486
Mutual Funds	21,005,082	21,343,074		
The Commonfund:				
Operating Fund			11,337,435	11,337,435
Intermediate Fund			7,520,428	7,289,009
Total	47,392,604	47,730,596	38,035,349	37,803,930
Endowment investments:				
Marketable securities:				
U.S. Treasury	2,648,645	2,762,558	2,639,813	2,695,289
U.S. agencies	1,249,785	1,249,785	1,247,907	1,247,907
Common stocks	34,552,477	30,659,348	33,395,397	25,958,333
Preferred stocks	55,400	47,644	55,400	45,982
U.S. and corporate bonds	7,765,108	7,840,586	14,215,935	13,921,133
The Commonfund:				
Private & Small Cap. Equity	271,545	255,847	293,234	324,669
Short-Term Fund			8,846	8,846
Cash surrender value of life insurance	5,169	5,169	6,575	6,575
Real estate:				
The Commonfund:				
Endowment Realty	320,303	312,084	334,759	367,080
Total	46,868,432	43,133,021	52,197,866	44,575,814
Investments held in trust by others:				
STAR Ohio	8,173,810	8,173,810	64,814,137	64,814,137
U.S. agencies	4,313,848	4,313,848	17,043,285	17,043,285
Total	12,487,658	12,487,658	81,857,422	81,857,422
Total investments	\$ 106,748,694	\$ 103,351,275	\$ 172,090,637	\$ 164,237,166

The University of Akron

Notes to Financial Statements – Continued

June 30, 2003

2. Cash and Investments - Continued

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

The U. S. Treasury and agencies securities and corporate bonds were invested through banks that keep the securities in their names in safekeeping accounts at the Federal Reserve Bank and are therefore Category 3 investments. The Government Securities Act of 1986 requires banks to segregate these securities from the bank assets and keep them free of any lien, charge or claim of any third party. The cost value of these investments was \$39,226,468 and \$85,737,792 and the fair value of these investments was \$39,753,851 and \$85,498,466 at June 30, 2003 and 2002, respectively. The preferred and common stocks were handled by investment managers, and were held in The University's name and are, therefore, Category 1 investments. The cost value of these investments was \$34,607,877 and \$33,450,797 and the fair value of these investments was \$30,706,992 and \$26,004,315 at June 30, 2003 and 2002, respectively.

The Commonfund (The Fund) is a nonprofit membership corporation which provides investment management services for its member colleges, universities and independent schools and offers a series of pooled investment funds. The Fund invests in funds with off balance sheet risk strategies. The University does not have available information to determine their exposure to credit, market or legal risk. STAR Ohio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003 and 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 \$32,909,180 and \$52,895,473 and the fair value of these funds was \$32,885,263 and \$52,727,810 at June 30, 2003 and 2002, respectively. The cash surrender value of life insurance also is not classified by risk category and both its cost and fair value were \$5,169 and \$6,575 at June 30, 2003 and 2002, respectively.

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

3. Accounts and Student Notes Receivable

Accounts and student notes receivable at June 30, 2003 and 2002 consisted of the following:

	2003	2002
Accounts receivable, net:		
Federal, state, local and governments, foundations, and companies, net of allowance for doubtful accounts of \$966,420 and \$1,229,205, respectively	\$ 9,414,286	\$ 10,694,356
Student receivables, net of allowance for doubtful accounts of \$7,785,412 and \$5,164,807, respectively	12,295,183	11,183,997
Other, net of allowance for doubtful accounts of \$275,505 and \$242,286, respectively	2,051,176	1,400,197
Total	23,760,645	23,278,550
Student notes receivables, net of allowance for doubtful notes of \$800,321 and \$845,783, respectively	9,943,113	10,387,401
Accounts and student notes receivable, net	\$ 33,703,758	\$ 33,665,951

4. Pledges Receivable

Unconditional promises to give to The University recorded as pledges receivable at June 30, 2003 and 2002 were as follows:

