



AUDITED FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2012

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**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following Management’s Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Toledo for the year ended June 30, 2012 with comparative information for the years ended June 30, 2011 and 2010. The MD&A should be read in conjunction with the accompanying audited financial statements and footnotes.

**ABOUT THE UNIVERSITY OF TOLEDO**

The University is a leading research institution in the state of Ohio with nearly 23,000 students, 1,500 instructional faculty, and 4,300 staff members. The University is comprised of thirteen colleges: Business; Education, Health Science, & Human Services; Engineering; Graduate Studies; Law; Language, Literature, & Social Sciences; Medicine; Natural Sciences & Mathematics; Nursing; Pharmacy; Adult & Lifelong Learning; Visual & Performing Arts; and the Honors College. The University offers more than 250 undergraduate, graduate, and professional programs leading to degrees in over 60 instructional departments. The University operates the University of Toledo Medical Center (UTMC) which includes 319 registered beds and provides services to more than 12,000 inpatient admissions and more than 216,000 outpatient clinic visits including 34,000 emergency visits. UTMC specializes in kidney transplantation, cardiology, neurology, trauma care, orthopedic surgery, and cancer treatment.

The University is governed by a board of trustees who are responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The University is currently governed by a 12-voting member board of trustees created through the combination of the previous existing boards of the University of Toledo and Medical University of Ohio. The board will eventually be reduced to nine members; as current members’ terms expire only one new trustee will be appointed for every two that depart. The trustees are appointed by the Governor with the advice and consent of the State Senate for staggered nine-year terms. Two student non-voting members, who are appointed for two-year terms, also serve on the Board.

The following financial statements reflect all assets, liabilities, and net assets of the University and discretely presents its legally separate entity, the University of Toledo Foundation (Foundation). The Foundation’s primary function is fund-raising to supplement the resources that are available to the University in support of its programs. The Foundation is governed by a separate board of trustees which is self-perpetuating and consists of graduates and friends of the University. Nearly all the assets of the Foundation are restricted by donors to activities of the University. The University does not control the timing or amount of receipts from the Foundation. Effective July 1, 2011, the University became the sole member of the once self-perpetuating board of the University of Toledo Clinical Faculty, Inc. which subsequently changed to University of Toledo Physicians, Clinical Faculty Inc. (UTP-CF). UTP-CF is the sole member of University of Toledo Physicians, LLC (UTP). As a result, UTP financials are presented in a blended manner, reflected as a part of the University’s financials. Moreover, for comparative purposes, the University’s prior year’s financials have been restated to include UTP for this analysis. UTP provides administrative support, billing, and collection services for physician services at the University.

**ABOUT THE FINANCIAL STATEMENTS**

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.*  In addition to this MD&A section, the audited financial statements include a Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and the Notes to the Financial Statements. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* which amends GASB Statement No. 14; the Foundation is discretely presented as a component unit of the University.

**FINANCIAL HIGHLIGHTS AND KEY TRENDS**

The University’s overall financial position improved slightly in 2012. Total unrestricted and restricted net assets increased $2.1 million, to $312.9 million at June 30, 2012. The following sections provide additional details on the University’s 2012 financial results and a look ahead at significant economic conditions that are expected to affect the University in the future.

**Statements of Net Assets**

The Statement of Net Assets is the University’s balance sheet. It reports all financial and capital resources and presents the difference between assets and liabilities as net assets. Liabilities whose maturities are less than one year and assets available to pay those liabilities are classified as current. Other assets and liabilities with maturities greater than one year are classified as non-current. Net assets are displayed in the following categories:

* Invested in capital assets, net of related debt (presents the University’s equity in capital assets)
* Restricted – non-expendable (net assets available for investment purpose only and cannot be expended)
* Restricted – expendable (net assets available for use based on externally imposed restrictions)
* Unrestricted (net assets available to the University for any lawful purpose of the institution)



**2011-2012 Results**

**Current Assets**

Currents Assets decreased in 2012 due primarily to a $30 million reallocation of excess Cash and Cash Equivalents to Institutional Reserves and Board Designated Reserve long-term investments offset by an increase in Accounts Receivable of $13 million due to an increase in Hospital inpatient billings and an increase in Federal direct student lending amounts due to the University at the end of the fiscal year.

**Non-current Assets**

Total non-current assets increased from $879 million in 2011 to $963 million in 2012, an increase of $84 million, due to the $30 million investment of excess cash into Long Term Investment instruments and investment in Capital Assets financed primarily by bond proceeds.

Major capital projects completed or underway include:

* Third Floor Hospital Renovations (Upgrades to A, B, C, and D wings 5A and 5D rooms): This $4.8 million project involved the full renovation of the remainder of the 3rd floor of the hospital following the completion of the new 22 Medical Intensive Care Units and also includes construction of 10 new patient rooms on the 5th floor. All rooms on the 3rd floor of the hospital changed from dual occupancy to single occupancy and were constructed to ICU level care standards. Renovations included all the support spaces, corridors, and elevator lobbies. Completion of this project marks the first floor in the hospital to be completely renovated. Services utilizing these spaces were reassigned so that additional patient rooms could be constructed, keeping the number of beds in the hospital at a net gain overall even with the move from dual to single occupancy. The project was funded by bond dollars and was completed in July 2012.
* Medical Mall Construction (Phase I): This completed $3.8 million project involved the full renovation of the lower level of Ida Marie Dowling Hall for services including Physical Medicine & Rehabilitation, Outpatient Rehabilitation Therapy, Hydrotherapy, Audiology, and Academic Offices. Project included approximately 22,500 square feet of full renovations to a space that was repurposed following the relocation of services formally occupying the same. New occupants were largely relocated from the 1st floor of Dowling Hall. This is the first phase of an envisioned three phase project which would include the development of the vacated 1st floor of Dowling Hall and the enclosure of the plaza deck between Dowling Hall and the Orthopedic Center for circulation/registration/clinical waiting space.
* Clinical Simulation Center (Phase 1): This $0.9 million project entailed installing an immersive learning Kave/Cad room which is a 3D projection system that teaches end users highly detailed visuals/audio of any given software program used. In this case, it was for anatomical studies by medical students. The project also encompassed directional signage by using wall graphics color coded to different study programs. A new lobby/reception area was built and multiple rooms were remodeled to enhance the learning environment.
* Hyperbaric Chamber: This $0.6 million project involved the full renovation of the UMC 1st floor to house a new 10 patient Hyperbaric Chamber and Wound Care Clinic. It provides the only 10 person hyperbaric treatment chamber in the region. It had approximately 1500 square feet of full renovations to a space that was repurposed following the relocation of services formally occupying the same. The project included a 36 stall parking area directly north of the hospital to support this new clinic. This project has been completed.
* University Hall Renovations (Classrooms, furniture, finishes and windows): This $1.5 million project involved nine general purpose classrooms. The renovations included new interior finishes, window treatments, and furniture.
* Gateway and Rocket Hall (Lot 25) Parking (New parking lot, lighting and security cameras): This $3.0 million project occurred from May to August and was comprised of the following improvements: Lot 25 parking area was restructured and repaved; the pedestrian walkway was completed from the Gateway businesses to the residence halls on West Rock Drive; landscaping and curbed islands were put in; the concrete cross walk and drop-off entrance into Rocket Hall was raised; and LED parking lights were installed.
* General Roadway and Lot Improvements (East and West parking garage upgrades, roadway and lot resurfacing): This $1.9 million project added 178 parking spaces near the bicycle path and the area south of Rocket Hall. Handicapped parking and crosswalks were maintained to ensure compliance with the Americans with Disabilities Act standards.

**Liabilities**

Current liabilities remained relatively constant with a decrease of $3 million.

Non-current liabilities increased by $59 million in 2012 driven by the issuance of debt and the increase in fair value of derivative instruments of $15 million.

**2010-2011 Results**

**Current Assets**

Currents Assets remained constant in 2011 due to increased collection activity resulting in a decrease of Accounts Receivable of $16 million and an increase of Cash and Cash Equivalents of $17 million.

**Non-current Assets**

Total non-current assets increased from $839 million in 2010 to $879 million in 2011, an increase in assets of $40 million, due to the improvement in the investment markets as well as an increase in Capital Assets, financed primarily by bond proceeds and State of Ohio funds. Major capital projects completed or underway included:

* Center for Biosphere Restoration Research (Bowman-Oddy Laboratories and Wolfe Hall Renovations): The $7.9 million project involves the full renovation of approximately 21,000 GSF in the south wing of Bowman-Oddy Laboratories to create research labs, support space, and offices for the Center for Biosphere Restoration Research (CBRR).  The CBRR will house the research teams of thirteen faculty members from UT's Department of Environmental Sciences.  The project also involves the renovation of approximately 9,500 NASF on the first floor of Wolfe Hall for instructional labs, support space and departmental offices that are being displaced by the creation of the CBRR in Bowman-Oddy.  The project is partially funded by a $3.6 million grant from the National Science Foundation.  It is being done as a construction reform demonstration project for the State of Ohio, using the construction manager at risk delivery methodology.

