

Kent State University

**Financial Report
with Supplemental Information
June 30, 2008**



Mary Taylor, CPA
Auditor of State

Board of Trustees
Kent State University
224 Michael Schwartz Center
P.O. Box 5190
Kent, Ohio 44242

We have reviewed the *Independent Auditor's Report* of the Kent State University, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 16, 2009

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KENT STATE UNIVERSITY

Management's Discussion and Analysis As of June 30, 2008 and 2007

This section of the Kent State University ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2008 and 2007. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of University management.

Using the Annual Financial Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. A public university's dependency on state aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as non-operating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities, and helps measure the ability to meet financial obligations as they mature.

Noteworthy Financial Activity

The University was negatively impacted in fiscal year 2008 by the recent disruptions in the investment markets. Investment income declined \$62,512 from fiscal year 2007.

Depreciation expense significantly increased in fiscal year 2008, mostly as a result of the implementation of an enterprise resource planning system which became fully functional during the fiscal year.

The University's financial position, as a whole, was consistent during the fiscal year ended June 30, 2008 as compared to the previous year. Highlights from the financial statements are as follows:

- The University's total assets increased over the prior year by \$10.4 million, of which \$18.1 million is attributed to an increase in capital assets, net of retirements of capital assets. Current assets decreased by \$8.2 million, due to the longer duration of the University's investment portfolio.

KENT STATE UNIVERSITY

Management's Discussion and Analysis As of June 30, 2008 and 2007

- Total liabilities increased by \$11.9 million.
- The University's net assets decreased by \$1.5 million to \$611.2 million, of which \$326.9 is either invested in capital assets or restricted. Of the remaining \$284.3 million in unrestricted assets, all but \$795 thousand is designated for specific purposes.
- Operating revenues increased by \$14.5 million compared to the prior year.
- The University's operating expenses increased by \$44.8 million, with expected increases in most functional expense categories due primarily to inflationary factors.

Kent State University
Condensed Statement of Net Assets
as of June 30, 2008, 2007 and 2006
(in thousands)

ASSETS	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 409,594	\$ 417,298	\$ 379,601
Capital assets	565,972	547,880	509,932
Total assets	<u>\$ 975,566</u>	<u>\$ 965,178</u>	<u>\$ 889,533</u>
LIABILITIES			
Long-term debt	\$ 277,532	\$ 268,846	\$ 272,222
Other	86,879	83,694	84,222
Total liabilities	<u>\$ 364,411</u>	<u>\$ 352,540</u>	<u>\$ 356,444</u>
NET ASSETS			
Invested in capital assets net of related debt	\$ 299,576	\$ 278,926	\$ 243,127
Restricted, expendable and not expendable	27,262	25,224	24,982
Unrestricted:			
Designated	\$ 283,522	306,623	263,172
Undesignated (unallocated)	795	1,865	1,808
Total net assets	<u>\$ 611,155</u>	<u>\$ 612,638</u>	<u>\$ 533,089</u>

2008 Versus 2007 During the year ended June 30, 2008:

In fiscal 2008, the University's current assets of \$169.7 million were sufficient to cover current liabilities of \$73.7 million (current ratio of 2.3). In fiscal 2007, current assets of \$177.9 million were sufficient to cover current liabilities of \$66.9 million (current ratio of 2.7).

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Management's Discussion and Analysis As of June 30, 2008 and 2007

At June 30, 2008, total University assets were \$975.6 million, compared to \$965.2 million in fiscal 2007. The University's largest asset is its investment in physical plant of \$566 million at June 30, 2008 compared to \$547.9 million in fiscal 2007.

Current and other assets decreased \$7.7 million to \$409.6 million, compared to \$417.3 million in fiscal year 2007. Cash and cash equivalents of \$123.1 million is the largest non-capital asset.

University liabilities total \$364.4 million at June 30, 2008 compared to \$352.5 million in fiscal 2007. Long-term debt of \$277.5 million, consisting of bonds payable, is the largest liability.

Total net assets decreased by \$1.5 million to \$611.2 million. Unrestricted net assets total \$284.3 million, 99.7% of which (\$283.5 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

2007 Versus 2006 During the year ended June 30, 2007:

In fiscal 2007, the University's current assets of \$177.9 million were sufficient to cover current liabilities of \$66.9 million (current ratio of 2.7). In fiscal 2006, current assets of \$201.6 million were sufficient to cover current liabilities of \$68.7 million (current ratio of 2.9).

At June 30, 2007, total University assets were \$965.2 million, compared to \$889.5 million in fiscal 2006. The University's largest asset is its investment in physical plant of \$547.9 million at June 30, 2007 compared to \$509.9 million in fiscal 2006.

Current and other assets increased \$37.7 million to \$417.3 million, compared to \$379.6 in fiscal year 2006. Cash and cash equivalents of \$149.7 million is the largest non-capital asset.

University liabilities total \$352.5 million at June 30, 2007 compared to \$356.4 million in fiscal 2006. Long-term debt of \$268.8 million, consisting of bonds payable, is the largest liability.

Total net assets increased by \$79.5 million to \$612.6 million. Unrestricted net assets total \$308.5 million, 99.4% of which (\$306.6 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

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Management's Discussion and Analysis As of June 30, 2008 and 2007

Kent State University
Condensed Statement of Revenues, Expenses and Changes in Net Assets
as of June 30, 2008, 2007 and 2006
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues			
Tuition, net	\$ 205,035	\$ 203,544	\$ 194,589
State appropriations	128,504	121,317	119,017
Federal and state grants	65,171	58,967	56,593
Auxiliary activities	82,831	79,877	78,203
Other	35,705	87,450	50,645
Total revenues	<u>\$ 517,246</u>	<u>\$ 551,155</u>	<u>\$ 499,047</u>
Expenses			
Instruction	\$ 180,911	\$ 170,509	\$ 167,275
Research	15,456	14,726	14,315
Institutional support	47,090	32,245	39,352
Scholarships and fellowships	24,149	20,555	14,065
Other	251,123	233,571	225,264
Total expenses	<u>\$ 518,729</u>	<u>\$ 471,606</u>	<u>\$ 460,271</u>

2008 Versus 2007 During the year ended June 30, 2008:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts.

Operating expenditures, including depreciation of \$40.3 million, totaled \$501.6 million.

State appropriations were the most significant non-operating revenue totaling \$128.5 million.

2007 Versus 2006 During the year ended June 30, 2007:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts.

Operating expenditures, including depreciation of \$29.3 million, totaled \$456.8 million.

State appropriations were the most significant non-operating revenue totaling \$121.3 million.

KENT STATE UNIVERSITY

Management's Discussion and Analysis As of June 30, 2008 and 2007

Kent State University
Condensed Statement of Cash Flows
as of June 30, 2008, 2007 and 2006
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash (used in)/provided by:			
Operating activities	\$ (121,604)	\$ (99,863)	\$ (86,277)
Investing activities	(17,895)	(12,473)	(78,889)
Capital and related financing activities	(49,647)	(67,995)	(67,384)
Non-capital financing activities	162,563	152,763	147,413
Net increase/(decrease) in cash	<u>\$ (26,583)</u>	<u>(27,568)</u>	<u>(85,137)</u>
Cash and cash equivalents, beginning of year	149,718	177,286	262,423
Cash and cash equivalents, end of year	<u><u>\$ 123,135</u></u>	<u><u>\$ 149,718</u></u>	<u><u>\$ 177,286</u></u>

2008 Versus 2007 During the year ended June 30, 2008:

Major sources of cash included student tuition and fees (\$157.4 million), state appropriations (\$128.5 million), auxiliary activities (\$82.6 million), and grants and contracts (\$43.8 million). The largest payments were for suppliers (\$178.2 million) and employees (\$231.7 million).

2007 Versus 2006 During the year ended June 30, 2007:

Major sources of cash included student tuition and fees (\$162.8 million), state appropriations (\$121.4 million), auxiliary activities (\$79.9 million), and grants and contracts (\$36.2 million). The largest payments were for suppliers (\$170.7 million) and employees (\$218.5 million).

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the University had invested \$566 million in a broad range of capital assets, including equipment, buildings, building improvements and land. This amount represents a net increase (including additions and deductions) of \$18.1 million, or 3.3 percent, over last year.

Kent State University's Capital Assets
(net of depreciation, in millions of dollars)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 11.0	\$ 10.0	\$ 10.0
Equipment	59.9	60.5	49.0
Buildings and improvements	483.2	450.9	428.7
Construction in progress	11.9	26.5	22.2
Total	<u><u>\$ 566.0</u></u>	<u><u>\$ 547.9</u></u>	<u><u>\$ 509.9</u></u>

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Management's Discussion and Analysis As of June 30, 2008 and 2007

More detailed information about the University's capital assets is presented in Note 5 to the financial statements.

Long-term Debt

At year-end the University had \$277.5 million in bonds and notes outstanding—an increase of 1.6 percent over last year. More detailed information about the University's long-term liabilities is presented in Note 6 to the financial statements.

Kent State University's Outstanding Debt (in millions of dollars)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
General receipts bonds (backed by the University)	\$ 264.8	\$ 267.1	\$ 269.0
Capital leases	12.7	6.1	7.4
	<u>\$ 277.5</u>	<u>\$ 273.2</u>	<u>\$ 276.4</u>

Factors Affecting Future Periods

The financial outlook for the University is very different today than it was twelve months ago. As stated previously, disruptions in the investment markets caused investment income to decrease substantially in fiscal year 2008. This situation has worsened in the first few months of fiscal year 2009. Furthermore, the negative impacts of the worsening economy are also likely to be felt by the University as general revenues to Ohio decline, likely causing reductions in state appropriations in future fiscal years.

However, as the Statement of Net Assets shows, the financial position of the University is still relatively strong. Furthermore, investments in several strategic initiatives such as fund raising, student retention, research and freshmen selectively, should help mitigate these negative impacts of the economy.