	2003		2002	
	Pledges Receivable	Current Portion	Pledges Receivable	Current Portion
Total pledges receivable	\$ 8,814,447	\$ 2,877,257	\$ 9,686,994	\$ 3,098,144
Less: amount estimated to be uncollectible	(847,801)	(277,171)	(464,884)	(152,578)
Less: unamortized discount	(230,893)		(439,661)	
Pledges receivable, net	7,735,753	\$ 2,600,086	8,782,449	\$ 2,945,566
Less: current portion	(2,600,086)		(2,945,566)	
Pledges receivable, noncurrent portion	\$ 5,135,667		\$ 5,836,883	

As of June 30, 2003 and 2002, The University has approximately \$1,419,000 and \$1,969,000, respectively, in numerous outstanding pledges, which are considered to be intentions to give and are contingent upon future events. These pledges are not recorded as pledges receivable because they do not represent unconditional promises to give.

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

5. Capital Assets

Changes in capital assets during fiscal 2003 were as follows:

	Balance July 1, 2002	Additions/ Transfers	Reductions/ Transfers	Balance June 30, 2003
Nondepreciable capital assets:				
Land	\$ 18,644,669	\$ 212,125		\$ 18,856,794
Historical collections	2,191,163	597,174	\$ 3,500	2,784,837
Construction in progress	<u>53,908,165</u>	<u>59,810,321</u>	<u>60,176,585</u>	<u>53,541,901</u>
Total nondepreciable capital assets	<u>74,743,997</u>	<u>60,619,620</u>	<u>60,180,085</u>	<u>75,183,532</u>
Depreciable capital assets:				
Land improvements	38,392,985	584,078		38,977,063
Buildings	358,012,255	56,295,165	10,889,112	403,418,308
Infrastructure	5,916,718	1,744,512		7,661,230
Equipment, furniture and books	<u>169,605,745</u>	<u>10,037,255</u>	<u>7,024,283</u>	<u>172,618,717</u>
Total depreciable capital assets	<u>571,927,703</u>	<u>68,661,010</u>	<u>17,913,395</u>	<u>622,675,318</u>
Total capital assets	<u>646,671,700</u>	<u>129,280,630</u>	<u>78,093,480</u>	<u>697,858,850</u>
Less accumulated depreciation:				
Land improvements	15,887,838	1,420,765		17,308,603
Buildings	144,063,119	11,701,718	8,358,466	147,406,371
Infrastructure	2,461,602	309,942		2,771,544
Equipment, furniture and books	<u>110,709,631</u>	<u>11,177,013</u>	<u>5,648,832</u>	<u>116,237,812</u>
Total accumulated depreciation	<u>273,122,190</u>	<u>24,609,438</u>	<u>14,007,298</u>	<u>283,724,330</u>
Capital assets, net	<u>\$ 373,549,510</u>	<u>\$ 104,671,192</u>	<u>\$ 64,086,182</u>	<u>\$ 414,134,520</u>

6. Workers' Compensation Liability

The University participates in the State's self-insured worker's compensation plan (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating State agencies and universities in the Plan are accrued by the Ohio Bureau of Worker's Compensation (the Bureau) based on estimates that incorporate past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the State's Plan annually fund the worker's compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the worker's compensation claims of participating State agencies and universities. The State required that The University carry an allocation of unfunded liabilities at June 30, 2002. The elimination of the allocation of state unfunded workers' compensation is a result of the State assuming this liability as of June 30, 2003.

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

7. Long-term Liabilities

Changes in long-term liabilities were as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Note payable:					
Bond anticipation note - Series 2002A, 2.5%, due June 27, 2003	\$ 20,000,000		\$ 20,000,000	\$ 0	\$ 0
Bonds payable:					
General receipts bonds - Series 1997A, 3.65% to 6.0%, due serially through 2022	28,730,000		1,335,000	27,395,000	1,350,000
General receipts bonds - Series 1999, 5.895%, due serially through 2029	130,640,000		1,485,000	129,155,000	2,710,000
General receipts bonds - Series 2003A, 1.5% to 5.0%, due serially through 2033		\$ 45,815,000		45,815,000	1,445,000
Capital improvements, 5.668% to 7%, due serially through 2003	86,363		76,728	9,635	4,817
Total bonds payable	159,456,363	45,815,000	2,896,728	202,374,635	5,509,817
Capitalized lease obligations	9,324,159	3,003,744	3,493,992	8,833,911	2,521,954
Sick leave liability	3,084,035	283,105		3,367,140	559,765
Totals	<u>\$ 191,864,557</u>	<u>\$ 49,101,849</u>	<u>\$ 26,390,720</u>	214,575,686	<u>\$ 8,591,536</u>
Less: current portion				<u>8,591,536</u>	
Long-term liabilities				<u>\$ 205,984,150</u>	

