

THE UNIVERSITY OF TOLEDO

AUDITED FINANCIAL REPORT  
Fiscal Year Ended June 30, 2003

William R. Decatur  
Vice President of Finance and Administration

Jack Armul  
Associate Vice President for Finance

Prepared by:  
Financial Reporting





**Auditor of State  
Betty Montgomery**

Board of Trustees  
University of Toledo  
2801 W. Bancroft Street  
Mail Stop 325  
Toledo, OH 43606

We have reviewed the Independent Auditor's Report of the University of Toledo, Lucas County, prepared by Ernst & Young LLP, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The University of Toledo is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

December 11, 2003

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## **PRINCIPAL OFFICIALS**

Year Ended June 30, 2003

### **BOARD OF TRUSTEES**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Daniel J. Brennan	Vice Chair	July 1, 2006
Joan Uhl Browne	Chair	July 1, 2005
William Fall	Trustee	July 1, 2011
Richard B. McQuade	Trustee	July 1, 2003
Robert C. Redmond	Trustee	July 1, 2007
Richard B. Stansley, Jr.	Trustee	July 1, 2009
Olivia K. Summons	Trustee	July 1, 2010
James M. Tuschman	Trustee	July 1, 2004
Herman A. Vasquez	Trustee	July 1, 2008

### **OFFICERS OF THE UNIVERSITY**

Daniel M. Johnson	President
William R. Decatur	Vice President for Finance and Administration
Alan G. Goodridge	Provost and Vice President for Academic Affairs
Sandra A. Drabik	Vice President and General Counsel
Tyrone Bledsoe	Vice President for Student Affairs
Charles Vernon Snyder	Vice President for Institutional Advancement
Richard J. Eastop	Interim Vice President for Enrollment Services
David A. Lindsley	Interim Vice President for Educational and Information Technology

### **OFFICIALS ISSUING REPORT**

William R. Decatur	Vice President for Finance and Administration
Jack Armul	Associate Vice President for Finance
Thomas H. Page	Controller

### **DIVISION ISSUING REPORT**

Finance and Administration

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## Report of Independent Auditors on Basic Financial Statements

The Board of Trustees  
The University of Toledo

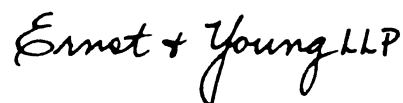
We have audited the accompanying statements of net assets of The University of Toledo (the University), a component unit of the State of Ohio, as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of The University of Toledo's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2003 and 2002, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



September 26, 2003

# THE UNIVERSITY OF TOLEDO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis on the annual financial statements of The University of Toledo (the University) provides an overview of the University's financial activity during the fiscal years ended June 30, 2003 and 2002. Management has prepared the financial statements, related note disclosures, and this discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

### Using the Annual Financial Report

The annual financial statements are 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*. These financial statements differ significantly, in both form and the accounting principles utilized, from financial statements prepared prior to fiscal year ended June 30, 2002. The financial statements presented in years prior to June 30, 2002 focused on the accountability of fund groups, while these statements focus on the financial condition, the changes in financial condition, and cash flows of the University as a whole.

The financial statements prescribed by GASB Statement No. 35 (the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statements of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on State support could result in operating deficits because State appropriations are required by GASB to be classified as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

### Noteworthy Financial Activity

The University's financial position, as a whole, changed during the fiscal year ended June 30, 2003 compared to the previous year as evidenced by the following:

- The University's total assets increased over the prior year by \$64.9 million or 16.2%,



of which \$47.9 million is attributed to the investments associated with the issuance of the 2002 bonds, \$10.9 million increase in capital assets and \$5.7 million increase in accounts receivable.

- Total liabilities increased by \$50.0 million or 30.2% due to the issuance of the 2002 bonds of \$104.5 million net of related defeasance of the 1992 bonds of \$47 million and the increase in compensated absences of \$1.2 million.
- The University's net assets increased by \$14.9 million from \$235.9 million to \$250.8 million or 6.3%, of which net investment in capital assets increased by \$7 million or 4.5%, unrestricted net assets increased \$8.5 million or 39.0% and expendable restricted net assets decreased by \$590 thousand or 1.2%.
- Operating revenues increased \$29.8 million or 16.5% during fiscal year ended June 30, 2003. Increased revenues were realized in student tuition and fees, grants and contracts, and auxiliary enterprises.
- Operating expenses have increased by \$14.8 million or 5.3% with the largest changes in the areas of instruction, research, academic support, institutional support, depreciation, and auxiliary enterprises activities.
- Nonoperating revenue decreased by \$8.4 million or 9.4% due to a reduction in the State share of instruction, state grants and contracts, and gift income.

In 2002, the State of Ohio required the University to include an allocation of State unfunded Workers' Compensation liability, and the University restated its prior year net assets for this estimated liability as part of adopting GASB Statements No. 34 and 35. In 2003, the State reversed its decision to have colleges and universities share in a portion of the State's Workers' Compensation liability.

Both the Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information on the University as a whole. Over time, increases or decreases in the University's net assets are one indicator of whether its financial health is improving or deteriorating. Many other non-financial factors must also be considered in assessing the overall health of the University, such as the trend and quality of applicants, freshman class size, student retention, strength of the faculty, condition of the buildings and the safety of the campus.

### Statements of Net Assets

The Statements of Net Assets (SNA) presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the SNA is to present the readers of the financial statements with a financial snapshot of the University of Toledo taken as a whole.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in capital assets. The next category is restricted net assets, which is divided into nonexpendable and expendable. The corpus of the nonexpendable restricted net assets is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The last category is unrestricted net assets, which are available to the University for any lawful purpose of the institution.

From the data presented in the SNA, the readers are able to determine the assets available for continued operations. They are also able to determine how much the institution owes

vendors, investors, and lending institutions. Finally, the SNA provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Following are condensed Statements of Net Assets of the University as of June 30, (in thousands):

	2003	2002	Variance	
			Amount	Percentage
<b>Assets:</b>				
Current assets	\$ 93,521	\$ 62,633	30,888	49.3%
Capital assets, net	281,790	270,831	10,959	4.0%
Other assets	90,954	67,874	23,080	34.0%
<b>Total Assets</b>	<b>466,265</b>	<b>401,338</b>	<b>64,927</b>	<b>16.2%</b>
<b>Liabilities</b>				
Current liabilities	46,212	45,100	1,112	2.5%
Noncurrent liabilities	169,235	120,328	48,907	40.6%
<b>Total Liabilities</b>	<b>215,447</b>	<b>165,428</b>	<b>50,019</b>	<b>30.2%</b>
<b>Net Assets</b>				
Investment in capital assets, net of debt	163,704	156,648	7,056	4.5%
Restricted - nonexpendable	9,997	10,008	(11)	-0.1%
Restricted - expendable	47,008	47,598	(590)	-1.2%
Unrestricted	30,109	21,656	8,453	39.0%
<b>Total Net Assets</b>	<b>\$ 250,818</b>	<b>\$ 235,910</b>	<b>14,908</b>	<b>6.3%</b>

At June 30, 2003, total University assets were \$466.3 million increasing \$64.9 million or 16.2%. The University's largest asset, investment in capital assets, increased from \$270.8 million to \$281.8 million or 4.1% and current assets increased \$30.9 million or 49.3% of which \$26.9 million are investments related to the issuance of the 2002 bonds.

In fiscal 2003, the University's current assets of \$93.5 million were sufficient to cover current liabilities of \$46.2 million (current ratio of 2.02:1 compared to 1.39:1).

University liabilities were \$215.4 million at June 30, 2003. Long-term debt of \$172.6 million consisted of bonds, notes, and leases payable, of which \$161.7 million is bonds payable and comprises the largest portion of noncurrent liabilities.

As noted previously, total net assets increased from \$235.9 million to \$250.8 million. Unrestricted net assets totaled \$30.1 million, of which 78.4% or \$23.6 million is internally designated for ongoing academic and research programs, capital projects and other initiatives.

#### Statements of Revenues, Expenses and Changes in Net Assets

Changes in total net assets are based on the activity reflected in the Statements of Revenues, Expenses and Changes in Net Assets (SRECNA). The purpose of these statements are to present operating and nonoperating revenues and expenses recognized or incurred by the University.

In general, operating revenues and expenses result from providing goods and services to the various customers of the University in order to carry out the University mission. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are considered nonoperating because they are provided by

the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

Following are condensed statements of revenues, expenses and changes in net assets for the years ended June 30, (in thousands):

	2003	2002	Variance	
			Amount	Percentage
<b>Operating revenues</b>				
Student tuition and fees	\$ 117,387	\$ 98,441	\$ 18,946	19.2%
Grants and Contracts	41,663	36,404	5,259	14.4%
Auxiliary enterprises	45,819	41,836	3,983	9.5%
Other operating revenue	5,412	3,750	1,662	44.3%
Total operating revenues	210,281	180,431	29,850	16.5%
<b>Operating expenses</b>				
Educational and general	230,575	219,471	11,104	5.1%
Auxiliary enterprises	48,623	46,660	1,963	4.2%
Depreciation	15,445	13,730	1,715	12.5%
Total operating expenses	294,643	279,861	14,782	5.3%
Operating loss	(84,362)	(99,430)	15,068	-15.2%
<b>Nonoperating revenues, expenses and other changes</b>				
State share of instruction	79,938	83,175	(3,237)	-3.9%
Other nonoperating revenues	11,752	16,384	(4,632)	-28.3%
Capital appropriations	12,654	4,819	7,835	162.6%
Nonoperating expenses	(9,435)	(7,441)	(1,994)	26.8%
Total nonoperating revenues, expenses and other changes	94,909	96,937	(2,028)	-2.1%
Reallocation of state unfunded workers' compensation liability	4,361			
Increase (decrease) in net assets	14,908	(2,493)	17,401	698.0%
Net assets at beginning of year	235,910	238,403		
Net assets at end of year	\$ 250,818	\$ 235,910	14,908	6.3%

The most significant sources of operating revenues for the University are tuition and fees of \$117.4 million, grants and contracts of \$41.7 million, and auxiliary enterprises sales of \$45.8 million, compared to \$98.4 million, \$36.4 million and \$41.8 million from the prior year.

Operating expenses totaled \$294.6 million compared to \$279.9 million, which includes depreciation of \$15.4 million compared to \$13.7 million. Further, research and instruction functional categories have increased proportionally to the additional revenue from grants and contracts. Auxiliary enterprises have also increased expenditures in proportion to revenue.

State appropriations were the most significant source of nonoperating revenue, totaling \$79.9 million compared to \$83.1 million, a decrease of \$3.2 million or 3.9%.

Other changes reflect an increase in capital appropriations of \$7.8 million for use in the University's on going capital improvement program and the reallocation of state unfunded workers' compensation liability of \$4.4 million.

## Statements of Cash Flows

The primary purpose of the Statements of Cash Flows (SCF) are to provide relevant information about the cash receipts and cash payments during the year. The SCF helps users assess the University's ability to generate future net cash flows, meet its obligations as they come due, and the needs for external financing.

The SCF is split into five sections. The first section includes operating cash flows (the net cash provided/used in operating activities). The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section includes cash flows from capital and related financing activities including the cash used for capital acquisition and construction. The fourth section includes the cash flows from investing which reflects the purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash to operating income (loss) as reflected in the Statements of Revenues, Expenses, and Changes in Net Assets.

Following are condensed statements of cash flows for years ended June 30, (in thousands):

	<u>2003</u>	<u>2002</u>
Cash provided by (used in):		
Operating activities	\$ (70,778)	\$ (85,005)
Noncapital financing activities	85,074	95,997
Capital and related financing activities	(16,932)	(11,364)
Investing activities	<u>2,654</u>	<u>(131)</u>
Net change in cash	18	(503)
Cash and cash equivalents at beginning of year	<u>272</u>	<u>775</u>
Cash and cash equivalents at end of year	<u>\$ 290</u>	<u>\$ 272</u>

Major sources of cash included student tuition and fees (\$118.6 million compared to \$98.4 million), state appropriations (\$79.9 million compared to 83.2 million), auxiliary activities (\$46 million compared to \$42.6 million), and grants and contracts (\$40.2 million compared to \$34 million). The largest payments were for suppliers and employees (\$278.5 million compared to \$262.6 million).

## Capital Assets and Debt Administration

### Capital Assets

The University has an on going capital improvement program consisting of new construction and the renovation of existing facilities. During the fiscal year ended June 30, 2003, renovation projects were completed on Bowman Oddy, the University Computer Center, the Residence Halls of Carter East, Carter West, Parks Tower and McComas Village, Nitschke Hall, Larimer, Palmer Hall, Student Union and the Glass Bowl. The University completed construction on a new residence hall, the Crossings, and purchased land and a building adjacent to the Scott Park campus.

The University has planned capital improvements for the fiscal year ending June 30, 2004 of

approximately \$31.6 million. Renovation projects are scheduled for Palmer Hall, University Hall, Gillham Hall, Bowman Oddy, North Engineering, McMaster Hall, Student Recreation Center, Center for Performing Arts, Law Center, sports facilities, and dining facilities. Construction on the new residence hall is estimated to cost \$43.6 million with planned completion for fall of 2005. Capital improvement projects are expected to be funded from a variety of sources including gifts, State capital appropriations, debt financing, and University funds.

The University had \$281.8 million invested in capital assets, net of accumulated depreciation of \$208.5 million at June 30, 2003 compared to \$270.8 million for the prior fiscal year. The charges for depreciation included in the SRECNA total \$15.4 million and \$13.7 million for the fiscal years ended June 30, 2003 and 2002 respectively. Detailed information about the University's capital assets is presented in the notes to the financial statements.

### Debt Administration

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. Standard & Poor's Rating Services assigns an underlying rating ranging from A to AAA on rated insured bond issues. Moody's Investor Services, Inc. also assigns an underlying rating ranging from A1 to A3. The University's underlying ratings are A and A2, respectively. This rating is an indication of the strong financial stewardship of the University.

### Economic Factors That Will Affect the Future

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support, and the cost of health care, utilities, and employee compensation.

The economic position of the University is closely tied to the economic condition of the State, as all state universities in Ohio receive State financial assistance for both operations and designated capital improvements through appropriations by the Legislature. These appropriations contribute substantially to the successful maintenance and operation of the University.

The Board of Trustees approved a 9.9% increase in student fees. Enrollment numbers as of the census day indicated a decrease in students for the Fall semester of 1.4%.

### Requests for Information

This financial report is designed to provide a general overview of The University of Toledo finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jack Armul, Associate Vice President for Finance, Mail Stop 964, University Hall 3510, 2801 W. Bancroft Street, Toledo, Ohio 43606.