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Independent Auditor's Report

To the Board of Trustees
Kent State University

We have audited the accompanying statement of net assets of Kent State University (the "University") as of June 30, 2008 and the related statements of revenue, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Kent State University as of June 30, 2007 were audited by other auditors, whose report dated October 12, 2007 expressed an unqualified opinion on those statements. We did not audit the financial statements of the Kent State University Foundation (the "Foundation"), which represent all the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

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

As explained in Note 3, the financial statements include investments valued at approximately \$140,000,000 (23 percent of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kent State University as of June 30, 2008 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2008 on our consideration of Kent State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for year ended June 30, 2008. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Kent State University

The management's discussion and analysis presented on pages 1 through 6 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2008

KENT STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2008 and 2007
(in thousands)

	University		University Related Foundation	
	2008	2007	2008	2007
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 123,135	\$ 149,718	\$ 2,510	\$ 923
Short-term investments	10,597	2,794	113,024	119,069
Accounts and pledges receivable, net	29,947	19,977	7,999	7,805
Inventories	1,814	1,721	-	-
Deposits and prepaid expenses	3,502	3,200	-	-
Accrued interest receivable	675	460	-	68
Total current assets	<u>169,670</u>	<u>177,870</u>	<u>123,533</u>	<u>127,865</u>
Noncurrent assets:				
Student loans receivable, net	25,032	21,972	-	-
Long-term investments	212,203	214,636	7,606	7,489
Long-term pledges receivable, net	-	-	7,617	7,290
Capital assets, net	565,972	547,880	9,370	9,337
Other assets	2,689	2,820	602	465
Total noncurrent assets	<u>805,896</u>	<u>787,308</u>	<u>25,195</u>	<u>24,581</u>
Total assets	<u>975,566</u>	<u>965,178</u>	<u>148,728</u>	<u>152,446</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	24,296	18,827	743	822
Accrued payroll	10,944	9,181	-	-
Payroll taxes and accrued fringe benefits	10,974	11,099	-	-
Unearned fees and deposits	21,899	23,463	-	-
Current portion of long-term debt	5,645	4,307	-	-
Total current liabilities	<u>73,758</u>	<u>66,877</u>	<u>743</u>	<u>822</u>
Noncurrent liabilities:				
Accrued compensated absences	16,816	14,884	-	-
Accrued liabilities	-	-	4,105	4,894
Long-term unearned fees and deposits	1,950	1,933	5,351	5,461
Long-term debt	271,887	268,846	-	-
Total noncurrent liabilities	<u>290,653</u>	<u>285,663</u>	<u>9,456</u>	<u>10,355</u>
Total liabilities	<u>364,411</u>	<u>352,540</u>	<u>10,199</u>	<u>11,177</u>
NET ASSETS				
Invested in capital assets, net of related debt	299,576	278,926	9,370	9,337
Restricted, nonexpendable	883	883	64,424	60,443
Restricted, expendable	26,379	24,341	64,051	70,193
Unrestricted	284,317	308,488	684	1,296
Total net assets	<u>611,155</u>	<u>612,638</u>	<u>138,529</u>	<u>141,269</u>
Total liabilities and net assets	<u>\$ 975,566</u>	<u>\$ 965,178</u>	<u>\$ 148,728</u>	<u>\$ 152,446</u>

The accompanying notes are an integral part of these financial statements.

KENT STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
for the years ended June 30, 2008 and 2007
(in thousands)

	University		University Related Foundation	
	2008	2007	2008	2007
OPERATING REVENUES				
Student tuition and fees	\$ 242,114	\$ 237,736	\$ -	\$ -
Less scholarship allowances	(37,079)	(34,192)	-	-
Net student tuition and fees	<u>205,035</u>	<u>203,544</u>	<u>-</u>	<u>-</u>
Federal grants and contracts	25,757	24,018	-	-
State grants and contracts	12,160	10,772	-	-
Local grants and contracts	621	320	-	-
Nongovernmental grants and contracts	3,595	3,072	-	-
Sales and services of educational departments	7,806	6,325	-	-
Auxiliary activities	82,831	79,877	-	-
Other operating revenues	<u>8,960</u>	<u>4,312</u>	<u>1,925</u>	<u>1,380</u>
Total operating revenues	<u>346,765</u>	<u>332,240</u>	<u>1,925</u>	<u>1,380</u>
OPERATING EXPENSES				
Instruction	180,911	170,509	-	-
Research	15,456	14,726	-	-
Public service	15,969	15,184	-	-
Academic support	41,947	40,429	-	-
Student services	24,418	25,402	-	-
Institutional support	47,090	32,245	14,322	15,077
Scholarships and fellowships	24,149	20,555	2,677	2,209
Operation and maintenance of plant	32,470	32,432	-	-
Auxiliary activities	78,827	76,056	-	-
Depreciation	<u>40,315</u>	<u>29,263</u>	<u>2</u>	<u>8</u>
Total operating expenses	<u>501,552</u>	<u>456,801</u>	<u>17,001</u>	<u>17,294</u>
Operating loss	<u>(154,787)</u>	<u>(124,561)</u>	<u>(15,076)</u>	<u>(15,914)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	128,504	121,317	-	-
Federal Pell Grant revenue	27,254	24,177	-	-
Gifts	6,668	6,268	18,159	21,012
Investment income (loss)	(12,310)	50,202	(5,154)	15,844
Interest on capital asset-related debt	(15,447)	(13,006)	-	-
Other nonoperating (expenses)	<u>(1,730)</u>	<u>(1,799)</u>	<u>(669)</u>	<u>(423)</u>
Net nonoperating revenues	<u>132,939</u>	<u>187,159</u>	<u>12,336</u>	<u>36,433</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(21,848)</u>	<u>62,598</u>	<u>(2,740)</u>	<u>20,519</u>
Capital appropriation	<u>20,365</u>	<u>16,951</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>(1,483)</u>	<u>79,549</u>	<u>(2,740)</u>	<u>20,519</u>
NET ASSETS				
Net assets, beginning of year	612,638	533,089	141,269	120,750
Net assets, end of year	<u>\$ 611,155</u>	<u>\$ 612,638</u>	<u>\$ 138,529</u>	<u>\$ 141,269</u>

The accompanying notes are an integral part of these financial statements.

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS
for the years ended June 30, 2008 and 2007
(in thousands)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 157,370	\$ 162,815
Cash received from auxiliary activities	82,575	79,878
Cash received from other sources	7,640	11,176
Grants and contracts	43,849	36,273
Federal student loan funds received	18	-
Student loans granted, net of repayments	(3,152)	(743)
Cash paid to employees	(231,712)	(218,541)
Cash paid to suppliers	(178,192)	(170,721)
Net cash used in operating activities	<u>(121,604)</u>	<u>(99,863)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	118,072	79,287
Purchases of investments	(146,344)	(118,700)
Interest received	10,377	26,940
Net cash used in investing activities	<u>(17,895)</u>	<u>(12,473)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net proceeds from bond issuance	43,170	28,919
Early extinguishment of bonds	(42,695)	(28,886)
Principal payments under debt obligations, net	(5,132)	(4,270)
Proceeds from master lease agreement	(14,384)	
Interest paid	9,036	(13,355)
Capital appropriations	8,274	3,337
Purchases of capital assets	(46,186)	(53,313)
Other payments	(1,730)	(427)
Net cash used in capital and related financing activities	<u>(49,647)</u>	<u>(67,995)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	128,504	121,394
Gifts received from KSU Foundation	6,805	7,192
Cash received from Federal Pell grants	27,254	24,177
Net cash provided by noncapital financing activities	<u>162,563</u>	<u>152,763</u>
Net decrease in cash and cash equivalents	(26,583)	(27,568)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>149,718</u>	<u>177,286</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 123,135</u>	<u>\$ 149,718</u>

The accompanying notes are an integral part of these financial statements.

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS--CONTINUED
for the years ended June 30, 2008 and 2007
(in thousands)

	<u>2008</u>	<u>2007</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (154,787)	\$ (124,561)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	40,315	29,263
Change in assets and liabilities:		
Accounts receivable, net	(10,106)	(3,322)
Inventories	(93)	(36)
Deposits and prepaid expenses	(302)	(284)
Student loans receivable, net	(3,060)	(656)
Accounts payable and accrued liabilities	4,406	(4,229)
Accrued payroll	1,763	573
Payroll taxes and accrued fringe benefits	(125)	1,467
Unearned fees and deposits	(1,547)	986
Accrued compensated absences	1,932	936
Total change in assets and liabilities	<u>(7,132)</u>	<u>(4,565)</u>
Net cash used in operating activities	<u>\$ (121,604)</u>	<u>\$ (99,863)</u>

The accompanying notes are an integral part of these financial statements.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands)

(1) Reporting Entity and Basis of Presentation

(a) Reporting Entity

Kent State University ("University") is an institution of higher education and is considered to be a component unit of the State of Ohio ("State") because its Board of Regents is appointed by the Governor of the State. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations, grants from various state agencies and payments to the State retirement program for certain University employees.

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

The accompanying financial statements consist of the accounts of the University and the accounts of the Kent State University Foundation ("Foundation"). The Foundation, which is a component unit of the University as determined in accordance with the provisions of the Governmental Accounting Standards Board ("GASB") Statement 39, is described more fully in Note 10. The Foundation is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

Furthermore, in accordance with GASB Statement No. 39, the Foundation is reported in a separate column on the University's financial statements to emphasize that it is legally separate from the University. The Foundation is a not-for-profit organization supporting the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which they hold and invest are restricted to support the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, it is considered a component unit of the University. Financial statements for the Foundation may be obtained by writing to Kent State University Foundation, Kent, Ohio 44242.

(b) Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, statements and interpretations issued after November 30, 1989, which do not conflict or contradict GASB pronouncements.

As required by the GASB, resources of the University are classified into one of four net asset categories, as follows:

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2008 and 2007 (in thousands)

- 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 of those assets.
- Restricted, nonexpendable - Net assets subject to externally imposed stipulations that the University maintains such assets permanently.
- Restricted, expendable - Net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- Unrestricted - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs, capital projects and other initiatives.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis. The University reports as a business-type activity. As defined by GASB Statement No. 35, business-type activities are those activities that are financed in whole or in part by fees charged to the external parties for goods or services.

