

# The University of Akron

## Management's Discussion and Analysis

June 30, 2006

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, 2006. 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, 2006, 2005, and 2004, the State provided approximately \$103 million, \$100 million, and \$117 million for operating and capital purposes while The University's operating losses were approximately \$108 million, \$97 million, and \$102 million for each of those years.

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

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

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

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

Table 1 summarizes The University's Net Assets at June 30, 2006, 2005, and 2004.

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

	2006	2005	2004
Assets:			
Current assets	\$ 95,528	\$ 85,552	\$ 70,332
Restricted current assets	75,594	80,757	56,425
Noncurrent assets:			
Capital	477,303	473,359	472,574
Other	65,663	63,122	62,368
Total assets	714,088	702,790	661,699
Liabilities:			
Current liabilities	62,066	53,809	63,460
Noncurrent liabilities	262,582	269,720	239,273
Total liabilities	324,648	323,529	302,733
Net assets:			
Invested in capital assets, net of related debt	257,940	257,408	261,727
Restricted:			
Nonexpendable	32,067	30,057	36,414
Expendable	34,279	33,618	32,691
Unrestricted	65,154	58,178	28,134
Total net assets	\$ 389,440	\$ 379,261	\$ 358,966

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## Management's Discussion and Analysis - Continued

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*Current assets* include those highly liquid assets including cash and cash equivalents; investments; accounts, pledges, student notes, and accrued interest receivable; inventories; and prepaid expenses and deferred charges. Current assets increased \$10 million and \$15.2 million during 2006 and 2005, respectively. There were variations among many of the current asset categories, but the principal cause of the changes are from a \$13.1 million and a \$14.9 million increase in 2006 and 2005, respectively, within pooled investments. Specifically, The University temporarily invested operating and endowment funds, along with the proceeds of debt issues until the proceeds were needed to pay for operating or construction costs. During 2006 and 2005, The University also continued its progress towards, and paid costs related to, the Landscape for Learning initiative. *A New Landscape for Learning* is a nearly \$300 million blueprint, which includes new academic, student services, and student living buildings plus renovations to several other buildings; improved campus access; and the creation of inviting, park-like open spaces.

*Restricted current assets* consist of cash, cash equivalents, and investments, which resulted from gifts from friends of The University. In these cases, the donors required that the gifts be used for some particular purpose. Restricted current assets decreased \$5.2 million during 2006 and increased \$24.3 million during 2005. The changes are largely attributable to the operating funds and near-term payment demands of the Landscape for Learning initiative discussed above.

*Noncurrent assets* consist of endowment investments; pledges and student notes receivable; and capital assets. Noncurrent assets increased \$6.5 million during 2006 and decreased \$10.3 million during 2005. While there were variations among the categories, the 2006 increase is largely attributable to a \$5.3 million increase within capital assets. The 2005 decrease was due to a change in accounting policy which now requires that equipment greater than \$5,000 be capitalized and depreciated, when the previous policy was \$1,500. This resulted in an \$11.8 million net reduction of capital equipment.

*Current liabilities* include all items that mature within one year. The current liabilities include accounts payable; accrued liabilities; accrued interest payable; deferred revenue; deposits; and the short-term portion of long-term liabilities. Current liabilities increased \$8.3 million during 2006 and decreased \$9.7 million during 2005. There were variations among many of the current liability categories, but the principal cause of the 2006 increase was a \$4.2 increase within the short-term portion of long-term liabilities due to additional payments required for next fiscal year on the bonded debt. The 2005 decrease was caused by a \$7.5 million decrease within deferred revenue. Beginning in 2005, the tuition related to certain summer credit hours are no longer deferred, but are recognized in the current year.

*Noncurrent liabilities* consist of refundable federal student loans; long-term debt including capital leases and the sick leave liability; and long term deferred revenue. The most notable change occurred within the long-term liabilities. During 2006, The University refinanced a portion of the general receipts bonds issued in 1997 which will reduce debt payments for the remainder of the financing period. During 2005, The University issued \$34.4 million General receipts bonds to build a new housing facility on Exchange Street.

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As reflected earlier, net assets represent the difference between assets and liabilities and over time is one indicator of improving or eroding financial health. Net assets are categorized as Invested in capital assets, net of related debt; restricted; or unrestricted. Restricted net assets include both expendable and nonexpendable components. During 2006 and 2005, net assets increased approximately 2.7% and 5.7%, respectively, or \$10.2 million and \$20.3 million, respectively.

Table 2 summarizes The University's Changes in Net Assets for the years ended June 30, 2006, 2005, and 2004.

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

	2006	2005	2004
Operating revenues:			
Tuition and fees	\$ 135,677	\$ 136,482	\$ 119,394
Grants and contracts	43,937	39,794	43,987
Sales and services	10,840	8,975	9,047
Auxiliary enterprises	46,965	45,457	41,370
Other operating revenues	285	339	401
Total operating revenues	237,704	231,047	214,199
Total operating expenses	345,734	328,480	315,729
Operating loss	(108,030)	(97,433)	(101,530)
Nonoperating revenues (expenses)			
State appropriations	93,867	95,401	97,343
Other nonoperating revenues, net	15,230	15,513	19,021
Net nonoperating revenues	109,097	110,914	116,364
Gain (loss) before other changes	1,067	13,481	14,834
Other changes:			
Capital appropriations	9,491	4,904	19,397
Capital gifts and grants	1,524	827	1,297
Additions to permanent endowments	(1,903)	1,083	768
Total other changes	9,112	6,814	21,462
Increase in net assets	10,179	20,295	36,296
Net assets:			
Net assets - beginning of year	379,261	358,966	322,670
Net assets - end of year	\$ 389,440	\$ 379,261	\$ 358,966

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## Management's Discussion and Analysis - Continued

### June 30, 2006

The student tuition and fees decreased \$0.8 million or 0.6% during 2006 and increased approximately \$17.1 million or 14.3% during 2005. The University's student headcount and student enrollments remained largely unchanged between 2004 and 2005 or have slightly decreased between 2005 and 2006; however, The University enacted tuition and fee increases for 2006 and 2005 of 5.6% and 9.9%, respectively, along with additional fees and surcharges, which largely created the observed change in tuition and fees.

The state appropriations represent the other most significant revenue source for The University. Together, the state appropriations and student tuition and fees are the predominant resources used to fund The University's daily operations. The state appropriations decreased \$1.5 million in 2006 and \$1.9 million in 2005. The changes are part of a continued trend over the past few years and are largely attributable to state-level fiscal challenges. While the instructional appropriations have decreased \$1.6 million in 2006 and \$2.3 million in 2005, the other changes during 2006 and 2005 are due to the change in funding in other areas such as challenge funding for continuing education.

