

# **Kent State University**

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## **Financial Report**

**June 30, 2011**





# Dave Yost • Auditor of State

Board of Trustees  
Kent State University  
103 Michael Schwartz Center  
P.O. Box 5190  
Kent, Ohio 44242

We have reviewed the *Independent Auditor's Report* of the Kent State University, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

April 18, 2012

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**KENT STATE UNIVERSITY**  
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# KENT STATE UNIVERSITY

## Management's Discussion and Analysis (unaudited) As of June 30, 2011 and 2010

This section of Kent State University's ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2011 and 2010. 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, the 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.

Under the provision of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Kent State University Foundation (the "Foundation") has been determined to be a component unit of the University. Accordingly, the Foundation is discretely presented in the University's Financial Statements. The Foundation has been excluded from Management's Discussion and Analysis.

### **Noteworthy Financial Activity**

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2011 as compared to the previous year. The University's total assets increased over the prior year by \$119.3 million to \$1,116 million while total liabilities increased by \$27.3 million to \$436.1 million. Highlights of significant financial events are as follows:

- Fall 2010 enrollment increased by 7.56% over the prior year to a total of 41,365 students.
- The University's investments increased by \$66.3 million to \$331.9 million due to increases in market values as a result of improved market conditions.

The following sections provide additional details on the University's 2011 financial results and future factors that may impact the University.

# KENT STATE UNIVERSITY

## Management's Discussion and Analysis (unaudited)

As of June 30, 2011 and 2010

### Statement of Net Assets

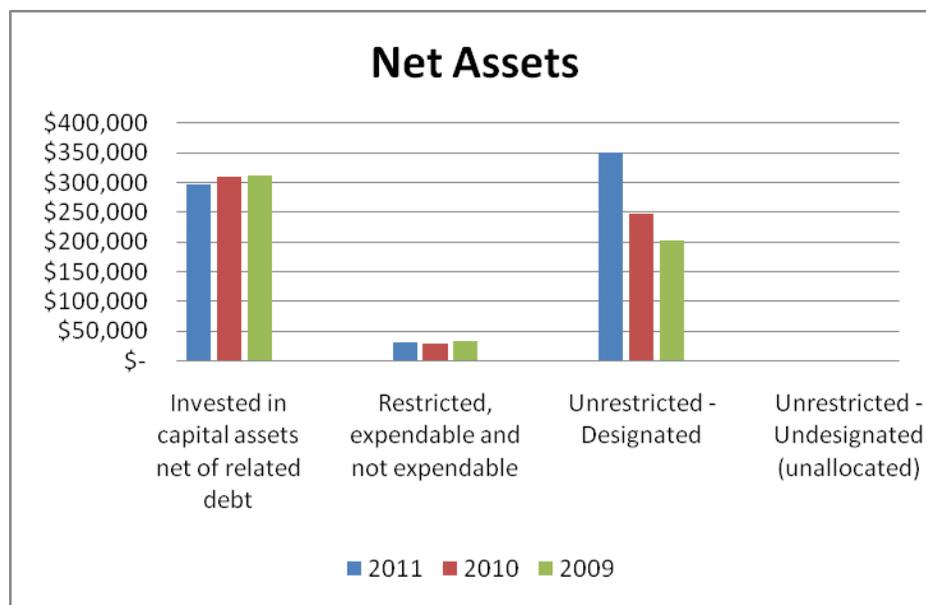
The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment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

### Kent State University Condensed Statement of Net Assets as of June 30, 2011, 2010 and 2009 (in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
Current and other assets	\$ 515,425	\$ 417,391	\$ 400,423
Capital assets	600,990	579,676	574,484
<b>Total assets</b>	<u>\$ 1,116,415</u>	<u>\$ 997,067</u>	<u>\$ 974,907</u>
<b>LIABILITIES</b>			
Long-term debt	\$ 326,014	\$ 296,569	\$ 276,019
Other	110,074	112,197	151,232
<b>Total liabilities</b>	<u>\$ 436,088</u>	<u>\$ 408,766</u>	<u>\$ 427,251</u>
<b>NET ASSETS</b>			
Invested in capital assets net of related debt	\$ 297,649	\$ 310,124	\$ 312,422
Restricted, expendable and not expendable	31,084	30,201	32,596
Unrestricted:			
Designated	350,771	247,181	201,843
Undesignated (unallocated)	823	795	795
<b>Total net assets</b>	<u>\$ 680,327</u>	<u>\$ 588,301</u>	<u>\$ 547,656</u>

# KENT STATE UNIVERSITY

## Management's Discussion and Analysis (unaudited) As of June 30, 2011 and 2010



### **2011 Versus 2010**

At June 30, 2011, the University's current assets of \$281.4 million were sufficient to cover current liabilities of \$102.3 million (current ratio of 2.8). At June 30, 2010, current assets of \$236.6 million were sufficient to cover current liabilities of \$99.8 million (current ratio of 2.4).

At June 30, 2011, total University assets were \$1,116.4 million, compared to \$997.1 million at June 30, 2010. The increase of \$119.3 million is mainly attributed to an increase in the market value of investments of \$66.3 million and an increase in cash of \$27 million. See the statement of cash flows for more detail related to changes in cash.

University liabilities total \$436.1 million at June 30, 2011 compared to \$408.8 million at June 30, 2010. This increase is primarily due to an increase of \$29.4 million in long-term debt. During 2011, the University issued \$25.4 million in Ohio Air Quality Development Authority energy bonds to fund various energy efficiency and conservation projects.

Total net assets increased by \$92.0 million to \$680.3 million. Unrestricted net assets total \$351.6 million, 99.8% of which (\$350.8 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

### **2010 Versus 2009**

At June 30, 2010, the University's current assets of \$236.6 million were sufficient to cover current liabilities of \$99.8 million (current ratio of 2.4). At June 30, 2009, current assets of \$196.9 million were sufficient to cover current liabilities of \$138.0 million (current ratio of 1.4).

## **KENT STATE UNIVERSITY**

### **Management's Discussion and Analysis (unaudited)**

**As of June 30, 2011 and 2010**

At June 30, 2010, total University assets were \$997.1 million, compared to \$974.9 million at June 30, 2009. The increase of \$22.2 million is attributed to an increase in the market value of investments of \$20.9 million.

University liabilities total \$408.8 million at June 30, 2010 compared to \$427.3 million at June 30, 2009. This decrease is primarily due to an increase of \$21.0 million in long-term debt offset by a decrease of \$11.1 million in accounts payable and accrued liabilities and a decrease in the fair value of derivative instruments caused by the termination of SWAP agreements. During 2010, the University issued \$214.9 million in bonds which refunded Series 2009A bonds, Series 2008A bonds, and Series 2000 bonds. Associated interest rate swaps were also terminated and the termination payment of \$23.9 million was included in the Series 2009B issuance. The decrease in accounts payable and accrued liabilities is primarily due to a reduction of \$6.1 million in the accrued liability for the University Employee Separation Plan which was offered during 2009.

Total net assets increased by \$40.6 million to \$588.3 million. Unrestricted net assets total \$248.0 million, 99.7% of which (\$247.2 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

### **Statement of Revenues, Expenses and Changes in Net Assets**

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.

