KENT STATE UNIVERSITY FOUNDATION, INC.
Kent, Ohio

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

We have reviewed the *Independent Auditor's Report* of the Kent State University Foundation, Inc., Portage County, prepared by Crowe Horwath LLP, for the audit period July 1, 2013 through June 30, 2014. 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.

Dave Yost
Auditor of State

November 6, 2014

This page intentionally left blank.

KENT STATE UNIVERSITY FOUNDATION, INC.
Kent, Ohio

FINANCIAL STATEMENTS
June 30, 2014 and 2013

CONTENTS

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kent State University Foundation, Inc., which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kent State University Foundation, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated October 8, 2014 on our consideration of Kent State University Foundation, Inc.'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kent State University Foundation, Inc.'s internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 8, 2014

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 1,594,579	$ 1,309,370
Receivables		
Pledges	8,522,683	11,104,445
Interest on notes receivable	132,396	-
	8,655,079	11,104,445
Investments		
Long-term pool	138,095,169	125,846,251
Charitable remainder trusts	6,330,534	5,708,428
Annuity pool	3,240,040	-
Short-term pool	11,974	3,407,205
Other	-	1,000
	147,677,717	134,962,884
Beneficial interest in trusts held by others	355,927	383,639
Notes receivable – Hotel and Conference Center	14,426,108	14,076,614
Property, net of depreciation	1,506,448	1,681,448
	$ 174,215,858	$ 163,518,400
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 88,435	$ 97,983
Line of credit borrowings	-	10,000,000
Funds held for others	9,003,091	8,600,757
Actuarial liabilities		
Annuities	2,063,941	2,321,670
Charitable remainder trusts	2,609,396	2,527,070
	13,764,863	23,547,480
Net assets		
Unrestricted	10,229,182	6,877,557
Temporarily restricted	113,388,802	99,584,064
Permanently restricted	36,833,011	33,509,299
	160,450,995	139,970,920
	$ 174,215,858	$ 163,518,400

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Revenue and Support				
Gifts				
Cash and securities	$ 70,632	$ 10,407,273	$ 2,508,303	$ 12,986,208
Events and other	-	534,759	25,000	559,759
Net change in pledges receivable	(2,165)	(836,313)	(7,320)	(845,798)
	68,467	10,105,719	2,525,983	12,700,169
Losses on pledges receivable	(22,306)	(1,609,251)	(104,406)	(1,735,963)
	46,161	8,496,468	2,421,577	10,964,206
Investment income				
Interest and dividends	371,616	1,849,240	-	2,220,856
Investment gains and losses	3,333,571	16,745,365		20,078,936
Investment in Hotel and Conference Center	495,611		-	495,611
Investment income allocated to other beneficiaries of funds held for others	-	(1,291,964)	-	(1,291,964)
	4,200,798	17,302,641	-	21,503,439
Sales, services, events, and other	145	-	-	145
Changes in designation of prior contributions	10,445	(392,704)	382,259	-
Change in actuarial liabilities	-	23,518	519,876	543,394
Release of restrictions				
Investment pool operator fee	1,399,715	(1,399,715)	-	-
Endowment spending distributions	4,339,136	(4,339,136)	-	-
Other support for Kent State University	5,886,334	(5,886,334)	-	-
Total release of restrictions	11,625,185	(11,625,185)	-	-
	15,882,734	13,804,738	3,323,712	33,011,184
Expenses and losses				
Grants for Kent State University				
Academics	7,698,043	-	-	7,698,043
Athletics	669,828	-	-	669,828
WKSU	1,820,689	-	-	1,820,689
Fundraising	1,513,864	-	-	1,513,864
	11,702,424	-	-	11,702,424
Administration	828,685	-	-	828,685
	12,531,109	-	-	12,531,109
Change in net assets	3,351,625	13,804,738	3,323,712	20,480,075
Net assets at beginning of year	6,877,557	99,584,064	33,509,299	139,970,920
Net assets at end of year	$ 10,229,182	$ 113,388,802	$ 36,833,011	$160,450,995