**The University of Toledo**  
**Statements of Net Assets**  
(Dollars in thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
<b><u>ASSETS</u></b>		
Current Assets		
Cash and cash equivalents (note 3)	\$ 290	\$ 272
Short-term investments (note 3)	34,476	36,323
Accounts receivable, net (note 4)	21,073	15,380
Inventories	362	302
Investments held by bond trustee (note 3)	33,344	6,429
Notes receivable, net (note 4)	2,188	2,156
Other assets	1,788	1,771
<b>Total Current Assets</b>	93,521	62,633
Noncurrent Assets		
Endowment and loan investments (note 3)	30,463	32,112
Notes receivable, net (note 4)	13,533	12,176
Long-term investments (note 3)	43,666	22,035
Deferred bond issuance costs	3,292	1,551
Capital assets, net (note 5)	281,790	270,831
<b>Total Noncurrent Assets</b>	372,744	338,705
<b>Total Assets</b>	466,265	401,338
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts payable and accrued liabilities	18,736	19,596
Deferred revenue	11,949	11,412
Deposits	233	214
Compensated absences - current portion (note 6)	8,879	8,063
Long-term liabilities - current portion (note 6)	6,415	5,815
<b>Total Current Liabilities</b>	46,212	45,100
Noncurrent Liabilities		
Compensated absences (note 6)	3,073	2,406
Allocation of state unfunded workers' compensation (note 9)	-	4,361
Long-term liabilities (note 6)	166,162	113,561
<b>Total Noncurrent Liabilities</b>	169,235	120,328
<b>Total Liabilities</b>	215,447	165,428
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	163,704	156,648
Restricted for		
Nonexpendable		
Scholarships and fellowships	7,173	7,172
Instructional	2,824	2,823
Expendable		
Scholarships and fellowships	15,715	16,095
Research	-	973
Instructional	5,661	5,154
Loans	15,766	15,325
Capital projects	4,358	4,949
Other	5,508	5,115
Unrestricted	30,109	21,656
<b>Total Net Assets</b>	<b>\$ 250,818</b>	<b>\$ 235,910</b>

See notes to financial statements

**The University of Toledo**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
(Dollars in thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
<b>Revenues</b>		
Operating revenues:		
Student tuition and fees, net of student aid of \$22,220 and \$21,308	\$ 117,387	\$ 98,441
Federal grants and contracts	26,446	25,091
State grants and contracts	6,341	4,966
Local grants and contracts	1,999	1,258
Private grants and contracts	6,877	5,089
Sales and services	2,948	2,156
Auxiliary enterprises , net of student aid of \$2,730 and \$2,535	45,819	41,836
Other operating revenues	2,464	1,594
Total operating revenues	210,281	180,431
<b>Expenses</b>		
Operating expenses:		
Instruction	113,045	105,357
Research	14,386	13,153
Public service	4,945	5,407
Academic support	28,451	27,412
Student services	18,983	18,380
Institutional support	23,973	21,729
Student aid	12,370	11,326
Operation and maintenance of plant	14,422	15,097
Depreciation	15,445	13,730
Change in allocation of state unfunded workers' compensation liability	-	1,610
Auxiliary enterprises	48,623	46,660
Total operating expenses	294,643	279,861
Operating loss	(84,362)	(99,430)
<b>Nonoperating Revenues (Expenses)</b>		
State share of instruction	79,938	83,175
Loss after state share of instruction	(4,424)	(16,255)
State grants and contracts	4,852	7,082
Gifts	3,367	5,830
Investment income	2,180	753
Interest on debt	(6,729)	(4,789)
Other nonoperating (expenses)	(2,608)	(2,614)
Total other nonoperating revenues	1,062	6,262
Loss before other changes	(3,362)	(9,993)
<b>Other Changes</b>		
Capital appropriations	12,654	4,819
Capital grants, gifts, and contracts	1,351	2,716
Addition to permanent endowment	2	3
Asset disposal	(98)	(38)
Total other changes	13,909	7,500
Reallocation of state unfunded workers' compensation liability (note 9)	4,361	-
Increase (Decrease) in Net Assets	14,908	(2,493)
<b>Net assets</b>		
Net assets at beginning of year	235,910	238,403
Net assets at end of year	\$ 250,818	\$ 235,910

See notes to financial statements

**The University of Toledo**  
**Statements of Cash Flows**  
(Dollars in thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 118,584	\$ 98,439
Grants and contracts	40,194	34,009
Sales and services of educational activities	1,971	2,167
Payments to suppliers	(139,779)	(133,113)
Payments to employees	(138,770)	(129,533)
Loans issued to students	(4,063)	(3,371)
Collection of loans from students	2,639	2,237
Auxiliary enterprise charges	45,983	42,566
Other	2,463	1,594
	(70,778)	(85,005)
<b>Net cash from operating activities</b>		
<b>Cash flows from noncapital financing activities</b>		
State share of instruction	79,938	83,175
Student direct lending receipts	69,599	60,461
Student direct lending disbursements	(72,719)	(60,609)
Gifts, grants, and contracts	8,221	12,915
Agency Transactions	35	55
	85,074	95,997
<b>Net cash from noncapital financing activities</b>		
<b>Cash flows from capital and related financing activities</b>		
Purchases of capital assets	(25,325)	(32,502)
Principal paid on capital debt	(6,010)	(5,269)
Capital appropriations	11,888	4,579
Proceeds from debt issuance	8,669	23,965
Capital grants and gifts	545	2,652
Interest paid on capital debt	(6,699)	(4,789)
	(16,932)	(11,364)
<b>Net cash from capital and related financing activities</b>		
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	218,476	90,845
Interest on investments	1,496	2,218
Purchase of investments	(217,318)	(93,194)
	2,654	(131)
<b>Net cash from investing activities</b>		
Net increase (decrease) in cash	18	(503)
Cash and cash equivalents - beginning of year	272	775
Cash and cash equivalents - end of year	\$ 290	\$ 272

See notes to financial statements



**The University of Toledo**  
**Statements of Cash Flows - Continued**  
(Dollars in thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:		
Operating loss	\$ (84,362)	\$ (99,430)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	15,445	13,730
(Increase) decrease in assets:		
Accounts receivable, net	(1,133)	(1,948)
Inventories	(60)	(59)
Other current assets	49	(697)
Notes receivable, net	(1,390)	(697)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,345)	2,712
Deferred revenue	536	293
Compensated absences	1,482	1,091
	\$ (70,778)	\$ (85,005)
Net cash used in operating activities	\$ (70,778)	\$ (85,005)

See notes to financial statements

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Note 1 - Reporting Entity, Basis of Presentation, and Summary of Significant Accounting Policies

Reporting Entity - The University of Toledo (the University) is a component unit of the State of Ohio, as established by the General Assembly of the State of Ohio (the State) in 1967 by statutory act under Chapter 3360 of the Revised Code of the State. Prior to that time, the University was a municipal university. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations, grants from various state agencies, Ohio workers' compensation program and payments to the State retirement programs for certain University employees.

The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501 (c) (1), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

Basis of Presentation - The financial statements have been prepared to incorporate all fund groups internally utilized by the University. These statements have been prepared in conformity with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Operating revenues and expenses generally result from providing educational and instructional services in connection with the University's principal ongoing operations. The principal source of operating revenues of the University is student tuition. The University also recognizes as operating revenue auxiliary enterprises and exchange transactions. Operating expenses include educational and instructional costs, administrative expenses and depreciation expenses. All items not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the University's policy to use restricted resources first, then unrestricted as they are needed.

Summary of Significant Accounting Policies

1. Cash and cash equivalents consist of cash on hand and demand deposits with banks. All investments with maturities less than 90 days are considered cash and cash equivalents.

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2. Investments in marketable securities are carried at fair value as established by the major securities market. Investment income includes realized and unrealized gains and losses on investments, interest income, and dividends.
3. Inventories are stated at the lower of cost (first in, first out basis) or market.
4. Capital assets are stated at historical cost or fair value at date of donation in the case of gifts. When capital assets are sold or otherwise disposed of, the carrying value of such assets is removed from the asset accounts, along with the related accumulated depreciation. Depreciation has been recorded in accordance with GASB. The University has a rare book collection and manuscript collection in the library that is not capitalized since it represents historical works of art that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means.
5. Deferred bond issuance costs for the 2002, 2001, 1998, 1994, and 1992 Series General Receipts Bonds have been capitalized in the Other Asset category on the Statements of Net Assets and are being amortized over the life of the bonds on the straight-line method, which approximates the interest method.
6. University employees earn vacation and sick leave based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding their limitation are forfeited. The liability and expense incurred are recorded at year-end as long-term and short-term liabilities in the Statements of Net Assets, and as a component of operating expense in the Statements of Revenues, Expenses, and Changes in Net Assets.
7. Compensatory time may be given in lieu of overtime pay to classified employees who work in excess of the regular schedule. Management estimates that the future cost associated with the payment of compensatory time earned as of June 30, 2003 is not significant to the financial statements as a whole and will not have a material impact on the future operations when paid.
8. Summer term tuition and fees, and corresponding expenses relating to various sessions falling in this fiscal year are recognized as tuition revenue. The portion of sessions falling into the next fiscal year are recorded as deferred revenue and prepaid expenses in the Statements of Net Assets and will be recognized in the following year.
9. State appropriations are recognized when received. Restricted funds are recognized as revenue only to the extent expended.

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Note 2 – GASB

In fiscal 2002, the University adopted GASB Statements No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended by Statements No. 35, *Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities*. The University now follows the "business-type" activities approach which provides the following components of the University's financial reporting:

- Managements' Discussion and Analysis
- Basic financial statements including a Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows for the University as a whole
- Notes to the financial statements

GASB No. 34 and 35 also require the University to report revenues net of discounts and allowances, deferral of summer tuition and depreciation of capital assets. In addition, certain amounts previously reported as scholarship expenses are reported as an allowance against tuition and related revenues.

Note 3 – Cash, Cash Equivalents and Investments:

The University invests in STAR Ohio, an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company but does operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

The Board approved revisions to the University's investment policy effective November 2002. The policy establishes investment objectives, strategies and measures for evaluation. The University's policy complies with the State of Ohio regulations provided by legislation.

Cash balances are combined into one pool for making daily cash and investment transactions. GASB Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires cash and cash equivalents and investments held by the University to be categorized into the following credit risk categories:

- (a) Cash and Cash Equivalents consisting of:
1. Insured or collateralized with securities held by the University, or by its agent in the University's name.
  2. Collateralized with securities held by the pledging financial institution's trust department or agent in the University's name.
  3. Uncollateralized

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(b) Investments consisting of:

1. Insured or registered, or securities held by the University, or by its agent in the University's name.
2. Uninsured and unregistered, with securities held by the counter party's trust department or agent in the University's name.
3. Uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the University's name.

At June 30, 2003, the carrying amount of the University's cash and cash equivalents for all funds was \$290. Items in transit and outstanding checks cause the difference in the carrying amount of \$290 and the bank balance of \$131. Of the bank balance, \$100 was covered by federal depository insurance (category 1) and \$31 was insured by a financial institution collateral pool (category 3).

The cost and fair values, exclusive of accrued interest, of investments at June 30, consisted of the following:

	Category	2003		2002	
		Cost	Fair Value	Cost	Fair Value
Corporate bonds	2	\$ 6,119	\$ 6,590	\$ 4,341	\$ 4,679
Corporate stock	2	18,900	19,814	19,894	20,315
U.S. Government/agency obligations	2	24,812	25,160	24,575	24,877
		49,831	51,564	48,810	49,871
Common and collective trust funds		65,534	65,596	9,818	9,873
STAR Ohio		23,807	23,807	36,323	36,323
Real estate		982	982	832	832
		<u>\$ 140,153</u>	<u>\$ 141,949</u>	<u>\$ 95,783</u>	<u>\$ 96,899</u>

The University's investments in the State Treasurer's investment program, real estate, and common and collective trusts are not categorized because they are not evidence by securities that exist in physical or book entry form.

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Note 4 – Accounts and Notes Receivable

The accounts and notes receivable, shown net of allowances for uncollectible accounts at June 30, are summarized as follows:

	2003	2002
Accounts receivable:		
Tuition and Fees	\$ 2,898	\$ 4,218
Sales and services	1,756	342
Auxiliary services	2,021	1,899
Grants and contracts	11,404	7,441
Interest receivable	162	212
Interest receivable - endowments	53	62
Plant Fund	2,779	1,206
Total accounts receivable - net of allowances	21,073	15,380
Notes receivable:		
Current	2,188	2,156
Non current	13,533	12,176
Total notes receivable - net of allowances	15,721	14,332
Total receivable - net of allowances	<u>\$ 36,794</u>	<u>\$ 29,712</u>

Accounts receivable relate to several transactions including tuition and fees, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services. Accounts receivable are recorded net of allowance for uncollectible accounts of \$1,207 for both years. Student loans receivable are recorded net of allowance for uncollectible accounts of \$760 for both years.

Note 5 – Capital Assets

Capital assets are recorded at cost or if acquired by gift at the fair market value as of the date of donation.

Assets are capitalized with a cost of \$100 or greater with the exception of equipment, which is capitalized at a cost of \$5 or greater. Depreciation is recognized on a straight-line basis over the estimated useful life of the asset, as follows:

<u>Classification</u>	<u>Life</u>
Infrastructure	15 to 25 years
Buildings	40 years
Building Additions	15 to 40 years
Equipment	5 years

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Capital assets consist of the following as of June 30:

	Balance June 30, 2002	Additions	Reallocation/ Reductions	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 17,798	\$ 210	\$ -	\$ 18,008
Land improvements	1,706	-	-	1,706
Construction in progress	37,108	11,531	(34,597)	14,042
Total capital assets, not being depreciated	56,612	11,741	(34,597)	33,756
Capital assets, being depreciated:				
Infrastructure	46,977	411	1	47,389
Buildings	328,908	11,955	34,227	375,090
Equipment	34,232	2,765	(2,959)	34,038
Total capital assets, being depreciated	410,117	15,131	31,269	456,517
Less accumulated depreciation:				
Infrastructure	16,466	2,026	-	18,492
Buildings	151,074	11,020	-	162,094
Equipment	28,358	2,398	(2,860)	27,896
Total	195,898	15,445	(2,860)	208,483
Total capital assets, being depreciated, net	214,219	(314)	34,130	248,034
<b>Capital Assets, net</b>	<b>\$ 270,831</b>	<b>\$ 11,427</b>	<b>\$ (468)</b>	<b>\$ 281,790</b>

Note 6 – Long-term Liabilities

On November 19, 2002, the University issued \$104.5 million General Receipt Bonds, Series 2002 to finance the construction of a residence hall, improve dining facilities and currently refund and redeem the General Receipts Bonds, Series 1992A in the amount of \$46.1 million with an effective interest rate of 5.88%. A total of \$47 million of the proceeds was utilized to pay the call premium of \$921,000 and redeem all of the outstanding 1992 bonds on December 1, 2002. As a result the 1992 bonds are no longer outstanding, and the liability for those bonds has been removed from the Statement of Net Assets. The University currently refunded and redeemed the 1992 bonds to reduce its total debt service payments over the next 20 years by \$7.4 million and to secure an economic gain of \$1.8 million.

On December 1, 2002, the University entered into interest rate swap agreements with Bear Stearns & Co., Inc. and Bank One N.A. for \$104.5 million to hedge the exposure against interest rate fluctuations arising from the variable interest rates on the Series 2002 Bonds. Based on the swap agreements, the University owes interest calculated at an average fixed rate of 4.2% to the counterparties to the swap. In return, the counterparties owes the University interest based on two indices: (1) 67% of the London Interbank Offered Rate (LIBOR) rate on 45.5% of the notional amount; and (2) the Bond Market Association (BMA) rate on 54.5% of the notional amount. Only the net difference in interest payments is actually exchanged with the counterparties. The University continues to pay interest to the bondholders at the variable rate provided by the bonds, however, during the term of the swap

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agreement, the University effectively pays a fixed rate on the debt. The swap agreements expire on June 20, 2020 (\$47.5 million) and June 1, 2032 (\$57 million) and can only be terminated by the University at its sole option. Since the execution of the swap interest rates have continued to decline and if the swap terminated at June 30, 2003 the University would be liable for a termination payment totaling \$13.8 million (\$9.1 million as of September 25). The swaps fair value is estimated using the zero-coupon method, where by the future net settlement payment as required by the swap is calculated, then discounted using the spot rates implied by the current yield curve. The University will be exposed to variable rates only if the counter-parties to the swap default or if the University terminates the swap agreement.

On February 1, 2001, the University issued \$35 million General Receipts Bonds, Series 2001 to finance construction of a residence hall.

On October 1, 1998, the University issued \$13.5 million General Receipts Bonds, Series 1998. Of this amount, \$10.4 million, with an average interest rate of 4.8%, were used to advance-refund \$9.5 million of outstanding Series 1992B Bonds with an average interest rate of 5.8%. The net proceeds of \$1.2 million (after payment of issuance costs of \$146) were deposited with an escrow trustee for all future debt service payments on the Series 1992B Bonds. As a result, the Series 1992B Bonds are considered defeased and the liability for those bonds has been removed from bonds outstanding as of June 30, 2003. The debt defeased remains outstanding as of June 30, 2003. The remaining \$3.1 million was used to finance capital projects.

The University issued General Receipts Bonds in the amount of \$15.5 million in February 1994 to finance construction of student housing. Series 1992A and 1992B General Receipt Bonds were issued in August 1992. The Series 1992A Bonds financed the advance refunding of Series 1990 Bonds and a portion of Series 1988 Bonds, and the Series 1992B Bonds financed capital projects. The balance of debt issuance defeased in substance in prior years that remain outstanding as of June 30, 2003 is \$28.8 million.

