THE UNIVERSITY OF TOLEDO

FINANCIAL REPORT

Fiscal Year Ended June 30, 2004

PRINCIPAL OFFICIALS

As of June 30, 2004

OFFICERS OF THE UNIVERSITY

Daniel M. Johnson	President
William R. Decatur	Executive Vice President and Chief Operating Officer
Alan G. Goodridge	Executive Vice President and Provost for Academic Affairs and Enrollment Services
Sandra A. Drabik	Vice President and General Counsel
Tyrone Bledsoe	Vice President for Student Affairs
Charles Vernon Snyder	Vice President for Institutional Advancement

OFFICIALS ISSUING REPORT

William R. Decatur	Executive Vice President and Chief Operating Officer
Dawn M. Rhodes	Associate Vice President for Finance and Planning
Thomas H. Page	Controller

REPORT PREPARED BY

Financial Reporting

ERNST & YOUNG

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Report of Independent Auditors

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, and its discretely presented component unit as of June 30, 2004 and 2003 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 audits provide a reasonable basis for our opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2004 and 2003 and the respective changes in financial position, and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

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 of 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.

As discussed in Note 1 to the financial statements, in fiscal 2004 the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required the discrete presentation of The University of Toledo Foundation financial statements as a component unit of the University.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2004 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst & Young LLP

October 4, 2004

THE UNIVERSITY OF TOLEDO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the University of Toledo's (University) financial position and activity during the fiscal years ended June 30, 2004, 2003 and 2002**.** This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion have been prepared by and are the responsibility of 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.* 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.

On July 1, 2003, the University implemented GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units.* This statement amends GASB Statement No. 14 to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, should be included in the University's financial report. The University has determined that the University of Toledo Foundation meets the GASB 39 criteria for inclusion in the University's financial statements.

The Statements of Net Assets include 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, 2004 compared to the previous year as evidenced by the following:

- The University's total assets increased over the prior year by $13.6 million or 2.9% due primarily to an increase in capital assets.

- Total liabilities decreased by $4.6 million or 2.1% due to reductions in accounts payable and accrued liabilities and long term liabilities.
- The University's net assets increased by $18.2 million from $250.8 million to $269 million or 7.3%, of which net investment in capital assets increased by $7.2 million or 4.4%, unrestricted net assets increased $3.1 million or 10.3% and expendable restricted net assets increased by $7.9 million or 16.8%.
- Operating revenues increased $14.7 million or 7% during fiscal year ended June 30, 2004. Increased revenues were realized in student tuition and fees, and grants and contracts.
- Operating expenses have increased by $11 million or 3.7% with the largest changes in the areas of instruction and research.
- Nonoperating revenues, expenses and other changes increased by $3.9 million or 4.2% due to an increase in investment income, state grants and contracts and gift income.

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, 2004, 2003 and 2002 (in thousands)

	2004	2003	Variance 2004 to 2003 Amount	Variance 2004 to 2003 Percentage	2002	Variance 2003 to 2002 Amount	Variance 2003 to 2002 Percentage
Assets:							
Current assets	$ 71,630	$ 93,521	$(21,891)	-23.4%	$ 62,633	$ 30,888	49.3%
Capital assets, net	301,880	281,790	20,090	7.1%	270,831	10,959	4.0%
Other assets	106,347	90,954	15,393	16.9%	67,874	23,080	34.0%
Total Assets	479,857	466,265	13,592	2.9%	401,338	64,927	16.2%
Liabilities							
Current liabilities	45,759	46,212	(453)	-1.0%	45,100	1,112	2.5%
Noncurrent liabilities	165,089	169,235	(4,146)	-2.4%	120,328	48,907	40.6%
Total Liabilities	210,848	215,447	(4,599)	-2.1%	165,428	50,019	30.2%
Net Assets							
Investment in capital assets, net of debt	170,894	163,704	7,190	4.4%	156,648	7,056	4.5%
Restricted - nonexpendable	10,028	9,997	31	0.3%	10,008	(11)	-0.1%
Restricted - expendable	54,888	47,008	7,880	16.8%	47,598	(590)	-1.2%
Unrestricted	33,199	30,109	3,090	10.3%	21,656	8,453	39.0%
Total Net Assets	$ 269,009	$ 250,818	$ 18,191	7.3%	$ 235,910	$ 14,908	6.3%