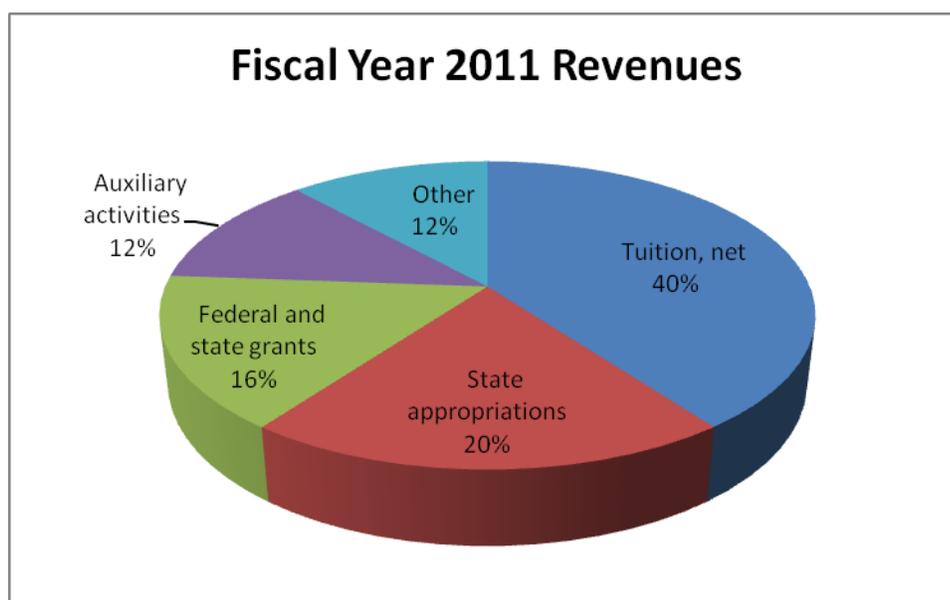
## KENT STATE UNIVERSITY

### Management's Discussion and Analysis (unaudited) As of June 30, 2011 and 2010

**Kent State University**  
**Condensed Statement of Revenues, Expenses and Changes in Net Assets**  
**for the years ended June 30, 2011, 2010 and 2009**  
**(in thousands)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Revenues</b>			
Tuition, net	\$ 274,994	\$ 249,107	\$ 205,682
State appropriations and Federal Fiscal Stabilization Funds	140,254	137,646	138,552
Federal and state grants	110,724	94,114	78,761
Auxiliary activities	83,164	78,702	84,404
Other	81,411	77,442	(2,683)
<b>Total revenues</b>	<u><u>\$ 690,547</u></u>	<u><u>\$ 637,011</u></u>	<u><u>\$ 504,716</u></u>
<b>Expenses</b>			
Instruction	\$ 202,592	\$ 197,230	\$ 190,587
Research	20,532	18,993	20,798
Institutional support	55,067	53,276	52,606
Scholarships and fellowships	43,600	37,642	27,062
Other	276,730	289,225	277,162
<b>Total expenses</b>	<u><u>\$ 598,521</u></u>	<u><u>\$ 596,366</u></u>	<u><u>\$ 568,215</u></u>

The following chart shows the breakdown of total revenues. Tuition is the largest source of revenue at 40% followed by State appropriations at 20%.



## KENT STATE UNIVERSITY

### Management's Discussion and Analysis (unaudited) As of June 30, 2011 and 2010

#### 2011 Versus 2010 During the year ended June 30, 2011:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts. Revenue from tuition and fees increased during the current year due to increased enrollment and a 3.5% increase in tuition. Enrollment was higher than the prior year by 4-8% in all semesters.

State appropriations were the most significant non-operating revenue. During 2011, state appropriations totaled \$140.3 million which included \$20.2 million of Federal fiscal stabilization funds.

Operating expenditures, including depreciation of \$37.3 million, totaled \$588.1 million. Instruction expenses increased primarily due to salary increases.

#### 2010 Versus 2009 During the year ended June 30, 2010:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts. Revenue from tuition and fees increased during the current year due to increased enrollment and a 3.5% increase in tuition. Enrollment was higher than the prior year by 8-10% in all semesters.

State appropriations were the most significant non-operating revenue. During 2010, state appropriations totaled \$137.6 million which included \$19.4 million of Federal fiscal stabilization funds.

Operating expenditures, including depreciation of \$40.2 million, totaled \$556.6 million. Instruction expenses increased primarily due to salary increases.

#### Statement of Cash Flows

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.

#### Kent State University Condensed Statement of Cash Flows for the years ended June 30, 2011, 2010 and 2009 (in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash (used in)/provided by:			
Operating activities	\$ (137,438)	\$ (133,950)	\$ (126,114)
Investing activities	(23,547)	11,608	19,487
Capital and related financing activities	(31,818)	(54,604)	(53,873)
Non-capital financing activities	<u>219,786</u>	<u>204,057</u>	<u>185,015</u>
Net increase in cash	26,983	27,111	24,515
Cash and cash equivalents, beginning of year	<u>81,276</u>	<u>54,165</u>	<u>29,650</u>
Cash and cash equivalents, end of year	<u>\$ 108,259</u>	<u>\$ 81,276</u>	<u>\$ 54,165</u>

# KENT STATE UNIVERSITY

## Management's Discussion and Analysis (unaudited) As of June 30, 2011 and 2010

**2011 Versus 2010** During the year ended June 30, 2011:

Major sources of cash included student tuition and fees (\$215.3 million), state appropriations (\$120.1 million), Federal Fiscal Stabilization funds (\$20.1 million), auxiliary activities (\$83.2 million), Federal Pell grants (\$70.5 million) and grants and contracts (\$50.8 million). The largest payments were for suppliers (\$228.8 million) and employees (\$268.8 million).

**2010 Versus 2009** During the year ended June 30, 2010:

Major sources of cash included student tuition and fees (\$196.6 million), state appropriations (\$118.3 million), Federal Fiscal Stabilization funds (\$19.4 million), auxiliary activities (\$79.3 million) Federal Pell grants (\$55.8 million) and grants and contracts (\$48.2 million). The largest payments were for suppliers (\$210.1 million) and employees (\$256.0 million).

### **Capital Asset and Debt Administration**

#### **Capital Assets**

At the end of 2011, the University had invested \$601.0 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 \$21.3 million, or 3.7 percent, over last year.

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

	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Land	\$ 13.6	\$ 11.7	\$ 11.3
Equipment	41.7	45.1	52.0
Buildings and improvements	519.6	499.9	481.1
Construction in progress	26.1	23.0	30.1
<b>Total</b>	<b><u>\$ 601.0</u></b>	<b><u>\$ 579.7</u></b>	<b><u>\$ 574.5</u></b>

In fiscal year 2011, the University completed the construction of Risman Plaza as well as various renovations at the library. The University also completed the renovation of Stewart Hall on the Kent campus (the new Information Services building) and the Tuscarawas Performing Arts Center on the Tuscarawas campus.

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

## KENT STATE UNIVERSITY

### Management's Discussion and Analysis (unaudited)

As of June 30, 2011 and 2010

#### Long-term Debt

At year end, the University had \$326.0 million in bonds and notes outstanding—an increase of \$29.4 million over last year. This increase is primarily due to the University entering into several loan agreements with the Ohio Air Quality Development Authority totaling \$25.4 million to fund various energy efficiency and conservation projects at the Kent and regional campuses. 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>2011</u>	<u>2010</u>	<u>2009</u>
General receipts bonds (backed by the University)	\$ 280.9	\$ 287.9	\$ 265.9
Tax Revenue Energy Bonds	26.6	1.3	-
Capital leases	18.5	7.4	10.1
	<u>\$ 326.0</u>	<u>\$ 296.6</u>	<u>\$ 276.0</u>

#### Factors Affecting Future Periods

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, legislative restrictions on tuition, changes in state support, and the ability to manage rising costs. Due to the challenges in the State of Ohio, the University is anticipating a 9.8% decrease in state funding for fiscal year 2012. In anticipation of decreased state funding, the University continues to identify and enact efficiencies and cost savings in a number of areas. Despite these cost savings, the University had to enact a 3.5% tuition increase to help offset the state funding cuts. The University continues to focus on student recruiting and retention as well as funding raising and additional research to improve the position of the University.

One significant area of focus continuing into future years is deferred capital maintenance. Due to the age of the buildings and the decline in capital funding, many of the buildings throughout the campus are in critical need of repair. The deferred maintenance has been estimated at \$353 million. The University is currently considering a bond issue to address the deferred maintenance, ADA compliance, and improvements in energy efficiency.

## Independent Auditor's Report

To the Board of Trustees  
Kent State University

We have audited the accompanying statement of net assets of Kent State University (the "University") as of June 30, 2011 and June 30, 2010 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Kent State University Foundation (the "Foundation"), which represent all the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 3, the financial statements include investments valued at approximately \$118,000,000 (17 percent of net assets) and \$100,000,000 (10 percent of net assets) as of June 30, 2011 and 2010, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kent State University as of June 30, 2011 and 2010 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2011 on our consideration of Kent State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for year ended June 30, 2011. 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 opinions 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 audit.

To the Board of Trustees  
Kent State University

The management's discussion and analysis presented on pages 1 through 8 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for the purpose 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.