* Center for Performing Arts Renovations: The $2.3 million project involved an addition to and renovation of the Center for Performing Arts, which was built in 1976 and contained 65,000 GSF.  The building is the home of the Department of Music and the Department of Theater and Film.  The addition provides for expansion and improvements to the orchestra/band and chorus practice rooms.  Renovations include improvements to areas involved in instruction, practice and performance - including the recital hall, digital video lab, digital music lab, scene shop, studio theater, dressing and green rooms, design classroom, music practice rooms, building lobby and departmental offices.  Work was completed in the summer of 2011, and the renovated building was ready for occupancy at the start of the fall semester 2011.
* Carter Hall Renovations: The $1.7 million project involved installation of heating, ventilating, air conditioning and related electrical systems modifications associated with the addition of air conditioning to the existing Carter Hall East and West Dormitory at the University of Toledo. Air conditioning will include student rooms, ancillary areas as well as the open eating area.
* Planetarium: The $0.3 million project involved installation of new seating, carpet, painting, electrical, computer, and sound system upgrades.
* Electrical Upgrades: The $1.9 million project involved new generator, distribution panels, transformers, and uninterrupted power source (UPS), and additional space for redundant generator and UPS units.

**Liabilities**

Current liabilities decreased by $32 million in 2011 related to debt restructuring that included $32 million Bond Anticipation Notes issued June 2010 and due in June 2011.

Non-current liabilities increased by $5 million in 2011 driven by the restructuring of debt noted above netted against the treatment of swap arrangements related to the restructuring.

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

The Statement of Revenues, Expenses and Changes in Net Assets is the University’s income statement. It reports the detailed revenues and expenses presented in a net revenue (expense) format. Revenues and expenses are classified as operating, non-operating, and other changes, and subtotals are presented for net operating income (loss), income (loss) before other changes, and increase (decrease) in net assets. Tuition revenue is shown net of financial aid, and depreciation is provided for capital assets.

In accordance with GASB Statement No. 35, appropriations received from the State of Ohio and certain federal and state grants and contracts are presented as non-operating revenue; therefore, the University will typically reflect a net operating loss. However, the University and other public institutions have traditionally relied on these funds to support functional operations of the institution.

**2011-2012 Results**

In 2012, the University had operating revenues of $709 million, an increase of $18 million while operating expenses only increased $6 million over the previous year as a result of spending controls, resulting in an improvement in operating results of $12 million. Negatively affecting the current year results was a reduction in State Share of Instruction and ARRA Stimulus of $20 million, reduced state capital project funding, and a decline in the investment markets, culminating in an overall increase in net assets of $5 million.



**Operating Revenues**

Operating revenues increased by $18 million in 2012. Net tuition and fees increased by $10 million as a result of an increase in undergraduate tuition rates of 3.5% in fiscal 2012, offset by lower enrollment. Scholarship expenses remained relatively stable. The University’s credit hour FTE enrollment by term was as follows:



Hospital revenues increased by $11 million or 4.3% due to a 5.4% increase in inpatient admissions. Grant Revenue classified as operating decreased by $3 million related to lower activity in sponsored programs from state and private sources.

**Operating Expenses**

Total operating expenses increased by $6 million to $841 million in 2012. Salaries, Wages, and Fringe Benefits increased by $7 million in 2012, primarily due to increased Clinicians Salary expense within UTP-CF and higher UT employer medical benefit costs. An increase in Outside Purchased Services expenditures of $18 million in 2012 was offset by reductions in supplies expense, insurance and other administrative expense due to spending controls instituted across the University. Depreciation increased by $2 million as a result of additional investment in university and hospital facilities and equipment.

**Non-operating Revenue and Expense**

Total non-operating revenues and expenses resulted in net revenue of $126 million in 2012, a decrease of $70 million from 2011. Long term investments produced a loss of $5 million in 2012 compared to an investment gain of $32 million in 2011. State Share of Instruction (SSI) and the American Recovery and Reinvestment Act (ARRA) Stimulus and non-operating grant related activity decreased by $27 million.

**Other Changes**

Other changes resulted in an increase in assets of $11 million during 2012, primarily a result of state funded capital appropriations.

**2010-2011 Results**

In 2011, the University had operating revenues of $691 million, a decrease of $9 million while operating expenses were $5 million lower than the previous year as result of spending controls, resulting in a decline in operating results of $4 million. Positive results were experienced from much higher non-operating research activity and a turnaround in the investment markets, culminating in an increase in net assets of $68 million from $572 million in 2010.



**Statements of Cash Flows**

The **Statement of Cash Flows** presents the sources and uses of cash in the following categories:

* Operating activities
* Non-capital financing activities
* Capital and related financing activities
* Investing activities

Cash flows associated with the University’s expendable net assets appear in the operating and non-capital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt and debt repayments. Purchases and sales of investments are reflected as investing activities.

**2011-2012 Results**

Total University cash and cash equivalents decreased by $37 million in 2012. The University had net cash used in operating activities of $72 million before adding in state share of instruction and gifts, grants and contracts of $143 million, included in non-capital financing activity, which resulted in a net increase of cash related to traditional operations of $71 million. Total net cash outflows from capital and related financing activities were $38 million including funds expended on capital assets of $76 million funded primarily by new debt issued in 2012. Net cash outflow to investments resulted in a reduction of $70 million in 2012, as positive operations allowed movement of cash to interest earning investments.

**2010-2011 Results**

Total University cash and cash equivalents increased by $17 million in 2011. The University had net cash used in operating activities of $64 million before adding in state share of instruction and gifts, grants and contracts of $181 million, included in non-capital financing activity, which resulted in a net increase of cash related to traditional operations of $117 million. Total net cash flows from capital and related financing activities were $55 million primarily due to debt activity and restructuring during 2011. Principal Paid on Capital Debt increased by $86 million which was offset in part by an increase in Proceeds from Debt Issuance of $40 million. Net cash outflow to investments resulted in a reduction of $45 million in 2011, as positive operations allowed movement of cash to interest earning investments.

**ECONOMIC FACTORS**

**Higher Education**

Despite prior years’ efforts to stimulate the economy through the American Recovery and Reinvestment Act (ARRA), the intended progress has been slow-moving. Continued weak job markets coupled with high unemployment have been major contributors for the delayed recovery. As the economy struggles to grow in FY 2012, the University of Toledo continues to battle the effects of these economic challenges in order to attain its goals. Some of the effecting factors include the loss of federal stimulus monies, steep decline in state appropriations, and changes in healthcare legislation.

In response to FY 2012 and future challenges, the University of Toledo consistently redefines its strategies as necessary to adapt to the significant fiscal, political, and external changes that impact the institution. In alignment with its strategic goals, there has been a continuous focus on managing resources efficiently, reducing expenditures while maintaining critical functions, and pursuing new sources of revenues. The University has reduced its work force in non-academic operations as well as intensely managed faculty and non-faculty hiring. Budget adjustments have been made to strengthen financial discipline and information technology services have been utilized to further enhance automation. In addition, vital investments in its educational infrastructures and innovations were made. These approaches are crucial to not only heighten the competitiveness of the University but to also ensure there will be resources to sustain ongoing academic and other activities during this time of economic uncertainty.

Ohio’s dynamic shift to a performance-based funding system has also been an altering factor for the state’s institutions including The University of Toledo. Prior to 2010, the state’s methodology, specifically the State Share of Instruction (SSI), rewarded Ohio universities with additional funding if various enrollment and completion objectives were met. The newer performance-based funding structure now consists of a method that links state appropriations of funds to course completion, student success, and institutional specific goals and metrics. “At-risk” students are accounted for to recognize the additional barriers colleges are faced with when enrolling unprepared undergraduates and a stop-loss provision restricts the amount of money an institution can lose.

