KENT STATE UNIVERSITY FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2009 and 2008

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, 2008 through June 30, 2009. 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

November 2, 2009

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KENT STATE UNIVERSITY FOUNDATION, INC.
Kent, Ohio

FINANCIAL STATEMENTS
June 30, 2009 and 2008

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Crowe Horwath

Crowe Horwath LLP
Member Crowe Horwath International

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, 2009 and 2008, and the related statements of activity, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2009 and 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 6, 2009 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 6, 2009

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 1,587,638	$ 2,510,030
Receivables		
Pledges	13,921,571	15,614,434
Other	1,705	1,000
	13,923,276	15,615,434
Investments		
Long-term pool	74,090,699	91,734,034
Short-term pool	20,486,004	19,007,849
Charitable remainder trusts	5,800,504	9,882,412
Other	6,000	6,000
	100,383,207	120,630,295
Beneficial interest in trusts held by others	521,732	601,949
Property, net of depreciation	961,074	1,051,841
	$ 117,376,927	$ 140,409,549
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 114,898	$ 99,028
Funds held for Kent State University Alumni Association, Inc.	4,379,320	5,351,376
Actuarial liabilities		
Annuities	1,847,249	1,182,898
Charitable remainder trusts	2,852,894	3,565,357
	9,194,361	10,198,659
Net assets		
Unrestricted	342,043	684,365
Temporarily restricted	79,168,629	65,102,758
Permanently restricted	28,671,894	64,423,767
	108,182,566	130,210,890
	$ 117,376,927	$ 140,409,549

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2009

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Revenue and Support				
Gifts				
Cash and securities	$ 180,532	$ 15,952,936	$ 967,110	$ 17,100,578
Events and other	-	1,493,904	-	1,493,904
Net change in pledges receivable	(32,473)	(253,569)	442,630	156,588
	148,059	17,193,271	1,409,740	18,751,070
Losses on pledge receivables	(16,758)	(1,070,918)	(761,775)	(1,849,451)
	131,301	16,122,353	647,965	16,901,619
Investment income				
Interest and dividends	437,357	1,782,258	-	2,219,615
Investment gains and (losses)	(2,864,061)	(16,163,364)	-	(19,027,425)
Income on funds held for others	-	972,056	-	972,056
	(2,426,704)	(13,409,050)	-	(15,835,754)
Sales, services, events, and other	113,052	-	-	113,052
Changes in designation of prior contributions				
UPMIFA	2,855,097	27,322,752	(30,177,849)	-
Other		4,320,432	(4,320,432)	
Release of restrictions				
Administrative fees	924,007	(924,007)	-	-
Spending distribution	3,073,646	(3,073,646)	-	-
Other support for Kent State University	16,292,963	(16,292,963)	-	-
Total release of restrictions	20,290,616	(20,290,616)	-	-
	20,963,362	14,065,871	(33,850,316)	1,178,917
Expenses and losses				
Support for Kent State University				
Academics	15,978,775	-	-	15,978,775
Athletics	531,016	-	-	531,016
WKSU	3,652,248	-	-	3,652,248
Fundraising	670,057	-	-	670,057
	20,832,096	-	-	20,832,096
Administration	471,598	-	-	471,598
Depreciation	1,990	-	-	1,990
Losses on actuarial liabilities	-	-	1,901,557	1,901,557
	21,305,684	-	1,901,557	23,207,241
Change in net assets	(342,322)	14,065,871	(35,751,873)	(22,028,324)
Net assets at beginning of year	684,365	65,102,758	64,423,767	130,210,890
Net assets at end of year	$ 342,043	$ 79,168,629	$ 28,671,894	$ 108,182,566