*Plante & Moran, PLLC*

Toledo, Ohio  
October 14, 2011

**STATEMENT OF NET ASSETS**  
**as of June 30, 2011 and 2010**  
(in thousands)

	<u>University</u>		<u>University Related Foundation</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 83,792	\$ 81,276	\$ 864	\$ 2,236
Short-term investments	146,366	112,768	122,811	105,691
Accounts and pledges receivable, net	44,350	36,087	2,586	5,115
Inventories	1,923	1,989	-	-
Deposits and prepaid expenses	4,153	3,706	-	-
Accrued interest receivable	807	727	-	-
Total current assets	<u>281,391</u>	<u>236,553</u>	<u>126,261</u>	<u>113,042</u>
Noncurrent assets:				
Restricted cash	24,467	-	-	-
Student loans receivable, net	20,762	22,562	-	-
Long-term investments	185,524	152,861	7,322	5,618
Long-term pledges receivable, net	-	-	4,921	4,160
Capital assets, net	600,990	579,676	1,464	1,258
Other assets	2,988	3,182	481	499
Deferred outflow of resources	293	2,233	-	-
Total noncurrent assets	<u>835,024</u>	<u>760,514</u>	<u>14,188</u>	<u>11,535</u>
Total assets	<u>\$ 1,116,415</u>	<u>\$ 997,067</u>	<u>\$ 140,449</u>	<u>\$ 124,577</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	30,437	32,364	620	668
Accrued payroll	12,350	12,187	-	-
Payroll taxes and accrued fringe benefits	14,769	13,526	-	-
Deferred revenue and deposits	30,980	31,923	-	-
Derivative instrument - swap liability	293	2,233	-	-
Current portion of long-term debt	13,455	7,522	-	-
Total current liabilities	<u>102,284</u>	<u>99,755</u>	<u>620</u>	<u>668</u>
Noncurrent liabilities:				
Accrued compensated absences	19,363	18,222	-	-
Accrued liabilities	-	-	3,669	3,411
Long-term unearned fees and deposits	1,882	1,742	7,089	6,715
Long-term debt	312,559	289,047	-	-
Total noncurrent liabilities	<u>333,804</u>	<u>309,011</u>	<u>10,758</u>	<u>10,126</u>
Total liabilities	<u>436,088</u>	<u>408,766</u>	<u>11,378</u>	<u>10,794</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	297,649	310,124	1,464	1,258
Restricted, nonexpendable	5,883	5,883	31,367	30,377
Restricted, expendable	25,201	24,318	90,585	80,069
Unrestricted	351,594	247,976	5,655	2,079
Total net assets	<u>680,327</u>	<u>588,301</u>	<u>129,071</u>	<u>113,783</u>
Total liabilities and net assets	<u>\$ 1,116,415</u>	<u>\$ 997,067</u>	<u>\$ 140,449</u>	<u>\$ 124,577</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, 2011 and 2010**  
**(in thousands)**

	University		University Related Foundation	
	2011	2010	2011	2010
<b>OPERATING REVENUES</b>				
Student tuition and fees	\$ 340,274	\$ 304,911	\$ -	\$ -
Less scholarship allowances	(65,280)	(55,804)	-	-
Net student tuition and fees	<u>274,994</u>	<u>249,107</u>	<u>-</u>	<u>-</u>
Federal grants and contracts	31,115	28,553	-	-
State grants and contracts	9,119	9,746	-	-
Local grants and contracts	394	565	-	-
Nongovernmental grants and contracts	11,873	7,616	-	-
Sales and services of educational departments	9,658	8,969	-	-
Auxiliary activities - Net	83,164	78,702	-	-
Other operating revenues	-	-	28	135
Total operating revenues	<u>420,317</u>	<u>383,258</u>	<u>28</u>	<u>135</u>
<b>OPERATING EXPENSES</b>				
Instruction	202,592	197,230	-	-
Research	20,532	18,993	-	-
Public service	16,733	19,158	-	-
Academic support	53,678	45,418	-	-
Student services	28,375	25,953	-	-
Institutional support	55,067	53,276	14,725	15,776
Scholarships and fellowships	43,600	37,642	2,792	2,292
Operation and maintenance of plant	43,556	38,426	-	-
Auxiliary activities	86,651	80,305	-	-
Depreciation	37,304	40,217	1	4
Total operating expenses	<u>588,088</u>	<u>556,618</u>	<u>17,518</u>	<u>18,072</u>
Operating loss	<u>(167,771)</u>	<u>(173,360)</u>	<u>(17,490)</u>	<u>(17,937)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	120,067	118,275	-	-
Federal Fiscal Stabilization funds	20,187	19,371	-	-
Federal Pell Grant revenue	70,490	55,815	-	-
Gifts	9,080	10,617	12,368	12,657
Investment income	42,795	32,450	21,176	11,031
Interest on capital asset-related debt	(10,433)	(35,814)	-	-
Other nonoperating revenues/expenses	3,194	(3,934)	(766)	(151)
Net nonoperating revenues	<u>255,380</u>	<u>196,780</u>	<u>32,778</u>	<u>23,537</u>
Income before other revenues, expenses, gains or losses	<u>87,609</u>	<u>23,420</u>	<u>15,288</u>	<u>5,600</u>
Capital appropriation	4,417	17,225	-	-
Increase in net assets	<u>92,026</u>	<u>40,645</u>	<u>15,288</u>	<u>5,600</u>
<b>NET ASSETS</b>				
Net assets, beginning of year	588,301	547,656	113,783	108,183
Net assets, end of year	<u>\$ 680,327</u>	<u>\$ 588,301</u>	<u>\$ 129,071</u>	<u>\$ 113,783</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, 2011 and 2010**  
**(in thousands)**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from students for tuition and fees	\$ 215,300	\$ 196,573
Cash received from auxiliary activities	83,174	79,323
Cash received from other sources	8,930	6,402
Grants and contracts	50,799	48,212
Federal student loan funds received	-	14
Student loans granted, net of repayments	1,956	1,591
Cash paid to employees	(268,783)	(255,972)
Cash paid to suppliers	(228,814)	(210,093)
Net cash used in operating activities	<u>(137,438)</u>	<u>(133,950)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturities of investments	84,873	95,317
Purchases of investments	(121,584)	(86,149)
Interest received	13,164	2,440
Net cash (used in) provided by investing activities	<u>(23,547)</u>	<u>11,608</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Net proceeds from bond issuance	25,388	235,710
Early extinguishment of bonds	-	(205,915)
Principal payments under debt obligations, net	(7,522)	(8,763)
Interest and swap termination fee paid	(12,863)	(43,185)
Capital appropriations	1,787	125
Purchases of capital assets	(41,779)	(28,642)
Other payments	3,171	(3,934)
Net cash used in capital and related financing activities	<u>(31,818)</u>	<u>(54,604)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from State appropriations and Federal Fiscal Stabilization Funds	140,254	137,646
Gifts received from KSU Foundation	9,042	10,596
Cash received from Federal Pell grants	70,490	55,815
Net cash provided by noncapital financing activities	<u>219,786</u>	<u>204,057</u>
Net increase in cash and cash equivalents	26,983	27,111
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>81,276</u>	<u>54,165</u>
<b>CASH AND CASH EQUIVALENTS, (INCLUDING RESTRICTED CASH), END OF YEAR</b>	<u>\$ 108,259</u>	<u>\$ 81,276</u>

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

**KENT STATE UNIVERSITY**  
**STATEMENT OF CASH FLOWS--CONTINUED**  
**for the years ended June 30, 2011 and 2010**  
**(in thousands)**

	<b>2011</b>	<b>2010</b>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:		
Operating loss	<u>\$ (167,771)</u>	<u>\$ (173,360)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	37,304	40,217
Change in assets and liabilities:		
Accounts receivable, net	(8,225)	(4,021)
Inventories	66	(127)
Deposits and prepaid expenses	(446)	(77)
Student loans receivable, net	1,800	2,074
Accounts payable and accrued liabilities	(1,910)	(4,316)
Accrued payroll	163	662
Payroll taxes and accrued fringe benefits	1,243	603
Unearned fees and deposits	(803)	3,530
Accrued compensated absences	1,141	865
Total change in assets and liabilities	<u>(6,971)</u>	<u>(807)</u>
Net cash used in operating activities	<u><u>\$ (137,438)</u></u>	<u><u>\$ (133,950)</u></u>

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

# KENT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2011 and 2010

(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).

The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to the Foundation financial information included in the University's financial report to account for these differences.

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 it holds and invests 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.

# KENT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

(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.
- 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.

(c) Upcoming Accounting Pronouncements

**Service concession arrangements:** In December 2010 the GASB issued Statement Number 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA)*. An SCA is an agreement between a College/University and another legally separate College/University or private sector entity in which two things happen. First, the College/University transfers to the other entity the right and related obligation to provide public services through the use of a public asset (such as using a part of a university facility as a bookstore) in exchange for significant consideration from the other entity. In the context of these agreements the College/University that transfers rights and obligations is referred to as the transferor. The entity to which these rights and obligations are transferred is referred to as the operator. Second, this operator—whether it is in the public or private sector—collects fees from the users or customers of the public asset (for example, students at the university/college). Finally, the transferor maintains control over the services provided. For example, the College/University has the ability to modify or approve the rates that can be charged for the services and the type of services that are provided.