For FY 2012, the University of Toledo experienced a significant decrease from SSI which ultimately added to its existing shortfall. The University increased tuition and fee charges as well as increased faculty workload. In addition, major investments were made in academic, residence, and athletic facilities. For example, instructional laboratories and technology mediated classrooms were added to enrich student learning experiences. Likewise, UTF resources were leveraged to invest in the development of a deteriorated strip adjacent to the Dorr Street Campus which will be utilized as retail merchandising and student housing. New academic programs were also developed in selected research based areas. With the state now connecting its funding to a performance-based system, the future economic sustainability will depend more heavily on effective enrollment and educational management. Therefore, the University has devised plans to increase student academic success, retention and progress to graduation. State support for higher education is variable and the University will continue to execute necessary actions to accommodate for volatilities in order to achieve its strategic goals and fulfill its mission.

**Healthcare**

UTMC operates within the healthcare industry and is therefore obligated to abide by regulations set by numerous governing agencies. These federal, state, and local governmental organizations are responsible for the administration of health planning programs and for the policies developed to regulate the manner in which healthcare is provided, administered, and paid for nationally and locally. Such agencies include The Centers for Medicare and Medicaid (CMS), who oversees the majority of the regulations and subsidizes medical coverage through the Medicare and Medicaid programs. Department of Health and Human Services (HHS) is another body which protects the public from certain health risks and provides programs for public health and welfare. In addition, non-profit organizations like The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) serve as accreditation institutions and employ a scoring system that affects Medicare reimbursements. As a result, the healthcare industry is sensitive to legislative and regulatory policies and changes from these agencies as it is affected by reductions and limitations in governmental spending for such programs.

UTMC is subject to the following: the statutes, regulations, and changes governing the Medicare and Medicaid programs; regulatory actions by the governmental agencies that administer and enforce the Medicare and Medicaid programs; changes in payment from non-governmental third party payers, such as private insurance plans and managed care entities; and actions by, among others, the Medicare peer review organization, the Ohio Department of Health, the Joint Commission and other accreditation bodies, and federal, state, and local governmental authorities.

The following highlights some of the key provisions in the regulatory climate applicable to UTMC:

* Health Care Reform: The Patient Protection and Affordable Care Act (PPACA) have provisions that will be phased in through year 2020. Once fully implemented, it is anticipated to significantly reform the entire healthcare industry and result in providing healthcare coverage for millions of uninsured individuals. On June 28, 2012, the US Supreme Court upheld the constitutionality of the Health Care Reform Law which in turn mandates individuals to purchase healthcare coverage or pay a penalty beginning in 2014. The promulgation of this substantial regulation along with others to come will be necessary to interpret and implement PPACA. Thus, hospitals and healthcare systems like UTMC will be faced with ongoing regulatory and legislative changes for an extensive period of time.
* Medicare/Medicaid Reimbursement: A significant portion of UTMC’s revenues are derived from the Medicare and Medicaid programs. Most Medicare services are provided through a fixed rate per case program under reimbursement methods such as Inpatient Operating Costs, Outpatient Services, and Physician Payment. In the future, Medicare reimbursement payments will be based on not only the quantity but the quality of care delivered to patients. The State of Ohio determines the level of reimbursement for Medicaid services provided by Ohio healthcare entities. Ohio has reduced Medicaid reimbursement payments in the past and could possibly reduce in the future. UTMC must budget and manage its resources to attempt to provide the reimbursed item or service within the payment amount. The potential financial impact on the Hospital from Medicaid managed care entities is dependent not only their reimbursement level but the ability of these entities to stay financially viable and continue to meet their monetary obligations to UTMC.
* Health Information Technology for Economic and Clinical Health (HITECH) Act: The HITECH Act provisions of the ARRA include incentives for certain healthcare providers, including hospitals, to implement and utilize Electronic Health Records (HER) for meaningful users of HER in accordance with published standards. The financial incentives include percent compensation increased based upon the Medicare and Medicaid billings generated by the provider. The HITECH Act also imposes penalties such as reduction in the Medicare and Medicaid reimbursements if the eligible provider is not a “meaningful user” of certified HER technology by 2015. Although UTMC has a strategic plan to continue its own implementation and upgrade of the EMR/HER systems to achieve ARRA (HITECH Act), it is still undeterminable whether it will be a meaningful user until it is ultimately defined. On June 10, 2012, UTMC successfully upgraded its systems and is on track to achieve Phase 1 meaningful use by UTP on 12-31-12 and UTMC on 3-31-13 which will allow each entity to receive the maximum Phase 1 incentive.

In the future, the follow factors may affect the operations and financial performance of healthcare providers, including UTMC:

* Compressed economic limits of government funding will result in lower reimbursement rates in not only patient care but also in medical innovation development.
* Value based purchasing will mean Medicare reimbursements to hospitals will be based on the quality of care offered. Patient satisfaction is anticipated to be 30% of the value based score. However, there is no clear scientific link between patient satisfaction and the quality of care received.
* Declining procedure volume due to high deductibles and co-pays that patients will have to pay for could lead hospitals to reduce inventory levels which could in turn cause a backflow through the entire supply chain.
* Medicare reimbursement will be reduced for hospitals that have more readmissions than expected for heart attacks, heart failure, and pneumonia patients. This measure does not account for planned readmissions or readmissions that are beyond the hospital’s control such as patients who don’t take prescribed medicines or those who fail to keep follow-up appointments after being released.
* Accountable Care Organizations (ACOs) could be inevitable in the future for hospitals to help contain costs and to remain competitive in the healthcare industry.
* As more and more physicians merge with hospitals, an increase in departmental and administrative staff will likely be necessary to support the physicians. The challenge will be to not only provide quality care but to get paid for all the services provided as well. In addition, payment rates could possibly be impacted due to increased consolidation.
* Medicare will reduce payment by 1% for certain hospitals for select hospital-acquired conditions (HAI) such as infections. The federal government will also no longer reimburse states for Medicaid services related to HAIs.
* As the use of mobile devices such as laptops and tablets are being embraced by the healthcare industry, there could be issues regarding the patient data kept within these technologies. Personal information stored that may not be secured and cannot be fully protected could potentially violate HIPPA compliance depending on regulations mandated in the future.
* The future of nurse shortages as well as other qualified healthcare technicians and medical staff available may not be ample enough to support a hospital’s operations. Therefore, it will need to increase the compensation expenses offered to these professionals in order to obtain and/or retain them.
* Health reform is pressuring providers to be more cost conscious. UTMC along with other healthcare providers will be held more accountable for costs as well as performance while coping with new tax and government payment regulations.

**UNIVERSITY INITIATIVES**

The University of Toledo is committed to identifying opportunities to expand investments in facilities and programs to strengthen the institution in its efforts to accomplish its mission of improving the human condition, advancing knowledge through excellence in learning, discovery, and engagement; and to serve as a diverse, student-centered public metropolitan research university. Current and future initiatives include:

* Anatomy (Gross/Dissection)/Simulation Center Design – The University of Toledo Inter-professional Immersive Simulation Center (UT-HSC) is a project that will make the University one of the national and global leaders in the education of health professionals. An innovative learning environment that simulates the real world of a healthcare practice will be created. This “state-of-the-art” instructional facility for modern training in human anatomy will positively impact the recruitment, retention, and efficiencies of educating the future workforce of the healthcare industry.
* The Center for Transitional Research (Center) – The University proposes to construct a facility for an interdisciplinary center that will be dedicated to the discovery of science needed to transition society to a sustainable future on principles related to technologies and environmental impacts. This proposal will not only enhance the institution’s leadership in environmentally related research but will leverage its current research infrastructure and promote collaboration.
* Pharmacy Backfill Lab Renovations – Current laboratories in the south wing of the Bowman-Oddy Lab Building serves as the research facility whose efforts focus on terrestrial ecosystem and bioremediation. The labs, built over 40 years ago, also support research in environmental modeling, ecology, environmental microbiology, and ecological biochemistry. This project will renovate these essential labs and create a facility for the Center for Biosphere Restoration Research dedicated to research and education in science which is a necessity to secure an environmentally viable future.
* Core Research Facility Block Health Science Building – Plan, design, and renovate laboratory space to accommodate the Core Research Facility. This venture will concentrate on various technological and educational projects as well as support the University’s mission and other academic programs. It will also provide considerable opportunities for convenient access to other existing laboratories and teaching areas for students, faculty, staff, and visitors.
* Nitschke Classroom/Connector – This undertaking would connect the auditorium (hence the rest of the engineering complex) to the Nitschke Commercialization Complex but will be more than just an architectural atrium. This expansion will serve as a central hosting place which will enable The University of Toledo to welcome students, families, personages, and provide a meeting place for conferences. With the current rate of growth of education and research initiatives, this proposal will facilitate this institution’s desire to integrate education, research, outreach, and commercialization.













**NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

ORGANIZATION

On December 6, 2005, the Boards of Trustees of both the former University of Toledo (UT) and the former Medical University of Ohio (MUO) adopted resolutions in favor of a proposed combination of UT and MUO. On December 17, 2005, the Ohio Board of Regents adopted a resolution in support of the proposed combination. House Bill 478, signed on March 31, 2006 by then Governor Bob Taft, combined UT and MUO as one state university, effective July 1, 2006, and named the resulting entity the University of Toledo (the University). The University is one of several state-supported universities in Ohio. The University is a component unit of the State of Ohio and is discretely presented in the State of Ohio’s Comprehensive Annual Financial Report.

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 through 514.

The University is governed by a board of trustees who are responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The University is currently governed by a 12-voting member board of trustees created through the combination of the previous existing boards of the two universities. The Board will eventually be reduced to nine members, as current members’ terms expire, only one new trustee will be appointed for every two that depart. The trustees are appointed to by the Governor with the advice and consent of the State Senate for overlapping nine-year terms. The Board includes two student non-voting members that are appointed for two-year terms.

BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States as prescribed by the GASB. The University is a public institution engaged in Business-type Activities. In accordance with GASB Statement No. 35 – *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities*, the University presents Management’s Discussion and Analysis; Statements of Net Assets; Statements of Revenue, Expenses, and Changes in Net Assets; Statements of Cash Flow; and Notes to the Financial Statements.

The University follows all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Statements and Interpretations, Accounting Principles (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

**NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In the determination of whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted nets assets are available, it is the University’s practice to use restricted first.

Governmental Accounting Standards Board (GASB) Statement No. 39 *Determining Whether Certain Organizations are Component Units,* requires the University to reflect the Foundation as a discretely presented component unit in the financial statements based on the significance of the relationship with the University. The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (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 Foundations’ financial information in the University’s financial reporting entity for these differences.

The Foundation is a legally separate, tax-exempt entity that acts primarily as a fund-raising organization to supplement the resources available to the University in support of its programs. The Foundation transferred approximately $12,500 and $11,900 during fiscal year 2012 and 2011, respectively to the University for both restricted and unrestricted purposes in support of its programs. Certain marketable investments of the University are pooled with marketable investments of the Foundation. The Foundation manages these funds and charges the University a management fee equal to 1.25% of the fair market value of the University’s share of the pooled investments. A complete copy of the audited financial statements of the Foundation is available at the Foundation offices located near the campus of the University.

Effective July 1, 2011, the University became the sole member of the once self-perpetuating board of the University of Toledo Clinical Faculty, Inc. which subsequently changed to University of Toledo Physicians, Clinical Faculty Inc. (UTP-CF). UTP-CF is the sole member of University of Toledo Physicians, LLC (UTP). As a result, UTP financials are presented in a blended manner, reflected as a part of the University’s financials. Moreover, for comparative purposes, the University’s prior year’s financials have been restated to include UTP for this analysis.

The consolidated financial statements of UTP-CF and its wholly-owned subsidiaries: University of Toledo Physicians, LLC, UTP Pathology Services, LLC and Northwest Ohio Medicine, Inc. have been prepared following the recommendations of FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. 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 UTP-CF financial information in the University’s financial reporting entity for these differences. All transactions between the University and UTP-CF have been eliminated in the financial statements for the years ended June 30, 2012 and 2011. Separate audited financial statements for UTP-CF are available at the UTP-CF offices located near the campus of the University.

**NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

SIGNIFICANT ACCOUNTING POLICIES

**Cash and Cash Equivalents**

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

**Inventories**

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

**Patient Revenue and Accounts Receivable**

Patient accounts receivable and revenue are recorded at net realizable value when patient services are performed. The University has agreements with third-party payors that provide for payments to the University at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

* Medicare and Medicaid: The University is a provider of services under the Medicare and Medicaid programs. The University is paid a prospectively determined fixed price for each Medicare and Medicaid inpatient. The price varies depending on the type of illness or the patient’s diagnostic related group classification. Capital costs, certain Medicare outpatient services, and Medicaid outpatient services are also reimbursed on a prospectively determined fixed price. Graduate medical education is reimbursed on a per diem basis under the Medicare program. The University receives payment for other Medicare outpatient services and certain inpatient costs on a reasonable cost basis.
* Other Payors: The University has also entered into payment agreements with certain commercial carriers to provide health care services. Payment to the University under these agreements is based on prospectively determined fixed prices, fee screens, or on a percentage of billed charges.

Provision is made in the financial statements for the differences between the University’s standard rate charged for services rendered and third-party reimbursements and for estimated settlements based on third-party reimbursement contracts. Retroactive settlements resulting from third-party audits of filed cost reports are reflected in the financial statements in the year of settlement. These provisions and settlements are included in deductions from patient service revenue. There is at least a reasonable possibility that recorded estimates will change in the near-term. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The University believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory

**NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Patient Revenue and Accounts Receivable (continued)**

inquiries have been made, compliance with such laws and regulations can be subject to regulatory action including; fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity care includes services provided to persons who cannot afford healthcare because of inadequate resources or who are uninsured or underinsured. In addition to charity care, services are provided under Medicaid and other Welfare programs. Certain payments received under these programs are less than the cost of providing the service.

A summary of charity and uncompensated care, at cost, is as follows:



**Capital Assets**

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.

**Deferred Issuance Cost**

Deferred bond issuance costs for the General Receipts Bonds have been capitalized and are included 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.

**NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred Revenue**

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**.**

**Net Assets**

Net assets are classified into the three following categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement in those assets.

Restricted: Nets assets subject to externally imposed constraints that they may be maintained permanently by the University, or net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time. Restricted net assets are classified further as non-expendable and expendable. 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. Non-expendable restricted net assets contain externally imposed restrictions that stipulate the resources be maintained permanently.

Unrestricted: Net assets available to the University for any lawful purpose of the institution. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. The University has committed unrestricted net assets to provide for identified future needs, such as debt service, contractual obligations, capital outlay, academic programming, and post-employment benefits.

**Compensatory Time**

Compensatory time may be given in lieu of overtime pay to classified employees who work in excess of the regular schedule. The liability and expense for future payouts are recorded at year end.

**NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Compensated Absences**

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 some are paid for 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.

**Grants and Contracts**

The University receives grants and contracts from Federal, State, and private agencies to fund research and other activities. Grants and contracts generally provide for the recovery of direct and indirect costs. The University recognizes revenues associated with grants and contracts as the related costs are incurred. Indirect cost recovery is recorded as a percentage of direct costs at negotiated fixed rates. Revenues received under grants and contracts are subject to the examination and retroactive adjustments by the awarding agency. Federal funds are subject to an annual OMB Circular A-133 audit.

**State Subsidies**

The University receives student-based subsidy and other subsidies from the State. These subsidies are determined biennially and released annually based upon allocations determined by the Ohio General Assembly and the Ohio Board of Regents.

In addition to subsidies, the State provides capital appropriations for construction of major plant facilities on the campus. The financing of construction is obtained by the State through issuance of State revenue bonds. State funds are pledged for the repayment of the revenue bonds. In the event these funds are insufficient to retire the revenue bonds, a pledge exists to assess a special student fee to students of State assisted institutions of higher education. As a result of this financing arrangement, the outstanding debt relating to the revenue bonds is not included in the University’s Statement of Net Assets. State appropriations are recognized when received. Restricted funds are recognized as revenue only to the extent expended.

**Capitalized Interest**

Interest on construction projects is capitalized until substantial completion of the project.

**NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Endowments**

The University’s and the Foundation’s Board of Trustees established an investment policy for the endowment and quasi endowments with the objectives of protecting principal and maximizing total investment return without assuming extraordinary risks. It is the goal of the University to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, (established at 4.0%) of the three year market average, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings.

**Interest Rate Swap Agreements**

The University has entered into various interest rate swap agreements in order to manage and hedge risks associated with interest. In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the University’s 2010 fiscal year end. This Statement requires derivative instruments (such as interest rate swap agreements) to be reported at fair value. In addition, for derivative instruments that qualify as effective hedges, changes in fair value will be reported as deferrals in the statement of net assets, while changes in the fair value of the derivative instruments that do not qualify as effective hedges including investment derivative instruments, will be reported as non-operating revenue (expense) as a component of investment income. See Note 7 for relevant disclosures.