The State of Ohio also provides capital appropriations to The University. Unlike the operating resources reflected previously, these resources are provided to help with The University's capital needs. The funding is provided through the Ohio Board of Regents (OBR) based upon certain formulas and a capital plan provided by The University. The capital appropriations increased \$4.6 million for 2006 and decreased \$14.5 million in 2005.

The combined federal, state, local, and private grants and contracts revenue levels represent The University's continued pursuit of federal, state, local, and private funding for research related activities. Federal revenues represented the largest component of these revenues at \$31 million in 2006 and \$31.9 million in 2005, followed by private revenues at \$8.6 million in 2006 and \$4.9 million in 2005. The combined state and local revenues were \$4.3 million in 2006 and \$3 million in 2005.

The largest federal source was related to the Office of Education, with the awards for Pell grants the largest area within this source. This source provided nearly \$16.6 million during 2006 and \$17.6 million during 2005. Meanwhile, the largest private source for 2006 and 2005 was The Robert Woods Johnson Foundation which provided approximately \$2 million in each fiscal year. The efforts of this grant are directed towards evaluating the results of the national D.A.R.E. program. The state and local revenues consisted of multiple smaller dollar awards.

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

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## Management's Discussion and Analysis - Continued

June 30, 2006

Auxiliary Enterprises revenues increased \$1.5 million and \$4.1 million in 2006 and 2005, respectively. The intercollegiate athletics, dining facilities, residence halls, and E.J. Thomas Performing Arts Hall individually provided the predominant revenues within this area. During 2006, the revenues generated from those four areas represented \$13.9 million, \$9.2 million, \$10.9 million, and \$2.7 million, respectively, or 78.1% of the total \$47 million revenues. During 2005, the revenues generated from those four areas represented \$12.9 million, \$9 million, \$9.7 million, and \$3.6 million, respectively, or 77.4% of the total \$45.5 million revenues.

Sales and services revenue are from certain operations, which provide services to both students and other departments within The University campus. The most significant of these operations was Computer Solutions, which generated sales totaling \$4.3 million for 2006 and \$3.1 million for 2005.

Investment income, including the unrealized change in fair value of investments totaled \$9.8 million and \$9.4 million during 2006 and 2005, respectively. Investment income increased \$4.4 and \$3.2 million in 2006 and 2005, respectively, which was due to overall change in returns on all investments. Those investments were not redeemed; nevertheless, GASB Statement No. 31 requires those investments be reported at fair value for financial statement reporting purposes. Meanwhile, the \$3.9 million net decrease in 2006 and \$2 million net increase in 2005 within net unrealized (depreciation) appreciation on investments occurred because of market conditions as of fiscal year end and the fair value of the investments changing 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 2006 and 2005, gifts and grants and additions to permanent endowments totaled \$14.9 million and \$19.9 million, respectively while capital related contributions totaled \$1.5 million and \$0.8 million, respectively.

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 5.3% and 2.9% during 2006 and 2005, respectively. During 2006, the most notable increases occurred within instruction and departmental research and institutional support, collectively increasing approximately \$7 million. Those increases were largely due to increased expenditures for faculty wages adjustments, and general university items such as advertising and legal fees. During 2005, the most notable increase occurred within instructional and departmental research which increased \$4 million. The increase was due to recording a portion of summer session teaching salaries during the current year.

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## Management's Discussion and Analysis - Continued

### June 30, 2006

Auxiliary Enterprises expenses result from those operations, which as previously reflected, predominantly furnish goods or services to students, faculty, staff, or the general public. Auxiliary enterprise expenses increased \$3.3 million in 2006 and \$5.9 million during 2005. The largest increase during 2006 occurred in the residence halls with additional expenses occurring due to new housing opening to students. The largest increase during 2005 occurred with the new Recreation Center and the related operating expenses as it opened to the public.

Unlike many items that are expensed when purchased, The University capitalizes most long-term assets. The assets are then expensed over estimated useful lives ranging from 5 years for certain equipment to 40 years for buildings. Generally, depreciation expense is predictable from year to year taking into account items, which become fully depreciated during the prior year and capital asset additions and deletions for the current year. Depreciation expense increased \$2.8 million in 2006 and decreased approximately \$2.8 million in 2005 due to changing levels of capital asset purchases related to the capital project initiative and the change in accounting policy previously mentioned.

The University periodically sells or disposes of obsolete capital assets. Unlike many revenue and expense areas, which tend to be predictable among years, the gains or losses from the disposition of capital assets is often a result of management discretion. The University realized losses totaling \$0.6 million during 2005 and 2006. The 2006 and 2005 losses occurred with the removal and sale of equipment.

Interest on debt includes the interest incurred during the fiscal year on all debt and capital leases less capitalized interest. During 2006, interest expense decreased slightly by \$0.5 million to \$10.9 million and increased \$5.1 million to \$11.5 million in 2005.

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

As previously reflected, The University is in the midst of a major capital expansion. The University uses state capital appropriations, internal resources including the proceeds from debt issuances, and gifts and other grants for capital asset expansion throughout the campus. During 2006 and 2005, additions to capital assets approximated \$16.8 million and \$105.1 million, respectively, net of construction in progress additions. The capital asset activity is reflected in more thorough detail within Note 5 of the financial statements.

The University's long-term debt principally consists of its general receipts bonds, which totaled \$228.2 million in 2006 and \$230.9 million in 2005. During 2006, The University issued general receipts refunding bonds in the amount of \$21.3 million to reduce the interest rate paid on the 1997 general receipts bonds. This should save The University approximately \$1 million in payments over the life of the remaining debt. During 2005, The University issued General receipts bonds in the amount of \$34.4 million for a new housing complex and paid down general receipts bonds by \$2.5 million. The University continued to make payments on other outstanding debt for a total of \$3.7 million. The long-term debt activity is reflected in more thorough detail within Note 6 of the financial statements.

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**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 2006 and 2005, those two revenue sources alone represented \$229.5 million and \$231.9 million, respectively, of our total operating and nonoperating revenues while the aggregate remaining operating and nonoperating revenues, excluding the change in the fair value of investments, totaled \$141.7 and \$127.4 million, respectively.