# KENT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

For an SCA that involves an existing facility, the transferor should continue to report the capital asset. For a new facility or an improvement to an existing facility, the transferor should report the new facility or the improvement as a capital asset at fair value when the facility is placed in operation. The transferor should also report any related contractual obligations as liabilities. Finally, the transferor should report the difference between those two amounts as a deferred inflow of resources. This pronouncement must be applied for years that begin after December 15, 2011.

**Reporting Entity Standards:** In December 2010, the GASB issued Statement Number 61, *Financial Reporting Entity: Omnibus*. This standard is intended to improve the information presented about the financial reporting entity, which is made up of the College/University financial reporting entity and related entities (component units). The statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criteria, a financial benefit or burden relationship is also needed between the College/University and that organization for it to be included in the reporting entity as a component unit. The statement also modifies the criteria for reporting component units as if they were part of the College/University (ie: blending). Blending should be used when the College/University and the component unit have a financial benefit or burden relationship, or management has operational responsibility for the component units. Additionally, for equity interests in legally separate organizations, the entity is required to report its interest as “restricted net assets – nonspendable.” This standard is effective for financial statements for reporting periods beginning after June 15, 2012; however, earlier application is encouraged.

**Private sector accounting rules:** In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This changes the requirement for the College/University to apply any private sector accounting guidance that existed as of November 30, 1989 and instead incorporates all such guidance in this statement. The College/University will no longer have the ability to choose to continue to follow FASB statements written after that date, although such guidance still qualifies as “other accounting literature” in the GAAP hierarchy. This pronouncement must be applied for years that begin after December 15, 2011.

**Deferred inflows/outflows and Net Position:** In June 2011, the GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard provides financial reporting guidance for deferred inflows and outflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the College/University that is applicable to a future reporting period, and an acquisition of net assets by the College/University that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The standard also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions for this standard are effective for financial statements for periods beginning after December 15, 2011.

# KENT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

**Derivative Instruments – Termination Provisions:** In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider and sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

### (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. Restricted cash is the unspent bond proceeds held in trust related to the energy conservation projects.

#### (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) Accounts Receivable

Accounts receivable are for transactions relating to tuition and fees, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services. Accounts receivable are recorded net of contractual allowances and allowances for uncollectible accounts.

#### (d) Inventories

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

# KENT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

(e) 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.

(f) Revenue Recognition

State appropriations are recognized when received or made available. Restricted funds are recognized as revenue only to the extent expended. Gifts and interest on student loans are recognized when received. The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions.

(g) 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.

(h) Deferred Revenue

Deferred revenue includes tuition and fees relating to summer sessions that are conducted in July and August. Deferred revenue also includes amounts received in advance from grant and contract sponsors that have yet been earned under the terms of the agreements. The amounts which are deferred are recognized as revenue in the following fiscal year.

(i) Capital Assets

Capital assets are stated at cost at the time of purchase or fair value at date of gift. Depreciation of plant physical properties is provided on a straight-line basis over the estimated useful lives (3 to 40 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.

(j) Operating Versus Nonoperating Revenues and Expenses

The University defines operating activities as reported on the statement of revenues, expenses, and changes in net assets as those that generally result from exchange transactions such as payments received for providing goods or services. All of the University's expenses are from exchange transactions. Certain significant revenue streams relied on for operations are reported as non-operating revenues as required by GASB Statement No. 35, including state appropriations, investment income, and state capital grants.

# KENT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

(k) Reclassification

Certain amounts from the prior year have been reclassified to conform with the current year's presentation.

(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
- Mutual funds and mutual fund pools
- Money market funds

US Government and Agency securities are invested through trust agreements with banks that 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 that 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.

Custodial credit risk on deposits with banks is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial credit risk. At June 30, 2011 and 2010, the bank amount of the University's deposits was \$64,930 and \$36,438, respectively. Of that amount, \$31,862 and \$4,947, respectively, was insured. The remaining \$33,068 and \$31,491 at June 30, 2011 and 2010, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized.

The values of investments at June 30, 2011 and 2010 are as follows:

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

	2011	
	Market Value	Cost
Common stock	\$ 175,411	\$ 155,751
US government agency obligations	3,638	4,055
US government obligations	8,322	7,640
Corporate bonds and notes	2,242	2,224
Equity mutual funds	27,107	12,277
Bond mutual funds	79,091	76,461
State Treasury Asset Reserve of Ohio	36,079	36,079
Total	<u>\$ 331,890</u>	<u>\$ 294,487</u>

	2010	
	Market Value	Cost
Common stock	\$ 141,650	\$ 145,863
US government agency obligations	7,238	7,024
US government obligations	6,269	6,205
Corporate bonds and notes	1,845	1,827
Equity mutual funds	21,756	11,946
Bond mutual funds	77,674	75,716
State Treasury Asset Reserve of Ohio	9,197	9,197
Total	<u>\$ 265,629</u>	<u>\$ 257,778</u>

Included in common stock above are alternative investments of approximately \$118 million and \$100 million as of June 30, 2011 and June 30, 2010, respectively. The alternative investments are primarily private equity and hedge funds. Alternative investments do not have readily available market prices. These investments are carried at estimated fair value provided by the fund's management. The University believes that the carrying amounts are reasonable estimates of fair value as of the year end. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material.

Net appreciation/depreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2011 the University realized a net loss of (\$608). During the year ended June 30, 2010 the University realized a net gain of \$18,862. The calculation of realized gains and losses is independent of the net depreciation 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, 2011 was \$36,795. In fiscal year 2010, the net appreciation was \$37,403. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

The unrealized appreciation on investments for the year ended June 30, 2011 was \$47,950. The unrealized appreciation on investments for the year ended June 30, 2010 was \$7,850.

The components of the net investment income are as follows:

	Interest and dividends, net	Net appreciation (depreciation) in market value of investments	Net investment income (loss)
Total 2011	\$6,000	\$36,795	\$42,795
Total 2010	\$5,738	\$26,712	\$32,450

### 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.

The maturities of the University's interest-bearing investments at June 30, 2011 are as follows:

	<b>Investment Maturities (in years)</b>				
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 to 5</b>	<b>6 to 10</b>	<b>More than 10</b>
US government obligations	\$ 8,322	\$ 3,054	\$ 4,681	\$ -	\$ -
US government agency obligations	3,638	166	1,575	486	1,998
Corporate bonds and notes	2,242	869	927	-	446
Bond mutual funds	79,091	12,448	31,432	23,456	11,755
Total	<u>\$ 93,293</u>	<u>\$ 16,537</u>	<u>\$ 38,615</u>	<u>\$ 23,942</u>	<u>\$ 14,199</u>

The maturities of the University's interest-bearing investments at June 30, 2010 are as follows:

	<b>Investment Maturities (in years)</b>				
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 to 5</b>	<b>6 to 10</b>	<b>More than 10</b>
US government obligations	\$ 6,269	\$ 1,954	\$ 4,315	\$ -	\$ -
US government agency obligations	7,238	1,455	5,218	565	-
Corporate bonds and notes	1,845	732	817	296	-
Bond mutual funds	77,674	2,610	13,454	31,269	30,341
Total	<u>\$ 93,026</u>	<u>\$ 6,751</u>	<u>\$ 23,804</u>	<u>\$ 32,130</u>	<u>\$ 30,341</u>

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

**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, 2011 are as follows:

Credit Rating (Moody's)	Total	Government Obligations	US Agency Obligations	Corporate Bonds	Bond Mutual Funds
AAA	\$ 43,910	\$ 8,322	\$ 3,638	\$ 371	\$ 31,579
AA+	3,092	-	-	36	3,056
AA	6,060	-	-	11	6,049
AA-	1,966	-	-	223	1,743
A+	3,416	-	-	186	3,230
A	7,040	-	-	461	6,579
OTHER	27,809	-	-	954	26,855
<b>Total</b>	<b>\$ 93,293</b>	<b>\$ 8,322</b>	<b>\$ 3,638</b>	<b>\$ 2,242</b>	<b>\$ 79,091</b>

The credit ratings of the University’s interest-bearing investments at June 30, 2010 are as follows:

Credit Rating (Moody's)	Total	Government Obligations	US Agency Obligations	Corporate Bonds	Bond Mutual Funds
AAA	\$ 45,393	\$ 6,269	\$ 7,238	\$ 474	\$ 31,412
AA+	8,839	-	-	-	8,839
AA	5,297	-	-	40	5,257
AA-	4,052	-	-	181	3,871
A+	4,565	-	-	-	4,565
A	4,450	-	-	349	4,101
OTHER	20,430	-	-	801	19,629
<b>Total</b>	<b>\$ 93,026</b>	<b>\$ 6,269</b>	<b>\$ 7,238</b>	<b>\$ 1,845</b>	<b>\$ 77,674</b>

**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, 2011 and June 30, 2010, the University had no exposure to foreign currency risk.