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Revenue and Support				
Gifts				
Cash and securities	$ 69,267	$ 11,302,410	$ 999,029	$ 12,370,706
Events and other	-	1,024,513	-	1,024,513
Net change in pledges receivable	13,849	6,541,741	141,185	6,696,775
	83,116	18,868,664	1,140,214	20,091,994
Losses on pledges receivable	(2,930)	(1,524,750)	(10,327)	(1,538,007)
	80,186	17,343,914	1,129,887	18,553,987
Investment income				
Interest and dividends	521,011	2,130,121	-	2,651,133
Investment gains and losses	2,140,835	10,392,386	-	12,533,221
Investment in Hotel and Conference Center	583,046	-	-	583,046
Investment income allocated to other beneficiaries of funds held for others	-	(891,148)	-	(891,148)
	3,244,892	11,631,359	-	14,876,252
Sales, services, events, and other	240	-	-	240
Changes in designation of prior contributions	(424,000)	38,752	385,248	-
Change in actuarial liabilities	-	(78,979)	318,992	240,013
Release of restrictions				
Investment pool operator fee	1,237,245	(1,237,245)	-	-
Endowment spending distributions	4,066,176	(4,066,176)	-	-
Other support for Kent State University	8,036,216	(8,036,216)	-	-
Total release of restrictions	13,339,637	(13,339,637)	-	-
	16,240,955	15,595,409	1,834,127	33,670,492
Expenses and losses				
Grants for Kent State University				
Academics	8,574,982	-	-	8,574,982
Athletics	1,019,663	-	-	1,019,663
WKSU	2,273,333	-	-	2,273,333
Fundraising	1,770,567	-	-	1,770,567
	13,638,545	-	-	13,638,545
Administration	927,378	-	-	927,378
Depreciation	9,105	-	-	9,105
	14,575,028	-	-	14,575,028
Change in net assets	1,665,928	15,595,409	1,834,127	19,095,464
Net assets at beginning of year	5,211,629	83,988,655	31,675,172	120,875,456
Net assets at end of year	$ 6,877,557	$ 99,584,064	$ 33,509,299	$ 139,970,920

See accompanying notes to financial statements.

KENT STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Increase (decrease) in net assets	$ 20,480,075	$ 19,095,464
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net (gains) losses on investments	(20,220,100)	(12,533,221)
Contributions permanently restricted	(2,533,303)	(999,029)
Change in actuarial obligations	(543,394)	(240,013)
Gifts of stock	(3,284)	(5,927)
Losses on pledges receivable	1,735,963	1,538,007
Loss on sale of property	141,165	-
Depreciation	-	9,105
Changes in operating assets and liabilities		
Pledges receivable	845,798	(6,696,775)
Other receivable	(132,396)	240,215
Beneficial interest in lead trust	27,712	41,374
Accounts payable	(9,548)	12,711
Funds held for others	402,334	1,758,690
Actuarial liability for annuity and unitrust agreements	965,204	838,025
Net cash used in operating activities	1,156,226	3,058,626
Cash flows from investing activities		
Purchases of investments	(39,598,074)	(54,309,664)
Proceeds from sales of investments	47,617,850	56,671,756
Proceeds from notes receivable	-	4,054,962
Gifts of stock and property	(431,371)	(758,978)
Issuance of notes receivable	(349,494)	(14,076,614)
Proceeds from sale of property	33,836	-
Net cash provided by (used in) investing activities	7,272,747	(8,418,538)
Cash flows from financing activities		
Proceeds from borrowings	-	5,944,680
Repayment of notes payable	(10,000,000)	-
Proceeds from contributions restricted for investment in endowment and trust	2,533,303	999,029
Gifts of stock	(79,854)	(313,730)
Payments to annuitants	(597,213)	(573,264)
Net cash provided by (used in) financing activities	(8,143,764)	6,056,715
Net change in cash and cash equivalents	285,209	696,803
Cash and cash equivalents at beginning of year	1,309,370	612,567
Cash and cash equivalents at end of year	$ 1,594,579	$ 1,309,370
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 58,655	$ 80,466

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 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

Basis of Accounting and Presentation: The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) 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 applicable Financial Accounting Standards Board (“FASB”) guidance, wherein, 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 U.S. GAAP 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 these 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.

The Foundation recognizes a benefit only if it is “more-likely-than-not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more-likely-than-not” test, no tax benefit is recorded. Management has concluded that they are unaware of any uncertain tax benefits or liabilities to be recognized at June 30, 2014 or 2013.