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

## Report of Independent Auditors

To the Board of Trustees of  
The University of Akron:

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of The University of Akron (“The University”) (a component unit of the State of Ohio) at June 30, 2006 and 2005, and the revenues, expenses and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The University’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006 on our consideration of The University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2006. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*PricewaterhouseCoopers LLP*

October 20, 2006  
Cleveland, Ohio

# The University of Akron

## Statements of Net Assets

June 30, 2006 and 2005

ASSETS	The University of Akron		Component Units	
	2006	2005	2006	2005
<b>Current assets:</b>				
Cash and cash equivalents	\$ 180,949	\$ 231,593	\$ 81,688	\$ 75,523
Pooled investments	60,808,182	47,693,526	-	-
Investments held in trust by others	3,651,898	3,498,179	-	-
Accounts receivable, net	21,830,005	21,905,807	1,038,107	346,313
Pledges receivable, net	1,315,370	3,817,725	553,528	1,134,810
Notes receivable, net	2,225,557	2,131,691	-	-
Accrued interest receivable	714,856	501,295	-	-
Inventories	890,903	1,316,413	-	-
Prepaid expenses and deferred charges	3,910,643	4,455,953	149,360	144,240
<b>Total current assets</b>	<b>95,528,363</b>	<b>85,552,182</b>	<b>1,822,683</b>	<b>1,700,886</b>
<b>Restricted current assets:</b>				
Cash and cash equivalents	10,302,056	16,669,723	688,719	1,789,443
Pooled investments	65,291,822	64,087,698	3,067,296	1,058,903
<b>Total restricted current assets</b>	<b>75,593,878</b>	<b>80,757,421</b>	<b>3,756,015</b>	<b>2,848,346</b>
<b>Noncurrent assets:</b>				
Endowment investments	53,543,726	49,277,661	140,755,935	133,301,405
Pledges receivable, net	1,148,065	2,185,697	1,300,329	931,619
Notes receivable, net	9,251,155	9,769,895	-	-
Prepaid expenses and deferred charges	1,720,394	1,888,889	-	-
Capital assets, net	477,302,635	473,358,451	1,022,185	504,296
<b>Total assets</b>	<b>714,088,216</b>	<b>702,790,196</b>	<b>148,657,147</b>	<b>139,286,552</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	7,898,268	5,633,042	1,674,951	774,919
Accrued liabilities	14,597,579	13,265,057	169,792	157,189
Accrued interest payable	4,801,616	5,056,566	-	-
Deferred revenue	24,910,799	24,049,521	1,157,086	1,131,514
Deposits	860,668	1,046,180	-	-
Current portion of long-term liabilities	8,997,753	4,758,906	-	-
<b>Total current liabilities</b>	<b>62,066,683</b>	<b>53,809,272</b>	<b>3,001,829</b>	<b>2,063,622</b>
<b>Noncurrent liabilities:</b>				
Refundable federal student loans	11,515,276	11,421,743	-	-
Deferred revenue	940,020	1,064,174	-	-
Actuarial liability for annuity/unitrust agreements	-	-	9,408,657	9,677,825
Long-term liabilities	250,126,302	257,234,366	-	-
<b>Total liabilities</b>	<b>324,648,281</b>	<b>323,529,555</b>	<b>12,410,486</b>	<b>11,741,447</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	257,940,000	257,407,577	1,022,185	382,116
<b>Restricted:</b>				
<b>Nonexpendable:</b>				
Endowment	32,066,625	30,057,240	75,320,158	73,391,597
<b>Expendable:</b>				
Current operations	18,345,129	17,950,421	51,380,506	46,547,768
Loans	550,301	545,324	-	-
Capital projects	16,069,567	15,091,453	-	-
Debt service	(685,375)	31,075	-	-
Unrestricted	65,153,688	58,177,551	8,523,812	7,223,624
<b>Total net assets</b>	<b>\$ 389,439,935</b>	<b>\$ 379,260,641</b>	<b>\$ 136,246,661</b>	<b>\$ 127,545,105</b>

**The University of Akron**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2006 and 2005**

	The University of Akron		Component Units	
	2006	2005	2006	2005
<b>REVENUES</b>				
Operating revenues:				
Student tuition and fees (net of scholarship allowance of \$35,673,974 and \$34,950,811)	\$ 135,677,043	\$ 136,481,826	\$ -	\$ -
Federal grants and contracts	31,028,036	31,864,566	51,741	65,254
State grants and contracts	3,498,798	2,176,274	-	64,937
Local grants and contracts	775,070	812,017	-	-
Private grants and contracts	8,634,444	4,941,619	3,714,805	2,193,617
Gifts and contributions	-	-	6,385,092	8,582,435
Sales and services	10,840,254	8,974,673	-	-
Auxiliary enterprises	46,965,351	45,456,835	-	-
Other sources	285,197	339,250	249,140	125,903
<b>Total operating revenues</b>	<b>237,704,193</b>	<b>231,047,060</b>	<b>10,400,778</b>	<b>11,032,146</b>
<b>EXPENSES</b>				
Operating expenses:				
Educational and general:				
Instruction and departmental research	113,219,057	110,163,712	-	-
Separately budgeted research	18,066,085	18,045,482	1,799,375	570,776
Public service	15,659,782	13,817,657	-	-
Academic support	27,717,555	27,584,428	-	-
Student services	11,404,479	10,865,303	-	-
Institutional support	47,218,862	43,290,233	589,100	550,250
Operation and maintenance of plant	23,780,821	21,667,887	-	-
Scholarships and fellowships	18,026,231	18,683,064	-	-
Auxiliary enterprises	44,232,255	40,780,441	-	-
Depreciation	25,822,434	23,005,306	46,679	30,545
Loss on disposal of property	587,003	576,510	-	-
<b>Total operating expenses</b>	<b>345,734,564</b>	<b>328,480,023</b>	<b>2,435,154</b>	<b>1,151,571</b>
Operating (loss) income	(108,030,371)	(97,432,963)	7,965,624	9,880,575
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	93,867,542	95,400,540	-	-
Gifts and grants	6,084,280	9,249,551	80,000	173,373
Investment income, net	11,783,948	7,426,261	2,542,516	2,134,932
Unrealized (depreciation) appreciation on investments, net	(1,944,281)	1,987,241	7,357,401	4,599,111
Interest on debt	(10,924,161)	(11,458,491)	-	-
Distributions to the university	10,926,901	9,570,002	(10,926,901)	(9,570,002)
Distributions on behalf of the university	-	-	(255,339)	(189,801)
Other nonoperating revenues (expenses)	(696,763)	(1,262,029)	260,937	122,146
<b>Net nonoperating revenues (expenses)</b>	<b>109,097,466</b>	<b>110,913,075</b>	<b>(941,386)</b>	<b>(2,730,241)</b>
Income before other changes	1,067,095	13,480,112	7,024,238	7,150,334
<b>OTHER CHANGES</b>				
State capital appropriations	9,491,037	4,903,892	-	-
Capital gifts and grants	1,523,939	827,115	-	-
Additions (reductions) to permanent endowments	(1,902,777)	1,083,370	1,677,318	3,340,124
<b>Total other changes</b>	<b>9,112,199</b>	<b>6,814,377</b>	<b>1,677,318</b>	<b>3,340,124</b>
Increase in net assets	10,179,294	20,294,489	8,701,556	10,490,458
<b>NET ASSETS</b>				
Net assets - beginning of year	379,260,641	358,966,152	127,545,105	117,054,647
Net assets - end of year	<b>\$ 389,439,935</b>	<b>\$ 379,260,641</b>	<b>\$ 136,246,661</b>	<b>\$ 127,545,105</b>

