

# The University of Akron

## Management's Discussion and Analysis

June 30, 2007

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, 2007. 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, 2007, 2006, and 2005, the State provided approximately \$103 million, \$103 million, and \$100 million for operating and capital purposes while The University's operating losses were approximately \$91 million, \$108 million, and \$97 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, 2007, 2006, and 2005.

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

	2007	2006	2005
Assets:			
Current assets	\$ 108,975	\$ 95,528	\$ 85,552
Restricted current assets	60,417	75,594	80,757
Noncurrent assets:			
Capital	505,418	477,303	473,359
Other	72,013	65,663	63,122
Total assets	746,823	714,088	702,790
Liabilities:			
Current liabilities	66,678	62,066	53,809
Noncurrent liabilities	254,032	262,582	269,720
Total liabilities	320,710	324,648	323,529
Net assets:			
Invested in capital assets, net of related debt	268,202	257,940	257,408
Restricted:			
Nonexpendable	35,426	32,067	30,057
Expendable	45,428	34,279	33,618
Unrestricted	77,057	65,154	58,178
Total net assets	\$ 426,113	\$ 389,440	\$ 379,261

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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 \$13.4 million and \$10 million during 2007 and 2006, respectively. There were variations among many of the current asset categories, but the principal cause of the changes are from a \$9.1 million and a \$13.1 million increase in 2007 and 2006, 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 2007 and 2006, 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 \$15.2 million and \$5.2 million during 2007 and 2006, respectively. 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 \$32 million and \$6.5 million during 2007 and 2006, respectively. While there were variations among the categories, the increases are largely attributable to a \$28.1 million increase in 2007 and a \$5.3 million increase in 2006 within capital assets.

*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 \$4.6 million and \$8.3 million during 2007 and 2006, respectively. There were variations among many of the current liability categories, but the principal cause of the 2007 increase was a \$2.3 million increase accounts payable. The 2006 increase was caused by 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.

*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 2007, the \$7.7 million decrease was due to payments made on The University's long term debt. 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.

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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 2007 and 2006, net assets increased approximately 9.4% and 2.7%, respectively, or \$36.7 million and \$10.2 million, respectively.

Table 2 summarizes The University's Changes in Net Assets for the years ended June 30, 2007, 2006, and 2005.

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

	2007	2006	2005
Operating revenues:			
Tuition and fees	\$ 165,523	\$ 135,677	\$ 136,482
Grants and contracts	45,752	43,937	39,794
Sales and services	10,707	10,840	8,975
Auxiliary enterprises	41,357	46,965	45,457
Other operating revenues	450	285	339
Total operating revenues	263,789	237,704	231,047
Total operating expenses	354,890	345,734	328,480
Operating loss	(91,101)	(108,030)	(97,433)
Nonoperating revenues (expenses)			
State appropriations	93,992	93,867	95,401
Other nonoperating revenues, net	22,721	15,230	15,513
Net nonoperating revenues	116,713	109,097	110,914
Gain (loss) before other changes	25,612	1,067	13,481
Other changes:			
Capital appropriations	9,807	9,491	4,904
Capital gifts and grants	1,101	1,524	827
Additions to permanent endowments	153	(1,903)	1,083
Total other changes	11,061	9,112	6,814
Increase in net assets	36,673	10,179	20,295
Net assets:			
Net assets - beginning of year	389,440	379,261	358,966
Net assets - end of year	\$ 426,113	\$ 389,440	\$ 379,261

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## Management's Discussion and Analysis - Continued

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The student tuition and fees increased \$29.8 million or 22% during 2007 and decreased approximately \$0.8 million or 0.6% during 2006. The observed changes in tuition and fees are attributed to the student headcount, student credit hours taken, and fees charged. The University's total student headcount increased 4% in 2007 and decreased 3% in 2006. Along with headcount, the total student credit hours (or actual courses taken) increased 5% in 2007 and decreased 2% in 2006. The University enacted tuition and fee increases for 2007 and 2006 of 5.66% and 5.57%, respectively, along with additional fees and surcharges.

In addition to the fees collected, GASB requires the portion of student aid which is provided in the form of reduced tuition to be reported as a reduction of revenue. This reduction, or scholarship allowance, remained constant at \$35.7 million in 2007 and increased \$0.7 million to \$35.7 million in 2006.

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 remained constant in 2007 and increased \$1.5 million in 2006. 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 remained constant in 2007 and decreased \$1.6 million in 2006, the other changes during 2007 and 2006 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 (OBOR) based upon certain formulas and a capital plan provided by The University. The capital appropriations increased \$0.3 million for 2007 and increased \$4.6 million in 2006.

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 \$31.7 million in 2007 and \$31 million in 2006, followed by private revenues at \$10 million in 2007 and \$8.6 million in 2006. The combined state and local revenues were \$4.1 million in 2007 and \$4.3 million in 2006.

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 \$16.7 million during 2007 and \$16.6 million during 2006. Meanwhile, one of the larger private sources for 2007 and 2006 was The Robert Woods Johnson Foundation which provided approximately \$1.5 million in 2007 and \$2 million in 2006, respectively. The efforts of this grant are directed towards evaluating the results of the national D.A.R.E. program. Another large private source in 2007 was The Knight Foundation which provided \$1.7 million for the University Park Alliance. The University Park Alliance's mission is to revitalize the diverse neighborhoods in a 40-block area immediately surrounding the University of Akron. The state and local revenues consisted of multiple smaller dollar awards.