**Concentration of credit risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University held the following investments that had fair values of 5 percent or more of total investments as of June 30, 2011 and 2010:

	June 30, 2011	June 30, 2010
PIMCO Total Return	\$20,031	\$24,680
Met West Total return Fund	\$20,222	\$27,556
Western Asset Institutional Government Reserve	\$21,134	\$21,118

**KENT STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2011 and 2010  
(in thousands)**

**(4) Accounts Receivable**

Accounts receivable consist of the following, as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Sponsor accounts	\$ 9,041	\$ 7,544
Student accounts	25,916	19,906
Other	12,293	11,537
	<u>\$ 47,250</u>	<u>\$ 38,987</u>
Less allowances for loss on accounts receivable	<u>(2,900)</u>	<u>(2,900)</u>
Accounts receivable, net	<u><u>\$ 44,350</u></u>	<u><u>\$ 36,087</u></u>

In addition, the University has student loans receivable of \$25,561 and \$27,517 as of June 30, 2011 and 2010, respectively. The related allowances as of June 30, 2011 and 2010 are \$4,799 and \$4,955, 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 consist of the following as of June 30, 2011:

	<u>2010</u>	Additions/ <u>Transfers</u>	Net <u>Retirements</u>	<u>2011</u>
Land	\$ 11,679	\$ 2,124	\$ 186	\$ 13,617
Infrastructure	95,761	5,212	-	100,973
Buildings	702,712	39,424	480	741,656
Equipment	197,397	8,977	3,552	202,822
CIP	22,956	3,729	573	26,112
	<u>\$ 1,030,505</u>	<u>\$ 59,466</u>	<u>\$ 4,791</u>	<u>\$1,085,180</u>
Less accumulated depreciation	450,829	36,789	3,428	484,190
Capital assets, net	<u><u>\$ 579,676</u></u>	<u><u>\$ 22,677</u></u>	<u><u>\$ 1,363</u></u>	<u><u>\$ 600,990</u></u>

Included in depreciation expense of \$37,304 for the year ended June 30, 2011 is a loss of \$515 from the disposal of obsolete capital assets.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

Capital assets consist of the following as of June 30, 2010:

	2009	Additions/ Transfers	Net Retirements	2010
Land	\$ 11,322	\$ 357	-	\$ 11,679
Infrastructure	91,992	3,769	-	95,761
Buildings	664,882	38,013	183	702,712
Equipment	197,268	10,394	10,265	197,397
Construction-in-progress	30,080	(7,124)	-	22,956
	\$ 995,544	\$ 45,409	\$ 10,448	\$ 1,030,505
Less accumulated depreciation	421,060	39,717	9,948	450,829
Capital assets, net	\$ 574,484	\$ 5,692	\$ 500	\$ 579,676

Included in depreciation expense of \$40,217 for the year ended June 30, 2010 is a loss of \$500 from the disposal of obsolete capital assets.

### (6) Long-term Liabilities

#### **Long-term Debt**

In August 2008, the University issued \$60,000 in Series 2008B General Receipts bonds. The proceeds from the bond sale were used for the early redemption of Series 2002 General Receipts bond with an outstanding principal balance of \$60,000. As of June 30, 2011, the outstanding principal of the 2008B General Receipts bonds was \$60,000.

In September, 2009, the University issued \$214,910 in Series 2009B General Receipts bonds. The proceeds from the bond sale were used for a current refunding of the Series 2009A General Receipts bonds and the Series 2008A General Receipts bonds, as well as an advance refunding of the Series 2000 General Receipts bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the University's long-term obligations. The total refunding was undertaken to achieve debt service savings, as well as allowing the University to convert the synthetic fixed rate bonds to natural fixed rates, thereby eliminating risk associated with interest rate hedge arrangements and stabilizing the interest expenses incurred by the University. The total refunding transaction reduced debt service payments by \$34,210 and resulted in an economic gain of \$22,092. Of the total refunding, debt service was reduced by \$1,271 and resulted in an economic gain of \$887 from the advance refunding. For the advance refunding of the Series 2000 General Receipts bonds, the reacquisition price exceeded the net carrying amount of the old debt by \$520. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. As of June 30, 2011, the outstanding principal of the 2009B General Receipts bond was \$205,700.

In fiscal year 2010, the University terminated the interest rate swap agreements associated with the Series 2009A General Receipts bonds and the Series 2008A General Receipts bonds. This resulted in a termination payment totaling \$23,864, which has been included in the Interest on Capital Asset – Related Debt line in the Statement of Revenues, Expenses, and Changes in Net Assets. In connection with the issuance of the Series 2009B General Receipts bonds, the University also recognized a net bond premium totaling \$19,456 which will be amortized against interest expense over the life of the bond. As of June 30, 2011, the unamortized net bond premium was \$15,618.

# **KENT STATE UNIVERSITY**

## **Notes to Financial Statements June 30, 2011 and 2010 (in thousands)**

In accordance with the General Receipts bonds Trust Agreement, the Series 2008B and Series 2009B General Receipts bonds are 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.

During fiscal year 2010, the University entered into a loan agreement with the Ohio Air Quality Development Authority for a total of \$1,344. The Ohio Air Quality Authority has issued \$672 in 2010 Series A bonds and \$672 in 2010 Series B bonds; the proceeds of which will be used to fund the University's energy efficiency and conservation project at its Stark campus. As of June 30, 2011, the outstanding principal of the Series A and Series B bonds was \$565 and \$672, respectively.

During fiscal year 2011, the University entered into two additional loan agreements with the Ohio Air Quality Development Authority. The first loan agreement totals \$5,388; \$2,694 in Series A bonds and \$2,694 in Series B bonds. The proceeds will be used to fund the University's energy efficiency and conservation projects at its Ashtabula, East Liverpool, Geauga, Salem and Trumbull campuses. The second loan agreement totals \$20,000; \$13,000 in Series A bonds, and \$7,000 in Series B bonds. The proceeds will be used to fund the University's energy efficiency and conservation projects for its Residence Hall and Dining Services auxiliary units.

In fiscal year 2011, the University entered into an agreement with Fairmount Properties, LLC to construct a building for its Twinsburg location (programs are operated out of the University's Geauga campus) which the University will lease for a period of 30 years. The total capital lease is \$13,992 and lease payments will begin in September 2012.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

Long-term debt consists of the following as of June 30, 2011:

	<u>Rates</u>	<u>Maturity</u>	<u>2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>2011</u>
General Receipts Bonds of 2009B	2.0-5.0	2009-2032	\$ 210,280	\$ -	\$ 4,580	\$ 205,700
General Receipts Bonds of 2002/now 2008B	4.32	2028-2032	60,000	-	-	60,000
Air Quality Dev. Tax Exempt Rev. Bond - Stark (A)	2.99	2011-2016	672	-	107	565
Air Quality Dev. Tax Credit Rev. Bond - Stark (B)	5.63	2011-2020	672	-	-	672
Air Quality Dev. Tax Exempt Rev. Bond - Reg. Campuses (A)	2.75	2012-2019	-	2,694	-	2,694
Air Quality Dev. Tax Credit Rev. Bond - Reg. Campuses (B)	4.86	2012-2019	-	2,694	-	2,694
Air Quality Dev. Tax Exempt Rev. Bond - Res. Halls & Din. Svcs. (A)	2.62	2019-2025	-	13,000	-	13,000
Air Quality Dev. Tax Credit Rev. Bond - Res. Halls & Din. Svcs. (B)	5.32	2012-2025	-	7,000	-	7,000
Other	various	various	7,373	13,992	2,835	18,530
			<u>\$ 278,997</u>	<u>39,380</u>	<u>7,522</u>	<u>\$ 310,855</u>
Plus unamortized discount and premium			18,066	-	2,448	15,618
Less unamortized call premium on Series 2000 bonds			(494)	-	35	(459)
Subtotal			<u>\$ 296,569</u>	<u>\$ 39,380</u>	<u>\$ 10,005</u>	<u>326,014</u>
Less current portion long-term debt			7,522			13,455
			<u>\$ 289,047</u>			<u>\$ 312,559</u>

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

Long-term debt consists of the following as of June 30, 2010:

	<u>Rates</u>	<u>Maturity</u>	<u>2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>2010</u>
General Receipts Bonds of 2009B	2.0-5.0	2009-2032	\$ -	\$ 214,910	\$ 4,630	\$ 210,280
General Receipts Bonds of 2009A	6.75	2009-2031	156,605	-	156,605	-
General Receipts Bonds of 2008A	4.5-4.96	2009-2028	41,515	-	41,515	-
General Receipts Bonds of 2008B	4.32	2028-2032	60,000	-	-	60,000
General Receipts Bonds of 2000	5.0-6.0	2004-2024	7,795	-	7,795	-
Air Quality Dev. Tax Exempt Rev. Bond (2010 Series A)	2.99	2010-2016	-	672	-	672
Air Quality Dev. Tax Credit Rev. Bond (2010 Series B)	5.63	2010-2020	-	672	-	672
Other	various	various	10,104	12	2,743	7,373
			<u>\$ 276,019</u>	<u>216,266</u>	<u>213,288</u>	<u>\$ 278,997</u>
Plus unamortized discount and premium			-	19,456	1,390	18,066
Less unamortized call premium on Series 2000 bonds			-	(520)	26	(494)
Subtotal			<u>\$ 276,019</u>	<u>\$ 235,202</u>	<u>\$ 214,704</u>	<u>296,569</u>
Less current portion long-term debt			5,847			7,522
			<u>\$ 270,172</u>			<u>\$ 289,047</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.

