



THE UNIVERSITY OF TOLEDO

Financial Statements

June 30, 1999

(With Independent Auditors' Report Thereon)

THE UNIVERSITY OF TOLEDO

Table of Contents

	Pages
Independent Auditors' Report	1
Balance Sheets	2
Statement of Changes in Fund Balances	4
Statement of Current Funds Unallocated Revenues, Expenditures, and Other Changes	5
Notes to Financial Statements	6
Required Supplementary Information	20



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

Board of Trustees
The University of Toledo

We have reviewed the independent auditor's report of The University of Toledo, Lucas County, prepared by KPMG LLP for the audit period July 1, 1998 through June 30, 1999. 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.



JIM PETRO
Auditor of State

February 2, 2000



Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

The Board of Trustees
The University of Toledo:

We have audited the accompanying balance sheet of The University of Toledo (University), component unit of the State of Ohio, as of June 30, 1999, and the related statements of changes in fund balances and current funds unallocated revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 of Toledo as of June 30, 1999, and the changes in fund balances, and current funds unallocated revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 1999 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.

The Year 2000 supplementary information on page 20 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we are unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the University is or will become Year 2000 compliant, that the University's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business will become Year 2000 compliant.

As discussed in note 11 to the financial statements, the University adopted the provisions of Governmental Accounting Standards No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* in 1998.

KPMG LLP

October 6, 1999



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

THE UNIVERSITY OF TOLEDO

Balance Sheets

June 30, 1999

(with comparative figures at June 30, 1998)

	1999	1998	Liabilities and Fund Balances	1999	1998
Assets					
Current funds:					
Unrestricted:					
Educational and general:					
Investments	\$ 32,586,422	24,062,726	Accounts payable	\$ 5,673,962	2,788,049
Accounts receivable, less allowance for doubtful accounts of \$1,967,760 in 1999 and \$1,718,000 in 1998			Accrued payroll	2,259,083	1,879,178
Accrued interest receivable	3,955,932	3,432,510	Accrued vacation pay	6,494,791	6,198,547
Inventories	224,769	246,893	Accrued sick leave	2,141,612	2,053,577
Prepaid expenses	92,224	106,543	Accrued retirement incentive plan	3,034,350	---
Deposits and deferred charges	5,769,371	5,850,467	Other accrued expense	3,621,865	2,545,417
	67,141	125,166	Deferred revenue and student deposits	11,561,934	11,456,394
			Due to other funds	5,897,640	2,054,540
			Fund balances (deficit):		
			Allocated	7,898,694	6,886,166
			Unallocated	(5,888,272)	(2,035,563)
Total educational and general	42,695,859	33,826,305		42,695,859	33,826,305
Auxiliary enterprises:					
Cash and cash equivalents	11,470	473,131	Accounts payable	485,721	900,436
Accounts receivable, less allowance for doubtful accounts of \$215,000 in 1999 and \$228,000 in 1998			Accrued payroll	404,841	293,260
Inventories	2,297,466	2,181,424	Accrued vacation pay	728,937	787,341
Prepaid expenses	147,228	135,155	Accrued sick leave	111,149	91,290
Due from other funds	210	7,196	Other accrued expenses	243,572	237,911
	5,246,621	5,351,307	Deferred revenue and student deposits	579,562	649,947
			Fund balance:		
			Allocated	5,149,213	5,188,028
Total auxiliary enterprises	7,702,995	8,148,213		7,702,995	8,148,213
Total unrestricted					
	50,398,854	41,974,518		50,398,854	41,974,518
Restricted:					
Cash and cash equivalents	500	500	Accounts payable	1,078,761	490,859
Accounts receivable	5,728,869	6,325,102	Due to other funds	1,400,864	2,691,498
Prepaid expenses	3,780	2,555	Fund balances:		
			Allocated	889,484	484,111
			Unallocated	2,364,040	2,661,689
Total restricted	5,731,149	6,328,157		5,731,149	6,328,157
Total current funds	\$ 56,132,003	48,302,675	Total current funds	\$ 56,132,003	48,302,675

See accompanying notes to financial statements.

(Continued)

THE UNIVERSITY OF TOLEDO

Balance Sheets

June 30, 1999

(with comparative figures as June 30, 1998)

	1999	1998	1999	1998
Assets				
Loan funds:				
Investments	\$ 1,044,221	\$ 923,821		
Notes receivable, less allowance for doubtful loans of \$760,000 in 1999 and 1998, respectively				
Accrued interest receivable	12,901,123	12,604,005		
		19		
	\$ 13,945,344	\$ 13,527,845		
Total loan funds				
Endowment and similar funds:				
Investments	\$ 36,808,222	\$ 34,501,924		
Accrued interest receivable	119,564	111,915		
	\$ 36,927,786	\$ 34,613,839		
Total endowment and similar funds				
Plant funds:				
Unexpended:				
Cash and cash equivalents	\$ 281,633	\$ 548,952		
Investments - unexpended bond proceeds	2,740,836	—		
Accounts receivable	10,190	1,214,814		
Due from other funds	2,217,572	—		
Deferred bond issuance costs, net of amortization	1,969,055	2,154,847		
Total unexpended	7,219,286	3,918,613		
Investment in plant:				
Land	17,798,450	17,738,450		
Improvements other than buildings	28,950,054	28,662,131		
Buildings	308,497,537	305,113,604		
Movable equipment, furniture, and library books	76,270,837	76,492,174		
Construction in progress	11,474,055	9,580,964		
Total investment in plant	442,990,933	437,587,323		
Total plant funds	\$ 450,210,219	\$ 441,505,936		
Agency funds:				
Cash and cash equivalents	\$ 261,203	\$ 366,549		
Prepaid expenses	—	1,300		
Funds on deposit with the Ohio Public Employees Deferred Compensation Program	—	501,688		
Total agency funds	\$ 261,203	\$ 869,537		
	\$ 450,471,422	\$ 442,375,373		
Liabilities and Fund Balances				
Loan funds:				
Accounts payable	\$ 44,347	\$ 1,902		
Due to other funds	136,827	557,308		
Fund balances:				
Federal grant receivable	12,236,741	11,467,072		
University funds - restricted	1,527,429	1,501,565		
	\$ 13,945,344	\$ 13,527,845		
Total loan funds				
Endowment and similar funds:				
Accounts payable	\$ 200,886	\$ 160,364		
Due to other funds	28,862	47,861		
Fund balances:				
Allocated	6,634,439	6,581,515		
Unallocated	2,869,550	2,869,550		
Quest-endowment:				
Designated	20,778,363	18,794,281		
Unrestricted	6,465,686	6,160,168		
	\$ 36,927,786	\$ 34,613,839		
Total endowment and similar funds				
Plant funds:				
Unexpended:				
Accounts payable	\$ 106,212	\$ 431,041		
Accrued interest payable	385,023	382,113		
Bonds Payable	3,000,000	—		
Fund balances:				
Restricted	3,728,051	3,105,459		
Total unexpended	7,219,286	3,918,613		
Investment in plant:				
Obligations under capital leases	6,688,536	7,033,100		
Bonds payable	79,700,060	81,985,000		
Other plant debt	7,313,684	6,482,678		
Net investment in plant	349,268,713	342,087,345		
Total investment in plant	442,990,933	437,588,323		
Total plant funds	\$ 450,210,219	\$ 441,506,936		
Agency funds:				
Accounts payable	\$ 26,648	\$ 37,290		
Deposits held in custody for others	237,553	330,559		
Employees Deferred Compensation Program payable	—	501,688		
Total agency funds	\$ 261,203	\$ 869,537		

See accompanying notes to financial statements.

