

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, 2007**



Mary Taylor, CPA

Auditor of State

Board of Trustees
Kent State University
PO Box 5190
Kent, Ohio 44242-0001

We have reviewed the *Report of Independent Auditors* of the Kent State University, Portage County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 3, 2008

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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 As of June 30, 2007 and 2006

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, 2007 and 2006. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes 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, 2007 the University expended \$5.4 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 As of June 30, 2007 and 2006

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2007 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$75.6 million, of which \$37.9 million is attributed to an increase in capital assets, net of retirements of capital assets. Current assets decreased by \$23.8 million, due to the longer duration of the University's investment portfolio.
- Total liabilities decreased by \$3.9 million.
- The University's net assets increased by \$79.6 million to \$612.6 million, of which \$304.1 is either invested in capital assets or restricted. Of the remaining \$308.5 million in unrestricted assets, all but \$1.9 million is designated for specific purposes.
- Operating revenues increased by \$6.6 million compared to the prior year.
- The University's operating expenses increased by \$10.3 million, with expected increases in most functional expense categories due primarily to inflationary factors.
- The operating loss and principal debt payments totaled \$104.7 million, which was fully funded by State appropriations.

Kent State University
Condensed Statement of Net Assets
as of June 30, 2007, 2006 and 2005
(in thousands)

ASSETS	2007	2006	2005
Current and other assets	\$ 417,298	\$ 379,601	\$ 366,660
Capital assets	547,880	509,932	479,492
Total assets	<u>\$ 965,178</u>	<u>\$ 889,533</u>	<u>\$ 846,152</u>
LIABILITIES			
Long-term debt	\$ 268,846	\$ 272,222	\$ 276,417
Other	83,694	84,222	75,422
Total liabilities	<u>\$ 352,540</u>	<u>\$ 356,444</u>	<u>\$ 351,839</u>
NET ASSETS			
Invested in capital assets net of related debt	\$ 278,926	\$ 243,127	\$ 238,768
Restricted, expendable and not expendable	25,224	24,982	24,471
Unrestricted:			
Designated	306,623	263,172	229,355
Undesignated	1,865	1,808	1,719
Total net assets	<u>\$ 612,638</u>	<u>\$ 533,089</u>	<u>\$ 494,313</u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis As of June 30, 2007 and 2006

2007 Versus 2006 During the year ended June 30, 2007:

In fiscal 2007, the University's current assets of \$177.9 million were sufficient to cover current liabilities of \$66.9 million (current ratio of 2.7). In fiscal 2006, current assets of \$201.6 million were sufficient to cover current liabilities of \$68.7 million (current ratio of 2.9).

At June 30, 2007, total University assets were \$965.2 million, compared to \$889.5 million in fiscal 2006. The University's largest asset is its investment in physical plant of \$547.9 million at June 30, 2007 compared to \$509.9 million in fiscal 2006.

Current and other assets increased \$37.7 million to \$417.3 million, compared to \$379.6 in fiscal year 2006. Cash and cash equivalents of \$149.7 million is the largest non-capital asset.

University liabilities total \$352.5 million at June 30, 2007 compared to \$356.4 million in fiscal 2006. Long-term debt of \$268.8 million, consisting of bonds payable, is the largest liability.

Total net assets increased by \$79.5 million to \$612.6 million. Unrestricted net assets total \$308.5 million, 99.4% of which (\$306.6 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

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.

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.

KENT STATE UNIVERSITY

**Management's Discussion and Analysis
As of June 30, 2007 and 2006**

**Kent State University
Condensed Statement of Revenues, Expenses and Changes in Net Assets
as of June 30, 2007, 2006 and 2005
(in thousands)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues			
Tuition, net	\$ 203,544	\$ 194,589	\$ 193,052
State appropriations	121,317	119,017	118,194
Federal and state grants	58,967	56,593	57,259
Auxiliary activities	79,877	78,203	74,936
Other	87,450	50,645	49,907
Total revenues	<u>\$ 551,155</u>	<u>\$ 499,047</u>	<u>\$ 493,348</u>
Expenses			
Instruction	\$ 170,509	\$ 167,275	\$ 159,251
Research	14,726	14,315	14,182
Institutional support	32,245	39,352	32,619
Scholarships and fellowships	20,555	14,065	13,898
Other	233,571	225,264	214,286
Total expenses	<u>\$ 471,606</u>	<u>\$ 460,271</u>	<u>\$ 434,236</u>

2007 Versus 2006 During the year ended June 30, 2007:

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 \$29.3 million, totaled \$456.8 million.

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

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.

KENT STATE UNIVERSITY

Management's Discussion and Analysis As of June 30, 2007 and 2006

Kent State University
Condensed Statement of Cash Flows
as of June 30, 2007, 2006 and 2005
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash (used in)/provided by:			
Operating activities	\$ (75,686)	\$ (62,513)	\$ (70,457)
Investing activities	(12,473)	(78,889)	51,152
Capital and related financing activities	(67,995)	(67,384)	(54,147)
Non-capital financing activities	<u>128,586</u>	<u>123,649</u>	<u>122,311</u>
Net increase/(decrease) in cash	(27,568)	(85,137)	48,859
Cash and cash equivalents, beginning of year	<u>177,286</u>	<u>262,423</u>	<u>213,564</u>
Cash and cash equivalents, end of year	<u>\$ 149,718</u>	<u>\$ 177,286</u>	<u>\$ 262,423</u>

2007 Versus 2006 During the year ended June 30, 2007:

Major sources of cash included student tuition and fees (\$162.8 million), state appropriations (\$121.4 million), auxiliary activities (\$79.9 million), and grants and contracts (\$60.5 million). The largest payments were for suppliers (\$170.7 million) and employees (\$218.5 million).

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).

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the University had invested \$547.9 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 \$37.9 million, or 7.4 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>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 10.0	\$ 10.0	\$ 10.0
Equipment	60.5	49.0	50.7
Buildings and improvements	450.9	428.7	395.8
Construction in progress	<u>26.5</u>	<u>22.2</u>	<u>23.0</u>
Total	<u>\$ 547.9</u>	<u>\$ 509.9</u>	<u>\$ 479.5</u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis As of June 30, 2007 and 2006

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 \$273.2 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>2007</u>	<u>2006</u>	<u>2005</u>
General receipts bonds (backed by the University)	\$ 267.1	\$ 269.0	\$ 270.7
Capital leases	6.1	7.4	9.0
	<u>\$ 273.2</u>	<u>\$ 276.4</u>	<u>\$ 279.7</u>

Factors Affecting Future Periods

The outlook for public higher education in Ohio is very different today than it was twelve months ago. A new governor has made higher education a cornerstone of his plan for revitalizing Ohio's economic future. For the first time since the outset of the new century, the core funding for higher education was increased (5.6%) and will increase even more (9.8%) in the second year of the two-year appropriation cycle.