The principal and interest payments of the 2002, 2001, 1998, 1994, and 1992 Series General Receipts Bonds are collateralized by the pledge of the general receipts of the University. The bond indentures have various restrictive covenants with which the University management believes they have complied.

The University entered into an agreement in April 2003 to refinance existing debt and lease agreements at an interest rate of 2.98% for the fiber optic network and equipment purchases.

The University entered into three debt agreements during fiscal 2003. In September 2002, the University entered into a debt agreement to complete funding for the athletic training facility on the Scott Park campus, which bears an interest rate of 200 basis points over LIBOR for an estimated of 3.96%. In November 2002, the University entered into two debt agreements for the purchase of video equipment and land, which bear interest rates of 5.35% and 4.75% respectively. The University entered into an agreement in September 1999 to finance the



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purchase of a scoreboard, which bears interest at 7.5%. These agreements are classified as notes payable.

The University leases a building, fiber optic network, athletic turf, and equipment under capital lease agreements. An asset of \$14.8 million, representing the cost of the building and equipment, and a corresponding liability for the lease obligation are recorded in the financial statements.

Long-term liabilities consists of the following as of June 30:

	Due Dates	Interest Rate	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003	Current
General receipts series 1992, serial and term bonds:							
Advance refund prior general receipt bonds (1990 and part of 1988), land acquisition, and surface parking	1993-2020	2.9 to 5.9%	\$ 47,425		47,425	\$ -	\$ -
General receipts series 1994, serial and term bonds:							
The International Center student housing	1996-2005	3.4 to 5.35%	13,570		325	13,245	340
General receipts series 1998, serial and term bonds:							
Advance refund prior general receipt bonds (part of 1992), Student Union renovations	1999-2020	3.6 to 5.0%	11,680		450	11,230	470
General receipts series 2001, serial and term bonds:							
Student housing	2002-2030	4.25 to 5.22%	34,915		705	34,210	735
General receipts series 2002, serial and term bonds:							
Student housing and advance refund general receipt series 1992	2003-2032	various		104,535	1,475	103,060	3,060
Lease obligations	1996-2015	various	6,029	6,937	2,736	10,230	1,635
Notes payable	1999-2009	various	5,756	469	5,623	602	175
Workers Compensation			4,361		4,361	-	
Compensated absences			10,470	1,482		11,952	8,879
			134,206	113,423	63,100	184,529	15,294
Less current portion long-term liabilities			13,878			15,294	
Long-term liabilities			\$ 120,328			\$ 169,235	

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Principal and interest on long-term debt are payable from general receipts. The obligations are generally callable. The future amounts of principal and interest payments required by the bond agreements are as follows:

	Principal	Interest	Total
2004	\$ 4,605	\$ 7,390	\$ 11,995
2005	3,595	7,170	10,765
2006	3,680	7,008	10,688
2007	3,835	6,832	10,667
2008	4,115	6,655	10,770
2009 - 2013	28,445	29,307	57,752
2014 - 2018	29,835	22,680	52,515
2019 - 2023	16,410	16,141	32,551
2024 - 2028	10,850	12,800	23,650
2029 - 2032	<u>56,375</u>	<u>8,436</u>	<u>64,811</u>
Total	<u>\$ 161,745</u>	<u>\$ 124,419</u>	<u>\$ 286,164</u>

The future amounts of principal and interest payments required by the lease agreements are as follows:

	Principal	Interest	Total
2004	\$ 1,635	\$ 337	\$ 1,972
2005	1,657	301	1,958
2006	1,630	243	1,873
2007	1,431	189	1,620
2008	1,280	140	1,420
2009 - 2013	2,233	236	2,469
2014 - 2018	<u>364</u>	<u>30</u>	<u>394</u>
Total	<u>\$ 10,230</u>	<u>\$ 1,476</u>	<u>\$ 11,706</u>

The future amounts of principal and interest payments required by the debt agreements are as follows:

	Principal	Interest	Total
2004	\$ 175	\$ 27	\$ 202
2005	143	17	160
2006	72	12	84
2007	76	9	85
2008	34	6	40
2009 - 2013	51	19	70
2014 - 2018	<u>51</u>	<u>6</u>	<u>57</u>
Total	<u>\$ 602</u>	<u>\$ 96</u>	<u>\$ 698</u>

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Note 7 – Retirement Benefits

The University contributes to two cost-sharing multiple-employer defined benefit plans: (1) Public Employees Retirement System of Ohio (PERS), and (2) State Teachers Retirement System of Ohio (STRS). Both plans provide retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code (ORC). PERS and STRS issue stand-alone financial reports. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 466-2085 for PERS, and 275 East Broad Street, Columbus, Ohio, 43215-3771 or by calling (614) 227-4090 for STRS.

The funding policy for the above plans is as follows:

*PERS:* The ORC provides statutory authority for employee and employer contributions. During 2003, PERS employees contributed 8.5% of their salary to the plan and the University contributed 13.31% of covered payrolls to the plan. Beginning in February 2002, law enforcement employees contributed 10.1% of their salary and the University contributed 16.7% of covered payrolls. The total employer contributions to PERS for the years ended June 30, 2001, 2002, and 2003 were \$4,757, \$6,623, and \$6,840, respectively, which were equal to 100% of the required contributions for each year.

*STRS:* The ORC provides statutory authority for employee and employer contributions. During 2003, STRS employees contributed 9.3% of their salary to the plan, effective July 1, 2003 employees will contribute 10% of their salary to the plan and the University contributed 14.0% of covered payrolls to the plan. The total employer contributions to STRS for the years ended June 30, 2001, 2002, and 2003 were \$7,464, \$7,790, and \$8,188, respectively, which were equal to 100% of the required contributions for each year.

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system (ARP) for academic and administrative university employees of public institutions of higher education who are currently covered by the State Teachers Retirement System or Public Employees Retirement System. The University of Toledo board of trustees adopted such a plan effective April 1999. This plan is a defined contribution plan under IRS section 401(a). The total employer contribution to ARP for the year ended June 30, 2001, 2002, and 2003, were \$1,815, \$1,981, and \$2,374 respectively.

Eligible employees (those who are full-time and salaried) have 90 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in STRS or PERS and who elect to participate in the alternate retirement program must contribute their share of retirement contributions (9.3% STRS or 8.5% PERS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute 6% to the state retirement system to which the employee would have otherwise belonged. The employer also contributes what would have been the employer's share of the appropriate retirement system, less the aforementioned 6%, to the private

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provider selected by the employee. The University plan provides these employees with immediate plan vesting.

Note 8 – Postemployment Benefits:

In addition to the pension benefits described in note 7, the Ohio Revised Code provides the statutory authority requiring the University to fund postretirement health care through employer contributions to PERS and STRS.

PERS provides postretirement health care coverage to age-and-service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB), as described in GASB Statements No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate for state employers was 13.31% of covered payroll; 5% was the portion that was used to fund health care for the calendar year. The law enforcement employer rate for 2002 was 16.70% and 5% was used to fund health care.

OPEB's are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB's during 2002 were \$776,007. As of December 31, 2002, the audited estimated net assets available for future OPEB payments were \$8,886,282 million. The number of active contributing participants for PERS was 402.

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employers contribution rate, currently 14% of covered payroll.

The STRS board currently allocates employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was \$3,010 at June 30, 2002. The Health Care Reserve Fund allocation for the year ended June 30, 2003 will be 1% of covered payroll.

For the year ended June 30, 2002, the net health care costs paid by STRS were \$354,697. There were 105 eligible benefit recipients.

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Note 9 – State Unfunded Workers’ Compensation

The University participates in a State pool of agencies and universities that pays workers’ compensation premiums into the State Insurance Fund on a pay-as-you-go basis (the Plan), which pays workers’ compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating state agencies and universities in the Plan are accrued by the Ohio Bureau of Workers’ Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the worker’s compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the worker’s compensation claims of participating State agencies and universities. In 2002, the Bureau actuarially calculated estimated amount for the state, and determined the University’s pro-rata share of the estimated liability on the basis of the College’s share of actual cash payments (premiums and administrative costs) to the Bureau in the preceding fiscal year divided by such payments made by all participating entities. In 2002, the University restated its prior year net assets for this estimated liability.

In 2003, the State reversed its decision to have college and universities share in a portion of the State Workers’ Compensation liability. As a result, the reallocation of state unfunded workers’ compensation liability is reflected under other changes to net assets on the Statement of Revenue, Expense and Changes to Net Assets with the elimination of the liability on the Statement of Net Assets.

Note 10 - Contingencies and Commitments:

In the normal course of its activities, the University is a party to various legal actions. The University intends to vigorously defend itself against all claims and is of the opinion that the outcome of current legal actions will not have a material effect on the University’s financial position.

The University carries commercial insurance to cover various general liability risks and blanket business interruption and liability coverage through the Inter-University Council Insurance Consortium (IUCIC). Through this group, the University maintains a \$100 deductible and a pre-funded group deductible of \$350 per occurrence, with an annual aggregate stop loss of \$700. No material losses were reported during 2003.

The University is also self-insured for unemployment compensation and substantially all employee health benefits. Liabilities for estimates of losses retained by the University for outstanding claims and claims incurred but not reported under self-insurance programs have been based on the University’s experience and actuarial valuation. Settlements have not exceeded insurance coverage in each of the past three years.

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Changes in such liabilities are as follows:

	<u>2003</u>	<u>2002</u>
Unpaid claims - July 1	\$ 2,537	\$ 2,431
Incurred claims	15,863	13,827
Claim payments	(14,863)	(13,721)
Unpaid claims - June 30	<u>\$ 3,537</u>	<u>\$ 2,537</u>

Note 11 – Related Party Transactions:

The University is sole beneficiary of the University of Toledo Foundation (the Foundation), a separate not-for-profit entity exempt from Federal income tax, formed in October 1990 as the result of a merger between The University of Toledo Alumni Foundation, Inc. and The University of Toledo Corporation. The Foundation's purpose is to support and promote the educational and charitable activities and programs of the University and to provide for the improvement and development of University facilities. At June 30, 2003, assets of the Foundation approximated \$83,362, consisting primarily of investments in securities carried at fair value. These assets are not consolidated in the accompanying financial statements, because the Foundation is not fiscally dependent on the University nor is the University financially accountable for the Foundation. During the year, the Foundation transferred approximately \$4,304 to the University in support of scholarships, academic programs, external relations, and other programs. Amounts transferred are included as non-operating revenue in the accompanying financial statements. The Foundation's operations are conducted in facilities leased from the University at a base annual rental of \$25.

Certain marketable investments of the University are pooled with marketable investments of the Foundation. The Foundation manages these funds and receives from the University a management fee equal to 1.35% of the fair market value of the University's share of the pooled investments. For the year ended June 30, 2003, the University incurred management fees paid or payable to the Foundation of \$529.

GASB Statements No. 39, *Determining Whether Certain Organizations Are Component Units*, has been issued and is effective for periods beginning after June 15, 2003. This statement will require the University to reflect the Foundation as a discretely presented component unit in the financial statements based on the significance of its relationship with the University.

**THE UNIVERSITY OF TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2003  
(Dollars in Thousands)

Note 12 – Natural Classification of Expenses:

Operating expenses by natural classification for the year ended June 30, in thousands are summarized as follows:

	2003	2002
Salaries, wages, benefits	\$ 190,838	\$ 175,996
Compensation non-payroll	25,570	23,889
Supplies	16,018	16,428
Travel and entertainment	6,506	6,579
Information and communication	7,548	7,907
Occupancy	12,716	12,027
Scholarship expense	13,227	11,326
Depreciation	15,445	13,730
Change in allocation of state unfunded workers' compensation liability	-	1,610
Other	<u>7,976</u>	<u>10,369</u>
 Total operating expenses	 <u>\$ 295,844</u>	 <u>\$ 279,861</u>

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REPORTS PURSUANT TO THE OMB CIRCULAR A-133

The University of Toledo

Year ended June 30, 2003

with Reports of Independent Auditors

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The University of Toledo  
Reports Pursuant to OMB Circular A-133

Year ended June 30, 2003

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Report of Independent Auditors on Basic Financial  
Statements and Schedule of Expenditures of Federal Awards

The Board of Trustees  
The University of Toledo

We have audited the accompanying basic financial statements of The University of Toledo (the University), a component unit of the State of Ohio, as of and for the year ended June 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of The University of Toledo's management. Our responsibility is to express an opinion on these financial statements based on our audit.

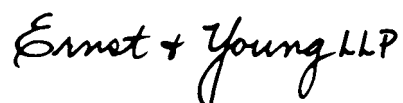
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the University taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2003 is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



September 26, 2003

# THE UNIVERSITY OF TOLEDO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis on the annual financial statements of The University of Toledo (the University) provides an overview of the University's financial activity during the fiscal years ended June 30, 2003 and 2002. Management has prepared the financial statements, related note disclosures, and this discussion and analysis. Responsibility for the completeness and fairness of this information rests with University management.

### Using the Annual Financial Report

The annual financial statements are 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*. These financial statements differ significantly, in both form and the accounting principles utilized, from financial statements prepared prior to fiscal year ended June 30, 2002. The financial statements presented in years prior to June 30, 2002 focused on the accountability of fund groups, while these statements focus on the financial condition, the changes in financial condition, and cash flows of the University as a whole.

The financial statements prescribed by GASB Statement No. 35 (the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statements of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on State support could result in operating deficits because State appropriations are required by GASB to be classified as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

### Noteworthy Financial Activity

The University's financial position, as a whole, changed during the fiscal year ended June 30, 2003 compared to the previous year as evidenced by the following:

- The University's total assets increased over the prior year by \$64.9 million or 16.2%,

of which \$47.9 million is attributed to the investments associated with the issuance of the 2002 bonds, \$10.9 million increase in capital assets and \$5.7 million increase in accounts receivable.

- Total liabilities increased by \$50.0 million or 30.2% due to the issuance of the 2002 bonds of \$104.5 million net of related defeasance of the 1992 bonds of \$47 million and the increase in compensated absences of \$1.2 million.
- The University's net assets increased by \$14.9 million from \$235.9 million to \$250.8 million or 6.3%, of which net investment in capital assets increased by \$7 million or 4.5%, unrestricted net assets increased \$8.5 million or 39.0% and expendable restricted net assets decreased by \$590 thousand or 1.2%.
- Operating revenues increased \$29.8 million or 16.5% during fiscal year ended June 30, 2003. Increased revenues were realized in student tuition and fees, grants and contracts, and auxiliary enterprises.
- Operating expenses have increased by \$14.8 million or 5.3% with the largest changes in the areas of instruction, research, academic support, institutional support, depreciation, and auxiliary enterprises activities.
- Nonoperating revenue decreased by \$8.4 million or 9.4% due to a reduction in the State share of instruction, state grants and contracts, and gift income.

In 2002, the State of Ohio required the University to include an allocation of State unfunded Workers' Compensation liability, and the University restated its prior year net assets for this estimated liability as part of adopting GASB Statements No. 34 and 35. In 2003, the State reversed its decision to have colleges and universities share in a portion of the State's Workers' Compensation liability.

Both the Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information on the University as a whole. Over time, increases or decreases in the University's net assets are one indicator of whether its financial health is improving or deteriorating. Many other non-financial factors must also be considered in assessing the overall health of the University, such as the trend and quality of applicants, freshman class size, student retention, strength of the faculty, condition of the buildings and the safety of the campus.

### Statements of Net Assets

The Statements of Net Assets (SNA) presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the SNA is to present the readers of the financial statements with a financial snapshot of the University of Toledo taken as a whole.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in capital assets. The next category is restricted net assets, which is divided into nonexpendable and expendable. The corpus of the nonexpendable restricted net assets is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The last category is unrestricted net assets, which are available to the University for any lawful purpose of the institution.