Fiscal Year 2004 Compared to 2003

At June 30, 2004, total University assets were $479.9 million increasing $13.6 million or 2.9%. The University's largest asset, investment in capital assets, increased from $281.8 million to $301.9 million or 7.1% and current assets decreased $21.9 million or 23.4% due to the purchase of long term investments and the use of bond investments for construction related projects.

In fiscal 2004, the University's current assets of $71.6 million were sufficient to cover current liabilities of $45.7 million (current ratio of 1.57:1 compared to 2.02:1).

University liabilities were $210.8 million at June 30, 2004. Long-term debt of $167.4 million consisted of bonds, notes, and leases payable, of which $158.3 million is bonds payable and comprises the largest portion of noncurrent liabilities.

Total net assets increased from $250.8 million to $269 million. Unrestricted net assets totaled $33.2 million, of which 71.2% or $23.8 million is internally designated for ongoing academic and research programs, capital projects and other initiatives.

Fiscal Year 2003 Compared to 2002

At June 30, 2003, total University assets were $466.3 million increasing $64.9 million or 16.2%. The University's largest asset, 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.

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). These statements 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 received without an exchange of goods or services. For example, state appropriations are considered nonoperating as 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 three years ended June 30, 2004 (in thousands)

			Variance 2004 to 2003			Variance 2003 to 2002	
	2004	2003	Amount	Percentage	2002	Amount	Percentage
Operating revenues							
Student tuition and fees	$ 130,816	$ 117,387	$ 13,429	11.4%	$ 98,441	$ 18,946	19.2%
Grants and Contracts	43,182	41,663	1,519	3.6%	36,404	5,259	14.4%
Auxiliary enterprises	45,715	45,819	(104)	-0.2%	41,836	3,983	9.5%
Other operating revenue	5,256	5,412	(156)	-2.9%	3,750	1,662	44.3%
Total operating revenues	224,969	210,281	14,688	7.0%	180,431		
Operating expenses							
Educational and general	242,163	230,575	11,588	5.0%	219,471	11,104	5.1%
Auxiliary enterprises	47,513	48,623	(1,110)	-2.3%	46,660	1,963	4.2%
Depreciation	15,956	15,445	511	3.3%	13,730	1,715	12.5%
Total operating expenses	305,632	294,643	10,989	3.7%	279,861	14,782	5.3%
Operating loss	(80,663)	(84,362)	3,699	-4.4%	(99,430)	15,068	-15.2%
Nonoperating revenues, expenses and other changes							
State share of instruction	79,921	79,938	(17)	0.0%	83,175	(3,237)	-3.9%
Other nonoperating revenues	18,163	11,752	6,411	54.6%	16,384	(4,632)	-28.3%
Capital appropriations	8,482	12,654	(4,172)	-33.0%	4,819	7,835	162.6%
Nonoperating expenses	(7,712)	(9,435)	1,723	-18.3%	(7,441)	(1,994)	26.8%
Total nonoperating revenues, expenses and other changes	98,854	94,909	3,945	4.2%	96,937		
Reallocation of state unfunded workers' compensation liability		4,361					
Increase (decrease) in net assets	18,191	14,908	3,283	22.0%	(2,493)	17,401	-698.0%
Net assets at beginning of year	250,818	235,910			238,403		
Net assets at end of year	$ 269,009	$ 250,818	$ 18,191	7.3%	$235,910	$ 14,908	6.3%

Fiscal Year 2004 Compared to 2003

The most significant sources of operating revenues for the University are tuition and fees of $130.8 million, grants and contracts of $43.2 million, and auxiliary enterprises sales of $45.7 million, compared to $117.4 million, $41.7 million and $45.8 million from the prior year.