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	-	3,018,847	-	3,018,847
Events and other	-	1,717,943	-	1,717,943
Beneficial interest in trusts held by others	-	-	156,580	156,580
Net change in pledges receivable	16,748	(97,448)	1,088,543	1,007,843
	221,620	15,509,039	4,559,251	20,289,910
Losses on pledges receivable	(8,285)	(302,760)	(174,629)	(485,674)
	213,335	15,206,279	4,384,622	19,804,236
Investment income				
Interest and dividends	726,690	2,126,166	-	2,852,856
Investment 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	-	-	207,305
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	(6,170,555)	4,759,442	14,978,262
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
Losses on actuarial liabilities	-	-	778,910	778,910
	17,000,862	-	778,910	17,779,772
Change in net assets	(611,487)	(6,170,555)	3,980,532	(2,801,510)
Net assets at beginning of year – as originally presented	1,295,852	79,529,886	60,443,235	141,268,973
Change in accounting principle for museum collection	-	(8,256,573)	-	(8,256,573)
Net assets at beginning of year – after change in accounting principle	1,295,852	71,273,313	60,443,235	133,012,400
Net assets at end of year	$ 684,365	$ 65,102,758	$ 64,423,767	$ 130,210,890

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	$ (22,028,324)	$ (2,801,510)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net (gains) loss on investments	19,027,425	7,996,219
Contributions permanently restricted	(967,110)	(3,314,128)
Change in actuarial obligations	1,901,557	778,910
Gifts of stock	(749,363)	(1,566,909)
Gifts of property received	(125,000)	-
Losses on pledges receivable	1,849,451	485,674
Disposal of properties	87,093	26,500
Gain on sale of property	(6,643)	-
Depreciation	1,990	2,060
Changes in operating assets and liabilities		
Pledges receivable	(156,588)	(1,007,843)
Other receivable	(705)	69,980
Beneficial interest in lead trust	80,217	(137,017)
Accounts payable	15,870	11,467
Funds held for others	(972,056)	(110,084)
Actuarial liability for annuity and unitrust agreements	(1,367,842)	(865,424)
Net cash used in operating activities	(3,410,028)	(432,105)
Cash flows from investing activities		
Purchases of investments	(59,160,162)	(52,238,832)
Proceeds from sales of investments	61,129,189	51,737,030
Proceeds from sale of property	133,326	-
Net cash provided by (used in) investing activities	2,102,353	(501,802)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	841,629	2,742,348
Investment in trusts	125,481	571,780
Payments to annuitants	(581,827)	(793,074)
Net cash provided by financing activities	385,283	2,521,054
Net change in cash and cash equivalents	(922,392)	1,587,147
Cash and cash equivalents at beginning of year	2,510,030	922,883
Cash and cash equivalents at end of year	$ 1,587,638	$ 2,510,030

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 has 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 directexpenses 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

Basis of Accounting and Presentation: 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.

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.

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.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), issued July 2006, was effective as of January 1, 2007. The Foundation has elected to defer adoption of FIN 48, in accordance with the provisions of FASB Staff Position No. FIN 48-3, which permits certain nonpublic enterprises to delay adoption until fiscal years beginning after December 15, 2008. Currently, the Foundation accounts for contingencies associated with uncertain tax positions in accordance with SFAS No. 5, *Accounting for Contingencies*, which provides the recording of a contingency based on the probability of certain events to transpire that range from probable to remote as opposed to applying a more likely than not recognition threshold.

Gifts: Gifts are recorded on the date of receipt. Gifts of securities are valued at the average of the high and low value. Gifts requiring future payment obligations are recorded as the difference between the assets received and the future payment obligation. Gifts-in-kind are recorded at a substantiated amount which reflects the useful value for its intended purpose. 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.

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.

Fair Value of Assets and Liabilities: In 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards and expands the disclosure of the methods used and the effect of fair value measurements on earnings. This Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Foundation adopted applicable portions of this standard for the year ended June 30, 2009. The Foundation uses fair value accounting for investments and beneficial interests in lead and perpetual trusts.

SFAS No. 157, defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Statement No. 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

<u>Financial Instruments</u>: The Foundation's carrying amount for its financial instruments, which include cash and cash equivalents, pledge receivables, accounts payable and actuarial liabilities at June 30, 2009 and 2008 are carried at their estimated fair values. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data and developing these estimates.

<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 $250,000 on deposit with a financial institution whose deposits are federally insured up to $250,000.