The Foundation would recognize interest and penalties related to unrecognized tax benefits in interest and income tax, respectively. The Foundation has no amounts accrued for interest or penalties at June 30, 2014 or 2013 and is no longer subject to examination by taxing authorities for years before 2011. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gifts: Gifts are recorded on the date of receipt. Gifts of securities are recorded at fair 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 providing various programs and supporting services are summarized on a functional basis in the statements of activities.

Fair Value of Assets and Liabilities: FASB Accounting Standards Codification ("ASC") 820 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities and expands the disclosure of the methods used and the effect of fair value measurements on earnings. The Foundation uses fair value accounting for cash and cash equivalents, investments, pledge receivables, beneficial interests in lead and perpetual trusts, accounts payable and actuarial liabilities. 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.

Fair value is defined 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.

There are three levels of inputs that may be used to measure fair values.

> 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.

Cash and Cash Equivalents: 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.

Investments: Fluctuations in fair value of investments, 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 a long-term pool, short-term pool, and an annuity reserve 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 and annuity 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 fair value of the gift when received. Buildings included in real estate are depreciated on a straight-line basis over a forty-year period.

Impairment of Long-Lived Assets: The Foundation continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision. In evaluating whether these long-lived assets are recoverable, the Foundation estimates the sum of the expected future cash flows, undiscounted and without interest charge derived from such assets over their remaining useful life. The Foundation has determined that no impairment of long-lived assets exists at June 30, 2014 or 2013.

Collections: Purchases of collection items are expensed as incurred. Items contributed to collections during the year are not reflected in the Foundation's financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The Foundation received proceeds of $5,791 from deaccessions during the year ended June 30, 2013. No proceeds from deaccessions were received in 2014.

Actuarial Liabilities: Obligations to pay stipulated amounts periodically to donors and/or other designated individuals under split interest and annuity agreements are accounted for at fair value using an income approach.

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, and (3) permanently restricted, which include donor imposed restrictions that the assets be maintained permanently.

Endowments: The Foundation accounts for endowment funds in accordance with FASB guidance pertaining to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Foundation interprets UPMIFA as requiring only those gifts and accumulations explicitly directed by the donor to be preserved to be classified as permanently restricted net assets. 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.

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 $6,578 at June 30, 2013. There were no such deficiencies at June 30, 2014.

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $469,000 and $405,000 at June 30, 2014 and 2013, respectively.

Subsequent Events: The Foundation has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2014, for items that should be recognized or disclosed in these financial statements. This evaluation was conducted through October 8, 2014, the date these financial statements were available to be issued.

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentation.

NOTE 3 – INVESTMENTS

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. With respect to the Foundation's investments in corporate stocks, the Foundation maintains a diverse investment portfolio, without any concentration of risk in any particular industry sector. 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, 2014 and 2013:

	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014				
Corporate stocks	$ 6,978,164	$ 6,978,164	$ -	$ -
Limited partnership hedge fund	6,065,277	-	-	6,065,277
Exchange Traded Funds ("ETFs")	6,216,068	6,216,068	-	-
Mutual funds				
Large capitalization equity funds	37,395,139	37,395,139	-	-
Small / middle capitalization equity funds	8,837,946	8,837,946	-	-
International equity funds	31,344,342	31,344,342	-	-
Other mutual funds	20,311,758	20,311,758	-	-
Fixed income funds	30,529,023	21,161,105	9,367,918	-
	$ 147,677,717	$ 132,244,522	$ 9,367,918	$ 6,065,277

(Continued)

NOTE 3 – INVESTMENTS (Continued)

	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Corporate stocks	$ 5,536,590	$ 5,536,590	$ -	$ -
Government bonds	1,000	-	1,000	-
Limited partnership hedge fund	8,977,656	-	-	8,977,656
Exchange Traded Funds ("ETFs")	5,547,413	5,547,413	-	-
Mutual funds				
Large capitalization equity funds	30,079,957	30,079,957	-	-
Small / middle capitalization equity funds	7,127,367	7,127,367	-	-
International equity funds	25,838,225	25,838,225	-	-
Other mutual funds	17,984,764	17,984,764	-	-
Fixed income funds	33,869,912	21,789,101	12,080,811	-
	$ 134,962,884	$ 113,903,417	$ 12,081,811	$ 8,977,656

The fair values of debt and equity investments, and mutual funds, that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates (Level 2 inputs).