Operating expenses totaled $305.6 million compared to $294.6 million, which includes depreciation of $15.9 million compared to $15.4 million. Further, research and instruction functional categories have increased proportionally to the additional revenue from grants and contracts.

State appropriations were the most significant source of nonoperating revenue, totaling $79.9 million for both years.

Other changes reflect a decrease in capital appropriations of $4.2 million due to the timing of use in the University's ongoing capital improvement program.

Fiscal Year 2003 Compared to 2002

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 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 cash flows from noncapital financing activities 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 the three years ended June 30, (in thousands):

	2004	2003	2002
Cash provided by (used in):			
Operating activities	$ (67,490)	$ (70,778)	$ (85,005)
Noncapital financing activities	89,661	85,074	95,997
Capital and related financing activities	(16,776)	(16,932)	(11,364)
Investing activities	(1,580)	2,654	(131)
Net change in cash	3,815	18	(503)
Cash and cash equivalents at beginning of year	290	272	775
Cash and cash equivalents at end of year	$ 4,105	$ 290	$ 272

Fiscal Year 2004 Compared to 2003

Major sources of cash included student tuition and fees ($130.1 million compared to $118.6 million), state appropriations ($79.9 million in each year), auxiliary activities ($45.1 million compared to $46 million), and grants and contracts ($43.4 million compared to $40.2 million). The largest payments were for suppliers and employees ($291million compared to $278.5 million).

Fiscal Year 2003 Compared to 2002

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, 2004, renovation projects were completed on Bowman Oddy, the Residence Halls of Parks Tower and McComas Village, Nitschke Hall, Palmer Hall, Student Union and Libbey Hall.

The University has planned capital improvements for the fiscal year ending June 30, 2005 of approximately $26.4 million. Renovation projects are scheduled for Palmer Hall, University Computer Center, University Hall, Gillham Hall, Bowman Oddy, North Engineering, McMaster Hall, Student Recreation Center, Center for Performing Arts, Law Center, MacKinnon, Wolfe Hall, and the utility distribution system. 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 $302 million in capital assets, net of accumulated depreciation of $222.6 million at June 30, 2004 compared to $281.8 million in capital assets for the prior fiscal year. The charges for depreciation included in the SRECNA total $15.9 million and $15.4 million for the fiscal years ended June 30, 2004 and 2003 respectively. Detailed information about the University's capital assets is presented in the notes to the financial statements.

Debt Administration

The University has a strong financial position 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 AAA and A2, respectively.

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 employee compensation, health care, and utilities.

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 5.4%.

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 Thomas H. Page, Controller, Mail Stop 325, Rocket Hall 1740, 2801 W. Bancroft Street, Toledo, Ohio 43606.

The University of Toledo
Statements of Net Assets
As of June 30, 2004 and 2003
(Dollars in thousands)

	University		Foundation	
ASSETS	**2004**	**2003**	**2004**	**2003**
Current Assets				
Cash and cash equivalents (note 2)	$ 4,105	$ 290	$ 1,042	$ 1,453
Short-term investments (note 2)	3,317	34,476		
Accounts receivable, net (note 3)	21,429	21,073	295	285
Contributions receivable, net allowance for uncollectible			1,657	967
Inventories	383	362		
Investments held by bond trustee (note 2)	37,245	33,344		
Notes receivable, net (note 3)	2,438	2,188	137	166
Other assets	2,712	1,788	68	59
Total Current Assets	71,630	93,521	3,199	2,930
Noncurrent Assets				
Endowment and loan investments (note 2)	36,310	30,463	89,900	75,821
Notes receivable, net (note 3)	13,009	13,533	155	293
Long-term investments (note 2)	53,553	43,666	33	
Contributions receivable, net allowance for uncollectible			3,057	3,677
Deferred bond issuance costs	3,475	3,292		
Capital assets, net (note 4)	301,880	281,790	245	641
Total Noncurrent Assets	408,227	372,744	93,390	80,432
Total Assets	479,857	466,265	96,589	83,362
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	19,688	18,736	992	1,040
Deferred revenue	11,464	11,949		
Deposits	381	233		
Compensated absences - current portion (note 5)	9,145	8,879		
Long-term liabilities - current portion (note 5)	5,081	6,415	137	166
Total Current Liabilities	45,759	46,212	1,129	1,206
Noncurrent Liabilities				
Compensated absences (note 5)	2,803	3,073		
Long-term liabilities (note 5)	162,286	166,162	4,024	4,081
Total Noncurrent Liabilities	165,089	169,235	4,024	4,081
Total Liabilities	210,848	215,447	5,153	5,287
NET ASSETS				
Invested in capital assets, net of related debt	170,894	163,704	245	641
Restricted:				
Nonexpendable	10,028	9,997	46,593	44,008
Expendable	54,888	47,008	36,300	27,955
Unrestricted	33,199	30,109	8,298	5,471
Total Net Assets	$ 269,009	$ 250,818	$ 91,436	$ 78,075