<u>Investments</u>: Investments are stated at fair value. Fluctuations in fair value, as well as gains or losses on sales of securities, are recognized in the statements of activities. Investments are presented in the statements of financial position according to their intended purpose. The Foundation maintains both a short-term and a long-term pool of investments. Trust investments are segregated into individual funds. 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 and is the primary investment vehicle for endowed funds. Trust investment income is assigned to the segregated fund which generated the income.

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. All property is recognized at the acquisition cost or the value of the gift when received. Buildings included in real estate are depreciated on a straight-line basis over a forty-year period. All other property is fully depreciated.

Collections: Purchases of collection items are expenses as incurred. Items contributed to collections during the year are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. There were no collection purchases or proceeds received during the years ending June 30, 2009 and 2008. See also Note 12 for discussion of the change in accounting principle related to collections.

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.

Endowments: The Foundation has adopted FASB Staff Position ("FSP") 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 ("UPMIFA"), and Enhanced Disclosure for All Endowment Funds*.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation has interpreted the UPMIFA as requiring amounts to be classified as permanently restricted only those gifts and accumulations explicitly directed by the donor to be preserved. Endowment funds not classified as permanently restricted net assets are classified as temporarily restricted net assets until utilized by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. See Note 8 for additional disclosure on the effect of UPMIFA and net asset classifications.

Endowment funds are invested with the overall objective of preservation of principal, competitive investment returns, and moderate investment risk resulting in a real (inflation-adjusted) annualized rate of return greater than the spending rate and investment-related expenses. The Foundation considered the expected annual return on its endowment investments when developing its spending policy. As a result, the Foundation expects that its current spending policy will allow the endowment funds to maintain real value while also experiencing growth through additional gifts and accumulated earnings.

The Foundation has 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 historic gift value or other donor designated amount.

As a result of market declines, the fair value of certain permanently restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Such amounts totaled $1,799,182 and $689,913 as of June 30, 2009 and 2008, respectively.

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 $875,000 and $650,000 at June 30, 2009 and 2008 respectively.

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 fair value of the Foundation's investments, as of June 30, 2009 and 2008, are as follows:

	2009	2008
Corporate stocks	$ 4,621,897	$ 7,599,454
Government bonds	6,000	6,000
Mutual funds	92,114,161	113,024,841
Limited partnership hedge fund	3,641,149	-
	$ 100,383,207	$ 120,630,295

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 employs an investment consultant to assist in matters of asset allocation, investment manager selection, and performance measurement. All investments are maintained by custodians with the exception of a small amount of securities held by the Foundation.

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.

The following table presents information about the investments measured at fair value on a recurring basis as of June 30, 2009:

	Active Markets For Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate stocks	$ 4,160,204	$ 461,693	$ -
Government bonds		6,000	-
Mutual funds	92,114,161	-	-
Limited partnership hedge fund	-	-	3,641,149
	$ 96,274,365	$ 467,693	$ 3,641,149

(Continued)

NOTE 3 – INVESTMENTS (Continued)

The Foundation invests in an alternative investment which includes an investment in a limited partnership. Market value represents the Foundation's proportionate interest in the net assets of the fund. Market value is calculated by taking total number of shares of a particular class of a fund owned, divided by the number of such class of shares outstanding, times the net assets of the fund. Market values are supplied to the Foundation by a third party administrator. Audited information about the fund is available annually. Due to current market conditions as well as the limited trading activity of these securities (Level 3 inputs), the market values reflected in the accompanying financial statements are highly sensitive to assumption changes and market volatility. Therefore the current values may differ from the ultimate realizable values and these differences may be significant.

The Foundation has an investment in common stock of an employee owned company. The common shares are not listed or traded on an established public trading market and market prices are, therefore, not available. Semi-annually, for purposes of the Company's 401KSOP, the fair market value of the common shares, based upon performance and financial condition, is determined by an independent stock valuation firm. Since 1979, the Company has provided a ready market for all shareholders through its direct purchase of their common shares. The Foundation is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

The table below presents a reconciliation and income statement classification of gains and losses for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Limited Partnership-Hedge Fund	
Beginning balance, June 30, 2008	$ -
Unrealized gains (losses) including earnings	241,149
Purchase of interest in limited partnership	3,400,000
Ending Balance, June 30, 2009	$ 3,641,149

(Continued)