**Investments Held By Bond Trustee**

Investments held by bond trustee represent funds held by a third party to pay for capital additions and improvements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

At June 30, 2012, the carrying amount of the University’s cash and cash equivalents for all funds is $62,779 as compared to bank balances of $76,096. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $250 is covered by federal deposit insurance as of June 30, 2012 and 2011.  This reflects an increase in the basic limit on

**NOTE 2 – CASH AND CASH EQUIVALENTS (continued)**

federal deposit insurance coverage from $100 to $250 per depositor originally set to expire June 30, 2010 and since extended permanently with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act.  The remaining balances of cash and cash equivalents are collateralized with single financial institution collateral pools at the Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the University, per the Ohio Revised Code 135.181B which requires that the total market value of the securities so pledged is at least equal to one hundred five percent of the total amount of all public deposits.

**NOTE 3 – INVESTMENTS**

University investments are categorized by the following: short-term investments, restricted investments, and long-term investments. Short-term investments are funds available for current operating expenses and capital projects with the vast majority of assets invested in fixed income instruments. Restricted investments include gifted endowment funds of the University held in an investment pool with gifted endowment funds of the Foundation. Long-term investments are considered institutional reserves emphasizing both capital preservation and long-term appreciation. The long-term investments consist of a mix of fixed income instruments and equities.

The Board approved revisions to the University’s investment policy effective May 2011. The policy establishes investment objectives, strategies and measures for evaluation. The University’s policy complies with the State of Ohio regulations provided by legislation.

The University’s investment policy authorizes the investment of non-endowed funds other than Board Designated Reserves in the following investments:

* Obligation of the US Treasury and other federal agencies
* Municipal and state bonds
* Certificate of deposit
* Repurchase agreements
* Mutual funds and mutual fund pools
* Money market funds
* Commercial paper
* Bankers acceptances
* Corporate bonds and stock
* Asset backed securities
* Mortgage pools and mortgage related securities
* Guaranteed investment contract

**NOTE 3 – INVESTMENTS (continued)**

The University’s investment policy authorizes the investment of Board Designated Reserves and endowed funds in the following investments:

* Obligation of the US Treasury and other federal agencies
* Municipal and state bonds
* Certificate of deposit
* Repurchase agreements
* Mutual funds and mutual fund pools
* Money market funds
* Corporate bonds and stocks
* Mortgages and collateralized mortgage obligations
* Alternative investments

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

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, requires certain additional disclosures related to the interest rate, credit, foreign currency and custodial risks associated with interest-bearing investments as of June 30, 2012. At the present time, the University does not have formal policies addressing these types of risk.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

**NOTE 3 – INVESTMENTS (continued)**

As of June 30, 2012, the University had the following interest-bearing investments and maturities.



As of June 30, 2011, the University had the following interest-bearing investments and maturities:

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information – as commonly expressed in terms of the credit ratings issued by the nationally recognized statistical rating organizations (NRSRO’s) such as Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings – provides a current depiction of potential variable cash flows and credit risk.

The credit ratings of the University’s interest-bearing investments at June 30, 2012 are as follows:



**NOTE 3 – INVESTMENTS (continued)**

The credit ratings of the University’s interest-bearing investments at June 30, 2011 are as follows:



*Concentration Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University’s cash investment policy provides that investment pool direct placements are to be sufficiently diversified and provides that no more than 10 percent of its assets can be in any particular issue. The foregoing restrictions do not apply to securities that are issued or fully guaranteed by the United States government. The University did not have investments in any single issuer that equaled 5 percent or more in 2012 or 2011.

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2012, the University had no exposure to foreign currency risk as it holds no securities denominated in foreign currencies.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The University’s investment of $2.9 million in real estate is not evidenced by securities that exist in physical or book entry form. The remaining investments are uninsured and unregistered with securities held by the counter party’s trust department or agent in the University’s name.

**NOTE 3 – INVESTMENTS (continued)**

**The University of Toledo Foundation and Subsidiaries Investments**

Investment securities are stated at fair value, some investments of the University of Toledo (University) and the University of Toledo Alumni Association (Alumni Association) are pooled with investments of the Foundation. The pooled investments are managed by the Foundation.

The following is the Foundation’s portion of the pooled investments and the Foundation’s non-pooled investments as of June 30, 2012. Not included in the following schedule are investments held in real estate in the amount of $593.



The following is the Foundation’s portion of the pooled investments and the Foundation’s non-pooled investments as of June 30, 2011. Not included in the following schedule are investments held in real estate in the amount of $593.



**NOTE 4 – ACCOUNTS AND NOTES RECEIVABLE**

The accounts and notes receivable, shown net of allowances for uncollectible accounts at June 30, 2012 and 2011 respectively, are summarized as follows:



Accounts receivable are for transactions relating to tuition and fees, patient services, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services. Accounts receivable are recorded net of contractual allowances and allowances for uncollectible accounts totaling $15,899 and $13,777 for fiscal years 2012 and 2011, respectively. Student notes receivable are recorded net of allowance for uncollectible accounts of $760 as of June 30, 2012 and 2011, respectively.

**NOTE 5 – CAPITAL ASSETS**

Capital assets are recorded at cost or if acquired by gift at the fair market value as of the date of donation. Capital assets consist of the following as of June 30, 2012:



Capital assets consist of the following as of June 30, 2011:



**NOTE 5 – CAPITAL ASSETS (continued)**

Assets are classified as either for Academic or Hospital use. Academic assets are capitalized at a cost of $50 or greater with the exception of equipment and computer software, which are capitalized at a cost of $5 or greater. Academic asset depreciation and amortization on capital leases are recognized on a straight-line basis over the estimated useful life of the asset, as follows:



Hospital assets are capitalized with a cost of $5 or greater for equipment, buildings, and building additions based on increase of capacity, life, or operating efficiency of a capital asset. Hospital asset depreciation and amortization on capital leases are recognized on a straight-line basis over the estimated useful life of the asset, as follows:



**NOTE 6 – DEBT**

On November 3, 2011 the University issued $47,640 in General Receipts Bonds, Series 2011B. Proceeds of the Series 2011B Bonds will be used, together with other available funds, to pay the cost of various improvements on the University’s Health Science Campus, including reconstruction of existing facilities to house a comprehensive cancer center; expansions, renovations and improvements to the University of Toledo Medical Center, including reconstruction and renovation of patient rooms and operating rooms; renovations and improvements to Dowling Hall building for outpatient office space and clinical space; acquisition and installation of hardware and software for electronic medical records system; acquisition of medical equipment; and acquisition and installation of various other facility improvements. Additional proceeds of the Series 2011B Bonds were used to pay the costs related to the issuance of the Series 2011B Bonds. The Series 2011B Bonds bear a fixed rate of interest with an average yield of 4.41%.

On May 31, 2011 the University issued $86,340 in General Receipts Bonds, Series 2011A through a direct placement with JPMorgan Chase Bank, N.A. Proceeds of the Series 2011A were used to retire the outstanding General Receipts Bond Anticipation Notes, Series 2010 at maturity on June 1, 2011, to refund the outstanding Series 2008B General Receipts Bonds redeemed on June 1, 2011, and to pay the

cost of issuance of the Series 2011A Bonds. Series 2011A bears interest at 74% of the sum of one month LIBOR plus 1.3%.

**NOTE 6 – DEBT (continued)**

On November 16, 2010 the University issued $45,460 in General Receipts Bonds, Series 2010. Proceeds of the Series 2010 Bonds were used to fund the purchase of $44,835 of outstanding General Receipts Bonds, Series 2005 that have been tendered for purchase, to pay a portion of the termination payments under interest rate hedges related to the Series 2005 Bonds, and to pay costs of issuance of the Bonds. The Series 2010 Bonds bear a fixed rate of interest with an average yield of 4.67%. The next scheduled principal redemption date on the series 2005 Bonds is currently July 1, 2029.

On July 15, 2009 the University issued $22,390 in General Receipts Bonds, Series 2009A (Tax-Exempt) (Series 2009A) and $37,430 in General Receipts Bonds, Series 2009B (Federally Taxable – Build America Bonds) (Series 2009B). Proceeds of the series 2009A Bonds will be used to pay a portion of the costs of certain improvements to University facilities and the cost of refunding the University’s Series 1998 General Receipts Bonds. Proceeds of the Series 2009B Bonds will be used to pay a portion of the costs of certain improvements to University facilities as well as the cost of issuance related to both series. The University elected the direct pay option when it issued the 2009B Series as Build America Bonds.

As a result, the University receives a direct payment from the federal government equal to 35 percent of the interest paid to bond holders. This interest subsidy is reflected in the schedule of principal and interest payable. Bonds maturing on or after June 1, 2020 are subject to redemption at the option of the University prior to their stated maturities, on any date on or after June 1, 2019, in whole or in part, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the redemption date. In addition, the University has the right to redeem at par the Series 2009B Bonds if the federal subsidy is repealed.

