

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, 2006**



Mary Taylor, CPA
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**Auditor of State
Betty Montgomery**

Board of Trustees
Kent State University
224 Michael Schwartz Center
PO Box 5190
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, 2005 through June 30, 2006. 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 29, 2006

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Kent State University
Report on Federal Awards in Accordance With OMB Circular A-133
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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, 2006 and 2005. 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, 2006 the University expended \$23.2 million from the proceeds of these bonds resulting in corresponding increases in capital assets and total assets.

KENT STATE UNIVERSITY

Management's Discussion and Analysis

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2006 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$43.4 million, of which, \$30.4 million is attributed to an increase in capital assets, net of retirements of capital assets. Current assets decreased by \$84.7 million, due to the longer duration of the University's investment portfolio.
- Total liabilities increased by \$4.6 million.
- The University's net assets increased by \$38.8 million to \$533.1 million, of which \$268.1 is either invested in capital assets or restricted. Of the remaining \$265.0 million in unrestricted assets, all but \$1.8 million is designated for specific purposes.
- Operating revenues increased by \$12.1 million compared to the prior year.
- The University's operating expenses increased by \$25.9 million, with expected increases in most functional expense categories due primarily to inflationary factors.
- The operating loss and principal debt payments totaled \$99.9 million, which was fully funded by State appropriations.

Kent State University
Condensed Statement of Net Assets
as of June 30, 2006, 2005 and 2004
(in thousands)

ASSETS	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 379,601	\$ 366,660	\$ 352,590
Capital assets	509,932	479,492	453,534
Total assets	<u>\$ 889,533</u>	<u>\$ 846,152</u>	<u>\$ 806,124</u>
LIABILITIES			
Long-term debt	\$ 272,222	\$ 276,417	\$ 279,351
Other	84,222	75,422	91,572
Total liabilities	<u>\$ 356,444</u>	<u>\$ 351,839</u>	<u>\$ 370,923</u>
NET ASSETS			
Invested in capital assets net of related debt	\$ 243,127	\$ 238,768	\$ 221,254
Restricted, expendable and not expendable	24,982	24,471	24,199
Unrestricted:			
Designated	263,172	229,355	188,064
Undesignated	1,808	1,719	1,684
Total net assets	<u>\$ 533,089</u>	<u>\$ 494,313</u>	<u>\$ 435,201</u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis

2006 Versus 2005 During the year ended June 30, 2006:

In fiscal 2006, the University's current assets of \$201.6 million were sufficient to cover current liabilities of \$68.7 million (current ratio of 2.9). In fiscal 2005, current assets of \$286.3 million were sufficient to cover current liabilities of \$60.0 million (current ratio of 4.8).

At June 30, 2006, total University assets were \$889.5 million, compared to \$846.2 million in fiscal 2005. The University's largest asset is its investment in physical plant of \$509.9 million at June 30, 2006 compared to \$479.5 million in fiscal 2005 (see dormitory project discussion above in Noteworthy Financial Activity).

Current and other assets increased \$12.9 million to \$379.6 million, compared to \$366.7 in fiscal year 2005. Cash and cash equivalents of \$177.3 million is the largest non-capital asset.

University liabilities total \$356.4 million at June 30, 2006 compared to \$351.8 million in fiscal 2005. Long-term debt of \$272.2 million, consisting of bonds payable, is the largest liability.

Total net assets increased by \$38.8 million to \$533.1 million. Unrestricted net assets total \$265.0 million, 99.3% of which (\$263.1 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

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.

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, 2006, 2005 and 2004
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues			
Tuition, net	\$ 194,589	\$ 193,052	\$ 167,351
State appropriations	119,017	118,194	121,349
Federal and state grants	56,593	57,259	57,965
Auxiliary activities	78,203	74,936	71,259
Other	50,645	49,907	44,956
Total revenues	<u>\$ 499,047</u>	<u>\$ 493,348</u>	<u>\$ 462,880</u>
Expenses			
Instruction	\$ 167,275	\$ 159,251	\$ 151,453
Research	14,315	14,182	14,936
Institutional support	39,352	32,619	28,320
Scholarships and fellowships	14,065	13,898	12,384
Other	225,264	214,286	208,316
Total expenses	<u>\$ 460,271</u>	<u>\$ 434,236</u>	<u>\$ 415,409</u>

2006 Versus 2005 During the year ended June 30, 2006:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts.

Operating expenditures, including depreciation of \$27.3 million, totaled \$446.5 million.

State appropriations were the most significant non-operating revenue totaling \$119.0 million.

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.

KENT STATE UNIVERSITY
Management's Discussion and Analysis

Kent State University
Condensed Statement of Cash Flows
as of June 30, 2006, 2005 and 2004
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash provided by/(used in):			
Operating activities	\$ (62,513)	\$ (70,457)	\$ (59,848)
Investing activities	(78,889)	51,152	42,900
Capital and related financing activities	(67,384)	(54,147)	(72,978)
Non-capital financing activities	<u>123,649</u>	<u>122,311</u>	<u>126,339</u>
Net increase/(decrease) in cash	(85,137)	48,859	36,413
Cash and cash equivalents, beginning of year	<u>262,423</u>	<u>213,564</u>	<u>177,151</u>
Cash and cash equivalents, end of year	<u>\$ 177,286</u>	<u>\$ 262,423</u>	<u>\$ 213,564</u>

2006 Versus 2005 During the year ended June 30, 2006:

Major sources of cash included student tuition and fees (\$156.4 million), state appropriations (\$118.9 million), auxiliary activities (\$78.3 million), and grants and contracts (\$59.2 million). The largest payments were for suppliers (\$163.5 million) and employees (\$210.4 million).

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).

Capital Asset and Debt Administration

Capital Assets

At the end of 2006, the University had invested \$509.9 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 \$30.4 million, or 6.3 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>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 10.0	\$ 10.0	\$ 9.6
Equipment	49.0	50.7	51.8
Buildings and improvements	428.7	395.8	361.1
Construction in progress	<u>22.2</u>	<u>23.0</u>	<u>31.0</u>
Total	<u>\$ 509.9</u>	<u>\$ 479.5</u>	<u>\$ 453.5</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 \$276.4 million in bonds and notes outstanding—a decrease of 1.2 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)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
General receipts bonds (backed by the University)	\$ 269.0	\$ 270.7	\$ 272.5
Capital Leases	7.4	9.0	10.3
	<u>\$ 276.4</u>	<u>\$ 279.7</u>	<u>\$ 282.8</u>

Factors Affecting Future Periods

Kent State University will begin the new year with the first change in its presidential leadership in fifteen years. Following a national search, Dr. Lester Lefton was selected to be the university's eleventh president. As the University approaches its centennial celebration in 2010, Dr. Lefton's primary agenda is to elevate the university's reputation both regionally and nationally.

Future periods are also likely to be influenced by statewide changes in Ohio's political leadership as a result of the upcoming fall election. A new Governor will be elected to serve as the state's chief executive for the first time in eight years. The higher education platforms of the two gubernatorial candidates are very dissimilar making predictions about possible changes for higher education more difficult than typically would be the case. A constitutional amendment that would expand legal gaming activities will also be voted on and would increase the amount of direct support students receive for higher education if approved.

While Ohio's economy remains sluggish relative to the rest of the nation, state revenues and expenses have improved as a result of 2005 tax and Medicaid reforms. The prospect of increased funding for higher education in the 2007 biennial budget is the most positive in six years due to the improved financial situation. While the outlook for improved funding is more optimistic, any increase in state support likely will remain modest and lag historic increases unless major changes occur in legislative priorities.

After eight consecutive years of enrollment growth, the total enrollment for Kent State University declined in fiscal year 2006 and is expected to modestly decline over the next two or three years and then stabilize. Gradual declines in the number of high school graduates in Ohio beginning in 2008 is another factor contributing to the expectation that future enrollment patterns are not likely to be as growth oriented as in recent years. The greatest opportunity for enrollment growth within the university likely

KENT STATE UNIVERSITY

Management's Discussion and Analysis

will be at the less expensive seven regional campuses. Kent State University operates the largest network of public campuses in Ohio, providing strategic advantages for the university as convenience and cost become increasingly more important for student choices.

While future increases in operating support are expected to be modest, an increased appreciation by the Ohio legislature for the issues surrounding aging university facilities is expected to lead to at least modest growth in the upcoming biennial capital appropriation and provide improved prospects for additional increases in future years.

The University also is in the quiet phase of a new fundraising campaign. The most recent campaign generated more than \$119 million dollars in cash and pledges and the next campaign which will conclude in 2010 is expected to exceed the university's inaugural campaign.

Another important factor affecting future periods is the University's existing financial condition. Growth in unrestricted net assets continued in 2006 and provides a substantial source for strategic investments and financial security for the future.

A financial condition that is strong and continues to improve, the largest network of public campuses in Ohio and the exclusive role as a public residential campus in Ohio's most populous region continue to provide strategic advantages for Kent State University and suggest a promising future during a period of transition for public higher education.

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, 2006 and 2005, 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 13, 2006 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, 2006. 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 13, 2006
Cleveland, Ohio

KENT STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2006 and 2005
(in thousands)

	University		University Related Foundation	
	2006	2005	2006	2005
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 177,286	\$ 262,423	\$ 135	\$ 2,230
Short-term investments	1,605	2,533	79,503	78,737
Accounts and pledges receivable, net	17,656	17,106	4,794	2,892
Inventories	1,685	1,586	-	-
Deposits and prepaid expenses	2,916	1,885	-	-
Accrued interest receivable	481	756	64	13
Total current assets	<u>201,629</u>	<u>286,289</u>	<u>84,496</u>	<u>83,872</u>
Noncurrent assets:				
Student loans receivable, net	21,316	21,737	-	-
Long-term investments	153,129	54,950	28,601	15,934
Long-term pledges receivable, net	-	-	7,855	4,361
Capital assets, net	509,932	479,492	9,224	8,956
Other assets	3,527	3,684	499	515
Total noncurrent assets	<u>687,904</u>	<u>559,863</u>	<u>46,179</u>	<u>29,766</u>
Total assets	<u>889,533</u>	<u>846,152</u>	<u>130,675</u>	<u>113,638</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	23,405	19,704	1,103	1,416
Accrued payroll	8,608	7,926	-	-
Payroll taxes and accrued fringe benefits	9,632	6,751	-	-
Unearned fees and deposits	22,809	22,367	-	-
Current portion of long-term debt	4,219	3,275	-	-
Total current liabilities	<u>68,673</u>	<u>60,023</u>	<u>1,103</u>	<u>1,416</u>
Noncurrent liabilities:				
Accrued compensated absences	13,948	13,434	-	-
Accrued liabilities	-	-	4,452	4,212
Long-term unearned fees and deposits	1,601	1,965	-	-
Long-term debt	272,222	276,417	-	-
Total noncurrent liabilities	<u>287,771</u>	<u>291,816</u>	<u>4,452</u>	<u>4,212</u>
Total liabilities	<u>356,444</u>	<u>351,839</u>	<u>5,555</u>	<u>5,628</u>
NET ASSETS				
Invested in capital assets, net of related debt	243,127	238,768	9,224	8,956
Restricted, nonexpendable	882	882	54,875	51,749
Restricted, expendable	24,100	23,589	60,217	46,446
Unrestricted	264,980	231,074	804	859
Total net assets	<u>533,089</u>	<u>494,313</u>	<u>125,120</u>	<u>108,010</u>
Total liabilities and net assets	<u>\$ 889,533</u>	<u>\$ 846,152</u>	<u>\$ 130,675</u>	<u>\$ 113,638</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, 2006 and 2005
(in thousands)

	University		University Related Foundation	
	2006	2005	2006	2005
OPERATING REVENUES				
Student tuition and fees	\$ 230,452	\$ 228,793	\$ -	\$ -
Less scholarship allowances	(35,863)	(35,741)	-	-
Net student tuition and fees	194,589	193,052	-	-
Federal grants and contracts	46,012	46,957	-	-
State grants and contracts	10,581	10,302	-	-
Local grants and contracts	339	396	-	-
Nongovernmental grants and contracts	2,686	2,890	-	-
Sales and services of educational departments	7,192	5,716	-	-
Auxiliary activities	78,203	74,936	-	-
Other operating revenues	10,259	3,551	979	2,395
Total operating revenues	349,861	337,800	979	2,395
OPERATING EXPENSES				
Instruction	167,275	159,251	-	-
Research	14,315	14,182	-	-
Public service	15,212	14,683	-	-
Academic support	37,407	33,992	-	-
Student services	24,818	24,709	-	-
Institutional support	39,352	32,619	11,935	9,495
Scholarships and fellowships	14,065	13,898	2,255	1,740
Operation and maintenance of plant	31,271	29,663	-	-
Auxiliary activities	75,449	72,288	-	-
Depreciation	27,334	25,552	15	18
Total operating expenses	446,498	420,837	14,205	11,253
Operating loss	(96,637)	(83,037)	(13,226)	(8,858)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	119,017	118,194	-	-
Gifts	5,399	4,063	20,968	14,387
Investment income	18,090	18,378	9,471	6,118
Interest on capital asset-related debt	(13,532)	(13,010)	-	-
Other nonoperating revenues (expenses)	(241)	(389)	(103)	(155)
Net nonoperating revenues	128,733	127,236	30,336	20,350
Income before other revenues, expenses, gains or losses	32,096	44,199	17,110	11,492
Capital appropriation	6,680	14,913	-	-
Increase in net assets	38,776	59,112	17,110	11,492
NET ASSETS				
Net assets, beginning of year	494,313	435,201	108,010	96,518
Net assets, end of year	\$ 533,089	\$ 494,313	\$ 125,120	\$ 108,010

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

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS
for the years ended June 30, 2006 and 2005
(in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 156,434	\$ 150,443
Cash received from auxiliary activities	78,329	74,931
Cash received from other sources	16,928	9,576
Grants and contracts	59,197	59,857
Federal student loan funds received	19	271
Student loans granted, net of repayments	527	(173)
Cash paid to employees	(210,442)	(202,242)
Cash paid to suppliers	(163,505)	(163,120)
Net cash used in operating activities	(62,513)	(70,457)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	164,447	52,790
Purchases of investments	(256,493)	(18,953)
Interest received	13,157	17,315
Net cash (used in) provided by investing activities	(78,889)	51,152
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments under debt obligations, net	(3,251)	(3,135)
Interest paid	(7,451)	(12,567)
Capital appropriations	1,939	711
Purchases of capital assets	(58,375)	(38,767)
Other payments	(246)	(389)
Net cash used in capital and related financing activities	(67,384)	(54,147)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	118,940	118,271
Gifts received from KSU Foundation	4,709	4,040
Net cash provided by noncapital financing activities	123,649	122,311
 Net (decrease) increase in cash and cash equivalents	(85,137)	48,859
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	262,423	213,564
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 177,286	\$ 262,423

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, 2006 and 2005
(in thousands)

	2006	2005
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:		
Operating loss	\$ (96,637)	\$ (83,037)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	27,334	25,552
Change in assets and liabilities:		
Accounts receivable, net	(282)	1,274
Inventories	(99)	(92)
Deposits and prepaid expenses	(1,031)	1,703
Student loans receivable, net	421	148
Accounts payable and accrued liabilities	3,625	(8,887)
Accrued payroll	682	456
Payroll taxes and accrued fringe benefits	2,881	94
Unearned fees and deposits	79	(8,247)
Accrued compensated absences	514	579
Total change in assets and liabilities	6,790	(12,972)
Net cash used in operating activities	\$ (62,513)	\$ (70,457)

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

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (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 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.

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.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

- 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) Cash and Cash Equivalents

The University considers cash, time deposits and all other highly liquid investments with an original maturity of three months or less to be cash equivalents.

(b) 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.

(c) Inventories

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

(d) 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.

(e) 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

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

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.

(f) 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.

(g) 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 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

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

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, 2006 and 2005 are as follows:

	2006	2005
Common stock	\$ 139,327	\$ -
Equity mutual funds	39,186	102,357
US government obligations	5,400	23,635
US government agency obligations	8,312	21,696
Repurchase agreements	9,885	38,762
Corporate bonds and notes	1,551	12,073
Bond mutual funds	88,004	108,344
Other	37,379	10,730
Total	\$ 329,044	\$ 317,597

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2006, the University realized a net gain of \$821 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, 2006, was \$9,495. 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 \$5,420.

The components of the net investment income are as follows:

	Interest and Dividends (Net)	Net Appreciation in Market Value of Investments	Net Investment Income
Total 2006	\$8,595	\$9,495	\$18,090
Total 2005	\$15,082	\$3,296	\$18,378

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.

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.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

The maturities of the University's interest-bearing investments at June 30, 2006 are as follows:

	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
US government obligations	\$ 5,400	\$ 1,522	\$ 3,878	-	-
US agency obligations	8,312	-	-	\$ 1,345	\$ 6,967
Repurchase agreements	9,885	9,885	-	-	-
Corporate bonds	1,551	-	968	294	289
Bond mutual funds	88,004	663	87,341	-	-
Total	\$ 113,152	\$ 12,070	\$92,187	\$ 1,639	\$ 7,256

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, 2006 are as follows:

Credit Rating (Moody's)	Total	Government Obligations	US Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds
AAA	\$ 83,197	\$ 5,400	\$ 8,312	\$ 9,885	\$ 1,176	\$ 58,424
AA+	9,975	-	-	-	-	9,975
AA	19,494	-	-	-	-	19,494
AA-	375	-	-	-	375	-
A	58	-	-	-	-	58
BAA	53	-	-	-	-	53
Total	\$ 113,152	\$ 5,400	\$ 8,312	\$ 9,885	\$ 1,551	\$ 88,004

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, 2006, the University had no exposure to foreign currency risk.

(4) Accounts Receivable

Accounts receivable consist of the following, as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Sponsor accounts	\$ 4,136	\$ 3,193
Student accounts	9,695	10,225
Other	6,425	5,758
	<u>\$20,256</u>	<u>\$19,176</u>
Less allowances for loss on accounts receivable	(2,600)	(2,070)
Accounts receivable, net	<u>\$17,656</u>	<u>\$17,106</u>

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

In addition, the University has student loans receivable of \$25,528 and \$26,055 as of June 30, 2006 and 2005, respectively. The related allowances as of June 30, 2006 and 2005 are \$4,212 and \$4,319, 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, 2005 and 2006:

	<u>2005</u>	Additions/ <u>Transfers</u>	Net <u>Retirements</u>	<u>2006</u>
Land	\$ 9,974	\$ -	\$ -	\$ 9,974
Infrastructure	78,542	6,945	-	85,487
Buildings	521,692	42,809	-	564,501
Equipment	156,092	8,774	3,917	160,949
Construction-in-progress	22,987	(754)	-	22,233
	<u>\$789,287</u>	<u>\$ 57,774</u>	<u>\$ 3,917</u>	<u>\$843,144</u>
Less accumulated depreciation	309,795	26,877	3,460	333,212
Capital assets, net	<u>\$479,492</u>	<u>\$ 30,897</u>	<u>\$ 457</u>	<u>\$509,932</u>

Included in depreciation expense of \$27,334 for the year ended June 30, 2006, is a loss of \$457 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, 2006 and 2005, \$1,180 and \$2,010 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 interest payments is actually exchanged with the counter-party. The \$155,500 in bond principal is not

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Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

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 (\$15,748) and (\$31,606) at June 30, 2006 and 2005, respectively.

The University has entered into a thirty-year interest rate swap agreement for \$60,000 of the variable rate 2002 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.72% 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 interest payments is actually exchanged with the counter-party. The \$60,000 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 (\$1,229) and (\$3,781) at June 30, 2006 and 2005, respectively.

Long-term debt consists of the following as of June 30, 2005 and 2006:

	Interest Rates	Maturity	2005	Outstanding Additions	Principal Retirements	2006
General Receipts Bonds of 2002	3.72	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	9,005	-	280	8,725
General Receipts Bonds of 1998	4.1-5.0	2004-2023	17,075	-	620	16,455
General Receipts Bonds of 1996	4.1-5.5	2004-2028	29,135	-	815	28,320
Other	various	various	8,977	19	1,555	7,441
			<u>\$279,692</u>	<u>19</u>	<u>3,270</u>	<u>\$276,441</u>
Less current portion long-term debt			3,275			4,219
			<u>\$276,417</u>			<u>\$272,222</u>

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Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

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>
2007	\$ 4,219	\$ 13,255	\$ 17,474
2008	4,201	13,038	17,239
2009	4,273	12,829	17,102
2010	4,398	12,616	17,014
2011	4,550	12,394	16,944
2012-2016	36,640	57,404	94,044
2017-2021	47,315	46,974	94,289
2022-2026	54,420	33,751	88,171
2027-2031	104,425	19,647	124,072
2032-2036	12,000	2,232	14,232
Total	<u>\$276,441</u>	<u>\$224,140</u>	<u>\$500,581</u>

(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, 2006 and 2005 were \$637 and \$545, 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 9% of covered payroll and the University is required to contribute 13.54% of covered payroll. The University's contributions to OPERS for the years ending June 30, 2006, 2005 and 2004 were \$10,273, \$9,986 and \$9,748, 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

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

14% of covered payroll. The University's contributions to STRS Ohio for the years ending June 30, 2006, 2005, and 2004 were \$11,529, \$11,068 and \$11,352, 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 2005 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 \$29.5 billion and \$18.7 billion, respectively. Significant actuarial assumptions include an 8% investment return, 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, 2004, the actuarial value of the retirement system's net assets available for other post employment benefits was \$10.8 billion. The number of active contributing participants in the traditional and combined plans was 376,109 as of December 31, 2005.

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 stabilization fund was \$3.3 billion at June 30, 2005.

For the year ended June 30, 2005, the net health care costs paid by STRS Ohio were \$254,780. There were 115,395 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.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

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 the 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, 2006 and 2005, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$5,039 and \$4,109, 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.

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, 2006 and 2005 were \$30,804 and \$27,070. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$4,936 and \$4,123 has been accrued as of June 30, 2006 and 2005. 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 2006 and 2005 for operating leases amounted to approximately \$997 and \$1,107, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2006 are as follows:

	<u>Leases</u>
2007	\$ 957
2008	926
2009	778
2010	778
2011	778
2012-2016	3,494
2017-2021	2,032
2022-2026	2,032
2027-2031	1,626
Total future minimum payments	<u>\$ 13,401</u>

(9) Related Party Transactions

The University, together with The University of Akron and Youngstown State University, created a

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2006 and 2005 (in thousands)

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.

(10) Component Unit

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 \$130,675 and \$113,638 at June 30, 2006 and 2005, 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 \$5,362 and \$3,589 of financial support during the years ended June 30, 2006 and 2005, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2006 and 2005, the University had outstanding receivables from the Foundation of approximately \$1,301 and \$611, respectively.

SUPPLEMENTAL FINANCIAL INFORMATION

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
STUDENT FINANCIAL AID			
Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	84.007		1,362,672
Federal Work-Study Program	84.033		1,452,630
Federal Perkins Loan Program	84.038		34,435
Federal Pell Grant Program	84.063		23,763,794
Total Department of Education			<u>26,613,531</u>
Department of Health and Human Services			
Direct Program			
Nursing Student Loans	93.364		9,784
Total Student Financial Aid			<u>26,623,315</u>
RESEARCH AND DEVELOPMENT			
Department of Agriculture			
Pass-through Program			
Northcountry Coooperative Foundation	10.771	OEOC/KSU 445665	7,819
Department of Commerce			
Direct Program			
National Center for Standards and Certification Information	11.610		105,850
Pass-through Programs			
Ohio State University Research Foundation - Sea Grant Support	11.417	R/ER-67	32,502
Ohio State University Research Foundation - Sea Grant Support	11.417	R/ER-70	6,395
Total			<u>38,897</u>
National Oceanic And Atmospheric Administration - Coastal Zone Management Estuarine Research Reserves	11.420	NA05NOS4201046	17,943
University of Michigan - OAR Joint and Cooperative Institutes	11.432	F014569	30,953
BF Goodrich - Advanced Technology Program	11.612	OASIS-NIST ATP	10,095
Total Department of Commerce			<u>203,738</u>
Department of Defense			
Direct Programs			
Basic and Applied Scientific Research	12.300		150,580
Basic Scientific Research	12.431		37,032
Air Force Defense Research Sciences Program	12.800		991
Research and Technology Development	12.910		59,536
Pass-through Programs			
Wright State University - Air Force Defense Research Sciences Program	12.800	WBSC9008WS	5,295
Displaytech, Inc - Air Force Defense Research Sciences Program	12.800	Display 440446	15,129
Total			<u>20,424</u>

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Ohio State University Research Foundation - Research and Technology Development	12.910	741323/869064	59,788
University of Maryland - Translation Skill Hub	NONE	Z979901	55,271
Cornerstone Research Group - Conductive Liquid Crystalline Composites	NONE	PO 03165	106
University of Central Florida - Imaging Sensor	NONE	33814	35,063
Displaytech, Inc. - AFRL	NONE	FA9453-04-C0163	57,157
Cornerstone Research Group - STTR Phase II	NONE	FA9550-05-C-0036	65,735
Cornerstone Research Group - Liquid Crystals for Infrared Application	NONE	FA9550-05-C0067	39,588
Total			<u>252,920</u>
Total Department of Defense			581,271
Department of Housing and Urban Development			
Direct Program			
General Research and Technology Activity	14.506		<u>23,375</u>
Total Department of Housing and Urban Development			23,375
Department of Justice			
Direct Program			
Community Prosecution and Project Safe Neighborhoods	16.609		36,058
Pass-through Programs			
Ohio Department of Youth Services - Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2004-JJ-S11-0522	8,167
Research Triangle Institute - Part D - Research, Evaluation, Technical Assistance and Training	16.542	9-44U-7735	52,057
COSMOS Corporation - National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	S-2004-002	8,445
State of Ohio - Byrne Formula Grant Program	16.579	2004-DG-B0R-7080	41,403
State of Ohio - Byrne Formula Grant Program	16.579	2002-DG-COV-7068	<u>61,872</u>
Total			103,275
State of Ohio - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308	7,933
State of Ohio - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308B	21,349
State of Ohio - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308C	7,202
State of Ohio - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308D	<u>22,425</u>
Total			58,909
State of Ohio - Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-JG-EOR-6475	<u>32,404</u>
Total Department of Justice			299,315
Department of State			
Direct Program			
Dept of State Bureau of Educational & Cultural Affairs	NONE		54,150

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Transportation			
Pass-through Program			
Ohio Department of Transportation - Highway Planning and Construction	20.205	10318	4,005
National Aeronautics and Space Administration			
Direct Program			
Technology Transfer	43.002		49,397
Pass-through Program			
Ohio Aeronautics Institute - Technology Transfer	43.002	R-300-100275-40023	13,219
Total National Aeronautics and Space Administration			<u>62,616</u>
National Foundation on the Arts and the Humanities			
Direct Program			
Institute of Museum and Library Services - National Leadership Grants	45.312		373,081
National Science Foundation			
Direct Programs			
Engineering Grants	47.041		51,902
Mathematical and Physical Sciences	47.049		1,398,301
Geosciences	47.050		181,429
Computer and Information Science and Engineering	47.070		180,691
Biological Sciences	47.074		182,593
Social, Behavioral, and Economic Sciences	47.075		189,272
Education and Human Resources	47.076		461,166
Polar Programs	47.078		9,654
Pass-through Programs			
Georgia Institute of Technology - Engineering Grants	47.041	E-27-M88-S1	57,667
New York University - Mathematical and Physical Sciences	47.049	F5893-01	39,600
Carnegie Mellon University - Mathematical and Physical Sciences	47.049	1120406-142769	39,507
Total			<u>79,107</u>
University of Akron - Biological Sciences	47.074	DEB-0235301	37,609
Ohio State University Research Foundation - Biological Sciences	47.074	60001629	44,772
Total			<u>82,381</u>
Brown University - Social, Behavioral, and Economic Sciences	47.075	1379-26321	17,677
U.S. Civilian Research & Development Foundation - Social, Behavioral, and Economic Sciences	47.075	UK-P1-2617-KV04	9,550
U.S. Civilian Research & Development Foundation - Social, Behavioral, and Economic Sciences	47.075	UK-P1-2598-KV-04	11,834
University of South Carolina - Social, Behavioral, and Economic Sciences	47.075	04-0957	(765)
Total			<u>38,296</u>
Ohio State University Research Foundation - Education and Human Resources	47.076	745925/RF00982477	29,294
SRI International - Education and Human Resources	47.076	11-000024	737
Total			<u>30,031</u>
Total National Science Foundation			<u>2,942,490</u>

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Environmental Protection Agency			
Direct Program			
Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		10,493
Pass-through Program			
NALMS - Surveys, Studies, Investigations, and Special Purpose Grants within the Office of the Administrator	66.610	Dip-In Project	<u>4,461</u>
Total Environmental Protection Agency			<u>14,954</u>
Department of Energy			
Direct Program			
Office of Science Financial Assistance Program	81.049		629,726
Pass-through Programs			
Stanford University - Office of Science Financial Assistance Program	81.049	11945920-28910-A	85,305
University of Chicago - Office of Scientific and Technical Information	81.064	4F-01682	7,605
University of Chicago - Office of Scientific and Technical Information	81.064	5F-00540	<u>20,862</u>
Total			<u>28,467</u>
Total Department of Energy			<u>743,498</u>
Department of Education			
Direct Programs			
Fund for the Improvement of Postsecondary Education	84.116		866,054
Safe and Drug-Free Schools and Communities: National Programs	84.184		3,231
Education Research, Development and Dissemination	84.305		177,578
Pass-through Programs			
Ohio State University Research Foundation - Adult Education-State Grant Program	84.002	RF01050012	12
Ohio Department of Education - Special Education - Grants to States	84.027	062976-SB-SP-06	81,961
Ohio Department of Education - Special Education - Grants to States	84.027	062976-6B-SP-05P	<u>34,205</u>
Total			116,166
Emporia State University - Fund for the Improvement of Postsecondary Education	84.116#	406-09/DE P116B01 1069	3,445
Cleveland Heights/University Heights School District - Safe and Drug-Free Schools and Communities: National Programs	84.184	184L030137	86,222
Cleveland Municipal School District - Safe and Drug-Free Schools and Communities: National Programs	84.184	74724239	<u>28,783</u>
Total			115,005
University of Kentucky - Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	H324M010033	<u>27,235</u>
Total Department of Education			<u>1,308,726</u>

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Health and Human Services			
Direct Programs			
Mental Health Research Grants	93.242		743,718
Alcohol Research Programs	93.273		62,733
Mental Health Research Career/Scientist Development Award	93.281		86,802
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283		499,922
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		27,021
Nursing Research	93.361		250,093
Cancer Cause and Prevention Research	93.393		140,308
Cancer Treatment Research	93.395		74,618
Diabetes, Endocrinology and Metabolism Research	93.847		126,983
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		191,262
Child Health and Human Development Extramural Research	93.865		315,155
Aging Research	93.866		527,481
Pass-through Programs			
Cuyahoga County Community Mental Health Board - Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	440433-440455	552,028
County of Summit Alcohol, Drug Addition & Mental Health - Centers of Excellence	93.157	445516	10,000
County of Summit Alcohol, Drug Addition & Mental Health - Centers of Excellence	93.157	445518	13,230
Total			23,230
Stanford University - Human Genome Research	93.172	30162-A	154,191
Cuyahoga County Juvenile Court - Consolidated Knowledge Development and Application (KD&A) Program	93.230	CE0400252-01	65,302
Abstinence The Better Choice - Abstinence Education	93.235	770064-CS-05	4,939
University of Cincinnati - Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	H79TI14021	38,026
University of Florida - Alcohol Research Programs	93.273	R01 AA014004	120,258
Case Western Reserve University - Nurse Education, Practice and Retention Grants	93.359	TRN450346	8,380
Case Western Reserve University - National Center for Research Resources	93.389	2 S07 RR-018123-02	5,815
Center for Families and Children - Temporary Assistance for Needy Families	93.558	2005 TANF 001	20,777
University of Pennsylvania - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	539181	91,814
University of Pittsburgh - Refugee and Entrant Assistance-Wilson/Fish Program	93.853	109830-1	30,853
California State University San Marcos Foundation - Biomedical Research and Research Training	93.859	85168 573-40	61,157
Georgia Institute of Technology - Aging Research	93.866	G-42-682-G3	86,778
Ohio University - Medical Library Assistance	93.879	446657	3,414

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Ohio Department of Alcohol and Drug Abuse Services - Block Grants for Prevention and Treatment of Substance Abuse	93.959	SAPT 007	23,991
Macro International - Treatment Effectiveness Study	NONE	35126-5S-666	85,542
Total Department of Health and Human Services			<u>4,422,591</u>
Department of Homeland Security			
Pass-through Program			
Michael Baker Jr. Inc. - Development of Multi-Hazard Geospatial Content Standards	NONE	102929	11,055
Total Research and Development			<u>11,052,684</u>
TRIO PROGRAMS			
Department of Education			
Direct Programs			
TRIO - Student Support Services	84.042		395,505
TRIO - Upward Bound	84.047		971,650
TRIO - McNair Post-Baccalaureate Achievement	84.217		224,244
Pass-through Program			
Ohio College Access Network	84.047		19,148
Total TRIO Programs			<u>1,610,547</u>
Total Major Programs			<u>39,286,546</u>
OTHER PROGRAMS			
Department of Defense			
Direct Program			
Air Force Defense Research Sciences Program	12.800		16,825
Department of Housing and Urban Development			
Pass-through Programs			
Stark County Regional Planning Board - Community Development Block Grants/Entitlement Grants	14.218	B-05-UC-39-0005	24,236
City of Canton - Community Development Block Grants/Entitlement Grants	14.218	PO 502169	14,800
Total			<u>39,036</u>
City of Cleveland - Empowerment Zones Program	14.244	Program 62955	33,876
City of Cleveland - Empowerment Zones Program	14.244	Program 64977	120,698
Total			<u>154,574</u>
Total Department of Housing and Urban Development			193,610
Department of the Interior			
Pass-through Program			
Cuyahoga Valley National Recreation Area - Outdoor Recreation- Acquisition, Development and Planning	15.916	440827	358

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Justice			
Direct Program			
Bulletproof Vest Partnership Program	16.607		322,887
Department of State			
Pass-through Programs			
NAFSA - Cooperative Grants Program	19.420	COOP	3,086
Academy for Educational Development	NONE	3518	60,004
Total Department of State			<u>63,090</u>
Federal Aviation Administration			
Direct Program			
Airport Improvement Program	20.106		12,565
National Foundation on the Arts and the Humanities			
Direct Programs			
Promotion of the Arts-Grants to Organizations and Individuals	45.024		12,500
Laura Bush 21st Century Librarian Program	45.313		406,820
Pass-through Programs			
Heartland Arts Fund - Promotion of the Arts-Partnership Agreements	45.025	FY05-0253	525
West Virginia Humanities Council - Promotion of the Humanities-Federal/State Partnership	45.129	5108	1,000
State Library of Ohio - State Library Program	45.310	III-4-05	22,384
Total National Foundation on the Arts and the Humanities			<u>443,229</u>
National Science Foundation			
Direct Programs			
Geosciences	47.050		439,742
Biological Sciences	47.074		91,600
Pass-through Programs			
The Mathematical Association of America - Education and Human Resources	47.076	PMET Conference	1,478
The Mathematical Association of America - Education and Human Resources	47.076	DUE-0230847	10,571
The Mathematical Association of America - Education and Human Resources	47.076	DUE-0230847	34,703
Total			<u>46,752</u>
Total National Science Foundation			578,094
Small Business Administration			
Pass-through Programs			
Kent Regional Business Alliance - Small Business Development Center	59.037	ECDD 06-082B	42,328
Ohio Department of Development - Small Business Development Center	59.037	ECDD 05-173	23,533
Ohio Business Development Organization - Small Business Development Center	59.037	OMDT 25-09063	27,488
Ohio Business Development Organization - Small Business Development Center	59.037	MSBDC 2005-2006	1,594

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Ohio Business Development Organization - Small Business Development Center	59.037	MSBDC 2005-06	64,014
Ohio Department of Development - Small Business Development Center	59.037	ECDD 05-168	112,917
Ohio Department of Development - Small Business Development Center	59.037	ECDD 06-124	125,066
Total Small Business Administration			<u>396,940</u>
Department of Education			
Direct Programs			
Fund for the Improvement of Postsecondary Education	84.116		223,168
Rehabilitation Long-Term Training	84.129		209,450
Fund for the Improvement of Education	84.215		(1,529)
National Institute for Literacy	84.257		227,379
Research in Special Education	84.324		315,002
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325		1,289,541
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333		306,335
Preparing Tomorrow's Teachers to Use Technology	84.342		480,733
Pass-through Programs			
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2005	37,906
State of Ohio - Adult Education: State Grant Program	84.002	062979AB-SL2004C	51,877
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2006	518,613
State of Ohio - Adult Education: State Grant Program	84.002	AB-SL 2005C	99,997
Total			<u>708,393</u>
State of Ohio - Vocational Education: Basic Grants to States	84.048	VEPD-CB-05-KS	6,285
State of Ohio - Vocational Education: Basic Grants to States	84.048	VEPD-CB-06-K5	108,821
Total			<u>115,106</u>
DTI Associates, Inc. - Star Schools	84.203	KSU440194	3,557
State of Ohio - Tech-Prep Education	84.243	062976-3-ETC-2005	32,824
State of Ohio - Tech-Prep Education	84.243	062976-3ETC-2006	122,996
Total			<u>155,820</u>
Sacramento County Office of Education - National Institute for Literacy	84.257	501825	607
National Writing Project Corp - State Grants for Innovative Programs	84.298	97-OH03	59,611
Canton City Schools - Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	GEAR UP 440836	12,420
State of Ohio - Teacher Quality Enhancement Grants	84.336	05-14	84,850
John Carroll University - Reading First State Grants	84.357	CSP0A04004KSU06	83,209
University of Akron - Mathematics and Science Partnerships	84.366	U215K040292	9,143
Ohio Department of Education - Mathematics and Science Partnerships	84.366	CI667-OMAP-06-10	15,332
Total			<u>24,475</u>
State of Ohio - Improving Teacher Quality State Grants	84.367	04-16	74,182
State of Ohio - Improving Teacher Quality State Grants	84.367	TITLE IIA	18,011
State of Ohio - Improving Teacher Quality State Grants	84.367	05-15	38,044

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Ohio Department of Education - Improving Teacher Quality State Grants	84.367	TITLE IIA	6,526
State of Ohio - Improving Teacher Quality State Grants	84.367	04-18	<u>111,022</u>
Total			<u>247,785</u>
Total Department of Education			<u>4,545,912</u>
National Archives and Records Administration			
Direct Program			
National Historical Publications and Records Grants	89.003		9,808
Department of Health and Human Services			
Direct Program			
Advanced Education Nursing Traineeships	93.358		55,435
Pass-through Programs			
CARHEN - Model State-Supported Area Health Education Centers	93.107	27-C-2	16,942
CARHEN - Model State-Supported Area Health Education Centers	93.107	28-C-2	<u>14,983</u>
Total			31,925
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSP 03-168	398
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSPF 04-1073	5,959
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSPF 05-1059	<u>54,739</u>
Total			61,096
Ohio Developmental Disabilities Council-Developmental Disabilities Basic Support and Advocacy Grants	93.630	06-1/06	<u>27,775</u>
Total Department of Health and Human Services			<u>176,231</u>
Total Other Programs			<u>6,759,549</u>
Total Federal Awards			<u>46,046,095</u>

Kent State University

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006**

(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, 2006, the University disbursed funds to subrecipients in the amount of \$1,101,847.

(c) Facilities and Administrative Costs

The University has approved, predetermined, facilities and administrative cost rates, which are 46% from July 1, 2005 to June 30, 2006 for on campus research and 26.0% from July 1, 2005 to June 30, 2006 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, 2006:

	CFDA Numbers	Advances	Outstanding Balances
Perkins Loan Program	84.038	\$ 4,310,604	\$ 23,499,671
Nursing Student Loan Program	93.364	\$ 555,169	\$ 1,932,426

(3) Federal Direct Loan Program

During the year ended June 30, 2006, 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	\$127,902,804

(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	\$46,046,095
Perkins Loan Funds excluded from federal grants on the Statement	(34,435)
Nursing Student Loan Funds excluded from federal grants on the Statement	(9,784)
Indirect costs excluded from federal grants on the Statement	<u>(2,756,103)</u>
Federal grants and contracts as shown on the Statement	<u>\$43,245,773</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, 2006, and have issued our report thereon dated October 13, 2006. 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 13, 2006.

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 13, 2006
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, 2006. 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, 2006.

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 13, 2006.

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 13, 2006
Cleveland, Ohio

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Kent State University

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006**

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

Dollar threshold used to distinguish between Type A and Type B programs: \$1,381,383

Auditee qualified as low-risk auditee? yes no

Kent State University

**Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2006**

Section II - Financial Statement Findings

No matters were reported.

Kent State University

**Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2006**

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, 2006**

Section I - Summary of Prior Year Findings and Questioned Costs

No prior year findings.

Kent State University
Report on the Application of Agreed-Upon
Procedures to the Accounting Records
And Internal Control Structure of the
Intercollegiate Athletics Programs
June 30, 2006

Report of Independent Auditors

Dr. Lester A. Lefton
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 for the year ended June 30, 2006. 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, 2006, 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, 2006 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, 2006 and compared revenue receipts to supporting documentation maintained by the University.

No exceptions were noted as a result of these comparisons.

- F. We selected two ticket office sales reports during the year ending June 30, 2006 and recalculated revenue 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, 2006 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, 2006 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, 2006. 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, 2006 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, 2006. 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 13, 2006

Kent State University
Statement of Revenues and Expenditures – For the Intercollegiate Athletics Programs
For the Year Ended June 30, 2006

	Football	Men's Basketball	Women's Basketball	Other Sports Total	Non-Sports Total	Grand Total
Revenues:						
Sponsorship sales	\$ -	\$ -	\$ -	\$ -	\$ 251,238	\$ 251,238
Advertising	-	-	-	-	-	-
Camp revenue	-	-	-	-	71,715	71,715
Commissions	-	-	-	158	12,309	12,467
Contest guarantees	650,000	65,000	5,000	18,000	-	738,000
Facility rentals	-	-	-	-	72,133	72,133
NCAA distributions	-	-	-	-	825,468	825,468
Other income	865	-	-	29,452	129,704	160,021
Royalties	-	-	-	-	100,033	100,033
Student activity fees	-	-	-	-	9,408,500	9,408,500
Ticket sales	84,001	231,776	21,232	20,313	79,017	436,339
Foundation gifts	89,406	52,565	23,481	113,622	13,433	292,507
Total revenues	824,272	349,341	49,713	181,545	10,963,550	12,368,421
Expenditures:						
Payroll personal service	709,822	469,999	391,548	1,073,220	1,847,865	4,492,454
Non-payroll personal	84,675	62,636	31,751	50,090	219,995	449,147
Staff benefits	226,778	111,779	96,652	362,178	782,230	1,579,617
Travel	205,081	169,743	73,355	564,842	319,383	1,332,404
Recruiting	84,363	69,327	44,615	90,553	-	288,858
Entertainment	12,837	2,012	160	3,471	81,312	99,792
Supplies	197,235	35,019	21,292	194,688	241,300	689,534
Duplicating & printing	4,058	2,115	1,877	3,934	180,819	192,803
Telephone	11,687	9,099	6,421	18,519	73,583	119,309
Postage	15,092	9,491	7,893	13,750	28,256	74,482
Other information & communication	1,694	1,021	4,510	7,557	250,393	265,175
Maintenance & repairs	20,362	524	218	2,087	145,757	168,948
Rentals	4,982	4,226	2,640	12,294	182,005	206,147
Utilities	-	1,001	350	350	1,943	3,644
Student aid	1,688,889	325,632	260,479	2,229,824	112,629	4,617,453
Miscellaneous	219,224	111,055	12,832	107,268	473,392	923,771
Purchase for Resale	-	-	-	157	8,814	8,971
Capital expenditures	16,379	1,564	-	5,754	209,536	233,233
Total expenditures	3,503,158	1,386,243	956,593	4,740,536	5,159,212	15,745,742
(Deficiency) excess of revenues over expenditures	\$ (2,678,886)	\$ (1,036,902)	\$ (906,880)	\$ (4,558,991)	\$ 5,804,338	\$ (3,377,321)

Kent State University
Summary Schedule of Financial Activities – Blue & Gold Club Operating Accounts
For the Year Ended June 30, 2006

Fund balance at July 1, 2005	\$ 213,018
Total receipts/revenues	430,979
Total disbursements/expenses	<u>(423,849)</u>
Excess of disbursements/expenses over receipts/revenues	<u>7,130</u>
Fund balance at June 30, 2006	<u>\$ 220,148</u>

Kent State University
Summary Schedule of Financial Activities – Athletics – Income Funds
For the Year Ended June 30, 2006

Fund balance at July 1, 2005	\$ 72,226
Total receipts/revenues	210,768
Total disbursements/expenses	<u>(148,860)</u>
Excess of disbursements/expenses over receipts/revenues	<u>61,908</u>
Fund balance at June 30, 2006	<u>\$ 134,134</u>

Kent State University
Summary Schedule of Financial Activities – Restricted Funds
For the Year Ended June 30, 2006

Fund balance at July 1, 2005	\$ 343,418
Total receipts/revenues	1,111,212
Total disbursements/expenses	<u>(186,151)</u>
Excess of disbursements/expenses over receipts/revenues	925,061
Transfer to Restricted Funds	<u>437,323</u>
Fund balance at June 30, 2006	<u>\$ 1,705,802</u>



Mary Taylor, CPA
Auditor of State

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 18, 2007**