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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 decreased \$5.6 million in 2007 and increased \$1.5 million in 2006. The predominant revenues within this area are from dining facilities, residence halls, and parking services. During 2007, the revenues generated from those three areas represented \$12.2 million, \$12.5 million, and \$5.2 million, respectively, or 72.2% of the total \$41.4 million revenues. During 2006, the revenues generated from those three areas represented \$9.2 million, \$10.9 million, and \$5.2 million, respectively, or 53.9% of the total \$47 million revenues.

Sales and services revenue are from certain operations, which provide services to both students and other departments within The University campus. The most significant of these operations was Computer Solutions, which generated sales totaling \$3.8 million for 2007 and \$4.3 million for 2006.

Investment income, including the unrealized change in fair value of investments totaled \$18.3 million and \$9.8 million during 2007 and 2006, respectively. Investment income increased \$8.5 and \$4.4 million in 2007 and 2006, 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 \$8.9 million net increase in 2007 and \$3.9 million net decrease in 2006 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 2007 and 2006, gifts and grants and additions to permanent endowments totaled \$16.5 million and \$14.9 million, respectively while capital related contributions totaled \$1.1 million and \$1.5 million, respectively.

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## Management's Discussion and Analysis - Continued

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The educational and general expenses category is the single largest category of expenses and includes all academic and administrative support salary and benefit related costs. Overall, these expenses increased nearly 2.1% and 5.3% during 2007 and 2006, respectively. During 2007, the most notable increase of \$4.1 million occurred within scholarships and fellowships. 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.

Auxiliary enterprises expenses result from those operations, which as previously noted, predominantly furnish goods or services to students, faculty, staff, or the general public. Auxiliary enterprise expenses increased \$2.7 million in 2007 and \$3.3 million during 2006. The largest increase during 2007 occurred with dining services which opened new retail locations and provided additional services. The largest increase during 2006 occurred in the residence halls with additional expenses occurring due to new housing opening to students.

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 \$0.5 million in 2007 and increased \$2.8 million in 2006 due to changing levels of capital asset purchases related to the capital project initiative.

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 \$0.7 million and \$0.6 million during 2007 and 2006, respectively. The 2007 and 2006 losses occurred with the removal of buildings 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 2007, interest expense increased by \$0.8 million to \$11.7 million and decreased \$0.5 million to \$10.9 million in 2006.

### **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 2007 and 2006, additions to capital assets approximated \$30.6 million and \$16.8 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 \$221.2 million in 2007 and \$228.2 million in 2006. No additional long-term debt was issued during 2007. 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. The University continued to make payments on other outstanding debt for a total of \$8.0 million. The long-term debt activity is reflected in more thorough detail within Note 6 of the financial statements.

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## Management's Discussion and Analysis - Continued

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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 2007 and 2006, those two revenue sources alone represented \$259.5 million and \$229.5 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 \$136.3 and \$141.7 million, respectively.

A second phase of the New Landscape for Learning campus enhancement initiative has been announced. This phase includes a new on-campus stadium to replace the Rubber Bowl, the purchase of the Quaker Square properties to be used for residence halls, office space, and academics, and other enhancements to the campus such as residence halls and parking.

The Northeast Ohio Universities Collaboration Innovation Study Commission has been established as a part of House Bill 699 of Ohio's 126<sup>th</sup> General Assembly. This legislation stated that the commission "shall develop a plan and may make legislative or other logistical recommendations for the following, with respect to The University of Akron, Cleveland State University, Kent State University, the Northeastern Ohio Universities College of Medicine and Pharmacy, and Youngstown State University." The Commission is to submit its plan and recommendations to the Governor and the General Assembly no later than December 2007.

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 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, 2007 and 2006, 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 16, 2007 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, 2007. 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 16, 2007  
Cleveland, Ohio