An even more dramatic change is that undergraduate tuition was frozen for the next two years, an event that is unprecedented during the last four decades.

Other changes also are likely as the powers of the chancellor of the University System of Ohio have been expanded and a master plan for the system must be submitted to the Ohio General Assembly by March 31, 2008. As a result of these changes, much more optimism exists today as the increased emphasis on higher education is a welcome change.

While the new emphasis and increased funding for higher education have created a more positive outlook, long-term challenges still must be addressed by Kent State University. Ohio's sluggish economy and its aging population remain concerns that could negatively affect the future success of the University. Kent State must be able to manage sudden reductions in state support should Ohio's economy continue to lag other states and successfully attract students in a more competitive environment as the number of high school graduates in Ohio declines over the next decade.

Another factor affecting the future success of Kent State is its leadership. Under the direction of a new president beginning his second year, the University has identified four priorities that are intended to better position Kent State University to be able to respond to the challenges that lie ahead: larger and academically more talented freshmen classes, improved student retention, increased numbers of grant proposals by faculty and a new capital gift campaign. As the University begins the new fiscal year, positive progress is occurring in all four areas.

KENT STATE UNIVERSITY

Management's Discussion and Analysis As of June 30, 2007 and 2006

The ability to fund new institutional priorities and respond to future state funding uncertainties is heavily dependent on the financial condition of the University which continued to improve in 2007. The large increase in net assets provides an important funding source for making strategic investments and managing sudden declines in state support.

New state and institutional leadership, a new emphasis on higher education in Ohio, progress toward institutional priorities, increasing state support and stronger institutional finances are all contributing to an outlook that is challenging but much more positive today than twelve months ago.

Report of Independent Auditors

To the Board of Trustees of
Kent State University:

In our opinion, the accompanying statement 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, 2007 and 2006, 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 12, 2007 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, 2007. 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 12, 2007
Cleveland, Ohio

KENT STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2007 and 2006
(in thousands)

	University		University Related Foundation	
	2007	2006	2007	2006
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 149,718	\$ 177,286	\$ 923	\$ 135
Short-term investments	2,794	1,605	119,069	79,503
Accounts and pledges receivable, net	19,977	17,656	7,805	4,794
Inventories	1,721	1,685	-	-
Deposits and prepaid expenses	3,200	2,916	-	-
Accrued interest receivable	460	481	68	64
Total current assets	<u>177,870</u>	<u>201,629</u>	<u>127,865</u>	<u>84,496</u>
Noncurrent assets:				
Student loans receivable, net	21,972	21,316	-	-
Long-term investments	214,636	153,129	7,489	28,601
Long-term pledges receivable, net	-	-	7,290	7,855
Capital assets, net	547,880	509,932	9,337	9,224
Other assets	2,820	3,527	465	499
Total noncurrent assets	<u>787,308</u>	<u>687,904</u>	<u>24,581</u>	<u>46,179</u>
Total assets	<u>965,178</u>	<u>889,533</u>	<u>152,446</u>	<u>130,675</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	18,827	23,405	822	1,103
Accrued payroll	9,181	8,608	-	-
Payroll taxes and accrued fringe benefits	11,099	9,632	-	-
Unearned fees and deposits	23,463	22,809	-	-
Current portion of long-term debt	4,307	4,219	-	-
Total current liabilities	<u>66,877</u>	<u>68,673</u>	<u>822</u>	<u>1,103</u>
Noncurrent liabilities:				
Accrued compensated absences	14,884	13,948	4,894	-
Accrued liabilities	-	-	-	4,452
Long-term unearned fees and deposits	1,933	1,601	5,461	4,370
Long-term debt	268,846	272,222	-	-
Total noncurrent liabilities	<u>285,663</u>	<u>287,771</u>	<u>10,355</u>	<u>8,822</u>
Total liabilities	<u>352,540</u>	<u>356,444</u>	<u>11,177</u>	<u>9,925</u>
NET ASSETS				
Invested in capital assets, net of related debt	278,926	243,127	9,337	9,224
Restricted, nonexpendable	883	882	60,443	54,875
Restricted, expendable	24,341	24,100	70,193	55,847
Unrestricted	308,488	264,980	1,296	804
Total net assets	<u>612,638</u>	<u>533,089</u>	<u>141,269</u>	<u>120,750</u>
Total liabilities and net assets	<u>\$ 965,178</u>	<u>\$ 889,533</u>	<u>\$ 152,446</u>	<u>\$ 130,675</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, 2007 and 2006
(in thousands)

	University		University Related Foundation	
	2007	2006	2007	2006
OPERATING REVENUES				
Student tuition and fees	\$ 237,736	\$ 230,452	\$ -	\$ -
Less scholarship allowances	(34,192)	(35,863)	-	-
Net student tuition and fees	<u>203,544</u>	<u>194,589</u>	<u>-</u>	<u>-</u>
Federal grants and contracts	48,195	46,012	-	-
State grants and contracts	10,772	10,581	-	-
Local grants and contracts	320	339	-	-
Nongovernmental grants and contracts	3,072	2,686	-	-
Sales and services of educational departments	6,325	7,192	-	-
Auxiliary activities	79,877	78,203	-	-
Other operating revenues	4,312	10,259	1,380	1,018
Total operating revenues	<u>356,417</u>	<u>349,861</u>	<u>1,380</u>	<u>1,018</u>
OPERATING EXPENSES				
Instruction	170,509	167,275	-	-
Research	14,726	14,315	-	-
Public service	15,184	15,212	-	-
Academic support	40,429	37,407	-	-
Student services	25,402	24,818	-	-
Institutional support	32,245	39,352	15,077	12,025
Scholarships and fellowships	20,555	14,065	2,209	2,255
Operation and maintenance of plant	32,432	31,271	-	-
Auxiliary activities	76,056	75,449	-	-
Depreciation	29,263	27,334	8	15
Total operating expenses	<u>456,801</u>	<u>446,498</u>	<u>17,294</u>	<u>14,295</u>
Operating loss	<u>(100,384)</u>	<u>(96,637)</u>	<u>(15,914)</u>	<u>(13,277)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	121,317	119,017	-	-
Gifts	6,268	5,399	21,012	21,058
Investment income	50,202	18,090	15,844	9,424
Interest on capital asset-related debt	(13,006)	(13,532)	-	-
Other nonoperating (expenses)	(1,799)	(241)	(423)	(674)
Net nonoperating revenues	<u>162,982</u>	<u>128,733</u>	<u>36,433</u>	<u>29,808</u>
Income before other revenues, expenses, gains or losses	<u>62,958</u>	<u>32,096</u>	<u>20,519</u>	<u>16,531</u>
Capital appropriation	16,951	6,680	-	-
Increase in net assets	<u>79,549</u>	<u>38,776</u>	<u>20,519</u>	<u>16,531</u>
NET ASSETS				
Net assets, beginning of year	533,089	494,313	120,750	104,219
Net assets, end of year	<u>\$ 612,638</u>	<u>\$ 533,089</u>	<u>\$ 141,269</u>	<u>\$ 120,750</u>

