KENT STATE UNIVERSITY FOUNDATION, INC.

FINANCIAL STATEMENTS
June 30, 2008 and 2007

Board of Directors
Kent State University Foundation
1061 Fraternity Circle
Kent, Ohio 44242

We have reviewed the *Report of Independent Auditors* of the Kent State University Foundation, Portage County, prepared by Crowe Horwath LLP, 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 Foundation is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 4, 2008

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KENT STATE UNIVERSITY FOUNDATION, INC.
Kent, Ohio

FINANCIAL STATEMENTS
June 30, 2008 and 2007

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Crowe Horwath™

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Kent State University Foundation, Inc.
Kent, Ohio

We have audited the accompanying statements of financial position of Kent State University Foundation, Inc. (the "Foundation") as of June 30, 2008, and the related statements of activity, and cash flows for the year then ended. 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 audit. The financial statements of the Foundation as of June 30, 2007, were audited by other auditors whose report dated September 17, 2007, expressed an unqualified opinion on those statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2008, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 7, 2008 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 7, 2008

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents	$ 2,510,030	$ 922,883
Receivables		
Pledges	15,614,434	15,092,265
Interest	-	68,384
Other	1,000	2,596
	15,615,434	15,163,245
Investments		
Long-term pool	91,734,034	97,971,134
Short-term pool	19,007,849	17,277,261
Charitable remainder trusts	9,882,412	11,303,408
Other	6,000	6,000
	120,630,295	126,557,803
Beneficial interest in trusts held by others	601,949	464,932
Property		
Museum collection	8,318,597	8,256,573
Real estate held for disposition	1,051,841	1,080,401
	9,370,438	9,336,974
	$ 148,728,146	$ 152,445,837
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 99,028	$ 87,561
Funds held for Kent State University Alumni Association, Inc.	5,351,376	5,461,460
Actuarial liabilities		
Annuities	1,182,898	881,464
Charitable remainder trusts	3,565,357	4,746,379
	10,198,659	11,176,864
Net assets		
Unrestricted	684,365	1,295,852
Temporarily restricted	73,421,355	79,529,886
Permanently restricted	64,423,767	60,443,235
	138,529,487	141,268,973
	$ 148,728,146	$ 152,445,837

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Revenue and Support				
Gifts				
Cash and securities	$ 204,872	$ 10,869,697	$ 3,314,128	$ 14,388,697
In-kind	-	3,080,871	-	3,080,871
Beneficial interest in trusts held by others	-	-	156,580	156,580
	204,872	13,950,568	3,470,708	17,626,148
Net change in pledges receivable	8,463	(400,208)	913,914	522,169
	213,335	13,550,360	4,384,622	18,148,317
Investment income				
Interest and dividends	726,690	2,126,166	-	2,852,856
Net gains and losses	(210,260)	(7,785,959)	-	(7,996,219)
Income on funds held for others	-	110,084	-	110,084
	516,430	(5,549,709)	-	(5,033,279)
Sales, services, events, and other	207,305	1,717,943	-	1,925,248
Changes in designation of prior contributions	-	(374,820)	374,820	-
Release of restrictions				
Administrative fees	1,180,739	(1,180,739)	-	-
Spending distribution	4,119,175	(4,119,175)	-	-
Other support for Kent State University	10,152,391	(10,152,391)	-	-
Total release of restrictions	15,452,305	(15,452,305)	-	-
	16,389,375	(6,108,531)	4,759,442	15,040,286
Expenses and losses				
Support for Kent State University				
Academics	11,596,645	-	-	11,596,645
Athletics	613,448	-	-	613,448
WKSU	3,420,899	-	-	3,420,899
Fundraising	764,128	-	-	764,128
	16,395,120	-	-	16,395,120
Administration	603,682	-	-	603,682
Depreciation	2,060	-	-	2,060
Total expenses	17,000,862	-	-	17,000,862
Change in actuarial liabilities	-	-	778,910	778,910
Total expenses and losses	17,000,862	-	778,910	17,779,772
Change in net assets	(611,487)	(6,108,531)	3,980,532	(2,739,486)
Net assets at beginning of year	1,295,852	79,529,886	60,443,235	141,268,973
Net assets at end of year	$ 684,365	$ 73,421,355	$ 64,423,767	$ 138,529,487