# The University of Akron

## Statements of Net Assets

June 30, 2007 and 2006

ASSETS	The University of Akron		Component Units	
	2007	2006	2007	2006
<b>Current assets:</b>				
Cash and cash equivalents	\$ 159,174	\$ 180,949	\$ 84,947	\$ 81,688
Pooled investments	69,928,371	60,808,182	-	-
Investments held in trust by others	3,583,572	3,651,898	-	-
Accounts receivable, net	24,936,326	21,830,005	773,330	1,038,107
Pledges receivable, net	1,465,706	1,315,370	1,582,990	553,528
Notes receivable, net	2,096,170	2,225,557	-	-
Accrued interest receivable	1,780,226	714,856	-	-
Inventories	951,065	890,903	-	-
Prepaid expenses and deferred charges	4,074,609	3,910,643	152,276	151,200
Deposits	-	-	10,458	-
<b>Total current assets</b>	<b>108,975,219</b>	<b>95,528,363</b>	<b>2,604,001</b>	<b>1,824,523</b>
<b>Restricted current assets:</b>				
Cash and cash equivalents	5,778,813	10,302,056	3,251,576	688,719
Pooled investments	54,638,033	65,291,822	1,981,691	3,067,296
<b>Total restricted current assets</b>	<b>60,416,846</b>	<b>75,593,878</b>	<b>5,233,267</b>	<b>3,756,015</b>
<b>Noncurrent assets:</b>				
Endowment investments	60,385,624	53,543,726	159,945,079	140,755,935
Pledges receivable, net	1,183,576	1,148,065	2,182,523	1,300,329
Notes receivable, net	8,805,444	9,251,155	-	-
Prepaid expenses and deferred charges	1,638,133	1,720,394	-	-
Capital assets, net	505,418,068	477,302,635	9,659,962	1,020,345
<b>Total assets</b>	<b>746,822,910</b>	<b>714,088,216</b>	<b>179,624,832</b>	<b>148,657,147</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	10,213,766	7,898,268	1,649,512	1,674,951
Accrued liabilities	15,401,465	14,597,579	252,761	169,792
Accrued interest payable	5,244,686	4,801,616	-	-
Deferred revenue	25,201,202	24,910,799	756,795	1,157,086
Deposits	865,702	860,668	-	-
Current portion of long-term liabilities	9,750,756	8,997,753	-	-
<b>Total current liabilities</b>	<b>66,677,577</b>	<b>62,066,683</b>	<b>2,659,068</b>	<b>3,001,829</b>
<b>Noncurrent liabilities:</b>				
Refundable federal student loans	11,619,271	11,515,276	-	-
Deferred revenue	-	940,020	-	-
Actuarial liability for annuity/unitrust agreements	-	-	10,301,576	9,408,657
Long-term liabilities	242,413,221	250,126,302	2,925,000	-
<b>Total liabilities</b>	<b>320,710,069</b>	<b>324,648,281</b>	<b>15,885,644</b>	<b>12,410,486</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	268,201,848	257,940,000	6,734,962	1,020,345
<b>Restricted:</b>				
<b>Nonexpendable:</b>				
Endowment	35,426,070	32,066,625	86,706,703	75,320,158
<b>Expendable:</b>				
Current operations	21,111,069	18,345,129	63,639,471	51,380,506
Loans	583,789	550,301	-	-
Capital projects	24,940,029	16,069,567	-	-
Debt service	(1,206,680)	(685,375)	-	-
Unrestricted	77,056,716	65,153,688	6,658,052	8,525,652
<b>Total net assets</b>	<b>\$ 426,112,841</b>	<b>\$ 389,439,935</b>	<b>\$ 163,739,188</b>	<b>\$ 136,246,661</b>

**The University of Akron**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2007 and 2006**

	The University of Akron		Component Units	
	2007	2006	2007	2006
<b>REVENUES</b>				
Operating revenues:				
Student tuition and fees (net of scholarship allowance of \$35,768,490 and \$35,673,974)	\$ 165,522,955	\$ 135,677,043	\$ -	\$ -
Federal grants and contracts	31,690,324	31,028,036	113,150	51,741
State grants and contracts	3,344,652	3,498,798	-	-
Local grants and contracts	717,443	775,070	-	-
Private grants and contracts	9,999,166	8,634,444	7,879,306	3,714,805
Gifts and contributions	-	-	5,532,002	6,385,092
Sales and services	10,706,735	10,840,254	-	-
Auxiliary enterprises	41,356,923	46,965,351	-	-
Other sources	450,464	285,197	464,968	249,140
<b>Total operating revenues</b>	<b>263,788,662</b>	<b>237,704,193</b>	<b>13,989,426</b>	<b>10,400,778</b>
<b>EXPENSES</b>				
Operating expenses:				
Educational and general:				
Instruction and departmental research	115,903,174	113,219,057	-	-
Separately budgeted research	16,615,811	18,066,085	4,910,906	1,799,375
Public service	15,572,331	15,659,782	-	-
Academic support	28,716,106	27,717,555	-	-
Student services	11,430,039	11,404,479	-	-
Institutional support	45,940,771	47,218,862	630,598	589,100
Operation and maintenance of plant	24,622,530	23,780,821	-	-
Scholarships and fellowships	22,145,035	18,026,231	-	-
Auxiliary enterprises	46,910,453	44,232,255	-	-
Depreciation	26,323,502	25,822,434	54,375	46,679
Loss on disposal of property	710,281	587,003	-	-
<b>Total operating expenses</b>	<b>354,890,033</b>	<b>345,734,564</b>	<b>5,595,879</b>	<b>2,435,154</b>
Operating (loss) income	(91,101,371)	(108,030,371)	8,393,547	7,965,624
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	93,991,737	93,867,542	-	-
Gifts and grants	5,230,440	6,084,280	-	80,000
Investment income, net	11,346,620	11,783,948	3,290,892	2,542,516
Unrealized appreciation (depreciation) on investments, net	7,005,685	(1,944,281)	18,017,042	7,357,401
Interest on debt	(11,698,114)	(10,924,161)	(26,189)	-
Distributions to the university	11,144,506	10,926,901	(11,144,506)	(10,926,901)
Distributions on behalf of the university	-	-	(393,802)	(255,339)
Other nonoperating revenues (expenses)	(307,646)	(696,763)	412,552	260,937
<b>Net nonoperating revenues (expenses)</b>	<b>116,713,228</b>	<b>109,097,466</b>	<b>10,155,989</b>	<b>(941,386)</b>
Income before other changes	25,611,857	1,067,095	18,549,536	7,024,238
<b>OTHER CHANGES</b>				
State capital appropriations	9,807,016	9,491,037	-	-
Capital gifts and grants	1,101,438	1,523,939	-	-
Additions (reductions) to permanent endowments	152,595	(1,902,777)	8,942,991	1,677,318
<b>Total other changes</b>	<b>11,061,049</b>	<b>9,112,199</b>	<b>8,942,991</b>	<b>1,677,318</b>
Increase in net assets	36,672,906	10,179,294	27,492,527	8,701,556
<b>NET ASSETS</b>				
Net assets - beginning of year	389,439,935	379,260,641	136,246,661	127,545,105
Net assets - end of year	<b>\$ 426,112,841</b>	<b>\$ 389,439,935</b>	<b>\$ 163,739,188</b>	<b>\$ 136,246,661</b>