THE UNIVERSITY OF TOLEDO
Statement of Changes in Fund Balances
Year ended June 30, 1999

	Current Funds - Unrestricted						Plant Funds			
	Unrestricted		Restricted		Total	Loan	Endowment and Similar Funds	Unexpended	Retirement of Indebtedness	Investment in Plant
	Educational and General	Auxiliary Enterprises	Educational and General	Auxiliary Enterprises						
Revenues and other additions:										
Unrestricted current fund revenues	\$ 196,170,551	40,669,372	236,839,923	---	236,839,923	---	---	---	---	---
Federal grants and contracts - restricted	---	---	18,611,461	---	18,611,461	693,539	---	64,530	---	---
State grants and contracts - restricted	---	---	6,150,558	---	6,150,558	---	---	11,454,823	---	---
Local grants and contracts - restricted	---	---	570,081	---	570,081	---	---	---	---	---
Private gifts, grants, and contracts - restricted	---	---	6,975,288	88,739	7,064,027	---	53,924	1,452,071	---	---
Investment income	---	---	652,049	---	652,049	---	---	60,363	---	---
Net increase in fair value of investments	---	---	---	---	---	---	---	---	---	---
Interest on notes receivable	---	---	---	---	---	---	---	---	---	---
Expended for plant facilities (including \$3,854,672 charged to current funds expenditures)	---	---	---	---	---	---	---	---	---	14,642,201
Retirement bonds	---	---	---	---	---	---	---	---	---	3,250,000
Retirement of obligations under capital leases	---	---	---	---	---	---	---	---	---	1,775,981
Other	---	---	173,517	17,263	190,780	---	20,000	620,925	---	---
Total revenues and other additions	196,170,551	40,669,372	236,839,923	106,002	270,078,859	1,288,466	3,487,392	13,652,712	---	19,668,182
Expenditures and other deductions:										
Educational and general expenditures	184,992,005	---	184,992,005	---	184,992,005	32,387,226	---	---	---	---
Auxiliary enterprises expenditures	---	43,268,741	43,268,741	145,122	43,413,863	---	---	---	---	---
Indirect costs recovered	---	---	---	---	---	1,420,964	---	---	---	---
Loan cancellation and write-offs	---	---	---	---	---	140,149	---	---	---	---
Expended for plant facilities (including \$2,740,876 on noncapitalized expenditures)	---	---	---	---	---	---	---	16,342,597	---	9,269,675
Disposals and write-offs of plant facilities	---	---	---	---	---	---	---	---	3,250,000	---
Retirement of bonds	---	---	---	---	---	---	---	---	1,775,981	---
Retirement of obligations under capital leases	---	---	---	---	---	---	---	---	5,015,055	---
Interest on bonds and capital lease obligations	---	---	---	---	---	---	---	---	---	---
Other	---	---	---	---	---	567,662	---	1,479,888	---	---
Total expenditures and other deductions	184,992,005	43,268,741	228,260,746	145,122	262,214,058	707,811	---	17,822,485	10,041,036	9,269,675
Transfers among funds - to (from):										
Mandatory:										
Principal and interest	\$ (2,349,320)	(7,516,866)	(9,766,186)	---	(9,766,186)	---	---	(274,850)	10,041,036	---
Loan fund matching	(214,880)	---	(214,880)	---	(214,880)	214,880	---	---	---	---
College Work Study matching	(319,635)	---	(319,635)	---	(319,635)	---	---	---	---	---
Opportunity Grant matching	(303,642)	---	(303,642)	---	(303,642)	---	---	---	---	---
Nonmandatory:										
Allocated fund balances	(1,012,528)	38,816	(973,712)	(973)	(1,379,085)	---	---	---	---	---
Intrifund - other	(10,931,250)	10,077,419	(853,831)	---	(655,000)	---	(1,194,868)	5,087,215	---	(3,217,339)
Net transfers among funds	(15,093,255)	2,599,369	(12,493,886)	(973)	(12,015,159)	214,880	(1,194,868)	4,792,365	10,041,036	(3,217,339)
Net increase (decrease) for the year	(3,852,709)	---	(3,852,709)	(40,093)	(4,150,358)	795,335	2,292,524	622,392	---	7,181,168
Fund balances (deficit) at beginning of year	(2,035,563)	---	(2,035,563)	33,946	2,661,689	12,968,635	34,405,514	3,105,459	---	342,087,545
Fund balances (deficit) at end of year	(5,888,272)	---	(5,888,272)	(6,147)	(6,324,232)	13,764,170	36,698,038	3,728,051	---	349,268,713

See accompanying notes to financial statements.

THE UNIVERSITY OF TOLEDO

Statement of Current Funds Unallocated Revenues, Expenditures, and Other Changes

Year ended June 30, 1999

(with comparative totals for the year ended June 30, 1998)