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Revenue and Support				
Gifts				
Cash and securities	$ 293,649	$ 11,266,095	$ 3,793,459	$ 15,353,203
In-kind	-	3,211,826	-	3,211,826
Beneficial interest in trusts held by others	-	-	-	-
	293,649	14,477,921	3,793,459	18,565,029
Net change in pledges receivable	(103,899)	2,161,460	389,433	2,446,994
	189,750	16,639,381	4,182,892	21,012,023
Investment income				
Interest and dividends	923,455	2,381,063	-	3,304,518
Net gains and losses	297,895	12,241,643	-	12,539,538
Income on funds held for others	-	(1,091,468)	-	(1,091,468)
	1,221,350	13,531,238	-	14,752,588
Sales, services, events, and other	213,087	1,167,183	-	1,380,270
Changes in designation of prior contributions	-	(717,630)	717,630	-
Release of restrictions				
Administrative fees	1,092,096	(1,092,096)	-	-
Spending distribution	3,671,406	(3,671,406)	-	-
Other support for Kent State University	11,397,403	(11,397,403)	-	-
Total release of restrictions	16,160,905	(16,160,905)	-	-
	17,785,092	14,459,267	4,900,522	37,144,881
Expenses and losses				
Support for Kent State University				
Academics	12,117,748	-	-	12,117,748
Athletics	427,340	-	-	427,340
WKSU	3,113,890	-	-	3,113,890
Fundraising	1,120,614	-	-	1,120,614
	16,779,592	-	-	16,779,592
Administration	506,508	-	-	506,508
Depreciation	7,611	-	-	7,611
Total expenses	17,293,711	-	-	17,293,711
Change in actuarial liabilities	-	-	(667,978)	(667,978)
Total expenses and losses	17,293,711	-	(667,978)	16,625,733
Change in net assets	491,381	14,459,267	5,568,500	20,519,148
Net assets at beginning of year	804,471	65,070,619	54,874,735	120,749,825
Net assets at end of year	$ 1,295,852	$ 79,529,886	$ 60,443,235	$ 141,268,973

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Increase (decrease) in net assets	$ (2,739,486)	$ 20,519,148
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities		
Net (gains) loss on investments	7,996,219	(12,539,538)
Contributions permanently restricted	(3,314,128)	(3,793,459)
Gifts of stock	(1,566,909)	(3,093,597)
Gifts of property	(35,524)	(120,751)
Depreciation	2,060	7,611
Changes in operating assets and liabilities		
Pledges receivable	(522,169)	(2,446,994)
Other receivable	69,980	(3,539)
Beneficial interest in lead trust	(137,017)	34,552
Accounts payable	11,467	(269,196)
Funds held for others	(110,084)	1,091,468
Actuarial liability for annuity/unitrust agreements	(879,588)	429,691
Net cash used in operating activities	(1,225,179)	(184,604)
Cash flows from investing activities		
Purchases of investments	(52,238,832)	(105,663,270)
Proceeds from sales of investments	51,737,030	102,842,168
Net cash used in investing activities	(501,802)	(2,821,102)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	2,742,348	3,106,831
Investment in trusts and annuities	571,780	686,628
Net cash provided by financing activities	3,314,128	3,793,459
Net change in cash and cash equivalents	1,587,147	787,753
Cash and cash equivalents at beginning of year	922,883	135,130
Cash and cash equivalents at end of year	$ 2,510,030	$ 922,883

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION

Kent State University Foundation, Inc. (the "Foundation") was incorporated as a non-profit organization on December 27, 1965 as an independent self-governing body under the laws of the State of Ohio for the purpose of aiding, supporting, advancing, augmenting, and assisting in the development of Kent State University (the "University"). The Foundation is governed by a self-appointing Board of Directors composed of campus and community members. The Board of Directors have adopted a Code of Regulations for purposes of governance.