On July 21, 2008 the University issued $58,450 in General Receipts Bonds, Series 2008B (Series 2008B) and $35,480 in General Receipts Bonds, Series 2008A (Series 2008A), to refund the Series 2008 Bond Anticipation Note. Additional proceeds were used to pay for related issuance cost. The Series 2008B Bonds were subsequently refunded by the issuance of the Series 2011A Bonds.

Series 2008A Bonds bear a fixed rate of interest with coupons ranging from 3% to 5% over the scheduled redemption period from June 1, 2009 through the final maturity of June 1, 2027. A financial guarantee insurance policy was issued concurrently with the delivery of the bonds by Assured Guaranty Corp. Bonds maturing on or after June 1, 2019 are subject to redemption at the option of the University prior to their stated maturities, on any date on or after June 1, 2018, in whole or in part, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the redemption date.

The interest rate derivative agreements originally associated with the Series 2002 General Receipts Bonds remain in effect.  In order to comply with State Law, the hedged amount over and above the value of the 2008B Variable Rate Bonds were matched with the un-hedged portions of the Series 2005

Variable Rate Bonds and 2010 Bond Anticipation Notes. With the redemption of the 2008B Variable Rate Bonds and the 2010 Bond Anticipation Notes the interest rate derivatives were matched with the

**NOTE 6 – DEBT (continued)**

Series 2011A Bonds. As a result the University has $103,915 in outstanding variable rate debt and $102,070 in outstanding interest rate swaps.

On April 26, 2007, the University issued $49,900 in General Receipts Bonds, Series 2007B, (Series 2007B) to finance the rehabilitation and improvement of a facility to provide classrooms for undergraduates; the rehabilitation and improvement of the main library; and improvements to athletic facilities. Series 2007B bears interest based on the Auction Period Rate (APR) for each 35-day auction period. During fiscal year 2010 the University made two public tender offers for the 2007B Series Bonds. Bonds repurchased and subsequently cancelled under these tender offers have been credited against the mandatory redemption schedule of the Series 2007B Bonds. The next scheduled principal redemption date on the series 2007B Bonds is currently June 1, 2031.

On April 17, 2007, the University entered into an interest rate swap agreement with JP Morgan Chase, with an effective date of April 26, 2007, in the notional amount of $33,250, to hedge a portion of the exposure against interest rate fluctuations arising from the variable interest rates on the Series 2007B. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.666% to the swap counterparty. In return, the counterparty owes the University interest at a variable rate based on 68% of one month LIBOR. Only the net difference in interest payments is actually exchanged with the counterparty. The University pays interest to the bondholders at the variable rate provided by the bonds. The swap agreement expires on June 1, 2036, the same maturity as the Series 2007B. The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the University to the swap counterparty or by the swap counterparty to the University, depending on the prevailing economic circumstances at the time of the termination.

The mark to market valuation of the swap agreement as of June 30, 2012 is a liability of $10,738 compared to a liability of $4,980 as of June 30, 2011. The swap agreement’s fair value is estimated using the zero-coupon method, whereby the future net settlement payment as required by the swap is calculated, and then discounted using the spot rates implied by the current yield curve.

On January 23, 2007 the University issued $46,595 in General Receipts Bonds, Series 2007A, with an average interest rate of 4.43%, to advance refund the General Receipts Bonds Series 2001, with an average interest rate of 5.1% and current refund the General Receipt Bond Anticipation Notes Series 2006, with an interest rate of 4.25%. Proceeds of $32,900 were deposited into an escrow fund with Bank of New York Trust Company, N.A. to satisfy scheduled payments of principal and interest of Series 2001. The Series 2001 outstanding obligation of $31,900 is considered defeased and the liability from those bonds has been removed. The University has a cash flow savings of $1,300 and an economic gain of $1,300 from the advance refunding of Series 2001. Proceeds of $13,655 were used to extinguish Series 2006 outstanding obligations of $13,100 plus accrued interest.

On March 29, 2005, the University issued $50,000 in General Receipts Bonds, Series 2005 (Series 2005), at a variable rate of interest, for the construction and equipping of certain major expansions,

**NOTE 6 – DEBT (continued)**

renovations, and improvements at HSC. There projects included but were not limited to an ambulatory care center, an orthopedics center, an outpatient surgical center, an upgrade to HSC clinical information system to provide for a fully digital environment, and miscellaneous routine capital expenditures. During fiscal year 2010 the University made two public tender offers for the 2005 Series Bonds. During fiscal year 2011 the University made an additional tender offer for the 2005 Series Bonds. Bonds repurchased and subsequently cancelled under these tender offers have been credited against the mandatory redemption schedule of the Series 2005 Bonds.

On March 1, 2004, the University issued $14,110 General Receipts Bonds, Series 2004 to refund and redeem the General Receipt Bonds, Series 1994 in the amount of $13,200 with the remainder of the issue being used to fund the bond issuance cost and the call premium.

On December 1, 2002, the University entered into two different interest rate swap agreements with Bear Stearns & Co., Inc. and one with JPMorgan Chase (formerly Bank One N.A.) in the total notional amount of $104,535 to hedge the exposure against interest rate fluctuations arising from the variable interest rates on the Series 2002 Bonds. Based on the swap agreements, the University owes interest calculated at an average fixed rate of 4.35% to the counterparties to the swap agreements. In return, the counterparties owe the University interest at a variable rate based on two indices: (1) 67% of LIBOR rate on 42% of the notional amount; and (2) 71% of LIBOR on 58% of the notional amount. Only the net difference in interest payments is actually exchanged with the counterparties. In March of 2008 Bear Stearns was purchased by JPMorgan Chase on all stock transaction, as a result JPMorgan Chase is now the counterparty on the two former Bear Stearns swap agreements. However, the agreements remain governed by the original ISDA and CSA’s entered into with Bear Stearns. These swap agreements were

originally associated with the General Receipts Bonds, Series 2002 which were refinanced by the General Receipts Bonds, Series 2008A and Series 2008B.

The swaps maturing in 2032 were matched with the 2008B Bond maturing the same year. On June 1, 2011 the Series 2008B Bonds were redeemed and the swaps maturing on 2032 were matched with the 2011A Series Bond. The third swap maturing in 2020 was matched with General Receipts Notes, Series 2010. On June 1, 2011 the Series 2010 General Receipts Bond Anticipation Notes, were retired and the swap maturing on 2020 was matched with the 2011A Series Bond.

The swap agreements expire on June 1, 2020 and June 1, 2032 respectively but may be terminated prior to the stated termination date under certain circumstances. Upon termination, a payment may be owed by the University to the swap counterparty or by the swap counterparty to the University, depending on the prevailing economic circumstances at the time of the termination.

The combined mark to market valuation of the three swap agreements as of June 30, 2012 is a liability of $23,200 compared to a liability of $12,421 as of June 30, 2011. The swap agreements’ 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.

**NOTE 6 – DEBT (continued)**

In previous years, the University defeased various bonds by placing the proceeds of new bonds into irrevocable trusts to provide for all further debt service payments of the defeased bonds. Neither the outstanding indebtedness nor the related trust account assets are included in the University’s financial statements. The outstanding balance on the defeased bonds as of June 30, 2012 is $18,935.

The principal and interest payments of all of the General Receipts Bonds are collateralized by the pledge of the general receipts of the University. The bond indentures have various covenants relating to reporting with which the University management believes they have complied.

The University has master lease obligations with financial institutions and other lease obligations relating to a scoreboard, athletic turf, building and other equipment at rates ranging from 1.71% to 4.09%. The balance of capital lease obligations was $1,613 and $957 for the years ended June 30, 2012 and 2011, respectively.

Interest expense, net of interest income, related to the borrowing is capitalized as part of the cost of construction. Capitalized interest was approximately $1,655 and $2,091 for 2012 and 2011, respectively. Interest expense paid on indebtedness was $14,993 and $12,178 for the years ended June 30, 2012 and 2011, respectively.

**NOTE 6 – DEBT (continued)**

Long-term liabilities consist of the following as of June 30, 2012:



**NOTE 6 – DEBT (continued)**

Long-term liabilities consist of the following as of June 30, 2011:



**NOTE 6 – DEBT (continued)**

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:



\*Direct payment subsidy received from federal government on 2009B Build America Bonds

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



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



Contracts have been entered into for capital construction projects in an amount approximating $24,660. The estimated cost to complete construction in progress at June 30, 2012 is $10,557.