(a) Cash and Cash Equivalents

The University considers cash, time deposits and all other highly liquid investments with an original maturity of three months or less to be cash equivalents.

(b) Investments

Investments in marketable securities are carried at fair market value as established by the major securities markets. Investment income includes realized and unrealized gains and losses on investments, interest income and dividends.

(c) Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

(d) Estimates

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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Notes to Financial Statements

June 30, 2008 and 2007

(in thousands)

(e) Revenue Recognition

State appropriations are recognized when received or made available. Restricted funds are recognized as revenue only to the extent expended. Gifts and interest on student loans are recognized when received. The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions.

(f) Accrued Liabilities

Accrued liabilities consist primarily of accrued employee compensation and benefits. Accrued compensated absences are classified as non-current liabilities on the Statement of Net Assets because the current portion cannot be closely estimated.

(g) Capital Assets

Capital assets are stated at cost or fair value at date of gift. Depreciation of plant physical properties is provided on a straight-line basis over the estimated useful lives (three to forty years) of the respective assets. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

(h) Operating Versus Nonoperating Revenues and Expenses

The University defines operating activities as reported on the statement of revenues, expenses, and changes in net assets as those that generally result from exchange transactions such as payments received for providing goods or services. All of the University's expenses are from exchange transactions. Certain significant revenue streams relied on for operations are reported as non-operating revenues as required by GASB Statement No. 35, including state appropriations, investment income, and state capital grants. Recent guidance on GASB Statement No. 24 has resulted in reclassification of Federal Pell Grant revenue from operating to non-operating revenues.

(i) Risks and Uncertainties

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands)

(3) Investments

The University's investment policy authorizes the University to invest non-endowment funds in the following investments:

- Obligations of the US Treasury and other federal agencies and instrumentalities
- Municipal and state bonds
- Certificates of deposit
- Repurchase agreements
- Mutual funds and mutual fund pools
- Money market funds

US Government and Agency securities are invested through trust agreements with banks that internally designate the securities as owned by or pledged to the University. Common stocks, corporate bonds, money market instruments, mutual funds and other investments are invested through trust agreements with banks who keep the investments in their safekeeping accounts at the Depository Trust Company or Huntington Bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the University.

Custodial credit risk on deposits with banks is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial credit risk. At June 30, 2008 and 2007, the carrying amount of the University's deposits was \$8,407 and \$3,484, respectively. Of that amount, \$4,450 and \$5,376, respectively, was insured. The remaining \$4,872 and \$726 at June 30, 2008 and 2007, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. The University is precluded by state law from collateralizing its deposits.

The values of investments at June 30, 2008 and 2007 are as follows:

	2008	2007
Common stock	\$ 200,395	\$ 202,926
Equity mutual funds	21,402	44,299
US government obligations	2,857	5,100
US government agency obligations	11,645	8,706
Repurchase agreements	-	1
Corporate bonds and notes	1,350	612
Bond mutual funds	72,083	62,175
Other	27,703	39,755
Total	\$ 337,435	\$ 363,574

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2008 the University realized a net loss of (\$25,973) from the sale of investments. The calculation of realized gains and losses is independent of the net depreciation in the fair value of investments held at year-end. Realized gains and losses on investments that had been held

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Notes to Financial Statements June 30, 2008 and 2007 (in thousands)

for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net depreciation in the fair value of investments during the year ended June 30, 2008, was (\$20,172). This amount includes all changes in fair value, both realized and unrealized, that occurred during the year. The unrealized appreciation during the year on investments was \$5,801.

The components of the net investment income are as follows:

	Interest and dividends, net	Net appreciation (depreciation) in market value of investments	Net investment income (loss)
Total 2008	\$7,862	(\$20,172)	(\$12,310)
Total 2007	\$9,676	\$40,526	\$50,202

Additional Disclosures Related to Interest-Bearing Investments

Statement Nos. 3 and 40 of the Governmental Accounting Standards Board require certain additional disclosures related to the interest-rate, credit and foreign currency risks associated with interest-bearing investments.

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.

The maturities of the University's interest-bearing investments at June 30, 2008 are as follows:

	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
US government obligations	\$ 2,857	\$ 744	\$ 2,113	\$ -	\$ -
US government agency obligations	11,645	2,275	4,757	4,287	326
Repurchase agreements	-	-	-	-	-
Corporate bonds and notes	1,350	1,025	325	-	-
Bond mutual funds	72,165	7,727	27,790	29,143	7,505
Total	\$ 88,017	\$ 11,771	\$ 34,985	\$ 33,430	\$ 7,831

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 nationally recognized statistical rating organizations 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, 2008 are as follows:

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Credit Rating (Moody's)	Total	Government Obligations	US Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds
AAA	\$ 44,399	\$ 2,857	\$ 11,229	\$ -	\$ -	\$ 30,313
AA+	-	-	-	-	-	-
AA	26,630	-	416	-	-	26,214
AA-	627	-	-	-	625	2
A+	15,624	-	-	-	-	15,624
A	303	-	-	-	298	5
OTHER	434	-	-	-	427	7
Total	\$ 88,017	\$ 2,857	\$ 11,645	\$ -	\$ 1,350	\$ 72,165

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, 2008, the University had no exposure to foreign currency risk.

(4) Accounts Receivable

Accounts receivable consist of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Sponsor accounts	\$ 5,923	\$ 6,831
Student accounts	12,165	10,477
Other	14,130	4,884
	<u>\$ 32,218</u>	<u>\$ 22,192</u>
Less allowances for loss on accounts receivable	(2,271)	(2,215)
Accounts receivable, net	<u>\$ 29,947</u>	<u>\$ 19,977</u>

In addition, the University has student loans receivable of \$29,423 and \$26,271 as of June 30, 2008 and 2007, respectively. The related allowances as of June 30, 2008 and 2007 are \$4,391 and \$4,299, respectively.

(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, 2008:

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Notes to Financial Statements June 30, 2008 and 2007 (in thousands)

	<u>2007</u>	<u>Additions/ Transfers</u>	<u>Net Retirements</u>	<u>2008</u>
Land	\$ 9,974	\$ 1,034	\$ 18	\$ 10,990
Infrastructure	91,988	1,787	-	93,775
Buildings	598,725	50,616	-	649,341
Equipment	176,541	19,533	766	195,308
Construction-in-progress	26,468	(14,564)	-	11,904
	<u>\$ 903,696</u>	<u>\$ 58,406</u>	<u>\$ 784</u>	<u>\$ 961,318</u>
Less accumulated depreciation	355,816	39,753	223	395,346
Capital assets, net	<u>\$ 547,880</u>	<u>\$ 18,653</u>	<u>\$ 561</u>	<u>\$ 565,972</u>

Included in depreciation expense of \$40,315 for the year ended June 30, 2008, is a loss of \$561 from the disposal of obsolete capital assets.

Capital assets consist of the following as of June 30, 2007:

	<u>2006</u>	<u>Additions/ Transfers</u>	<u>Net Retirements</u>	<u>2007</u>
Land	\$ 9,974	\$ -	\$ -	\$ 9,974
Infrastructure	85,487	6,501	-	91,988
Buildings	564,501	34,224	-	598,725
Equipment	160,949	22,251	6,659	176,541
Construction-in-progress	22,233	4,235	-	26,468
	<u>\$ 843,144</u>	<u>\$ 67,211</u>	<u>\$ 6,659</u>	<u>\$ 903,696</u>
Less accumulated depreciation	333,212	28,800	6,196	355,816
Capital assets, net	<u>\$ 509,932</u>	<u>\$ 38,411</u>	<u>\$ 463</u>	<u>\$ 547,880</u>

Included in depreciation expense of \$29,263 for the year ended June 30, 2007 is a loss of \$463 from the disposal of obsolete capital assets.

(6) Long-term Liabilities

Long-term Debt

In accordance with the General Receipts bonds Trust Agreement, the Series 1998, Series 2000, Series 2001, Series 2002, Series 2007, and Series 2008A General Receipts bonds are subject to mandatory or optional redemption.

The indebtedness created through the issuance of General Receipts bonds is collateralized by a pledge of all general receipts, excluding state appropriations and monies received for restricted purposes. The primary source of funds being deposited to service the principal and interest requirements is student facilities fees.

In April 2008, the University issued \$43,170 in Series 2008A General Receipts bonds. The proceeds from the bond sale were used for the early redemption of Series 1998 and Series 2006 General Receipts bonds with outstanding principal balances of \$15,135 and \$27,560, respectively.

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Notes to Financial Statements

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In fiscal year 1998, the University defeased Dormitory Revenue bonds by creating separate irrevocable trust funds. University resources were used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been legally defeased and therefore removed as a liability from the University's net investment in plant fund. At June 30, 2008 and 2007, \$410 and \$820 respectively, of this defeased debt was outstanding.

The University has entered into a thirty-year interest rate swap agreement for \$155,500 of the variable rate 2001 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 5.02% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counter-party. The \$155,500 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. The University will be exposed to variable rates only if the counter-party to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the University paying or receiving a termination payment. No mark to market adjustment for this swap is required under government accounting standards. The fair value of the swap agreement was (\$24,798) and (\$15,446) at June 30, 2008 and 2007, respectively.

The University has entered into a thirty-year interest rate swap agreement for \$60,000 of the variable rate 2002 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.72% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate. The \$60,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. A termination of the swap agreement may also result in the University paying or receiving a termination payment. No mark to market adjustment for this swap is required under government accounting standards. The fair value of the swap agreement was (\$2,901) and \$1,176 at June 30, 2008 and 2007, respectively.

The University has entered into a twenty-two year interest rate swap agreement for \$29,310 of the variable rate 2006 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 4.18% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate. The \$29,310 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. A termination of the swap agreement may also result in the University paying or receiving a termination payment. No mark to market adjustment for this swap is required under government accounting standards. The fair value of the swap agreement was (\$2,328) and (\$950) at June 30, 2008 and 2007, respectively.