From the data presented in the SNA, the readers are able to determine the assets available for continued operations. They are also able to determine how much the institution owes

vendors, investors, and lending institutions. Finally, the SNA provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Following are condensed Statements of Net Assets of the University as of June 30, (in thousands):

	2003	2002	Variance	
			Amount	Percentage
<b>Assets:</b>				
Current assets	\$ 93,521	\$ 62,633	30,888	49.3%
Capital assets, net	281,790	270,831	10,959	4.0%
Other assets	90,954	67,874	23,080	34.0%
<b>Total Assets</b>	<b>466,265</b>	<b>401,338</b>	<b>64,927</b>	<b>16.2%</b>
<b>Liabilities</b>				
Current liabilities	46,212	45,100	1,112	2.5%
Noncurrent liabilities	169,235	120,328	48,907	40.6%
<b>Total Liabilities</b>	<b>215,447</b>	<b>165,428</b>	<b>50,019</b>	<b>30.2%</b>
<b>Net Assets</b>				
Investment in capital assets, net of debt	163,704	156,648	7,056	4.5%
Restricted - nonexpendable	9,997	10,008	(11)	-0.1%
Restricted - expendable	47,008	47,598	(590)	-1.2%
Unrestricted	30,109	21,656	8,453	39.0%
<b>Total Net Assets</b>	<b>\$ 250,818</b>	<b>\$ 235,910</b>	<b>14,908</b>	<b>6.3%</b>

At June 30, 2003, total University assets were \$466.3 million increasing \$64.9 million or 16.2%. The University's largest asset, investment in capital assets, increased from \$270.8 million to \$281.8 million or 4.1% and current assets increased \$30.9 million or 49.3% of which \$26.9 million are investments related to the issuance of the 2002 bonds.

In fiscal 2003, the University's current assets of \$93.5 million were sufficient to cover current liabilities of \$46.2 million (current ratio of 2.02:1 compared to 1.39:1).

University liabilities were \$215.4 million at June 30, 2003. Long-term debt of \$172.6 million consisted of bonds, notes, and leases payable, of which \$161.7 million is bonds payable and comprises the largest portion of noncurrent liabilities.

As noted previously, total net assets increased from \$235.9 million to \$250.8 million. Unrestricted net assets totaled \$30.1 million, of which 78.4% or \$23.6 million is internally designated for ongoing academic and research programs, capital projects and other initiatives.

#### Statements of Revenues, Expenses and Changes in Net Assets

Changes in total net assets are based on the activity reflected in the Statements of Revenues, Expenses and Changes in Net Assets (SRECNA). The purpose of these statements are to present operating and nonoperating revenues and expenses recognized or incurred by the University.

In general, operating revenues and expenses result from providing goods and services to the various customers of the University in order to carry out the University mission. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are considered nonoperating because they are provided by

the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

Following are condensed statements of revenues, expenses and changes in net assets for the years ended June 30, (in thousands):

	2003	2002	Variance	
			Amount	Percentage
<b>Operating revenues</b>				
Student tuition and fees	\$ 117,387	\$ 98,441	\$ 18,946	19.2%
Grants and Contracts	41,663	36,404	5,259	14.4%
Auxiliary enterprises	45,819	41,836	3,983	9.5%
Other operating revenue	5,412	3,750	1,662	44.3%
Total operating revenues	210,281	180,431	29,850	16.5%
<b>Operating expenses</b>				
Educational and general	230,575	219,471	11,104	5.1%
Auxiliary enterprises	48,623	46,660	1,963	4.2%
Depreciation	15,445	13,730	1,715	12.5%
Total operating expenses	294,643	279,861	14,782	5.3%
Operating loss	(84,362)	(99,430)	15,068	-15.2%
<b>Nonoperating revenues, expenses and other changes</b>				
State share of instruction	79,938	83,175	(3,237)	-3.9%
Other nonoperating revenues	11,752	16,384	(4,632)	-28.3%
Capital appropriations	12,654	4,819	7,835	162.6%
Nonoperating expenses	(9,435)	(7,441)	(1,994)	26.8%
Total nonoperating revenues, expenses and other changes	94,909	96,937	(2,028)	-2.1%
Reallocation of state unfunded workers' compensation liability	4,361			
Increase (decrease) in net assets	14,908	(2,493)	17,401	698.0%
Net assets at beginning of year	235,910	238,403		
Net assets at end of year	\$ 250,818	\$ 235,910	14,908	6.3%

The most significant sources of operating revenues for the University are tuition and fees of \$117.4 million, grants and contracts of \$41.7 million, and auxiliary enterprises sales of \$45.8 million, compared to \$98.4 million, \$36.4 million and \$41.8 million from the prior year.

Operating expenses totaled \$294.6 million compared to \$279.9 million, which includes depreciation of \$15.4 million compared to \$13.7 million. Further, research and instruction functional categories have increased proportionally to the additional revenue from grants and contracts. Auxiliary enterprises have also increased expenditures in proportion to revenue.

State appropriations were the most significant source of nonoperating revenue, totaling \$79.9 million compared to \$83.1 million, a decrease of \$3.2 million or 3.9%.

Other changes reflect an increase in capital appropriations of \$7.8 million for use in the University's on going capital improvement program and the reallocation of state unfunded workers' compensation liability of \$4.4 million.



## Statements of Cash Flows

The primary purpose of the Statements of Cash Flows (SCF) are to provide relevant information about the cash receipts and cash payments during the year. The SCF helps users assess the University's ability to generate future net cash flows, meet its obligations as they come due, and the needs for external financing.

The SCF is split into five sections. The first section includes operating cash flows (the net cash provided/used in operating activities). The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section includes cash flows from capital and related financing activities including the cash used for capital acquisition and construction. The fourth section includes the cash flows from investing which reflects the purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash to operating income (loss) as reflected in the Statements of Revenues, Expenses, and Changes in Net Assets.

Following are condensed statements of cash flows for years ended June 30, (in thousands):

	<u>2003</u>	<u>2002</u>
Cash provided by (used in):		
Operating activities	\$ (70,778)	\$ (85,005)
Noncapital financing activities	85,074	95,997
Capital and related financing activities	(16,932)	(11,364)
Investing activities	<u>2,654</u>	<u>(131)</u>
Net change in cash	18	(503)
Cash and cash equivalents at beginning of year	<u>272</u>	<u>775</u>
Cash and cash equivalents at end of year	<u>\$ 290</u>	<u>\$ 272</u>

Major sources of cash included student tuition and fees (\$118.6 million compared to \$98.4 million), state appropriations (\$79.9 million compared to 83.2 million), auxiliary activities (\$46 million compared to \$42.6 million), and grants and contracts (\$40.2 million compared to \$34 million). The largest payments were for suppliers and employees (\$278.5 million compared to \$262.6 million).

## Capital Assets and Debt Administration

### Capital Assets

The University has an on going capital improvement program consisting of new construction and the renovation of existing facilities. During the fiscal year ended June 30, 2003, renovation projects were completed on Bowman Oddy, the University Computer Center, the Residence Halls of Carter East, Carter West, Parks Tower and McComas Village, Nitschke Hall, Larimer, Palmer Hall, Student Union and the Glass Bowl. The University completed construction on a new residence hall, the Crossings, and purchased land and a building adjacent to the Scott Park campus.

The University has planned capital improvements for the fiscal year ending June 30, 2004 of

approximately \$31.6 million. Renovation projects are scheduled for Palmer Hall, University Hall, Gillham Hall, Bowman Oddy, North Engineering, McMaster Hall, Student Recreation Center, Center for Performing Arts, Law Center, sports facilities, and dining facilities. Construction on the new residence hall is estimated to cost \$43.6 million with planned completion for fall of 2005. Capital improvement projects are expected to be funded from a variety of sources including gifts, State capital appropriations, debt financing, and University funds.

The University had \$281.8 million invested in capital assets, net of accumulated depreciation of \$208.5 million at June 30, 2003 compared to \$270.8 million for the prior fiscal year. The charges for depreciation included in the SRECNA total \$15.4 million and \$13.7 million for the fiscal years ended June 30, 2003 and 2002 respectively. Detailed information about the University's capital assets is presented in the notes to the financial statements.

### Debt Administration

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. Standard & Poor's Rating Services assigns an underlying rating ranging from A to AAA on rated insured bond issues. Moody's Investor Services, Inc. also assigns an underlying rating ranging from A1 to A3. The University's underlying ratings are A and A2, respectively. This rating is an indication of the strong financial stewardship of the University.

### Economic Factors That Will Affect the Future

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support, and the cost of health care, utilities, and employee compensation.

The economic position of the University is closely tied to the economic condition of the State, as all state universities in Ohio receive State financial assistance for both operations and designated capital improvements through appropriations by the Legislature. These appropriations contribute substantially to the successful maintenance and operation of the University.

The Board of Trustees approved a 9.9% increase in student fees. Enrollment numbers as of the census day indicated a decrease in students for the Fall semester of 1.4%.

### Requests for Information

This financial report is designed to provide a general overview of The University of Toledo finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jack Armul, Associate Vice President for Finance, Mail Stop 964, University Hall 3510, 2801 W. Bancroft Street, Toledo, Ohio 43606.

**The University of Toledo**  
**Statements of Net Assets**  
(Dollars in thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
<b><u>ASSETS</u></b>		
Current Assets		
Cash and cash equivalents (note 3)	\$ 290	\$ 272
Short-term investments (note 3)	34,476	36,323
Accounts receivable, net (note 4)	21,073	15,380
Inventories	362	302
Investments held by bond trustee (note 3)	33,344	6,429
Notes receivable, net (note 4)	2,188	2,156
Other assets	1,788	1,771
<b>Total Current Assets</b>	93,521	62,633
Noncurrent Assets		
Endowment and loan investments (note 3)	30,463	32,112
Notes receivable, net (note 4)	13,533	12,176
Long-term investments (note 3)	43,666	22,035
Deferred bond issuance costs	3,292	1,551
Capital assets, net (note 5)	281,790	270,831
<b>Total Noncurrent Assets</b>	372,744	338,705
<b>Total Assets</b>	466,265	401,338
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts payable and accrued liabilities	18,736	19,596
Deferred revenue	11,949	11,412
Deposits	233	214
Compensated absences - current portion (note 6)	8,879	8,063
Long-term liabilities - current portion (note 6)	6,415	5,815
<b>Total Current Liabilities</b>	46,212	45,100
Noncurrent Liabilities		
Compensated absences (note 6)	3,073	2,406
Allocation of state unfunded workers' compensation (note 9)	-	4,361
Long-term liabilities (note 6)	166,162	113,561
<b>Total Noncurrent Liabilities</b>	169,235	120,328
<b>Total Liabilities</b>	215,447	165,428
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	163,704	156,648
Restricted for		
Nonexpendable		
Scholarships and fellowships	7,173	7,172
Instructional	2,824	2,823
Expendable		
Scholarships and fellowships	15,715	16,095
Research	-	973
Instructional	5,661	5,154
Loans	15,766	15,325
Capital projects	4,358	4,949
Other	5,508	5,115
Unrestricted	30,109	21,656
<b>Total Net Assets</b>	\$ 250,818	\$ 235,910

See notes to financial statements

**The University of Toledo**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
(Dollars in thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
<b>Revenues</b>		
Operating revenues:		
Student tuition and fees, net of student aid of \$22,220 and \$21,308	\$ 117,387	\$ 98,441
Federal grants and contracts	26,446	25,091
State grants and contracts	6,341	4,966
Local grants and contracts	1,999	1,258
Private grants and contracts	6,877	5,089
Sales and services	2,948	2,156
Auxiliary enterprises , net of student aid of \$2,730 and \$2,535	45,819	41,836
Other operating revenues	2,464	1,594
Total operating revenues	210,281	180,431
<b>Expenses</b>		
Operating expenses:		
Instruction	113,045	105,357
Research	14,386	13,153
Public service	4,945	5,407
Academic support	28,451	27,412
Student services	18,983	18,380
Institutional support	23,973	21,729
Student aid	12,370	11,326
Operation and maintenance of plant	14,422	15,097
Depreciation	15,445	13,730
Change in allocation of state unfunded workers' compensation liability	-	1,610
Auxiliary enterprises	48,623	46,660
Total operating expenses	294,643	279,861
Operating loss	(84,362)	(99,430)
<b>Nonoperating Revenues (Expenses)</b>		
State share of instruction	79,938	83,175
Loss after state share of instruction	(4,424)	(16,255)
State grants and contracts	4,852	7,082
Gifts	3,367	5,830
Investment income	2,180	753
Interest on debt	(6,729)	(4,789)
Other nonoperating (expenses)	(2,608)	(2,614)
Total other nonoperating revenues	1,062	6,262
Loss before other changes	(3,362)	(9,993)
<b>Other Changes</b>		
Capital appropriations	12,654	4,819
Capital grants, gifts, and contracts	1,351	2,716
Addition to permanent endowment	2	3
Asset disposal	(98)	(38)
Total other changes	13,909	7,500
Reallocation of state unfunded workers' compensation liability (note 9)	4,361	-
Increase (Decrease) in Net Assets	14,908	(2,493)
<b>Net assets</b>		
Net assets at beginning of year	235,910	238,403
Net assets at end of year	\$ 250,818	\$ 235,910

See notes to financial statements

**The University of Toledo**  
**Statements of Cash Flows**  
(Dollars in thousands)

	June 30	
	2003	2002
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 118,584	\$ 98,439
Grants and contracts	40,194	34,009
Sales and services of educational activities	1,971	2,167
Payments to suppliers	(139,779)	(133,113)
Payments to employees	(138,770)	(129,533)
Loans issued to students	(4,063)	(3,371)
Collection of loans from students	2,639	2,237
Auxiliary enterprise charges	45,983	42,566
Other	2,463	1,594
Net cash from operating activities	(70,778)	(85,005)
<b>Cash flows from noncapital financing activities</b>		
State share of instruction	79,938	83,175
Student direct lending receipts	69,599	60,461
Student direct lending disbursements	(72,719)	(60,609)
Gifts, grants, and contracts	8,221	12,915
Agency Transactions	35	55
Net cash from noncapital financing activities	85,074	95,997
<b>Cash flows from capital and related financing activities</b>		
Purchases of capital assets	(25,325)	(32,502)
Principal paid on capital debt	(6,010)	(5,269)
Capital appropriations	11,888	4,579
Proceeds from debt issuance	8,669	23,965
Capital grants and gifts	545	2,652
Interest paid on capital debt	(6,699)	(4,789)
Net cash from capital and related financing activities	(16,932)	(11,364)
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	218,476	90,845
Interest on investments	1,496	2,218
Purchase of investments	(217,318)	(93,194)
Net cash from investing activities	2,654	(131)
Net increase (decrease) in cash	18	(503)
Cash and cash equivalents - beginning of year	272	775
Cash and cash equivalents - end of year	\$ 290	\$ 272

See notes to financial statements

**The University of Toledo**  
**Statements of Cash Flows - Continued**  
(Dollars in thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:		
Operating loss	\$ (84,362)	\$ (99,430)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	15,445	13,730
(Increase) decrease in assets:		
Accounts receivable, net	(1,133)	(1,948)
Inventories	(60)	(59)
Other current assets	49	(697)
Notes receivable, net	(1,390)	(697)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,345)	2,712
Deferred revenue	536	293
Compensated absences	1,482	1,091
	\$ (70,778)	\$ (85,005)
Net cash used in operating activities	\$ (70,778)	\$ (85,005)

See notes to financial statements

**THE UNIVERSITY OF TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2003  
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Note 1 - Reporting Entity, Basis of Presentation, and Summary of Significant Accounting Policies

Reporting Entity - The University of Toledo (the University) is a component unit of the State of Ohio, as established by the General Assembly of the State of Ohio (the State) in 1967 by statutory act under Chapter 3360 of the Revised Code of the State. Prior to that time, the University was a municipal university. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations, grants from various state agencies, Ohio workers' compensation program and payments to the State retirement programs for certain University employees.

The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501 (c) (1), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

Basis of Presentation - The financial statements have been prepared to incorporate all fund groups internally utilized by the University. These statements have been prepared in conformity with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Operating revenues and expenses generally result from providing educational and instructional services in connection with the University's principal ongoing operations. The principal source of operating revenues of the University is student tuition. The University also recognizes as operating revenue auxiliary enterprises and exchange transactions. Operating expenses include educational and instructional costs, administrative expenses and depreciation expenses. All items not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the University's policy to use restricted resources first, then unrestricted as they are needed.

Summary of Significant Accounting Policies

1. Cash and cash equivalents consist of cash on hand and demand deposits with banks. All investments with maturities less than 90 days are considered cash and cash equivalents.