	Unrestricted		Total		Restricted		Total		Total Current Funds	
	Educational and General	Auxiliary Enterprises	Unrestricted	Auxiliary Enterprises	Educational and General	Auxiliary Enterprises	Restricted	Auxiliary Enterprises	1999	1998
Revenues:										
Tuition, fees, and other student charges	\$ 100,998,340	—	100,998,340	—	—	—	—	—	100,998,340	94,261,432
State appropriations	83,869,268	—	83,869,268	—	—	—	—	—	83,869,268	82,602,427
Federal grants and contracts	1,174,055	—	1,174,055	—	17,507,549	—	17,507,549	18,681,604	16,374,214	
State grants and contracts	1,224,544	—	1,224,544	—	5,814,805	—	5,814,805	7,039,349	8,096,371	
Local grants and contracts	246,332	—	246,332	—	492,149	—	492,149	738,481	694,004	
Private gifts, grants, and contracts	1,414,027	836,175	2,250,202	—	6,425,308	88,739	6,514,047	8,764,249	8,599,274	
Sales and services	3,343,979	39,157,198	42,501,177	—	—	—	—	42,501,177	38,899,272	
Endowment income	226,544	—	226,544	—	1,352,756	—	1,352,756	1,579,300	1,604,147	
Investment income	1,892,812	—	1,892,812	—	171,382	—	171,382	1,892,812	2,181,148	
Other sources	1,780,650	675,999	2,456,649	—	56,383	—	56,383	2,684,414	2,224,882	
Total revenues	196,170,551	40,669,372	236,839,923	—	31,763,949	145,122	31,909,071	268,748,994	255,937,171	
Expenditures and mandatory transfers:										
Educational and general:										
Instructional and department research	96,352,149	—	96,352,149	—	3,705,623	—	3,705,623	100,057,772	96,739,011	
Separately budgeted research	1,796,108	—	1,796,108	—	7,051,935	—	7,051,935	8,848,043	7,939,876	
Public service	3,901,920	—	3,901,920	—	1,920,307	—	1,920,307	5,822,227	5,213,593	
Academic support	24,575,762	—	24,575,762	—	657,449	—	657,449	25,233,211	24,912,323	
Student services	14,226,305	—	14,226,305	—	106,864	—	106,864	14,333,169	13,592,284	
Institutional support	22,399,813	—	22,399,813	—	53,070	—	53,070	22,452,883	19,563,840	
Operation and maintenance of plant	13,731,241	—	13,731,241	—	28,196	—	28,196	13,759,437	13,684,844	
Scholarships and fellowships	8,008,707	—	8,008,707	—	18,863,782	—	18,863,782	26,872,489	24,236,293	
Total educational and general expenditures	184,992,005	—	184,992,005	—	32,387,226	—	32,387,226	217,379,231	205,882,064	
Auxiliary enterprises	—	43,268,741	43,268,741	—	—	145,122	145,122	43,413,863	41,024,258	
Mandatory transfers for:										
Principal and interest	2,249,320	7,516,866	9,766,186	—	—	—	—	9,766,186	10,180,962	
Loan fund matching	214,880	—	214,880	—	—	—	—	214,880	273,253	
College Work Study matching	319,635	—	319,635	—	(319,635)	—	(319,635)	—	—	
Supplemental Educational Opportunity Grant matching	303,642	—	303,642	—	(303,642)	—	(303,642)	—	—	
Total expenditures and mandatory transfers	188,079,482	50,785,607	238,865,089	—	31,763,949	145,122	31,909,071	270,774,160	257,360,537	
Nonmandatory transfers and additions (deduction):										
Nonmandatory transfers:										
Allocated fund balances	\$ (1,012,528)	38,816	(973,712)	—	(404,400)	(973)	(405,373)	(1,379,085)	1,087,375	
Interfund - other	(10,931,250)	10,077,419	(853,831)	—	198,823	—	198,823	(655,008)	(1,375,704)	
Additions (deductions):										
Restricted receipts over transfers to revenue	—	—	—	—	1,368,985	(39,120)	1,329,865	1,329,865	363,422	
Indirect costs recovered	—	—	—	—	(1,420,964)	—	(1,420,964)	(1,420,964)	(1,482,104)	
Net increase (decrease) in fund balances	\$ (3,852,709)	—	(3,852,709)	—	(257,556)	(40,093)	(297,649)	(4,150,358)	(2,830,377)	

See accompanying notes to financial statements.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

(1) Summary of Significant Accounting Policies

(a) Organization

The University of Toledo (University) is a component unit of the State of Ohio as established by the General Assembly of the State of Ohio in 1967 by statutory act under Chapter 3360 of the Revised Code of the State of Ohio. Prior to that time, the University was a municipal university. The University offers degrees at the undergraduate, masters, and doctoral levels.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 in that the financial statements include those activities and functions over which the University is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the University's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the University.

The University of Toledo Real Estate Corporation (UTRE) is governed by a four-member board composed of the President, Vice President for Administrative Affairs, Associate Vice President for Financial Affairs, and a trustee of the University. Although it is legally separate from the University, UTRE is blended and reported as if it were part of the University because its sole purpose is to acquire, hold title to, and collect income from real properties and remit the entire amount of such income (less expenses) to the University. UTRE's financial statements for the year ending April 30, 1999, may be obtained by written request to the University of Toledo Real Estate Corporation, Suite 2300, University Hall, 2801 West Bancroft, Toledo, Ohio 43606-3390.

(b) Financial Statement Presentation

The financial statements of the University have been prepared in accordance with generally accepted accounting principles for publicly owned colleges and universities.

The statement of current funds unallocated revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

(c) Fund Accounting

The accounts of the University are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions placed on the use of available resources. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Trustees. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Board of Trustees retains full control to use in achieving any of its institutional purposes.

Endowment and similar funds are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized. All gains and losses arising from the sale or other disposition of investments and other non-cash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, notes receivable, and the like is accounted for in the fund owning such assets, except for interest and dividends derived from investments of endowment and similar funds which is accounted for in the current funds.

All other unrestricted revenue is accounted for in the current unrestricted funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes. The deficit in current funds fund balance is primarily due to early retirement program payable to employees which have been expended by the University and will be eliminated through an allocation of future years' budget.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and demand deposits with banks.

(e) Investments

Investments are carried at fair market value.

(f) Inventories

Inventories are stated at the lower of average cost or market (net realizable value) on a FIFO (first in first out) method.

(g) Plant and Equipment

Physical plant and equipment are stated at historical cost or fair value at date of donation in the case of gifts. When plant assets are sold or otherwise disposed of, the carrying value of such assets is removed from the accounts and the net investment in plant is reduced accordingly. Library books are charged as expenditures of current funds and are capitalized in the plant fund.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

Depreciation of plant and equipment is not recorded, in accordance with generally accepted accounting principles for publicly owned colleges and universities.

(h) *Deferred Bond Issuance Costs*

Costs associated with the issuance of the 1998, 1994, and 1992 Series General Receipts Bonds have been capitalized in the unexpended plant fund and are being amortized over the life of the bonds on the straight-line method.

(i) *Vacation Benefits*

Vacation expense is recognized as earned in the statement of current funds unallocated revenues, expenditures, and other changes. The accumulated unpaid vacation time is recorded as a liability on the balance sheet.

(j) *Early Retirement Incentive*

The expense of early retirement incentive plan is recognized in the statement of current funds unallocated revenues, expenditures, and other changes when incurred.

(k) *Sick Leave*

All University employees are entitled to a sick leave credit equal to 10 hours for each month of service (earned on pro rata basis for less than full time employees). This sick leave will either be absorbed by time off due to illness or injury, or within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one quarter of the accumulated sick leave to a maximum payout of 240 hours. Sick leave expense is recognized as earned in the statement of current funds unallocated revenues, expenditures, and other changes. A liability is recorded on the balance sheet for the amount that is probable that the University will compensate the employees upon retirement. This amount is based on total sick leave earned multiplied by an historical experience factor.

(l) *Compensated Absences*

Classified employees who work in excess of the regular schedule may be eligible for compensatory time in lieu of overtime pay. Management estimates that the future cost associated with the payment of compensatory time earned as of June 30, 1999, is not significant to the financial statements as a whole and will not have a material impact on future operations when paid.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

(m) Summer Term

All tuition, fees, and state appropriations and corresponding expenditures relating to various sessions offered during the summer and not substantially completed prior to June 30 are recorded in the accompanying balance sheet as deferred revenue and prepaid expenses and will be recognized in the following fiscal year.