### **Hedging derivative instrument payments and hedged debt**

As of June 30, 2011, aggregate debt service requirements of the University's debt (fixed-rate and variable-rate) and net receipts/payments on associated hedging derivative instruments are shown below. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer below for information on derivative instruments (interest rate swap).

# KENT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

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

	Principal	Interest	Derivatives, Net	Total
2012	\$ 11,084	\$ 11,348	\$ 2,178	\$ 24,610
2013	11,993	11,424	2,178	25,595
2014	11,911	11,078	2,178	25,167
2015	11,068	10,633	2,178	23,879
2016	11,193	10,148	2,178	23,519
2017-2021	62,836	42,688	10,890	116,414
2022-2026	67,054	26,901	10,890	104,845
2027-2031	105,025	10,846	8,276	124,147
2032-2036	14,811	1,176	436	16,423
2037-2041	3,157	470	-	3,627
2042-2043	723	19	-	742
Total	\$ 310,855	\$ 136,731	\$ 41,382	\$ 488,968

### Interest Rate Swap

The University has entered into a 30-year interest rate swap agreement for \$60,000 of the variable rate 2002 Series General Receipts bonds. The University entered into this agreement at the same time and for the same amount of the variable rate debt, with the intent of creating a synthetic fixed rate debt, at an interest rate that was lower than if fixed rate debt would have been issued directly. During 2009, the interest rate swap agreement was re-identified in connection with refunding of the 2002 Series General Receipt bonds through the issuance of 2008B Series General Receipt bonds. During fiscal year 2010, the counterparty on the agreement was changed from Woodlands Commercial Bank (formerly known as Lehman Brothers Commercial Bank) to Loop Financial Products LLP. 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. 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. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate.

As of June 30, 2011 and 2010, the University has recorded a deferred outflow of resources and a related swap liability in the amount of \$293 and \$2,233, respectively, which represents the accumulated changes in fair value of the interest rate swaps.

The interest rate swap has been determined to be an effective hedge and the fair value was estimated using the regression analysis method. The regression analysis method evaluates effectiveness by considering the statistical relationship between the cash flows or fair values of the potential hedging derivative instrument and the hedgeable item.

The interest rate swap is subject to the following risks:

Interest rate risk – The University is exposed to interest rate risk. On the pay-fixed, receive-variable interest rate swap, as LIBOR or the Securities Industry and Financial Markets Association (SIFMA) decreases, the University's net payment on the swap increases.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

Basis risk – The University is exposed to basis risk due to variable rate payments received being based on a rate or index other than interest rates that the University pays on its variable rate debt. As of June 30, 2011, the interest rate on the University’s hedged variable rate debt is 0.09 percent, while the SIFMA swap index rate is 0.09 percent and 67 percent of LIBOR is 0.13 percent.

Termination risk – The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed depending on the prevailing economic circumstances at the time of the termination.

### Accrued Compensated Absences

Per University policy, faculty and staff earn vacation up to a maximum of 25 days per year with a maximum accrual of 75 days. Upon termination, they are entitled to a payout of their accumulated balance. The maximum accrual is equal to the amount earned in three years, which is subject to payout upon termination. The liability for accrued vacation at June 30, 2011 and 2010 is \$14,399 and \$13,584, respectively.

All University employees are entitled to a sick leave credit equal to 15 days per year (earned on a pro rata monthly basis for salaried employees and on a pro rata hourly basis for classified hourly employees). Employees with 10 or more years of service are eligible to receive a payout upon retirement of up to 25% of unused days (maximum of 30 days). The liability for accrued sick leave at June 30, 2011 and 2010 is \$4,964 and \$4,638, respectively.

A summary of accrued compensated absences at June 30, 2011 and 2010 is as follows:

<u>For the year ended</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
June 30, 2011	\$ 18,222	\$ 2,830	\$ 1,689	\$ 19,363
June 30, 2010	17,357	2,108	1,243	18,222

### (7) Retirement Benefits

#### (a) Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System (“OPERS”) and the State Teachers Retirement System of Ohio (“STRS Ohio”). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members. The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS Ohio 3.5% of earned compensation for those employees participating in the alternative retirement program. The University’s contribution to the alternative retirement fund for the years ended June 30, 2011, 2010 and 2009 were \$945, \$919, and \$827, respectively.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

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 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to OPERS for the years ended June 30, 2011, 2010 and 2009 were \$14,005, \$13,312 and \$12,906, 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 ended June 30, 2011, 2010, and 2009 were \$14,270, \$13,821 and \$12,987, respectively, equal to the required contributions for each year.

(b) Post-Retirement Health Care Benefits

OPERS - Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and combined Plan must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

### OPERS - Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.00% of covered payroll and public safety and law enforcement employers contributed at 17.87%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employers units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The University's contributions allocated to post retirement health care for the years ended June 30, 2011, 2010, and 2009 were \$4,975, \$5,052, and \$6,085, respectively.

### STRS - Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medical Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strs.oh.org](http://www.strs.oh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

### STRS - Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2010, 2009 and 2008. The 14% employer contribution rate is the maximum rate established under Ohio law. The University's contribution to post-employment health care for the years ended June 30, 2011, 2010, and 2009 was \$928, \$987, and \$1,019, respectively.

### (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, 2011 and 2010, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$9,638 and \$7,666, 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 a defendant in a lawsuit filed by one of its construction contractors for alleged construction delays and inefficiencies. In July, 2009, a judgement in favor of the plaintiff was rendered in the amount of \$4,080. The University recorded this amount as a liability at June 30, 2009. At June 30, 2011, the liability is \$4,374, due to the University accruing interest. The balance as of June 30, 2010 was \$4,223.

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.

# KENT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

Total claims paid during the years ended June 30, 2011 and 2010 were \$40,133 and \$39,303, respectively. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$6,175 and \$5,480 has been accrued as of June 30, 2011 and 2010, respectively. This estimate is based on an analysis of historical claims paid.

In March 2009, the University approved a University Employee Separation Plan (UESP) offered to select employees. The UESP is a one-time offer to full-time faculty, unclassified and classified (represented and unrepresented) employees who achieved 15 or more years of service with the University as of June 30, 2009. Part-time employees and employees who had retired and were subsequently re-hired by the University were not eligible to participate in the plan. Eligible employees who chose the UESP left the University on June 30 with a separation package that included a base amount plus an amount equivalent to a portion of the employee's accrued sick leave pay. The University contracted with Educators Preferred Corp. (EPC) to administer the leave plan. Total costs including the base payout, accrued sick leave, and administrative costs associated with the implementation and administration of the plan were recorded as a liability as of June 30, 2010 in the amount of \$2,539. The accrued liability as of June 30, 2011 is \$0.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2011 and 2010 for operating leases amounted to approximately \$1,345 and \$781, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2011 are as follows:

	<u>Operating Leases</u>
2012	\$ 1,548
2013	1,439
2014	1,391
2015	<u>650</u>
Total future minimum payments	<u>\$ 5,028</u>

As of June 30, 2011, the University construction projects will cost an estimated \$35,940, of which 68% or \$24,467 is funded from bond proceeds.

### (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. This organization is legally separate from the University; accordingly, its financial activity is not included within the accompanying financial statements. The University has no contractual financial obligations to this consortium.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2011 and 2010 (in thousands)

### (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 \$140,449 and \$124,577 at June 30, 2011 and 2010, 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 \$9,080 and \$10,617 of financial support during the years ended June 30, 2011 and 2010, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2011 and 2010, the University had outstanding receivables from the Foundation of approximately \$68 and \$30, respectively.