# The University of Akron

## Statements of Cash Flows

June 30, 2006 and 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 135,701,123	\$ 123,661,960
Grants and contracts	42,818,188	40,238,896
Auxiliary enterprises	47,692,744	45,319,041
Sales and service of educational activities	10,840,254	8,974,673
Payments to suppliers	(87,901,648)	(79,499,727)
Payments for compensation and benefits	(213,413,728)	(205,253,493)
Payments for scholarships and fellowships	(9,525,850)	(9,022,110)
Loans issued to students	(1,728,285)	(2,517,449)
Collection of loans to students	2,036,557	2,027,809
Other payments	(4,080,958)	(5,991,187)
	(77,561,603)	(82,061,587)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	93,867,542	95,400,540
Gifts for other than capital purposes	15,673,125	18,610,397
Private gifts for endowment purposes	1,601,609	958,821
Other payments	(696,763)	(1,262,029)
	110,445,513	113,707,729
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	21,170,846	34,375,000
Capital appropriations	8,054,065	4,639,813
Capital grants and gifts received	4,350,656	2,337,120
Purchases of capital assets	(28,837,005)	(23,918,413)
Principal paid on capital debt and leases	(26,236,635)	(989,221)
Interest paid on capital debt and leases	(11,179,696)	(13,174,310)
Collection of loans issued for capital purposes	116,602	113,160
	(32,561,167)	3,383,149
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	404,551,295	306,000,208
Interest on investments	11,997,509	7,734,177
Purchase of investments	(423,289,858)	(353,744,561)
	(6,741,054)	(40,010,176)
Net decrease in cash	(6,418,311)	(4,980,885)
Cash and cash equivalents - beginning of the year	16,901,316	21,882,201
Cash and cash equivalents - end of the year	\$ 10,483,005	\$ 16,901,316

(continued)

# The University of Akron

## Statements of Cash Flows

June 30, 2006 and 2005

	2006	2005
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (108,030,371)	\$ (97,432,963)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	25,822,434	23,005,306
Loss on disposal of property	587,003	576,510
Changes in assets and liabilities:		
Accounts receivable, net	(183,324)	(1,946,339)
Notes receivable, net	308,272	(489,640)
Inventories	425,510	(216,406)
Prepaid expenses and deferred charges	138,649	4,168,163
Accounts payable	627,260	(2,534,048)
Accrued liabilities	1,582,522	163,367
Deferred revenue	861,278	(7,521,272)
Deposits held for others	(185,512)	(47,109)
Sick leave liability	287,344	57,755
Refundable federal student loans	197,332	155,089
	<b>\$ (77,561,603)</b>	<b>\$ (82,061,587)</b>
Net cash used in operating activities	<b>\$ (77,561,603)</b>	<b>\$ (82,061,587)</b>

# The University of Akron

## Notes to Financial Statements

June 30, 2006 and 2005

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

#### Organization

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

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

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

Furthermore, in accordance with GASB Statement No. 39, two discretely presented component units are reported in a separate column on The University's financial statements to emphasize that they are legally separate from The University. The University of Akron Foundation (Foundation) and The University of Akron Research Foundation (Research Foundation) are not-for-profit organizations supporting The University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to The University in support of its programs. The Research Foundation promotes, encourages, and provides assistance to the research activities of The University. Although the University does not control the timing or amount of receipts from the Foundation and the Research Foundation, the majority of resources, or income thereon, which they hold and invest are restricted to support the activities of The University. Because these restricted resources held by the Foundation and Research Foundation can only be used by, or for the benefit of, The University, they are considered component units of The University. Financial statements for the Foundation, may be obtained by writing to The University of Akron Foundation, 302 Buchtel Common, Akron, Ohio 44325-6220. Financial statements for the Research Foundation may be obtained by writing to The University of Akron Research Foundation, Goodyear Polymer Center, 170 University Circle, Akron, Ohio 44325-2130. Activity of these component units are described in greater detail in Note 10.

# The University of Akron

## Notes to Financial Statements

June 30, 2006 and 2005

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

#### Basis of Accounting

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

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

#### Measurement Focus and Financial Statement Presentation

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

The Foundation and the Research Foundation are not-for-profit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation's or the Research Foundation's financial information in The University's financial report for these differences.

#### Cash and Cash Equivalents

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

#### Investments

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

#### Inventories

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

# The University of Akron

## Notes to Financial Statements

June 30, 2006 and 2005

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

#### Pledges Receivable

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

#### Capital Assets

Capital assets greater than \$5,000 are recorded at cost or, if acquired by gift, at an appraised value at the date of gift. Infrastructure assets are included in the financial statements and are depreciated. Expenditures for construction in progress are capitalized as incurred and depreciated when put into service. Historical collections, including assets that are held for public exhibition, education, or research in furtherance of public service, which are protected and preserved, are not depreciated. Depreciation is computed using the straight-line method, half-year convention, over the estimated useful life of the asset. When capital assets are sold, or otherwise disposed of, the carrying value of such assets and any accumulated depreciation are removed from the asset accounts and any gain or loss on disposal is recognized. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend the capital asset's life are expensed.

Estimated useful lives are as follows:

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

#### Capitalization of Interest

The University capitalizes interest on construction projects until substantial completion of the project. Capitalized interest is amortized on the straight-line basis over the estimated useful lives of such assets. The University applies Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, for its General Receipts Bonds, Series 1999, Series 2003, and Series 2004B, and its General Receipts Refunding Bonds, Series 2004. This statement requires capitalization of interest cost of the borrowings less interest earned on investment of the bond proceeds from the date of the borrowing until the assets constructed from the bond proceeds are ready for their intended use.

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

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

**Deferred Revenue**

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

**Compensated Absences**

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

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

**Endowment and Quasi Endowments**

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

**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.

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

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

**Federal grants and contracts revenue**

Federal grants and contracts operating revenue consists of sponsored program revenue from federal sources along with student-related grants such as Pell, College Work Study, and Supplemental Educational Opportunity Grant programs. For the years ended June 30, 2006 and 2005, student-related grants amount to approximately \$19.1 million and \$20.3 million, respectively, with the balance of \$11.9 million and \$11.6 million, respectively, related to sponsored programs.