# The University of Akron

## Statements of Cash Flows

June 30, 2007 and 2006

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 164,103,810	\$ 135,701,123
Grants and contracts	46,622,335	42,818,188
Auxiliary enterprises	40,483,225	47,692,744
Sales and service of educational activities	10,706,735	10,840,254
Payments to suppliers	(84,319,562)	(87,901,648)
Payments for compensation and benefits	(219,307,663)	(213,413,728)
Payments for scholarships and fellowships	(12,758,861)	(9,525,850)
Loans issued to students	(1,576,023)	(1,728,285)
Collection of loans to students	2,030,973	2,036,557
Other payments	(7,707,365)	(4,080,958)
	(61,722,396)	(77,561,603)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	93,991,737	93,867,542
Gifts for other than capital purposes	14,843,622	15,673,125
Private gifts for endowment purposes	548,672	1,601,609
Other payments	(307,645)	(696,763)
	109,076,386	110,445,513
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
(Proceeds from) payment for capital debt	(940,020)	21,170,846
Capital appropriations	11,301,912	8,054,065
Capital grants and gifts received	1,555,621	4,350,656
Purchases of capital assets	(56,508,109)	(28,837,005)
Principal paid on capital debt and leases	(8,695,465)	(26,236,635)
Interest paid on capital debt and leases	(12,922,067)	(11,179,696)
Collection of loans issued for capital purposes	120,148	116,602
	(66,087,980)	(32,561,167)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	367,068,872	404,551,295
Interest on investments	12,411,990	11,997,509
Purchase of investments	(365,291,890)	(423,289,858)
	14,188,972	(6,741,054)
Net decrease in cash	(4,545,018)	(6,418,311)
Cash and cash equivalents - beginning of the year	10,483,005	16,901,316
Cash and cash equivalents - end of the year	\$ 5,937,987	\$ 10,483,005

(continued)

# The University of Akron

## Statements of Cash Flows

June 30, 2007 and 2006

	2007	2006
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (91,101,371)	\$ (108,030,371)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	26,323,502	25,822,434
Loss on disposal of property	710,281	587,003
Changes in assets and liabilities:		
Accounts receivable, net	(2,098,903)	(183,324)
Notes receivable, net	454,950	308,272
Inventories	(60,162)	425,510
Prepaid expenses and deferred charges	(227,737)	138,649
Accounts payable	2,066,049	627,260
Accrued liabilities	803,886	1,582,522
Deferred revenue	290,403	861,278
Deposits held for others	5,034	(185,512)
Sick leave liability	989,973	287,344
Refundable federal student loans	121,699	197,332
	\$ (61,722,396)	\$ (77,561,603)
Net cash used in operating activities	\$ (61,722,396)	\$ (77,561,603)

# The University of Akron

## Notes to Financial Statements

June 30, 2007 and 2006

### 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. The University is exempt from federal income taxes under Section 115 of the Internal Revenue Code, except for unrelated business income.

In addition to the main campus, The University operates one branch campus, Wayne College in Orrville, Ohio, and two educational centers, the Medina County University Center in Medina, Ohio, and the Holmes County Higher Education Center in Millersburg, Ohio.

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 the Northeastern Ohio Universities College of Medicine and Pharmacy (NEOUCOM) in 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. 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, 2007 and 2006

### 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, 2007 and 2006

### 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:

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, 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, 2007 and 2006

### 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, 2007 and 2006

### 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, 2007 and 2006, student-related grants amount to approximately \$19.7 million and \$19.1 million, respectively, with the balance of \$12.0 million and \$11.9 million, respectively, related to sponsored programs.

#### Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentations.