(n) Gifts and Pledges

The University does not report pledges in the financial statements until the gifts are received. Management estimates that the amount of such pledges at June 30, 1999 would be insignificant.

(o) Federal Income Taxes

Federal income taxes have not been provided on the general operations of the University because, as a state institution, its income is exempt from federal income taxes under Section 115 of the Internal Revenue Code. However, certain revenues are considered unrelated business income and are taxable under Internal Revenue Code Sections 511 through 513.

(p) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(2) Cash and Cash Equivalents and Investments

STAR Ohio is 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, 1999.

Board policy states that the University's interim moneys will be invested in accordance with the Ohio Depository Law of the Ohio Revised Code.

Cash balances are combined into one pool for making daily cash and investment transactions.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

Governmental Accounting Standards Board (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

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.
3. Uncollateralized.

(b) Investments

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 broker's trust department or agent in the University's name.
3. Uninsured and unregistered, with securities held by the broker or by its trust department or agent, but not in the University's name.

At June 30, 1999, the carrying amount of the University's cash and cash equivalents for all funds was \$554,806. The difference in the carrying amount of \$554,806 and the bank balance of \$165,039 is caused by items in transit and outstanding checks. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$65,039 was insured by a financial institution collateral pool (category 3).

The cost and fair values, exclusive of accrued interest, of investments by fund at June 30, 1999, follow:

	Cost	Fair value
Unrestricted funds	\$ 32,645,191	32,586,422
Loan funds	702,311	1,044,221
Endowment and similar funds	29,079,026	36,808,222
Plant funds	2,741,036	2,740,836
	\$ 65,167,564	73,179,701

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

Investments at June 30, 1999 consist of the following:

	<u>Category</u>	<u>Cost</u>	<u>Fair value</u>
Corporate bonds	2	\$ 3,098,576	3,132,306
Corporate stocks	2	19,507,966	26,718,149
U.S. government/agency obligations	2	21,507,662	21,474,105
Common and collective trust funds	2	8,687,010	9,488,791
		52,801,214	60,813,351
STAR Ohio		11,534,498	11,534,498
Real estate and other		831,852	831,852
		\$ 65,167,564	73,179,701

GASB Statement No. 3 does not require STAR Ohio, real estate, and other investments to be categorized

Stocks, bonds, and real estate are held in the endowment fund and were acquired as a result of gifts to the University.

(3) Grants and Contracts

The University receives grants and contracts from certain federal, state, and local agencies to fund research and other activities. Revenues from government grants and contracts are recognized as the related costs are incurred. Direct costs are accounted for in the restricted current funds and indirect costs are accounted for in the unrestricted current funds. The University records indirect costs related to such grants and contracts at predetermined rates which are negotiated with the United States government. Both direct and indirect costs charged to the grants or contracts are subject to audit and approval by the granting agencies. University management believes any adjustments of costs resulting from such examination by the granting agency would be insignificant.

The University also participates in several United States government student loan programs. Such programs are required to comply with requirements determined by the Department of Education and are subject to audit and adjustments. Such adjustments could result in requests for reimbursement by the department for costs which may be disallowed as appropriate expenses under the grant terms. Management believes disallowances, if any, will not be material.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

(4) Bonds Payable

The maturity dates, interest rates, and outstanding principal balances of bonds payable at June 30, 1999 are as follows:

	<u>Maturity dates</u>	<u>Interest rates</u>	<u>Outstanding principal</u>
General receipts:			
1998 Series Bonds	1999-2020	3.6% to 5.0%	\$ 12,930,000
1994 Series Bonds	1999-2025	4.05% to 5.35%	14,460,000
1992 Series Bonds	1999-2020	4.9% to 5.9%	<u>55,310,000</u>
			<u>\$ 82,700,000</u>

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 \$146,000) 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, 1999. The debt defeased remain outstanding as of June 30, 1999. The remaining \$3.1 million will be 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 Series 1992B General Receipt Bonds were issued in August 1992. The Series 1992A bonds financed the advanced refunding of Series 1990 bonds and a portion of Series 1988 bonds, and the Series 1992B bonds financed capital projects. The balance of debt issuances defeased in substance in prior years that remain outstanding as of June 30, 1999 is \$33.1 million.

The University advance refunded the series 1992B bonds to reduce its total debt service payments over the next 22 years by approximately \$296,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$260,000.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

The principal and interest payments of the 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 scheduled maturities of bonds payable subsequent to June 30, 1999 are as follows:

<u>Year ending June 30,</u>	<u>Series</u>			<u>Total</u>
	<u>1992</u>	<u>1994</u>	<u>1998</u>	
2000	\$ 2,555,000	285,000	400,000	3,240,000
2001	2,675,000	295,000	415,000	3,385,000
2002	2,655,000	310,000	435,000	3,400,000
2003	2,790,000	325,000	450,000	3,565,000
2004	2,940,000	340,000	470,000	3,750,000
Thereafter	<u>41,695,000</u>	<u>12,905,000</u>	<u>10,760,000</u>	<u>65,360,000</u>
	\$ <u>55,310,000</u>	<u>14,460,000</u>	<u>12,930,000</u>	<u>82,700,000</u>

Total interest expense was \$4,411,980 for the year ending June 30, 1999.

(5) Other Plant Debt

The University entered into an agreement in January 1997 to finance the installation of a fiber optic network, which bears interest at 5.27%. The scheduled maturities of the debt payable subsequent to June 30, 1999 are as follows:

<u>Year ending June 30,</u>	
2000	\$ 631,187
2001	597,670
2002	629,796
2003	663,647
2004	699,319
Thereafter	<u>4,112,065</u>
	\$ <u>7,333,684</u>

Total interest expense was \$227,960 for the year ending June 30, 1999.

(6) Obligations for Physical Property

At June 30, 1999, the University had outstanding commitments for the construction of plant facilities in the amount of \$1,833,747. Of these total commitments, the University is directly obligated for \$170,700, and obligations of the State of Ohio are \$1,663,047.

The funding for the University's share of these projects will be provided by fund balances and grant revenues.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

(7) Lease Obligations

The University leases a building and data processing and other equipment under capital lease agreements. An asset of \$9,500,714 representing the cost of the building and equipment and a corresponding liability for the lease obligations are recorded in the financial statements.

Present value of the future minimum lease payments under the capital leases are as follows:

<u>Year ending June 30,</u>	
2000	\$ 1,706,494
2001	1,424,658
2002	1,030,522
2003	680,765
2004	671,948
Thereafter	<u>2,745,244</u>
Total future minimum lease payment	8,259,631
Less amount representing interest	<u>1,571,095</u>
Total obligations under capital leases	\$ <u>6,688,536</u>

(8) Loan Funds

The portion of loan fund balances identified as "University funds – unrestricted" includes an allocation of unrestricted funds which represent the University's matching funds provided in accordance with the requirements of the Perkins Loan and Nursing Loan programs. These funds must be retained in the loan fund as long as the University participates in the programs.