**Net Assets**

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

**2. Cash and Investments**

**Cash**

At June 30, 2006 and 2005, the carrying amounts of The University's bank deposits and interest bearing cash equivalents were \$10,483,005 and \$16,901,316 as compared to bank balances of \$13,498,805 and \$19,089,618, respectively. The differences between carrying amounts and bank balances were caused by items in-transit. Of the June 30, 2006 and 2005 bank balances, \$13,055,927 and \$18,633,412, respectively, was uninsured but collateralized with securities held by the Federal Reserve Bank of Cleveland in the depository bank's and The University's name.

**Investments**

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

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**2. Cash and Investments - Continued**

	2006 <u>Fair Value</u>	2005 <u>Fair Value</u>
Pooled investments:		
STAR Ohio	\$ 2,179,154	\$ 22,399,300
The Commonfund: Short Term Fund	22,297,100	20,014,190
U.S. agencies	<u>101,623,750</u>	<u>69,367,734</u>
Total	126,100,004	111,781,224
Endowment investments:		
Marketable securities:		
U.S. Treasury	2,921,837	2,630,954
U.S. agencies	950,328	1,587,729
Common stocks	37,955,414	36,686,162
Preferred stocks	50,968	53,184
U.S. and corporate bonds	11,457,320	7,973,705
The Commonfund:		
Private & Small Cap. Equity	149,495	216,683
Cash surrender value of life insurance	3,332	3,332
Real estate:		
The Commonfund:		
Endowment Realty	<u>55,032</u>	<u>125,912</u>
Total	53,543,726	49,277,661
Investments held in trust by others:		
U.S. agencies	<u>3,651,898</u>	<u>3,498,179</u>
Total investments	<u><u>\$ 183,295,628</u></u>	<u><u>\$ 164,557,064</u></u>

The U. S. Treasury and agencies securities and corporate bonds were invested through banks that keep the securities in their names in safekeeping accounts at the Federal Reserve Bank. The Commonfund is a nonprofit membership corporation which provides investment management services for its member colleges, universities and independent schools and offers a series of pooled investment funds. STAR Ohio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30 of each year.

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

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**2. Cash and Investments - Continued**

The credit ratings and maturities of The University's interest-bearing investments at June 30, 2006 are as follows:

Investment	Rating (S&P)	Investment maturity (in years)			Totals
		Less than 1	1 to 5	6 to 10	
STAR Ohio	AAA	\$ 2,179,154	\$ -	\$ -	\$ 2,179,154
Commonfund-Short Term Fund	AAA	13,155,289	-	-	13,155,289
	AA	1,337,826	-	-	1,337,826
	A	6,689,130	-	-	6,689,130
Total Commonfund-Short Term Fund		21,182,245	-	-	21,182,245
U.S. agencies	AAA	63,952,258	32,806,368	4,764,950	101,523,576
U.S. and corporate bonds	AAA	4,498,014	-	-	4,498,014
	AA	425,600	-	-	425,600
	A	2,243,929	-	-	2,243,929
	BBB	284,811	-	-	284,811
	BB	363,452	-	-	363,452
	B	550,688	-	-	550,688
	Below B	285,750	-	-	285,750
Total U.S. and corporate bonds		8,652,244	-	-	8,652,244
Totals		\$ 95,965,901	\$ 32,806,368	\$ 4,764,950	\$ 133,537,219

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

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

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**3. Accounts and Notes Receivable**

Accounts and notes receivable at June 30, 2006 and 2005 consisted of the following:

	2006	2005
Accounts receivable, net:		
Federal, state, local and governments, foundations, and companies, net of allowance for doubtful accounts of \$2,326,007 and \$1,443,084, respectively	\$ 8,323,236	\$ 8,745,571
Student receivables, net of allowance for doubtful accounts of \$14,489,595 and \$12,633,698, respectively	12,591,708	12,305,490
Other, net of allowance for doubtful accounts of \$400,167 and \$335,146, respectively	915,061	854,746
Total accounts receivable, net	21,830,005	21,905,807
Notes receivable, net:		
Student notes receivables, net of allowance for doubtful notes of \$1,203,821 and \$1,215,885, respectively	10,627,363	10,935,636
Other notes receivable	849,349	965,950
Total notes receivable, net	11,476,712	11,901,586
Accounts and notes receivable, net	\$ 33,306,717	\$ 33,807,393

**4. Pledges Receivable**

Unconditional promises to give to The University recorded as pledges receivable at June 30, 2006 and 2005 were as follows:

	2006		2005	
	Pledges Receivable	Current Portion	Pledges Receivable	Current Portion
Total pledges receivable	\$ 2,788,239	\$ 1,396,115	\$ 6,628,024	\$ 4,147,666
Less: amount estimated to be uncollectible	(154,026)	(80,745)	(520,002)	(329,941)
Less: unamortized discount	(170,778)	-	(104,600)	-
Pledges receivable, net	2,463,435	\$ 1,315,370	6,003,422	\$ 3,817,725
Less: current portion	(1,315,370)		(3,817,725)	
Pledges receivable, noncurrent portion	\$ 1,148,065		\$ 2,185,697	

As of June 30, 2006 and 2005, The University has approximately \$654,000 and \$2,419,000, respectively, in numerous outstanding pledges, which are considered to be intentions to give and are contingent upon future events. These pledges are not recorded as pledges receivable because they do not represent unconditional promises to give.