#### 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, 2007 and 2006, the carrying amounts of The University's bank deposits and interest bearing cash equivalents were \$5,937,987 and \$10,483,005 as compared to bank balances of \$7,637,382 and \$13,498,805, respectively. The differences between carrying amounts and bank balances were caused by items in-transit. Of the June 30, 2007 and 2006 bank balances, \$7,192,669 and \$13,055,927, 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, 2007 and 2006

**2. Cash and Investments - Continued**

	2007 <u>Fair Value</u>	2006 <u>Fair Value</u>
Pooled investments:		
Repurchase agreement	\$ 1,122,794	\$ -
STAR Ohio	4,557,578	2,179,154
The Commonfund: Short Term Fund	3,042,969	22,297,100
U.S. agencies	<u>115,843,063</u>	<u>101,623,750</u>
Total	124,566,404	126,100,004
Endowment investments:		
Marketable securities:		
U.S. Treasury	2,535,366	2,921,837
U.S. agencies	1,435,767	950,328
Common stocks	44,384,397	37,955,414
Preferred stocks	50,414	50,968
U.S. and corporate bonds	11,872,342	11,457,320
The Commonfund:		
Private & Small Cap. Equity	103,770	149,495
Cash surrender value of life insurance	3,332	3,332
Real estate:		
The Commonfund: Endowment Realty	<u>236</u>	<u>55,032</u>
Total	60,385,624	53,543,726
Investments held in trust by others:		
U.S. agencies	<u>3,583,572</u>	<u>3,651,898</u>
Total investments	<u>\$ 188,535,600</u>	<u>\$ 183,295,628</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, 2007 and 2006

**2. Cash and Investments - Continued**

The credit ratings and maturities of The University's interest-bearing investments at June 30, 2007 are as follows:

Investment	Rating (S&P)	Investment maturity (in years)				Totals
		Less than 1	1 to 5	6 to 10	More than 10	
Repurchase Agreement	AAA	\$ 1,122,794	\$ -	\$ -	\$ -	\$ 1,122,794
STAR Ohio	AAA	4,557,578	-	-	-	4,557,578
Commonfund-Short Term Fund	AAA	1,764,922	-	-	-	1,764,922
	AA	243,437	-	-	-	243,437
	A	973,750	-	-	-	973,750
Total Commonfund-Short Term Fund		2,982,109	-	-	-	2,982,109
U.S. agencies	AAA	66,608,955	35,467,817	11,690,920	2,003,760	115,771,452
U.S. and corporate bonds	AAA	5,565,822	-	-	-	5,565,822
	AA	1,127,502	-	-	-	1,127,502
	A	1,300,068	-	-	-	1,300,068
	BBB	442,737	-	-	-	442,737
	BB	282,476	-	-	-	282,476
	Below BB	139,492	-	-	-	139,492
Total U.S. and corporate bonds		8,858,097	-	-	-	8,858,097
Totals		\$ 84,129,533	\$ 35,467,817	\$ 11,690,920	\$ 2,003,760	\$ 133,292,030

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	More than 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 University of Akron**  
Notes to Financial Statements  
June 30, 2007 and 2006

**3. Accounts and Notes Receivable**

Accounts and notes receivable at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Accounts receivable, net:		
Federal, state, local and governments, foundations, and companies, net of allowance for doubtful accounts of \$123,666 and \$2,326,007, respectively	\$ 12,293,461	\$ 8,323,236
Student receivables, net of allowance for doubtful accounts of \$16,450,536 and \$14,489,595, respectively	11,783,115	12,591,708
Other, net of allowance for doubtful accounts of \$325,256 and \$400,167, respectively	<u>859,750</u>	<u>915,061</u>
Total accounts receivable, net	24,936,326	21,830,005
Notes receivable, net:		
Student notes receivables, net of allowance for doubtful notes of \$1,301,637 and \$1,203,821, respectively	10,172,414	10,627,363
Other notes receivable	<u>729,200</u>	<u>849,349</u>
Total notes receivable, net	<u>10,901,614</u>	<u>11,476,712</u>
Accounts and notes receivable, net	<u>\$ 35,837,940</u>	<u>\$ 33,306,717</u>

**4. Pledges Receivable**

Unconditional promises to give to The University recorded as pledges receivable at June 30, 2007 and 2006 were as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Pledges Receivable</u>	<u>Current Portion</u>	<u>Pledges Receivable</u>	<u>Current Portion</u>
Total pledges receivable	\$ 2,973,005	\$ 1,544,468	\$ 2,788,239	\$ 1,396,115
Less: amount estimated to be uncollectible	(142,364)	(78,762)	(154,026)	(80,745)
Less: unamortized discount	<u>(181,359)</u>	-	<u>(170,778)</u>	-
Pledges receivable, net	2,649,282	<u>\$ 1,465,706</u>	2,463,435	<u>\$ 1,315,370</u>
Less: current portion	<u>(1,465,706)</u>		<u>(1,315,370)</u>	
Pledges receivable, noncurrent portion	<u>\$ 1,183,576</u>		<u>\$ 1,148,065</u>	

As of June 30, 2007 and 2006, The University has approximately \$1,878,000 and \$654,000, 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, 2007 and 2006

**5. Capital Assets**

Changes in capital assets during fiscal 2007 were as follows:

	Balance July 1, 2006	Additions/ Transfers	Reductions/ Transfers	Balance June 30, 2007
Nondepreciable capital assets:				
Land	\$ 21,269,658	\$ 986,964	\$ -	\$ 22,256,622
Historical collections	3,100,157	15,000	5,000	3,110,157
Construction in progress	18,138,239	47,286,994	22,745,194	42,680,039
Total nondepreciable capital assets	42,508,054	48,288,958	22,750,194	68,046,818
Depreciable capital assets:				
Land improvements	42,278,247	726,008	44,008	42,960,247
Buildings	554,547,093	20,136,155	363,662	574,319,586
Infrastructure	12,396,916	296,674	-	12,693,590
Equipment, furniture and books	104,145,638	8,446,616	7,789,225	104,803,029
Total depreciable capital assets	713,367,894	29,605,453	8,196,895	734,776,452
Total capital assets	755,875,948	77,894,411	30,947,089	802,823,270
Less accumulated depreciation:				
Land improvements	17,773,886	1,699,656	44,008	19,429,534
Buildings	191,076,688	16,316,840	186,727	207,206,801
Infrastructure	4,241,140	597,756	-	4,838,896
Equipment, furniture and books	65,481,599	7,709,250	7,260,878	65,929,971
Total accumulated depreciation	278,573,313	26,323,502	7,491,613	297,405,202
Capital assets, net	\$477,302,635	\$ 51,570,909	\$ 23,455,476	\$505,418,068

**The University of Akron**  
**Notes to Financial Statements**  
June 30, 2007 and 2006

**6. Long-term Liabilities**

Changes in long-term liabilities during fiscal 2007 were as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Notes payable:					
General receipts rental note - Series 2003A, 6.628% (imputed), due serially through 2034	\$ 40,560,000	\$ -	\$ 1,080,000	\$ 39,480,000	\$ 1,080,000
General receipts rental note - Series 2003B, 8.923% (imputed), due serially through 2018	7,740,000	-	645,000	7,095,000	645,000
Unamortized discount, Series 2003A	(23,675,000)	-	(1,080,000)	(22,595,000)	(1,080,000)
Unamortized discount, Series 2003B	(2,765,000)	-	(370,000)	(2,395,000)	(350,000)
<b>Total notes payable</b>	<b>21,860,000</b>	<b>-</b>	<b>275,000</b>	<b>21,585,000</b>	<b>295,000</b>
Bonds payable:					
General receipts bonds - Series 1997A, 3.65% to 6.0%, due serially through 2022	3,005,000	-	1,585,000	1,420,000	1,420,000
General receipts bonds - Series 1999, 4.8 to 5.125%, due serially through 2010	13,455,000	-	3,110,000	10,345,000	3,275,000
General receipts bonds - Series 2003A, 1.5% to 5.0%, due serially through 2033	41,710,000	-	1,475,000	40,235,000	1,555,000
General receipts refunding bonds - Series 2004, 3.465%, due serially through 2029	130,405,000	-	745,000	129,660,000	1,290,000
Deferred amount on refunding - Series 2004 refunding bonds	(14,607,096)	-	(642,070)	(13,965,026)	(642,070)
General receipts bonds - Series 2004B, 2.00% to 5.00%, due serially through 2035	33,745,000	-	645,000	33,100,000	660,000
General receipts refunding bonds - Series 2005, 3.50% to 5.00%, due serially through 2022	21,295,000	-	140,000	21,155,000	145,000
Deferred amount on refunding - Series 2005 refunding bonds	(833,017)	-	(53,743)	(779,274)	(53,743)
<b>Total bonds payable</b>	<b>228,174,887</b>	<b>-</b>	<b>7,004,187</b>	<b>221,170,700</b>	<b>7,649,187</b>
Capitalized lease obligations	5,293,349	49,601	720,465	4,622,485	461,644
Sick leave liability	3,795,819	991,481	1,508	4,785,792	1,344,925
<b>Totals</b>	<b>\$ 259,124,055</b>	<b>\$ 1,041,082</b>	<b>\$ 8,001,160</b>	<b>\$ 252,163,977</b>	<b>\$ 9,750,756</b>
Less: current portion				(9,750,756)	
<b>Long-term liabilities</b>				<b>\$ 242,413,221</b>	

**The University of Akron**  
Notes to Financial Statements  
June 30, 2007 and 2006

**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.

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 \$871,101 and \$1,230,285 at June 30, 2007 and 2006, respectively.

Interest expense, net of interest income, related to the borrowings was capitalized as part of the cost of construction. At June 30, 2007 and 2006, interest on borrowings for the Series 2003A bonds was \$1,731,450 and \$1,761,700, respectively, and earnings on the proceeds were \$66,220 and \$187,690, respectively. Substantial completion on outstanding projects was determined to be 90.7% in 2007 and 2006 resulting in net capitalized interest of \$154,866 and \$146,383, respectively. At June 30, 2007 and 2006, interest on borrowings for the Series 2004B bonds was \$1,487,944 and \$1,500,694, respectively, and earnings on the proceeds were \$861,927 and \$1,136,592, respectively, resulting in net capitalized interest of \$626,017 and \$364,102, 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, 2007 and 2006 amounted to approximately \$1,552,000 and \$1,252,000, respectively.