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

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS
for the years ended June 30, 2007 and 2006
(in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 162,815	\$ 156,434
Cash received from auxiliary activities	79,878	78,329
Cash received from other sources	11,176	16,928
Grants and contracts	60,450	59,197
Federal student loan funds received	-	19
Student loans granted, net of repayments	(743)	527
Cash paid to employees	(218,541)	(210,442)
Cash paid to suppliers	(170,721)	(163,505)
Net cash used in operating activities	(75,686)	(62,513)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	79,287	164,447
Purchases of investments	(118,700)	(256,493)
Interest received	26,940	13,157
Net cash used in investing activities	(12,473)	(78,889)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net proceeds from bond issuance	28,919	-
Early extinguishment of bonds	(28,886)	-
Principal payments under debt obligations, net	(4,270)	(3,251)
Interest paid	(13,355)	(7,451)
Capital appropriations	3,337	1,939
Purchases of capital assets	(53,313)	(58,375)
Other payments	(427)	(246)
Net cash used in capital and related financing activities	(67,995)	(67,384)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	121,394	118,940
Gifts received from KSU Foundation	7,192	4,709
Net cash provided by noncapital financing activities	128,586	123,649
Net decrease in cash and cash equivalents	(27,568)	(85,137)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	177,286	262,423
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 149,718	\$ 177,286

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, 2007 and 2006
(in thousands)

	2007	2006
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:		
Operating loss	\$ (100,384)	\$ (96,637)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	29,263	27,334
Change in assets and liabilities:		
Accounts receivable, net	(3,322)	(282)
Inventories	(36)	(99)
Deposits and prepaid expenses	(284)	(1,031)
Student loans receivable, net	(656)	421
Accounts payable and accrued liabilities	(4,229)	3,625
Accrued payroll	573	682
Payroll taxes and accrued fringe benefits	1,467	2,881
Unearned fees and deposits	986	79
Accrued compensated absences	936	514
Total change in assets and liabilities	(4,565)	6,790
Net cash used in operating activities	\$ (75,686)	\$ (62,513)

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

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2007 and 2006

(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 10. 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, 2007 and 2006 (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, 2007 and 2006 (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.

(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 Huntington Bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the University.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2007 and 2006 (in thousands)

The values of investments at June 30, 2007 and 2006 are as follows:

	2007	2006
Common stock	\$ 202,926	\$ 139,327
Equity mutual funds	44,299	39,186
US government obligations	5,100	5,400
US government agency obligations	8,706	8,312
Repurchase agreements	1	9,885
Corporate bonds and notes	612	1,551
Bond mutual funds	62,175	88,004
Other	39,755	37,379
Total	\$ 363,574	\$ 329,044

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2007 the University realized a net gain of \$11,823 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, 2007, was \$40,526. 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 \$28,703.

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 2007	\$9,676	\$40,526	\$50,202
Total 2006	\$8,595	\$9,495	\$18,090

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, 2007 and 2006 (in thousands)

The maturities of the University's interest-bearing investments at June 30, 2007 are as follows:

	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
US government obligations	\$ 5,100	\$ 2,707	\$ 2,393	-	-
US government agency obligations	8,706	-	-	\$ 827	\$ 7,879
Repurchase agreements	1	1	-	-	-
Corporate bonds and notes	612	-	323	289	-
Bond mutual funds	62,175	2,818	36,763	21,093	1,501
Total	\$ 76,594	\$ 5,526	\$ 39,479	\$ 22,209	\$ 9,380

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, 2007 are as follows:

Credit Rating (Moody's)	Total	Government Obligations	US Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds
AAA	\$ 35,991	\$ 5,100	\$ 8,706	\$ 1	\$ 612	\$ 21,572
AA+	29,530	-	-	-	-	29,530
AA	61	-	-	-	-	61
AA-	10,879	-	-	-	-	10,879
A	60	-	-	-	-	60
BBB	54	-	-	-	-	54
BB	2	-	-	-	-	2
OTHER	17	-	-	-	-	17
Total	\$ 76,594	\$ 5,100	\$ 8,706	\$ 1	\$ 612	\$ 62,175

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, 2007, the University had no exposure to foreign currency risk.

(4) **Accounts Receivable**

Accounts receivable consist of the following, as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Sponsor accounts	\$ 6,831	\$ 4,136
Student accounts	10,477	9,695
Other	4,884	6,425
	<u>\$22,192</u>	<u>\$20,256</u>
Less allowances for loss on accounts receivable	(2,215)	(2,600)
Accounts receivable, net	<u>\$19,977</u>	<u>\$17,656</u>

KENT STATE UNIVERSITY

**Notes to Financial Statements
June 30, 2007 and 2006
(in thousands)**

In addition, the University has student loans receivable of \$26,271 and \$25,528 as of June 30, 2007 and 2006, respectively. The related allowances as of June 30, 2007 and 2006 are \$4,299 and \$4,212, 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, 2006 and 2007:

	<u>2006</u>	<u>Additions/ Transfers</u>	<u>Net Retirements</u>	<u>2007</u>
Land	\$ 9,974	-	-	\$ 9,974
Infrastructure	85,487	6,501	-	91,988
Buildings	564,501	34,224	-	598,725
Equipment	160,949	22,251	6,659	176,541
Construction-in-progress	22,233	4,235	-	26,468
	<u>\$ 843,144</u>	<u>\$ 67,211</u>	<u>\$ 6,659</u>	<u>\$ 903,696</u>
Less accumulated depreciation	333,212	28,800	6,196	355,816
Capital assets, net	<u>\$ 509,932</u>	<u>\$ 38,411</u>	<u>\$ 463</u>	<u>\$ 547,880</u>

Included in depreciation expense of \$29,263 for the year ended June 30, 2007, is a loss of \$463 from the disposal of obsolete capital assets.

