

Kent State University

Federal Entity Identification Number 31-6402079

**Report on Federal Awards In Accordance
With OMB Circular A-133
For the Year Ended June 30, 2005**



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Kent State University, Portage County, prepared by PricewaterhouseCoopers LLP for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Kent State University is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

December 28, 2005

This Page is Intentionally Left Blank.

Kent State University
Report on Federal Awards in Accordance With OMB Circular A-133
Table of Contents
For the Year Ending June 30, 2005

	<u>Pages</u>
PART I	
FINANCIAL STATEMENTS AND SUPPLEMENTAL FINANCIAL INFORMATION	
Management's Discussion and Analysis (Unaudited)	1-7
Financial Statements	
Report of Independent Auditors	8
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11-12
Notes to Financial Statements	13-23
Supplemental Financial Information	
Schedule of Expenditures of Federal Awards	24-34
Notes to Schedule of Expenditures of Federal Awards	35-36
PART II	
REPORTS ON COMPLIANCE AND ON THE INTERNAL CONTROL STRUCTURE	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38
Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	39-40
PART III	
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Section I - Summary of Auditor's Results	41
Section II - Financial Statement Findings	42
Section III - Summary of Current Year Findings and Questioned Costs	43
PART IV	
PRIOR YEAR FINDINGS	
Section I - Summary of Prior Year Findings and Questioned Costs	44

KENT STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Kent State University ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2005 and 2004. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

Using the Annual Financial Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. A public University's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as non-operating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities, and helps measure the ability to meet financial obligations as they mature.

Noteworthy Financial Activity

To respond to steadily increasing enrollment and to provide a state-of-the-art living environment for residential students, the University is building six residence halls and removing or replacing all existing residence halls on its Kent Campus. The project, which is currently ongoing, is being funded by a debt issuance.

In connection with this renovation, in February 2001, the University issued \$155.5 million in Series 2001 General Receipts bonds to finance various capital additions and improvements to dormitory facilities. During the fiscal year ended June 30, 2005 the University expended \$11.1 million from the proceeds of these bonds resulting in corresponding increases in capital assets and total assets.

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2005 as compared to the previous year as evidenced by:

KENT STATE UNIVERSITY

Management's Discussion and Analysis

- The University's total assets increased over the prior year by \$40.0 million, of which, \$26.0 million is attributed to an increase in capital assets. Current assets increased by \$30.1 million, due to the shorter duration of the University's investment portfolio.
- Total liabilities decreased by \$19.1 million, which is primarily due to recognition of summer program income, principal debt payments and payment of an early retirement program liability.
- The University's net assets increased by \$59.1 million to \$494.3 million, of which \$263.2 is either invested in capital assets or restricted. Of the remaining \$231.0 million in unrestricted assets, all but \$1.7 million is designated for specific purposes.
- Operating revenues increased by \$26.3 million compared to the prior year, of which \$25.7 million is directly related to a net increase in student tuition and fees.
- The University's operating expenses increased by \$14.5 million, with expected increases in most functional expense categories due primarily to inflationary factors.
- The operating loss and principal debt payments totaled \$86.2 million, which was fully funded by State appropriations.

Kent State University
Condensed Statement of Net Assets
as of June 30, 2005, 2004 and 2003
(in thousands)

ASSETS	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 366,660	\$ 352,590	\$ 350,207
Capital assets	479,492	453,534	404,187
Total assets	<u>\$ 846,152</u>	<u>\$ 806,124</u>	<u>\$ 754,394</u>
 LIABILITIES			
Long-term debt	\$ 276,417	\$ 279,351	\$ 282,267
Other	75,422	91,572	84,397
Total liabilities	<u>\$ 351,839</u>	<u>\$ 370,923</u>	<u>\$ 366,664</u>
 NET ASSETS			
Invested in capital assets net of related debt	\$ 238,768	\$ 221,254	\$ 218,179
Restricted, expendable and not expendable	24,471	24,199	24,135
Unrestricted:			
Designated	229,355	188,064	143,763
Undesignated	1,719	1,684	1,653
Total net assets	<u>\$ 494,313</u>	<u>\$ 435,201</u>	<u>\$ 387,730</u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis

2005 Versus 2004 During the year ended June 30, 2005:

In fiscal 2005, the University's current assets of \$286.3 million were sufficient to cover current liabilities of \$60.0 million (current ratio of 4.8). In fiscal 2004, current assets of \$256.2 million were sufficient to cover current liabilities of \$76.6 million (current ratio of 3.3).

At June 30, 2005, total University assets were \$846.2 million, compared to \$806.1 million in fiscal 2004. The University's largest asset is its investment in physical plant of \$479.5 million at June 30, 2005 compared to \$453.5 million in fiscal 2004 (see dormitory project discussion above in Noteworthy Financial Activity).

Current and other assets increased \$14.1 million to \$366.7 million, compared to \$352.6 in fiscal year 2004. Cash and cash equivalents of \$262.4 million is the largest non-capital asset.

University liabilities total \$351.8 million at June 30, 2005 compared to \$370.9 million in fiscal 2004. Long-term debt of \$276.4 million, consisting of bonds payable, is the largest liability.

Total net assets increased by \$59.1 million to \$494.3 million. Unrestricted net assets total \$231.1 million, 99.3% of which (\$229.4 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

2004 Versus 2003 During the year ended June 30, 2004:

In fiscal 2004, the University's current assets of \$256.2 million were sufficient to cover current liabilities of \$76.6 million (current ratio of 3.3). In fiscal 2003, current assets of \$211.6 million were sufficient to cover current liabilities of \$70.6 million (current ratio of 3.0).

At June 30, 2004, total University assets were \$806.1 million, compared to \$754.4 million in fiscal 2003. The University's largest asset is its investment in physical plant of \$453.5 million at June 30, 2004 compared to \$404.2 million in fiscal 2003 (see dormitory project discussion above in Noteworthy Financial Activity).

Current and other assets increased \$2.4 million to \$352.6 million, compared to \$350.2 in fiscal year 2003. Cash and cash equivalents of \$213.6 million is the largest non-capital asset.

University liabilities total \$370.9 million at June 30, 2004 compared to \$366.7 million in fiscal 2003. Long-term debt of \$279.4 million, consisting of bonds payable, is the largest liability.

Total net assets increased by \$47.5 million to \$435.2 million. Unrestricted net assets total \$189.8 million, 99.1% of which (\$188.1 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

KENT STATE UNIVERSITY
Management's Discussion and Analysis

Kent State University
Condensed Statement of Revenues, Expenses and Changes in Net Assets
as of June 30, 2005, 2004 and 2003
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues			
Tuition, net	\$ 193,052	\$ 167,351	\$ 151,784
State appropriations	118,194	121,349	119,622
Federal and state grants	57,259	57,965	54,716
Auxiliary activities	74,936	71,259	64,679
Other	49,907	44,956	61,084
Total revenues	<u>\$ 493,348</u>	<u>\$ 462,880</u>	<u>\$ 451,885</u>
Expenses			
Instruction	\$ 159,251	\$ 151,453	\$ 150,220
Research	14,182	14,936	14,566
Institutional support	32,619	28,320	28,549
Scholarships and fellowships	13,898	12,384	13,521
Other	214,286	208,316	205,005
Total expenses	<u>\$ 434,236</u>	<u>\$ 415,409</u>	<u>\$ 411,861</u>

2005 Versus 2004 During the year ended June 30, 2005:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during fiscal year 2005 as compared to 2004 by 15.4%.

These increases were a result of a combination of enrollment growth and increases in rates for tuition and other student charges.

Operating expenditures, including depreciation of \$25.6 million, totaled \$420.8 million.

State appropriations were the most significant non-operating revenue totaling \$118.2 million.

2004 Versus 2003 During the year ended June 30, 2004:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during fiscal year 2004 as compared to 2003 by 10.3%.

These increases were a result of a combination of enrollment growth and increases in rates for tuition and other student charges. The 5.9% increase in Federal and state grants was primarily a result of increases in federal and state student aid support.

Operating expenditures, including depreciation of \$27.2 million, totaled \$406.3 million.

State appropriations were the most significant non-operating revenue totaling \$121.3 million.