# The University of Akron

## Notes to Financial Statements

June 30, 2007 and 2006

### 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, 2007 are as follows:

Fiscal Year:	Principal	Interest	Total
2008	\$ 7,944,187	\$ 11,119,554	\$ 19,063,741
2009	7,379,187	10,771,365	18,150,552
2010	7,764,187	10,418,940	18,183,127
2011	8,134,187	10,076,998	18,211,185
2012	7,954,187	9,759,897	17,714,084
2013-2017	41,785,934	43,827,499	85,613,433
2018-2022	52,212,805	33,717,613	85,930,418
2023-2027	55,979,649	21,936,348	77,915,997
2028-2032	43,006,377	8,138,612	51,144,989
2033-2035	10,595,000	790,763	11,385,763
	<u>\$ 242,755,700</u>	<u>\$ 160,557,589</u>	<u>\$ 403,313,289</u>

The University's capital leased assets consist of a chilled water tank and duplicating equipment. Future minimum lease payments as of June 30, 2007 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
2008	\$ 107,171	\$ 534,952	\$ 642,123
2009	107,171	244,185	351,356
2010	3,593,507	212,478	3,805,985
2011	-	142,127	142,127
2012	-	90,349	90,349
2013	-	35,272	35,272
Total minimum lease payments	3,807,849	1,259,363	5,067,212
Less amount representing interest	<u>(235,483)</u>	<u>(209,244)</u>	<u>(444,727)</u>
Present value of net minimum capital lease payments	<u>\$ 3,572,366</u>	<u>\$ 1,050,119</u>	<u>\$ 4,622,485</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 2007 or 2006. During fiscal 2007 and 2006, The University also received rental receipts approximating \$438,000 and \$454,000, respectively, from renting various other campus facilities under the terms of operating lease agreements.

# The University of Akron

## Notes to Financial Statements

### June 30, 2007 and 2006

#### 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, 2007 and 2006

### 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		
			2007	2006	2005
STRS	10.00%	14.00%	\$ 10,175,165	\$ 9,918,013	\$ 9,607,315
SERS	10.00%	14.00%	7,491,065	7,274,153	6,986,513
OPERS-LE	10.10%	16.93%	308,039	302,739	281,056
			<u>\$ 17,974,269</u>	<u>\$ 17,494,905</u>	<u>\$ 16,874,884</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 2007 and 2006, the cost of dependent health care and retiree life insurance benefits, recognized as expense when claims and premiums were paid, totaled \$1,552,000 and \$1,302,000, respectively.

# The University of Akron

## Notes to Financial Statements

June 30, 2007 and 2006

### 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, 2006, 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 Stabilization Fund from which health care benefits are paid. The balance in the Health Care Stabilization Fund was \$3.5 billion at June 30, 2006, the latest available information. For the year ended June 30, 2006, the net health care costs paid by STRS were \$282.7 million and there were 119,184 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, 2006, the most recent data available, the allocation rate is 3.42%. 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 2006, the minimum pay has been established as \$35,800. 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, 2006 were \$158.8 million. At June 30, 2006, the Retirement System's net assets available for payment of health care benefits were \$295.6 million. The number of participants currently receiving health care benefits is 59,492.

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, 2006, the most recent data available, the portion of employer contributions for all employers allocated to health care was 4.50%. 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 approximately \$82,000. The actuarial value of the retirement system's net assets available for other post-employment benefits was \$11.1 billion as of December 31, 2005. At that date the actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively. The number of active contributing participants was 369,214.

# The University of Akron

## Notes to Financial Statements

June 30, 2007 and 2006

### 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, 2007, 2006, and 2005 were \$3,334,750, \$2,555,455, and \$2,478,743, 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 \$32.6 million from the State for buildings and renovations, of which \$3.0 million has been expended as of June 30, 2007. In addition, as of June 30, 2007, several University-funded construction projects will cost an estimated \$20.6 million to complete.

**The University of Akron**  
Notes to Financial Statements  
June 30, 2007 and 2006

**10. Component units**

Detail of the component units' net assets at June 30, 2007 and 2006 are as follows:

	2007			2006		
	Foundation	Research Foundation	Totals	Foundation	Research Foundation	Totals
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 84,947	\$ -	\$ 84,947	\$ 81,688	\$ -	\$ 81,688
Accounts receivable, net	248,009	525,321	773,330	202,571	835,536	1,038,107
Pledges receivable, net	1,582,990	-	1,582,990	553,528	-	553,528
Prepaid expenses and deferred charges	-	116,233	116,233	-	151,200	151,200
Deposits	-	10,458	10,458	-	-	-
Total current assets	1,915,946	652,012	2,567,958	837,787	986,736	1,824,523
Restricted current assets:						
Cash and cash equivalents	-	3,251,576	3,251,576	-	688,719	688,719
Pooled investments	-	1,981,691	1,981,691	-	3,067,296	3,067,296
Total restricted current assets	-	5,233,267	5,233,267	-	3,756,015	3,756,015
Noncurrent assets:						
Endowment investments	159,945,079	-	159,945,079	140,755,935	-	140,755,935
Pledges receivable, net	2,182,523	-	2,182,523	1,300,329	-	1,300,329
Capital assets, net	5,653,501	4,006,461	9,659,962	783,501	236,844	1,020,345
Total assets	169,697,049	9,891,740	179,588,789	143,677,552	4,979,595	148,657,147
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	434,774	1,214,738	1,649,512	397,688	1,277,263	1,674,951
Accrued liabilities	118,001	134,760	252,761	109,855	59,937	169,792
Deferred revenue	-	756,795	756,795	-	1,157,086	1,157,086
Total current liabilities	552,775	2,106,293	2,659,068	507,543	2,494,286	3,001,829
Noncurrent liabilities:						
Actuarial liability for annuity/unitrust agreements	10,301,576	-	10,301,576	9,408,657	-	9,408,657
Long-term liabilities	-	2,925,000	2,925,000	-	-	-
Total liabilities	10,854,351	5,031,293	15,885,644	9,916,200	2,494,286	12,410,486
<b>Net assets</b>						
Invested in capital assets, net	5,653,501	1,081,461	6,734,962	783,501	238,684	1,022,185
Restricted:						
Nonexpendable	86,706,703	-	86,706,703	75,320,158	-	75,320,158
Expendable	63,639,471	-	63,639,471	51,380,506	-	51,380,506
Unrestricted	2,843,023	3,778,986	6,622,009	6,277,187	2,246,625	8,523,812
Total net assets	\$ 158,842,698	\$ 4,860,447	\$ 163,703,145	\$ 133,761,352	\$ 2,485,309	\$ 136,246,661

**The University of Akron**  
**Notes to Financial Statements**  
June 30, 2007 and 2006

**10. Component units - Continued**

Detail of the component units' revenues, expenses, and changes in net assets at June 30, 2007 and 2006 are as follows:

	2007			2006		
	Foundation	Research Foundation	Totals	Foundation	Research Foundation	Totals
<b>Revenues</b>						
Operating revenues:						
Federal grants and contracts	\$ -	\$ 113,150	\$ 113,150	\$ -	\$ 51,741	\$ 51,741
State grants and contracts	-	-	-	-	-	-
Private grants and contracts	-	7,879,306	7,879,306	-	3,714,805	3,714,805
Gifts and contributions	5,532,002	-	5,532,002	6,385,092	-	6,385,092
Other sources	-	464,968	464,968	-	249,140	249,140
<b>Total operating revenues</b>	<b>5,532,002</b>	<b>8,457,424</b>	<b>13,989,426</b>	<b>6,385,092</b>	<b>4,015,686</b>	<b>10,400,778</b>
<b>Expenses</b>						
Operating expenses:						
Educational and general:						
Separately budgeted research	-	4,910,906	4,910,906	-	1,799,375	1,799,375
Institutional support	630,598	-	630,598	589,100	-	589,100
Depreciation	-	54,375	54,375	-	46,679	46,679
<b>Total operating expenses</b>	<b>630,598</b>	<b>4,965,281</b>	<b>5,595,879</b>	<b>589,100</b>	<b>1,846,054</b>	<b>2,435,154</b>
<b>Operating income</b>	<b>4,901,404</b>	<b>3,492,143</b>	<b>8,393,547</b>	<b>5,795,992</b>	<b>2,169,632</b>	<b>7,965,624</b>
<b>Nonoperating revenues (expenses)</b>						
Gifts and grants	-	-	-	-	80,000	80,000
Investment income, net	3,002,541	252,308	3,254,849	2,425,044	117,472	2,542,516
Unrealized appreciation (depreciation) on investments	17,877,647	139,395	18,017,042	7,295,105	62,296	7,357,401
Interest on debt	-	(26,189)	(26,189)	-	-	-
Distributions to the university	(9,404,213)	(1,740,293)	(11,144,506)	(9,333,286)	(1,593,615)	(10,926,901)
Distributions on behalf of the university	(393,802)	-	(393,802)	(255,339)	-	(255,339)
Other nonoperating revenues	154,778	257,774	412,552	125,155	135,782	260,937
<b>Net nonoperating revenues (expenses)</b>	<b>11,236,951</b>	<b>(1,117,005)</b>	<b>10,119,946</b>	<b>256,679</b>	<b>(1,198,065)</b>	<b>(941,386)</b>
<b>Gain (loss) before other changes</b>	<b>16,138,355</b>	<b>2,375,138</b>	<b>18,513,493</b>	<b>6,052,671</b>	<b>971,567</b>	<b>7,024,238</b>
<b>Other changes</b>						
Additions to permanent endowments	8,942,991	-	8,942,991	1,677,318	-	1,677,318
<b>Increase in net assets</b>	<b>25,081,346</b>	<b>2,375,138</b>	<b>27,456,484</b>	<b>7,729,989</b>	<b>971,567</b>	<b>8,701,556</b>
<b>Net assets</b>						
Net assets - beginning of year	133,761,352	2,485,309	136,246,661	126,031,363	1,513,742	127,545,105
<b>Net assets - end of year</b>	<b>\$ 158,842,698</b>	<b>\$ 4,860,447</b>	<b>\$ 163,703,145</b>	<b>\$ 133,761,352</b>	<b>\$ 2,485,309</b>	<b>\$ 136,246,661</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, 2007, and have issued our report thereon dated October 16, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### 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 of Akron in a separate letter dated October 16, 2007.

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 16, 2007  
Cleveland, Ohio