On June 13, 2003, The University issued \$45.8 million of General Receipts Bonds, Series 2003A including a bond premium in the amount of \$1,064,174. A portion of the net proceeds redeemed the \$20 million Bond Anticipation Notes (BAN), Series 2002A. The BAN and incremental General Receipt Bonds are being used to provide funding for campus capital improvements.

The general receipts bonds, Series 1997A, Series 1999, and Series 2003A 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, 2003, \$2,230,000 of bonds and COP's outstanding are considered defeased.

The University of Akron

Notes to Financial Statements – Continued

June 30, 2003

7. Long-term Liabilities - continued

Interest expense, net of interest income, related to the borrowings was capitalized as part of the cost of construction. At June 30, 2003 and 2002, interest on borrowings for the Series 1999 bonds was \$7,220,585 and \$7,260,215, respectively, while the interest earnings on the proceeds were \$2,555,463 and \$4,105,437, respectively. Substantial completion on outstanding projects was determined to be 39.9% and 0%, respectively, resulting in net capitalized interest of \$2,803,738 and \$3,154,778, respectively. At June 30, 2003, interest on borrowings for the Series 2002A notes was \$387,883 and earnings on the construction funds were \$208,057, resulting in net capitalized interest of \$179,826. There was no capitalized interest for the Series 2002A notes in fiscal year 2002.

The aggregate annual principal maturities for the general receipt bonds and capital improvements for fiscal years subsequent to June 30, 2003 are as follows:

Fiscal year:	Principal	Interest	Total
2004	\$ 5,509,817	\$ 10,498,003	\$ 16,007,820
2005	5,364,818	10,126,270	15,491,088
2006	6,015,000	9,878,436	15,893,436
2007	6,170,000	9,604,921	15,774,921
2008	6,250,000	9,323,948	15,573,948
2009-2013	29,505,000	42,330,382	71,835,382
2014-2018	33,535,000	34,242,684	67,777,684
2019-2023	42,150,000	23,925,190	66,075,190
2024-2028	47,460,000	11,813,880	59,273,880
2029-2033	20,415,000	1,425,481	21,840,481
	\$ 202,374,635	\$ 163,169,195	\$ 365,543,830

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, 2003 and 2002 amounted to \$892,981 and \$1,340,609, respectively.

The University's capital leased assets consist of educational facilities and computer, duplicating, telecommunications, and other equipment. Capital leased assets by major classes at June 30, 2003 are as follows:

Land	\$ 140,000
Building	3,572,366
Movable equipment	11,876,705
	\$ 15,589,071

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

7. Long-term Liabilities - continued

Future minimum lease payments as of June 30, 2003 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:	
2004	\$ 2,922,053
2005	1,145,333
2006	873,502
2007	741,218
2008	452,372
2009-2013	<u>4,074,564</u>
Total minimum lease payments	\$ 10,209,042
Less amount representing interest	<u>1,375,131</u>
Present value of net minimum capital lease payments	<u><u>\$ 8,833,911</u></u>

The University's bookstore facilities and operations are leased to an outside operator. The lease provides for annual rental receipts of approximately \$500,000 and contingent rentals based upon gross sales. Contingent rentals earned in fiscal 2002 totaled \$17,286. There were no contingent rentals earned in fiscal 2003.

During fiscal 2003 and 2002, The University also received rental receipts approximating \$288,000 and \$205,000, respectively, from renting various other campus facilities under the terms of operating lease agreements.

8. State Support

The University is a State-assisted institution of higher education, which receives a student-based State share of instruction (appropriation) from the State. This State share of instruction is determined annually based upon a formula devised by the State.