See notes to financial statements

The University of Toledo
Statements of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2004 and 2003
(Dollars in thousands)

	University		Foundation	
Revenues	**2004**	**2003**	**2004**	**2003**
Operating revenues:				
Student tuition and fees, net of student aid of $22,135 and $22,220	$ 130,816	$ 117,387		
Federal grants and contracts	29,323	26,446		
State grants and contracts	6,833	6,341		
Local grants and contracts	1,508	1,999		
Private grants and contracts	5,518	6,877		
Sales and services	3,380	2,948		
Auxiliary enterprises , net of student aid of $2,987 and $2,730	45,715	45,819		
Gifts			$ 6,138	$ 4,025
Other operating revenues	1,876	2,464	644	472
Total operating revenues	224,969	210,281	6,782	4,497
Expenses				
Operating expenses:				
Instruction	120,917	113,045		
Research	16,268	14,386	118	132
Public service	4,736	4,945		
Academic support	28,964	28,451	2,750	2,761
Student services	18,848	18,983		
Institutional support	24,021	23,973	1,607	1,565
Student aid	12,907	12,370	1,285	1,719
Operation and maintenance of plant	15,502	14,422	1,840	990
Depreciation	15,956	15,445	55	55
Auxiliary enterprises	47,513	48,623	698	629
Total operating expenses	305,632	294,643	8,353	7,851
Operating loss	(80,663)	(84,362)	(1,571)	(3,354)
Nonoperating Revenues (Expenses)				
State share of instruction	79,921	79,938		
Loss after state share of instruction	(742)	(4,424)	(1,571)	(3,354)
State grants and contracts	6,624	4,852		
Gifts	3,898	3,367		
Investment income	6,900	2,180	12,900	738
Interest on debt	(5,901)	(6,729)		
Other nonoperating (expenses)	(1,794)	(2,608)	431	313
Total other nonoperating revenues	9,727	1,062	13,331	1,051
Income (Loss) before other changes	8,985	(3,362)	11,760	(2,303)
Other Changes				
Capital appropriations	8,482	12,654		
Capital grants, gifts, and contracts	734	1,351		
Addition to permanent endowment	7	2	1,601	1,832
Asset disposal	(17)	(98)		
Total other changes	9,206	13,909	1,601	1,832
Reallocation of state unfunded workers' compensation liability		4,361		
Increase (Decrease) in Net Assets	18,191	14,908	13,361	(471)
Net assets				
Net assets at beginning of year	250,818	235,910	78,075	78,546
Net assets at end of year	$ 269,009	$ 250,818	$ 91,436	$ 78,075