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 a discount rate of 1.1% and 3.5 % at June 30, 2009 and 2008 respectively. Pledges receivable at June 30, 2009 and 2008 have the following restrictions:

			Restricted	
	Total	Unrestricted	Temporarily	Permanently
June 30, 2009				
Pledges receivable	$ 17,255,704	$ 32,028	$ 17,059,630	$ 164,046
Less: Reserve for uncollectible pledges	2,955,707	5,521	2,918,704	31,482
Less: Present value discount	378,426	588	374,958	2,880
	$ 13,921,571	$ 25,919	$ 13,765,968	$ 129,684
June 30, 2008				
Pledges receivable	$ 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, 2009 and 2008 are expected to be realized in the following periods:

	2009	2008
Less than one year	$ 9,771,363	$ 9,590,193
One to five year	6,926,069	9,368,354
More than five years	558,272	218,708
	$ 17,255,704	$ 19,177,255

As of June 30, 2009, the Foundation has approximately $36,432,000 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.

(Continued)

NOTE 4 – PLEDGES RECEIVABLE (Continued)

The table below presents a reconciliation of the fair value of pledge receivables which is measured on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009:

Pledges receivable – beginning of year	$ 15,614,434
Additional pledges	4,200,080
Collections on pledges	(3,619,265)
Pledges written off	(1,251,183)
Provision for doubtful pledges	(1,849,451)
Present value change	826,956
Pledges receivable – end of year	$ 13,921,571

NOTE 5 – BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS

The Foundation has a beneficial interest in a lead trust. The fair value of the beneficial interest is based on a valuation model that calculates the present value of a fixed annual payment for a term of years. The valuation model incorporates assumptions that market participants would use in estimating future income. The Foundation is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 3). At June 30, 2009 and 2008, the fair value of the Foundation's interest was $331,077 and $369,550, respectively.

The table below presents a reconciliation of the fair value of the beneficial interest in a lead trust which is measured on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009:

Balance at beginning of year	$ 369,550
Change in fair value	(38,473)
Balance at end of year	$ 331,077

The Foundation also has beneficial interests in various perpetual trusts. The fair value of the beneficial interest is based on quoted prices for similar assets or liabilities that are observable or can be corroborated by observable market data (Level 2 inputs). At June 30, 2009 and 2008, the fair value of the Foundation's interests was $190,655 and $232,399, respectively.

(Continued)

NOTE 6 – SPLIT INTEREST TRUSTS

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 investment accounts. The Foundation's payment liability is limited to the amount of the trust assets. 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 net change in the actuarial obligation between years.

At the date the agreements are made effective, the difference between the assets received and the fair value of the future obligation to the donor, the net asset, is recorded as a gift. Upon termination of each agreement's stipulated payout period, the remainder assets are distributed for the purpose designated by the donor.

The obligation for future stipulated payments to donors and other designated individuals is accounted for using the actuarial method. Under this method, the change in the fair value of the future amounts payable is credited to the actuarial liability account.

Presented below is a roll forward of the actuarial liability at June 30, 2009 and 2008. The Foundation utilized a discount rate of 2.8% and 3.8% for the years ended June 30, 2009 and 2008, respectively.

	2009	2008
Balance at beginning of year	$ 3,565,357	$ 4,746,380
New gifts	103,225	-
Investment income	(1,183,900)	(715,372)
Annuity/trust payments	(423,475)	(656,640)
Expenses	(29,743)	(33,356)
Change in actuarial liability	821,430	224,345
	(712,463)	(1,181,023)
Balance at end of year	$ 2,852,894	$ 3,565,357

(Continued)

NOTE 7 – GIFT ANNUITY FUNDS

The Foundation has entered into annuity agreements with 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. The Foundation's payment liability is the fair value of the future obligation to the donor regardless of the amount in the investment account.

At the date the agreements are made effective, the difference between the assets received and the fair value of the future obligation to the donor, the net asset, is recorded as a gift. Upon termination of each agreement's stipulated payout period, the remainder assets are distributed for the purpose designated by the donor.

Assets received in an annuity agreement transaction are represented by shares in the Foundation's long-term investment pool. Investment income, stipulated payments, and administrative expenses are recorded as temporarily restricted in the statement of activity.