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**5. Capital Assets**

Changes in capital assets during fiscal 2006 were as follows:

	Balance July 1, 2005	Additions/ Transfers	Reductions/ Transfers	Balance June 30, 2006
Nondepreciable capital assets:				
Land	\$ 20,313,888	\$ 955,770	\$ -	\$ 21,269,658
Historical collections	3,938,841	536,226	1,374,910	3,100,157
Construction in progress	3,238,773	23,832,577	8,933,111	18,138,239
Total nondepreciable capital assets	27,491,502	25,324,573	10,308,021	42,508,054
Depreciable capital assets:				
Land improvements	41,002,367	1,454,357	178,477	42,278,247
Buildings	547,865,479	7,040,408	358,794	554,547,093
Infrastructure	12,009,012	387,904	-	12,396,916
Equipment, furniture and books	103,408,415	6,454,399	5,717,176	104,145,638
Total depreciable capital assets	704,285,273	15,337,068	6,254,447	713,367,894
Total capital assets	731,776,775	40,661,641	16,562,468	755,875,948
Less accumulated depreciation:				
Land improvements	16,291,200	1,661,163	178,477	17,773,886
Buildings	175,432,549	15,917,411	273,272	191,076,688
Infrastructure	3,660,499	580,641	-	4,241,140
Equipment, furniture and books	63,034,076	7,663,219	5,215,696	65,481,599
Total accumulated depreciation	258,418,324	25,822,434	5,667,445	278,573,313
Capital assets, net	\$473,358,451	\$ 14,839,207	\$ 10,895,023	\$477,302,635

**The University of Akron**  
**Notes to Financial Statements**  
June 30, 2006 and 2005

**6. Long-term Liabilities**

Changes in long-term liabilities during fiscal 2006 were as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Notes payable:					
General receipts rental note - Series 2003A, 6.628% (imputed), due serially through 2034	\$ 41,640,000	\$ -	\$ 1,080,000	\$ 40,560,000	\$ 1,080,000
General receipts rental note - Series 2003B, 8.923% (imputed), due serially through 2018	8,385,000	-	645,000	7,740,000	645,000
Unamortized discount, Series 2003A	(24,755,000)	-	(1,080,000)	(23,675,000)	(1,080,000)
Unamortized discount, Series 2003B	(3,270,000)	-	(505,000)	(2,765,000)	(370,000)
<b>Total notes payable</b>	<b>22,000,000</b>	<b>-</b>	<b>140,000</b>	<b>21,860,000</b>	<b>275,000</b>
Bonds payable:					
General receipts bonds - Series 1997A, 3.65% to 6.0%, due serially through 2022	24,625,000	-	21,620,000	3,005,000	1,585,000
General receipts bonds - Series 1999, 4.8 to 5.125%, due serially through 2010	13,455,000	-	-	13,455,000	3,110,000
General receipts bonds - Series 2003A, 1.5% to 5.0%, due serially through 2033	43,260,000	-	1,550,000	41,710,000	1,475,000
General receipts refunding bonds - Series 2004, 3.465%, due serially through 2029	130,405,000	-	-	130,405,000	745,000
Deferred amount on refunding - Series 2004 refunding bonds	(15,249,166)	-	(642,070)	(14,607,096)	(642,070)
General receipts bonds - Series 2004B, 2.00% to 5.00%, due serially through 2035	34,375,000	-	630,000	33,745,000	645,000
General receipts refunding bonds - Series 2005, 3.50% to 5.00%, due serially through 2022	-	21,295,000	-	21,295,000	140,000
Deferred amount on refunding - Series 2005 refunding bonds	-	(859,888)	(26,871)	(833,017)	(53,743)
<b>Total bonds payable</b>	<b>230,870,834</b>	<b>20,435,112</b>	<b>23,131,059</b>	<b>228,174,887</b>	<b>7,004,187</b>
Capitalized lease obligations	5,613,963	498,370	818,984	5,293,349	715,514
Sick leave liability	3,508,475	299,180	11,836	3,795,819	1,003,052
<b>Totals</b>	<b>\$ 261,993,272</b>	<b>\$ 21,232,662</b>	<b>\$ 24,101,879</b>	<b>\$ 259,124,055</b>	<b>\$ 8,997,753</b>
Less: current portion				(8,997,753)	
<b>Long-term liabilities</b>				<b>\$ 250,126,302</b>	

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**6. Long-term Liabilities - continued**

The general receipts bonds, the general receipts refunding bonds, and the general receipts rental notes are payable from and secured by a first pledge and lien on the general receipts of The University, excluding state appropriations.

On December 14, 2005, The University issued \$21.3 million of General Receipts Refunding Bonds, Series 2005 to refund \$20.2 million of outstanding General Receipts Bonds, Series 1997 including a premium in the amount of \$218,228. This transaction will reduce the cash flow required to retire the remaining debt by \$926,000 with a current net present value benefit of \$813,000.

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

During fiscal year 2004, The University issued \$130.4 million of General Receipts Refunding Bonds, Series 2004 to refund \$113.0 million of outstanding General Receipts Bonds, Series 1999. The University entered into an interest rate exchange agreement (swap agreement) with a swap counterparty on a notional amount equal to the aggregate principal amount of the Series 2004 Bonds. This was for the purpose of hedging the exposure of The University against interest rate fluctuations arising from the variable rates borne by the Series 2004 Bonds. Under the swap agreement, The University will be the fixed rate payor, and the swap counterparty will be the floating rate payor, paying a floating rate based on the USD-LIBOR-BBA Index, which may vary from the actual rate payable by The University on the Series 2004 Bonds. With proper notice, The University can convert the existing variable rate computation mode from/to a daily, weekly, or monthly rate. Additionally, The University can convert the outstanding debt from variable to fixed. The fair value of the swap agreement is \$1,230,285 and (\$7,976,498) at June 30, 2006 and 2005, respectively.

Interest expense, net of interest income, related to the borrowings was capitalized as part of the cost of construction. At June 30, 2006 and 2005, interest on borrowings for the Series 2003A bonds was \$1,761,700 and \$1,788,300, respectively, and earnings on the proceeds were \$187,690 and \$170,733, respectively. Substantial completion on outstanding projects was determined to be 90.7% and 88.0%, respectively, resulting in net capitalized interest of \$146,383 and \$194,108, respectively. At June 30, 2006 and 2005, interest on borrowings for the Series 2004B bonds was \$1,500,694 and \$937,685, respectively, and earnings on the proceeds were \$1,136,592 and \$558,784, respectively, resulting in net capitalized interest of \$364,102 and \$378,901, respectively.

The University leases certain office facilities, computers, and duplicating equipment under operating leases. Total rental expense under operating leases during the years ended June 30, 2006 and 2005 amounted to \$1,252,000 and \$1,304,000, respectively.

# The University of Akron

## Notes to Financial Statements

June 30, 2006 and 2005

### 6. Long-term Liabilities - continued

The aggregate annual principal maturities for the general receipt rental notes, general receipt bonds, and general receipt refunding bonds for fiscal years subsequent to June 30, 2006 are as follows:

Fiscal Year:	Principal	Interest	Total
2007	\$ 7,279,187	\$ 11,420,904	\$ 18,700,091
2008	7,944,187	11,065,811	19,009,998
2009	7,379,187	10,717,622	18,096,809
2010	7,764,187	10,365,197	18,129,384
2011	8,134,187	10,023,255	18,157,442
2012-2016	40,650,934	45,279,836	85,930,770
2017-2021	49,890,934	35,681,611	85,572,545
2022-2026	55,182,777	24,304,711	79,487,488
2027-2031	49,514,307	10,796,647	60,310,954
2032-2035	16,295,000	1,543,625	17,838,625
	<u>\$ 250,034,887</u>	<u>\$ 171,199,219</u>	<u>\$ 421,234,106</u>

The University's capital leased assets consist of a chilled water tank and duplicating equipment. Future minimum lease payments as of June 30, 2006 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 by major class:

Fiscal Year:	Building	Equipment	Total
2007	\$ 107,171	\$ 817,289	\$ 924,460
2008	107,171	523,577	630,748
2009	107,171	232,809	339,980
2010	3,593,507	201,102	3,794,609
2011	-	130,751	130,751
2012-2013	-	119,924	119,924
Total minimum lease payments	3,915,020	2,025,452	5,940,472
Less amount representing interest	(342,654)	(304,469)	(647,123)
Present value of net minimum capital lease payments	<u>\$ 3,572,366</u>	<u>\$ 1,720,983</u>	<u>\$ 5,293,349</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. There were no contingent rentals earned in fiscal 2006 or 2005. During fiscal 2006 and 2005, The University also received rental receipts approximating \$454,000 and \$396,000, respectively, from renting various other campus facilities under the terms of operating lease agreements.

# The University of Akron

## Notes to Financial Statements

### June 30, 2006 and 2005

#### 7. State Support

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

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

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

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

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**8. Employee Benefit Plans**

**Retirement Plans**

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), and the law enforcement division of the Ohio Public Employees Retirement System (OPERS-LE). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS, SERS, and OPERS-LE 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).

Each retirement system issue stand-alone Comprehensive Annual Financial Reports that may be obtained by contacting:

State Teachers Retirement System 275 E. Broad Street Columbus, Ohio 43215-3371 (888) 227-7877 www.strsoh.org	School Employees Retirement System 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3746 (800) 878-5853 www.ohsers.org	Ohio Public Employees Retirement System 277 East Town Street Columbus, Ohio 43215-4642 (800) 222-7377 www.opers.org
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The ORC provides statutory authority for employee and employer contributions. The contribution rates on covered payroll and The University's contributions to each system are:

	Employee Contribution Rate	Employer Contribution Rate	The University's contributions For the years ending 6/30		
			2006	2005	2004
STRS	10.0%	14.0%	\$ 9,918,013	\$ 9,607,315	\$ 9,620,002
SERS	10.0%	14.0%	7,274,153	6,986,513	6,484,297
OPERS-LE	10.1%	16.7%	302,739	281,056	269,520
			<u>\$ 17,494,905</u>	<u>\$ 16,874,884</u>	<u>\$ 16,373,819</u>

The University's contributions are equal to the required contributions for each year.

**Other Postretirement Employee Benefits**

The University also provides certain health care benefits for dependents of retired employees and life insurance benefits for retired employees. Substantially all of The University's employees hired prior to 1992 may become eligible for those benefits if they reach normal retirement age while working for The University. During fiscal 2006 and 2005, the cost of dependent health care and retiree life insurance benefits, recognized as expense when claims and premiums were paid, totaled \$1,302,000 and \$1,477,000, respectively.

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**8. Employee Benefit Plans - Continued**

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, 2005, benefits are funded on a pay-as-you-go basis through an allocation of employer contributions equal to 1% of covered payroll to a Health Care Reserve Fund from which health care benefits are paid. The balance in the Health Care Reserve Fund was \$3.3 billion at June 30, 2005, the latest available information. For the year ended June 30, 2005, the net health care costs paid by STRS were \$254.7 million and there were 115,395 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the most recent data available, the allocation rate is 3.43%. 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 2005, the minimum pay has been established as \$27,400. 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. Net expenses for health care at June 30, 2005 were \$178.2 million. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits were \$267.5 million. The number of participants currently receiving health care benefits is 58,123.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. OPERS provides retirement, disability, and survivor benefits as well as post-retirement health care coverage. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. A portion of the employer contribution is set aside to fund the health care benefits. At June 30, 2005, the most recent data available, the portion of employer contributions for all employers allocated to health care was 4.00%. OPERS health care benefits are advanced-funded on an actuarially determined basis. The amount of employer contributions actually made to fund post-employment benefits was \$72,000. The actuarial value of the retirement system's net assets available for other post-employment benefits was \$10.8 billion as of December 31, 2004. At that date the actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively. The number of active contributing participants was 376,109.

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**8. 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. In 2005, this legislation was amended to include all full-time college employees as of August 2005. The legislation, as amended, requires employees to contribute to the ARPs at the same rates as previously stated for STRS and SERS employee contributions. The employer contributes 3.50% of their 14.00% STRS employer contribution to STRS. For SERS, no funding is contributed to SERS if hired before August 2005, and 6.00% of their 14.00% is contributed to SERS if hired after August 2005. The employer contribution rate is based on independent actuarial studies. The University's contributions for ARP employees for the years ending June 30, 2006, 2005, and 2004 were \$2,555,455, \$2,478,743, and \$2,574,706, respectively, equal to the required contributions for each year. The ARPs do not provide postretirement benefits other than pension and death benefits.

**9. Litigation, Commitments, and Contingencies**

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

In addition to purchasing insurance to cover potential losses from certain litigation, The University participates in two risk pools, along with other State universities, for commercial property coverage and commercial casualty 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 for each pool. For commercial property coverage, the next \$250,000 of any one claim is the responsibility of the pool, which has a total annual aggregate limit of \$700,000. The commercial property insurer is liable for the amount of any claim in excess of \$350,000, or \$100,000 in the event the pool has reached its annual aggregate. For commercial casualty coverage, the next \$900,000 of any one claim is the responsibility of the pool. The University purchases a \$4,000,000 liability insurance policy that sits over top of the pool.

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 by 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 \$29.4 million from the State for buildings and renovations, of which \$8.5 million has been expended as of June 30, 2006. In addition, as of June 30, 2006, several University-funded construction projects will cost an estimated \$39.4 million to complete.