The Foundation invests in alternative investments which includes investments in limited partnerships. Fair value represents the Foundation's proportionate interest in the net assets of these funds. Fair 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. Fair values are supplied to the Foundation by third party administrators. Audited information about these funds is available annually. Due to current market conditions as well as the limited trading activity of these securities (Level 3 inputs), the fair values reflected in the accompanying financial statements are highly sensitive to assumption changes and market volatility. Therefore, the current values, utilizing a market approach, may differ from the ultimate realizable values and these differences may be significant.

One of the two alternative investments in which the Foundation invests has an investment objective to generate superior, long-term return with less risk than the United States of America (the "United States") equity markets. The objective of the second alternative investment is to provide returns consistent with the United States consumer price index plus 5% over the long-term by investing in areas that offer strong relative performance in rising inflation environments. In accordance with the terms of the investments, the Foundation is able to redeem its investments in these limited alternative investments by providing prior written notice ranging from one-hundred days to one year. The Foundation has redeemed $3,959,583 of its investment in one of its alternative investments during fiscal 2014. At June 30, 2014 and 2013, the Foundation has no unfunded commitments to either of these alternative investments.

NOTE 3 – INVESTMENTS (Continued)

The table below presents a reconciliation and activity statement classification of gains and losses for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2014 and 2013:

	2014	2013
Balance at beginning of year	$ 8,977,656	$ 10,278,671
Purchases	94,325	79,909
Sales and redemptions	(4,007,037)	(1,387,752)
Realized gains (losses)	1,240,643	4,034
Unrealized gains (losses)	(240,311)	2,794
Balance at end of year	$ 6,065,277	$ 8,977,656

At June 30, 2014, the amount of unrealized gains related to investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3), for those investments still held at June 30, 2014, was $671,571.

NOTE 4 – HOTEL AND CONFERENCE CENTER

On February 23, 2012, the Foundation entered into a Construction Loan Agreement with the party (Downtown Kent Hotel, LLC, the "Borrower") developing a hotel and conference center located in Kent, Ohio (the "Hotel and Conference Center"). The Construction Loan Agreement allowed for the Borrower to borrow up to $15,400,000 under the Construction Loan Agreement for purposes of developing the Hotel and Conference Center. The Construction Loan Agreement included terms for interest at 8.00% per annum. In October 2012 the outstanding borrowings under the Construction Loan Agreement were repaid in full.

The Foundation then made loans of $11,061,000 and $3,015,614 under new loan agreements with parties involved in the development of the Hotel and Conference Center. The Foundation funded these loans with proceeds from the Line of Credit (see Note 6) as well as operating funds.

The $3,015,614 note is with the developer. The note agreement states that the loan principal and interest will be paid with the net cash flow generated by the Hotel and Conference Center when available. Interest will be paid at a fixed rate of 2.20%.

The $11,061,000 note is with an LLC investment fund and calls for quarterly interest only payments beginning December 31, 2012 through September 30, 2019 at a fixed rate of 7.27%. Principal and interest payments of $172,828 will be made quarterly beginning October 1, 2019 through September 2035. All final amounts are due September 21, 2035.

The Foundation advanced $349,494 through additional note agreements for quarterly interest payments. Additionally, the Foundation expensed $544,541 related to the hotel and conference center for legal fees, an employee dedicated to marketing the project and other expenditures. The notes are collateralized by a security interest in the hotel and conference center. The Foundation has the credit risk that the developer, the investment fund or both will not have sufficient liquidity to repay the receivables in the agreed upon manner and the security interest in the property will not be sufficient to fund any shortfall.

(Continued)

NOTE 4 – HOTEL AND CONFERENCE CENTER (Continued)

The Foundation has also entered into a ground lease agreement with the Downtown Kent Hotel, LLC for occupancy by the Hotel and Conference Center on land owned by the Foundation. Lease payments are due to the Foundation based upon revenues generated by the Hotel and Conference Center and commenced in June 2013, the date the Hotel and Conference Center opened for business. The ground lease agreement matures in June 2033.