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Notes to Financial Statements June 30, 2008 and 2007 (in thousands)

The University has entered into a fifteen year interest rate swap agreement for \$15,610 of the variable rate 2008 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.76% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate. The \$15,610 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. A termination of the swap agreement may also result in the University paying or receiving a termination payment. No mark to market adjustment for this swap is required under government accounting standards. The fair value of the swap agreement was (\$709) at June 30, 2008.

The University has entered into several interest rate swap agreements as a means of lowering its borrowing costs to protect against the potential of rising interest rates. In entering into these swaps, the overall borrowing cost is anticipated to be less than what the University would have paid for natural fixed interest rate debt.

Long-term debt consists of the following as of June 30, 2008:

	<u>Rates</u>	<u>Maturity</u>	<u>2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>2008</u>
General Receipts Bonds of 2008B	3.76-4.18	2009-2028		\$43,170	-	\$43,170
General Receipts Bonds of 2006	4.18	2007-2028	\$28,400	-	28,400	-
General Receipts Bonds of 2002	3.72	2028-2032	60,000	-	-	60,000
General Receipts Bonds of 2001	5.02	2007-2031	154,500		1,000	153,500
General Receipts Bonds of 2000	5.0-6.0	2004-2024	8,430	-	310	8,120
General Receipts Bonds of 1998	4.1-5.0	2004-2023	15,810	-	15,810	
Other	various	various	6,013	9,036	2,307	12,742
			<u>\$273,153</u>	<u>\$52,206</u>	<u>\$47,827</u>	<u>\$277,532</u>
Less current portion long-term debt			<u>4,307</u>			<u>5,645</u>
			<u>\$268,846</u>			<u>\$271,887</u>

Long-term debt consists of the following as of June 30, 2007:

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	<u>Rates</u>	<u>Maturity</u>	<u>2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>2007</u>
General Receipts Bonds of 2006	4.18	2007-2028	-	\$29,310	\$910.00	\$28,400
General Receipts Bonds of 2002	3.72	2028-2032	60,000	-	-	60,000
General Receipts Bonds of 2001	5.02	2007-2031	155,500	-	1,000	154,500
General Receipts Bonds of 2000	5.0-6.0	2004-2024	8,725	-	295	8,430
General Receipts Bonds of 1998	4.1-5.0	2004-2023	16,455	-	645	15,810
General Receipts Bonds of 1996	4.1-5.5	2004-2028	28,320	-	28,320	-
Other	various	various	7,441	-	1,428	6,013
			<u>\$276,441</u>	<u>\$29,310</u>	<u>\$32,598</u>	<u>\$273,153</u>
Less current portion long-term debt			4,219			4,307
			<u>\$272,222</u>			<u>\$268,846</u>

Principal and interest on long-term debt are payable from operating revenues, allocated student fees and the excess of revenues over expenditures of specific auxiliary activities. The obligations are generally callable.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 5,645	\$ 12,553	\$ 18,198
2010	5,799	12,431	18,230
2011	5,998	12,166	18,164
2012	8,092	11,926	20,018
2013	8,554	11,543	20,097
2014-2018	42,924	51,759	94,683
2019-2023	52,380	40,799	93,179
2024-2028	67,240	27,739	94,979
2029-2032	80,900	12,291	93,191
Total	<u>\$277,532</u>	<u>\$ 193,207</u>	<u>\$ 470,739</u>

Accrued Compensated Absences

Per University policy, faculty and staff earn vacation up to a maximum of 25 days per year with a maximum accrual of 75 days. Upon termination, they are entitled to a payout of their accumulated balance. The maximum accrual is equal to the amount earned in three years, which is subject to payout upon termination. The liability for accrued vacation at June 30, 2008 and 2007 is \$12,156 and \$10,878, respectively.

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All University employees are entitled to a sick leave credit equal to 15 days per year (earned on a pro-rata monthly basis for salaried employees and on a pro-rata hourly basis for classified hourly employees). Employees with 10 or more years of service are eligible to receive a payout upon retirement of up to 25% of unused days (maximum of 30 days). The liability for accrued sick leave at June 30, 2008 and 2007 is \$4,660 and \$4,006, respectively.

A summary of accrued compensated absences at June 30, 2008 and 2007 is as follows:

	Beginning			Ending
<u>For the year ended</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
June 30, 2008	\$14,884	\$3,811	\$1,879	\$16,816
June 30, 2007	13,948	1,373	437	14,884

(7) Retirement Benefits

(a) Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System (“OPERS”) and the State Teachers Retirement System of Ohio (“STRS Ohio”). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members. The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS Ohio 3.5% of earned compensation for those employees participating in the alternative retirement program. The University’s contributions to the alternative retirement fund for the years ended June 30, 2008 and 2007 were \$742 and \$655, respectively.

The Ohio Public Employees Retirement System’s Comprehensive Annual Financial Report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University’s contributions to OPERS for the years ended June 30, 2008, 2007 and 2006 were \$11,843, \$10,965 and \$10,273, respectively, equal to the required contributions for each year.

The State Teachers Retirement System of Ohio’s Comprehensive Annual Financial Report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University’s contributions to STRS Ohio for the years ended June 30, 2008, 2007, and 2006 were \$12,345, \$11,423 and \$11,529, respectively, equal to the required contributions for each year.

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Notes to Financial Statements June 30, 2008 and 2007 (in thousands)

(b) Post-Retirement Health Care Benefits (in whole numbers)

OPERS provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying State service credit. Health care coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. The 2007 employer contribution rate for health care was 5.00% of covered payroll, from January 1 through June 30 and 6.00% from July 1 through December 31.

OPERS benefits are advance-funded on an actuarially determined basis. OPERS actuarially accrued liability and the unfunded actuarial accrued liability, based on an entry age normal actuarial cost method of valuation, were \$30.7 billion and \$18.7 billion, respectively. Significant actuarial assumptions include a 6.50% investment return, 4.00% individual pay increases, and a 4.5% to 9% increase in health care costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. As of December 31, 2006, the actuarial value of the retirement system's net assets available for other post employment benefits was \$12 billion. The number of active contributing participants in the traditional and combined plans was 374,979 as of December 31, 2007.

STRS Ohio provides access to health care coverage to retirees who participated in the defined benefit or combined plans. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the health care stabilization fund was \$4.1 billion at June 30, 2007.

For the year ended June 30, 2007, the net health care costs paid by STRS Ohio were \$265,558. There were 122,934 eligible benefit recipients.

(c) Ohio Public Employees Deferred Compensation Program

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

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In 1998, the Ohio Public Employees Deferred Compensation Program Board implemented a trust to hold the assets of the Program in accordance with Internal Revenue Code Section 457. The program assets are the property of the trust, which holds the assets on behalf of the participants.

Therefore, in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the assets of this program are not reported in the accompanying financial statements.

At June 30, 2008 and 2007, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$6,392 and \$6,174, respectively, which represents the fair market value at such dates.

(8) Contingencies and Commitments

In the normal course of its activities, the University is a party to various legal actions. The University intends to vigorously defend itself against any and 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 is also self-insured for workers' compensation, unemployment compensation and substantially all employee health benefits. The University's risk exposure is limited to claims incurred.

Total claims paid during the years ended June 30, 2008 and 2007 were \$32,929 and \$30,681, respectively. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$5,097 and \$5,041 has been accrued as of June 30, 2008 and 2007, respectively. This estimate is based on an analysis of historical claims paid.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2008 and 2007 for operating leases amounted to approximately \$1,023 and \$941, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2008 are as follows:

	<u>Operating Leases</u>
2009	\$ 898
2010	900
2011	902
2012	904
2013	893
2014-2018	3,066
2019-2023	2,163
2024-2028	2,163
2029-2033	865
Total future minimum payments	<u>\$ 12,754</u>

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

(in thousands)

(9) Related Party Transactions

The University, together with The University of Akron and Youngstown State University, created a consortium to establish and govern Northeastern Education Television of Ohio, Inc. ("NETO"), Channels 45 and 49, Kent, Ohio, and Northeastern Ohio Universities College of Medicine ("NEOUCOM"), Rootstown, Ohio. These organizations are legally separate from the University; accordingly, their financial activity is not included within the accompanying financial statements. The University has no contractual financial obligations to any of the aforementioned consortia.

(10) Component Unit

The University is the sole beneficiary of the Foundation, a separate not-for-profit entity organized for the purpose of promoting educational and research activities. The Foundation is a legally separate entity from the University and maintains a self-appointing Board of Trustees. The Foundation reimburses the University for substantially all operating expenses paid by the University on behalf of the Foundation. Accordingly, management historically concluded that the Foundation was not a component unit of the University as defined by GASB Statement No. 14, *The Financial Reporting Entity*. However, under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation now meets the revised definition as a component unit.

Assets totaling approximately \$148,728 and \$152,446 at June 30, 2008 and 2007, respectively, most of which have been restricted by donors for specific purposes, are presented separately. Amounts received by the University from the Foundation are included in the accompanying financial statements. The University received approximately \$6,668 and \$6,268 of financial support during the years ended June 30, 2008 and 2007, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2008 and 2007, the University had outstanding receivables from the Foundation of approximately \$241 and \$377, respectively.

(11) Subsequent Events

In August 2008, the University issued \$60,000 in 2008B General Receipts bonds. The proceeds from the bond sale were used for the early redemption of the Series 2002 General Receipts bonds with an outstanding principal balance of \$60,000.

In September 2008, Lehman Brothers, the counterparty to the interest rate swap agreements as discussed in Note 6, filed for bankruptcy. As a result, all payments under the swap were terminated and the University is only paying the variable rate of interest on the bonds.