(9) Pension 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 UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

The funding policy for the above plans is as follows:

PERS: The ORC provides statutory authority for employee and employer contributions. During 1999, 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 1998, law enforcement employees contributed 9.0% of their salary, and the University contributed 16.7% of covered payrolls. The total employer contributions to PERS for the years ended June 30, 1997, 1998, and 1999 were \$5,770,805, \$6,067,038, and \$6,155,102, 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 1999, STRS employees contributed 9.3% 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, 1997, 1998, and 1999 were \$7,761,400, \$8,360,450, and \$10,904,067, respectively, which were equal to 100% of the required contributions for each year.

Effective January 1, 1999, the Board of Trustees of the University has agreed to offer a Retirement Incentive Plan to eligible employees as provided by STRS regulations. This plan allowed groups of University employees who met certain eligibility requirements to elect early retirement and the University to purchase a specified number of years of service credit in the applicable plan for the retiring employee. The University will purchase one year of service credit for each five years of STRS service at the University up to a maximum of three years purchase.

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system 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).

Eligible employees (those who are full-time and salaried) have ninety 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 the employee's 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 provider selected by the employee. The University plan provides these employees with immediate plan vesting.

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

(10) Other Postemployment Benefits

In addition to the pension benefits described in note 10, the Ohio Revised Code provides the statutory authority requiring the University to fund postretirement health care through employer contributions to PERS and STRS.

(a) PERS

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 Benefits (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1998 employer contribution rate for state employers was 13.31% of covered payroll; 4.20% was the portion that was used to fund health care for the year. The law enforcement employer rate for 1998 was 16.70% and 4.20% was used to fund health care.

OPEB 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 during 1998 were \$440,596,663. As of December 31, 1998, the audited estimated net assets available for future OPEB payments were \$10,011,840,228. The number of active contributing participants for PERS was 371,563.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

(b) STRS

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 2% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. The balance in

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

the Health Care Reserve Fund was \$2,156 million at June 30, 1998. The Health Care Reserve Fund allocation for the year ended June 30, 1999 will be 8% of covered payroll.

For the year ended June 30, 1998, the net health care costs paid by STRS were \$258,906,000. There were 91,999 eligible benefit recipients.

(11) Ohio Public Employees Deferred Compensation Program

The University's employees may elect to participate in the Ohio Public Employees Deferred Compensation Program (the Program), created in accordance with Internal Revenue Code section 457. The Program permits deferral of a portion of an employee's compensation until termination, retirement, death, or unforeseeable emergency. The deferred compensation and any income earned thereon is not subject to income taxes until actually received by the employee.

The Program, effective September 1, 1998, amended its *Ohio Public Employees Deferred Compensation Adoption Agreement* to include the following:

The Eligible Employer acknowledges and agrees that all amounts deferred under the Plan and all insurance contracts or other investments or other property purchased with such amounts shall be held by the Board in Trust on behalf of the Eligible Employer for the exclusive benefit of eligible employees and their beneficiaries. All assets, whenever contributed to the Plan, are assigned to the Trust established by the board.

This amendment was enacted pursuant to the Small Business Act of 1996. Assets in the trust, previously reported as assets owned by the University and accounted for in an agency fund as *Funds on deposit with the Ohio Public Employees Deferred Compensation Program*, subsequent to September 1, 1998, are no longer owned by the University.

The University has, therefore, adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, and has removed these assets from the University's financial statements.

(12) State Support

The University is a state-assisted institution of higher education which receives a student-based subsidy from the State of Ohio. This subsidy is determined annually based upon a formula devised by the State of Ohio.

In addition to student subsidies, the State of Ohio provides funding for construction of major plant facilities. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC). Such facilities are reflected as buildings, improvements other than buildings, or construction in progress in the accompanying balance sheet. University facilities are not pledged as

collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies

THE UNIVERSITY OF TOLEDO

Notes to Financial Statements

June 30, 1999

are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to all students in state-assisted institutions of higher education throughout the state.

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

The University capitalizes the costs of renovations to existing facilities as funds are expended. As of June 30, 1999, construction in progress on such new facilities was \$11,474,055 and unexpended appropriations authorized by the State of Ohio legislature for the purchase of land, renovation of existing facilities, and construction of new facilities were \$26,501,087.

(13) Related Organization

The University is sole beneficiary of the University of Toledo Foundation (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, 1999, assets of the Foundation approximated \$92,703,000 consisting primarily of investments in securities carried at market 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 \$5,027,000 to the University in support of scholarships, academic programs, external relations, and other programs. Amounts transferred are included as current funds private gifts in the accompanying financial statements. The Foundation's operations are conducted in facilities leased from the University at a base annual rental of \$25,312.

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 1.6% of the market value of the University's share of the pooled investments. For the year ended June 30, 1999, the University incurred management fees paid or payable to the Foundation of \$534,962.

(14) Risk Management

During the normal course of operations, the University has become a defendant in various legal actions. In accordance with FASB 5, liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. However, in the opinion of legal counsel and University management, the disposition of all pending litigation will not have a material adverse effect on the financial condition of the University.

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 (IUC-IC). Through this group, the University maintains a \$100,000 deductible and a pre-

THE UNIVERSITY OF TOLEDO

Required Supplementary Information

June 30, 1999

funded group deductible of \$350,000 per occurrence with an annual aggregate stop loss of \$700,000. No material losses were reported during 1999.

The University provided the choice for two premium based health insurance plans for its employees through December 1998. Effective January 1, 1999, the University is self-insured for health insurance. Vision, dental, and prescription drug coverage are also provided on a self-insured basis. Operating funds are charged each pay period based on a percent of payroll.

Changes in the balances of claims liabilities during the past two years for the health, vision, dental, and prescription drug coverage are as follows:

	<u>1999</u>	<u>1998</u>
Unpaid claims – July 1	\$ 248,315	420,411
Incurred claims	5,086,805	3,261,847
Claim payments	<u>4,572,470</u>	<u>3,433,943</u>
Unpaid claims – June 30	\$ <u>762,650</u>	<u>248,315</u>

This liability is the University's best estimate based on subsequent payments. The University participates in the State of Ohio Workers' Compensation program.

THE UNIVERSITY OF TOLEDO

Required Supplementary Information

June 30, 1999

Year 2000 Computer Issue

The Year 2000 (Y2K) issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the University's operations in the near future.

To address Y2K problems, the University has been actively assessing, preparing, and executing a Y2K readiness plan for its mission-critical systems. Such mission critical systems are Human Resources System, Financial Records Systems, Student Information System, Student Aid Management, Degree Audit Reporting, Enrollment Certification, Interactive Voice, and Web Response Systems. For each mission-critical system the University is implementing software to minimize areas that may affect service community. The University is in validation/testing stage for all the mission critical systems except for Interactive Voice and Web Response System, which is in remediation stage.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the University is or will be Y2K ready, that the University's efforts will be successful in whole or in part, or that parties with whom the University does business will be Y2K ready.