See notes to financial statements

The University of Toledo
Statements of Cash Flows
Year Ended June 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
Cash flows from operating activities		
Tuition and fees	$ 130,162	$ 118,584
Grants and contracts	43,372	40,194
Sales and services of educational activities	3,279	1,971
Payments to suppliers	(145,918)	(139,779)
Payments to employees	(145,138)	(138,770)
Loans issued to students	(2,752)	(4,063)
Collection of loans from students	2,493	2,639
Auxiliary enterprise charges	45,136	45,983
Other	1,876	2,463
Net cash from operating activities	(67,490)	(70,778)
Cash flows from noncapital financing activities		
State share of instruction	79,921	79,938
Student direct lending receipts	81,611	69,599
Student direct lending disbursements	(82,415)	(72,719)
Gifts, grants, and contracts	10,529	8,221
Agency Transactions	15	35
Net cash from noncapital financing activities	89,661	85,074
Cash flows from capital and related financing activities		
Purchases of capital assets	(33,939)	(25,325)
Principal paid on capital debt	(6,076)	(6,010)
Capital appropriations	9,751	11,888
Proceeds from debt issuance	18,137	8,669
Capital grants and gifts	1,220	545
Interest paid on capital debt	(5,869)	(6,699)
Net cash from capital and related financing activities	(16,776)	(16,932)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	321,037	218,476
Interest on investments	2,235	1,496
Purchase of investments	(324,852)	(217,318)
Net cash from investing activities	(1,580)	2,654
Net increase in cash	3,815	18
Cash and cash equivalents - beginning of year	290	272
Cash and cash equivalents - end of year	$ 4,105	$ 290

See notes to financial statements

The University of Toledo
Statements of Cash Flows – Continued
Year Ended June 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:		
Operating loss	$ (80,663)	$ (84,362)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	15,956	15,445
(Increase) decrease in assets:		
Accounts receivable, net	(660)	(1,133)
Inventories	22	(60)
Other current assets	(1,019)	49
Notes receivable, net	(274)	(1,390)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,339)	(1,345)
Deferred revenue	484	536
Compensated absences	3	1,482
Net cash used in operating activities	$ (67,490)	$ (70,778)

See notes to financial statements

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

The accompanying financial statements consist of the University of Toledo (University) and the University of Toledo Foundation (Foundation)

Reporting Entity - The University is a component unit of the State of Ohio, as established by the General Assembly of the State of Ohio (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) (3), 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.

In 2004, the University retroactively implemented GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units,* which requires 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 Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

The Foundation is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organizations to supplement the resources that are available to the University in support of its programs. The twenty-eight member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipt from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the years ended June 30, 2004 and 2003 the Foundation transferred approximately $5,399 and $4,304, respectively, to the University for both restricted and unrestricted purposes. 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 years ended June 30, 2004 and 2003, the University incurred management fees paid or payable to the Foundation of $409 and $529, respectively. Requests for additional information or financial statements should be addressed to The University of Toledo Foundation, Driscoll Center MS 318, 2801 W Bancroft Street, Toledo, Ohio 43606.

Basis of Presentation - The financial statements have been prepared to incorporate all fund groups utilized by the University. These statements have been prepared in conformity with generally accepted accounting principles as prescribed by the GASB and require 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 expense. 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 equivalents.

2. Investments in marketable securities are carried at fair value as established by major securities markets. Investment income includes realized and unrealized gains and losses on investments, amortization of premium and discount, 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 2004, 2003, 2001, 1998, and 1992 Series General Receipts Bonds have been capitalized in the Other Assets 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, 2004 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 the fiscal year are recognized in the fiscal year they occur. 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.

<u>Note 2 – Cash, Cash Equivalents and Investments</u>

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, 2004.

The Board approved revisions to the University's investment policy effective November 2003. 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 Statement 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.

(Dollars in Thousands)

(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, 2004, the carrying amount of the University's cash and cash equivalents for all funds was $4,105. Items in transit and outstanding checks cause the difference in the carrying amount of $4,105 and the bank balance of $211. Of the bank balance, $100 was covered by federal depository insurance (category 1) and $111 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:

		2004		2003	
	Category	Cost	Fair Value	Cost	Fair Value
Corporate bonds	2	$ 9,140	$ 9,495	$ 6,119	$ 6,590
Corporate stock	2	21,616	25,341	18,900	19,814
U.S. Government/agency obligations	2	87,180	86,526	24,812	25,160
		117,936	121,362	49,831	51,564
Common and collective trust funds		6,750	7,719	65,533	65,596
STAR Ohio		362	362	23,807	23,807
Real estate		982	982	982	982
		$ 126,030	$ 130,425	$ 140,153	$ 141,949

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.