In addition to the State share of instruction, the State also provides certain capital funding and assistance for major academic facilities. The capital funding is provided through the Ohio Board of Regents (OBR) from revenue bond proceeds issued by the Ohio Public Facilities Commission (OPFC). The capital assets are transferred from the OBR to The University upon completion. Costs incurred during construction are included in construction in progress.

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

The University of Akron

Notes to Financial Statements – Continued

June 30, 2003

8. State Support - Continued

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

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

9. Employee Benefit Plans

Retirement Plans

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

Both STRS and SERS issue stand-alone financial reports. The STRS' Comprehensive Annual Financial Report may be obtained by writing to State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3371 and the SERS' Comprehensive Annual Financial Report may be obtained by writing to School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. The ORC provides statutory authority for employee and employer contributions. The employee contribution rates for STRS and SERS are 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, 2003, 2002, and 2001 were \$9,707,923, \$9,035,195, and \$8,733,237, and \$6,129,061, \$5,715,435, and \$5,345,395, respectively, equal to the required contributions for each year.

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

9. 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 fiscal 2003, the cost of dependent health care and retiree life insurance benefits, recognized as expense when claims and premiums were paid, totaled \$1,391,513.

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, The State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2002, 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. Effective July 1, 2002, 1% of payroll was allocated to the fund. The balance in the Health Care Reserve Fund was \$3.011 billion at June 30, 2002, the latest available information. For the year ended June 30, 2002, the net health care costs paid by STRS were \$354,697,000 and there were 105,300 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, 2002, the most recent data available, the allocation rate is 8.54%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, prorated for partial service credit. For 2003, the minimum pay has been established as \$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, 2002, the latest available information, were \$182,946,777. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were \$335.2 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, 2003

9. 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, 2003 were \$2,598,782. The ARPs do not provide postretirement benefits other than pension and death benefits.

10. Litigation, Commitments, and Contingencies

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

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 audits under federal law or regulations or may arrange for funding the cost of such additional audits be independent auditing firms. The state grants are subject to review and audit by the grantor agencies or their designee. Such federal or state audits could lead to a request for reimbursement by the grantor agency for expenditures disallowed under the terms of the grant. No significant costs have been questioned to date, and management believes that any disallowance or adjustment of such costs would not have a material adverse effect on the financial statements.

The University has been appropriated \$28,842,000 from the State for buildings and renovations, of which \$9,825,000 has been expended as of June 30, 2003. In addition, as of June 30, 2003, several University-funded construction projects will cost an estimated \$49,877,000 to complete.

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

11. Related Party Transactions

The University of Akron Foundation

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 and 2003. The Foundation's financial activity is not included in The University's financial statements. During the year ended June 30, 2003 and 2002, the Foundation distributed \$9,967,279 and \$9,766,704, 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 \$140,000 at June 30, 2003 and 2002 with remaining lease obligations of \$26,691 and \$43,200, respectively.

At June 30, 2003 and 2002 The University had receivables representing scholarships and other fund transfers of \$340,621 and \$39,344, respectively, from the Foundation.

Summary financial information of the Foundation at June 30, 2003 is as follows:

	Net Assets	Revenues, net	Expenditures Exclusive of Direct Distributions
Unrestricted	\$ 6,069,598	\$ 10,967,247	\$ 1,123,764
Temporarily restricted	33,530,832	(4,750,305)	
Permanently restricted	62,536,029	1,699,345	
	<u>\$ 102,136,459</u>	<u>\$ 7,916,287</u>	<u>\$ 1,123,764</u>

At June 30, 2003 and 2002, the Foundation's investments had a cost value of \$111,749,089 and \$119,623,253, respectively, and a fair value of \$106,635,213 and \$109,408,744, respectively.

The University of Akron Research Foundation

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.

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

12. Subsequent Event

During August 2003, The University entered into an agreement to lease, upon completion, the Honors Dormitory from the Akron Student Housing Associates, LLC. The capital lease is for a period of 30 years. The University issued two Notes totaling \$51 million to evidence its obligation for the lease.