NOTE 5 – PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at fair value using an income approach. The use of an income approach in determining fair value requires the Foundation to estimate the expected timing of future cash flows from pledges receivable. The future expected cash flows from pledges receivable are discounted to their net present value using discount rates representing the daily Treasury Bill rates as of each balance sheet date (Level 2) (weighted average discount rate of .80% and 0.72% at June 30, 2014 and 2013, respectively). Pledges receivable at June 30, 2014 and 2013 have the following restrictions:

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2014				
Pledges receivable	$ 11,962,219	$ 2,500	$ 11,703,698	$ 256,021
Less: Reserve for uncollectible pledges	3,236,972	375	3,112,609	123,988
Less: Present value discount	202,564	3	201,697	864
	$ 8,522,683	$ 2,122	$ 8,389,392	$ 131,169

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2013				
Pledges receivable	$ 14,938,384	$ 31,709	$ 14,611,575	$ 295,100
Less: Reserve for uncollectible pledges	3,586,202	4,778	3,531,705	49,719
Less: Present value discount	247,737	337	244,914	2,486
	$ 11,104,445	$ 26,594	$ 10,834,956	$ 242,895

Pledges receivable at June 30, 2014 and 2013 are expected to be realized in the following periods:

	2014	2013
Less than one year	$ 4,578,967	$ 5,538,865
One to five year	6,876,602	8,764,028
More than five years	506,650	635,491
	$ 11,962,219	$ 14,938,384

As of June 30, 2014, the Foundation has approximately $54,688,000 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. Substantially all of the Foundation's contingent pledges are bequests. These pledges are not recorded as receivables or recognized as revenue because they do not represent unconditional promises to give.

(Continued)

NOTE 5 – PLEDGES RECEIVABLE (Continued)

The table below presents a reconciliation of the fair value of pledge receivables for the years ended June 30, 2014 and 2013:

	2014	2013
Balance at beginning of year	$ 11,104,445	$ 5,945,677
Additional pledges	3,564,437	10,514,919
Collections on pledges	(4,455,409)	(3,647,199)
Provision for doubtful pledges	(1,735,963)	(1,538,007)
Present value change	45,173	(170,945)
Balance at end of year	$ 8,522,683	$ 11,104,445

NOTE 6 – SHORT TERM BORROWINGS

On April 6, 2012, the Foundation entered into a loan agreement with a bank for a $10,000,000 revolving line of credit ("Line of Credit"). The Foundation had outstanding borrowings of $10,000,000 on the Line of Credit at June 30, 2013. There was no outstanding balance at June 30, 2014. The Line of Credit is collateralized by certain investment securities held by the Foundation. Interest is based on LIBOR plus 0.70% (effective rate of 0.85% and 0.89% at June 30, 2014 and 2013, respectively), and is payable monthly. The Line of Credit matures on April 15, 2015.

The Line of Credit requires the Foundation to comply with certain affirmative and negative covenants. The Foundation was in compliance with these covenants at June 30, 2014.

NOTE 7 – 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 an income approach valuation model, developed by the Foundation, which calculates the present value of a fixed annual payment for a term of years. The valuation model incorporates the Foundation's assumptions that market participants would use in estimating future income (Level 3). At June 30, 2014 and 2013, the fair value of the Foundation's interest was $82,749 and $138,268, 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 years ended June 30, 2014 and 2013:

	2014	2013
Balance at beginning of year	$ 138,268	$ 193,588
Change in fair value	55,519	(55,320)
Balance at end of year	$ 82,749	$ 138,268

(Continued)

NOTE 7 – BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS (Continued)

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). However, in accordance with FASB guidance at June 30, 2014, the beneficial interests in perpetual trusts are classified as a Level 3 investment, as the Foundation does not have the ability to redeem the beneficial interest in these perpetual trusts. At June 30, 2014 and 2013, the fair value of the Foundation's interests in these perpetual trusts was $273,178 and $245,371, respectively.

The table below presents a reconciliation of the fair value of the beneficial interest in perpetual trusts for the year ended June 30, 2014 and 2013:

	2014	2013
Balance at beginning of year	$ 245,371	$ 231,425
Change in fair value	27,807	13,946
Balance at end of year	$ 273,178	$ 245,371

NOTE 8 – 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 remaining 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 at fair value using an income approach. Using an income approach to measure these obligations requires the Foundation to estimate the expected timing of payments associated with these obligations. These obligations are discounted to fair value using a discount rate consistent with Internal Revenue Service publications (Level 2) as of each balance sheet date (2.2% and 1.2% for the years ended June 30, 2014 and 2013, respectively). Under this method, the change in the fair value of the future amounts payable is credited to the actuarial liability account.