THE UNIVERSITY OF TOLEDO
OMB Circular A-133 Audit Report
Year Ended June 30, 1999
(With Independent Auditors' Reports Thereon)



THE UNIVERSITY OF TOLEDO

OMB Circular A-133 Audit Report

Table of Contents

	Page
Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	9
Independent Auditors' Report on Compliance and on the Internal Control Structure Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards	11
Schedule of Findings and Questioned Costs	13
Status of Prior Year Audit Finding	15

THE UNIVERSITY OF TOLEDO

Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

Federal Grantor/Pass-through Grantor/ Program Title	CFDA number	Agency or pass-through number	Expenditures
Student Financial Aid – Cluster			
<i>U.S. Department of Education</i>			
Federal Supplemental Education Opportunity Grant	84.007	N/A	\$ 909,425
Federal Work-Study	84.033	N/A	964,658
Federal Perkins Loan (note 3)	84.038	N/A	644,641
Federal Direct Loans (note 4)	84.268	N/A	61,062,508
Federal Pell Grant	84.063	N/A	10,448,406
Total Student Financial Aid – Cluster			<u>74,029,638</u>
Research and Development – Cluster			
<i>U.S. Department of Agriculture</i>			
Grants for Agricultural Research – Competitive Research Grants – direct	10.206	98-35109-6759	128,704
Pass-through from:			
Ohio State University Research Foundation – Special Research Grants Program	10.206	RF698388	4,261
University of Rhode Island	10.206	092596/535981	741
Subtotal pass-through programs			<u>5,002</u>
<i>Total U.S. Department of Agriculture</i>			<u>133,706</u>
<i>National Oceanic and Atmospheric Administration</i>			
Pass-through from:			
Ohio Department of Natural Resources	11.419	01-1(CMAG)	31,884
<i>Total National Oceanic and Atmospheric Administration</i>			<u>31,884</u>
<i>U.S. Department of the Navy</i>			
Basic and Applied Scientific Research	12.300	N00014-96-1-0091	35,738
Selected Reserve Educational Assistance Program	12.609	N/A	1,061
Subtotal direct			<u>36,799</u>
Basic and Applied Scientific Research:			
Pass-through from:			
Materials System, Inc.	12.300	131-05	51,887
National Center for Tooling and Precision Components	12.300	N00014-95-1G031	191,947
Subtotal pass-through programs			<u>243,834</u>
<i>Total U.S. Department of the Navy</i>			<u>280,633</u>

THE UNIVERSITY OF TOLEDO
Schedule of Expenditures of Federal Awards
Year ended June 30, 1999

Federal Grantor/Pass-through Grantor/ Program Title	CFDA number	Agency or pass-through number	Expenditures
<i>U.S. Department of the Army</i>			
Military Medical Research and Development	12.420	17-98-1-8251	\$ 222,666
Selected Reserve Educational Assistance Program	12.609	N/A	129,596
Subtotal direct			352,262
<i>Mathematical Sciences Grant Program:</i>			
Pass-through from:			
Academy of Applied Science	12.901	N/A	19,371
<i>Total U.S. Department of the Army</i>			371,633
<i>U.S. Department of the Air Force</i>			
Selected Reserve Educational Assistance	12.609	N/A	8,338
Selected Reserve Educational Assistance:			
Passed through from:			
Ohio Air National Guard	12.609	N/A	1,086
Airforce Defense Research Sciences Program:			
Pass-through from:			
Dynamic Engineering, Inc.	12.800	PO#43647	17,778
Eidectics Corporation	12.800	PO#98-00076	56,059
Research and Development Labs	12.800	99-0823	9,133
Subtotal pass-through programs			84,056
<i>Total U.S. Department of the Air Force</i>			92,394
<i>U.S. Department of Transportation</i>			
Pass-through from:			
Ohio Department of Transportation	20.205	8005-14512	122,254
Volpe National	20.702	N/A	109,905
<i>Total U.S. Department of Transportation</i>			232,159
<i>National Aeronautics and Space Administration</i>			
Aerospace Education Services Program	43.001	NAG8-1578	93,861
Aerospace Education Services Program	43.001	N/A	30,326
Pass-through from Ohio Aerospace Institute	43.001	N/A	31,282
Technology transfer	43.002	NAG8-1830	1,510,629
Subtotal direct			1,666,098

THE UNIVERSITY OF TOLEDO

Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

Federal Grantor/Pass-through Grantor/ Program Title	CFDA number	Agency or pass-through number	Expenditures
<i>National Aeronautics and Space Administration, cont.</i>			
Pass-through from:			
CSA Engineering	43.001	PO#1344	\$ 12,212
Ohio Aerospace	43.002	SPACEGRNTCONSOR	1,970
University of Alabama	43.001	SUB97-169	8,300
Ohio Aerospace Institute	43.001	98-1-002	22,312
American Astronomical Society	43.002	N/A	1,701
Association of American Geographers	43.002	N/A	50,648
Jet Propulsion Laboratory	43.002	1205634	29,280
Ohio Aerospace Institute	43.002	N/A	26,075
Space Telescope Science Institute	43.002	N/A	29,562
University of Wisconsin	43.002	N/A	(983)
Subtotal pass-through programs			<u>181,077</u>
<i>Total National Aeronautics and Space Administration</i>			<u>1,847,175</u>
<i>National Science Foundation</i>			
Engineering Grants	47.041	DMI-9713743	609,917
Engineering Grants	47.041	CTS-9870966	1,760
Mathematical and Physical Sciences	47.049	PHY-9722138	22,127
Mathematical and Physical Sciences	47.049	PHY-9731880	63,878
Social, Behavioral, and Economic Sciences	47.075	SBR-9812617	19,550
Education and Human Resources	47.076	CHE-9713995	6,455
Education and Human Resources	47.076	ESI-9731306	1,025,429
Academic Research Infrastructure	47.077	DUE-9750627	26,095
Subtotal direct			<u>1,775,211</u>
Pass-through from:			
Energy Riddle Aeronautical	47.041	ECS-9896103	54,161
Guild Associates	47.041	P.O.9293	20,125
Institute for EcoSystems Studies	47.074	338-5936	17,268
Stanford University	47.075	PR-9503	3,477
Subtotal pass-through programs			<u>95,031</u>
<i>Total National Science Foundation</i>			<u>1,870,242</u>

THE UNIVERSITY OF TOLEDO.

Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

Federal Grantor/Pass-through Grantor/ Program Title	CFDA number	Agency or pass-through number	Expenditures
<i>U.S. Environmental Protection Agency</i>			
Environmental Protection – Consolidated Research	66.500	R826374-01-0	\$ 76,278
State Indoor Radon Grants:			
Pass-through from:			
Toledo Metro Area Council of Governments	66.032	N/A	5,243
Ohio Department of Health	66.032	48-4-01-P-BA-392	37,334
Subtotal pass-through programs			42,577
Total U.S. Environmental Protection Agency			118,855
<i>U.S. Department of Energy</i>			
Basic Energy Sciences	81.049	DE-FG02-95ER14530	79,134
Pass-through from:			
DaimlerChrysler Corporation	81.049	JMEAL04390-A	174,649
Duke University	81.049	97-SC-DOE-1005	18,264
National Renewable Energy Laboratory (SERI)	81.087	ZAF-8-17619-14	348,438
Solar Cells	81.087	N/A	23,061
Subtotal pass-through programs			564,412
Total U.S. Department of Energy			643,546
<i>U.S. Department of Education</i>			
Pass-through from Ohio Department of Education	84.158	063099-PF-SI-98P	8,177
Total U.S. Department of Education			8,177
<i>U.S. Department of Health and Human Services (NIH)</i>			
Biological Response to Environmental Health Hazards	93.113	1R03ES009456-01	35,874
Oral Disease and Disorders Research	93.121	1R01DE012308-01A1-2	187,210
Research Related to Deafness and Communication Disorders	93.173	WSU97003	10,884
Academic Research Enhancement Award	93.390	1R15CA74402-01	41,090
Cell Biology and Biophysics Research	93.821	7R15GM55933-02	31,952
Heart and Vascular Diseases Research	93.837	1 R01 HL60301-01	237,566
Diabetes, Endocrinology, and Metabolism Research	93.847	R15DK/0D51295-01A1	94,670
Biological Basis Research in the Neurosciences	93.854	1 R15 NS35305-01A2	201,861
Microbiology and Infectious Diseases Research	93.856	1 R15 A 144782-01	139,257
Cellular and Molecular Basis of Disease Research	93.863	5 R01 GM51188-03	265,892
Subtotal direct			1,246,256

THE UNIVERSITY OF TOLEDO

Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

Federal Grantor/Pass-through Grantor/ Program Title	CFDA number	Agency or pass-through number	Expenditures
<i>U.S. Department of Health and Human Services (NIH), cont.</i>			
Pass-through from:			
Bowling Green State University	93.173	5 R01 DC02960-02	\$ 154,108
Wayne State University	93.173	R01 DC0357701A1	17,895
University of Pennsylvania	93.846	5-21081	10,256
Lambda Pharmaceuticals	93.859	1 R43 GM577-06-01	42,282
Subtotal pass-through programs			<u>224,541</u>
<i>Total U.S. Department of Health and Human Services (NIH)</i>			<u>1,470,797</u>
Total Research and Development – Cluster			<u>7,101,201</u>
Other Programs			
<i>U.S. Department of Transportation</i>			
Federal Transit Capital Improvement Grant:			
Passed through from:			
Toledo Area Regional Transport Authority	20.500	N/A	41,414
<i>Total U.S. Department of Transportation</i>			<u>41,414</u>
<i>U.S. Department of Agriculture</i>			
Buildings and Facilities Program	10.218	94-33677-0415	148,819
Summer Food Service Program:			
Pass-through from Ohio Department of Education	10.559	N/A	106
<i>Total U.S. Department of Agriculture</i>			<u>148,925</u>
<i>U.S. Department of Housing and Urban Development</i>			
Housing Development Grants	14.174	H(502) 9029	64,530
Pass-through from:			
City of Toledo	14.174	N/A	65,726
<i>Total U.S. Department of Housing and Urban Development</i>			<u>130,256</u>
<i>U.S. Department of Justice</i>			
Troops to COPS	16.711	966UMWX1196	135,947
Public Safety Partnership and Community Policing:			
Pass-through from:			
City of Toledo – Public Safety Grant	16.710	P.O.#107568-11	1,663
<i>Total U.S. Department of Justice</i>			<u>137,610</u>

THE UNIVERSITY OF TOLEDO

Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

Federal Grantor/Pass-through Grantor/ Program Title	CFDA number	Agency or pass-through number	Expenditures
<i>U.S. Department of Labor</i>			
Trade Adjustment Assistance – Workers:			
Pass-through from:			
Ohio Bureau of Employment Services	17.245	N/A	\$ 13,648
Employment Services Training – Pilot and Demonstration Program:			
Pass-through from:			
Ohio Department of Education	17.249	STW-Legal Issues-02	(103)
Job Training Partnership Act:			
Pass-through from:			
Toledo Area Private Industry Council	17.250	135-20-98	485,291
Misc. Private Industry Councils	17.250	N/A	2,226
Ohio Bureau of Workers Compensation	17.250	N/A	14,032
Subtotal pass-through programs			<u>515,094</u>
Total U.S. Department of Labor			<u>515,094</u>
<i>National Endowment for the Humanities</i>			
Promotion of the Humanities – Federal/State Partnership:			
Pass-through from Ohio Humanities Council	45.129	OHC-M99-115	664
Total National Endowment for the Humanities			<u>664</u>
<i>U.S. Department of Veterans Affairs</i>			
Direct	64.124	N/A	158,891
Total U.S. Department of Veterans Affairs			<u>158,891</u>
<i>U.S. Nuclear Regulatory Agency</i>			
Financial Assistance for NRC Local Public Document Rooms	77.005	NRC-10-87-335	3,876
Total U.S. Nuclear Regulatory Agency			<u>3,876</u>

THE UNIVERSITY OF TOLEDO

Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

Federal Grantor/Pass-through Grantor/ Program Title	CFDA number	Agency or pass-through number	Expenditures
<i>U.S. Department of Education</i>			
International Studies Program	84.016	P016A8000065	\$ 39,981
Projects with Industry	84.234	H324M980197	39,199
Early Education for Children with Disabilities	84.024	HO24P50045-97	47,567
Special Education Personnel Development and Parent Training	84.029	HO29A50022-97	88,101
TRIO - Upward Bound	84.047	P0475A0780-98	310,248
Law School Clinical Experience	84.097	PO97A40036-96	4,064
Personnel Preparation	84.325	H029A80107	96,705
Subtotal direct			<u>625,865</u>
Pass-through from:			
Civil Rights Training and Advisory Services - Ohio Department of Education	84.004	SO04C10014	31
Vocational Education - Ohio Department of Education	84.048	CP-11-P99	68,820
Toledo City School District	84.048	PO823027	60,106
Bureau of Vocational Rehabilitation	84.126	N/A	528,535
Ohio Association of Adult Services	84.128	N/A	11,551
Northwest Ohio Technical Preparation Consortium	84.243	N/A	6,001
Ohio Department of Education - Technical Preparation	84.243	VETP-23R	236,353
Goals 2000 - passed through Toledo Public Schools	84.276	N/A	35,211
Eisenhower Professional Development State Grants - Ohio Board of Regents	84.281	8.56	213,179
Passed through National Writing Project	84.928	92-OHO2	13,889
Subtotal pass-through programs			<u>1,173,676</u>
<i>Total U.S. Department of Education</i>			<u>1,799,541</u>