**THE UNIVERSITY OF TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2003

(Dollars in Thousands)

2. Investments in marketable securities are carried at fair value as established by the major securities market. Investment income includes realized and unrealized gains and losses on investments, interest income, and dividends.
3. Inventories are stated at the lower of cost (first in, first out basis) or market.
4. Capital assets are stated at historical cost or fair value at date of donation in the case of gifts. When capital assets are sold or otherwise disposed of, the carrying value of such assets is removed from the asset accounts, along with the related accumulated depreciation. Depreciation has been recorded in accordance with GASB. The University has a rare book collection and manuscript collection in the library that is not capitalized since it represents historical works of art that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means.
5. Deferred bond issuance costs for the 2002, 2001, 1998, 1994, and 1992 Series General Receipts Bonds have been capitalized in the Other Asset category on the Statements of Net Assets and are being amortized over the life of the bonds on the straight-line method, which approximates the interest method.
6. University employees earn vacation and sick leave based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding their limitation are forfeited. The liability and expense incurred are recorded at year-end as long-term and short-term liabilities in the Statements of Net Assets, and as a component of operating expense in the Statements of Revenues, Expenses, and Changes in Net Assets.
7. Compensatory time may be given in lieu of overtime pay to classified employees who work in excess of the regular schedule. Management estimates that the future cost associated with the payment of compensatory time earned as of June 30, 2003 is not significant to the financial statements as a whole and will not have a material impact on the future operations when paid.
8. Summer term tuition and fees, and corresponding expenses relating to various sessions falling in this fiscal year are recognized as tuition revenue. The portion of sessions falling into the next fiscal year are recorded as deferred revenue and prepaid expenses in the Statements of Net Assets and will be recognized in the following year.
9. State appropriations are recognized when received. Restricted funds are recognized as revenue only to the extent expended.



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Note 2 – GASB

In fiscal 2002, the University adopted GASB Statements No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended by Statements No. 35, *Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities*. The University now follows the "business-type" activities approach which provides the following components of the University's financial reporting:

- Managements' Discussion and Analysis
- Basic financial statements including a Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows for the University as a whole
- Notes to the financial statements

GASB No. 34 and 35 also require the University to report revenues net of discounts and allowances, deferral of summer tuition and depreciation of capital assets. In addition, certain amounts previously reported as scholarship expenses are reported as an allowance against tuition and related revenues.

Note 3 – Cash, Cash Equivalents and Investments:

The University invests in STAR Ohio, an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company but does operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

The Board approved revisions to the University's investment policy effective November 2002. The policy establishes investment objectives, strategies and measures for evaluation. The University's policy complies with the State of Ohio regulations provided by legislation.

Cash balances are combined into one pool for making daily cash and investment transactions. GASB Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires cash and cash equivalents and investments held by the University to be categorized into the following credit risk categories:

- (a) Cash and Cash Equivalents consisting of:
1. Insured or collateralized with securities held by the University, or by its agent in the University's name.
  2. Collateralized with securities held by the pledging financial institution's trust department or agent in the University's name.
  3. Uncollateralized

**THE UNIVERSITY OF TOLEDO**  
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Year Ended June 30, 2003

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(b) Investments consisting of:

1. Insured or registered, or securities held by the University, or by its agent in the University's name.
2. Uninsured and unregistered, with securities held by the counter party's trust department or agent in the University's name.
3. Uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the University's name.

At June 30, 2003, the carrying amount of the University's cash and cash equivalents for all funds was \$290. Items in transit and outstanding checks cause the difference in the carrying amount of \$290 and the bank balance of \$131. Of the bank balance, \$100 was covered by federal depository insurance (category 1) and \$31 was insured by a financial institution collateral pool (category 3).

The cost and fair values, exclusive of accrued interest, of investments at June 30, consisted of the following:

	Category	2003		2002	
		Cost	Fair Value	Cost	Fair Value
Corporate bonds	2	\$ 6,119	\$ 6,590	\$ 4,341	\$ 4,679
Corporate stock	2	18,900	19,814	19,894	20,315
U.S. Government/agency obligations	2	24,812	25,160	24,575	24,877
		49,831	51,564	48,810	49,871
Common and collective trust funds		65,534	65,596	9,818	9,873
STAR Ohio		23,807	23,807	36,323	36,323
Real estate		982	982	832	832
		<u>\$ 140,153</u>	<u>\$ 141,949</u>	<u>\$ 95,783</u>	<u>\$ 96,899</u>

The University's investments in the State Treasurer's investment program, real estate, and common and collective trusts are not categorized because they are not evidence by securities that exist in physical or book entry form.

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Note 4 – Accounts and Notes Receivable

The accounts and notes receivable, shown net of allowances for uncollectible accounts at June 30, are summarized as follows:

	2003	2002
Accounts receivable:		
Tuition and Fees	\$ 2,898	\$ 4,218
Sales and services	1,756	342
Auxiliary services	2,021	1,899
Grants and contracts	11,404	7,441
Interest receivable	162	212
Interest receivable - endowments	53	62
Plant Fund	2,779	1,206
Total accounts receivable - net of allowances	21,073	15,380
Notes receivable:		
Current	2,188	2,156
Non current	13,533	12,176
Total notes receivable - net of allowances	15,721	14,332
Total receivable - net of allowances	\$ 36,794	\$ 29,712

Accounts receivable relate to several transactions including tuition and fees, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services. Accounts receivable are recorded net of allowance for uncollectible accounts of \$1,207 for both years. Student loans receivable are recorded net of allowance for uncollectible accounts of \$760 for both years.

Note 5 – Capital Assets

Capital assets are recorded at cost or if acquired by gift at the fair market value as of the date of donation.

Assets are capitalized with a cost of \$100 or greater with the exception of equipment, which is capitalized at a cost of \$5 or greater. Depreciation is recognized on a straight-line basis over the estimated useful life of the asset, as follows:

Classification	Life
Infrastructure	15 to 25 years
Buildings	40 years
Building Additions	15 to 40 years
Equipment	5 years

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Capital assets consist of the following as of June 30:

	Balance June 30, 2002	Additions	Reallocation/ Reductions	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 17,798	\$ 210	\$ -	\$ 18,008
Land improvements	1,706	-	-	1,706
Construction in progress	37,108	11,531	(34,597)	14,042
Total capital assets, not being depreciated	56,612	11,741	(34,597)	33,756
Capital assets, being depreciated:				
Infrastructure	46,977	411	1	47,389
Buildings	328,908	11,955	34,227	375,090
Equipment	34,232	2,765	(2,959)	34,038
Total capital assets, being depreciated	410,117	15,131	31,269	456,517
Less accumulated depreciation:				
Infrastructure	16,466	2,026	-	18,492
Buildings	151,074	11,020	-	162,094
Equipment	28,358	2,398	(2,860)	27,896
Total	195,898	15,445	(2,860)	208,483
Total capital assets, being depreciated, net	214,219	(314)	34,130	248,034
<b>Capital Assets, net</b>	<b>\$ 270,831</b>	<b>\$ 11,427</b>	<b>\$ (468)</b>	<b>\$ 281,790</b>

Note 6 – Long-term Liabilities

On November 19, 2002, the University issued \$104.5 million General Receipt Bonds, Series 2002 to finance the construction of a residence hall, improve dining facilities and currently refund and redeem the General Receipts Bonds, Series 1992A in the amount of \$46.1 million with an effective interest rate of 5.88%. A total of \$47 million of the proceeds was utilized to pay the call premium of \$921,000 and redeem all of the outstanding 1992 bonds on December 1, 2002. As a result the 1992 bonds are no longer outstanding, and the liability for those bonds has been removed from the Statement of Net Assets. The University currently refunded and redeemed the 1992 bonds to reduce its total debt service payments over the next 20 years by \$7.4 million and to secure an economic gain of \$1.8 million.

On December 1, 2002, the University entered into interest rate swap agreements with Bear Stearns & Co., Inc. and Bank One N.A. for \$104.5 million to hedge the exposure against interest rate fluctuations arising from the variable interest rates on the Series 2002 Bonds. Based on the swap agreements, the University owes interest calculated at an average fixed rate of 4.2% to the counterparties to the swap. In return, the counterparties owes the University interest based on two indices: (1) 67% of the London Interbank Offered Rate (LIBOR) rate on 45.5% of the notional amount; and (2) the Bond Market Association (BMA) rate on 54.5% of the notional amount. Only the net difference in interest payments is actually exchanged with the counterparties. The University continues to pay interest to the bondholders at the variable rate provided by the bonds, however, during the term of the swap

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agreement, the University effectively pays a fixed rate on the debt. The swap agreements expire on June 20, 2020 (\$47.5 million) and June 1, 2032 (\$57 million) and can only be terminated by the University at its sole option. Since the execution of the swap interest rates have continued to decline and if the swap terminated at June 30, 2003 the University would be liable for a termination payment totaling \$13.8 million (\$9.1 million as of September 25). The swaps fair value is estimated using the zero-coupon method, where by the future net settlement payment as required by the swap is calculated, then discounted using the spot rates implied by the current yield curve. The University will be exposed to variable rates only if the counter-parties to the swap default or if the University terminates the swap agreement.

On February 1, 2001, the University issued \$35 million General Receipts Bonds, Series 2001 to finance construction of a residence hall.

On October 1, 1998, the University issued \$13.5 million General Receipts Bonds, Series 1998. Of this amount, \$10.4 million, with an average interest rate of 4.8%, were used to advance-refund \$9.5 million of outstanding Series 1992B Bonds with an average interest rate of 5.8%. The net proceeds of \$1.2 million (after payment of issuance costs of \$146) were deposited with an escrow trustee for all future debt service payments on the Series 1992B Bonds. As a result, the Series 1992B Bonds are considered defeased and the liability for those bonds has been removed from bonds outstanding as of June 30, 2003. The debt defeased remains outstanding as of June 30, 2003. The remaining \$3.1 million was used to finance capital projects.

The University issued General Receipts Bonds in the amount of \$15.5 million in February 1994 to finance construction of student housing. Series 1992A and 1992B General Receipt Bonds were issued in August 1992. The Series 1992A Bonds financed the advance refunding of Series 1990 Bonds and a portion of Series 1988 Bonds, and the Series 1992B Bonds financed capital projects. The balance of debt issuance defeased in substance in prior years that remain outstanding as of June 30, 2003 is \$28.8 million.

The principal and interest payments of the 2002, 2001, 1998, 1994, and 1992 Series General Receipts Bonds are collateralized by the pledge of the general receipts of the University. The bond indentures have various restrictive covenants with which the University management believes they have complied.

The University entered into an agreement in April 2003 to refinance existing debt and lease agreements at an interest rate of 2.98% for the fiber optic network and equipment purchases.

The University entered into three debt agreements during fiscal 2003. In September 2002, the University entered into a debt agreement to complete funding for the athletic training facility on the Scott Park campus, which bears an interest rate of 200 basis points over LIBOR for an estimated of 3.96%. In November 2002, the University entered into two debt agreements for the purchase of video equipment and land, which bear interest rates of 5.35% and 4.75% respectively. The University entered into an agreement in September 1999 to finance the

**THE UNIVERSITY OF TOLEDO**  
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purchase of a scoreboard, which bears interest at 7.5%. These agreements are classified as notes payable.

The University leases a building, fiber optic network, athletic turf, and equipment under capital lease agreements. An asset of \$14.8 million, representing the cost of the building and equipment, and a corresponding liability for the lease obligation are recorded in the financial statements.

Long-term liabilities consists of the following as of June 30:

	Due Dates	Interest Rate	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003	Current
General receipts series 1992, serial and term bonds:							
Advance refund prior general receipt bonds (1990 and part of 1988), land acquisition, and surface parking	1993-2020	2.9 to 5.9%	\$ 47,425		47,425	\$ -	\$ -
General receipts series 1994, serial and term bonds:							
The International Center student housing	1996-2005	3.4 to 5.35%	13,570		325	13,245	340
General receipts series 1998, serial and term bonds:							
Advance refund prior general receipt bonds (part of 1992), Student Union renovations	1999-2020	3.6 to 5.0%	11,680		450	11,230	470
General receipts series 2001, serial and term bonds:							
Student housing	2002-2030	4.25 to 5.22%	34,915		705	34,210	735
General receipts series 2002, serial and term bonds:							
Student housing and advance refund general receipt series 1992	2003-2032	various		104,535	1,475	103,060	3,060
Lease obligations	1996-2015	various	6,029	6,937	2,736	10,230	1,635
Notes payable	1999-2009	various	5,756	469	5,623	602	175
Workers Compensation			4,361		4,361	-	
Compensated absences			10,470	1,482		11,952	8,879
			134,206	113,423	63,100	184,529	15,294
Less current portion long-term liabilities			13,878			15,294	
Long-term liabilities			<u>\$ 120,328</u>			<u>\$ 169,235</u>	

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Principal and interest on long-term debt are payable from general receipts. The obligations are generally callable. The future amounts of principal and interest payments required by the bond agreements are as follows:

	Principal	Interest	Total
2004	\$ 4,605	\$ 7,390	\$ 11,995
2005	3,595	7,170	10,765
2006	3,680	7,008	10,688
2007	3,835	6,832	10,667
2008	4,115	6,655	10,770
2009 - 2013	28,445	29,307	57,752
2014 - 2018	29,835	22,680	52,515
2019 - 2023	16,410	16,141	32,551
2024 - 2028	10,850	12,800	23,650
2029 - 2032	<u>56,375</u>	<u>8,436</u>	<u>64,811</u>
 Total	 <u>\$ 161,745</u>	 <u>\$ 124,419</u>	 <u>\$ 286,164</u>

The future amounts of principal and interest payments required by the lease agreements are as follows:

	Principal	Interest	Total
2004	\$ 1,635	\$ 337	\$ 1,972
2005	1,657	301	1,958
2006	1,630	243	1,873
2007	1,431	189	1,620
2008	1,280	140	1,420
2009 - 2013	2,233	236	2,469
2014 - 2018	<u>364</u>	<u>30</u>	<u>394</u>
 Total	 <u>\$ 10,230</u>	 <u>\$ 1,476</u>	 <u>\$ 11,706</u>

The future amounts of principal and interest payments required by the debt agreements are as follows:

	Principal	Interest	Total
2004	\$ 175	\$ 27	\$ 202
2005	143	17	160
2006	72	12	84
2007	76	9	85
2008	34	6	40
2009 - 2013	51	19	70
2014 - 2018	<u>51</u>	<u>6</u>	<u>57</u>
 Total	 <u>\$ 602</u>	 <u>\$ 96</u>	 <u>\$ 698</u>

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Note 7 – Retirement Benefits

The University contributes to two cost-sharing multiple-employer defined benefit plans: (1) Public Employees Retirement System of Ohio (PERS), and (2) State Teachers Retirement System of Ohio (STRS). Both plans provide retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code (ORC). PERS and STRS issue stand-alone financial reports. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 466-2085 for PERS, and 275 East Broad Street, Columbus, Ohio, 43215-3771 or by calling (614) 227-4090 for STRS.

The funding policy for the above plans is as follows:

*PERS:* The ORC provides statutory authority for employee and employer contributions. During 2003, PERS employees contributed 8.5% of their salary to the plan and the University contributed 13.31% of covered payrolls to the plan. Beginning in February 2002, law enforcement employees contributed 10.1% of their salary and the University contributed 16.7% of covered payrolls. The total employer contributions to PERS for the years ended June 30, 2001, 2002, and 2003 were \$4,757, \$6,623, and \$6,840, respectively, which were equal to 100% of the required contributions for each year.

*STRS:* The ORC provides statutory authority for employee and employer contributions. During 2003, STRS employees contributed 9.3% of their salary to the plan, effective July 1, 2003 employees will contribute 10% of their salary to the plan and the University contributed 14.0% of covered payrolls to the plan. The total employer contributions to STRS for the years ended June 30, 2001, 2002, and 2003 were \$7,464, \$7,790, and \$8,188, respectively, which were equal to 100% of the required contributions for each year.

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system (ARP) for academic and administrative university employees of public institutions of higher education who are currently covered by the State Teachers Retirement System or Public Employees Retirement System. The University of Toledo board of trustees adopted such a plan effective April 1999. This plan is a defined contribution plan under IRS section 401(a). The total employer contribution to ARP for the year ended June 30, 2001, 2002, and 2003, were \$1,815, \$1,981, and \$2,374 respectively.