(Continued)

NOTE 8 – SPLIT INTEREST TRUSTS (Continued)

Presented below is a roll forward of the fair value of the liability at June 30, 2014 and 2013:

	2014	2013
Balance at beginning of year	$ 2,527,070	$ 2,566,398
Investment income	972,759	712,607
Annuity/trust payments	(328,867)	(310,185)
Expenses	(16,690)	(22,755)
Liquidations	(25,000)	(100,003)
Net change in actuarial liability	(519,876)	(318,992)
	82,326	(39,328)
Balance at end of year	$ 2,609,396	$ 2,527,070

NOTE 9 – GIFT ANNUITY FUNDS

The Foundation has entered into annuity agreements whereby the Foundation 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 remaining assets are distributed for the purpose designated by the donor.

Assets received in an annuity agreement transaction are placed in a reserve. 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 at fair value using an income approach. Using an income approach to measure these obligations requires the Foundation to estimate the expected timing of payments associated with these obligations. These obligations are discounted to fair value using a discount rate consistent with Internal Revenue Service publications (Level 2) as of each balance sheet date (2.2% and 1.2% for the years ended June 30, 2014 and 2013, respectively). Under this method, the fair value of the future amounts payable is credited to the liability account. At year-end, an adjustment is made to the liability to record the change in the fair value of the obligation between years. The change is recorded in the statement of activity.

(Continued)

NOTE 9 – GIFT ANNUITY FUNDS (Continued)

Presented below is a roll forward of the fair value of the liability for the annuity assets at June 30, 2014 and 2013:

	2014	2013
Balance at beginning of year	$ 2,321,670	$ 2,257,593
New gifts	34,134	248,177
Annuity payments	(268,345)	(263,079)
Change in actuarial liability	(23,518)	78,979
	(257,729)	64,077
Balance at end of year	$ 2,063,941	$ 2,321,670

NOTE 10 – 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, 2014 and 2013 net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2014			
Available for expenditure:			
Current operations	$ 7,278,698	$ 28,540,019	$ -
Endowments	2,399,240	50,820,473	-
Earnings on endowments	-	24,408,412	-
Beneficial interests in perpetual trusts	-	273,179	-
Real estate	549,121	957,327	-
	10,227,059	104,999,410	-
Unavailable for expenditure:			
Endowments	-	-	33,010,418
Trusts	-	-	3,691,424
Uncollected pledges, net	2,123	8,389,392	131,169
	2,123	8,389,392	36,833,011
	$ 10,229,182	$ 113,388,802	$ 36,833,011

(Continued)

NOTE 10 – NET ASSETS (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted
June 30, 2013			
Available for expenditure:			
Current operations	$ 4,163,433	$ 25,284,035	$ -
Endowments	2,144,987	49,187,890	-
Earnings on endowments	(6,578)	12,899,485	-
Beneficial interests in perpetual trusts	-	245,371	-
Real estate	549,121	1,132,327	-
	6,850,963	88,749,108	-
Unavailable for expenditure:			
Endowments	-	-	30,113,640
Trusts	-	-	3,152,764
Uncollected pledges, net	26,594	10,834,956	242,895
	26,594	10,834,956	33,509,299
	$ 6,877,557	$ 99,584,064	$ 33,509,299

Included in the accompanying statements of activities are changes in the net asset designation of prior contributions. Donors may elect to change the designation of prior contributions. These transfers from temporarily restricted net assets to permanently restricted net assets were $582,261 and $704,178 during the years ended June 30, 2014 and 2013, respectively; transfers of prior contributions from unrestricted net assets to temporarily restricted net assets was $424,000 during the year ended June 30, 2013; transfers of prior contributions from temporarily restricted net assets to unrestricted net assets was $10,445 during the year ended June 30, 2014; and transfers of prior contributions from permanently restricted net assets to temporarily restricted net assets were $200,000 and $318,930 during the years ended June 30, 2014 and 2013, respectively.

NOTE 11 – ENDOWMENTS

The Foundation's endowment consists of over 900 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 two 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 Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 considers 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.