THE UNIVERSITY OF TOLEDO

Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

Federal Grantor/Pass-through Grantor/ Program Title	CFDA number	Agency or pass-through number	Expenditures
<i>U.S. Department of Health and Human Services</i>			
Pass-through from:			
Job Opportunities and Basic Skills Training – Columbus State Community College	93.021	N/A	\$ 25,401
Community Services Block Grant – Discretionary Awards:			
National Collegiate Athletic Association	93.032	NCAA99-709	78,212
Job Opportunity and Basic Skills Training – Ohio Board of Regents	93.561	N/A	153
Community Services Block Grant – Discretionary Awards:			
National Collegiate Athletic Association	93.570	N/A	626
Social Services Block Grants:			
Lucas County Department of Human Services	93.667	48-98-5010	39,916
Block Grants for Prevention and Treatment of Substance Abuse:			
Ohio Department of Alcohol and Drug Services	93.959	48-48392-02-OVPP-P-P	2,798
Preventive Health and Health Services Block Grant: Ohio Department of Health	93.991	729C	30,693
Subtotal pass-through programs			<u>177,799</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>177,799</u>
<i>Corporation for National and Community Service</i>			
AmeriCorps:			
Passed through Council of Great City Schools	94.006	95ADNCD009	36,512
<i>Total Corporation for National and Community Service</i>			<u>36,512</u>
<i>U.S. International Development Cooperation Agency</i>			
Technical Teacher Program	N/A	N/A	17,795
<i>Total U.S. International Development Cooperation Agency</i>			<u>17,795</u>
Total Other Programs			<u>3,168,377</u>
Total Expenditures of Federal Awards			<u>\$ 84,299,216</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

THE UNIVERSITY OF TOLEDO

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The University of Toledo and is presented on the accrual basis of accounting. The University of Toledo's reporting entity is defined in note 1 to its financial statements. Federal Awards received directly, as well as federal awards passed through government agencies, are included on the Schedule. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Subrecipients

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

<u>Sub-grantee</u>	<u>Federal CFDA number</u>	<u>Amount provided</u>
University of California – Regents	43.002	\$ 41,035
Denison University	43.002	14,507
Michigan Technical University	47.041	33,095
Medical College of Ohio	93.837	11,739
Toledo Board of Education	47.076	421,745
Springfield Local Schools	47.076	36,000
Bowling Green State University	47.076	213,852
Owens Community College	84.024	8,466
YW Child Care Connections	84.024	6,241
Lucas County Children's Services Board	84.024	4,450

(3) 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, 1997 to June 30, 2000 for on-campus research is 48.4% of gross salary, and the off-campus rate is 19% of gross salary.

(4) Loan Outstanding

The University of Toledo had the following loan balance outstanding at June 30, 1999. This loan balance outstanding is also included in the federal expenditures presented in the Schedule.

<u>Program Title</u>	<u>CFDA number</u>	<u>Outstanding balance</u>
Perkins Loan Program	84.038	\$ 13,462,489



Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

**Independent Auditors' Report on Compliance and on the
Internal Control Structure 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, 1999, and have issued our report thereon dated October 6, 1999. We conducted our audit in accordance with generally accepted auditing standards and *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 for the information of the Audit Committee, management, and 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.

KPMG LLP

October 6, 1999





Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in Accordance with OMB Circular A-133
and Schedule of Expenditures of Federal Awards**

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 *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to its major federal program for the year ended June 30, 1999, except those requirements discussed in the third following paragraph. The University's major federal program is 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 its major federal program 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 generally accepted auditing standards; 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 consider 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 program for the year ended June 30, 1999, other than those requirements discussed in the following paragraph. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 99-1.

We did not audit the University's compliance with requirements governing the billing, collection, and due diligence functions of the Federal Perkins Loan Program. Those requirements govern functions that are performed by University Accounting Services, Inc. (UAS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.





UAS's compliance with the requirements governing the functions that it performs for the University was examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountants' report, we have determined that all of the compliance requirements included in the *Compliance Supplement* that are applicable to the major programs in which the University participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountants' report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the University's major program.

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.

Requirements governing billing, collection, and due diligence of the Federal Perkins Loan Program are performed by UAS. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. A copy of the service organization accountants' report has been furnished to us. However, the scope of our work did not extend to internal control maintained at UAS.

Our consideration of internal control over compliance would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more 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 internal control over compliance that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University as of and for the year ended June 30, 1999, and have issued our report thereon dated October 6, 1999. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended for the information of the Audit Committee, management, and 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.

KPMG LLP

December 1, 1999 (except for the schedule of expenditures
of federal awards, as to which the date is October 6, 1999)

THE UNIVERSITY OF TOLEDO

Schedule of Findings and Questioned Costs

Year ended June 30, 1999

(1) Summary of Auditors' Results:

- | | |
|--|-------------------------------|
| (a) Type of report issued on the general purpose financial statements: | Unqualified |
| (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: | None Reported |
| Material weaknesses: | None |
| (c) Noncompliance which is material to the general purpose financial statements: | None |
| (d) Reportable conditions in internal control over major programs: | None Reported |
| Material weaknesses: | None |
| (e) Type of report issued on compliance for major programs: | Unqualified |
| (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: | Yes |
| (g) Major programs: | Student Financial Aid Cluster |
| (h) Dollar threshold used to distinguish between Type A and Type B programs: | \$ 697,100 |
| (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: | Yes |

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

None

THE UNIVERSITY OF TOLEDO

Schedule of Findings and Questioned Costs

Year ended June 30, 1999

(3) Findings and Questioned Costs Relating to Federal Awards:

Finding No. 99-1

Condition: The University does not have a policy in place to calculate refunds for unofficial withdrawals.

Criteria: *Federal Regulations* (34 CFR) stipulate that if a student drops out of the institution without notifying the institution, the last recorded date of class attendance by the student, as documented by the institution, should be used to calculate refund.

Effect: Potential request of funds by Department of Education for refunds not processed on unofficial withdrawals.

Cause: Oversight by University personnel.

Recommendation: The University should develop and implement a policy to document unofficial withdrawals so that refunds can be calculated accurately.

Questioned Costs: Unknown.

THE UNIVERSITY OF TOLEDO

Status of Prior Year Finding

Year ended June 30, 1999

The most recent audit of federal funds received and expended by The University of Toledo in accordance with OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, was performed by KPMG LLP for the year ended June 30, 1998. The related report was filed with the U.S. Department of Education. The status of the finding from the prior year is summarized below.

Reference: 98-1

Findings: U.S. Department of Education guidelines require agencies offering financial aid to students to determine eligibility of students to receive financial aid. During our review of eligibility, we noted one instance where eligibility was not determined.

Status: Finding was not repeated in the current year.

Contact: Bill R. Decatur, Vice President for Finance and Business Services.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

THE 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.

By: Susan Babbitt

Date: FEBRUARY 15, 2000