KENT STATE UNIVERSITY

Management's Discussion and Analysis

Kent State University
Condensed Statement of Cash Flows
as of June 30, 2005, 2004 and 2003
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided by/(used in):			
Operating activities	\$ (70,457)	\$ (59,848)	\$ (79,735)
Investing activities	51,152	42,900	11,204
Capital and related financing activities	(54,147)	(72,978)	(83,992)
Non-capital financing activities	<u>122,311</u>	<u>126,339</u>	<u>128,078</u>
Net increase/(decrease) in cash	48,859	36,413	(24,445)
Cash and cash equivalents, beginning of year	<u>213,564</u>	<u>177,151</u>	<u>201,596</u>
Cash and cash equivalents, end of year	<u><u>\$ 262,423</u></u>	<u><u>\$ 213,564</u></u>	<u><u>\$177,151</u></u>

2005 Versus 2004 During the year ended June 30, 2005:

Major sources of cash included student tuition and fees (\$150.4 million), state appropriations (\$118.3 million), auxiliary activities (\$74.9 million), and grants and contracts (\$59.9 million). The largest payments were for suppliers (\$163.1 million) and employees (\$202.2 million).

2004 Versus 2003 During the year ended June 30, 2004:

Major sources of cash included student tuition and fees (\$136.1 million), state appropriations (\$122.4 million), auxiliary activities (\$71.3 million), and grants and contracts (\$61.1 million). The largest payments were for suppliers (\$141.4 million) and employees (\$198.8 million).

Capital Asset and Debt Administration

Capital Assets

At the end of 2005, the University had invested \$479.5 million in a broad range of capital assets, including equipment, buildings, building improvements and land. This amount represents a net increase (including additions and deductions) of \$26.0 million, or 5.7 percent, over last year (see dormitory project discussion in Noteworthy Financial Activity).

Kent State University's Capital Assets
(net of depreciation, in millions of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land	\$ 10.0	\$ 9.6	\$ 9.6
Equipment	50.7	51.8	52.0
Buildings and improvements	395.8	361.1	303.4
Construction in progress	<u>23.0</u>	<u>31.0</u>	<u>39.2</u>
Total	<u><u>\$ 479.5</u></u>	<u><u>\$ 453.5</u></u>	<u><u>\$ 404.2</u></u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis

More detailed information about the University's capital assets is presented in Note 5 to the financial statements.

Long-term Debt

At year-end the University had \$279.7 million in bonds and notes outstanding—a decrease of 1.1 percent over last year. More detailed information about the University's long-term liabilities is presented in Note 6 to the financial statements.

Kent State University's Outstanding Debt (in millions of dollars)

	2005	2004	2003
General receipts bonds (backed by the University)	\$ 270.7	\$ 272.5	\$ 274.4
Capital Leases	<u>9.0</u>	<u>10.3</u>	<u>11.4</u>
	<u>\$ 279.7</u>	<u>\$ 282.8</u>	<u>\$ 285.8</u>

Factors Affecting Future Periods

For the first time since 2001 the amount appropriated by the State of Ohio for basic instructional support will not decline in the coming year and will grow by \$30 million state-wide in the following year. While the outlook for future state support is improved, the annual increase in these appropriations will still be less than 1% for the two-year period.

Future improvements in state support will depend on the strength of Ohio's economy and the priority placed on funding for higher education by the Governor and the Ohio General Assembly. In recognition of the increasing importance of higher education to Ohio's economy, several legislated studies of higher education are being completed in advance of the next operating budget cycle in 2007. These recommendations and the statewide elections in November 2006 likely will help determine whether state funding for higher education will improve in the future.

Increased student tuition continues to be the primary source of new financial support for Kent State University. While the fall 2004 enrollment of 35,458 was the eighth consecutive year of enrollment growth and the largest enrollment ever at Kent State University, the annual increase was the smallest during this period and future enrollments are expected to decline from this record level. A new institutional loan program and changes in Ohio's grant program will improve the financial aid options for students, but the growing gap between tuition and student financial aid will continue. The high cost of tuition is expected to lead to more students "stopping out" or delaying their education contributing to lower enrollments in the future.

While basic support for instruction will grow modestly during the next two years, the last two-year capital appropriation continued the recent pattern of reduced support for capital improvements. Although deferred maintenance issues are not an immediate problem due to the consistent nature of past appropriations, many classrooms and labs have not been updated to better meet today's instructional requirements. Historically, student

KENT STATE UNIVERSITY

Management's Discussion and Analysis

fees would not have been used extensively to fund such projects, but absent larger capital appropriations in the future, local financing of classroom and lab improvement projects may be necessary.

Kent State University through its strategic plan is committed to focusing on better serving its students and the Northeast Ohio region through regionally and nationally recognized instructional, research, and outreach programs. Even though state support has declined in recent years, the financial condition of the University has continued to improve providing a resource base for making strategic investments that have enhanced the competitiveness of the University. This improved financial condition along with the largest network of campuses in Ohio and its role as the premier public residential campus in the region are expected to enable Kent State to maintain strong enrollments and preserve its financial condition during a period of transition for public higher education in Ohio.

Report of Independent Auditors

To the Board of Trustees of
Kent State University:

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of Kent State University (“The University”) (a component unit of the State of Ohio) at June 30, 2005 and 2004, and the revenues, expenses and changes in net assets and 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 University’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. Those standards require that we plan and perform the audits 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.

The Management’s Discussion and Analysis (“MD&A”) on pages 1 to 7 is not a required part of the financial statements but is supplemental information required by GASB. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005 on our consideration of The University’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 for the year ended June 30, 2005. 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 the results of our audits.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 7, 2005
Cleveland, Ohio

KENT STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2005 and 2004
(in thousands)

	University		University Related Foundation	
	2005	2004	2005	2004
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 262,423	\$ 213,564	\$ 2,230	\$ 1,745
Short-term investments	2,533	19,094	78,737	74,946
Accounts and pledges receivable, net	17,106	17,208	2,892	1,943
Inventories	1,586	1,494	-	-
Deposits and prepaid expenses	1,885	3,588	-	-
Accrued interest receivable	756	1,246	13	13
Total current assets	<u>286,289</u>	<u>256,194</u>	<u>83,872</u>	<u>78,647</u>
Noncurrent assets:				
Student loans receivable, net	21,737	21,885	-	-
Long-term investments	54,950	70,670	15,934	10,081
Long-term pledges receivable, net	-	-	4,361	3,880
Capital assets, net	479,492	453,534	8,956	9,166
Other assets	3,684	3,841	515	-
Total noncurrent assets	<u>559,863</u>	<u>549,930</u>	<u>29,766</u>	<u>23,127</u>
Total assets	<u>846,152</u>	<u>806,124</u>	<u>113,638</u>	<u>101,774</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	19,704	28,530	1,416	1,264
Accrued payroll	7,926	7,470	-	-
Payroll taxes and accrued fringe benefits	6,751	6,657	-	-
Unearned fees and deposits	22,367	30,464	-	-
Current portion of long-term debt	3,275	3,481	-	-
Total current liabilities	<u>60,023</u>	<u>76,602</u>	<u>1,416</u>	<u>1,264</u>
Noncurrent liabilities:				
Accrued compensated absences	13,434	12,855	-	-
Accrued liabilities	-	-	4,212	3,992
Long-term unearned fees and deposits	1,965	2,115	-	-
Long-term debt	276,417	279,351	-	-
Total noncurrent liabilities	<u>291,816</u>	<u>294,321</u>	<u>4,212</u>	<u>3,992</u>
Total liabilities	<u>351,839</u>	<u>370,923</u>	<u>5,628</u>	<u>5,256</u>
NET ASSETS				
Invested in capital assets, net of related debt	238,768	221,254	8,956	8,671
Restricted, nonexpendable	882	882	51,749	48,077
Restricted, expendable	23,589	23,317	46,446	38,917
Unrestricted	231,074	189,748	859	853
Total net assets	<u>494,313</u>	<u>435,201</u>	<u>108,010</u>	<u>96,518</u>
Total liabilities and net assets	<u>\$ 846,152</u>	<u>\$ 806,124</u>	<u>\$ 113,638</u>	<u>\$ 101,774</u>

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

KENT STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
for the years ended June 30, 2005 and 2004
(in thousands)

	University		University Related Foundation	
	2005	2004	2005	2004
OPERATING REVENUES				
Student tuition and fees	\$ 228,793	\$ 202,939	\$	\$ -
Less scholarship allowances	(35,741)	(35,588)		-
Net student tuition and fees	<u>193,052</u>	<u>167,351</u>		<u>-</u>
Federal grants and contracts	46,957	48,101		-
State grants and contracts	10,302	9,864		-
Local grants and contracts	396	272		-
Nongovernmental grants and contracts	2,890	3,496		-
Sales and services of educational departments	5,716	5,777		-
Auxiliary activities	74,936	71,259		-
Other operating revenues	3,551	5,336	2,395	1,865
Total operating revenues	<u>337,800</u>	<u>311,456</u>	<u>2,395</u>	<u>1,865</u>
OPERATING EXPENSES				
Instruction	159,251	151,453		-
Research	14,182	14,936		-
Public service	14,683	14,144		-
Academic support	33,992	33,524		-
Student services	24,709	23,346		-
Institutional support	32,619	28,320	9,495	9,630
Scholarships and fellowships	13,898	12,384	1,740	1,604
Operation and maintenance of plant	29,663	30,401		-
Auxiliary activities	72,288	70,559		-
Depreciation	25,552	27,249	18	20
Total operating expenses	<u>420,837</u>	<u>406,316</u>	<u>11,253</u>	<u>11,254</u>
Operating loss	<u>(83,037)</u>	<u>(94,860)</u>	<u>(8,858)</u>	<u>(9,389)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	118,194	121,349		-
Gifts	4,063	4,047	14,387	15,373
Investment income	18,378	10,483	6,118	8,398
Interest on capital asset-related debt	(13,010)	(8,166)		-
Other nonoperating revenues (expenses)	(389)	(927)	(155)	(776)
Net nonoperating revenues	<u>127,236</u>	<u>126,786</u>	<u>20,350</u>	<u>22,995</u>
Income before other revenues, expenses, gains or losses	<u>44,199</u>	<u>31,926</u>	<u>11,492</u>	<u>13,606</u>
Capital appropriation	<u>14,913</u>	<u>15,545</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>59,112</u>	<u>47,471</u>	<u>11,492</u>	<u>13,606</u>
NET ASSETS				
Net assets, beginning of year	435,201	387,730	96,518	82,912
Net assets, end of year	<u>\$ 494,313</u>	<u>\$ 435,201</u>	<u>\$ 108,010</u>	<u>\$ 96,518</u>

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

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS
for the years ended June 30, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 150,443	\$ 136,111
Cash received from auxiliary activities	74,931	71,281
Cash received from other sources	9,576	12,424
Grants and contracts	59,857	61,114
Federal student loan funds received	271	273
Student loans granted, net of repayments	(173)	(816)
Cash paid to employees	(202,242)	(198,791)
Cash paid to suppliers	(163,120)	(141,444)
Net cash used in operating activities	<u>(70,457)</u>	<u>(59,848)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments, net	33,837	27,661
Interest received	17,315	15,239
Net cash provided by investing activities	<u>51,152</u>	<u>42,900</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments under debt obligations	(3,135)	(3,470)
Interest paid	(12,567)	(12,100)
Capital appropriations	711	711
Purchases of capital assets	(38,767)	(57,192)
Other payments	(389)	(927)
Net cash used in capital and related financing activities	<u>(54,147)</u>	<u>(72,978)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	118,271	122,428
Gifts received from KSU Foundation	4,040	3,911
Net cash provided by noncapital financing activities	<u>122,311</u>	<u>126,339</u>
 Net increase in cash and cash equivalents	 48,859	 36,413
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>213,564</u>	 <u>177,151</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 262,423</u>	 <u>\$ 213,564</u>

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

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS--CONTINUED
for the years ended June 30, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Reconciliation of net operating revenues (expenses) to net cash provided (used) in operating activities:		
Operating loss	\$ <u>(83,037)</u>	\$ <u>(94,860)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) in operating activities:		
Depreciation expense	25,552	27,249
Change in assets and liabilities:		
Accounts receivable, net	1,274	801
Inventories	(92)	181
Deposits and prepaid expenses	1,703	(49)
Student loans receivable, net	148	(422)
Accounts payable and accrued liabilities	(8,887)	5,882
Accrued payroll	456	608
Payroll taxes and accrued fringe benefits	94	(1,944)
Unearned fees and deposits	(8,247)	1,932
Accrued compensated absences	<u>579</u>	<u>774</u>
Total change in assets and liabilities	<u>(12,972)</u>	<u>7,763</u>
Net cash used in operating activities	\$ <u><u>(70,457)</u></u>	\$ <u><u>(59,848)</u></u>

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

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

(1) Reporting Entity and Basis of Presentation

(a) Reporting Entity

Kent State University ("University") is an institution of higher education and is considered to be a component unit of the State of Ohio ("State") because its Board of Regents is appointed by the Governor of the State. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations, grants from various state agencies and payments to the State retirement program for certain University employees.

The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is therefore exempt from Federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The accompanying financial statements consist of the accounts of the University and the accounts of the Kent State University Foundation ("Foundation"). The Foundation, which is a discretely presented component unit of the University as determined in accordance with the provisions of the Governmental Accounting Standards Board ("GASB") Statement 39, is described more fully in Note 9. The Foundation is exempt from Federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

Furthermore, in accordance with GASB Statement No. 39, the Foundation is reported in a separate column on the University's financial statements to emphasize that it is legally separate from the University. The Foundation is a not-for-profit organization supporting the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which they hold and invest are restricted to support the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, it is considered a component unit of the University. Financial statements for the Foundation may be obtained by writing to Kent State University Foundation, Kent, Ohio 44242.

(b) Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, statements and interpretations issued after November 30, 1989, which do not conflict or contradict GASB pronouncements.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

As required by the GASB, resources of the University are classified into one of four net asset categories, as follows:

- Invested in capital assets, net of related debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted, nonexpendable - Net assets subject to externally imposed stipulations that the University maintains such assets permanently.
- Restricted, expendable - Net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- Unrestricted - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs, capital projects and other initiatives.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis. The University reports as a Business Type Activity. As defined by GASB Statement No. 35, Business Type Activities are those activities that are financed in whole or in part by fees charged to the external parties for goods or services.

(a) Investments

Investments in marketable securities are carried at fair market value as established by the major securities markets. Investment income includes realized and unrealized gains and losses on investments, interest income and dividends. Payments for and proceeds from investment activity are shown net on the Statement of Cash Flows because detail relating to the payments and proceeds was not available.

(b) Inventories

Inventories are stated at the lower of cost (first in, first out basis) or market.

(c) Estimates

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

(d) Revenue Recognition

State appropriations are recognized when received or made available. Restricted funds are recognized as revenue only to the extent expended. Gifts and interest on student loans are recognized when received. The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue sources relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income. Effective for the fiscal year ended June 30, 2005, summer term tuition and fees and corresponding expenses relating to the portion of various sessions falling in the current fiscal year are recognized as tuition revenue and operating expense. The portion of sessions falling into the next fiscal year are recorded as deferred revenue and prepaid expense in the Statement of Net Assets and will be recognized in the following year. As a result, the University recorded \$8,060 in student tuition and fees and \$3,434 of related expenses in fiscal year 2005.

(e) Accrued Liabilities

Accrued liabilities consist primarily of accrued employee compensation and benefits. Accrued compensated absences are classified as non-current liabilities on the Statement of Net Assets because the current portion cannot be closely estimated.

(f) Capital Assets

Capital assets are stated at cost or fair value at date of gift. Depreciation of plant physical properties is provided on a straight-line basis over the estimated useful lives (three to forty years) of the respective assets. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

(3) Investments

The University's investment policy authorizes the University to invest non-endowment funds in the following investments:

- Obligations of the US Treasury and other federal agencies and instrumentalities
- Municipal and state bonds
- Certificates of deposit
- Repurchase agreements
- Mutual funds and mutual fund pools
- Money market funds

US Government and Agency securities are invested through trust agreements with banks who keep the

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

internally designate the securities as owned by or pledged to the University. Common stocks, corporate bonds, money market instruments, mutual funds and other investments are invested through trust agreements with banks who keep the investments in their safekeeping accounts at the Depository Trust Company or Huntington Bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the University.

The values of investments at June 30, 2005 and 2004 are as follows:

	2005	2004
Common stock	\$ -	\$ 348
Equity mutual funds	102,357	21,260
US government obligations	23,635	28,627
US government agency obligations	21,696	36,935
Repurchase agreements	38,762	58,175
Corporate bonds and notes	12,073	23,776
Bond mutual funds	108,344	110,615
Other	10,730	10,845
Total	\$ 317,597	\$ 290,581

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2005, the University realized a net gain of \$3,081 from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation in the fair value of investments held at year-end. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net appreciation in the fair value of investments during the year ended June 30, 2005, was \$3,296. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year. The unrealized appreciation during the year on investments was \$215.

The components of the net investment income (loss) are as follows:

	Interest and Dividends (net)	Net Appreciation (Depreciation) in Market Value of Investments	Net Investment Income (Loss)
Total 2005	\$15,082	\$3,296	\$18,378
Total 2004	\$9,916	\$567	\$10,483

Additional Disclosures Related to Interest-Bearing Investments:

Statement Nos. 3 and 40 of the Governmental Accounting Standards Board require certain additional disclosures related to the interest-rate, credit and foreign currency risks associated with interest-bearing investments.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

Interest-rate risk – Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

The maturities of the University's interest-bearing investments at June 30, 2005 are as follows:

	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 20
US government obligations	\$ 23,635	\$ 1,712	\$ 13,092	\$ 8,458	\$ 373
US agency obligations	21,696	499	650	966	19,581
Repurchase agreements	38,762	38,762	-	-	4,830
Corporate bonds	12,073	243	2,324	4,676	
Bond mutual funds	108,344		108,344		
Total	<u>\$ 204,510</u>	<u>\$ 41,216</u>	<u>\$ 124,410</u>	<u>\$ 14,100</u>	<u>\$ 24,784</u>

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information – as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings – provides a current depiction of potential variable cash flows and credit risk.

The credit ratings of the University's interest-bearing investments at June 30, 2005 are as follows:

Credit Rating (Moody's)	US				Corporate Bonds	Bond Mutual Funds
	Total	Government Obligations	US Agency Obligations	Repurchase Agreements		
AAA	\$192,437	\$ 23,635	\$ 21,696	\$ 38,762	-	\$108,344
BBB	12,073				12,073	
Total	<u>\$204,510</u>	<u>\$ 23,635</u>	<u>\$ 21,696</u>	<u>\$ 38,762</u>	<u>\$ 12,073</u>	<u>\$108,344</u>

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2005, the University had no exposure to foreign currency risk.

(4) Accounts Receivable

Accounts receivable consist of the following, as of June 30, 2005 and 2004:

	2005	2004
Sponsor accounts	\$ 3,193	\$ 4,217
Student accounts	10,225	10,029
Other	5,758	4,972
	<u>\$ 19,176</u>	<u>\$ 19,218</u>
Less allowances for loss on accounts receivable	(2,070)	(2,010)
Accounts receivable, net	<u>\$ 17,106</u>	<u>\$ 17,208</u>

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

In addition, the University has student loans receivable of \$26,056 and \$25,883 as of June 30, 2005 and 2004, respectively. The related allowances as of June 30, 2005 and 2004 are \$4,319 and \$3,998, respectively.

(5) Capital Assets

Capital assets are recorded at cost or, if acquired by gift, at the fair market value as of the date of donation.

Capital assets consists of the following, as of June 30, 2004 and 2005:

	<u>2004</u>	Additions/ <u>Transfers</u>	Net <u>Retirements</u>	<u>2005</u>
Land	\$ 9,625	\$ 397	\$ 48	\$ 9,974
Infrastructure	70,493	8,053	4	78,542
Buildings	480,183	42,154	645	521,692
Equipment	169,072	8,873	21,853	156,092
Construction-in-progress	30,954	(7,967)	-	22,987
	<u>\$ 760,327</u>	<u>\$ 51,510</u>	<u>\$ 22,550</u>	<u>\$ 789,287</u>
Less accumulated depreciation	306,793	25,211	22,209	309,795
Capital assets, net	<u>\$ 453,534</u>	<u>\$ 26,299</u>	<u>\$ 341</u>	<u>\$ 479,492</u>

Included in depreciation expense of \$25,552 for the year ended June 30, 2005, is a loss of \$341 from the disposal of obsolete capital assets.

(6) Long-term Debt

In accordance with the General Receipts bonds Trust Agreement, the Series 1996, Series 1998, Series 2000, Series 2001 and Series 2002 General Receipts bonds are subject to mandatory or optional redemption. The Series 1994 General Receipts bonds are not subject to mandatory or optional redemption.

The indebtedness created through the issuance of General Receipt's bonds is collateralized by a pledge of all general receipts, excluding state appropriations and monies received for restricted purposes. The primary source of funds being deposited to service the principal and interest requirements is student facilities fees.

In fiscal year 1997, the University defeased Dormitory Revenue bonds by creating separate irrevocable trust funds. University resources were used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been legally defeased and therefore removed as a liability from the University's Net investment in Plant Fund. At June 30, 2005 and 2004, \$2,010 and \$3,017 respectively, of this defeased debt was outstanding.

The University has entered into a thirty-year interest rate swap agreement for \$155,500 of the variable rate 2001 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 5.02% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate that matches the rate required by the bonds. Only the net difference in

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

interest payments is actually exchanged with the counter-party. The \$155,500 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. The University will be exposed to variable rates only if the counter-party to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the University paying or receiving a termination payment. No mark to market adjustment for this swap is required under government accounting standards. The fair value of the swap agreement was (\$31,606) and (\$21,323) at June 30, 2005 and 2004, respectively.

Long-term debt consists of the following as of June 30, 2004 and 2005:

	<u>Interest Rates</u>	<u>Maturity</u>	<u>2004</u>	<u>Outstanding Additions</u>	<u>Principal Retirements</u>	<u>2005</u>
General Receipts Bonds of 2002	variable (SAVRS)	2028-2032	\$ 60,000	-	-	\$ 60,000
General Receipts Bonds of 2001	5.02	2007-2031	155,500	-	-	155,500
General Receipts Bonds of 2000	5.0-6.0	2004-2024	9,275	-	270	9,005
General Receipts Bonds of 1998	4.1-5.0	2004-2023	17,670	-	595	17,075
General Receipts Bonds of 1996	4.1-5.5	2004-2028	30,130	-	995	29,135
Other	various	various	10,257	69	1,349	8,977
			<u>282,832</u>	<u>69</u>	<u>3,209</u>	<u>279,692</u>
Less current portion long-term debt			3,481			3,275
			<u>\$279,351</u>			<u>\$276,417</u>

Principal and interest on long-term debt are payable from operating revenues, allocated student fees and the excess of revenues over expenditures of specific auxiliary activities. The obligations are generally callable.

The future amounts of principal and interest payments required by the debt agreements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,275	\$ 12,186	\$ 15,461
2007	4,206	12,030	16,236
2008	4,198	11,813	16,011
2009	4,269	11,605	15,874
2010	4,395	11,392	15,787
2011-2015	33,119	52,947	86,066
2016-2020	44,935	43,163	88,098
2021-2025	53,965	30,409	84,374
2026-2030	91,830	16,362	108,192
2031-2035	35,500	2,594	38,094
Total	<u>\$279,692</u>	<u>\$204,501</u>	<u>\$484,193</u>

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

(7) Retirement Benefits

(a) Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System ("OPERS") and the State Teachers Retirement System of Ohio ("STRS Ohio"). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members. The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS Ohio 3.5% of earned compensation for those employees participating in the alternative retirement program. The University's contribution to the alternative retirement fund for the years ending June 30, 2005 and 2004 were \$545 and \$475, respectively.

The Ohio Public Employees Retirement System's Comprehensive Annual Financial Report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5% of covered payroll and the University is required to contribute 13.31% of covered payroll. The University's contributions to OPERS for the years ending June 30, 2005, 2004 and 2003 were \$9,986, \$9,748 and \$9,794, respectively, equal to the required contributions for each year.

The State Teachers Retirement System of Ohio's Comprehensive Annual Financial Report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to STRS Ohio for the years ending June 30, 2005, 2004, and 2003 were \$11,068, \$11,352 and \$11,091, respectively, equal to the required contributions for each year.

(b) Post-Retirement Health Care Benefits (in whole numbers)

OPERS provide post-retirement health care coverage to age and service retirees with 10 or more years of qualifying State service credit. Health care coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. The 2004 employer contribution rate for health care was 4% of covered payroll.

OPERS benefits are advance-funded on an actuarially determined basis. OPERS actuarially accrued liability and the unfunded actuarial accrued liability, based on an entry age normal actuarial cost method of valuation, were \$26.9 billion and \$16.4 billion, respectively. Significant actuarial assumptions include an 8% investment return, a 4% individual pay increases, and a 5 to 10% increase in health care costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. As of December 31, 2003, the actuarial value of the retirement system's net assets available for other post employment benefits was \$10.5

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

billion. The number of active contributing participants in the traditional and combined plans was 369,885.

STRS Ohio provides access to health care coverage to retirees who participated in the defined benefit or combined plans. Coverage includes hospitalization, physician's fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the health care reserve fund was \$3.1 billion at June 30, 2004.

For the year ended June 30, 2004, the net health care costs paid by STRS Ohio were \$268,739. There were 111,853 eligible benefit recipients.

(c) Ohio Public Employees Deferred Compensation Program

The University's employees may elect to participate in the Ohio Public Employees Deferred Compensation Program (the "Program"), created in accordance with Internal Revenue Code Section 457. The Program permits deferral of a portion of an employee's compensation until termination, retirement, death, or unforeseeable emergency. The deferred compensation and any income earned thereon are not subject to income taxes until actually received by the employee.

In 1998, the Ohio Public Employees Deferred Compensation Program Board implemented a trust to hold the assets of the Program in accordance with Internal Revenue Code Section 457. The program assets are property of the trust, which holds the assets on behalf of the participants.

Therefore, in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the assets of this program are not reported in the accompanying Financial Statements.

At June 30, 2005 and 2004, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$4,109 and \$3,233, respectively, which represents the fair market value at such dates.

(8) Contingencies and Commitments

In the normal course of its activities, the University is a party to various legal actions. The University intends to vigorously defend itself against any and all claims and is of the opinion that the outcome of current legal actions will not have a material effect on the University's financial position.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2005 and 2004 (in thousands)

The University is also self-insured for workers' compensation, unemployment compensation and substantially all employee health benefits. The University's risk exposure is limited to claims incurred. Total claims paid during the years ended June 30, 2005 and 2004 were \$27,070 and \$26,383. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$4,123 and \$3,942 has been accrued as of June 30, 2005 and 2004. This estimate is based on an analysis of historical claims paid.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2005 and 2004 for operating leases amounted to approximately \$1,107 and \$724, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2005 are as follows:

	Operating Leases
2006	\$ 940
2007	908
2008	890
2009	763
2010	763
2011-2015	3,790
2016-2020	2,376
2021-2025	2,032
2026-2030	2,032
Total future minimum payments	<u>\$ 14,494</u>

(9) Related Party Transactions

The University is the sole beneficiary of the Foundation; a separate not-for-profit entity organized for the purpose of promoting educational and research activities. The Foundation is a legally separate entity from the University and maintains a self-appointing Board of Trustees. The Foundation reimburses the University for substantially all operating expenses paid by the University on behalf of the Foundation. Accordingly, management historically concluded that the Foundation was not a component unit of the University as defined by GASB Statement No. 14, *The Financial Reporting Entity*. However, under the recently issued GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation now meets the revised definition as a component unit. Assets totaling approximately \$113,645 and \$101,774 at June 30, 2005 and 2004, respectively, most of which have been restricted by donors for specific purposes, are presented separately. Amounts received by the University from the Foundation are included in the accompanying financial statements. The University received approximately \$3,589 and \$3,434 of financial support during the years ended June 30, 2005 and 2004, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2005 and 2004, the University had outstanding receivables from the Foundation of approximately \$611 and \$588, respectively.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005 and 2004

(in thousands)

The University, together with The University of Akron and Youngstown State University, created a consortium to establish and govern Northeastern Education Television of Ohio, Inc. ("NETO"), Channels 45 and 49, Kent, Ohio, and Northeastern Ohio Universities College of Medicine ("NEOUCOM"), Rootstown, Ohio. These organizations are legally separate from the University; accordingly, their financial activity is not included within the accompanying financial statements. The University has no contractual financial obligations to any of the aforementioned consortia.

SUPPLEMENTAL FINANCIAL INFORMATION

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
STUDENT FINANCIAL AID			
Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	84.007		1,078,403
Federal Work-Study Program	84.033		1,266,485
Federal Perkins Loan Program	84.038		7,505
Federal Pell Grant Program	84.063		25,630,535
Total Department of Education			<u>27,982,928</u>
Department of Health and Human Services			
Direct Program			
Nursing Student Loans	93.364		5,308
Total Student Financial Aid			<u>27,988,236</u>
RESEARCH AND DEVELOPMENT			
Department of Commerce			
Pass-through Programs			
Ohio State University Research Foundation - Sea Grant Support	11.417	R/ER-67	7,164
Ohio State University Research Foundation - Sea Grant Support	11.417	R/ER-70	4,234
Total			<u>11,398</u>
University of Delaware - Environmental Sciences, Applications, Data, and Education	11.440	4-3-42-2541-01	8,024
Total Department of Commerce			<u>19,422</u>
Department of Defense			
Direct Programs			
Basic and Applied Scientific Research	12.300		2,813
Basic Scientific Research	12.431		27,507
Mathematical Sciences Grants Program	12.901		13,148
Research and Technology Development	12.910		106,622
Pass-through Programs			
Anteon Corp - Basic, Applied, and Advanced Research in Science and Engineering	12.630	S1214	42
Cornerstone Research Group - Basic, Applied, and Advanced Research in Science and Engineering	12.630	F49620-03-C-0050	284
Total			<u>326</u>

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Wright State University - Air Force Defense Research Sciences Program	12.800	WBSC9008WS	46,828
Displaytech, Inc - Air Force Defense Research Sciences Program	12.800	Display 440446	19,871
Horn Laboratory - Air Force Defense Research Sciences Program	12.800	HORN SBIR	(14)
Total			66,685
Ohio State University Research Foundation - Research and Technology Development	12.910	741323/869064	49,071
Rockwell - Research and Technology Development	12.910	BOU431588	28,807
Science Applications International Corp. - Research and Technology Development	12.910	4400075040	11,281
Kent Displays Inc. - Research and Technology Development	12.910	KDI 444267	25,935
Total			115,094
Wright State University - Dept of Defense	NONE	F33615-97-D-1138	3,950
University of Central Florida - Imaging Sensor	NONE	33814	38,993
University of Maryland - Translation Skill Hub	NONE	Z972502	566
University of Maryland - Translation Skill Hub	NONE	Z979901	64,643
Total			108,152
Total Department of Defense			440,347
Department of Housing and Urban Development			
Direct Program			
General Research and Technology Activity	14.506		21,412
Department of Justice			
Direct Programs			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		16,195
Community Prosecution and Project Safe Neighborhoods	16.609		23,817
Pass-through Programs			
West Virginia Dept of Criminal Justice - State Justice Statistics Program	16.550	WV-DCJS-2004-BJ-CX-K	18,306
SAIC - National Institute of Justice - Research, Evaluation, and Development Project Grants	16.560	4400029604	8,461
State of Ohio - Byrne Formula Grant Program	16.579	2003-DG-B0R-7080	28,859
State of Ohio - Byrne Formula Grant Program	16.579	2004-DG-B0R-7080	13,337

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
State of Ohio - Byrne Formula Grant Program	16.579	2002-DG-COV-7068	52,719
State of Ohio - Byrne Formula Grant Program	16.579	2003-DG-C01-7068	86,940
State of Ohio - Byrne Formula Grant Program	16.579	2002-DG-DOR-7505	18,009
Total			199,864
State of Ohio - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308	73,071
Total Department of Justice			339,714
Department of State			
Direct Program			
Dept of State Bureau of Educational & Cultural Affairs	NONE	S-ECAPE-04-GR-231(JJ)	117,518
Department of Transportation			
Pass-through Programs			
Ohio Department of Transportation - Highway Planning and Construction	20.205	10318	2,031
National Aeronautics and Space Administration			
Direct Program			
Technology Transfer	43.002		205,780
Pass-through Program			
Ohio Aeronautics Institute - Technology Transfer	43.002	R-300-100275-40023	41,642
Total National Aeronautics and Space Administration			247,422
National Foundation on the Arts and the Humanities			
Direct Program			
Institute of Museum and Library Services - National Leadership Grants	45.312		917,309
National Science Foundation			
Direct Programs			
Mathematical and Physical Sciences	47.049		1,594,984
Geosciences	47.050		362,264
Computer and Information Science and Engineering	47.070		249,127
Biological Sciences	47.074		238,276
Social, Behavioral, and Economic Sciences	47.075		123,269
Education and Human Resources	47.076		494,045
Polar Programs	47.078		6,350
Pass-through Programs			
Moxtek - Engineering Grants	47.041	DMI-9902946	414

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Santec - Engineering Grants	47.041	444223	521
Georgia Institute of Technology - Engineering Grants	47.041	E-27-M88-S1	30,346
Total			31,281
University of New Mexico - Mathematical and Physical Sciences	47.049	3-27711-7810	40,810
New York University - Mathematical and Physical Sciences	47.049	F5893-01	6,262
Carnegie Mellon University - Mathematical and Physical Sciences	47.049	1120406-142769	37,046
Total			84,118
University of Akron - Biological Sciences	47.074	DEB-0235301	37,139
Ohio State Research Foundation - Biological Sciences	47.074	60001629	27,033
Total			64,172
Brown University - Social, Behavioral, and Economic Sciences	47.075	1379-26321	7,587
U.S. Civilian Research & Development Foundation - Social, Behavioral, and Economic Sciences	47.075	UK-P1-2617-KV04	2,493
U.S. Civilian Research & Development Foundation - Social, Behavioral, and Economic Sciences	47.075	UK-P1-2598-KV-0	2,362
University of South Carolina - Social, Behavioral, and Economic Sciences	47.075	04-0957	41,643
Total			54,085
OSURF - Education and Human Resources	47.076	745925/RF00982477	25,294
American Association of Colleges and Universities - Education and Human Resources	47.076	88753	1,033
SRI International - Education and Human Resources	47.076	11-000024	70,516
Total			96,843
Total National Science Foundation			3,398,814
Environmental Protection Agency			
Direct Programs			
Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	XA-83105001-0	35,009
Pass-through Programs			
Trumbull County Health Department - Nonpoint Source Implementation Grants	66.460	CWA-SECTION 319	5,018

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
NALMS - Surveys, Studies, Investigations, and Special Purpose Grants	66.606	Dip-In Project	<u>4,517</u>
Total Environmental Protection Agency			44,544
Department of Energy			
Direct Program			
Office of Science Financial Assistance Program	81.049		555,984
Pass-through Programs			
Stanford University - Office of Science Financial Assistance Program	81.049	11945920-28910-A	107,818
University of Chicago - Office of Scientific and Technical Information	81.064	4F-01682	<u>4,395</u>
Total Department of Energy			668,197
Department of Education			
Direct Programs			
Fund for the Improvement of Postsecondary Education	84.116		774,084
Safe and Drug-Free Schools and Communities: National Programs	84.184		145,029
Education Research, Development and Dissemination	84.305		5,297
Pass-through Programs			
Ohio Department of Education - Special Education - Grants to States	84.027	062976-6B-SP-05P	32,500
Emporia State University - Fund for the Improvement of Postsecondary Education	84.116	#406-09/DE P116B01 1069	6,518
Cleveland Heights/University Heights School District - Safe and Drug-Free Schools and Communities: National Programs	84.184	184L030137	99,964
Cleveland Municipal School District - Safe and Drug-Free Schools and Communities: National Programs	84.184	74724239	<u>18,123</u>
Total			118,087
University of Kentucky - Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	H324M010033	47,715
University of Akron - Preparing Tomorrow's Teachers to Use Technolgy	84.342	P342A010052	(2,349)
University of Akron - Preparing Tomorrow's Teachers to Use Technolgy	84.342	Subcontract #RSC02009	<u>7,538</u>
Total			<u>5,189</u>
Total Department of Education			1,134,419

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Department of Health and Human Services			
Direct Programs			
Mental Health Research Grants	93.242		1,058,245
Alcohol Research Programs	93.273		239,438
Mental Health Research Career/Scientist Development Award	93.281		109,199
Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283		198,404
Nursing Research	93.361		271,405
Cancer Cause and Prevention Research	93.393		33,380
Cancer Treatment Research	93.395		16,465
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		304,347
Genetics and Developmental Biology Research and Research Training	93.862		709
Population Research	93.864		36,907
Child Health and Human Development Extramural Research	93.865		118,153
Aging Research	93.866		255,448
Assistance Programs for Chronic Disease Prevention and Control	93.945		7,067
Pass-through Programs			
Cuyahoga County Community Mental Health Board - Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	4/7/2007	244,391
Stanford University - Human Genome Research	93.172	30162-A	125,194
Cuyahoga County Juvenile Court - Consolidated Knowledge Development and Application (KD&A) Program	93.230	CE0400252-01	70,416
Abstinence The Better Choice - Abstinence Education	93.235	776006-4-CS-04	14,980
Pennsylvania State University - Mental Health Research Grants	93.242	1613-KSU-DHHS-59027	1,484
Biotraces - Mental Health Research Grants	93.242	5 K01 MH063213-04	828
Total			2,312
Case Western Reserve University - National Center for Research Resources	93.389	2 S07 RR-018123-02	2,831
University of Pennsylvania - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	539181	115,106
Georgia Institute of Technology - Aging Research	93.866	G-42-682-G3	51,851

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
NEOUCOM - Block Grants for Community Mental Health Services	93.958	34155	<u>20,000</u>
Total			<u>21,712</u>
Total Department of Health and Human Services			<u>3,297,960</u>
Department of Homeland Security			
 Pass-through Program			
Michael Baker Inc. - Cooperating Technical Partners	97.045	CSA-445410	(93)
Michael Baker Jr. Inc. - Development of Multi-Hazard Geospatial Content Standards	NONE	102929	47,107
NEOUCOM - Rapid Detection of Fluidborne Pathogens Using Liquid Crystals	NONE	PZ501515	<u>30,000</u>
Total Department of Homeland Security			<u>77,014</u>
Total Research and Development		10726125.51	<u>10,726,123</u>
TRIO PROGRAMS			
Department of Education			
 Direct Programs			
TRIO - Student Support Services	84.042		451,515
TRIO - Upward Bound	84.047		790,862
TRIO - McNair Post-Baccalaureate Achievement	84.217		<u>237,494</u>
Total TRIO Programs			<u>1,479,871</u>
Department of Education			
 Direct Programs			
Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325		<u>1,557,109</u>
Total Major Programs			<u>41,751,339</u>
OTHER PROGRAMS			
Department of Commerce			
 Direct Program			
Public Telecommunications Facilities Planning and Construction	11.550		55,007
Department of Defense			
 Direct Program			
Air Force Defense Research Sciences Program	12.800		31,190

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Housing and Urban Development			
Pass-through Programs			
Stark County Regional Planning Board - Community Development Block Grants/Entitlement Grants	14.218	B-04-UC-39-0005	23,152
City of Cleveland - Empowerment Zones Program	14.244	Program 62955	337,994
Total Department of Housing and Urban Development			<u>361,146</u>
Department of Justice			
Direct Program			
Bulletproof Vest Partnership Program	16.607		9,983
Public Safety Partnership and Community Policing Grants	16.710		2,016
Total Department of Justice			<u>11,999</u>
Department of Labor			
Direct Program			
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		23,684
Pass-through Programs			
Ohio Department of Education - WIA Adult Program	17.258	062976-WF-HS-2003	(5)
Ohio Department of Jobs & Family Services - Employment and Training Administration Evaluations	17.262	C-04-15-0058	718
Total Department of Labor			<u>24,397</u>
Department of State			
Pass-through Programs			
American Councils for International Education - Educational Exchange - Teachers from Secondary and Postsecondary Levels and School Administrators	19.408	KSU440173	26,972
NAFSA - Cooperative Grants Program	19.420	COOP	3,137
Total Department of State			<u>30,109</u>
Federal Aviation Administration			
Direct Program			
Airport Improvement Program	20.106		8,160

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
National Foundation on the Arts and the Humanities			
Direct Programs			
Promotion of the Arts: Grants to Organizations and Individuals	45.024		10,000
Promotion of the Humanities - Public Programs	45.164		1,000
Museum for America Grants	45.301		7
Librarians for the 21st Century	45.313		156,480
Pass-through Programs			
Ohio Humanities Council - Promotion of the Humanities - Federal/State Partnership	45.129	OHC-M05-071	500
State Library of Ohio - State Library Program	45.310	III-4-05	1,616
Total National Foundation on the Arts and the Humanities			<u>169,603</u>
National Science Foundation			
Direct Program			
Geosciences	47.050		7,372
Biological Sciences	47.074		99,044
Pass-through Programs			
The Mathematical Association of America - Education and Human Resources	47.076	DUE-0230847	70,216
Total National Science Foundation			<u>176,632</u>
Small Business Administration			
Pass-through Programs			
Ohio Business Development Organization - Small Business Development Center	59.037	OBC 203-09063	542
Ohio Department of Development - Small Business Development Center	59.037	9031	32,252
Ohio Department of Development - Small Business Development Center	59.037	ECDD 05-173	57,667
Ohio Business Development Organization - Small Business Development Center	59.037	OMDT 24-09063	23,668
Ohio Business Development Organization - Small Business Development Center	59.037	OMDT 25-09063	68,912
Ohio Department of Development - Small Business Development Center	59.037	ECDD 04-100	117,136
Ohio Department of Development - Small Business Development Center	59.037	ECDD 05-168	111,083
Total Small Business Administration			<u>411,260</u>
Department of Education			
Direct Programs			
Fund for the Improvement of Postsecondary Education	84.116		188,898

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Rehabilitation Long-Term Training	84.129		453,553
Javits Fellowships	84.170		1,792
Fund for the Improvement of Education	84.215		60,275
National Institute for Literacy	84.257		215,751
Research in Special Education	84.324		427,573
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333		375,125
Preparing Tomorrow's Teachers to Use Technology	84.342		451,399
Pass-through Programs			
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2004	73,914
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2003	(2,073)
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2005	454,761
State of Ohio - Adult Education: State Grant Program	84.002	062979AB-SL2004C	115,608
Total			642,210
State of Ohio - Vocational Education: Basic Grants to States	84.048	VEPD-CB-05-KS	133,715
DTI Associates, Inc. - Star Schools	84.203	KSU440194	26,443
State of Ohio - Tech-Prep Education	84.243	VETP-2004-10-FB	33,881
State of Ohio - Tech-Prep Education	84.243	062976-3-ETC-2005	137,163
Total			171,044
Sacramento County Office of Education - National Institute for Literacy	84.257	23149	783
Sacramento County Office of Education - National Institute for Literacy	84.257	501825	893
Total			1,676
National Writing Project Corp - State Grants for Innovative Programs	84.298	97-OH03	45,240
State of Ohio - Special Education: State Program Improvement Grants for Children with Disabilities	84.323	062976-ST-SQ-02P	8,807
Canton City Schools - Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	GEAR UP 440836	13,064
State of Ohio - Improving Teacher Quality State Grants	84.367	02-23	864
State of Ohio - Improving Teacher Quality State Grants	84.367	03-20	99,197
State of Ohio - Improving Teacher Quality State Grants	84.367	03-21	113,668
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	OBR 04-16	57,546
Ohio Department of Education - Improving Teacher Quality State Grants	84.367	TITLE IIA	4,889

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	04-18	6,670
Total			<u>282,834</u>
Total Department of Education			<u>3,499,399</u>
Department of Health and Human Services			
Direct Programs			
Advanced Education Nursing Traineeships	93.358		56,768
Nurse Education, Practice and Retention Grants	93.359		15
Pass-through Programs			
CARHEN - Model State-Supported Area Health Education Centers	93.107	26-C-2	18,215
CARHEN - Model State-Supported Area Health Education Centers	93.107	27-C-2	10,366
CARHEN - Model State-Supported Area Health Education Centers	93.107	27-C-3	5,509
CARHEN - Model State-Supported Area Health Education Centers	93.107	26-C-3	4,613
Total			<u>38,703</u>
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	00-578	19
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSP 03-168	1,572
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSPF 02-168	916
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSPF 04-1073	54,481
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSPF 05-1059	3,447
Total			<u>60,435</u>
ODADAS - Block Grants for Prevention and Treatment of Substance Abuse	93.959	COME-ADA-WP0468	23,918
Total Department of Health and Human Services			<u>179,839</u>
United States Agency for International Development			
Pass-through Programs			
Academy for Educational Development - Global Development Alliance	98.011	PTP# 118-US04-002	44,571
Total Other Programs			<u>5,003,312</u>
Total Federal Awards			<u>46,754,651</u>

Kent State University

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant transactions of Kent State University (the "University") recorded on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the University has expended the funds in accordance with the grant agreement.

(b) Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the Schedule. The University is also the subrecipient of federal funds which have been subject to testing and are reported as expenditures and listed separately as pass-through programs. During the year ended June 30, 2005, the University disbursed funds to subrecipients in the amount of \$989,172.

(c) Facilities and Administrative Costs

The University has approved, predetermined, facilities and administrative cost rates, which are 46% from July 1, 2004 to June 30, 2005 for on campus research and 26.0% from July 1, 2004 to June 30, 2005 for off campus research.

(2) Loan Advances

The following schedule represents total loans advanced to students by the University and balances outstanding for the Perkins and Nursing Student Loan Programs for the year ended June 30, 2005:

	CFDA Numbers	Advances	Outstanding Balances
Perkins Loan Program	84.038	\$ 4,668,764	\$ 24,166,229
Nursing Student Loan Program	93.364	\$ 550,991	\$ 1,799,226

(3) Federal Direct Loan Program

During the year ended June 30, 2005, the University processed applications for the following loan amounts under the Federal Direct Loan Program which includes Stafford Loans, unsubsidized Stafford Loans and Parent Plus Loans for Undergraduate Students.

	CFDA Numbers	Advances
Federal Direct Loan Program	84.268	\$124,804,794

Kent State University

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

(4) Reconciliation

The following schedule is a reconciliation of total expenditures as shown on the Schedule to the revenue shown as federal grants and contracts on the Statement of Revenues, Expenses and Changes in Net Assets (the "Statement"), which is included as part of the University's financial statements:

Expenditures per the Schedule	\$46,754,651
Perkins Loan Funds excluded from federal grants on the Statement	(7,505)
Nursing Student Loan Funds excluded from federal grants on the Statement	(5,308)
Indirect costs excluded from federal grants on the Statement	<u>(2,567,288)</u>
Federal grants and contracts as shown on the Statement	<u>\$44,174,550</u>

Current restricted funds derived from appropriations, gifts or grants may be used only to meet current expenditures for the purposes specifically identified by sponsoring agencies. The appropriations, gifts or grants are recognized as revenue in the University's financial statements as expended. Therefore, expenditures per the Schedule agree with federal grants and contracts revenue on the Statement, except as noted above.

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

To the Board of Trustees of
Kent State University:

We have audited the financial statements of Kent State University (“The University”), a component unit of the State of Ohio, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The University’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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the University in separate letter dated October 7, 2005.



This report is intended solely for the information and use of The University's Board of Trustees, 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 7, 2005
Cleveland, Ohio

**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

To the Board of Trustees of
Kent State University:

Compliance

We have audited the compliance of Kent State University (“The University”), a component unit of the State of Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (“OMB”) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The University’s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The University’s management. Our responsibility is to express an opinion on The University’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The University’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The University’s compliance with those requirements.

In our opinion, The University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of The University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The University’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance that we have reported to management of the University in a separate letter dated October 7, 2005.

This report is intended solely for the information and use of The University's Board of Trustees, 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 7, 2005
Cleveland, Ohio

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Kent State University

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005**

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? yes no

Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Aid
Various	Research and Development
Various	TRIO Programs
84.325	Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities

Dollar threshold used to distinguish between Type A and Type B programs: \$1,402,640

Auditee qualified as low-risk auditee? yes no

Kent State University

**Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2005**

Section II - Financial Statement Findings

No matters were reported.

Section III - Summary of Current Year Findings and Questioned Costs

No current year findings.

PRIOR YEAR FINDINGS

Kent State University

**Prior Year Findings
For the Year Ended June 30, 2005**

Section I - Summary of Prior Year Findings and Questioned Costs

No prior year findings.

Report of Independent Auditors

Dr. Carol A. Cartwright
President
Kent State University:

We have performed the procedures enumerated below, which were agreed to by the management of Kent State University (the "University"), solely to assist the University in evaluating whether the accompanying Statement of Revenue and Expenses of the University's Intercollegiate Athletics Department is in compliance with the National Collegiate Athletics Association ("NCAA") Bylaw 6.2.3.1 for the year ended June 30, 2005. Management of the University is responsible for the Statement of Revenues and Expenses for the University's Intercollegiate Athletics Department (the "Statement") and the Statement's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

- A. We obtained the Statement of Revenues and Expenses (the "Statement") of the Athletics Department (the "Athletics Department") and supporting worksheets for the year ended June 30, 2005, and compared each of the revenue and expense amounts on the Statement to management's worksheets.

No exceptions were found as a result of these comparisons.

- B. We agreed all amounts on management's worksheets to the University's general ledger.

No differences between the amounts in the general ledger and the amounts on the worksheets were noted.

- C. We compared revenues and expenses appearing on the Statement to budgeted amounts and prior year amounts and investigated variances greater than 10 percent.

All variances greater than 10 percent had supporting documentation.

- D. We agreed each contribution of cash, services or goods, that were received by the University's Athletics Department and that constituted 10% or greater of all contributions received by the University's Athletics Department during the year ended June 30, 2005 to supporting documentation maintained by the University's development office.

No exceptions were noted as a result of these comparisons.

- E. We selected a sample of four operating revenue receipt accounts for the year ended June 30, 2005 and compared revenue receipts to supporting documentation maintained by the University.

No exceptions were noted as a result of these comparisons.

- F. We selected five ticket office sales reports during the year ending June 30, 2005 and recalculated revenues totals related to tickets sold and agreed the ticket revenues to the general ledger. We recalculated totals of complimentary tickets and unsold tickets appearing on the ticket office sales reports.

No exceptions were noted for the items recalculated and the comparisons.

We further reviewed the two football guarantees during the year ending June 30, 2005 and traced the signed contracts to the actual payment.

No exceptions were noted through the results of our procedures.

- G. We selected a sample of 30 students who received institutional financial aid during the year ended June 30, 2005 and agreed the award amount per the student's account detail to the related award letter.

No exceptions were noted for the items tested.

- H. We obtained a listing of coaches employed by the institution for the year ended June 30, 2005. We specifically selected coaches for football, men's and women's basketball and one additional coach and obtained the related contracts. We agreed the coaches' salaries per the contracts to the amounts recorded by the institution in the Statement. We obtained W-2's and 1099's for the coaches selected and agreed amounts appearing in the W-2's and 1099's to the related expenses in the Statement.

No exceptions were noted as a result of these comparisons.

- I. We obtained copies of the University's recruiting and travel policies and read the policies and compared the policies to the NCAA policies.

No differences were noted between the University's and the NCAA policies.

- J. We selected a sample of three expense accounts for the year ended June 30, 2005 and compared the expense account to supporting documentation maintained by the University.

No exceptions were noted as a result of these comparisons.

We selected a sample of four of the high profile coaching positions at the University and compared their coaching contracts to their W-2 forms. We reviewed any difference between the contracts and the W-2 forms greater than 10%.

No exceptions were noted as a result of these comparisons.

- K. We obtained audited financial statements for the Kent State University Foundation for the year ended June 30, 2005. We agreed the amounts in those financial statements to amounts appearing in the Statement, which were agreed to the University's general ledger.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the compliance of the accompanying Statement. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of University management and governing boards, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 7, 2005

Kent State University
Statement of Revenues and Expenditures – For the Intercollegiate Athletics Programs
For the Year Ended June 30, 2005

		Men's	Women's	Other Sports	Non-Sports	Grand
	Football	Basketball	Basketball	Total	Total	Total
Revenues:						
Sponsorship sales	\$ -	\$ -	\$ -	\$ -	\$ 263,749	\$ 263,749
Advertising	-	-	-	-	6,500	6,500
Camp revenue	-	-	-	-	74,564	74,564
Commissions	-	-	-	385	12,748	13,133
Contest guarantees	575,000	45,000	2,000	4,250	-	626,250
Facility rentals	-	-	-	-	52,460	52,460
NCAA distributions	-	-	-	-	865,033	865,033
Other income	2,787	1,400	983	36,124	95,581	136,875
Royalties	-	-	-	-	80,428	80,428
Student activity fees	-	-	-	-	9,015,904	9,015,904
Ticket sales	122,749	237,984	18,073	14,744	33,608	427,158
Foundation gifts	77,433	53,327	5,827	161,571	40,493	338,651
Total revenues	777,969	337,711	26,883	217,074	10,541,068	11,900,705
Expenditures:						
Payroll personal service	707,253	361,241	383,165	1,055,505	1,774,565	4,281,729
Non-payroll personal	49,568	61,112	30,288	49,213	159,906	350,087
Staff benefits	218,040	90,173	111,683	383,325	727,913	1,531,134
Travel	289,745	162,564	75,098	562,936	232,297	1,322,640
Recruiting	73,103	58,542	38,441	85,739	831	256,656
Entertainment	10,006	5,057	-	5,854	58,158	79,075
Supplies	237,892	32,088	20,994	225,621	178,098	694,693
Duplicating & printing	2,577	1,426	907	2,944	178,982	186,836
Telephone	12,455	9,973	7,004	19,350	74,068	122,850
Postage	13,079	10,279	8,097	18,340	30,258	80,053
Other information & communication	600	769	145	5,804	237,887	245,205
Maintenance & repairs	11,635	539	379	6,225	57,364	76,142
Rentals	2,794	4,090	3,018	9,512	161,097	180,511
Utilities	1,350	881	439	439	1,140	4,249
Student aid	1,561,167	310,407	221,193	2,121,386	99,119	4,313,272
Miscellaneous	206,617	77,382	9,544	109,431	439,004	841,978
Purchase for Resale	-	-	-	6	6,329	6,335
Capital expenditures	49,886	6,255	-	12,000	118,001	186,142
Total expenditures	3,447,767	1,192,778	910,395	4,673,630	4,535,017	14,759,587
(Deficiency) excess of						
revenues over						
expenditures	\$ (2,669,798)	\$ (855,067)	\$ (883,512)	\$ (4,456,556)	\$ 6,006,051	\$ (2,858,882)

PRICEWATERHOUSECOOPERS 

Kent State University
Summary Schedule of Financial Activities – Blue & Gold Club Operating Accounts
For the Year Ended June 30, 2005

Fund balance at July 1, 2004				\$	188,508
Total receipts/revenues					355,754
Total disbursements/expenses					(331,244)
Excess of disbursements/expenses over receipts/revenues					24,510
Fund balance at June 30, 2005				\$	<u>213,018</u>

Kent State University
Summary Schedule of Financial Activities – Athletics – Income Funds
For the Year Ended June 30, 2005

Fund balance at July 1, 2004				\$ 28,138
Total receipts/revenues				113,164
Total disbursements/expenses				(103,737)
Excess of disbursements/expenses over receipts/revenues				9,427
Transfer from Restricted Funds				34,661
Fund balance at June 30, 2005				\$ 72,226

Kent State University
Summary Schedule of Financial Activities – Restricted Funds
For the Year Ended June 30, 2005

Fund balance at July 1, 2004				\$ 404,120	
Total receipts/revenues				328,908	
Total disbursements/expenses				(354,949)	
Excess of disbursements/expenses over receipts/revenues				(26,041)	
Transfer to Restricted Funds				(34,661)	
Fund balance at June 30, 2005				<u>\$ 343,418</u>	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

KENT STATE UNIVERSITY

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
JANUARY 12, 2006**