The fair value of the Foundation's investments were $89,900 and $75,621 at June 30, 2004 and 2003, respectively. Net realized and unrealized gains (losses) amounted to $11,582 and (710) at June 30, 2004 and 2003, respectively.

THE UNIVERSITY OF TOLEDO
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2004
(Dollars in Thousands)

Note 3 – Accounts and Notes Receivable

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

	2004	2003
Accounts receivable		
Tuition and Fees	$ 3,560	$ 2,898
Sales and services	1,506	1,756
Auxiliary services	2,336	2,021
Grants and contracts	12,140	11,404
Interest receivable	466	162
Interest receivable - endowments	56	53
Plant fund	1,365	2,779
Total accounts receivable - net of allowances	21,429	21,073
Notes receivable:		
Current	2,438	2,188
Non current	13,009	13,533
Total notes receivable - net of allowances	15,447	15,721
Total accounts and notes receivables - net of allowances	$ 36,876	$ 36,794

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 $2,011 and $1,767 for fiscal 2004 and 2003 respectively. Student loans receivable are recorded net of allowance for uncollectible accounts of $760.

Note 4 – Capital Assets

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

(Dollars in Thousands)

Capital assets consist of the following as of June 30:

	Balance June 30, 2003	Additions	Reallocation/ Reductions	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 18,008			$ 18,008
Land improvements	1,706			1,706
Construction in progress	14,042	27,387	(2,840)	38,589
Total capital assets, not being depreciated	33,756	27,387	(2,840)	58,303
Capital assets, being depreciated:				
Infrastructure	47,389	180	374	47,943
Buildings	375,090	4,444	2,318	381,852
Equipment	34,038	4,200	(1,832)	36,406
Total capital assets, being depreciated	456,517	8,824	860	466,201
Less accumulated depreciation:				
Infrastructure	18,492	2,069		20,561
Buildings	162,094	11,354		173,448
Equipment	27,897	2,533	(1,815)	28,615
Total	208,483	15,956	(1,815)	222,624
Total capital assets, being depreciated, net	248,034	(7,132)	2,675	243,577
Capital Assets, net	$ 281,790	18,334	(165)	$ 301,880

Note 5 – Long-term Liabilities

On March 1, 2004, the University issued $14.1 million General Receipt Bonds, Series 2004 to refund and redeem the General Receipt Bonds, Series 1994 in the amount of $13.2 million with an effective interest rate of 4.35% and the remainder of the issue being used to fund the bond issuance cost and the call premium. The University will reduce the debt payments over the next 20 years by $833,000 securing an economic gain of $341,000.

On November 19, 2003, the University issued $104.5 million General Receipt Bonds, Series 2003 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, 2003. 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 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, 2003, 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 2003 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 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. If the swap terminated at June 30, 2004 the University would be liable for a termination payment totaling $5.2 million. The swaps fair value is estimated using the zero-coupon method, whereby 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, 2004. The debt defeased remains outstanding as of June 30, 2004. 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 remains outstanding as of June 30, 2004 is $27.6 million.

The principal and interest payments of the 2004, 2002, 2001, and 1998 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 three debt agreements and a refinancing agreement 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 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. In April 2003, existing debt and lease agreements were refinanced at an interest rate of 2.98% for the fiber optic network and equipment purchases.

The University entered into an agreement in September 1999 to finance the purchase of a scoreboard, which bears interest at 7.5%. These agreements are classified as notes payable.