Eligible employees (those who are full-time and salaried) have 90 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in STRS or PERS and who elect to participate in the alternate retirement program must contribute their share of retirement contributions (9.3% STRS or 8.5% PERS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute 6% to the state retirement system to which the employee would have otherwise belonged. The employer also contributes what would have been the employer's share of the appropriate retirement system, less the aforementioned 6%, to the private



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provider selected by the employee. The University plan provides these employees with immediate plan vesting.

Note 8 – Postemployment Benefits:

In addition to the pension benefits described in note 7, the Ohio Revised Code provides the statutory authority requiring the University to fund postretirement health care through employer contributions to PERS and STRS.

PERS provides postretirement health care coverage to age-and-service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB), as described in GASB Statements No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate for state employers was 13.31% of covered payroll; 5% was the portion that was used to fund health care for the calendar year. The law enforcement employer rate for 2002 was 16.70% and 5% was used to fund health care.

OPEB's are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB's during 2002 were \$776,007. As of December 31, 2002, the audited estimated net assets available for future OPEB payments were \$8,886,282 million. The number of active contributing participants for PERS was 402.

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employers contribution rate, currently 14% of covered payroll.

The STRS board currently allocates employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was \$3,010 at June 30, 2002. The Health Care Reserve Fund allocation for the year ended June 30, 2003 will be 1% of covered payroll.

For the year ended June 30, 2002, the net health care costs paid by STRS were \$354,697. There were 105 eligible benefit recipients.

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Note 9 – State Unfunded Workers’ Compensation

The University participates in a State pool of agencies and universities that pays workers’ compensation premiums into the State Insurance Fund on a pay-as-you-go basis (the Plan), which pays workers’ compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating state agencies and universities in the Plan are accrued by the Ohio Bureau of Workers’ Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the worker’s compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the worker’s compensation claims of participating State agencies and universities. In 2002, the Bureau actuarially calculated estimated amount for the state, and determined the University’s pro-rata share of the estimated liability on the basis of the College’s share of actual cash payments (premiums and administrative costs) to the Bureau in the preceding fiscal year divided by such payments made by all participating entities. In 2002, the University restated its prior year net assets for this estimated liability.

In 2003, the State reversed its decision to have college and universities share in a portion of the State Workers’ Compensation liability. As a result, the reallocation of state unfunded workers’ compensation liability is reflected under other changes to net assets on the Statement of Revenue, Expense and Changes to Net Assets with the elimination of the liability on the Statement of Net Assets.

Note 10 - Contingencies and Commitments:

In the normal course of its activities, the University is a party to various legal actions. The University intends to vigorously defend itself against all claims and is of the opinion that the outcome of current legal actions will not have a material effect on the University’s financial position.

The University carries commercial insurance to cover various general liability risks and blanket business interruption and liability coverage through the Inter-University Council Insurance Consortium (IUCIC). Through this group, the University maintains a \$100 deductible and a pre-funded group deductible of \$350 per occurrence, with an annual aggregate stop loss of \$700. No material losses were reported during 2003.

The University is also self-insured for unemployment compensation and substantially all employee health benefits. Liabilities for estimates of losses retained by the University for outstanding claims and claims incurred but not reported under self-insurance programs have been based on the University’s experience and actuarial valuation. Settlements have not exceeded insurance coverage in each of the past three years.

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Changes in such liabilities are as follows:

	<u>2003</u>	<u>2002</u>
Unpaid claims - July 1	\$ 2,537	\$ 2,431
Incurred claims	15,863	13,827
Claim payments	<u>(14,863)</u>	<u>(13,721)</u>
Unpaid claims - June 30	<u>\$ 3,537</u>	<u>\$ 2,537</u>

Note 11 – Related Party Transactions:

The University is sole beneficiary of the University of Toledo Foundation (the Foundation), a separate not-for-profit entity exempt from Federal income tax, formed in October 1990 as the result of a merger between The University of Toledo Alumni Foundation, Inc. and The University of Toledo Corporation. The Foundation's purpose is to support and promote the educational and charitable activities and programs of the University and to provide for the improvement and development of University facilities. At June 30, 2003, assets of the Foundation approximated \$83,362, consisting primarily of investments in securities carried at fair value. These assets are not consolidated in the accompanying financial statements, because the Foundation is not fiscally dependent on the University nor is the University financially accountable for the Foundation. During the year, the Foundation transferred approximately \$4,304 to the University in support of scholarships, academic programs, external relations, and other programs. Amounts transferred are included as non-operating revenue in the accompanying financial statements. The Foundation's operations are conducted in facilities leased from the University at a base annual rental of \$25.

Certain marketable investments of the University are pooled with marketable investments of the Foundation. The Foundation manages these funds and receives from the University a management fee equal to 1.35% of the fair market value of the University's share of the pooled investments. For the year ended June 30, 2003, the University incurred management fees paid or payable to the Foundation of \$529.

GASB Statements No. 39, *Determining Whether Certain Organizations Are Component Units*, has been issued and is effective for periods beginning after June 15, 2003. This statement will require the University to reflect the Foundation as a discretely presented component unit in the financial statements based on the significance of its relationship with the University.

**THE UNIVERSITY OF TOLEDO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2003  
(Dollars in Thousands)

Note 12 – Natural Classification of Expenses:

Operating expenses by natural classification for the year ended June 30, in thousands are summarized as follows:

	2003	2002
Salaries, wages, benefits	\$ 190,838	\$ 175,996
Compensation non-payroll	25,570	23,889
Supplies	16,018	16,428
Travel and entertainment	6,506	6,579
Information and communication	7,548	7,907
Occupancy	12,716	12,027
Scholarship expense	13,227	11,326
Depreciation	15,445	13,730
Change in allocation of state unfunded workers' compensation liability	-	1,610
Other	<u>7,976</u>	<u>10,369</u>
 Total operating expenses	 <u>\$ 295,844</u>	 <u>\$ 279,861</u>

# Supplemental Information

The University of Toledo

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Student Financial Aid—Cluster</b>			
<i>U.S. Department of Education:</i>			
Federal Supplemental Education Opportunity Grants	84.007	N/A	\$ 972,380
Federal Work-Study Program	84.003	N/A	1,060,234
Federal Perkins Loan Program	84.038	N/A	82,329
Federal Pell Grant Program	84.063	N/A	<u>12,517,200</u>
<b>Total Student Financial Aid—Cluster</b>			<u>14,632,143</u>
<b>Research and Development—Cluster</b>			
<i>U.S. Department of Agriculture:</i>			
Cooperative Forestry Research:			
Direct	10.202	200138870-10386	50,935
Direct	10.202	01JV11231300-103	24,540
Direct	10.202	02JVH231300-011	80,303
Direct	10.202	01JV11231300-101	<u>12,886</u>
			168,664
Grants for Agriculture Research—Special Research Grants			
Direct	10.200	200238870-01934	32,463
Pass-through from:			
Ohio State University Research Fund	10.200	740256/868404	<u>38,680</u>
			71,143
Grants for Agriculture Research—Competitive Research Grants			
Direct	10.206	35301-9276	20,290
Direct	10.206	200138873-11523	122,638
Pass-through from:			
Ohio State University Research Fund	10.206	OSURF 743441	<u>11,765</u>
			154,693
Grants for Agriculture Research—Basic and Applied Research			
Higher Education Challenge Grants	10.217	02JV11272164-005	14,508
Biotechnology Risk Assessment Research	10.219	200239454-12773	3,747
Soil and Water Conservation	10.902	68-5E34-01-186	<u>34,757</u>
Total U.S. Department of Agriculture			<u>634,050</u>
<i>U.S. Department of Commerce :</i>			
Pass Through From:			
Michigan Sea Grant	11.417		69,465
Ohio Department of Natural Resources:			
Coastal Zone Management Administration	11.419	06-4	37,319
Toledo Metropolitan Council of Governments:			
National Ocean Service Intern Program	11.480	P0# 7094	<u>7,512</u>
Total U.S. Department of Commerce			<u>114,296</u>
<i>U.S. Department of Navy:</i>			
Basic and Applied Scientific Research:			
Direct	12.300	N00149910392	46,264
Direct	12.300	N00014030533	<u>3,853</u>
Subtotal Direct			50,117
Pass-through from:			
ADOPTTECH	12.300	PO 9969 TO 9972	23,660
North Carolina Agricultural College	12.300	441059B	<u>7,133</u>
Total U.S. Department of Navy			<u>80,910</u>

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Research and Development—Cluster (continued)</b>			
<i>U.S. Department of Army:</i>			
Navigation Projects	12.107	MIPRW81EU6224951	15,828
Pass-through from Orbital Research:			
Collaborative Research and Development	12.114		3,437
Military and Medical Research			
Direct	12.420	AMDI79818252	(1)
Direct	12.420	DAMD17-98-1-8251	12,187
Direct	12.420	DAMD17-99-1-9408	30,727
Direct	12.420	DAMD17-00-1-0467	(1,436)
Direct	12.420	DAMD17-00-1-0468	33,731
Direct	12.420	DAMD17-00-1-0469	9,244
Direct	12.420	DAMD17-01-1-0652	37,600
Direct	12.420	DAMD17-02-1-0149	193,157
			<u>315,209</u>
Basic Scientific Research			
Direct	12.431	DAAD19-03-1-0012	155,382
Direct	12.431	DAAD19-03-1-0080	4,266
Pass-through from:			
Academy of Applied Sciences	12.431	DAAG55-98-1-0468	19,345
			<u>178,993</u>
Total U.S. Department of Army			<u>513,467</u>
<i>U.S. Department of Airforce:</i>			
Air Defense Research Sciences Program			
Direct	12.800	F29601-02-C-0304	342,658
Research Technology and Development			
Direct	12.910	VA- AFIT-01-01	16,463
Pass-through from:			
Advanced Technology Institute	12.910	2001-32	59,725
			<u>76,188</u>
Mathematical Sciences Grant Program			
Pass-through from Academy of Applied Sciences	12.901	DAAG55--98-1-0468	4,813
Total U.S. Department of Airforce			<u>423,659</u>
<i>U.S. Department of the Interior:</i>			
Wildlife Restoration:			
Pass-through from Ohio Department of Natural Resources	15.611		1,201
Fish and Wildlife Management Assistance:			
Pass-through from U.S. Geological Survey	15.808	UT 11660	16,756
Total U.S. Department of Interior			<u>17,957</u>
<i>National Aeronautics and Space Administration:</i>			
Aerospace Education Services Program:			
Direct	43.001	NAG5-8054	134,784
Direct	43.001	NAG5-12629	14,899
Direct	43.001	NCC5-673	11,432
Direct	43.001	NAG3-2565	39,883
Direct	43.001	NCC3-881	7,131
Direct	43.001	NAG8-1578	202
Direct	43.001	NAG8-1578	91,129

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA</b>	<b>Agency or Pass-Through Number</b>	<b>Expenditures</b>
<b>Research and Development—Cluster (continued)</b>			
<i>National Aeronautics and Space Administration (continued):</i>			
Pass-through from:			
Ohio Aeronautical Institute	43.001	100164	3,876
Ohio Aeronautical Institute	43.001	R300100172-4018	30,743
Ohio Space Grant Consortium	43.001		1
Institute for Global Environmental Strategy	43.001	PO 011013	11,282
University of Alabama	43.001	33604	6,425
			351,787
Technology Transfer:			
Direct	43.002	NAG5-3248	296
Direct	43.002	NAG5-8183	13,357
Direct	43.002	NAG5-4957	76,863
Direct	43.002	NAG5-8671	54,998
Direct	43.002	NAG5-8794	15,915
Direct	43.002	NAG5-3248	8,117
Direct	43.002	NAG-8961	(50)
Direct	43.002	NAG5-9202	31,229
Direct	43.002	NAG5-9376	87,779
Direct	43.002	NAG5-10305	(196)
Direct	43.002	NAG5-8183	31,684
Direct	43.002	NAG5-11440	71,415
Direct	43.002	NAG5-12320	1,007
Direct	43.002	NAG5-12320	1,444
Direct	43.002	NAG3-1307	(50)
Direct	43.002	NCC3-719	(41,176)
Direct	43.002	NCC3-524	1,083
Direct	43.002	NCC3-774	23,589
Direct	43.002	NAG3-2409	104
Direct	43.002	NAG32502	18,186
Direct	43.002	NAG32505	137,260
Direct	43.002	NCC3-524	136,494
Direct	43.002	NAG3-2508	630
Direct	43.002	NCC3774	22,507
Direct	43.002	NAG32338	189,113
Direct	43.002	NAG3-2269	(5,223)
Direct	43.002	NCC3-855	121,498
Direct	43.002	NCC3-605	156,388
Direct	43.002	NCC3-717	1,611
Direct	43.002	NAG3-2594	84,912
Direct	43.002	NAG32408	80,317
Direct	43.002	NAS3-01116	257,008
Direct	43.002	NGT3-52375	21,490
Direct	43.002	NCC3-907	36,282
Direct	43.002	NAG3-2646	161,394
Direct	43.002	NCC3-916	140,059
Direct	43.002	NCC3-922	98,047
Direct	43.002	NCC3-925	146,424
Direct	43.002	NCC3-924	106,216
Direct	43.002	NAG3-2674	56,483
Direct	43.002	NAG3-2673	9,007



The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Research and Development—Cluster (continued)</b>			
<i>National Aeronautics and Space Administration (continued):</i>			
Direct	43.002	NCC3-923	150,898
Direct	43.002	NCC3-926	190,316
Direct	43.002	NCC3-939	58,516
Direct	43.002	NAG3-2756	103,227
Direct	43.002	NCC3-943	73,038
Direct	43.002	NCC3-954	78,954
Direct	43.002	NCC3-1012	95,268
Direct	43.002	NAG-2859	20,073
Direct	43.002	NCC3995	108,788
Direct	43.002	NCC31012	53,143
Direct	43.002	NCC31022	62,700
Direct	43.002	C73325A	34,122
Direct	43.002	NCC3-1046	50,292
Direct	43.002	NCC3-1055	17,021
Direct	43.002	NCC3-1061	3,650
<i>National Aeronautics and Space Administration (continued):</i>			
Direct	43.002	NCC8-134	(7,827)
Direct	43.002	NAG8-1825	84,979
Direct	43.002	NAG8-1838	125,846
Direct	43.002	NAG-1-2244	2,509
Pass-through from:			
Ohio Aeronautical Institute	43.002		16,187
Ohio Aeronautical Institute	43.002		2,560
Ohio Aeronautical Institute	43.002	R70040030-40108	84,629
Ohio Aeronautical Institute	43.002	R300100172-40108	65,232
Marlin Space Science	43.002	03-0032	6,177
Innovative Technologies	43.002		9,148
Ohio Aeronautical Institute	43.002	R700400300-40108	2,656
Jet Propulsion Laboratory	43.002	959451	9,361
Ohio Space Grant Consortium	43.002		65
Jet Propulsion Laboratory	43.002	961486	(168)
Space Telescope Institute	43.002	AR083520197A	2,328
Jet Propulsion Laboratory	43.002	961486	(3,434)
Ohio Space Telescope Insitute	43.002	HST-GO-08693.03-A	25,553
Jet Propulsion Laboratory	43.002	1232750	96,391
			3,975,709
Total National Aeronautics and Space Administration			4,327,496
<i>National Science Foundation:</i>			
Engineering Grants:			
Direct	47.041	BES-9809243	8,573
Direct	47.041	CTS-9996102	10,410
Direct	47.041	BES9809243	11,503
Direct	47.041	CTS-9975452	60,450
Direct	47.041	BES-9984918	(677)
Direct	47.041	BES-078748	30,442
Direct	47.041	DMI-0303838	9,013
			129,714