(Continued)

NOTE 11 – ENDOWMENTS (Continued)

The Foundation has a 5% spending policy whereby a portion of the accumulated investment return for endowment assets is distributed on May 31st and November 30th each year to funds which may be expended for current operations in accordance with any restrictions of the endowment fund. The amount of endowment assets distributed during fiscal years 2014 and 2013 are disclosed below. 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. Certain endowment funds do not permit a spending distribution below the historic gift value or other donor designated amount.

Endowment net asset composition by type as of June 30, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2014				
Donor restricted endowment funds	$ -	$ 75,228,885	$ 33,010,418	$ 108,239,303
Board designated endowment funds	2,399,240	-	-	2,399,240
Beneficial interests in perpetual trusts	-	273,179	-	273,179
Total	$ 2,399,240	$ 75,502,064	$ 33,010,418	$ 110,911,722

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2013				
Donor restricted endowment funds	$ (6,578)	$ 62,087,375	$ 30,113,640	$ 92,194,437
Board designated endowment funds	2,144,987	-	-	2,144,987
Beneficial interests in perpetual trusts	-	245,371	-	245,371
Total	$ 2,138,409	$ 62,332,746	$ 30,113,640	$ 94,584,795

Change in endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Year ended June 30, 2014				
At beginning of year	$ 2,138,409	$ 62,332,746	$ 30,113,640	$ 94,584,795
Investment return				
Investment income, net	34,697	1,504,075	-	1,538,772
Investment administrative fees	(29,010)	(1,257,586)	-	(1,286,596)
Investment consultant fees	(2,261)	(98,014)	-	(100,275)
Net appreciation (depreciation) (realized and unrealized gains and losses)	355,735	15,449,612	-	15,805,347
Underwater endowments	6,578	(6,578)	-	-
Total investment return	365,739	15,591,509	-	15,957,248
Gifts		1,645,647	2,489,517	4,135,164
Other income		30,055	25,000	55,055
Change in designation of prior gifts		241,242	382,261	623,503
Endowment spending transfers	(104,907)	(4,339,136)	-	(4,444,043)
At end of year	$ 2,399,240	$ 75,502,064	$ 33,010,418	$ 110,911,722

(Continued)

NOTE 11 – ENDOWMENTS (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Year ended June 30, 2013				
At beginning of year	$ 2,291,218	$ 54,306,199	$ 28,729,365	$ 85,326,782
Investment return				
Investment income, net	41,262	1,723,286	-	1,764,548
Investment administrative fees	(26,541)	(1,108,480)	-	(1,135,021)
Investment consultant fees	(1,895)	(79,144)	-	(81,039)
Net appreciation (depreciation) (realized and unrealized gains and losses)	232,964	9,745,024	-	9,977,988
Underwater endowments	128,083	(128,083)	-	-
Total investment return	373,873	10,152,603	-	10,526,476
Gifts	-	2,150,866	999,029	3,149,895
Other income	-	8,013	-	8,013
Change in designation of prior gifts	(422,000)	(220,757)	385,246	(257,511)
Endowment spending transfers	(104,682)	(4,064,178)	-	(4,168,860)
At end of year	$ 2,138,409	$ 62,332,746	$ 30,113,640	$ 94,584,795

NOTE 12 – 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 net assets at the direction of the Foundation's Board of Directors.

The Foundation made payments to the University in accordance with an operating agreement between the parties. Payments made under the agreement were $579,524 for the year ended June 30, 2014 and $492,044 for the year ended June 30, 2013. The payments were primarily for staffing used in the execution of Foundation operations. The amount payable to the University at June 30, 2014 and 2013 is $53,913 and $62,271, respectively. In addition, the Foundation rents certain facilities and information technology support from the University for nominal amounts as consideration in the operating agreement.

NOTE 13 – INVESTMENT POOL OPERATOR FEE

Endowment funds, annuity funds, and Kent State University Alumni Association funds invested in investment pools are assessed a pool operator fee from the unrestricted fund. The 1.25% annual fee is used to offset unrestricted fund costs for administrative, clerical and fiduciary services. The monthly equivalent of the rate is applied against the preceding month-end investment balances in the calculation of the fee.

(Continued)

NOTE 14 – 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
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of Kent State University Foundation, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statement of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kent State University Foundation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kent State University Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Kent State University Foundation, Inc.'s internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent State University Foundation, Inc.'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*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 8, 2014

Dave Yost · 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 18, 2014

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov