

**Kent State University
Foundation, Inc.**

**Financial Statements
June 30, 2003 and 2002**



**Auditor of State
Betty Montgomery**

Board of Directors
Kent State University Foundation, Inc.
1061 Fraternity Circleity St.
Kent, OH 44242

We have reviewed the Independent Auditor's Report of the Kent State University Foundation, Inc., Portage County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2002 through June 30, 2003. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 24, 2004

Report of Independent Auditors

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

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Kent State University Foundation, Inc. (the "Foundation") at June 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2003 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2003. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

October 16, 2003

Kent State University Foundation, Inc.

Statements of Financial Position June 30, 2003 and 2002

ASSETS	2003	2002
Cash and cash equivalents	\$ 525,560	\$ 499,765
Accounts receivable, net	19,415	49,912
Interest receivable	13,144	16,008
Pledges receivable, net of allowance and discount	9,194,001	4,255,825
Investments, at market value	68,209,026	64,293,911
Property, net of accumulated depreciation	<u>8,688,632</u>	<u>8,385,862</u>
Total assets	<u>\$ 86,649,778</u>	<u>\$ 77,501,283</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 541,970	\$ 1,511,703
Actuarial liability for annuity/unitrust agreements	<u>3,196,000</u>	<u>3,840,000</u>
Total liabilities	<u>3,737,970</u>	<u>5,351,703</u>
Net assets:		
Unrestricted:		
For current operations	706,174	526,484
Uncollected pledges, net	<u>130,881</u>	<u>146,521</u>
Total unrestricted	<u>837,055</u>	<u>673,005</u>
Temporarily restricted:		
Unexpended net assets and related accumulated income received for restricted purposes	23,921,712	22,191,441
Uncollected pledges, net	2,398,505	1,951,536
Unexpended true endowment income	4,283,679	5,231,292
Invested in real estate and museum collections	<u>8,688,632</u>	<u>8,385,862</u>
Total temporarily restricted	<u>39,292,528</u>	<u>37,760,131</u>
Permanently restricted:		
True endowment net assets	32,703,443	28,770,787
Annuity and life income net assets	3,414,167	2,787,889
Uncollected pledges, net	<u>6,664,615</u>	<u>2,157,768</u>
Total permanently restricted	<u>42,782,225</u>	<u>33,716,444</u>
Total net assets	<u>82,911,808</u>	<u>72,149,580</u>
Total liabilities and net assets	<u>\$ 86,649,778</u>	<u>\$ 77,501,283</u>

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

Kent State University Foundation, Inc.

Statements of Activities For the Years Ended June 30, 2003 and 2002

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Revenues and other additions:								
Receipts of gifts	\$ 271,937	\$ 285,495	\$ 9,307,869	\$ 8,224,612	\$ 4,602,613	\$ 5,078,312	\$ 14,182,419	\$ 13,588,419
Net change in pledges receivable	(15,640)	70,209	446,969	191,472	4,506,847	(2,649,807)	4,938,176	(2,388,126)
Net realized and unrealized gain (loss) on investments	425,015	(3,010,818)	228,448	(2,033,826)	-	-	653,463	(5,044,644)
Dividend and interest income	538,396	506,685	1,170,057	1,399,170	7,755	9,201	1,716,208	1,915,056
Trustee fees	531,503	527,888	(523,748)	(518,687)	(7,755)	(9,201)	-	-
Other income	13,510	7,792	1,124,900	3,392,187	-	-	1,138,410	3,399,979
Total revenues and other additions, net	<u>1,764,721</u>	<u>(1,612,749)</u>	<u>11,754,495</u>	<u>10,654,928</u>	<u>9,109,460</u>	<u>2,428,505</u>	<u>22,628,676</u>	<u>11,470,684</u>
Release of restrictions	<u>10,487,808</u>	<u>14,317,436</u>	<u>(10,487,808)</u>	<u>(14,317,436)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other additions after release of restrictions	12,252,529	12,704,687	1,266,687	(3,662,508)	9,109,460	2,428,505	22,628,676	11,470,684
Operating expenses:								
Scholarships, awards, grants and University support	11,639,887	12,612,040	-	-	-	-	11,639,887	12,612,040
Depreciation expense	20,216	20,216	-	-	-	-	20,216	20,216
Administrative expenses	428,376	411,534	-	-	-	-	428,376	411,534
Total operating expenses	<u>12,088,479</u>	<u>13,043,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,088,479</u>	<u>13,043,790</u>
Nonoperating expenses:								
Net change in actuarial liability of annuity funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(222,031)</u>	<u>1,638,113</u>	<u>(222,031)</u>	<u>1,638,113</u>
Changes in designation of prior contributions	<u>-</u>	<u>-</u>	<u>265,710</u>	<u>(356,784)</u>	<u>(265,710)</u>	<u>356,784</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	164,050	(339,103)	1,532,397	(4,019,292)	9,065,781	1,147,176	10,762,228	(3,211,219)
Net assets, beginning of year	<u>673,005</u>	<u>1,012,108</u>	<u>37,760,131</u>	<u>41,779,423</u>	<u>33,716,444</u>	<u>32,569,268</u>	<u>72,149,580</u>	<u>75,360,799</u>
Net assets, end of year	<u>\$ 837,055</u>	<u>\$ 673,005</u>	<u>\$ 39,292,528</u>	<u>\$ 37,760,131</u>	<u>\$ 42,782,225</u>	<u>\$ 33,716,444</u>	<u>\$ 82,911,808</u>	<u>\$ 72,149,580</u>

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

Kent State University Foundation, Inc.

Statements of Cash Flows For the Years Ended June 30, 2003 and 2002

	2003	2002
Operating activities:		
Increase (decrease) in net assets	\$ 10,762,228	\$ (3,211,219)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	20,216	20,216
Net realized and unrealized (gain) loss on investments	(653,463)	5,044,644
Gifts of stock	(952,953)	(1,875,484)
Gifts of property	(322,986)	(325,609)
Proceeds from life insurance policy	-	80,417
Contributions permanently restricted	(4,602,613)	(5,078,312)
Changes in operating assets and liabilities:		
Accounts receivable, net	30,497	5,396
Interest receivable	2,864	19,577
Pledges receivable, net	(4,938,176)	2,388,126
Accounts payable	(969,733)	758,887
Actuarial liability for annuity/unitrust agreements	(644,000)	(196,193)
Net cash used in operating activities	<u>(2,268,119)</u>	<u>(2,369,554)</u>
Investing activities:		
Proceeds from sale of property	-	1,800,000
Payments received on note receivable	-	209,823
Purchases of investments	(20,873,683)	(34,079,758)
Proceeds from sales of investments	<u>18,564,984</u>	<u>29,693,541</u>
Net cash used in investing activities	<u>(2,308,699)</u>	<u>(2,376,394)</u>
Financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	3,658,653	4,530,840
Investment in annuities	<u>943,960</u>	<u>547,472</u>
Net cash provided by financing activities	<u>4,602,613</u>	<u>5,078,312</u>
Net increase in cash and cash equivalents	<u>25,795</u>	<u>332,364</u>
Cash and cash equivalents, beginning of year	<u>499,765</u>	<u>167,401</u>
Cash and cash equivalents, end of year	<u>\$ 525,560</u>	<u>\$ 499,765</u>

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

Kent State University Foundation, Inc.

Notes to Financial Statements June 30, 2003 and 2002

1. Organization

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

2. Significant Accounting Policies

Basis of Accounting

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

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

Basis of Presentation

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

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

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

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

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

Kent State University Foundation, Inc.

Notes to Financial Statements June 30, 2003 and 2002

2. Significant Accounting Policies, Continued

fulfilled and/or the stipulated time period has elapsed) are reported as a release of restrictions in the accompanying statements of activities.

Cash and Cash Equivalents

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

Changes in Designation of Prior Contributions

Included in the accompanying statements of activities are changes in designation of prior contributions. The Foundation's gift policy states that a minimum contribution of \$10,000 is necessary to establish an endowment. The donor may elect to change the designation of prior years' contributions from temporarily restricted to permanently restricted when the \$10,000 threshold is met, thus establishing an endowment. The transfers from temporarily restricted net assets to permanently restricted net assets were \$274,002 and \$356,784 during the years ended June 30, 2003 and 2002, respectively. The transfers from permanently restricted net assets to temporarily restricted net assets were \$539,712 and \$0 during the years ended June 30, 2003 and 2002, respectively. The amount included in temporarily restricted net assets at June 30, 2003, which may have a change in designation in the future, per the donors' request, is approximately \$235,900.

Trustee Fees

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

Endowment Spending Policy

The Foundation has instituted a spending policy whereby a portion of the accumulated investment return for endowment assets equal to 5% of the three year rolling average of the fair market value of the endowment pool will be distributed in accordance with the donors' requests each year with the remainder reinvested on a total return concept. The 5% return released from investment was \$2,208,788 and \$2,134,677 in 2003 and 2002, respectively.

Life Insurance Policies

The Foundation has been named as the beneficiary of two 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 \$1,550,000 and \$1,500,000 at June 30, 2003 and 2002, respectively.

Kent State University Foundation, Inc.

Notes to Financial Statements June 30, 2003 and 2002

2. Significant Accounting Policies, Continued

Annuity Funds

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

Presented below is a rollforward of the actuarial liability for the annuity assets:

	Year Ended June 30, 2003	Year Ended June 30, 2002
Beginning balance	\$3,840,000	\$4,036,193
Dividend and interest income	141,285	150,580
Net realized and unrealized loss	96,137	(1,409,444)
Annuity/unitrust payments	(505,286)	(575,442)
Net change in actuarial liability of annuity funds	(222,031)	1,638,113
Decrease in liability to other charities	(154,105)	-
	<hr/>	<hr/>
Ending balance	<u>\$3,196,000</u>	<u>\$3,840,000</u>

Estimates

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

Kent State University Foundation, Inc.