**NOTE 6 – DEBT (continued)**

The University leases certain facilities and data processing, patient care, and other equipment under various non-cancelable operating lease agreements. Total operating lease expense was $978 and $1,691 in 2012 and 2011, respectively. At June 30, 2012, the University is committed to future minimum operating lease payments of $596 in 2013; $397 in 2014; and $12 in 2015.

**NOTE 7 – INTEREST RATE SWAPS**

The University currently holds four interest rate swap instruments. The University entered into these interest rate hedge agreements at the same time and as the issuance of certain variable rate debt, with the intent of creating a partial synthetic fixed rate debt structure, at an interest rate that is lower than if fixed rate debt were to have been issued directly.



Two of the swap agreements are effective hedges. One swap is determined to be partially effective and the fourth is ineffective. These portions of the swaps determined to be ineffective are now matched with variable rate debt that was issued at a later date than the existing swap agreement. The ineffective swap portions of the swap agreements did not utilize consistent critical terms as the underlying new variable rate debt to changes in market conditions, and a calculation of the synthetic method compared to the fixed rate payments on those swap agreements demonstrated a significant enough difference to be considered ineffective under GASB Standard no. 53.

**NOTE 7 – INTEREST RATE SWAPS (continued)**

As of the balance sheet date, the swap agreements can be summarized as follows:



Included in the line “Investment (loss): Change in Value of Derivative Instruments” on the Statements of Revenues, Expenses, and Changes in Net Assets for Fiscal Year 2011 is $1,273 of Swap termination payments related to an ineffective swap terminated.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.



As of June 30, 2012 the University’s net liability position is $23,424. The University has not been required to post collateral with any counterparty as of June 30, 2012.

**NOTE 7 – INTEREST RATE SWAPS (continued)**

It is the University’s policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions

permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

Although the University originally executed interest rate swap agreements with multiple counterparties, four contracts, comprising approximately 100 percent of the net exposure to credit risk, are held with one company as the result of merger activity since 2002. That counterparty is rated Aa3/A+.

Interest rate risk - The University is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR or the Securities Industry and Financial Markets Association (SIFMA) swap decreases, the University’s net payment on the swap increases

Basis risk - The University is exposed to basis risk on its LIBOR-based interest rate swaps due to variable-rate payments received on these instruments based on a rate or index other than interest rates the University pays on its variable-rate debt, which, depending on the series is remarketed every 30 or 35 days.

Termination risk - The University or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract.

Rollover risk - The University is exposed to rollover risk on its LIBOR-based interest rate swaps that mature or may be terminated prior to the maturity of the hedged debt. When these hedging interest rate swaps terminate, or in the case of a termination option, if the counterparty exercises its option, the University will be re-exposed to the risks being hedged by the interest rate swaps. The University is exposed to rollover risk on portions of the receive-variable, pay-fixed interest rate swap scheduled to mature on June 1, 2020 which is matched with variable rate debt maturing June 1, 2032.

**NOTE 8 – RETIREMENT BENEFITS**

University employees are covered by one of three retirement systems. The University faculty is covered by the State Teachers Retirement System of Ohio (STRS). Other employees are covered by the Public Employees Retirement System of Ohio (PERS). These plans are statewide cost sharing, multi-employer defined benefit plans. Employees may opt out of STRS or PERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

A retiree of STRS or PERS is eligible for reemployment following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement

**NOTE 8 – RETIREMENT BENEFITS (continued)**

allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Public Employees Retirement System of Ohio

PERS administers three separate pension plans as described below:

**Traditional Pension Plan** – a cost sharing, multiple-employer defined benefit pension plan.

**Member-Directed Plan** – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulated retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

**Combined Plan** – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provide retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code (ORC).

The ORC provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2011 member contribution rates were 10.0% of covered payroll for members in state and local classifications. Public safety members and members in law enforcement classification contributed 11.0% and 11.6% respectively. The 2011 employer contribution rate for state and local employees was 14% of covered payroll. For both law enforcement and public safety divisions, the employer contribution rate for 2011 was 18.10%. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer’s records.

The University’s total employer contributions to PERS for the years ended June 30, 2012 and 2011 were $24,814 and $24,831, respectively.

**NOTE 8 – RETIREMENT BENEFITS (continued)**

State Teachers Retirement System of Ohio

STRS is a statewide retirement plan for licensed teachers and other faculty members and provides a choice of three retirement plan options.

**Defined Benefit Plan (DB Plan)** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The maximum annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is determined by multiplying final average salary by 2.2% for the first 30 years of credited service.

Each year over 30 years is incrementally increased by .1%, starting at 2.5% for the 31st year of contributing service up to a maximum allowance of 100% of final average salary. Upon reaching 35 years of Ohio service, the first 31 years of Ohio contributing service is multiplied by 2.5% , and each year over 31 years in incrementally increased by .1% starting at 2.6% for the 32nd year. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to compute the maximum annual retirement allowance. Since the plan is tax-qualified, benefits are subject to limits established by Section 415 of the Internal Revenue Code. Benefits are increased annually by 3% of the original based amount.

**Defined Contribution Plan (DC Plan)** – Benefits are established under Sections 3307.80 to 3307.89 of the ORC. For members who select the DC Plan all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. The remaining 3.5% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

**Combined Plan** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity.

**NOTE 8 – RETIREMENT BENEFITS (continued)**

A DB or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible survivors of members who die before retirement may qualify for survivor benefits. A death benefit of $1 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to $2 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

The ORC provides statutory authority for employee and employer contributions. During 2012 and 2011, STRS employees contributed 10% of their salary to the plan and the University contributed 14% of covered payrolls to the plan. The University’s total employer contributions to STRS for the years ended June 30, 2012 and 2011 were $13,693 and $13,687, respectively.

Alternative Retirement Plan

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

Eligible employees (those who are full-time and salaried) have 120 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 plan must contribute their share of retirement contributions (10% STRS or 9% 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 at a rate of 3.5%. 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.

ARP is a defined contribution plan under IRS section 401(a). The University’s total employer contribution to ARP for the years ended June 30, 2012 and 2011 were $6,572 and $6,119, respectively.

**NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 8, the Ohio Revised Code provides the statutory authority requiring the University to fund post-retirement health care through employer contributions to PERS and STRS.

PERS provides post-retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. It is a multi-employer cost sharing plan. Members of the Member-

**NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (continued)**

Directed Plan do not quality for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit.

Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

The Health care coverage provided by PERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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. In 2011, state employers contributed at a rate of 14% of covered payroll, local government employer units contributed at 14% of covered payroll, and public safety and law enforcement employer units contributed at 18.10%. The portion of employer contributions, for members in the traditional plan, allocated to health care was 4.0% during calendar year 2011.

The portion of employer contributions allocated to healthcare for members in the combined plan was 6.05% during the calendar year 2011.

The Health Care Preservation Plan (HCPP) adopted by the PERS Board of Trustees on September 9, 2004 was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 for each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

STRS provides access to health care coverage to eligible retirees who participated in the DB or Combined Plans and their eligible family members. Coverage under the current plan includes hospitalization, physician fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. Pursuant to the ORC, the Retirement Board has discretionary authority over how much, if any, of the associate health care costs will be absorbed by the plan. Under Ohio law, the funds to pay the health care costs may be deducted from the employer contributions. The STRS board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund, from which payments for

**NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (continued)**

health care benefits are paid. The balance in the Health Care Funding Progress was $3.1 billion at January 1, 2011.

For the years ended June 30, 2011 and 2010, the net health care costs paid by STRS were $382,326 and $370,100, respectively. There were 138,088 and 133,103 eligible benefit recipients in 2011 and 2010, respectively.

**NOTE 10 – CONTINGENCIES AND COMMITMENTS**

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

The University participates in the Inter-University Council Insurance Consortium (IUC-IC). Since 1994, the IUC-IC Universities have purchased their property and casualty insurance on a group basis.  The IUC-IC formalized their pooling in 2006 and created the Board of Governors. The Board of Governors is comprised of representatives from each University and is the decision making body for insurance issues of the group programs.  There are 3 committees that report to the Board of Governors:  Underwriting, Loss Control and Audit.  Underwriting and Loss Control have representation from each University. In 2009, a Director was hired to coordinate the activities of the IUC-IC and act as a facilitator to other IUC committees and university departments to address insurance and risk related issues.

Through the IUC-IC group, the University maintains property insurance with a $100 deductible and a pre-funded group pool deductible of $350 per occurrence; with an annual group aggregate stop loss of $700. Total insurable value for the University of Toledo is approximately $2,618,000.