**The University of Akron**  
**Notes to Financial Statements**  
June 30, 2006 and 2005

**10. Component units**

Detail of the component units' net assets at June 30, 2006 and 2005 are as follows:

	2006			2005		
	Foundation	Research Foundation	Totals	Foundation	Research Foundation	Totals
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 81,688	\$ -	\$ 81,688	\$ 75,523	\$ -	\$ 75,523
Accounts receivable, net	202,571	835,536	1,038,107	139,796	206,517	346,313
Pledges receivable, net	553,528	-	553,528	1,134,810	-	1,134,810
Prepaid expenses and deferred charges	-	149,360	149,360	-	144,240	144,240
<b>Total current assets</b>	<b>837,787</b>	<b>984,896</b>	<b>1,822,683</b>	<b>1,350,129</b>	<b>350,757</b>	<b>1,700,886</b>
<b>Restricted current assets:</b>						
Cash and cash equivalents	-	688,719	688,719	-	1,789,443	1,789,443
Pooled investments	-	3,067,296	3,067,296	-	1,058,903	1,058,903
<b>Total restricted current assets</b>	<b>-</b>	<b>3,756,015</b>	<b>3,756,015</b>	<b>-</b>	<b>2,848,346</b>	<b>2,848,346</b>
<b>Noncurrent assets:</b>						
Endowment investments	140,755,935	-	140,755,935	133,301,405	-	133,301,405
Pledges receivable, net	1,300,329	-	1,300,329	931,619	-	931,619
Capital assets, net	783,501	238,684	1,022,185	382,116	122,180	504,296
<b>Total assets</b>	<b>143,677,552</b>	<b>4,979,595</b>	<b>148,657,147</b>	<b>135,965,269</b>	<b>3,321,283</b>	<b>139,286,552</b>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Accounts payable	397,688	1,277,263	1,674,951	144,616	630,303	774,919
Accrued liabilities	109,855	59,937	169,792	111,465	45,724	157,189
Deferred revenue	-	1,157,086	1,157,086	-	1,131,514	1,131,514
<b>Total current liabilities</b>	<b>507,543</b>	<b>2,494,286</b>	<b>3,001,829</b>	<b>256,081</b>	<b>1,807,541</b>	<b>2,063,622</b>
<b>Noncurrent liabilities:</b>						
Actuarial liability for annuity/unitrust agreements	9,408,657	-	9,408,657	9,677,825	-	9,677,825
<b>Total liabilities</b>	<b>9,916,200</b>	<b>2,494,286</b>	<b>12,410,486</b>	<b>9,933,906</b>	<b>1,807,541</b>	<b>11,741,447</b>
<b>Net assets</b>						
Invested in capital assets, net	783,501	238,684	1,022,185	382,116	-	382,116
<b>Restricted:</b>						
Nonexpendable	75,320,158	-	75,320,158	73,391,597	-	73,391,597
Expendable	51,380,506	-	51,380,506	46,547,768	-	46,547,768
Unrestricted	6,277,187	2,246,625	8,523,812	5,709,882	1,513,742	7,223,624
<b>Total net assets</b>	<b>\$ 133,761,352</b>	<b>\$ 2,485,309</b>	<b>\$ 136,246,661</b>	<b>\$ 126,031,363</b>	<b>\$ 1,513,742</b>	<b>\$ 127,545,105</b>

**The University of Akron**  
Notes to Financial Statements  
June 30, 2006 and 2005

**10. Component units - Continued**

Detail of the component units' revenues, expenses, and changes in net assets at June 30, 2006 and 2005 are as follows:

	2006			2005		
	Foundation	Research Foundation	Totals	Foundation	Research Foundation	Totals
<b>Revenues</b>						
Operating revenues:						
Federal grants and contracts	\$ -	\$ 51,741	\$ 51,741	\$ -	\$ 65,254	\$ 65,254
State grants and contracts	-	-	-	-	64,937	64,937
Private grants and contracts	-	3,714,805	3,714,805	-	2,193,617	2,193,617
Gifts and contributions	6,385,092	-	6,385,092	8,582,435	-	8,582,435
Other sources	-	249,140	249,140	-	125,903	125,903
<b>Total operating revenues</b>	<b>6,385,092</b>	<b>4,015,686</b>	<b>10,400,778</b>	<b>8,582,435</b>	<b>2,449,711</b>	<b>11,032,146</b>
<b>Expenses</b>						
Operating expenses:						
Educational and general:						
Separately budgeted research	-	1,799,375	1,799,375	-	570,776	570,776
Institutional support	589,100	-	589,100	550,250	-	550,250
Depreciation	-	46,679	46,679	-	30,545	30,545
<b>Total operating expenses</b>	<b>589,100</b>	<b>1,846,054</b>	<b>2,435,154</b>	<b>550,250</b>	<b>601,321</b>	<b>1,151,571</b>
<b>Operating income</b>	<b>5,795,992</b>	<b>2,169,632</b>	<b>7,965,624</b>	<b>8,032,185</b>	<b>1,848,390</b>	<b>9,880,575</b>
<b>Nonoperating revenues (expenses)</b>						
Gifts and grants	-	80,000	80,000	-	173,373	173,373
Investment income, net	2,425,044	117,472	2,542,516	2,086,412	48,520	2,134,932
Unrealized appreciation (depreciation) on investments	7,295,105	62,296	7,357,401	4,549,111	50,000	4,599,111
Distributions to the university	(9,333,286)	(1,593,615)	(10,926,901)	(8,116,409)	(1,453,593)	(9,570,002)
Distributions on behalf of the university	(255,339)	-	(255,339)	(189,801)	-	(189,801)
Other nonoperating revenues	125,155	135,782	260,937	121,009	1,137	122,146
<b>Net nonoperating revenues (expenses)</b>	<b>256,679</b>	<b>(1,198,065)</b>	<b>(941,386)</b>	<b>(1,549,678)</b>	<b>(1,180,563)</b>	<b>(2,730,241)</b>
<b>Gain (loss) before other changes</b>	<b>6,052,671</b>	<b>971,567</b>	<b>7,024,238</b>	<b>6,482,507</b>	<b>667,827</b>	<b>7,150,334</b>
<b>Other changes</b>						
Additions to permanent endowments						
	1,677,318	-	1,677,318	3,340,124	-	3,340,124
<b>Increase (decrease) in net assets</b>	<b>7,729,989</b>	<b>971,567</b>	<b>8,701,556</b>	<b>9,822,631</b>	<b>667,827</b>	<b>10,490,458</b>
<b>Net assets</b>						
Net assets - beginning of year	126,031,363	1,513,742	127,545,105	116,208,732	845,915	117,054,647
<b>Net assets - end of year</b>	<b>\$ 133,761,352</b>	<b>\$ 2,485,309</b>	<b>\$ 136,246,661</b>	<b>\$ 126,031,363</b>	<b>\$ 1,513,742</b>	<b>\$ 127,545,105</b>

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

To the Board of Trustees of  
The University of Akron:

We have audited the financial statements of The University of Akron (“The University”), a component unit of the State of Ohio, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

## Compliance and Other Matters

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

We noted certain matters that we reported to management of The University in a separate letter dated October 20, 2006.

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 20, 2006  
Cleveland, Ohio