Subsequent to year-end, the University's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Kent State University

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
STUDENT FINANCIAL AID			
Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 1,402,718
Federal Work-Study Program	84.033		1,710,419
Federal Perkins Loan Program	84.038		6,009,026
Federal Pell Grant Program	84.063		27,253,916
Academic Competitiveness Grants	84.375		1,223,621
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376		<u>303,641</u>
Total Department of Education			<u>37,903,341</u>
Department of Health and Human Services			
Direct Program			
Nursing Student Loans	93.364		<u>404,108</u>
			404,108
Total Student Financial Aid			<u>38,307,449</u>
Total Major Programs			<u>38,307,449</u>
OTHER PROGRAMS			
RESEARCH AND DEVELOPMENT			
Department of Agriculture			
Pass-through Programs			
USDA Forest Service	NONE	KSU 444567	\$ 5,000
Ohio Aeronautics Institute - Grants for Agricultural Research Special Research Grants	10.200	R-300-100193-40023	21,104
Miami University - Grants for Agricultural Research Competitive Research	10.206	FY08-USDA-35320-18349	<u>17,793</u>
Total Department of Agriculture			43,897
Department of Commerce			
Direct Program			
Measurement and Engineering Research and Standards	11.609		141,796
Pass-through Programs			
Ohio State University Research Foundation - Sea Grant Support	11.417	R/ER-67	9,531
National Oceanic and Atmospheric Administration - Coastal Zone Management Estuarine Research Reserves	11.420	NA05NOS4201046	515
Colorlink - Advanced Technology Program	11.612	96-01-0263	3,975
BF Goodrich - Advanced Technology Program	11.612	OASIS-NIST ATP	<u>1,636</u>
Total			<u>5,611</u>
Total Department of Commerce			157,453

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Defense			
Direct Programs			
Basic and Applied Scientific Research	12.300		\$ 400,996
Basic Scientific Research	12.431		19,849
Air Force Defense Research Sciences Program	12.800		1,064,630
Research and Technology Development	12.910		85,788
Pass-through Programs			
Oregon State University - Basic and Applied Scientific Research	12.300	K9474J-A	23,204
SpecPro, Inc - Invertebrate Samples	NONE	BAD0004901	(111)
Pixel Optics Inc - Super Vision Project	NONE	1FA7014-07-C-0013	73,480
Dynamic Eye Inc - Segmented Flash Blindness Lenses	NONE	SA1-PO014	42,165
University of Central Florida - Imaging Sensor	NONE	W911NF-04-C0048	27,518
General Dynamics Information Technology - Turnable Chiral Molecu	NONE	GDIT	46,186
Cornerstone Research Group Inc. - STTR Phase II	NONE	FA9550-05-C-0036	4,896
Total			194,134
Total Department of Defense			1,788,601
Department of the Interior			
Pass-through Programs			
Ohio Department of Natural Resources - Fish, Wildlife and Plant Conservation Resource Management	15.231	444560	12,635
Minnesota Department of Natural Resources - State Wildlife Grants	15.634	A89365	6,979
Total Department of the Interior			19,614
Department of Justice			
Direct Program			
Special Data Collections and Statistical Studies (B)	16.734		66,610
Pass-through Programs			
Ohio Department of Youth Services - Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2004-JJ-SI1-0522	10,146
Ohio Department of Youth Services - Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2005-JJ-SI1-0522	36,387
Total			46,533
Research Triangle Institute - Part D - Research, Evaluation, Technical Assistance and Training	16.542	9-312-0209835	145,523
University of Akron - National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	5-34166-KSU	54,711
Ohio Criminal Justice Studies - Edward Byrne Memorial Formula Grant Program	16.579	2004-DG-B0R-7080	(960)
City of Cleveland - Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	CLEVE-SG67943A	62,753
Ohio Criminal Justice Studies - Violence Against Women Formula Grants	16.588	2003-DG-DOV-7521	4,792

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Ohio Criminal Justice Studies - Community Prosecution and Project	16.609	2003-PS-PSN-308D	\$ (109)
NEOUCOM - Edward Byrne Memorial Justice Assistance Grant Program (A,B)	16.738	2007-JG-E0R-6583	7,236
NEOUCOM - Edward Byrne Memorial Justice Assistance Grant Program (A,B)	16.738	2007-JG-EOR-6583	3,910
Total			<u>11,146</u>
Ohio Criminal Justice Studies - Anti-Gang Initiative	16.744	2006-PS-CAG-373	53,039
Total Department of Justice			<u>444,038</u>
Department of Transportation			
Direct Program			
Highway Planning and Construction	20.205		146,048
Pass-through Program			
University of Akron - University Transportation Centers Program	20.701	DTRT06-G-0037	3,654
Total Department of Transportation			<u>149,702</u>
National Aeronautics and Space Administration			
Pass-through Program			
Iten Industries - Multifunctional Planetary Exploration	NONE	NNM07AA59C-KSU	8,675
Total National Aeronautics and Space Administration			<u>8,675</u>
National Foundation on the Arts and the Humanities			
Promotion of the Humanities_Fellowships and Stipends	45.160		13,765
National Leadership Grants	45.312		183,723
Pass-through Program			
State Library of Ohio - Grants to States	45.310	VII-01-06	3,687
Total National Foundation on the Arts and the Humanities			<u>201,175</u>
National Science Foundation			
Direct Programs			
Engineering Grants	47.041		218,768
Mathematical and Physical Sciences	47.049		1,796,603
Geosciences	47.050		278,110
Computer and Information Science and Engineering	47.070		143,271
Biological Sciences	47.074		91,182
Social Behavioral and Economic Sciences	47.075		90,143
Education and Human Resources	47.076		727,250
Polar Programs	47.078		27,544
International Science and Engineering (OISE) (B)	47.079		9,335

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Pass-through Programs			
IPA assignment	NONE	603961	\$ 67,989
Georgia Institute of Technology - Engineering Grants	47.041	E-27-M88-S1	(216)
Kent Displays Inc. - Engineering Grants	47.041	OII610809	33,614
Kent Displays Inc. - Engineering Grants	47.041	610809	24,860
Sorbent Technologies Corporation - Engineering Grants	47.041	OII 0620518	16,706
Kent Displays Inc. - Engineering Grants	47.041	IIP 0750379	4,868
Total			<u>147,821</u>
Carnegie Mellon University - Mathematical and Physical Sciences	47.049	1120406-142769	762
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	444290	18,496
Total			<u>19,258</u>
Brown University - Social Behavioral and Economic Sciences	47.075	1379-26321	6,949
University of Wisconsin-Milwaukee - Social Behavioral and Economic Sciences	47.075	BCS-0616957	14,452
Total			<u>21,401</u>
Ohio State Research Foundation - Education and Human Resources	47.076	745925	42,466
Temple University - Education and Human Resources	47.076	33230418	21,692
Total			<u>64,158</u>
Total National Science Foundation			<u>3,634,844</u>
Environmental Protection Agency			
Direct Program			
Assessment and Watershed Protection Program Grants (B)	66.480		51,962
Pass-through Program			
North American Lake Management System - Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator	66.610	444565	7,822
Total			<u>59,784</u>
Department of Energy			
Direct Program			
Office of Science Financial Assistance Program	81.049		853,905
Pass-through Programs			
University of Chicago - Office of Scientific and Technical Information	81.064	5F-00540	34,838
Total			<u>888,743</u>
Department of Education			
Direct Programs			
Fund for the Improvement of Postsecondary Education	84.116		362,380
Education Research, Development and Dissemination	84.305		286,084

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Pass-through Programs			
Ohio Department of Education - Special Education Grants to States	84.027	062976-6B-SP-07	\$ 66,946
Virginia Commonwealth University - National Institute on Disability and Rehabilitation Research	84.133	PT101165-SC100174	53,649
Cleveland Heights/University Heights School District - Safe and Drug-Free Schools and Communities National Programs	84.184	184L030137	(666)
Cleveland Municipal School District - Safe and Drug-Free Schools and Communities National Programs	84.184	74724239	301
Cleveland Heights/University Heights School District - Safe and Drug-Free Schools and Communities National Programs	84.184	184L030137	27,440
Total			27,075
Ohio State Research Foundation - Fund for the Improvement of Educ	84.215	U215K040292	5,193
Franklin Parrish School Board - Education Technology State Grants	84.318	FP101	3,636
Total Department of Education			804,963
Department of Health and Human Services			
Direct Programs			
Injury Prevention and Control Research and State and Community Based Programs	93.136		179,478
Research and Training in Complementary and Alternative Medicine	93.213		227,360
Mental Health Research Grants	93.242		1,312,736
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		171,963
Nursing Research	93.361		427,430
Cancer Cause and Prevention Research	93.393		63,201
Cancer Treatment Research	93.395		57,658
Heart and Vascular Diseases Research	93.837		169,717
Diabetes Endocrinology and Metabolism Research	93.847		71,878
Digestive Diseases and Nutrition Research	93.848		385,508
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		319,332
Biomedical Research and Research Training	93.859		76,348
Child Health and Human Development Extramural Research	93.865		514,740
Aging Research	93.866		381,556
Pass-through Programs			
Cuyahoga County Community Mental Health Board - Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1 U79 SM56055-01	573,555

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Hospital for Special Surgery - Oral Diseases and Disorders Research	93.121	2R04 DE004141-31A1	\$ 73,609
County of Summit Alcohol, Drug Addiction and Mental Health - Centers of Excellence	93.157	445520/445522	16,055
Stanford University - Human Genome Research	93.172	12849460-30162-A	112,737
Cuyahoga County Board of Commissioners - Consolidated Knowledge Development and Application (KD&A) Program	93.230	CE0400252-01	23,039
Temple University - Mental Health Research Grants	93.242	36-1811-491	5,858
Miami University - Substance Abuse and Mental Health Services-Projects of Regional and National Significance (B)	93.243	01175-02	568
HUMADAOP - Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	440470	80,062
Cuyahoga County Board of Commissioners - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	CE0400252-03	3,784
Ohio Department of Mental Health - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	TE-005	26,895
Total			<u>111,309</u>
University of Florida - Alcohol Research Programs	93.273	UF103	23,258
University of Tennessee - Alcohol Research Programs	93.273	OR9636-001.01	65,026
Total			<u>88,284</u>
University of Pittsburgh - Nursing Research	93.361	5 R01 NR004749-09	30,055
Case Western Reserve University - Nursing Research	93.361	RES502761	14,185
Total			<u>44,240</u>
Butler Hospital - Heart and Vascular Diseases Research	93.837	9279-8344	4,912
University of Pennsylvania - Arthritis Musculoskeletal and Skin Diseases Research	93.846	NIH 5-39181	7,434
University of Minnesota Applied Psychology - Population Research	93.864	S2986113101	23,574
Georgia Institute of Technology - Aging Research	93.866	G-42-682-G3	73,156
Ohio Department of Alcohol and Drug Abuse Services - Block Grants for Prevention and Treatment of Substance Abuse	93.959	COME-ADA-WP05HI	10,771
Ohio Department of Alcohol and Drug Abuse Services - Block Grants for Prevention and Treatment of Substance Abuse	93.959	99-3402-HEDUC-P-08-0077	26,380
Total			<u>37,151</u>