(6) Long-term Debt

In accordance with the General Receipts bonds Trust Agreement, the Series 1998, Series 2000, Series 2001, Series 2002, and Series 2006 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 September 2006, the University issued \$29,310 in Series 2006 General Receipts bonds. The proceeds from the bond sale were used for the early redemption of Series 1996 General Receipts bonds with an outstanding principal balance of \$28,320.

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, 2007 and 2006, \$820 and \$1,180 respectively, of this defeased debt was outstanding.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2007 and 2006 (in thousands)

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 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 (\$15,446) and (\$15,748) at June 30, 2007 and 2006, 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 \$1,176 and (\$1,229) at June 30, 2007 and 2006, respectively.

The University has entered into a twenty-two year interest rate swap agreement for \$29,310 of the variable rate 2006 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 4.18% 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 \$29,310 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 (\$950) at June 30, 2007.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2007 and 2006 (in thousands)

Long-term debt consists of the following as of June 30, 2007 and 2006:

	<u>Rates</u>	<u>Maturity</u>	<u>2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>2007</u>
General Receipts Bonds of 2006	4.18	2007-2028	-	\$ 29,310	\$ 910	\$ 28,400
General Receipts Bonds of 2002	3.72	2028-2032	60,000	-	-	60,000
General Receipts Bonds of 2001	5.02	2007-2031	155,500	-	1,000	154,500
General Receipts Bonds of 2000	5.0-6.0	2004-2024	8,725	-	295	8,430
General Receipts Bonds of 1998	4.1-5.0	2004-2023	16,455	-	645	15,810
General Receipts Bonds of 1996	4.1-5.5	2004-2028	28,320	-	28,320	-
Other	various	various	7,441	-	1,428	6,013
			<u>\$276,441</u>	<u>\$29,310</u>	<u>\$ 32,598</u>	<u>\$ 273,153</u>
Less current portion long-term debt			4,219			4,307
			<u>\$272,222</u>			<u>\$ 268,846</u>

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 4,307	\$ 12,726	\$ 17,033
2009	4,378	12,519	16,897
2010	4,503	12,311	16,814
2011	4,655	12,094	16,749
2012	6,695	11,896	18,591
2013-2017	39,000	54,166	93,166
2018-2022	50,050	43,490	93,540
2023-2027	54,745	30,397	85,142
2028-2032	104,820	16,759	121,579
Total	<u>\$273,153</u>	<u>\$ 206,358</u>	<u>\$ 479,511</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

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2007 and 2006 (in thousands)

employees participating in the alternative retirement program. The University's contribution to the alternative retirement fund for the years ending June 30, 2007 and 2006 were \$655 and \$637, 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 9.5% of covered payroll and the University is required to contribute 13.77% of covered payroll. The University's contributions to OPERS for the years ending June 30, 2007, 2006 and 2005 were \$10,965, \$10,273 and \$9,986, respectively, equal to the required contributions for each year.

The State Teachers Retirement System of Ohio's Comprehensive Annual Financial Report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to STRS Ohio for the years ending June 30, 2007, 2006, and 2005 were \$11,423, \$11,529 and \$11,068, 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 2006 employer contribution rate for health care was 4.5% 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 \$31.3 billion and \$20.2 billion, respectively. Significant actuarial assumptions include an 6.5% investment return, 4% individual pay increases, and a 4.5 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, 2005, the actuarial value of the retirement system's net assets available for other post employment benefits was \$11.1 billion. The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006.

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.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2007 and 2006 (in thousands)

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 \$3.5 billion at June 30, 2006.

For the year ended June 30, 2006, the net health care costs paid by STRS Ohio were \$282,743. There were 119,184 eligible benefit recipients.

(c) Ohio Public Employees Deferred Compensation Program

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

In 1998, the Ohio Public Employees Deferred Compensation Program Board implemented a trust to hold the assets of the Program in accordance with Internal Revenue Code Section 457. The program assets are 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, 2007 and 2006, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$6,174 and \$5,039, 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, 2007 and 2006 were \$30,681 and \$30,804. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$5,041 and \$4,936 has been accrued as of June 30, 2007 and 2006. 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 2007 and 2006 for operating leases amounted to approximately \$941 and \$997, respectively.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2007 and 2006 (in thousands)

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2007 are as follows:

	<u>Operating Leases</u>
2008	\$ 957
2009	781
2010	781
2011	782
2012	783
2013-2017	3,149
2018-2022	2,032
2023-2027	2,032
2028-2032	<u>1,220</u>
Total future minimum payments	<u>\$ 12,517</u>

(9) **Related Party Transactions**

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

(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 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 \$152,446 and \$130,675 at June 30, 2007 and 2006, 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 \$6,268 and \$5,362 of financial support during the years ended June 30, 2007 and 2006, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2007 and 2006, the University had outstanding receivables from the Foundation of approximately \$377 and \$1,301 respectively.

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

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		1,387,343
Federal Work-Study Program	84.033		1,648,403
Federal Perkins Loan Program	84.038		33,974
Federal Pell Grant Program	84.063		24,176,586
Academic Competitiveness Grants	84.375		1,003,028
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376		397,618
Total Department of Education			<u>28,646,952</u>
Department of Health and Human Services			
Direct Program			
Nursing Student Loans	93.364		10,469
Total Student Financial Aid			<u>28,657,421</u>
RESEARCH AND DEVELOPMENT			
Department of Agriculture			
Pass-through Programs			
Ohio Aeronautics Institute - Grants for Agricultural Research, Special Research Grants	10.200	2005-38898-03269	18,877
Northcountry Cooperative Foundation	10.771	OEOC/KSU 445665	2,288
Total Department of Agriculture			<u>21,165</u>
Department of Commerce			
Direct Program			
Measurement and Engineering Research and Standards	11.609		138,087
Pass-through Programs			
Ohio State University Research Foundation - Sea Grant Support	11.417	R/ER-67	6,680
Ohio State University Research Foundation - Sea Grant Support	11.417	R/ER-70	5,354
Ohio State University Research Foundation - Sea Grant Support	11.417	R/ER-67	23,468
Total			<u>35,502</u>
Management Estuarine Research Reserves	11.420	NA05NOS4201046	20,461
University of Michigan - OAR Joint and Cooperative Institutes	11.432	F014569	(1,938)
ColorLink - Advanced Technology Program	11.612	96-01-0263	13,936
Total Department of Commerce			206,048
Department of Defense			
Direct Programs			
Basic and Applied Scientific Research	12.300		175,917
Basic Scientific Research	12.431		29,200
Air Force Defense Research Sciences Program	12.800		726,216
Research and Technology Development	12.910		103,850

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Pass-through Programs			
Horn Laboratories - Air Force Defense Research Sciences Program	12.800	HORN SBIR	2,958
Dynamic Eye, Inc. - Air Force Defense Research Sciences Program	12.800	SA1-PO014	28,891
Total			31,849
Florida Atlantic University - Research and Technology Development	12.910	KR-816	372
Displaytech, Inc. - Research and Technology Development	12.910	FA9453-04-C0163	(2,157)
Total			(1,785)
University of Central Florida - Imaging Sensor	NONE	W911NF-04-C0048	38,148
Anteon Corporation - Sensors Directorate	NONE	USAF-A581-27-SC-0001	2,357
Cornerstone Research Group, Inc. - STTR Phase II	NONE	FA9550-05-C-0036	146,072
Cornerstone Research Group, Inc. - Liquid Crystals for Infrared Application	NONE	FA9550-05-C0067	412
SpecPro, Inc - Invertebrate Samples	NONE	BAD0004901	5,957
Total			192,946
Total Department of Defense			1,258,193
Department of Housing and Urban Development			
Direct Program			
General Research and Technology Activity	14.506		1,523
Total Department of Housing and Urban Development			1,523
Department of the Interior			
Pass-through Programs			
Ohio Department of Natural Resources - Fish, Wildlife and Plant Conservation Resource Management	15.231	444560	2,313
Minnesota Department of Natural Resources - State Wildlife Grants	15.634	A89365	34,792
Total Department of the Interior			37,105
Department of Justice			
Direct Program			
Special Data Collections and Statistical Studies	16.734		106,645
Pass-through Programs			
Ohio Department of Youth Services - Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2004-JJ-SI1-0522	179,611
Ohio Department of Youth Services - Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2004-JJ-DP2-0525	55,579
Ohio Department of Youth Services - Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2005-JJ-SI1-0522	13,106
Total			248,296
Research Triangle Institute - Part D - Research, Evaluation, Technical Assistance and Training	16.542	9-44U-7735	103,862
University of Akron - National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2005-RP-BX-0002	76,246

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
COSMOS Corporation - National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2003-WG-BX-1004	10,129
Total			86,375
Ohio Criminal Justice Studies - Edward Byrne Memorial Formula Grant Program	16.579	2004-DG-B0R-7080	21,220
Ohio Criminal Justice Studies - Violence Against Women Formula Grants	16.588	2004-DG-B0R-7080	3,074
Ohio Criminal Justice Studies - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308A	6,600
Ohio Criminal Justice Studies - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308B	11,223
Ohio Criminal Justice Studies - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308C	11,038
Ohio Criminal Justice Studies - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308D	25,967
Total			54,828
Ohio Criminal Justice Studies - Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-JG-EOR-6475	103,684
Ohio Criminal Justice Studies - Anti-Gang Initiative	16.744	2006-PS-CAG-373	19,420
Total Department of Justice			747,404
Department of Transportation			
Pass-through Program			
Ohio Department of Transportation - Highway Planning and Construction	20.205	21436	38,942
Total Department of Transportation			38,942
National Aeronautics and Space Administration			
Direct Program			
Technology Transfer	43.002		82,499
Pass-through Program			
Iten Industries - Multifunctional Planetary Exploration	NONE	NNM07AA59C-KSU	21,325
Total National Aeronautics and Space Administration			103,824
National Foundation on the Arts and the Humanities			
Direct Programs			
Promotion of the Humanities Fellowships and Stipends	45.160		26,235
Grants to States	45.310		8,696
National Leadership Grants	45.312		512,831
Total National Foundation on the Arts and the Humanities			547,762
National Science Foundation			
Direct Programs			
Engineering Grants	47.041		127,853
Mathematical and Physical Sciences	47.049		1,423,147
Geosciences	47.050		81,982
Computer and Information Science and Engineering	47.070		72,432
Biological Sciences	47.074		113,850
Social, Behavioral, and Economic Sciences	47.075		29,771

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Education and Human Resources	47.076		617,380
Polar Programs	47.078		47,477
Pass-through Programs			
Georgia Institute of Technology - Engineering Grants	47.041	E-27-M88-S1	62,203
Kent Displays Inc. - Engineering Grants	47.041	OII-0610809	15,573
Total			77,776
 New York University - Mathematical and Physical Sciences	 47.049	 F5893-01	 54,138
Carnegie Mellon University - Mathematical and Physical Sciences	47.049	1120406-142769	35,482
Ohio State Research Foundation - Mathematical and Physical Sciences	47.049	60004660	20,501
Total			110,121
 University of Akron - Biological Sciences	 47.074	 DEB-0235301	 9,715
Ohio State Research Foundation - Biological Sciences	47.074	60001629	33,521
Total			43,236
 Brown University - Social, Behavioral, and Economic Sciences	 47.075	 1379-26321	 4,321
U.S. Civilian Research & Development Foundation - Social, Behavioral, and Economic Sciences	47.075	UK-P1-2617-KV04	357
U.S. Civilian Research & Development Foundation - Social, Behavioral, and Economic Sciences	47.075	UK-P1-2598-KV-04	1,804
University of South Carolina - Social, Behavioral, and Economic Sciences	47.075	04-0957	1,385
University of Wisconsin-Milwaukee - Social, Behavioral, and Economic Sciences	47.075	BCS-0616957	4,803
Total			12,670
 Ohio State Research Foundation - Education and Human Resources	 47.076	 745925/RF00982477	 45,580
Total National Science Foundation			2,803,275
 Environmental Protection Agency			
Direct Program			
Assessment and Watershed Protection Program Grants	66.480		6,312
Pass-through Program			
NALMS - Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator	66.610	444555	5,000
Total Environmental Protection Agency			11,312
 Department of Energy			
Direct Program			
Office of Science Financial Assistance Program	81.049		641,306
Pass-through Programs			
Stanford University - Office of Science Financial Assistance Program	81.049	11945920-28910-A	95
University of Chicago - Office of Scientific and Technical Information	81.064	5F-00540	17,249
Total			17,344
Total Department of Energy			658,650

Kent State University

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Education			
Direct Programs			
Fund for the Improvement of Postsecondary Education	84.116		337,931
Education Research, Development and Dissemination	84.305		227,769
Pass-through Programs			
Ohio State University Research Foundation - Adult Education-State Grant Program	84.002	RF01050012	24,988
Ohio Department of Education - Special Education - Grants to States	84.027	062976-SB-SP-06	18,882
Ohio Department of Education - Special Education - Grants to States	84.027	6B-SP-07	145,899
Total			164,781
Virginia Commonwealth University - National Institute on Disability and Rehabilitation Research	84.133	PT101165-SC100174	35,920
Cleveland Heights/University Heights School District - Safe and Drug-Free Schools and Communities_National Programs	84.184	184L030137	42,560
Cleveland Heights/University Heights School District - Safe and Drug-Free Schools and Communities_National Programs	84.184	184L030137	14,671
Cleveland Municipal School District - Safe and Drug-Free Schools and Communities National Programs	84.184	74724239	2,339
Total			59,570
Franklin Parrish School Board - Education Technology State Grants	84.318	S318X60018	6,364
University of Kentucky Research Foundation - Research in Special Education	84.324	H324M010033	10,345
Total Department of Education			867,668
Department of Health and Human Services			
Direct Programs			
Research and Training in Complementary and Alternative Medicine	93.213		76,246
Mental Health Research Grants	93.242		657,773
Mental Health Research Career/Scientist Development Awards	93.281		25,534
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283		600
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		193,821
Nursing Research	93.361		307,992
Cancer Cause and Prevention Research	93.393		34,318
Cancer Treatment Research	93.395		38,841
Diabetes, Endocrinology and Metabolism Research	93.847		126,441
Digestive Diseases and Nutrition Research	93.848		46,149
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		366,884
Child Health and Human Development Extramural Research	93.865		575,352
Aging Research	93.866		581,975

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Pass-through Programs			
Cuyahoga County Community Mental Health Board - Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1 U79 SM56055-01	534,611
Canton Regional Area Health Education Center - Model State-Supported Area Health Education Centers	93.107	28-C-3	4,186
Hospital for Special Surgery - Oral Diseases and Disorders Research	93.121	2R04 DE004141-31A1	89,352
County of Summit Alcohol, Drug Addiction and Mental Health - Centers of Excellence	93.157	445518	(7)
County of Summit Alcohol, Drug Addiction and Mental Health - Centers of Excellence	93.157	445520	51,840
NEOUCOM - Centers of Excellence	93.157	34114 - HRSA D20HP30000	17,694
Total			69,527
Stanford University - Human Genome Research	93.172	30162-A	137,114
Cuyahoga County Board of Commissioners - Consolidated Knowledge Development and Application (KD&A) Program	93.230	CE0400252-01	137,257
BIOTRACES - Mental Health Research Grants	93.242	444726	3,818
Temple University - Mental Health Research Grants	93.242	36-1811-491	11,821
Total			15,639
HUMADAOP- Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	440470	19,361
Miami University - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	01175-02	16,379
Cuyahoga County Board of Commissioners - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	CE0400252-03	3,244
Total			38,984
University of Tennessee - Alcohol Research Programs	93.273	OR9636-001.01	6,281
University of Florida - Alcohol Research Programs	93.273	UF103	83,142
Total			89,423
University of Pittsburgh - Nursing Research	93.361	5 R01 NR004749-09	68,269
University of Pennsylvania - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	5-39181	(8,522)
University of Pennsylvania - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	NIH 5-39181	70,689
Total			62,167
University of Pittsburgh - Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	109830-1	23,977
California State University San Marcos Foundation - Biomedical Research and Research Training	93.859	85168 573-40	53,862
Georgia Institute of Technology - Aging Research	93.866	G-42-682-G3	59,480
Ohio Department of Alcohol and Drug Abuse Services - Block Grants for Prevention and Treatment of Substance Abuse	93.959	COME-ADA-WP05HI	14,229

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Macro International, Inc - Treatment Effectiveness Study	NONE	93.280-03-1603	47,804
University of Cincinnati - Idaho Drug Court Evaluation	NONE	H79TI14021	31,974
Total			<u>79,778</u>
Total Department of Health and Human Services			4,509,781
Total Research and Development			<u>11,812,652</u>
TRIO PROGRAMS			
Department of Education			
Direct Programs			
TRIO Student Support Services	84.042		414,293
TRIO Upward Bound	84.047		921,772
TRIO McNair Post-Baccalaureate Achievement	84.217		201,132
Pass-through Program			
Ohio College Access Network - TRIO Upward Bound	84.047	440823	4,986
Total TRIO Programs			<u>1,542,183</u>
Total Major Programs			<u>42,012,256</u>
OTHER PROGRAMS			
Department of Commerce			
Direct Program			
Public Telecommunications Facilities Planning and Construction	11.550		<u>67,547</u>
Total Department of Commerce			67,547
Department of Defense			
Direct Program			
Air Force Defense Research Sciences Program	12.800		<u>31,874</u>
Total Department of Defense			31,874
Department of Housing and Urban Development			
Pass-through Programs			
Stark County Regional Planning Commission - Community Development Block Grants/Entitlement Grants	14.218	B-05-UC-39-0005	27,845
Stark County Regional Planning Commission - Community Development Block Grants/Entitlement Grants	14.218	B-05-UC-39-0005	<u>(275)</u>
Total			27,570
City of Cleveland - Empowerment Zones Program	14.244	Program 62955	255
City of Cleveland - Empowerment Zones Program	14.244	Program 64977	<u>180,214</u>
Total			<u>180,469</u>
Total Department of Housing and Urban Development			208,039

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of the Interior			
Pass-through Program			
Cuyahoga Valley National Recreation Area - Outdoor Recreation Acquisition, Development and Planning	15.916	440827	<u>1,162</u>
Total Department of the Interior			1,162
Department of Labor			
Pass-through Program			
Workforce Initiative Association - WIA Youth Activities	17.259	YOUTH-O/S-PY06-6673	<u>2,387</u>
Total Department of Labor			2,387
Department of State			
Pass-through Programs			
International Research & Exchange Board - Educational Exchange Teachers from Secondary and Postsecondary Levels and School Administrators	19.408	FY06-IEP-KENT-01	63,173
NAFSA - International Education Training and Research	19.430	COOP	2,340
Academy for Educational Development - Plus Program	NONE	S-ECAAE-04-GR-082	53,122
Academy for Educational Development - Plus Program	NONE	S-ECAAE-06-CA-121	<u>100,704</u>
Total			<u>153,826</u>
Total Department of State			219,339
Federal Aviation Administration			
Direct Program			
Airport Improvement Program	20.106		<u>56,435</u>
Total Federal Aviation Administration			56,435
National Foundation on the Arts and the Humanities			
Direct Programs			
Promotion of the Humanities Public Programs	45.164		1,000
Laura Bush 21st Century Librarian Program	45.313		212,313
Pass-through Program			
West Virginia Humanities Council - Promotion of the Humanities Federal/State Partnership	45.129	5108	<u>9,000</u>
Total National Foundation on the Arts and the Humanities			222,313
National Science Foundation			
Direct Programs			
Mathematical and Physical Sciences	47.049		8,066
Geosciences	47.050		717,870
Biological Sciences	47.074		81,164

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Pass-through Programs			
Stark County Educational Service Center - Mathematical and Physical Sciences	47.049	EHR-0226986	24,981
The Mathematical Association of America - Education and Human Resources	47.076	DUE-0230847	<u>1,558</u>
Total National Science Foundation			833,639
Small Business Administration			
Pass-through Programs			
Kent Regional Business Alliance - Small Business Development Center	59.037	ECDD 06-082B	27,072
Kent Regional Business Alliance - Small Business Development Center	59.037	445048	45,808
Ohio Business Development Organization - Small Business Development Center	59.037	MSBDC 2005-2006	(91)
Ohio Business Development Organization - Small Business Development Center	59.037	MSBDC 2005-06	7,986
Ohio Business Development Organization - Small Business Development Center	59.037	MSBDC 2007-08	37,166
Small Business Development Center	59.037	ECDD 06-124	67,433
Small Business Development Center	59.037	ECDD 07-142	<u>94,168</u>
Total Small Business Administration			279,542
Department of Education			
Direct Programs			
Fund for the Improvement of Postsecondary Education	84.116		86,182
Rehabilitation Long-Term Training	84.129		211,773
National Institute for Literacy	84.257		231,409
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.324		231,877
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325		988,760
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333		365,351
Preparing Tomorrow's Teachers to Use Technology	84.342		329,289
Pass-through Programs			
State of Ohio - Adult Education State Grant Program	84.002	062976-AB-SL-2006	29,425
State of Ohio - Adult Education State Grant Program	84.002	AB-SL 2005C	44,932
State of Ohio - Adult Education State Grant Program	84.002	AB-SL-2007	476,941
State of Ohio - Adult Education State Grant Program	84.002	062976-AB-SL-2006C	<u>72,291</u>
Total			623,589
State of Ohio - Vocational Education Basic Grants to States	84.048	VEPD-CB-06-K5	6,681
State of Ohio - Vocational Education Basic Grants to States	84.048	VEPD-CB-07-LB	<u>114,664</u>
Total			121,345
State of Ohio - Tech-Prep Education	84.243	062976-CETC-2006	43,539
State of Ohio - Tech-Prep Education	84.243	062976-3ETC-2007	<u>146,082</u>
Total			189,621
L-3 Titan Corporation - National Institute for Literacy	84.257	NIFL 05-591	10,665

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
University of Tennessee - National Institute for Literacy	84.257	OR8999-001.01	29,775
Pennsylvania State University - National Institute for Literacy	84.257	3322	49,171
World Education - National Institute for Literacy	84.257	X257T060001	40,439
Total			130,050
National Writing Project Corp - State Grants for Innovative Programs	84.298	97OH03	38,720
National Writing Project Corp - State Grants for Innovative Programs	84.298	97-OH03	(1,924)
Total			36,796
State of Ohio - Advanced Placement Program	84.330	CI667-MGM-07-01	47,026
Canton City Schools - Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	GEAR UP	5,431
State of Ohio - Teacher Quality Enhancement Grants	84.336	05-14	41,536
John Carroll University - Reading First State Grants	84.357	FY07 ffn	88,993
University of Akron - Mathematics and Science Partnerships	84.366	U215K040292	19,297
State of Ohio - Mathematics and Science Partnerships	84.366	CI667-OMAP-06-10	10,459
State of Ohio - Mathematics and Science Partnerships	84.366	C1667-OMAP-07-10	154,975
			184,731
State of Ohio - Improving Teacher Quality State Grants	84.367	04-16	(1,732)
State of Ohio - Improving Teacher Quality State Grants	84.367	06-21	3,799
State of Ohio - Improving Teacher Quality State Grants	84.367	05-15	93,198
State of Ohio - Improving Teacher Quality State Grants	84.367	06-22	44,634
State of Ohio - Improving Teacher Quality State Grants	84.367	TITLE IIA	1,244
State of Ohio - Improving Teacher Quality State Grants	84.367	06-20	41,257
State of Ohio - Improving Teacher Quality State Grants	84.367	04-18	(1,372)
			181,028
Total Department of Education			4,094,787
National Archives and Records Administration			
Direct Program			
National Historical Publications and Records Grants	89.003		193
			193
Total National Archives and Records Administration			193
Department of Health and Human Services			
Direct Program			
Advanced Education Nursing Traineeships	93.358		69,261

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Pass-through Programs			
Canton Regional Area Health Education Center - Model State-Supported Area Health Education Centers	93.107	28-C-2	16,152
Canton Regional Area Health Education Center - Model State-Supported Area Health Education Centers	93.107	29-C-2	10,905
Total			27,057
Ohio Developmental Disabilities Council - Developmental Disabilities Basic Support and Advocacy Grants	93.630	06-1/06	68,582
Ohio Developmental Disabilities Council - Developmental Disabilities Basic Support and Advocacy Grants	93.630	06-1/07	35,969
Total			104,551
Total Department of Health and Human Services			200,869
Total Other Programs			6,218,126
Total Federal Awards			48,230,382

Kent State University

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

(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, 2007, the University disbursed funds to subrecipients in the amount of \$1,584,225.

(c) Facilities and Administrative Costs

The University has approved, predetermined, facilities and administrative cost rates, which are 46% from July 1, 2006 to June 30, 2007 for on campus research and 26.0% from July 1, 2006 to June 30, 2007 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, 2007:

	CFDA Number	Advances	Outstanding Balance
Perkins Loan Program	84.038	\$5,351,065	\$24,132,184
Nursing Student Loan Program	93.364	\$561,635	\$2,048,084

(3) Federal Direct Loan Program

During the year ended June 30, 2007, 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 Number	Advances
Federal Direct Loan Advances	84.268	\$125,685,976

Kent State University

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

(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	\$ 48,230,382
Perkins Loan Funds excluded from federal grants on Statement	(33,974)
Nursing Student Loan Funds excluded from federal grants on Statement	(10,469)
Indirect costs excluded from federal grants on Statement	<u>9,061</u>
	<u>\$ 48,195,000</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, 2007, and have issued our report thereon dated October 12, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matters that we reported to management of Kent State University in a separate letter dated October 12, 2007.

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 12, 2007
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, 2007. 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, 2007.

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.

This report is intended solely for the information and use of The University's Board of Trustees, management, 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 12, 2007
Cleveland, Ohio

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

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?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
• Significant deficiency (s) identified that are not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
• Significant deficiency(s) identified that are not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> 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 section 510(a) of OMB Circular A-133?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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Identification of major programs: CFDA Number(s)	Name of Federal Program or Cluster	
Various	Student Financial Aid	
Various	Research & Development	
Various	TRIO Programs	
Dollar threshold used to distinguish between type A and type B programs:	\$1,446,911	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2007

Section II – Financial Statement Findings

1. Capitalization of costs related to the Banner implementation

Observation

The University continued the implementation of its Banner system in fiscal 2007. The University capitalized much of the hardware costs and certain software costs related to this project. The University originally expensed the costs involved in the acquisition and development of the new system. These fees included fees paid to third parties, costs associated with the acquisition of software and internal costs in the developmental phase of the project. Current accounting guidance requires the University to capitalize much of these costs. The University recorded an adjustment of approximately \$9.3 million to its financial statements as a result of the capitalization of these costs, of which \$4.7 million relates to the prior fiscal year.

Recommendation

We recommend that management review the accounting literature in advance of a major project to ensure that the University is appropriately applying guidance, particularly as it relates to the capitalization or expense recognition of certain costs.

Management's Response

We concur with the recommendation. In the future, the University will review the accounting literature in advance of a major project, to ensure that the accounting treatment of all project costs is appropriate.

Timeline: Effective 11/1/07

Responsibility: Brad Staats, Comptroller

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

Section III – Federal Award Findings and Questioned Costs

No current year findings.

PRIOR YEAR FINDINGS

Kent State University

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007**

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, 2007

Report of Independent Accountants

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 6.2.3.1 for the year ended June 30, 2007. 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, 2007, 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 ten percent.

All variances greater than ten percent had supporting documentation.

- D. We agreed each contribution of cash, services or goods, received by the University's Athletics Department and that constituted ten percent or greater of all contributions received by the University's Athletics Department during the year ended June 30, 2007 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, 2007 and compared revenue receipts to supporting documentation maintained by the University.

No exceptions were noted as a result of these comparisons.

- F. We selected five ticket office sales reports during the year ending June 30, 2007 and recalculated revenues totals related to tickets sold and agreed the ticket revenues to the general ledger. We recalculated totals of complimentary tickets and unsold tickets appearing on the ticket office sales reports.

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

We further reviewed the two football guarantees and one basketball guarantee during the year ending June 30, 2007 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, 2007 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, 2007. We specifically selected coaches for football, men's baseball, men's and women's basketball 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 four expense accounts for the year ended June 30, 2007 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 five 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, 2007. 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

December 6, 2007

Kent State University
Statement of Revenues and Expenditures – For the Intercollegiate Athletics Programs
For the Year Ended June 30, 2007

	Football	Men's Basketball	Women's Basketball	Other Sports Total	Non-Sports Total	Grand Total
Revenues:						
Sponsorship sales	\$ -	\$ -	\$ -	\$ -	\$ 328,303	\$ 328,303
Advertising	-	-	-	-	-	-
Camp revenue	-	-	-	-	74,090	74,090
Contest guarantees	550,000	55,000	6,000	22,000	-	633,000
Facility rentals	-	-	-	-	78,687	78,687
NCAA distributions	-	-	-	-	828,123	828,123
Other income	2,692	927	-	26,600	140,607	170,826
Royalties & commissions	-	-	-	207	105,717	105,924
Student activity fees	-	-	-	-	9,795,300	9,795,300
Ticket sales	260,616	220,114	15,824	15,000	39,008	550,562
Foundation gifts	114,272	43,955	21,255	145,808	22,576	347,866
Total revenues	927,580	319,996	43,079	209,615	11,412,411	12,912,681
Expenditures:						
Personnel services	838,611	535,934	408,537	1,235,513	2,149,926	5,168,521
Staff benefits	224,864	121,347	98,739	386,217	797,856	1,629,023
Travel	371,536	157,598	96,439	669,160	289,679	1,584,412
Recruiting	92,085	46,326	47,003	89,493	134	275,041
Entertainment	22,336	1,452	69	9,504	136,792	170,153
Supplies	393,301	43,779	28,299	268,886	336,338	1,070,603
Duplicating & printing	5,544	3,638	1,982	5,882	184,522	201,568
Telephone	12,862	9,673	5,523	19,296	72,829	120,183
Postage	11,351	8,320	6,120	19,814	32,259	77,864
Other information & communication	1,554	1,341	629	7,150	354,306	364,980
Maintenance & repairs	28,607	2,530	520	2,131	226,018	259,806
Rentals	38,243	968	690	12,675	173,743	226,319
Utilities	-	185	185	335	6,524	7,229
Student aid	1,830,180	344,802	278,710	2,121,321	89,525	4,664,538
Miscellaneous	371,377	51,909	17,852	72,681	437,009	950,828
Purchase for Resale	-	-	-	200	28,443	28,643
Capital expenditures	11,200	3,500	-	18,159	162,889	195,748
Total expenditures	4,253,651	1,333,302	991,297	4,938,417	5,478,792	16,995,459
(Deficiency) excess of revenues over expenditures	<u>\$ (3,326,071)</u>	<u>\$ (1,013,306)</u>	<u>\$ (948,218)</u>	<u>\$ (4,728,802)</u>	<u>\$ 5,933,619</u>	<u>\$(4,082,778)</u>

Kent State University
Summary Schedule of Financial Activities – Blue & Gold Club Operating Accounts
For the Year Ended June 30, 2007

Fund balance at July 1, 2006	\$ 220,148
Total receipts/revenues	506,195
Total disbursements/expenses	<u>(444,993)</u>
Excess of receipts/revenues over disbursements/expenses	<u>61,202</u>
Fund balance at June 30, 2007	<u>\$ 281,350</u>

Kent State University
Summary Schedule of Financial Activities – Athletics – Income Funds
For the Year Ended June 30, 2007

Fund balance at July 1, 2006	\$ 134,134
Total receipts/revenues	106,327
Total disbursements/expenses	<u>(119,160)</u>
Excess of disbursements/expenses over receipts/revenues	<u>(12,833)</u>
Fund balance at June 30, 2007	<u>\$ 121,301</u>

Kent State University
Summary Schedule of Financial Activities – Restricted Funds
For the Year Ended June 30, 2007

Fund balance at July 1, 2006	\$ 1,705,802
Total receipts/revenues	552,692
Total disbursements/expenses	<u>(1,546,549)</u>
Excess of disbursements/expenses over receipts/revenues	<u>(993,857)</u>
Fund balance at June 30, 2007	<u>\$ 711,945</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 15, 2008**