Kent State University Foundation, Inc.

Financial Statements
June 30, 2005 and 2004

Auditor of State
Betty Montgomery

Board of Trustees
Kent State University Foundation, Inc.
224 Michael Schwartz Center
Kent, Ohio 44242

We have reviewed the Independent Auditor's Report of the Kent State University Foundation Inc., Portage County, prepared by PricewaterhouseCoopers LLP for the audit period July 1, 2004 through June 30, 2005. 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 Foundation, Inc. is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 21, 2005

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Report of Independent Auditors

To the Board of Directors of
Kent State University Foundation, Inc.:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Kent State University Foundation, Inc. (the "Foundation"), a component of Kent State University, at June 30, 2005 and 2004 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2005 on our consideration of the Foundation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2005. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

PricewaterhouseCoopers LLP

October 7, 2005
Cleveland, Ohio

Kent State University Foundation, Inc.

Statements of Financial Position
June 30, 2005 and 2004

ASSETS	2005	2004
Cash and cash equivalents	$ 2,229,740	$ 1,745,166
Accounts receivable	4,925	31,476
Interest receivable	13,230	13,230
Pledges receivable, net of allowance and discount	7,247,682	5,791,151
Investments, at market value	94,671,278	84,950,331
Collection items relating to Museum of Fashion	8,009,068	7,706,086
Property, net of accumulated depreciation	954,714	1,459,930
Beneficial interest in lead trusts	514,492	76,642
Total assets	$ 113,645,129	$ 101,774,012
LIABILITIES AND NET ASSETS		
Accounts payable	$ 726,967	$ 707,508
Actuarial liability for annuity/unitrust agreements	4,900,305	4,549,000
Total liabilities	5,627,272	5,256,508
Net assets:		
Unrestricted	852,009	852,945
Temporarily restricted	55,416,471	47,587,574
Permanently restricted	51,749,377	48,076,985
Total net assets	108,017,857	96,517,504
Total liabilities and net assets	$ 113,645,129	$ 101,774,012

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

Kent State University Foundation, Inc.

Statements of Activities
For the Years Ended June 30, 2005 and 2004

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues and other additions:								
Receipts of gifts	$ 267,309	$ 254,573	$ 9,070,550	$ 9,933,008	$ 3,585,991	$ 8,587,900	$ 12,923,850	$ 18,775,481
Net change in pledges receivable	41,594	(34,182)	1,209,266	74,487	205,672	(3,443,155)	1,456,532	(3,402,850)
Net realized and unrealized gain on investments	238,555	73,273	3,946,830	6,399,786	-	-	4,185,385	6,473,059
Dividend and interest income	431,444	401,607	1,515,545	1,523,448	-	-	1,946,989	1,925,055
Trustee fees	848,968	699,498	(848,968)	(699,498)	-	-	-	-
Other income	6,273	6,128	2,388,704	1,875,940	-	-	2,394,977	1,882,068
Total revenues and other additions, net	1,834,143	1,400,897	17,281,927	19,107,171	3,791,663	5,144,745	22,907,733	25,652,813
Release of restrictions	9,417,313	9,868,964	(9,417,313)	(9,868,964)	-	-	-	-
Total revenues and other additions after release of restrictions	11,251,456	11,269,861	7,864,614	9,238,207	3,791,663	5,144,745	22,907,733	25,652,813
Operating expenses:								
Scholarships, awards, grants and University support	9,731,290	10,302,768	-	-	-	-	9,731,290	10,302,768
Fund raising expenses	1,030,630	517,269	-	-	-	-	1,030,630	517,269
Depreciation expense	17,717	20,216	-	-	-	-	17,717	20,216
Administrative expenses	472,755	413,718	-	-	-	-	472,755	413,718
Total operating expenses	11,252,392	11,253,971	-	-	-	-	11,252,392	11,253,971
Nonoperating expenses:								
Net change in actuarial liability of annuity funds	-	-	-	-	154,988	793,146	154,988	793,146
Changes in designation of prior contributions	-	-	(35,717)	(943,161)	35,717	943,161	-	-
Change in net assets	(936)	15,890	7,828,897	8,295,046	3,672,392	5,294,760	11,500,353	13,605,696
Net assets, beginning of year	852,945	837,055	47,587,574	39,292,528	48,076,985	42,782,225	96,517,504	82,911,808
Net assets, end of year	$ 852,009	$ 852,945	$ 55,416,471	$ 47,587,574	$ 51,749,377	$ 48,076,985	$ 108,017,857	$ 96,517,504

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

Kent State University Foundation, Inc.

Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	2005	2004
Operating activities:		
Increase in net assets	$ 11,500,353	$ 13,605,696
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	17,717	20,216
Net realized and unrealized gain on investments	(4,185,385)	(6,473,059)
Gifts of stock	(1,860,525)	(4,474,847)
Gifts of property	(302,982)	(652,600)
(Gain) loss on sale of property	(7,500)	30,117
Contributions permanently restricted	(3,946,147)	(8,587,900)
Changes in operating assets and liabilities:		
Accounts receivable	26,551	(12,061)
Interest receivable	-	(86)
Pledges receivable, net of allowance and discount	(1,456,531)	3,402,850
Beneficial interest in lead trust	(437,850)	-
Accounts payable	19,459	165,538
Actuarial liability for annuity/unitrust agreements	351,305	1,353,000
Net cash used in operating activities	(281,535)	(1,623,136)
Investing activities:		
Purchases of investments	(54,227,675)	(55,279,664)
Proceeds from sales of investments	50,552,638	49,409,623
Proceeds from sale of property	495,000	124,883
Net cash used in investing activities	(3,180,037)	(5,745,158)
Financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	2,883,055	6,599,900
Investment in annuities	1,063,091	1,988,000
Net cash provided by financing activities	3,946,146	8,587,900
Net increase in cash and cash equivalents	484,574	1,219,606
Cash and cash equivalents, beginning of year	1,745,166	525,560
Cash and cash equivalents, end of year	$ 2,229,740	$ 1,745,166

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

1. Organization

Kent State University Foundation, Inc. (the "Foundation") has been established as the gift-receiving arm of Kent State University (the "University") and has been approved by the Internal Revenue Service for the receipt and official acknowledgement of tax-deductible contributions. The Foundation, governed by a Board of Directors composed of campus and community members, is to receive, record, acknowledge, deposit, invest and disburse all funds received as gifts made payable to the Foundation for restricted or unrestricted support of the University. Likewise, the Foundation will receive, record, acknowledge, maintain, reassign, convert or dispose of all "gifts-in-kind" of property, materials, equipment, books and artifacts donated in the name of the Foundation for support of the University.

2. Significant Accounting Policies

Basis of Accounting

The accounts of the Foundation are maintained in accordance with the principles of not-for-profit accounting. The statements have been prepared on an accrual basis.

Gifts of securities are recorded at the market value at the date of receipt. Other nonmonetary gifts, such as property, used equipment, etc., are valued at their appraised worth. The Foundation designates the use of gifts which have not been designated by the donors.

Basis of Presentation

The Foundation reports net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. This category includes unrestricted assets and uncollected pledges.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. This category includes true endowment earnings, quasi-endowment principal and earnings, a property annuity and property assets.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. This category includes annuity funds and true endowment principal.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as a release of restrictions in the accompanying statements of activities.

Cash and Cash Equivalents
Cash and cash equivalents as presented in the financial statements include highly liquid investments with original maturities of three months or less.

Changes in Designation of Prior Contributions
Included in the accompanying statements of activities are changes in designation of prior contributions. The Foundation's gift policy states that a minimum contribution of $25,000 is necessary to establish an endowment. The donor may elect to change the designation of prior years' contributions from temporarily restricted to permanently restricted when the $25,000 threshold is met, thus establishing an endowment. The transfers from temporarily restricted net assets to permanently restricted net assets were $371,912 and $962,635 during the years ended June 30, 2005 and 2004, respectively. The transfers from permanently restricted net assets to temporarily restricted net assets were $336,195 and $19,474 during the years ended June 30, 2005 and 2004, respectively. The amount included in temporarily restricted net assets at June 30, 2004, which may have a change in designation in the future, per the donors' request, is approximately $114,765.

Trustee Fees
The Foundation charges a trustee fee to cover the cost of providing administrative, clerical and fiduciary services. A trustee fee of 1.25% is charged based on the average balance of each applicable endowment account and certain temporarily restricted accounts with such fees transferred to and deposited as unrestricted assets. To accomplish this, a portion of the earnings of such temporarily and permanently restricted accounts are withheld and deposited annually as unrestricted assets.