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Macro International, Inc - Treatment Effectiveness Study	NONE	280-03-1603	\$ 28,195
Total Department of Health and Human Services			<u>5,582,013</u>
Total Research and Development			<u>\$ 13,783,502</u>
TRIO PROGRAMS			
Department of Education			
Direct Programs			
TRIO Student Support Services	84.042		\$ 401,660
TRIO Upward Bound	84.047		1,041,758
TRIO McNair Post-Baccalaureate Achievement	84.217		161,180
Pass-through Program			
Ohio College Access Network - TRIO Upward Bound	84.047	440823	<u>866</u>
Total TRIO Programs			<u>\$ 1,605,464</u>
Department of Defense			
Direct Programs			
Air Force Defense Research Sciences Program	12.800		\$ 12,500
Mathematical Sciences Grants Program	12.901		<u>24,576</u>
Total Department of Defense			37,076
Department of Housing and Urban Development			
Pass-through Programs			
Stark County Regional Planning Commission - Community Development Block Grants/Entitlement Grants	14.218	B-05-UC-39-0005	121
Stark County Regional Planning Commission - Community Development Block Grants/Entitlement Grants	14.218	B-05-UC-39-0005	<u>27,549</u>
Total Department of Housing and Urban Development			27,670
Department of Justice			
Direct Program			
Bulletproof Vest Partnership Program	16.607		<u>9,109</u>
Total Department of Justice			9,109
Department of Labor			
Pass-through Program			
Workforce Initiative Association - WIA Youth Activities (A)	17.259	YOUTH-O/S-PY06-6673	<u>1,874</u>
Total Department of Labor			1,874

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of State			
Direct Program			
US DOS - S-LMAQM-07-GR-320 Euphrates Tigris Initiative	NONE		\$ 40,711
Pass-through Programs			
Academy for Educational Development - Plus Program	NONE	SECAAE-06-CA-121	63,042
International Research & Exchange Board - Educational Exchange- Teachers from Secondary and Postsecondary Levels and School Administrators (B)	19.408	FY06-IEP-KENT-01	7,345
International Education Training and Research	19.430	FY07-ILEP-KENT-02	152,280
Total Department of State			<u>263,378</u>
Federal Aviation Administration			
Direct Program			
Airport Improvement Program	20.106		13,172
Total Federal Aviation Administration			<u>13,172</u>
National Foundation on the Arts and the Humanities			
Direct Programs			
Promotion of the Humanities Office of Digital Humanities	45.169		13,143
Laura Bush 21st Century Librarian Program	45.313		399,723
Pass-through Programs			
Eastern Illinois University - Promotion of the Humanities_Professional Development	45.163	810377818	852
Total National Foundation on the Arts and the Humanities			<u>413,718</u>
National Science Foundation			
Direct Programs			
Mathematical and Physical Sciences	47.049		114
Geosciences	47.050		462,708
Biological Sciences	47.074		37,399
Education and Human Resources	47.076		97,025
Total National Science Foundation			<u>597,246</u>
Small Business Administration			
Pass-through Programs			
Ohio Business Development Organization - Small Business Development Center	59.037	MSBDC 2007-08	34,834
Ohio Business Development Organization - Small Business Development Center	59.037	OMDT 28-07043	8,629
Kent Regional Business Alliance - Small Business Development Cent	59.037	445048	23,592
Kent Regional Business Alliance - Small Business Development Cent	59.037	445052	49,107
Ohio Department of Development - Small Business Development Cer	59.037	ECDD 07-142	91,235
Ohio Department of Development - Small Business Development Cer	59.037	ECDD 08-101	103,946
Total Small Business Administration			<u>311,343</u>

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Education			
Direct Programs			
Fund for the Improvement of Postsecondary Education	84.116		\$ (1,404)
Rehabilitation Long-Term Training	84.129		183,970
National Institute for Literacy	84.257		168,348
Research in Special Education	84.324		166,745
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities (B)	84.325		895,378
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education (B)	84.333		291,321
Preparing Tomorrow's Teachers to Use Technology	84.342		146,668
Adult Education - Basic Grants to States	84.002		690,457
Pass-through Programs			
Ohio Department of Education - Special Education Grants to States	84.027	6B-SP-08	222,888
Ohio Department of Education - Career and Technical Education -- Basic Grants to States	84.048	VEPD-CB-07-LB	2,981
Ohio Department of Education - Career and Technical Education -- Basic Grants to States	84.048	VEPD-CB-08-KU	119,653
Total			122,634
Ohio Rehabilitation Services Commission - Special Projects and Dem	84.235	446446	9,012
Ohio Department of Education - Tech-Prep Education	84.243	062976-3ETC-2007	12,891
Ohio Department of Education - Tech-Prep Education	84.243	062976-ETC-2008	152,418
Total			165,309
University of Tennessee - National Institute for Literacy	84.257	OR8999-001.01	54,482
Pennsylvania State University - National Institute for Literacy	84.257	ED 3322-KSU-DOE	104,869
World Education - National Institute for Literacy	84.257	X257T060001	13,706
World Education - National Institute for Literacy	84.257	X257T060001	76,532
Total			249,589
University of Akron - Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities (B)	84.325	5-32471-KSU	52,394
Ohio Department of Education - Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	C1667-MGM-08-01	4,857
Ohio Department of Education - Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	C1667-MGM-07-01	(2,322)

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Ohio Department of Education - Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	C1667-OMAP-07-10	\$ 20,163
Total			<u>22,698</u>
Ohio Department of Education - Teacher Quality Enhancement Grant	84.336	C1667-OMAP	214,403
Ohio Board of Regents - Teacher Quality Enhancement Grants (B)	84.336	05-14	4,377
Total			<u>218,780</u>
University of Akron - Mathematics and Science Partnerships (B)	84.366	U215K040292	333
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	07-20	3,582
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	06-20	95,835
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	06-21	48,692
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	05-15	(2,828)
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	06-22	81,422
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	07-17	3,886
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	07-18	33,010
Total			<u>263,599</u>
National Writing Project	84.928	Amend 13 97OH-03	36,578
National Writing Project Corp - National Writing Project	84.928	97OH03	7,604
Total			<u>44,182</u>
Total Department of Education			3,912,901
National Archives and Records Administration			
Direct Program			
National Historical Publications and Records Grants	89.003		920
Total National Archives and Records Administration			<u>920</u>
Department of Health and Human Services			
Direct Program			
Advanced Education Nursing Traineeships	93.358		57,817
Pass-through Programs			
Canton Regional Area Health Education Center - Model State- Supported Area Health Education Centers	93.107	29-C-2	14,887
Canton Regional Area Health Education Center - Model State- Supported Area Health Education Centers	93.107	29-C-3	4,275
Canton Regional Area Health Education Center - Model State- Supported Area Health Education Centers	93.107	03-C-2	1,895
Total			<u>21,057</u>

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Tuscarawas County Jobs & Family Services - Temporary Assistance for Needy Families	93.558	447091	\$ 2,150
Ohio Developmental Disabilities Council - Developmental Disabilities Basic Support and Advocacy Grants	93.630	06-1/06	(146)
Ohio Developmental Disabilities Council - Developmental Disabilities Basic Support and Advocacy Grants	93.630	06-1/07	64,031
Total			<u>63,885</u>
Total Department of Health and Human Services			144,909
Total Other Programs			<u>21,122,282</u>
Total Federal Awards			<u>\$ 59,429,731</u>

Kent State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the University and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the schedule. The University is also the subrecipient of federal funds which have been subject to testing and are reported as expenditures and listed separately as pass-through programs.

Facilities and Administrative Costs

The University has approved predetermined facilities and administrative cost rates, which are 46 percent from July 1, 2007 to June 30, 2008 for on-campus research and 26 percent from July 1, 2007 to June 30, 2008 for off-campus research.

Note 2 - Loans Outstanding

The University had the following loan balances outstanding at June 30, 2008. These loan balances are not included in the federal expenditures presented in the schedule.

Cluster/Program Title	CFDA		Outstanding Balance
	Number	Advances	
Perkins Loan Program	84.038	\$5,914,612	\$27,225,631
Nursing Student Loan Program	93.364	393,288	2,112,043

Kent State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 3 - Federal Direct Loan Program

During the year ended June 30, 2008, the University processed applications for the following loan amounts under the federal direct loan program which includes Stafford Loans, unsubsidized Stafford Loans, and Parent Plus Loans for Undergraduate Students.