The Foundation has an operating agreement with the University dated July 1, 1997. The provisions of that agreement require the Foundation to reimburse the University for direct expenses related to Foundation administration. The Foundation has no employees of its own.

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. Additionally, the Foundation is defined as a public charity pursuant to 509(a)(2).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting and Presentation</u>: The financial statements of the Foundation have been prepared in accordance with generally accepted accounting principles as applied to not-for-profit organizations and utilize the accrual basis of accounting. Furthermore, the accounting policies adhered to by the Foundation are generally consistent with the *Audit and Accounting Guide for Not-For-Profit Organizations* issued by the American Institute of Certified Public Accountants.

The financial statement presentation follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

<u>Cash and Cash Equivalents</u>: Cash and cash equivalents as presented in the financial statements are for operating purposes and include highly liquid investments with original maturities of three months or less that are not included in investments. At various times throughout the fiscal year, the Foundation had in excess of $100,000 on deposit with a financial institution whose deposits are federally insured up to $100,000.

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gifts: Gifts are recorded at their fair market value on the date of receipt. Gifts requiring future payment obligations are recorded as the difference between the assets received and the future payment obligation. Gifts-in-kind such as property, used equipment, etc., and gifts for research are received directly by the University and recorded as gifts and university support on the Foundation's statement of activities when reported to the Foundation. All gifts are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support.

Investments: Investments are stated at fair value based on market value. Fluctuations in market value, as well as gains or losses on sales of securities, are recognized in the statements of activities. Gifts of securities are valued at the average of the high and low value on the date of receipt.

Investments are presented in the statements of financial position according to their intended purpose. Short-term and long-term pool investments are determined based on liquidity. Trust investments are segregated into individual funds. All investments are maintained by custodians with the exception of a small amount of securities held by the Foundation.

All income from the short-term pool is unrestricted except for any portion that is allocated to temporarily restricted construction funds. The long-term pool is operated using a unitized share method. Income and expenses of the pool are allocated on June 30th and December 31st each year based on average share balances calculated using the previous seven consecutive month ending balances. Trust investment income is assigned to the segregated fund which generated the income.

The Foundation receives stocks from the University which represent the University's interest in science and technology start-up enterprises. The stocks are not traded and have not been valued for purposes of the Foundation's financial statements.

Pledges Receivable: Unconditional pledges are recorded in the period that the pledges are received. Conditional pledges are recorded in the period in which the conditions have been met. Funds from pledges to be collected in future years are presented at net present value. All pledges are presented net of an allowance for doubtful collections. Contributions receivable are reviewed annually to determine if an allowance for uncollectible contributions receivable is needed. Based upon management's judgment, considering such factors as prior collection history, type of contribution and nature of fund-raising activity, an allowance for uncollectible contributions receivable has been provided.

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses: The costs of provided various programs and supporting services have been summarized on a functional basis in the statements of activities.

Beneficial Interest in Trusts Held by Others: Non-custodial, non-revocable trusts which will benefit the Foundation are recognized as gift revenue and as an asset in an amount equal to the present value of the estimated future beneficiary payments to be received. Changes in the asset value are recognized as market gains and losses.

Property: Property consists of real estate acquired through purchase or gifts and a gifted collection of fashions held by the University museum. All property is recognized at the acquisition cost or the value of the gift when received. The museum collection is not depreciated. Buildings included in real estate are depreciated on a straight-line basis over a forty-year period. All other property is fully depreciated.

Actuarial Liabilities: Obligations to pay stipulated amounts periodically to donors and/or other designated individuals under split interest and annuity agreements are accounted for using the actuarial method.

Net Assets: The Foundation's net assets are classified into three categories: (1) unrestricted, which have no donor restrictions, (2) temporarily restricted, which include donor-imposed restrictions that will expire in the future, (3) Permanently restricted, which include donor-imposed restrictions that the assets be maintained permanently.

Life Insurance Policies: The Foundation has been named as the beneficiary of several life insurance policies. The Foundation's accounting policy is to record the insurance proceeds as other revenue when received. The total face value of the policies that name the Foundation as beneficiary is approximately $650,000 at June 30, 2008 and 2007.

Income Taxes: Pursuant to determination by the Internal Revenue Service, the Foundation is exempt from federal income tax under section 501 (c)(3) of the Internal Revenue Code.

Fair Value of Financial Instruments: The carrying value of investments and other financial instruments reported in the statement of financial position for assets and liabilities due within one year and long-term liabilities approximates fair value at June 30, 2008 and 2007.

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.

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). This standard clarifies the definition of fair value for reporting, establishes a framework for measuring fair value and greatly expands disclosures about the use of fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Additional disclosures will be required regarding the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of activities for a fiscal period.

In August 2008, FASB issued Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" ("FSP 117-1"). FSP 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Additional disclosures about endowments for both donor-restricted funds and board-designated funds for all organizations, including those that are not yet subject to an enacted version of UPMIFA, are required to enable users to understand its endowment funds' net asset classification, net asset composition, changes in net asset composition, spending policy, and related investment policy. FSP 117-1 is effective for all fiscal years ending after December 15, 2008.

The provisions of SFAS No. 157 and FSP 117-1 become effective for the year ending June 30, 2009. The overall financial statement impact of adoption of these pronouncements has not been determined by the Foundation.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on total assets, net assets or change in net assets as previously reported.

(Continued)

NOTE 3 - INVESTMENTS

The cost and fair value of the Foundation's investments, as of June 30, 2008 and 2007, were as follows:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 18,339,498	$ 18,339,497	$ 16,408,042	$ 16,408,042
Mutual funds	94,685,343	98,943,361	102,660,370	91,465,571
Stocks	7,599,454	6,271,594	7,483,391	5,444,044
Bond	6,000	6,000	6,000	6,000
	$ 120,630,295	$ 123,560,452	$ 126,557,803	$ 113,323,657

Investments are managed by the Board of Directors of the Foundation based upon the recommendations of a board directed investment committee and in accordance with a defined investment policy. The policy contains objectives, guidelines, and restrictions regarding investing. The Board of Directors employs an investment consultant to assist in matters of asset allocation, investment manager selection, and performance measurement.

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 $689,913 and $24,187 at June 30, 2008 and 2007, respectively.

NOTE 4 – 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 discount rates between 3.5% and 5.0%. Pledges receivable at June 30, 2008 and 2007 have the following restrictions:

(Continued)

NOTE 4 – PLEDGES RECEIVABLE (Continued)

	Total	Unrestricted	Restricted Temporarily	Restricted Permanently
Pledges receivable at June 30, 2008	$ 19,177,255	$ 97,854	$ 14,598,535	$ 4,480,866
Less: Reserve for uncollectible pledges	2,357,439	19,098	1,823,003	515,338
Less: Present value discount	1,205,382	3,606	916,579	285,197
	$ 15,614,434	$ 75,150	$ 11,858,953	$ 3,680,331
Pledges receivable at June 30, 2007	$ 18,607,721	$ 84,373	$ 15,116,258	$ 3,407,090
Less: Reserve for uncollectible pledges	1,871,765	10,813	1,520,243	340,709
Less: Present value discount	1,643,691	6,872	1,336,855	299,964
	$ 15,092,265	$ 66,688	$ 12,259,160	$ 2,766,417

Pledges receivable at June 30, 2008 and 2007 are expected to be realized in the following periods:

	2008	2007
Less than one year	$ 9,590,193	$ 9,327,062
One to five year	9,368,354	8,487,207
More than five years	218,708	793,452
	$ 19,177,255	$ 18,607,721

As of June 30, 2008, the Foundation has approximately $34,086,000 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.

NOTE 5 – SPLIT INTEREST TRUST AND ANNUITY FUNDS

The Foundation has entered into split interest trust agreements whereby it receives assets from donors on the condition that it binds itself to pay stipulated amounts periodically to the donor and/or other designated individuals. Assets received in a split interest trust transaction are maintained in segregated custodial accounts with the assets restricted for satisfaction of the payment liability associated with the split interest trust. The Foundation's payment liability is limited to the amount of the split interest trust assets.

(Continued)

NOTE 5 – SPLIT INTEREST TRUST AND ANNUITY FUNDS (Continued)

The Foundation has entered into annuity agreements whereby it receives assets from donors on the condition that it binds itself to pay stipulated amounts periodically to the donor and/or other designated individuals. Assets received in an annuity agreement transaction are represented by shares in the Foundation's long-term investment pool. The Foundation's payment liability is determined by the terms of the annuity agreement regardless of the amount in the investment account.

At the date the agreements are made effective, the difference between the assets received and the future obligation to the donor, the net asset, is recorded as a gift. The gift is classified as unrestricted, temporarily restricted, or permanently restricted depending on the donor designation. Upon termination of each agreement's stipulated payout period, the segregated asset accounts are distributed in the appropriate asset class of the Foundation.

The future obligation to donors and other designated individuals is accounted for using the actuarial method. Under the actuarial method, the present value of the future amounts payable is credited to the actuarial liability account. For periods subsequent to the effective date of the agreements, investment income from the segregated assets increases the actuarial liability account. Stipulated payments, administrative expenses, and investment losses from the segregated assets decrease the actuarial liability account. At year-end, an adjustment is made to the actuarial liability to record the change in the actuarial obligation between years. The adjustment is included in the statement of activities as unrestricted, temporarily restricted, or permanently restricted depending on the donor designation associated with each agreement.

Presented below is a roll forward of the actuarial liability for the annuity assets at June 30, 2008 and 2007. The Foundation utilized a discount rate of 3.8% and 5.6% for the years ended June 30, 2008 and 2007, respectively.

	2008	2007
Balance at beginning of year	$ 5,627,843	$ 5,198,152
Investment income	(827,533)	1,899,565
Annuity/trust payments	(793,074)	(756,215)
Expenses	(37,891)	(45,681)
Net change in actuarial liability	778,910	(667,978)
	(879,588)	429,691
Balance at end of year	$ 4,748,255	$ 5,627,843

(Continued)

NOTE 6 – 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 for the benefit of the University's Kent campus and $10,000 is necessary to establish an endowment for the benefit of a University's regional campus. 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 $397,545 and $1,039,267 during the years ended June 30, 2008 and 2007, respectively. The transfers from permanently restricted net assets to temporarily restricted net assets were $22,725 and $321,637 during the years ended June 30, 2008 and 2007, respectively. The amount included in temporarily restricted net assets at June 30, 2008, which may have a change in designation in the future, per the donors' request, is $264,575.

NOTE 7 – NET ASSETS

Temporarily and permanently restricted net assets are principally related to scholarships, specific schools within the University, department chairs, and various other purposes.

		Restricted	
Net assets at June 30, 2008	Unrestricted	Temporarily	Permanently
Available for expenditure			
Current operations	$ 609,215	$ 40,504,730	$ -
Earnings on endowments	-	11,687,234	-
Real estate	-	1,051,841	-
	609,215	53,243,805	-
Unavailable for expenditure			
Endowments	-	-	53,892,090
Trust and annuities	-	-	6,851,346
Museum collection	-	8,318,597	-
Uncollected pledges, net	75,150	11,858,953	3,680,331
	75,150	20,177,550	64,423,767
	$ 684,365	$ 73,421,355	$ 64,423,767

(Continued)

NOTE 7 – NET ASSETS (Continued)

Net assets at June 30, 2007	Unrestricted	Restricted Temporarily	Restricted Permanently
Available for expenditure			
Current operations	$ 1,229,164	$ 37,265,283	$ -
Earnings on endowments	-	20,668,469	-
Real estate	-	1,080,401	-
	1,229,164	59,014,153	-
Unavailable for expenditure			
Endowments	-	-	50,389,292
Trust and annuities	-	-	7,287,526
Museum collection	-	8,256,573	-
Uncollected pledges, net	66,688	12,259,160	2,766,417
	66,688	20,515,733	60,443,235
	$ 1,295,852	$ 79,529,886	$ 60,443,235

NOTE 8 – ENDOWMENT SPENDING POLICY

The Foundation has instituted a 5% spending policy whereby a portion of the accumulated investment return for endowment assets is distributed on June 30th and December 31st each year to funds which may be expended for current operations in accordance with any restrictions of the endowment fund. The distribution is calculated using a 2.5% semi-annual equivalent of the rate, applied against the average of the preceding month-end investment balances. The average preceding month end investment balance is calculated as the lesser of thirty-six months or the number of months the fund has been in existence. Endowment funds in existence for eighteen months or less are not eligible for a spending distribution. Certain endowment funds do not permit a spending distribution below the amount of the original gift.