Endowment Spending Policy
The Foundation has instituted a spending policy whereby a portion of the accumulated investment return for endowment assets equal to 5% of the three year rolling average of the fair market value of the endowment pool will be distributed in accordance with the donors' requests each year with the remainder reinvested on a total return concept. The 5% return released from investment was $2,691,661 and $2,331,687 in 2005 and 2004, respectively.

Life Insurance Policies
The Foundation has been named as the beneficiary of one life insurance policy. The Foundation's accounting policy is to record the insurance proceeds as other revenue when received. The total face value of the policy that names the Foundation as beneficiary is approximately $550,000 at June 30, 2005.

Annuity Funds

Contributions whereby the assets are made available to the Foundation or are held in trust, on the condition that the Foundation bind itself to pay stipulated amounts periodically to the donor and/or other designated individuals in accordance with an agreement, are classified as temporarily or permanently restricted annuity assets. The obligation to donors and other designated individuals for these assets is accounted for using the actuarial method. Under the actuarial method, when a gift is received, the present value of the annuities payable is credited to the actuarial liability account and the remaining funds are recorded as temporarily or permanently restricted assets. The Foundation utilized discount rates ranging from 4.4 % to 4.8% for the year ended June 30, 2005. Investment income and realized and unrealized gains increase the actuarial liability account. Annuity payments and investment losses decrease the actuarial liability account. At year end, an adjustment is made to the actuarial liability to record the change in the actuarial obligation to donors between years. Upon termination of each agreement's stipulated payout period, the remaining assets are transferred as designated by the donor to temporarily restricted assets or unrestricted assets as applicable.

Presented below is a rollforward of the actuarial liability for the annuity assets at June 30, 2005 and 2004:

	2005	**2004**
Beginning balance	$ 4,549,000	$ 3,196,000
Dividend and interest income	176,865	140,132
Net realized and unrealized loss	691,863	953,432
Annuity/unitrust payments	(626,158)	(533,710)
Investment/tax fees	(46,253)	-
Net change in actuarial liability of annuity funds	154,988	793,146
Ending balance	$ 4,900,305	$ 4,549,000

Credit Risk Concentrations

Financial instruments which potentially expose the Foundation to concentrations of credit risk include cash and cash equivalents, investments in marketable securities and pledges receivable. As a matter of policy, the Foundation only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by both the distribution of investment funds among asset managers and the overall diversification of managed investment portfolios. Concentration of credit risk for pledges receivable is generally limited due to the dispersion of these balances over a wide base of donors.

Estimates

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

Reclassification
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

3. Property

Property is stated at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Category	Estimated Useful Life (in years)
Buildings	40
Furniture and fixtures	10
Office equipment	5

Property as of June 30, 2005 consisted of:

	Nondepreciable	Depreciable	Total
Performing Arts Center	$ 262,637	$ 444,057	$ 706,694
Hudkins Property	179,436	48,564	228,000
Lincoln Research Facility	26,500	193,500	220,000
Mary Patterson Property	16,210	33,790	50,000
Urban Property	28,000	-	28,000
Flynn Property	25,500	-	25,500
Clugh Property	16,000	-	16,000
Price Property	760	-	760
Paul Miller Property	-	19,720	19,720
Office furniture, fixtures and equipment	-	38,840	38,840
Trumbull Property	329,130	-	329,130
Less: accumulated depreciation	-	(707,930)	(707,930)
Total property, net of accumulated depreciation	$ 884,173	$ 70,541	$ 954,714

4. Investments

Investments are stated at market value. Fluctuations in market value, as well as gains or losses on sales of securities, are recognized in the statements of activities. Investments as of June 30, 2005 and 2004 consisted of:

	2005	2004
Certificates of deposit	$ 431,432	$ 420,980
Money market funds	6,265,390	4,727,959
Mutual funds	72,025,448	69,720,037
Stocks	15,910,313	10,042,309
Corporate and U.S. Government securities	38,695	39,046
Total market value	$ 94,671,278	$ 84,950,331
Total cost	$ 90,185,714	$ 83,591,219

The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

As a result of market declines, the fair value of certain donor-restricted endowments is less than the historical cost value of such funds by approximately $133,190 and $188,615 at June 30, 2005 and 2004, respectively.

5. Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at their approximate present value. The future expected cash flows from pledges receivable have been discounted using a discount rate of 4.5%.

Pledges receivable at June 30, 2005 and 2004 have the following restrictions:

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Pledges receivable at June 30, 2005	$ 180,161	$ 4,820,149	$ 4,189,944	$ 9,190,254
Less: Reserve for uncollectible pledges	34,059	570,602	419,246	1,023,907
Less: Discount to present value	7,810	567,289	343,566	918,665
Pledges receivable, net at June 30, 2005	$ 138,292	$ 3,682,258	$ 3,427,132	$ 7,247,682
Pledges receivable at June 30, 2004	$ 132,309	$ 3,147,686	$ 4,152,325	$ 7,432,320
Less: Reserve for uncollectible pledges	26,954	382,504	565,832	975,290
Less: Discount to present value	8,656	292,190	365,033	665,879
Pledges receivable, net at June 30, 2004	$ 96,699	$ 2,472,992	$ 3,221,460	$ 5,791,151

Pledges receivable at June 30, 2005 and 2004 are expected to be realized in the following periods.

	2005	2004
Less than one year	$ 3,427,294	$ 4,495,504
One to five years	4,527,879	1,532,466
More than five years	1,235,081	1,404,350
	$ 9,190,254	$ 7,432,320

As of June 30, 2005, the Foundation has approximately $27,284,262 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. These pledges are not recorded as receivables or recognized as revenue because they do not represent unconditional promises to give.

6. Expenses By Function

The Foundation's scholarships, awards, grants and University support expenses by function for the years ended June 30, 2005 and 2004 are as follows:

	2005	2004
Academics	$ 6,692,951	$ 7,247,798
Athletics	790,328	611,888
WKSU	2,879,586	2,627,625
General expenses	399,055	332,726
	$ 10,761,920	$10,820,037

The remaining Foundation expenses, shown in their natural expense classifications on the accompanying statements of activities, are depreciation and administrative expenses.

7. Related Party Transactions

Administrative expenses of the Foundation, except for certain legal, professional and insurance expenses, are paid by the University. However, the Foundation reimburses the University for substantially all of the expenses of the Foundation. The amount payable to the University at June 30, 2005 and 2004 is approximately $611,056 and $588,225, respectively.

Certain facilities held by the Foundation are leased to the University for a nominal amount.

8. Income Taxes

The Foundation is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from paying federal income taxes pursuant to Section 501(a) of the Internal Revenue Code.

9. Net Assets

Unrestricted net assets at June 30, 2005 and 2004 are as follows:

	2005	2004
For current operations	$ 713,716	$ 756,246
Uncollected pledges, net	138,293	96,699
	$ 852,009	$ 852,945

Temporarily restricted net assets, principally related to scholarships, specific schools within the University, department chairs, and various other purposes related to support of the University at June 30, 2005 and 2004 are as follows:

	2005	2004
Unexpended net assets and related accumulated income received for restricted purposes	$ 33,326,683	$ 28,396,913
Uncollected pledges, net	3,682,258	2,472,992
Unexpended true endowment income	9,451,249	8,046,653
Invested in real estate and museum collections	8,956,281	8,671,016
	$ 55,416,471	$ 47,587,574

Permanently restricted net assets, principally related to scholarships, specific schools within the University, department chairs, and various other purposes related to support of the University at June 30, 2005 and 2004 are as follows:

	2005	2004
True endowment net assets	$ 43,184,749	$ 40,265,976
Annuity and life income net assets	5,137,496	4,589,549
Uncollected pledges, net	3,427,132	3,221,460
	$ 51,749,377	$ 48,076,985

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of scholarships and development of the University in the amount of $9,417,313 and $9,868,964 at June 30, 2005 and 2004, respectively.

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Report of Independent Auditors 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 of
Kent State University Foundation:

We have audited the financial statements of Kent State University Foundation (the "Foundation"), a component unit of Kent State University, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. 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 Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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*.

This report is intended solely for the information and use of the Foundation's Board of Trustees, management, and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

October 7, 2005
Cleveland, Ohio

Auditor of State
Betty Montgomery

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KENT STATE UNIVERSITY FOUNDATION, INC.

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
DECEMBER 30, 2005