Notes to Financial Statements June 30, 2003 and 2002

3. Property

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

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

Property as of June 30, 2003 consisted of:

	Nondepreciable	Depreciable	Total
Costumes, artwork, period furniture, etc., relating to the Museum of Fashion	\$7,548,485	\$ -	\$7,548,485
Performing Arts Center	262,637	444,057	706,694
Hudkins Property	179,436	48,564	228,000
Lincoln Research Facility	26,500	193,500	220,000
Mary Patterson Property	16,210	33,790	50,000
Urban Property	28,000	-	28,000
Flynn Property	25,500	-	25,500
Clugh Property	16,000	-	16,000
Price Property	760	-	760
Paul Miller Property	-	19,720	19,720
Office furniture, fixtures and equipment	-	38,840	38,840
Trumbull Property	329,130	-	329,130
Herrick Property	55,000	100,000	155,000
Less: accumulated depreciation	-	(677,497)	(677,497)
Total property	<u>\$8,487,658</u>	<u>\$200,974</u>	<u>\$8,688,632</u>

Kent State University Foundation, Inc.

Notes to Financial Statements June 30, 2003 and 2002

4. Investments

Investments are stated at market value. Fluctuations in market value, as well as gains or losses on sales of securities, are recognized in the statements of activities. Investments as of June 30, 2003 and 2002 consisted of:

	2003	2002
Certificates of deposit	\$ 399,421	\$ 295,253
Money market funds	6,152,514	8,277,682
Mutual funds	54,596,014	50,212,152
Stocks	6,997,447	5,310,284
Corporate and U.S. Government securities	63,630	198,540
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Total market value	\$ 68,209,026	\$64,293,911
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Total cost	\$ 72,380,601	\$69,488,915
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The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

As a result of market declines, the fair value of certain donor-restricted endowments is less than the historical cost value of such funds by approximately \$982,000 and \$705,000 at June 30, 2003 and 2002, respectively.

5. Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded at their approximate present value. The future expected cash flows from pledges receivable have been discounted using a discount rate of 5.0%.

Kent State University Foundation, Inc.

Notes to Financial Statements June 30, 2003 and 2002

5. Pledges Receivable, Continued

Pledges receivable at June 30, 2003 and 2002 have the following restrictions:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Pledges receivable at June 30, 2003	\$170,103	\$3,066,026	\$8,358,243	\$11,594,372
Less: Reserve for uncollectible pledges	24,812	388,077	868,794	1,281,683
Less: Discount to present value	14,410	279,444	824,834	1,118,688
Pledges receivable, net at June 30, 2003	\$130,881	\$2,398,505	\$6,664,615	\$ 9,194,001
Pledges receivable at June 30, 2002	\$190,236	\$2,553,642	\$2,697,411	\$ 5,441,289
Less: Reserve for uncollectible pledges	27,526	392,430	269,983	689,939
Less: Discount to present value	16,189	209,676	269,660	495,525
Pledges receivable, net at June 30, 2002	\$146,521	\$1,951,536	\$2,157,768	\$ 4,255,825

Pledges receivable at June 30, 2003 and 2002 are expected to be realized in the following periods.

	2003	2002
Less than one year	\$2,996,186	\$2,858,601
One to five years	6,725,189	2,466,996
More than five years	1,872,997	115,692
	<u>\$11,594,372</u>	<u>\$5,441,289</u>

As of June 30, 2003, the Foundation has approximately \$18,576,455 in numerous outstanding pledges which are considered to be intentions to give and are contingent upon future events. These pledges are not recorded as receivables or recognized as revenue because they do not represent unconditional promises to give.

6. Expenses By Function

The Foundation's scholarships, awards, grants and University support expenses by function for the years ended June 30, 2003 and 2002 are as follows:

	2003	2002
Academics	\$ 7,131,032	\$ 8,449,149
Athletics	1,701,878	1,429,477
WKSU	2,458,196	2,355,990
General expenses	348,781	377,424
	<u>\$11,639,887</u>	<u>\$12,612,040</u>

Kent State University Foundation, Inc.

Notes to Financial Statements June 30, 2003 and 2002

6. Expenses By Function, Continued

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

7. Related Party Transactions

Administrative expenses of the Foundation, except for certain legal, professional and insurance expenses, are paid by the University. However, the Foundation reimburses the University for substantially all of the expenses of the Foundation. The amount payable to the University at June 30, 2003 and 2002 is approximately \$451,959 and \$1,310,578, respectively.

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

8. Income Taxes

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

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

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

We have audited the financial statements of Kent State University Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2003, and have issued our report thereon dated October 16, 2003. 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.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



This report is intended solely for the information and use of the Foundation's Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

October 16, 2003



**Auditor of State
Betty Montgomery**

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KENT STATE UNIVERSITY FOUNDATION, INC.

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 9, 2004**