The future obligation to donors and other designated individuals is accounted for using the actuarial method. Under the actuarial method, the fair value of the future amounts payable is credited to 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 change is recorded in the statement of activity.

Presented below is a roll forward of the actuarial liability for the annuity assets at June 30, 2009 and 2008. The Foundation utilized a discount rate of 2.8% and 3.8% for the years ended June 30, 2009 and 2008, respectively.

	2009	2008
Balance at beginning of year	$ 1,182,898	$ 881,464
Investment income	(327,432)	(112,161)
New gifts	75,330	-
Expenses	(5,321)	(4,536)
Payments to annuitants	(158,353)	(136,434)
Net change in actuarial liability	1,080,127	554,565
	664,351	301,434
Balance at end of year	$ 1,847,249	$ 1,182,898

(Continued)

NOTE 8 – NET ASSETS

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

As of June 30, 2009 and 2008 net assets are as follows:

Net assets at June 30, 2009		Restricted	
	Unrestricted	Temporarily	Permanently
Available for expenditure:			
Current operations	$ (145,429)	$ 22,196,862	$ -
Board designated	2,260,735	-	-
Earnings on endowments	(1,799,182)	42,054,070	-
Beneficial interests in perpetual trusts	-	190,655	-
Real estate	-	961,074	-
	316,124	65,402,661	-
Unavailable for expenditure:			
Endowments	-	-	25,644,706
Trusts	-	-	2,897,504
Uncollected pledges, net	25,919	13,765,968	129,684
	25,919	13,765,968	28,671,894
	$ 342,043	$ 79,168,629	$ 28,671,894

Net assets at June 30, 2008		Restricted	
	Unrestricted	Temporarily	Permanently
Available for expenditure:			
Current operations	$ (1,744,489)	$ 24,596,407	$ -
Board designated	3,043,617	-	-
Earnings on endowment	(689,913)	27,363,158	-
Beneficial interest in perpetual trusts	-	232,399	-
Real estate	-	1,051,841	-
	609,215	53,243,805	-
Unavailable for expenditure:			
Endowments	-	-	53,892,090
Trusts and annuities	-	-	6,851,346
Uncollected pledges, net	75,150	11,858,953	3,680,331
	75,150	11,858,953	64,423,767
	$ 684,365	$ 65,102,758	$ 64,423,767

(Continued)

NOTE 8 – NET ASSETS (Continued)

Included in the accompanying statements of activities are changes in the net asset 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 Kent State University Kent campus and $10,000 is necessary to establish an endowment for the benefit of a Kent State University regional campus. The donor may elect to change the designation of prior years' contributions from temporarily restricted to permanently restricted when the endowment minimum is met, thus establishing an endowment. These transfers from temporarily restricted net assets to permanently restricted net assets were $88,800 and $352,095 during the years ended June 30, 2009 and 2008, respectively. The amount included in temporarily restricted net assets at June 30, 2009, which may have a change in designation in the future, per the donors' request, is $298,311.

Also donors may elect to change the designation of prior years' contributions. Donor transfers from permanently restricted net assets to temporarily restricted net assets were $4,231,632 and $22,725 during the years ended June 30, 2009 and 2008, respectively.

In 2009, UPMIFA (see Note 9) became effective. Based upon the standards set by UPMIFA as the Act related to certain provisions of donor agreements with the Foundation, the Foundation has interpreted these provisions as providing for use of the original principal of applicable gifts in certain circumstances. Therefore the Foundation has reclassified $2,855,097 of permanently restricted net assets to unrestricted net assets and $27,322,752 of permanently restricted net assets were reclassified to temporarily restricted net assets.