	CFDA Number	Advances
Federal direct loan advances	84.268	\$134,288,261

Note 4 - Subrecipient Awards

During the year ended June 30, 2008, the University disbursed funds to subrecipients as follows:

CFDA Number	Federal Grantor/Program Title	Amount
12.800	Air Force Defense Research Sciences Program	\$ 688,599
12.910	Research and Technology Development	(2,893)
20.205	Highway Planning and Construction	55,647
45.312	National Leadership Grants	377
47.049	Mathematical and Physical Sciences	16,298
47.050	Geosciences	106,063
47.075	Social, Behavioral, and Economic Sciences	40,022
47.076	Education and Human Resources	245,074
59.037	Small Business Development Centers	77,299
66.480	Assessment and Watershed Protection Program Grants	12,444
84.002	Adult Education - Basic Grants to States	33,420
84.116	Fund for the Improvement of Postsecondary Education	6,000
84.243	Tech-Prep Education	8,790
84.257	National Institute for Literacy	197,463
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	135,059
84.342	Preparing Tomorrow's Teachers to Use Technology	2,906
93.136	Injury Prevention and Control Research and State and Community Based Programs	23,822
93.213	Research and Training in Complimentary and Alternative Medicine	106,227

Kent State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 4 - Subrecipient Awards (Continued)

CFDA Number	Federal Grantor/Program Title	Amount
93.242	Mental Health Research Grants	\$ 518,698
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	99,394
93.630	Developmental Disabilities Basic Support and Advocacy Grants	15,000
93.848	Digestive Diseases and Nutrition Research	245,151
93.865	Child Health and Human Development Extramural Research	26,784
93.866	Aging Research	69,280
	Total	<u>\$ 2,726,924</u>

Note 5 - Federal Expenditure Reconciliation

The following schedule is a reconciliation of total expenditures as shown on the schedule to the revenue shown as federal grants and contracts on the statement of revenues, expenses, and changes in net assets (the "Statement"), which is included as part of the University's financial statements:

Expenditures per the schedule	\$ 59,429,731
Perkins Loan Funds excluded from federal grants on the Statement	(6,009,026)
Nursing Student Loan Funds excluded from the federal grants on the Statement	(404,108)
Indirect costs excluded from federal grants on the Statement	<u>(3,529,346)</u>
Total	<u>\$ 49,487,251</u>

Current restricted funds derived from appropriations, gifts, or grants may be used only to meet current expenditures for the purposes specifically identified by sponsoring agencies. The appropriations, gifts, or grants are recognized as revenue in the University's financial statements as expended. Therefore, expenditures per the schedule agree with federal grants and contracts revenue on the Statement, except as noted above.

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board of Trustees
Kent State University

We have audited the basic financial statements Kent State University (the "University"), a component unit of the State of Ohio, as of and for the year ended June 30, 2008 and have issued our report thereon dated October 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-01 and 2008-02 to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees
Kent State University

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are not material weaknesses.

Compliance and Other Matters

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

The University's response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Plante & Moran, PLLC

October 15, 2008

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

To the Board of Trustees
Kent State University

Compliance

We have audited the compliance of Kent State University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of the University are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Plante & Moran, PLLC

October 15, 2008

Kent State University

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.033, 84.038, 84.063, 84.375, 84.376, 84.268, 93.364	Student Financial Aid

Dollar threshold used to distinguish between type A and type B programs: \$1,782,892

Auditee qualified as low-risk auditee? Yes No

Kent State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

Reference Number	Findings
2008-01	<p>Finding Type - Significant deficiency</p> <p>Criteria - During year-end closing, management should perform a review of capital lease reconciliations and entries to ensure proper recording of capital lease and related interest expense.</p> <p>Condition - There was not a proper review performed on the capital lease reconciliation and related adjusting entry.</p> <p>Context - The lack of review resulted in an adjustment of approximately \$1,345,000.</p> <p>Cause - There was not a review of the capital lease reconciliation and adjusting entries are prepared by a senior business manager.</p> <p>Effect - A year-end audit adjustment was identified for approximately \$1,345,000.</p> <p>Recommendation - We recommend that the University institute a process to review all reconciliations and journal entries made, especially near year end.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management agrees with the recommendations and will implement the review process immediately.</p>

Kent State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2008-02	<p>Finding Type - Significant deficiency</p> <p>Criteria - Upon preparation of the financial statements, management discovered that fixed assets and net assets were overstated in the prior year's report.</p> <p>Condition - Reconciliation of fixed assets and net assets were incorrectly prepared as part of the prior year's audit.</p> <p>Context - Incorrect reconciliation resulted in an adjustment of approximately \$5,380,000.</p> <p>Cause - Reconciliation of fixed assets and net assets relating to prior year's balances for fixed assets and net assets was incorrect.</p> <p>Effect - A year-end audit adjustment was identified for approximately \$5,380,000.</p> <p>Recommendation - We recommend that the University institute a process to review all reconciliations and journal entries made, especially near year end.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management agrees with the recommendations and will implement the review process immediately.</p>

Section III - Federal Program Audit Findings

None

Kent State University

Summary Schedule of Prior Year Audit Findings Year Ended June 30, 2008

Reference Number	Findings
2007-01	<p data-bbox="423 506 1247 537">Finding Type - Significant deficiency in financial statement audit</p> <p data-bbox="423 579 1438 684">Condition - The University originally expensed the costs involved in the acquisition and development of the new system rather than capitalizing the cost related to the project.</p> <p data-bbox="423 726 967 760">Status - Corrective action has been taken</p>

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**Kent State University
National Collegiate Athletics Association**

**Agreed-upon Procedures Report
June 30, 2008**

Kent State University National Collegiate Athletics Association Report

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Independent Accountants' Report on The Application of Agreed-upon Procedures

Dr. Lester A. Lefton
President
Kent State University
Kent, OH 44242

We have performed the procedures enumerated below, which were agreed to by Kent State University (the "University"), solely to assist you in evaluating whether the accompanying Intercollegiate Athletics Program Statement of Revenues and Expenditures of Kent State University is in compliance with the National Collegiate Athletics Association (NCAA), Bylaw 6.2.3 for the year ended June 30, 2008. Kent State University's management is responsible for the statement of revenue and expenditures (statement) and the statement's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-upon Procedures Related to the Statement of Revenues and Expenditures

The procedures that we performed and our results are as follows:

Internal Control Structure

- A. **Procedure:** In preparation for our procedures related to the University's internal control structure, we met with the Associate Director of Intercollegiate Athletics-Business Operations and the Director of Intercollegiate Athletics and inquired about the general control environment over intercollegiate athletic finances, the level of control consciousness in the University, the competence of personnel, and the protection of records and equipment; we obtained and inspected an organization chart for the intercollegiate athletics department prepared by management; we compared athletics information obtained and work performed in the audit of the financial statements of the University for the year ended June 30, 2008; and we obtained copies of the University's recruiting and travel policies and compared the policies to NCAA policies.

Result: We met with the Associate Director of Intercollegiate Athletics and inquired about the general control environment over intercollegiate athletic finances, the level of control consciousness in the University, the competence of personnel, and the protection of records and equipment. We obtained and inspected an organization chart for the intercollegiate athletics department prepared by management. We inspected information obtained and work performed in the audit of the financial statements of the University for the year ended June 30, 2008. We also obtained and reviewed copies of the University's recruiting and travel policies, noting they were in accordance with the policies of the NCAA. Upon completion of the above procedures, no exceptions were noted.

B. **Procedure:** We obtained and inspected documentation for the accounting systems and procedures unique to the intercollegiate athletics department that have not been addressed in connection with the audit of the University's financial statements. For those accounting systems that pertain to the intercollegiate athletics department, we performed the following specific procedure:

- I) We selected three games and tested the ticket collection receipting process by comparing the total receipts for such games to the reconciliation and documentation of the related cash deposit amount with the bank.

Result: We obtained and inspected any documentation of the accounting systems and procedures unique to the intercollegiate athletics department. We determined that there were no systems and procedures related to cash disbursements, payroll, and cash receipts that were unique or different than those already addressed in connection with the audit of the University's financial statements. We determined that the ticket collection and receipting processes were the only systems unique to athletics; therefore, we selected one softball game, one men's basketball game, and one women's basketball game during the year and compared the gate sales for such events, as documented by the University's ticket reconciliation procedures, to documentation of the related cash deposit amount with the bank. We made inquiries as to the methods and practices used for ticket reconciliations. We obtained reconciliations for all home football, men's basketball, and women's basketball sales as compared to actual attendance figures and compared to revenue reported on the statement of revenues and expenses. No exceptions were noted in the above procedures.

Capital Expenditure Survey and Related Debt

C. **Procedure:** We obtained supporting documentation from the University and included in our report items related to the following:

- I) A schedule of capitalized assets, additions, deletions, and improvements of facilities related to intercollegiate athletics as outlined in the instructions from the NCAA

Result: We obtained fixed asset and depreciation schedules from the University and agreed it to the data provided on the capital expenditures survey, noting no differences. We agreed the information on the capital expenditures survey to the University's general ledger without exception.

- 2) Repayment schedules for all outstanding intercollegiate athletics debt maintained by the University

Result: Per discussion with management, there is no debt related to intercollegiate athletics.

Intercollegiate Athletics Restricted and Endowment and Plant Funds

D. **Procedure:** We obtained supporting documentation from the University and included in our report items related to the following:

- 1) Additions to restricted funds related to intercollegiate athletics that exceed 10 percent of prior year amounts
- 2) Changes to endowment and plant funds related to intercollegiate athletics that exceed 10 percent of prior year and budgeted amounts

Result: We compared additions to restricted funds related to intercollegiate athletics with the respective prior year amounts and inquired of management with regard to available explanations for any changes exceeding 10 percent of the prior year balance. We compared changes to endowment funds and plant funds related to intercollegiate athletics with the respective prior year amounts and inquired of management with regard to available explanations for any changes exceeding 10 percent of the prior year balance and/or current year budget. No exceptions were noted in the above comparisons.

Statement of Revenues and Expenditures

E. **Procedure:** We obtained the Intercollegiate Athletics Program statement of revenues and expenditures for the reporting period prepared by management and recalculated the amounts on the statement. We then compared the amounts on the statement to management's worksheets supporting the preparation of the statement and agreed the amounts on such worksheets to the University's general ledger. We also compared revenue and expenditure amounts for the intercollegiate athletics program with the respective prior year amounts and current year budget amounts and inquired of management with regard to available explanations for any changes exceeding 10 percent of the prior year balance and/or current year budget.

Result: We obtained the Intercollegiate Athletics Program statement of revenues and expenditures for the reporting period, prepared by management. We recalculated the amounts on the statement, compared the amounts on the statement to management's worksheets supporting the preparation of the statement, and agreed the amounts on such worksheets to the University's general ledger. We compared revenue and expenditure amounts for the intercollegiate athletics program with the respective prior year amounts and inquired of management with regard to available explanations for any changes exceeding 10 percent of the prior year balance and/or current year budget. Upon completion of the above procedures, no exceptions were noted.