(Dollars in Thousands)

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 consist of the following as of June 30:

	Due Dates	Interest Rate	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004	Current
General receipts series 1994, serial and term bonds:							
The International Center student housing	1996-2005	3.4 to 5.35%	$ 13,245		$ 13,245		
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%	11,230		470	$ 10,760	$ 490
General receipts series 2001, serial and term bonds:							
Student housing	2002-2030	4.25 to 5.22%	34,210		735	33,475	760
General receipts series 2002, serial and term bonds:							
Student housing and advance refund general receipt series 1992	2003-2032	various	103,060		3,060	100,000	1,990
General receipts series 2004, serial and term bonds:							
Advance refund prior general receipt bond (1994)	2005-2025	2.0 to 4.125%		$ 14,110		14,110	40
Lease obligations	1996-2015	various	10,230		1,636	8,594	1,657
Notes payable	1999-2009	various	602		174	428	144
Compensated absences			11,952	966	970	11,948	9,145
			184,529	$ 15,076	$ 20,290	179,315	$ 14,226
Less current portion long-term liabilities			15,294			14,226	
Long-term liabilities			$ 169,235			$ 165,089	

(Dollars in Thousands)

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
2005	$ 3,280	$ 7,153	$ 10,433
2006	3,810	6,874	10,684
2007	3,955	6,708	10,663
2008	4,235	6,530	10,765
2009	9,325	6,327	15,652
2010 - 2014	25,075	27,479	52,554
2015 - 2019	29,575	20,818	50,393
2020 - 2024	14,400	15,132	29,532
2025 - 2029	10,385	12,222	22,607
2030 - 2032	54,305	6,195	60,500
Total	$ 158,345	$ 115,438	$ 273,783

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

	Principal	Interest	Total
2005	$ 1,657	$ 301	$ 1,958
2006	1,630	243	1,873
2007	1,431	188	1,619
2008	1,279	140	1,419
2009	1,305	93	1,398
2010 - 2014	1,037	159	1,196
2015 - 2017	255	15	270
Total	$ 8,594	$ 1,139	$ 9,733

The future amounts of principal and interest payments required by the notes payable are as follows:

	Principal	Interest	Total
2005	$ 144	$ 17	$ 162
2006	72	12	84
2007	75	9	84
2008	33	5	38
2009	9	5	14
2010 - 2014	54	17	71
2015 - 2018	41	3	43
Total	$ 428	$ 68	$ 496

Note 6 – 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 2004, 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, 2002, 2003, and 2004 were $6,623, $6,840, and $7,112, 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 2004, STRS employees contributed 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, 2002, 2003, and 2004 were $7,790, $8,188, and $8,290, 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 years ended June 30, 2002, 2003, and 2004, were $1,981, $2,374, and $2,731, 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 (10% STRS or 8.5% PERS) to one of eight private providers approved by the State Department of Insurance. For employees who elect an ARP, employers are required to remit employer contributions to STRS Ohio. The employer contribution is the lower of a rate determined by independent actuarial study or the portion of the STRS Ohio DC Plan employer contribution rate that is allocated to the defined benefit unfunded liability. PERS does not require an employer contribution for employees electing an ARP. The University plan provides these employees with immediate plan vesting.

Note 7 – Postemployment Benefits

In addition to the pension benefits described in note 6, 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 Statement 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 2003 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 2003 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 2003 were $908. As of December 31, 2003, the audited estimated net assets available for future OPEB payments were $10,815. The number of active contributing participants for PERS was 369.

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 1% 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 $2,798 at June 30, 2003.

For the year ended June 30, 2003, the net health care costs paid by STRS were $376,624. There were 108 eligible benefit recipients.

Note 8 - 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.

(Dollars in Thousands)

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 2004.

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.

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.

Changes in such liabilities are as follows:

	2004	2003
Unpaid claims - July 1	$ 3,537	$ 2,537
Incurred claims	18,230	15,863
Claim payments	(18,796)	(14,863)
Unpaid claims - June 30	$ 2,971	$ 3,537

Note 9 – Natural Classification of Expenses

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

	2004	2003
Salaries, wages, benefits	$ 202,625	$ 190,838
Compensation non-payroll	24,573	25,570
Supplies	16,239	16,018
Travel and entertainment	6,091	6,506
Information and communication	7,366	7,548
Occupancy	13,584	12,716
Scholarship expense	12,907	13,227
Depreciation	15,956	15,445
Other	6,291	6,775
Total operating expenses	$ 305,632	$ 294,643