NOTE 9 - ENDOWMENTS

The Foundation's endowment primarily consists of over 700 funds. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. In addition, the endowment also includes beneficial interests in 2 perpetual trusts that are administered by outside parties. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Donor restricted endowment funds	$ (1,799,182)	$ 42,054,070	$ 25,644,706	$ 65,899,594
Board designated endowment funds	2,260,735	-	-	2,260,735
Beneficial interests in perpetual trusts	-	190,655		190,655
Total	$ 461,553	$ 42,244,725	$ 25,644,706	$ 68,350,984

(Continued)

NOTE 9 – ENDOWMENTS (Continued)

Changes in endowment net assets for year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Net assets, beginning of year	$ 2,353,704	$ 27,595,557	$ 53,892,090	$ 83,841,351
Investment Return				
Investment income, net	55,555	1,625,116	-	1,680,671
Investment administrative fees	(30,826)	(821,237)	-	(852,063)
Investment consultant fees	(2,353)	(63,489)	-	(65,842)
Net appreciation (depreciation) (realized and unrealized gains and losses)	(3,693,535)	(17,200,190)	-	(20,893,725)
Underwater endowments	(1,109,269)	1,109,269	-	-
Total investment return	(4,780,428)	(15,350,531)	-	(20,130,959)
Gifts	-	3,935,371	841,630	4,777,001
Other income	-	5,154	-	5,154
Annuity maturities	-	-	2,811,124	2,811,124
Change in designation of prior gifts	3,043,617	28,856,521	(31,900,138)	-
Endowment spending transfers	(155,340)	(2,797,347)	-	(2,952,687)
Net assets, end of year	$ 461,553	$ 42,244,725	$ 25,644,706	$ 68,350,984

NOTE 10 - RELATED PARTY TRANSACTIONS

The Foundation made grants to Kent State University in furtherance of the Foundation's mission and in compliance with donor restrictions. Additionally, grants were made to the University from unrestricted net assets at the direction of the Foundation's Board of Directors.

The Foundation made payments to Kent State University in accordance with an operating agreement between the parties. Payments made under the agreement were $356,856 for the year ended June 30, 2009 and $530,716 for the year ended June 30, 2008. The payments were primarily for staffing used in the execution of Foundation operations. The amount payable to the University at June 30, 2009 and 2008 is $7,925 and $46,840, 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 October 2008, the Foundation sold to the University land in the amount of $125,000. No gain was recognized as a result of this transaction. In May 2009, the Foundation transferred to the University land in the amount of $69,710 and related building and fixtures with, as of the date of the transfer, a net book value of $17,382. These transfers are included in University support on the accompanying statement of activities for the year ended June 30, 2009. No gain was recognized as a result of these transfers.

(Continued)

NOTE 11 – INVESTMENT 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, .0625%, is applied against the average of the preceding seven month-end investment balances in the calculation of the fee.

NOTE 12 - CHANGE IN ACCOUNTING FOR COLLECTIONS

The Foundation owns collections in the custody of the Kent State University museum. During the year ended June 30, 2009, the Foundation changed its method of accounting to exclude those collections from the statement of financial position, and gifts to the collections are excluded from revenue in the statement of activities. The change was adopted to exclude the collections as an available resource in the financial statements. In conformity with the requirements of SFAS No. 154, *Accounting Changes and Error Corrections*, this change in accounting principle is reported through retrospective application of the change to all periods presented. The statement of activities for the year ended June 30, 2008 presents the cumulative effect at July 1, 2008 of $8,256,573 and a restructuring decrease of temporarily restricted net assets.

The Foundation decreased the change in net assets in the amount of $62,024 as a result of the removal of previously recognized gift-in-kind revenue relating to donated collection items during the year ending June 30, 2008. Accordingly, the Foundation decreased the change in net assets for the year ending June 30, 2008 as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Change in net assets for year ending, June 30, 2008, as previously reported	$ (611,487)	$ (6,108,531)	$ 3,980,532	$ (2,739,486)
Change in accounting for collection	-	(62,024)	-	(62,024)
Change in net assets for the year ending June 30, 2008, as restated	$ (611,487)	$ (6,170,555)	$ 3,980,532	$ (2,801,510)

For the year end June 30, 2009, gifts of $65,422 were not recorded.

(Continued)

NOTE 13 – 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

Crowe Horwath LLP
Member Crowe Horwath International

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, 2009, and have issued our report thereon dated October 6, 2009. 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.

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.

(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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 University in a separate letter dated October 6, 2009.

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 6, 2009

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
NOVEMBER 12, 2009

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