Revenues

F. **Revenue Procedures:** We compared and agreed each operating revenue category reported in the statement during the reporting period to supporting schedules provided by the University. We also performed the following specific procedures:

1) **Ticket Sales**

Procedure: We compared tickets sold, complimentary tickets provided, and unsold tickets during the reporting period to the related revenue reported by the University in the statement and related attendance figures and recalculated totals.

Result: We compared tickets sold during the reporting period, complimentary tickets provided during the reporting period, and unsold tickets to the related revenue reported by the University in the statement and related attendance figures and recalculated the totals without exception.

2) **Guarantees**

Procedure: We selected a sample of three away conference football games during the reporting period and agreed each selection to the University's general ledger and/or the statement. We selected a sample of one contractual agreement pertaining to revenues derived from an away non-conference football game during the reporting period and compared and agreed the selection to the University's general ledger and/or the statement, and recalculated totals.

Result: Per discussion with management, there is no agreement of guaranteed revenue amounts between MAC institutions, only non-conference institutions. No portion of the ticket revenue is paid to Kent State University for conference away games. We obtained the agreement between Kent State University and the non-conference institution for the non-conference away game and agreed it to the University's general ledger without exception.

3) **Contributions**

Procedure: We obtained contribution details for each contribution that constitutes 10 percent or more of all contributions received for intercollegiate athletics during the year ended June 30, 2008. Contributions mean monies, goods, or services received directly by any intercollegiate athletics program.

Result: We noted no contributions that constituted 10 percent or more of all contributions received for intercollegiate athletics during the year ended June 30, 2008.

4) NCAA/Conference Distributions Including All Tournament Revenues

Procedure: We obtained and inspected documentation and communication from the MAC related to the University's participation in revenues from tournaments during the reporting period to gain an understanding of the relevant terms and conditions. We compared and agreed the related revenues to the University's general ledger and/or the statement, and recalculated totals.

Result: We obtained and inspected documentation and communication from the MAC related to the University's participation in revenue from tournaments during the reporting period to gain an understanding of the relevant terms and conditions. We compared and agreed the related revenues to the University's general ledger. We recalculated the totals reported on the statement. No exceptions were noted.

Expenditures

G. **Expenditure Procedures:** We compared and agreed each operating expense category reported in the statement during the reporting period to supporting schedules provided by the University. We also performed the following specific procedures:

1) Athletic Student Aid

Procedure: We selected a sample of 30 students from the listing of institutional student aid recipients during the reporting period. We obtained individual student-account detail for each selection and compared total aid allocated from the related aid award letter to the student's account and recalculated totals.

Result: We obtained individual student account detail for each selection and compared the total aid allocated from the related aid award letter to the student's account and recalculated totals. No exceptions were noted.

2) Guarantees

Procedure: We selected a sample of three home conference football games during the reporting period and agreed each selection to the University's general ledger and/or the statement. We selected a sample of one contractual agreement pertaining to revenues derived from a home non-conference football game during the reporting period and compared and agreed the selection to the University's general ledger and/or the statement, and recalculated totals.

Result: Per discussion with management, there is no agreement of guaranteed revenue amounts between MAC institutions, only non-conference institutions. No portion of the ticket revenue is paid to the visiting institution for conference home games. We obtained the agreement between Kent State University and the non-conference institution for the non-conference home game and agreed it to the University's general ledger without exception.

3) Coaching Salaries, Benefits, and Bonuses Paid by the Institution and Related Entities

Procedure: We obtained and inspected a listing of coaches employed by the University during the reporting period. We selected a sample of five coaches' contracts that include the men's football, baseball, and basketball coaches and the women's basketball coach. We compared and agreed the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the University and related entities in the statement during the reporting period. We obtained and inspected W-2s and 1099s of employees for each selection. We compared and agreed related W-2s and 1099s to the related coaching salaries, benefits, and bonuses paid by the University and related entities expense recorded by the University in the statement during the reporting period and recalculated totals.

Result: We selected five coaches' contracts that included football, men's basketball, men's baseball, women's basketball, and women's softball from the listing. We compared and agreed the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the University and related entities in the statement during the reporting period. We obtained and inspected W-2s for each selection and compared and agreed W-2s to the coaching salaries, benefits, and bonuses paid by the University and related entities expense recorded by the University in the statement during the reporting period. We recalculated totals. There were no 1099s issued to the coaches by the University of the sample selected. No exceptions were noted in the above procedures.

Affiliated and Outside Organizations

H. **Procedure:** We inquired and obtained documentation as to the University's practices and procedures for monitoring the following affiliated and outside organizations:

- 1) Booster organizations established by or on behalf of an intercollegiate athletics program.
- 2) Independent or affiliated foundations or other organizations that have as a principal purpose, generating or maintaining of grants-in-aid or scholarships funds, gifts, endowments or other moneys, goods or services to be used entirely or in part by the intercollegiate athletics program.

- 3) Alumni organizations that have as one of its principal purposes the generating of monies, goods, or services for or on behalf of an intercollegiate athletics program and that contribute monies, goods, or services directly to an intercollegiate athletics program, booster group, or independent or affiliated foundation as previously noted.

Result: We inquired and obtained documentation for the University's practices and procedures for monitoring affiliated and outside organizations, which included the Blue and Gold Fund, the Varsity "K" Club, and the National Athletic Development Council. No exceptions were noted.

- I. **Procedure:** We obtained a listing of all identified affiliated and outside organizations, prepared by the University and compared that list to the activities recorded in the University's financial statements and to the Intercollegiate Athletics Program Statement of Revenues and Expenditures. It was determined that the activities are included in the University's financial statements and the Intercollegiate Athletics Statement of Revenues and Expenditures. We obtained a schedule of revenues and expenditures and performed the following required testing on that schedule:

- I) We compared and agreed revenues and expenses reported in the affiliated organization's statement during the reporting period to revenue received and recorded by the University.

Result: We compared and agreed revenues and expenses reported in the organization's statement during the reporting period to the Statement of Revenues and Expenses recorded by the University without exception.

We were not engaged to and did not conduct an examination, the objective of which would have been the expression of an opinion on the accompanying Intercollegiate Athletics Program statement of revenues and expenditures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Kent State University's management and the National Collegiate Athletics Association and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 9, 2009

Kent State University National Collegiate Athletics Association Report

Intercollegiate Athletics Program Statement of Revenues and Expenditures Year Ended June 30, 2008

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
Operating Revenues						
Ticket sales	\$ 153,104	\$ 242,629	\$ 12,824	\$ 23,912	\$ 81,810	\$ 514,279
Student fees	-	-	-	-	9,723,600	9,723,600
Guarantees	1,150,000	60,000	1,000	13,640	3,000	1,227,640
Contributions	99,772	86,492	35,023	370,133	45,945	637,365
Facility rentals and memberships	-	-	-	500	150,580	151,080
Sponsorship sales	-	-	-	-	370,886	370,886
NCAA/Conference distributions - Including all tournament revenues	-	-	-	-	912,495	912,495
Royalties, adv., sponsorships	-	-	-	-	94,302	94,302
Sports camp revenues	-	-	-	-	780	780
Other	1,084	(450)	(222)	24,381	317,095	341,888
Total operating revenue	1,403,960	388,671	48,625	432,566	11,700,493	13,974,315
Operating Expenditures						
Athletic student aid	1,931,894	348,539	244,304	2,229,363	118,541	4,872,641
Personal services	863,661	642,339	495,303	1,306,966	2,406,288	5,714,557
Staff benefits	225,440	117,634	101,011	418,174	915,785	1,778,044
Recruiting	109,124	88,449	64,271	109,356	869	372,069
Team travel	486,977	173,232	92,492	715,495	354,490	1,822,686
Equipment, uniforms, and supplies	318,671	35,224	27,041	361,806	758,637	1,501,379
Entertainment	19,513	1,269	203	9,427	96,600	127,012
Printing and postage	15,526	20,540	5,659	17,651	225,421	284,797
Direct facilities, maintenance and rental	46,862	17,192	12,256	92,749	1,126,544	1,295,603
Other operating expenses	475,579	147,915	13,043	75,999	409,809	1,122,345
Total operating expenditures	4,493,247	1,592,333	1,055,583	5,336,986	6,412,984	18,891,133
Excess of Revenues Over (Under)						
Expenditures	<u>\$ (3,089,287)</u>	<u>\$ (1,203,662)</u>	<u>\$ (1,006,958)</u>	<u>\$ (4,904,420)</u>	<u>\$ 5,287,509</u>	<u>\$ (4,916,818)</u>

Kent State University

National Collegiate Athletics Association Report

Notes to Intercollegiate Athletics Program Statement of Revenues and Expenditures Year Ended June 30, 2008

Note I - Intercollegiate Athletics-related Assets

Property and equipment are recorded at cost or, if donated, the fair value at the time of donation. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized. Estimated service lives range from 3-40 years depending on class.

The current year capitalized additions and deletions to facilities during the year ended June 30, 2008 are as follows:

	<u>Additions</u>	<u>Deletions</u>
Football athletics facilities	\$ 2,825,496	\$ -
Other athletics facilities	<u>600,499</u>	<u>-</u>
Total athletics facilities	<u>\$ 3,425,995</u>	<u>\$ -</u>
Other institutional facilities	<u>\$ 48,990,954</u>	<u>\$ 784,341</u>

The total estimated book values of property, plant and equipment, net of depreciation, of the University as of the year ended June 30, 2008, are as follows:

	<u>Estimated Book Value</u>
Athletics related property plant and equipment balance	\$ 19,524,000
Institution's total property plant and equipment balances	565,972,000

Kent State University National Collegiate Athletics Association Report

Notes to Intercollegiate Athletics Program Statement of Revenues and Expenditures For the Year Ended June 30, 2008

Note 2 - Intercollegiate Athletics-related Debt

The annual debt service and debt outstanding for the University as of the year ended June 30, 2008 is as follows:

	Annual Debt Service	Debt Outstanding
Athletics related facilities	\$ -	\$ -
Institution's total	15,009,820	264,790,000



Mary Taylor, CPA
Auditor of State

KENT STATE UNIVERSITY

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 29, 2009**