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Research and Development—Cluster (continued)</b>			
Mathematical and Physical Sciences:			
Direct	47.049	EEC-0230588	16,982
Direct	47.049	NSF INT-9972023	906
Direct	47.049	AST-9819928	94,689
Direct	47.049	SES-9988038	25,174
Direct	47.049	PHY-0097367	70,249
Direct	47.049	DMR0219328	65,103
Direct	47.049	PHY-0140295	11,192
Direct	47.049	AST-0239881	9,843
Direct	47.049	PHY-9970791	1,213
			<u>295,351</u>
Geosciences:			
Direct	47.050	GEO-0222905	69,237
<i>National Science Foundation (continued):</i>			
Computer and Information Science and Engineering:			
Direct	47.070	ANI-0228913	1,552
Biological Sciences:			
Direct	47.074	MCB-0196107	53,372
Direct	47.074	MCB-0196103	58,929
Direct	47.074	DEB0129405	157,794
Direct	47.074	DEB-0129405	4,745
Direct	47.074	DEB0129405	9,759
Pass-through from:			
University of Notre Dame	47.074	43301	11,531
IES	47.074	338/5936	20,836
			<u>316,966</u>
Social, Behavioral, and Economic Sciences:			
Direct	47.075	BCS-0116876	79,900
Direct	47.075	BCS-136229	72,190
Direct	47.075	SES-0243872	31,473
			<u>183,563</u>
Education and Human Resources:			
Direct	47.076	ESI-9731306	627,119
Direct	47.076	DUE-0126910	56,145
Direct	47.076	EHR-0227899	50,656
Direct	47.076	DUE-0220796	26,097
Direct	47.076	EHR-0227899	152
Direct	47.076	EHR-0227899	1,824
Direct	47.076	DUE-9750627	26
Pass-through from:			
Georgia Institute of Technology	47.076	C36-A98-G1	2,501
			<u>764,520</u>
Engineering Grants:			
Pass-through from:			
Embry-Riddle Aeronautical University	47.041	BES-9713110	(30)
University of Texas	47.041	UTA02-040	36,572
			<u>36,542</u>
Geosciences:			
Pass-through from:			
Ohio State University	47.050	RF#848226	31,589
Total National Science Foundation			<u>1,829,034</u>

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Research and Development—Cluster (continued)</b>			
<i>Environmental Protection Agency:</i>			
Environmental Protection Consolidated Research:			
Direct	66.500	R-82820601-0	141,164
Direct	66.500	IC-R263-NTEX	(606)
			<u>140,558</u>
Air Pollution Control Program Support:			
Direct	66.606	XP-97558001	227,059
Pass-through from:			
Midwest Assistance Technology Center	66.606	03-301	4,419
			<u>231,478</u>
Pollution Prevention Grants Program:			
Direct	66.708	NP97529701	5,916
Direct	66.708	NP- 97529701-1	60,226
Direct	66.708	NP- 9759701-2	30,444
			<u>96,586</u>
Environmental Education and Training Program:			
Direct	66.950	X8-830760-01	5,278
State Indoor Random Grants:			
Pass-through from:			
Ohio Department of Health	66.032	48-4002-2-BA-02	17,020
Ohio Department of Health	66.032	48-4002-2-BA-03	3,133
			<u>20,153</u>
Water Quality Management Planning:			
Pass-through from:			
Lake Erie Protection Fund	66.454		(5,718)
Great Lakes Program:			
Pass-through from:			
Public Utilities Commission of Ohio	66.469	CGLC-02-010	9,993
Training and Fellowships for the EPA:			
Pass-through from:			
University of Illinois	66.607	UILL2530946	43,156
Total Environmental Protection Agency			<u>541,484</u>
<i>U.S. Department of Energy:</i>			
Office of Science Financial Assistance Program:			
Direct	81.049	DEFG0200ER62998	114,115
Direct	81.049	DEFG02-94ER14461	60,790
Direct	81.049		67,395
Pass-through from:			
National Renewable Energy Laboratory	81.049	ACI-9-29118-01	19,462
National Renewable Energy Laboratory	81.049	ACI-9-29118-01	32
			<u>261,794</u>
Energy-Related Inventions:			
Pass-through from:			
University of Hawaii - Manoa Natural Energy	81.036	PO#Z518507	(212)
Argonne National Laboratory	81.036	PO 1A-05942	1

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Research and Development—Cluster (continued)</b>			
<i>U.S. Department of Energy (continued):</i>			
Energy-Related Inventions:			
Pass-through from:			
University of Hawaii - Manoa Natural Energy	81.036	PO #Z578912 and PO#Z631424	20,000
			<u>19,789</u>
Conservation Research and Development:			
Pass-through from:			
Chrysler Corporation	81.086	JMEAL050-27/31A	5,696
Renewable Energy Research and Development:			
Pass-through from:			
Chrysler Corporation	81.087	JMEAL03262-B	22,690
First Solar Inc	81.087	DE-AC36-99-GO10337	58,413
First Solar Inc	81.087	ZDJ-2-30630-20	3,565
National Renewable Energy Laboratory	81.087	ZAX41401301	108
National Renewable Energy Laboratory	81.087	ADD81866908	(492)
National Renewable Energy Laboratory	81.087	2AF81761914	39
National Renewable Energy Laboratory	81.087	AAT-1-30620-09	428,679
National Renewable Energy Laboratory	81.087	ZAF-8-17619-14	58
National Renewable Energy Laboratory	81.087	NDJ-1-30630-02	240,866
National Renewable Energy Laboratory	81.087	NDJ-2-30630-08	188,593
			<u>942,519</u>
Energy Efficient and Renewable Energy Information Dissemination:			
Pass-through from:			
Los Alamos Laboratory	81.117	CH #1012565	6,413
Total U.S. Department of Energy			<u>1,236,211</u>
<i>U.S. Department of Health and Human Services (NIH):</i>			
Biological Response to Environmental Health Hazards:			
Direct			
	93.113	1R15ES11048-01	44,145
Pass-through from:			
Lamda Pharmaceuticals	93.113	R43GMS770601	(25)
			<u>44,120</u>
Oral Disease and Disorders Research:			
Direct			
	93.121	1R21DE14486-01A1	75,490
Research Related to Deafness and Communication Disorders			
Direct			
	93.173	5R01DC029600	21,089
Pass-through from:			
Bowling Green State University	93.173	1 RO1 DC0357702	21,795
Wayne State University	93.173	PO # Y-238024-02	116,883
Bowling Green State University	93.173	1R01 DC03577-05	21,205
			<u>159,883</u>
Drug Abuse Research Programs:			
Direct			
	93.279	1R03DA14999-01A1	8,630
Pass-through from:			
Health Resources, Inc.	93.306		22,339
Academic Research Enhancement Award			
Direct			
	93.390	7R15GM5762602	(76)
Cancer Biology Research			
Direct			
	93.396	7R01CA90837-02	182,250
Direct			
	93.396	7R01CA092172-02	115,192
			<u>297,442</u>
Cell Biology and Biophysics Research	93.821	R15GM5593302	(1,461)

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA</b>	<b>Agency or Pass-Through Number</b>	<b>Expenditures</b>
<b>Research and Development—Cluster (continued)</b>			
<i>U.S. Department of Health and Human Services (continued):</i>			
Heart and Vascular Diseases Research			
Direct	93.837	R01HL6030103	141,156
Arthritis, Musculoskeletal and Skin Diseases Research			
Direct	93.846	1R03AR4755990-01	66,074
Diabetes, Endocrinology and Metabolism Research			
Direct	93.847	5R29DK51274	16,504
Extramural Research Programs in the Neurosciences and Neurological Disorders			
Direct	93.853	2R15NS35305-02	2,640
Direct	93.853	2RO1NS31173-04A3	175,496
Direct	93.853	NS3503051A2	9,593
			<u>185,089</u>
Microbiology and Infectious Diseases Research			
Direct	93.856	5R01AI184271	4,162
Direct	93.856	R15A14478201	79
Direct	93.856	2R01AI18427-19	110,969
Direct	93.856	2R01AI4514701A1	175,179
Direct	93.856	R15A14478201	25,255
Direct	93.856	1R15AI50641-01A1	24,675
			<u>340,319</u>
Pharmacology, Physiology, and Biological Chemistry Research			
Direct	93.859	1R01GM62140-01	176,875
Center for Research for Mothers and Children			
Direct	93.865	1R03HD39412-01A1	17,322
Aging Research			
Pass-through from:			
Institute for the Study of Aging	93.866	ISOA	258
Block Grants for Prevention and Treatment of Substance Abuse			
Pass-through from:			
Alcohol Drug Addiction Services	93.959	48-4392-02-HEDUC	2,900
Alzheimer's Disease Demonstration Grants to States			
Pass-through from:			
Cognitive Phamaceuticals Ltd	93.051		29,953
Nursing Research			
Pass-through from:			
Medical College of Ohio	93.361	F2001-4	(1,547)
University of Louisville	93.361	03-0161	77,713
			<u>76,166</u>
Allergy, Immunology and Tranplantation Research:			
Pass-through from:			
University of Texas	93.855	1RO1A143061	105,390
Community Health Centers			
Pass-through from:			
Family Medical Center of Michigan	93.224	6H19CS02960-21S3	9,184
Developmental Disabilities Projects of National Significance:			
Pass-through from:			
Medical College of Georgia	93.631	MCG0112178	31,558
Total U.S. Department of Health and Human Services			<u>1,828,844</u>
<b>Total Research and Development-Cluster</b>			<b>11,547,408</b>

**Other Programs**

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
Trio Cluster			
<i>U.S. Department of Education:</i>			
Student Services Support Program	84.042	47A50780-96	353
Student Services Support Program	84.042	PO42A010487	200,650
Trio - Upward Bound	84.047	PO47A990864	309,212
Total U.S. Department of Education - Trio Cluster			<u>510,215</u>
 <i>U.S. Department of Transportation:</i>			
Highway Planning and Construction			
Pass-through from:			
Ohio Department of Transportation	20.205	8953	25,898
Ohio Department of Transportation	20.205	8657/14676	672
Ohio Department of Transportation	20.205	ODOT-9797	50,037
Ohio Department of Transportation	20.205	ODOT1478(0)	40,343
Ohio Department of Transportation	20.205	11236	82,389
Ohio Department of Transportation	20.205	20063	7,023
Total Highway Planning and Construction			<u>206,362</u>
 <i>Corporation for National and Community Service:</i>			
Learn and Serve America - Higher Education	94.005		45,934
Learn and Serve America - School and Community Based Programs			
Pass-through from:			
Center for Healthy Communities	94.004		2,000
Total Corporation for National and Community Service			<u>47,934</u>
 <i>U.S. Department of Health and Human Service:</i>			
Community Services Block Grant Discretionary Awards:			
Pass-through from:			
National Youth Sports Program Girls	93.571	NYSP-GSC 02-03	4,971
National Youth Sports Program	93.570	NYSP 03-273	20,163
National Collegiate Athletic Association	93.570		20,070
			<u>40,233</u>
Family Support Payments to States: Assistance Payments (AFDC)			
Pass-through from:			
Lucas County Department of Jobs and Family Services	93.560		(718)
Lucas County Department of Jobs and Family Services	93.560	48-02-OP-25	9,493
Lucas County Department of Jobs and Family Services	93.560	48-02-WIA-08	318,071
Lucas County Department of Jobs and Family Services	93.560	48-02-WIA-08	208,534
			<u>535,380</u>
Community Services Block Grant: Discretionary Awards			
Pass-through from:			
National Collegiate Athletic Association	93.032	NYSP-GSC	(124)
National Collegiate Athletic Association	93.032		62,039
			<u>61,915</u>
Social Services Block Grant (SSBG)			
Lucas County Department of Jobs and Family Services	93.667		4,080
Lucas County Department of Jobs and Family Services	93.593		360
Total U.S. Department of Health and Human Services			<u>646,939</u>

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Other Programs (continued)</b>			
<i>U.S. Department of Veteran Affairs:</i>			
<i>Airforce:</i>			
Post-Vietnam Era Veterans' Education Assistance			
Direct	64.120		32,819
Pass-through from:			
Ohio Air National Guard	64.120		972
Bowling Green State University	64.120		29,965
Total Airforce			<u>63,756</u>
<i>Army:</i>			
Post-Vietnam Era Veterans' Education Assistance	64.120		1,625
Post-Vietnam Era Veterans' Education Assistance	64.120		282,009
Pass-through from Army Tank:			
Post-Vietnam Era Veterans' Education Assistance	64.120		59,251
Total Army			<u>342,885</u>
<i>Navy</i>			
Post-Vietnam Era Veterans' Education Assistance	64.120		5,302
Post-Vietnam Era Veterans' Education Assistance	64.120		6,404
Total Navy			<u>11,706</u>
Total Department of Veteran Affairs			<u>418,347</u>
<i>U.S. Department of Justice:</i>			
<i>Police Corps:</i>			
Direct	16.712	2001-POR088	18,389
Direct	16.712	2001-PO-R008	242,883
			<u>261,272</u>
<i>Drug-Free Communities Support Program Grants:</i>			
Pass-through from:			
Alcohol Drug Addiction Services of Lucas County	16.729	02-C0346	6,112
<i>Executive Office for Weed and Seed:</i>			
Pass-through from:			
Lagrange Development Corporation	16.595		19,830
Total U.S. Department of Justice			<u>287,214</u>
<i>U.S. Department of Labor:</i>			
<i>Welfare-to-Work Grants:</i>			
Pass-through from:			
Lucas County Department of Jobs and Family Services	17.253	48-01-0P-34	1,508
<i>WIA Adult Program:</i>			
Pass-through from:			
Lucas County Department of Jobs and Family Services	17.258	48-02-0P-26	398,025
<i>Trade Adjustment Assistance Workers:</i>			
Pass-through from:			
Jobs and Family Services	17.245	TAA	7,247
Toledo Area Private Industry Council	17.245		17,591
			<u>24,838</u>
Total U.S. Department of Labor			<u>424,371</u>
<i>U.S. Department of State:</i>			
Education Exchange - Fulbright American Studies Institute	19.418		8,262

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Other Programs (continued)</b>			
<i>National Endowment for the Humanities:</i>			
Promotion of Humanities Federal State Partnership:			
Pass-through from:			
Ohio Humanities Council	45.129	OHC-02-088	9,000
<i>U.S. Department of Veteran Affairs:</i>			
Veterans Domiciliary Care	64.008	VETERNASAFF	61
Veterans Vocational Rehabilitation	64.124	Vet Voc	141,237
Total U.S. Department of Veteran Affairs			<u>141,298</u>
<i>U.S. Department of Education:</i>			
International: Overseas Group Projects Abroad	84.021	P021A020082	32,858
Special Education - Research and Innovation to Improve Services and Results for Children with Disabilities:			
Direct	84.324	H324M980197	62,441
Direct	84.324	H324M980197	9,814
			<u>72,255</u>
Special Education - Personal Preparation to Improve Services and Results for Children with Disabilities:			
Direct	84.325	29A5022-97	61
Direct	84.325	H325N990053	7,614
Direct	84.325	H325A980107	37,870
Direct	84.325	H325N990053	38,247
Direct	84.325	H325A020104	167,404
			<u>251,196</u>
Direct	84.333	P333A020055	21,289
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A000134	565,083
Teacher Quality Enhancement Grants	84.336	29A50006-96	(28,000)
Preparing Tomorrow's Teachers to Utilize Technology	84.342	P342A010125	260,519
Business and International Education Programs	84.153	P153A000003	133
Title I Grants to Local Educational Agencies			
Pass-through from:			
Ohio Board of Regents	84.010	02-38	8,016
Migrant Education:			
Pass-through from:			
Ohio Board of Regents	84.011	063099-MG-S1-02	54,943
Ohio Department of Education	84.011	63099	40,242
			<u>95,185</u>
Vocational Education - Basic Grants to States:			
Pass-through from:			
Ohio Department of Education	84.048	CPIII-PO1	(349)
Ohio Department of Education	84.048	CPIII-P02	1,233
Toledo Public Schools	84.048	PO 608347	120
Toledo Public Schools	84.048	PO 823027	42,087
			<u>43,091</u>
National Vocation Education Research:			
Pass-through from:			
Ohio Department of Education	84.051		8,740
Ohio Department of Education	84.051	VEPD-2003-07	72,334
			<u>81,074</u>