The casualty portion of the IUC-IC program provides educator’s legal liability, general liability and other miscellaneous coverage. The University has a $100 deductible and a pre-funded group pool deductible of $900 per occurrence. There is a dedicated general excess coverage for the University of $10,000 and shared excess limits totaling $40,000. The educator’s legal liability excess coverage has a dedicated limit of $10,000 for the University and shared excess limits totaling $20,000.

The University participates in a State pool of agencies and universities that pays workers’ compensation premiums into the State Insurance Fund (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 preceding 5-year 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.

**NOTE 10 – CONTINGENCIES AND COMMITMENTS (continued)**

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.

On August 10, 2012, UT had a serious human error in its operating room which rendered a to-be­transplanted kidney unusable.  This has resulted in the Centers for Medicare and Medicaid notifying UTMC that it will be conducting an exhaustive review of the entire facility. The University is currently evaluating the situation and cooperating fully with all parties involved.

**NOTE 11 – MEDICAL PROFESSIONAL LIABILITY**

In August 2005, the University created a captive insurance company, The University of Toledo Medical Assurance Company (SPC) (“UTMAC”), through a trust that is controlled by the Board of Trustees of UT. UTMAC was incorporated in the Cayman Islands and operates subject to the provisions of the Companies Law of the Cayman Islands. Under current Cayman Islands law, UTMAC is not obligated to pay taxes in the Cayman Islands on either income or capital gains. UTMAC provides an insurance vehicle for the insurance needs of the University, its staff, and affiliated physicians. UTMAC is blended in the University results.

UTMAC provides professional liability coverage to the University. The primary limit of liability is $2,000 per occurrence and $4,000 in aggregate for the policy period July 1, 2011 to July 1, 2012. The retroactive date is July 1, 1987. UTMAC also provides excess coverage through commercial insurers for the University’s professional liabilities with limits of $15,000 per occurrence and $15,000 in aggregate.

UTMAC also provides professional liability coverage to the University of Toledo Physicians, LLC (UTP), which is an affiliated nonprofit, multi-specialty physician practice of UTMC. The primary professional liability limit of liability to each physician is $1,000 per occurrence and $3,000 in aggregate, with a group aggregate of $10,000, for the policy period July 1, 2011 to July 1, 2012. UTMAC provides excess professional liability coverage for the physicians with limits of $4,000 per occurrence with a shared $4,000 in aggregate. Effective January 1, 2011, an additional excess coverage of $5,000 per occurrence with a shared $5,000 in aggregate was added with a retroactive date of January 1, 2011. UTMAC also provides tail coverage to physicians leaving UTP employment.

At June 30, 2012 and 2011, the University has accrued $13,260 discounted at 4% and $12,678 discounted at 4%, respectively, for asserted and unasserted claims based on the University’s experience and studies performed by a consulting actuary. With respect to pending malpractice claims and legal action where the University is a defendant, it is the opinion of management that any potential liability in such actions will not materially affect the financial position of the University. Settlements have not exceeded insurance coverage in each of the past three years.

**NOTE 11 – MEDICAL PROFESSIONAL LIABILITY (continued)**



The above liability includes insurance coverage for UTP and has been funded by premiums paid by UTP to UTMAC. The UTMAC Liabilities presented in the Statement of Net Assets include other trade liabilities in the amount of $35 and $37 for 2012 and 2011, respectively.

**NOTE 12 – JOINT VENTURE**

In February 2009, the University formed a nonprofit corporation called Science, Technology, and Innovation Enterprises (the Corporation). The University is the sole member of the Corporation which has been organized for charitable, educational, and scientific purposes within the scope of Section 501 (c) (3) of the Internal Revenue Code.

The Corporation will support the University through investment in public and private economic development projects and promote the interests of the University.

The Corporation consists of equity investments (common stock, preferred stock, and promissory notes) valued at approximately $6,409 and $7,500 as of June 30, 2012 and 2011, respectively. Total cash available to help fund future investments for the years ended June 30, 2012 and 2011 was approximately $3,190 and $3,760, respectively. The Corporation is blended with University results.

**NOTE 13 – UNIVERSITY OF TOLEDO PHYSICIANS CLINICAL FACULTY**

Effective July 1, 2011, the University became the sole member of the once self-perpetuating board of the University of Toledo Clinical Faculty, Inc. which subsequently changed to University of Toledo Physicians, Clinical Faculty Inc. (UTP-CF). UTP-CF is the sole member of University of Toledo Physicians, LLC (UTP). UTP-CF financials are presented in a blended manner, reflected as a part of the University’s financials.

UTP-CF is a multi-specialty corporation which employs over 189 physicians in Northwest Ohio and is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. The Organization provides physician services at the University of Toledo Medical Center and other local facilities in the following areas: Anesthesia, Medicine, Neurology, Obstetrics, Orthopedics, Pathology, Pediatrics, Psychiatry, Radiology, Rehabilitation, Surgery, Urology, Family Medicine, and Emergency. UTP-CF also provides administrative support, billing and collection services for physician services at UTMC.

**NOTE 13 – UNIVERSITY OF TOLEDO PHYSICIANS CLINICAL FACULTY (continued)**

Total Operating Revenues for UTP-CF were $78,826 and $74,193 for the fiscal years ending June 30, 2012 and 2011 respectively.

**NOTE 14 – FUNCTIONAL CLASSIFICATION OF EXPENSES**

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



**NOTE 15 – UPCOMING PRONOUNCEMENTS**

**Service concession arrangements:** In December 2010 the GASB issued statement number 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA)*. A SCA is an agreement between a College/University and another legally-separate College/University or private sector entity in which two things happen. First, the College/University transfers to the other entity the right and related obligation to provide public services through the use of a public asset (such as using a part of a university facility as a bookstore) in exchange for significant consideration from the other entity. In the context of these agreements the College/University that transfers rights and obligations is referred to as the transferor. The entity to which these rights and obligations are transferred is referred to as the operator. Second, this operator—whether it is in the public or private sector—collects fees from the users or customers of the public asset (for example, students at the university/college). Finally, the transferor maintains control over the services provided. For example, the College/University has the ability to modify or approve the rates that can be charged for the services and the type of services that are provided.

**NOTE 15 – UPCOMING PRONOUNCEMENTS (continued)**

**Service concession arrangements (continued):**

For an SCA that involves an existing facility, the transferor should continue to report the capital asset. For a new facility or an improvement to an existing facility, the transferor should report the new facility or the improvement as a capital asset at fair value when the facility is placed in operation. The transferor should also report any related contractual obligations as liabilities. Finally, the transferor should report the difference between those two amounts as a deferred inflow of resources. This pronouncement must be applied for years that begin after December 15, 2011.

**Reporting Entity Standards:** In December 2010, the GASB issued statement number 61, *Financial Reporting Entity: Omnibus.* This standard is intended to improve the information presented about the financial reporting entity, which is made up of the College/University financial reporting entity and related entities (component units).  The statement modifies certain requirements for inclusion of component units in the financial reporting entity.  For organizations that previously were required to be included as component units by meeting the fiscal dependency criteria, a financial benefit or burden relationship is also needed between the College/University and that organization for it to be included in the reporting entity as a component unit. The statement also modifies the criteria for reporting component units as if they were part of the College/University (i.e.: blending).  Blending should be used when the College/University and the component unit have a financial benefit or burden relationship, or management has operational responsibility for the component units. Additionally, for equity interests in legally separate organizations, the entity is required to report its interest as “restricted net assets – non-spendable.”  This standard is effective for financial statements for reporting periods beginning after June 15, 2012; however, earlier application is encouraged.

**Private sector accounting rules:** In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This changes the requirement for the College/University to apply any private sector accounting guidance that existed as of November 30, 1989 and instead incorporates all such guidance in this statement. The College/University will no longer have the ability to choose to continue to follow FASB statements written after that date, although such guidance still qualifies as “other accounting literature” in the GAAP hierarchy. This pronouncement must be applied for years that begin after December 15, 2011.

**Deferred inflows/outflows and Net Position:** In June 2011, GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This standard provides financial reporting guidance for deferred inflows and outflows of resources.  Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the College/University that is applicable to a future reporting period, and an acquisition of net assets by the College/University that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial

**NOTE 15 – UPCOMING PRONOUNCEMENTS (continued)**

**Deferred inflows/outflows and Net Position (continued):**

statement elements, which are distinct from assets and liabilities.  The standard also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.  The provisions for this standard are effective for financial statements for periods beginning after December 15, 2011.

**Items Previously Reported as Assets and Liabilities:** In March 2012, the GASB issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.  Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities.  This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.  The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (or June 30, 2014).

**Accounting and Financial Reporting for Pensions:** In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions.  Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).  The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ended June 30, 2015.