NOTE 9 – ADMINISTRATIVE FEES

Endowment funds, annuity funds, and Kent State University Alumni Association funds invested in the long-term investment pool are assessed an administrative fee from the unrestricted fund on June 30th and December 31st each year. The 1.25% annual fee is used to offset unrestricted fund costs for administrative, clerical and fiduciary services. The semi-annual equivalent of the rate, 0.0625%, is applied against the average of the preceding seven month-end investment balances in the calculation of the fee.

(Continued)

NOTE 10 – RELATED PARTY TRANSACTIONS

The Foundation made grants to the University in furtherance of the Foundation's mission and in compliance with donor restrictions. Additionally, grants were made to the University from unrestricted funds at the direction of the Foundation's Board of Directors. The grants are disclosed in the statements of activities. Certain real estate held by the Foundation for disposition is currently leased to the University for a nominal amount.

The Foundation made payments to the University in accordance with an operating agreement between the parties. Payments made under the agreement were $530,716 for the year ended June 30, 2008 and $530,841 for the year ended June 30, 2007. The payments were primarily for staffing used in the execution of Foundation operations. The amount payable to the University at June 30, 2008 and 2007 is $46,840 and $54,849, respectively. In addition, the Foundation rents certain facilities and information technology support from the University for nominal amounts as consideration in the operating agreement.

In July 2007, the Foundation transferred to the University land in the amount of $26,500 and related building and fixtures with, as of the date of the transfer, a zero net book value. These transfers are included in University support on the accompanying statement of activities for the year ended June 30, 2008. No gain or contribution was recognized as a result of these transfers.

NOTE 11 – 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.

SUPPLEMENTARY INFORMATION

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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*

Board of Directors
Kent State University Foundation, Inc.
Kent, Ohio

We have audited the financial statements of Kent State University Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 7, 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 Foundation'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 Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting.

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 control. We consider deficiency 08-01 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

(Continued)

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 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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We do not believe that the significant deficiency described above is a material weakness.

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.*

We noted certain matters that we reported to management of the Foundation in a separate letter dated October 7, 2008.

The Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Foundation's Board of Directors, others within the entity, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 7, 2008

FINDING 08-01

Criteria:	The Foundation should review, in a timely manner, monthly bank reconciliations. Additionally, the Foundation should implement a segregation of duties surrounding the Foundation's cash management function.
Condition:	Foundation management does not review monthly bank reconciliations. Additionally, the same individual responsible for completing the bank reconciliations is also responsible for general ledger posting and management.
Context:	Due to the limited number of employees working in the Foundation's accounting office, some critical duties may be combined and assigned to the available employees. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible. The individual performing the bank reconciliation does not have check signing authority which does mitigate this deficiency to a certain extent.
Effect:	Failure to review monthly bank reconciliations can lead to improper amounts being recorded in the general ledger and increase the risk of fraud.
Cause:	The situation appears to be the result of limited resources available in the Foundation's accounting office.
Recommendation:	We recommend that different employees perform the separate duties of reconciling the cash accounts and maintaining books of original entry. Additionally, we recommend that a member of management review the bank reconciliations for any unusual items, investigate and fully resolve any such items, and document his or her approval by initialing the form.
Management Response:	Management concurs with this finding. Management will review the bank reconciliation and cash management procedures to provide for an effective review of the reconciliations and segregate duties to the extent practical.

Mary Taylor, CPA
Auditor of State

KENT STATE UNIVERSITY FOUNDATION

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 16, 2008

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