The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Agency or Pass-Through Number	Expenditures
<b>Other Programs (continued)</b>			
Rehabilitation Services - Vocational Rehabilitation Grants:			
Pass-through from:			
Ohio Bureau of Vocational Rehabilitation	84.126		653,537
Safe and Drug-Free Schools and Communities National Program:			
Pass-through from:			
Toledo Public Schools	84.184	PO#102131	66,726
Kent State University	84.184	EDS184H000040	13,206
			<u>79,932</u>
Safe and Drug-Free Schools and Communities States Program:			
Pass-through from:			
Ohio Department of Alcohol and Drug Addiction Srv	84.186		18,922
<i>U.S. Department of Education (continued)</i>			
Tech-Prep Education:			
Pass-through from:			
Ohio Department of Education	84.243	VETP200123A1	980
Ohio Department of Education	84.243	VETP2002-23-FB	14,678
Ohio Department of Education	84.243	VETP2002-23-STP	10,470
Ohio Department of Education	84.243	VETP200223EEG-EC	2,437
Ohio Department of Education	84.243	VETP200223EEG-EC	6,444
Ohio Department of Education	84.243	VEYP200223EEGAT	(1,565)
Ohio Department of Education	84.243	VETP200223EEGEV	92
Ohio Department of Education	84.243	VETP200223EEGIT	(22,953)
Ohio Department of Education	84.243	VETP200223EEGIT	4,463
Ohio Department of Education	84.243	VETP2002EEG-H	297
Ohio Department of Education	84.243	VETP200223EEG-H	3,355
Ohio Department of Education	84.243	VETP200223EEG-EN	5,880
Ohio Board of Regents	84.243	VETP2003-23-FB	250,169
			<u>274,747</u>
Eisenhower Professional Department State Grants:			
Pass-through from:			
Ohio Board of Regents	84.281	0051EISENHOWER	1,140
Ohio Board of Regents	84.281	0052EISENHOWER	(49)
Ohio Board of Regents	84.281	01-61	26,310
Ohio Board of Regents	84.281	01-58	1,613
Ohio Board of Regents	84.281	01-59	54,836
			<u>83,850</u>
National Institute on Early Childhood Development:			
Pass-through from:			
American Institutes of Fine Arts	84.307	RN95127001	3,846
Special Education - State Program Improvement Grants for Children with Disabilities:			
Pass-through from:			
Ohio Department of Education	84.323	0630099-ST-S1-01	4,349
Ohio Department of Education	84.323	063099-ST-S1-02	26,691
			<u>31,040</u>

The University of Toledo

Schedule of Expenditure of Federal Awards (continued)

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA</b>	<b>Agency or Pass-Through Number</b>	<b>Expenditures</b>
<b>Other Programs (continued)</b>			
Special Education - Personal Preparation to Improve Services and Results for Children with Disabilities:			
Pass-through from:			
University of Connecticut Health Center	84.325		31,409
Gaining Early Awareness and Readiness fo Undergraduate Programs:			
Pass-through from:			
Bowling Green State University	84.334	BGSU	68,284
Teacher Quality Enhancement Grants			
Pass-through from:			
Ohio Board of Regents	84.336	02-41	7,587
Preparing Tomorrow's Teachers to Utilize Technology:			
Pass-through from:			
Ohio Board of Regents	84.342	HB0850	347,335
Ohio Department of Education	84.342	VESE-PATE 98	10
			<u>347,345</u>
Innovative Education Program Strategies:			
Pass-through from:			
National Writing Project	84.928	92-OH02 #8	26,719
Total U.S. Department of Education			<u>3,029,917</u>
<i>U.S. Department of Housing and Urban Development:</i>			
Community Outreach Partnership Center Program			
	14.511	COPH-OH-99-014	131,962
Community Development Block Grants/Entitlement Grants			
Pass-through from:			
City of Toledo	14.218	PO#152562-11	28,339
Total U.S. Department of Housing			<u>160,301</u>
<b>Total Other Programs</b>			<u>5,890,160</u>
<b>TOTAL FEDERAL EXPENDITURES</b>			<u><u>32,069,711</u></u>

# The University of Toledo

## Notes to the Schedule of Expenditures of Federal Awards

June 30, 2003

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The University of Toledo (the University) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the financial statements.

### **2. Family Education Loan Program (CFDA No. 84.032)**

The University acts as the intermediary for students obtaining Family Education Loans (CFDA No. 84.032) from lending institutions. The lending institution is responsible for billings and collections of the loans. The University assists the lending institutions by processing the applications and forwarding checks from the lending institutions to the students. Loans advanced to students during fiscal year ended June 30, 2003 totaled \$73,593,199.

### **3. Federal Perkins Loan Program (CFDA No. 84.038)**

Revolving loan funds are established to maintain Perkins loans. Repayments of principal and interest are deposited back into the program for new loans. The University is responsible for administering the program, including the approving, disbursing and collecting of the loans. The outstanding balance as of June 30, 2002 totaled \$14,331,792 and loan expenditures for the year ended June 30, 2003 totaled \$82,329. As of June 30, 2003, outstanding Perkins loans totaled \$15,649,506.

# The University of Toledo

## Notes to the Schedule of Expenditures of Federal Awards

June 30, 2003

### 4. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the University provided federal awards to subrecipients as follows:

<u>Sub-grantee</u>	<u>Federal CFDA number</u>	<u>Amount provided</u>
EISC Inc	47.046	\$1,513
Denison University	43.002	10,337
First Solar LLC	81.087	175,342
International Institute	81.087	1,000
University of Delaware	81.087	15,000
University of Delaware	81.087	25,000
University of Michigan	81.049	92,323
Ohio State University	10.206	27,476
Heidleberg College	66.606	2,440
Bowling Green State University	11.419	9,374
Miami University	10.200	20,545
Bowling Green State University	47.076	104,066
Toledo Public Schools	47.076	318,078
Owens Community College	84.324	9,814
Owens Community College	84.324	5,866
University of Tennessee	43.002	4,922
University of Cincinnati	47.076	26,317
CAMP Inc.	66.708	5,833
Tech Solve	66.708	9,486
EISC Inc	66.708	13,471
CAMP Inc.	66.708	4,788
Tech Solve	66.708	5,894
CAMP Inc.	66.708	4,000
EISC Inc	66.708	6,964
ERES	20.205	6,831
National Composite Center	12.431	20,717
Silvestri Farm	66.469	1,000
University of Kentucky	12.420	100

# The University of Toledo

## Notes to the Schedule of Expenditures of Federal Awards

June 30, 2003

Stanford H Odesky	84.184	17,000
Christina Dake	84.184	1,500
Joseph Dake	84.184	2,975
Toledo Symphony	84.048	350
Millstream Career Center	84.048	12,200
Washington Local School	84.048	9,700
Sylvania Schools	84.048	28,500
Rogers High School	84.048	5,000
Oregon City Schools	84.048	13,600
Toledo Public Schools	84.048	18,500
Penta Career Center	84.048	33,600
Owens Community College	84.048	3,000
Big Brothers Big Sisters	84.334	15,000

### 5. Indirect Costs

The University recovers indirect costs by means of predetermined fixed indirect cost rates. The predetermined fixed rates are a result of negotiated agreements with the U.S. Department of Health and Human Services. The fixed rate effective for the period July 1, 2000 to June 30, 2004 for on-campus research is 42% of modified total direct costs, and the off-campus rate is 26% of modified total direct costs.

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

The Board of Trustees  
The University of Toledo

We have audited the financial statements of The University of Toledo (the University) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

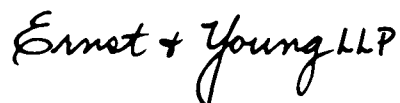
### **Compliance**

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

### **Internal Control Over Financial Reporting**

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

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



September 26, 2003

## Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees  
The University of Toledo

### Compliance

We have audited the compliance of The University of Toledo (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

## **Internal Control Over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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

*Ernst + Young LLP*

September 26, 2003



The University of Toledo  
 Schedule of Findings and Questioned Costs

June 30, 2003

**Part I - Summary of Auditor's Results**

**Financial Statement Section**

- |       |  |                    |                            |
|-------|--|--------------------|----------------------------|
| (i)   | Type of auditor's report issued:   | <u>Unqualified</u> |                            |
| (ii)  | Internal control over financial reporting:                                   |                    |                            |
|       | Material weakness(es) identified?  | <u>      </u> yes  | <u>  x  </u> no            |
|       | Reportable condition(s) identified not considered to be material weaknesses? | <u>      </u> yes  | <u>  x  </u> none reported |
| (iii) | Noncompliance material to financial statements noted?                        | <u>      </u> yes  | <u>  x  </u> no            |

**Federal Awards Section**

- |        |  |                    |                            |
|--------|--|--------------------|----------------------------|
| (viii) | Dollar threshold used to determine Type A programs:  | <u>\$962,091</u>   |                            |
| (ix)   | Auditee qualified as low-risk auditee?   | <u>  x  </u> yes   | <u>      </u> no           |
| (v)    | Type of auditor's report on compliance for major programs?   | <u>Unqualified</u> |                            |
| (iv)   | Internal control over compliance:  |                    |                            |
|        | Material weakness(es) identified?  | <u>      </u> yes  | <u>  x  </u> no            |
|        | Were reportable condition(s) identified not considered to be material weakness(es)?                                | <u>      </u> yes  | <u>  x  </u> none reported |
| (vi)   | Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))? | <u>      </u> yes  | <u>  x  </u> no            |

The University of Toledo

Schedule of Findings and Questioned Costs (continued)

**Part I - Summary of Auditor's Results (continued)**

(vii) Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.038, 84.007 84.003, 84.032	Student Financial Aid Cluster
Various	Research and Development Cluster

**Part II - Schedule of Financial Statement Findings**

None

**Part III - Schedule of Federal Award Findings and Questioned Costs**

None

## Independent Auditor's Report on Applying Agreed-Upon Procedures

Dr. Daniel M. Johnson, President  
The University of Toledo:

We have performed the procedures enumerated below, which were agreed to by The University of Toledo (the University) and the National Collegiate Athletic Association (NCAA), solely to assist you with respect to complying with NCAA bylaws. The University's management is responsible for the accompanying Statement of Revenues and Expenditures. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

### **I. Statement of Revenues and Expenditures and Internal Controls**

- a. We obtained the Statement of Current Revenues, Expenditures and Other Changes (the Statement) for the Department of Intercollegiate Athletics (the Department) for the year ended June 30, 2003, as prepared by management (Exhibit 1). We clerically tested the amounts on the Statement and agreed the amounts on the Statement to management's detailed worksheets and to the appropriate general ledger accounts. We found no exceptions as a result of these procedures.
- b. We performed a comparison of the operating revenues and expenditures per the Statement for fiscal years 2003 and 2002. We obtained management's explanation for variations greater than 10% of each revenue and expenditure line item in the aggregate. We found no exceptions as a result of these procedures.
- c. We performed a comparison of actual operating revenues and expenditures per the Statement to the budgeted amounts obtained from management. We obtained management's explanation for variations greater than 10% of each operating revenue and operating expense line item in the aggregate. We found no exceptions as a result of these procedures.
- d. We compared classifications of revenues and expenditures to NCAA guidelines. We found no exceptions as a result of these procedures.

- e. We reviewed and made inquiries of the organization chart prepared by management. We reviewed the extent of documentation of accounting systems and procedures. We also made certain inquiries of management regarding control consciousness, competence of personnel and protection of records and equipment. We found that the internal audit department has not performed any audit procedure related to intercollegiate athletics.
- f. We compared contributions, received directly by the Department in excess of 10% of total contributions, to the accounting records of The University of Toledo. We identified three contributions, \$59,739, \$71,372 and \$73,173 from The University of Toledo Foundation (the Foundation), that exceeded 10% of all contributions for the year ended June 30, 2003. We found such information to be in agreement. We also noted that the gift documentation indicated that the contribution was intended for the general use of the Department and was received directly by The University of Toledo Foundation and then distributed to the University.

**II. Booster Organizations**

- a. We obtained the following list of booster organizations from management and the related financial activities for the year ended June 30, 2003:

	Beginning Cash Balance	Cash Receipts	Contributions To or On Behalf of program	Other	Ending Cash Balance
The Rocket Fund	\$ 48,138	\$ 377,673	\$ 381,597		\$ 44,214
The Varsity T-Group	2,858	41,734	41,607		2,985
Downtown Coaches Association	2,835	119,611	38,000	\$ 83,351	1,095
Dugout Club	39,633	56,017	66,271		29,379
Total All Funds	<u>\$ 93,464</u>	<u>\$ 595,035</u>	<u>\$ 527,475</u>	<u>\$ 83,351</u>	<u>\$ 77,673</u>

- b. We confirmed directly with their officers, the financial activities of the booster organizations. We found no exceptions as a result of these confirmations.
- c. We agreed beginning cash balances to the prior year schedule. We compared total cash receipts and disbursements to the Treasurer’s reports prepared by listed organizations. The amounts included in the above schedule are not included in Exhibit 1 unless contributed directly to the University by the outside organization. We found no exceptions as a result of these procedures.
- d. We received the audited financial statements of The University of Toledo Foundation, which administers the Rocket Fund, Varsity T-Group, and the Dugout Club, for the year ended June 30, 2003, which reflected an unqualified opinion.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items, including Exhibit 1 and item II (a) above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of The University of Toledo and the National Collegiate Athletic Association and is not intended to be and should not be used by anyone other than these specified parties.



September 26, 2003

## The University of Toledo

Schedule of Current Revenues, Expenditures, and other Changes  
Intercollegiate Athletics

Year ended June 30, 2003

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Sports:			
Basketball	\$ 393,008		\$ 393,008
Football	1,334,821		1,334,821
Other sports	123,067		123,067
Concession sales, parking, and other miscellaneous revenues	1,112,130	\$ 75,255	1,187,385
Broadcasts and telecasts rights	34,285		34,285
Private gifts and grants	455,951	82,170	538,121
Advertising	579,000		579,000
Total revenues	<u>4,032,262</u>	<u>157,425</u>	<u>4,189,687</u>
Expenditures and mandatory transfers:			
Administrative and general:			
Salaries and wages	1,446,315	7,306	1,453,621
Staff benefits	388,708	2,155	390,863
Supplies	105,821	7,598	113,419
Guarantees	431,498		431,498
Travel and entertainment	291,788	2,665	294,453
Information and communications	426,167	4,168	430,335
Other	2,790	38,274	41,064
Total administrative and general	<u>3,093,087</u>	<u>62,166</u>	<u>3,155,253</u>
Sports:			
Baseball	367,004	7,524	374,528
Basketball	808,987	8,345	817,332
Football	3,283,832	471	3,284,303
Swimming	327,205	6,312	333,517
Track	327,452		327,452
Golf	170,732		170,732
Tennis	158,332	7,488	165,820
Women's softball	346,519	(62)	346,457
Women's basketball	735,112	5,312	740,424
Women's track	437,998	3,486	441,484
Women's volleyball	494,306		494,306
Women's tennis	235,379	8,183	243,562
Women's swimming	404,416	6,919	411,335
Women's soccer	343,371	8,663	352,034
Women's golf	184,912	22,533	207,445
Cheerleading and other	60,287	7,099	67,386
Training and equipment	499,575	2,986	502,561
Total sports	<u>9,185,419</u>	<u>95,259</u>	<u>9,280,678</u>

## The University of Toledo

Schedule of Current Revenues, Expenditures, and other Changes  
Intercollegiate Athletics (continued)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Expenditures and mandatory transfers, cont.:			
Operation and maintenance of plant:			
Salaries and wages	136,583		136,583
Staff benefits	35,581		35,581
Supplies	40,178		40,178
Repair and maintenance	9,715		9,715
Utilities	132,220		132,220
Other	6,951		6,951
Total operation and maintenance of plant	<u>361,228</u>		<u>361,228</u>
Total expenditures	<u>12,639,734</u>	157,425	<u>12,797,159</u>
Mandatory transfers to investment in plant fund			<u>169,777</u>
Total expenditures and mandatory transfers	<u>12,809,511</u>	157,425	<u>12,966,936</u>
Nonmandatory transfers and additions:			
Allocated fund	(11,967)		(11,967)
Interfund transfers	8,789,216		8,789,216
Excess of restricted disbursements over receipts		3,498	3,498
Net increase in fund balance	<u>\$ -</u>	<u>\$ 3,498</u>	<u>\$ 3,498</u>







**Auditor of State  
Betty Montgomery**

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**UNIVERSITY OF TOLEDO**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 30, 2003**