The value of investments for the Foundation at June 30, 2011 and 2010 are as follows:

	<u>Market Value</u> <u>2011</u>	<u>Market Value</u> <u>2010</u>
Corporate stocks	\$ 7,319	\$ 5,613
Government bonds	4	5
Limited partnership hedge fund	10,917	7,711
Mutual funds:		
Large capitalization equity funds	31,319	29,462
Small / middle capitalization equity funds	5,635	5,385
International equity funds	25,280	9,389
Other mutual funds	18,148	5,533
Fixed-income funds	31,511	48,211
	<u>\$ 130,133</u>	<u>\$ 111,309</u>

### (11) Subsequent Events

As mentioned in footnote #8 Contingencies and Commitments, the University is a defendant in a lawsuit filed by one of its construction contractors. In July 2011, the construction contractor and the University filed an agreed judgment entry and the University paid \$2,090 to the plaintiff. The remaining portion of the case is in the appeal process and the University will continue to carry the remaining liability and accrue interest.

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

To the Board of Trustees  
Kent State University

We have audited the financial statements of Kent State University (the "University") as of and for the year ended June 30, 2011 and have issued our report thereon dated October 14, 2011. Our report was modified to include reference to other auditors. 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. Other auditors audited the financial statements of Kent State University Foundation (the "Foundation"), as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Kent State 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

To the Board of Trustees  
Kent State University

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kent State 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*.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 14, 2011

Report on Compliance with Requirements That Could Have a Direct and  
Material Effect on Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133

To the Board of Trustees  
Kent State University

### Compliance

We have audited the compliance of Kent State University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The major federal programs of Kent State University 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 Kent State University's management. Our responsibility is to express an opinion on Kent State 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 Kent State 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 on Kent State University's compliance with those requirements.

This report is replacing a previously issued report in order to clarify the reconciliation provided in Note 5.

In our opinion, Kent State University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

To the Board of Trustees  
Kent State University

### **Internal Control Over Compliance**

The management of Kent State University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kent State 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 internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as 2011-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Kent State University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Kent State University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 14, 2011

# Kent State University

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>STUDENT FINANCIAL AID CLUSTER</b>			
<b>Department of Education</b>			
<b>Direct Programs</b>			
Federal Supplemental Educational Opportunity Grants	84.007		\$1,184,177
Federal Work-Study Program	84.033		1,620,961
Federal Perkins Loan Program	84.038		23,243,604
Federal Pell Grant Program	84.063		70,489,502
Fund for the Improvement of Postsecondary Education	84.116		197,126
Academic Competitiveness Grants	84.375		2,127,108
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376		1,141,031
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		1,703,332
Federal Direct Loans	84.268		<u>242,939,574</u>
<b>Total Department of Education</b>			<u>344,646,415</u>
<b>Department of Health and Human Services</b>			
<b>Direct Program</b>			
Nursing Student Loans	93.364		<u>2,088,236</u>
<b>Total Student Financial Aid Cluster</b>			346,734,651
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>			
<b>Department of Agriculture</b>			
<b>Pass-through Program</b>			
Miami University - Grants for Agricultural Research Competitive Research	10.206	USDA-2007-35320-18349	42,412
<b>Total Department of Agriculture</b>			<u>42,412</u>
<b>Department of Commerce</b>			
<b>Direct Programs</b>			
Climate and Atmospheric Research	11.431		137,139
Measurement and Engineering Research and Standards	11.609		378,703
<b>Pass-through Programs</b>			
Ohio State Research Foundation - Sea Grant Support	11.417	60008574	3,030
Ohio Sea Grant Program - Sea Grant Support	11.417	NA06OAR4170020	5,174
Total			<u>8,204</u>
<b>Total Department of Commerce</b>			524,046
<b>Department of Defense</b>			
<b>Direct Programs</b>			
Air Force Defense Research Sciences Program	12.800		1,235,590
Mathematical Sciences Grants Program	12.901		3,995
Research and Technology Development	12.910		159,791
<b>Pass-through Programs</b>			
Dynamic Eye Inc - Dual Mode Eye Shields	NONE	W911QY-08-C-0049	(9,742)
Cornerstone Research Group Inc. - STTR Phase II	NONE	FA9550-05-C-0036	2,222
Dynamic Eye Inc - Segmented Flash Blindness Lenses	NONE	SA1-PO014	5,354
Pixel Optics Inc - Super Vision Project	NONE	1FA7014-07-C-0013	6,521
Lincoln Lab-MIT - LC Based LWIR Optical Transducer	NONE	7000111657	49,490
Battelle Memorial Institute - Alternative Energy Fuel Cell Power Generator	NONE	#220300	6,193
Battelle Memorial Institute - Alternative Energy Fuel Cell Power Generator	NONE	233632	141,398
Total			<u>201,436</u>
<b>Total Department of Defense</b>			<u>1,600,812</u>

See Notes to Schedule of Expenditures  
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# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Department of Housing and Urban Development</b>			
<b>Pass-through Programs</b>			
City of Cleveland - Community Development Block Grants/Entitlement Grants	14.218	69883	\$22,565
Center for Community Solutions - Community Development Block Grants/Entitlement Grants	14.218	68-318 PRIME	1,005
<b>Total Department of Housing and Urban Development</b>			23,570
<b>Department of the Interior</b>			
<b>Pass-through Programs</b>			
Central Michigan University - Fish and Wildlife Management Assistance	15.608	444594KSU	1,873
Arkansas Game and Fish Commission - Cooperative Endangered Species Conservation Fund	15.615	KSU444587	8,827
Minnesota Department of Natural Resources - State Wildlife Grants	15.634	A89365	2,633
Research Foundation at State University of New York - State Wildlife Grants	15.634	KSU444588	10,143
Total			12,776
Ohio State Research Foundation - Assistance to State Water Resources Research Institutes	15.805	RF01193084	22,600
<b>Total Department of the Interior</b>			46,076
<b>Department of Justice</b>			
<b>Pass-through Programs</b>			
The Urban Institute - Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	08208-000-00-KSU-01	47
Research Triangle Institute - Part D - Research, Evaluation, Technical Assistance and Training	16.542	9-312-0209835	20,306
City of Cleveland - Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	PO CLEVE-SG67943A	(162)
Ohio Criminal Justice Studies - Project Safe Neighborhoods	16.609	2009-PS-PSN-366	25,033
Ohio Criminal Justice Studies - Project Safe Neighborhoods	16.609	2008-PS-PSN-366	78,775
Total			103,808
NEOUCOM - Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-JG-E0R-6583	1,309
Cuyahoga County Department of Justice Affairs - Congressionally Recommended Awards	16.753	KSU 445575	45,584
Ohio Criminal Justice Studies - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	2009-RA-EA01-2212	28,735
ARRA - NEOUCOM - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	34341-A	16,860
ARRA - City of Cleveland- Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	KSU 448023	73,212
Total			118,807
<b>Total Department of Justice</b>			289,699

See Notes to Schedule of Expenditures  
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# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Department of Transportation</b>			
<b>Pass-through Programs</b>			
Ohio Department of Transportation - Highway Planning and Construction	20.205	21436	\$30,010
Arkansas State Highway & Transportation Dept. - Highway Planning and Construction	20.205	061134	756
Arkansas State Highway & Transportation Dept. - Highway Planning and Construction	20.205	080379	4,975
Total			35,741
University of Akron - University Transportation Centers Program	20.701	DTRT06-G-0037	4,685
<b>Total Department of Transportation</b>			40,426
<b>National Aeronautics and Space Administration</b>			
<b>Pass-through Program</b>			
ATK Space Systems - Development of Particle-Based Flow Diagnostic Techniques	NONE	0023531	14,746
<b>Total National Aeronautics and Space Administration</b>			14,746
<b>National Endowment for the Humanities</b>			
<b>Pass-through Programs</b>			
Promotion of the Humanities - Office of Digital Humanities	45.169	HD-51129-10	11,520
<b>Total National Endowment for the Humanities</b>			11,520
<b>Institute of Museum and Library Services</b>			
<b>Direct Program</b>			
National Leadership Grants	45.312		36,246
<b>Pass-through Program</b>			
Cleveland Metroparks Zoo - Museums for America	45.301	MFA-FY08	3,283
<b>Total Institute of Museum and Library Services</b>			39,529
<b>National Science Foundation</b>			
<b>Direct Programs</b>			
Engineering Grants	47.041		146,373
Mathematical and Physical Sciences	47.049		1,984,426
Geosciences	47.050		263,076
Computer and Information Science and Engineering	47.070		296,056
Biological Sciences	47.074		462,965
Social, Behavioral, and Economic Sciences	47.075		255,928
Education and Human Resources	47.076		604,809
Polar Programs	47.078		126,269
International Science and Engineering (OISE)	47.079		54,924
ARRA - Trans-NSF Recovery Act Research Support	47.082		1,138,335
<b>Pass-through Programs</b>			
LXD Inc. - Engineering Grants	47.041	LXD1046893	24,622
Kent Displays Inc. - Engineering Grants	47.041	IIP0750379	0
LXD Inc. - Engineering Grants	47.041	LXD 1010368	53,302
Total			77,924
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	DMR-0645461	0
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	KSU-440660	12,928
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	KSU-444321	480

# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>National Science Foundation (Continued)</b>			
<b>Direct Programs (Continued)</b>			
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	KSU444580	\$13,322
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	KSU444581	2,750
Ohio State Research Foundation - Mathematical and Physical Sciences	47.049	60004660	10,579
Case Western Reserve University - Mathematical and Physical Sciences	47.049	DMR-0423914	1,116
Total			41,175
Illinois State Museum Society - Geosciences	47.050	KSU440504	15,241
University of Florida - Computer and Information Science and Engineering	47.070	UF-EIES-0914033-KSU	46,254
Indiana University - Biological Sciences	47.074	PO # 419481	71,467
University of Florida - Education and Human Resources	47.076	UF1009	33,944
Cleveland State University - Education and Human Resources	47.076	DELA T37L	9,186
Eastern Michigan University - Education and Human Resources	47.076	KSU 446448	18,545
Stark State College of Technology - Education and Human Resources	47.076	NSFFC-0802536-10-10	440
Total			62,115
ARRA - DePaul University - Trans-NSF Recovery Act Research Support	47.082	500733SG069	60,543
<b>Total National Science Foundation</b>			5,707,880
<b>Environmental Protection Agency</b>			
<b>Direct Program</b>			
Assessment and Watershed Protection Program Grants	66.480	AW-83414901	39,653
<b>Pass-through Programs</b>			
SUNY - Great Lakes Program	66.469	GL00E7530-KENT	2,267
SUNY - Great Lakes Program	66.469	GL-00E00503-KSU	9,302
Total			11,569
<b>Total Environmental Protection Agency</b>			51,222
<b>Department of Energy</b>			
<b>Direct Program</b>			
Office of Science Financial Assistance Program	81.049		1,272,640
<b>Pass-through Program</b>			
UT-Battelle, LLC - Electron Beam Grafting	NONE	4000095139	19,102
<b>Total Department of Energy</b>			1,291,742
<b>Department of Education</b>			
<b>Direct Programs</b>			
National Institute on Disability and Rehabilitation Research	84.133	H133G080158	143,898
Education Research, Development and Dissemination	84.305	R305A080316	355,489
Research in Special Education	84.324	R324A090145	224,888
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407	P407A100057	140,238

# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Department of Education (Continued)</b>			
<b>Pass-through Programs</b>			
Ohio Department of Education - Special Education Grants to States	84.027	EDU01-0000006008	\$300,355
Ohio Department of Education - Special Education Grants to States	84.027	EDU01-0000003002	(1,123)
Ohio Department of Education - Special Education Grants to States	84.027	EDU-01-0000004703	104,163
Ohio Department of Education - Special Education - Grants to States	84.027	H027A090111A	32,223
Total			435,618
Hattie Larlham Foundation - Fund for the Improvement of Education	84.215	HLR1092509	838
ARRA - Springfield Local Schools - Education Technology State Grants, Recovery Act	84.386	ARRA TITLE II-D	5,899
ARRA - Ravenna School District - Education Technology State Grants, Recovery Act	84.386	TITLE II-D	5,435
ARRA - Ravenna School District - Education Technology State Grants, Recovery Act	84.386	ARRA TITLE II-D	5,435
ARRA - Kent City School District - Education Technology State Grants, Recovery Act	84.386	TITLE II-D	2,938
Total			19,707
Virginia Commonwealth University - National Institute on Disability and Rehabilitation Research	84.133	PT101165-SC100174	53,475
<b>Total Department of Education</b>			1,374,151
<b>National Archives and Records Administration</b>			
<b>Pass-through Program</b>			
National Historical Publications and Records Grants	89.003	25-0512-0023-003	4,514
<b>Total National Archives and Records Administration</b>			4,514
<b>Department of Health and Human Services</b>			
<b>Direct Programs</b>			
Oral Diseases and Disorders Research	93.121	1R21DE019704-01A1	149,413
Injury Prevention and Control Research and State and Community Based Programs	93.136		367,347
Research and Training in Complementary and Alternative Medicine	93.213	1R21AT003913-01A2	32,374
Research on Healthcare Costs, Quality and Outcomes	93.226	1R03HS019795-01	2,355
Mental Health Research Grants	93.242		247,446
Drug Abuse and Addiction Research Programs	93.279	1R15DA023349	50,077
Nursing Research	93.361		245,105
Cancer Cause and Prevention Research	93.393		7,194
ARRA - Trans-NIH Recovery Act Research Support	93.701		416,501
Cardiovascular Diseases Research	93.837		1,333,989
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		140,300
Digestive Diseases and Nutrition Research	93.848	R01DK075119-01	48,727
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		438,417
Biomedical Research and Research Training	93.859	1R15GM086782-01A1	51,283
Child Health and Human Development Extramural Research	93.865		225,993
Aging Research	93.866		230,293
Dept of HHS - N268200900371P	NONE	HHSN268200900371P	10

# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Department of Health and Human Services (Continued)</b>			
<b>Pass-through Programs</b>			
Health Research Inc - Environmental Public Health and Emergency Response	93.070	3792-01	\$16,825
Health Research Inc - Environmental Public Health and Emergency Response	93.070	3792-02	42,269
Total			59,094
Hospital for Special Surgery - Oral Diseases and Disorders Research	93.121	2R04 DE004141-31A1	56,373
Children's Hospital of Philadelphia - Mental Health Research Grants	93.242	950481RSUB	5,022
HUMADAOP - Substance Abuse and Mental Health Services- Projects of Regional and National Significance	93.243	KSU 440470	(4)
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU 440522	42,218
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU 440880	12,476
HUMADAOP - Substance Abuse and Mental Health Services- Projects of Regional and National Significance	93.243	5H79TI017071-04	6,564
Catholic Charities Services - Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	KSU 445573	26,983
Total			88,237
St. John's University - Occupational Safety and Health Program	93.262	35496SC1	9,307
Ohio State Research Foundation - Alcohol Research Programs	93.273	RF01219228	19,872
University of Tennessee - Alcohol Research Programs	93.273	OR14350-001.01 / 1R01AA017898	90,352
Total			110,224
Ohio Department of Alcohol & Drug Addiction Services - Substance Abuse and Mental Health Services-Access to Recovery	93.275	KSU 440879	239
Case Western Reserve University - Nursing Research	93.361	RES502761 / 1R01-NR010787-01A2	8,803
Wayne State University - Cancer Treatment Research	93.395	WSU10005	15,571
ARRA - Trans-NIH Recovery Act Research Support	93.701	USD-0909 1R01AA17433-01A2	105,910
Butler Hospital - Heart and Vascular Diseases Research	93.837	9279-8344	12,417
Stanford University - Biomedical Research and Research Training	93.859	22747060-41598-A	111,561
California State University San Marcos Foundation - Biomedical Research and Research Training	93.859	F-77330	36,713
Total			148,274
University of Minnesota Applied Psychology - Population Research	93.864	S2986113101	10,761
University of Pennsylvania - Aging Research	93.866	G-42-682-G3	(1,414)
Ohio Department of Alcohol and Drug Abuse Services - Block Grants for Prevention and Treatment of Substance Abuse	93.959	99-3402-HEDUC-P-10-0007	1,159

# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Department of Health and Human Services (Continued)</b>			
<b>Pass-through Programs (Continued)</b>			
Ohio Department of Alcohol and Drug Abuse Services - Block Grants for Prevention and Treatment of Substance Abuse	93.959	99-3402-HEDUC-P-11-0007	\$15,640
Total			<u>16,799</u>
Carroll County General Health District - Maternal and Child Health Services Block Grant to the States	93.994	KSU 444505	6,124
<b>Total Department of Health and Human Services</b>			<u>4,638,565</u>
<b>Total Research and Development Cluster</b>			15,700,910
<b>CDBG - ENTITLEMENT GRANTS CLUSTER</b>			
<b>Department of Housing and Urban Development</b>			
<b>Pass-through Program</b>			
Stark County Regional Planning Commission - Community Development Block Grants/Entitlement Grants	14.218	KSU 445043	27,967
<b>Total CDBG - Entitlement Grants Cluster</b>			<u>27,967</u>
<b>HIGHWAY SAFETY CLUSTER</b>			
<b>Department of Transportation</b>			
<b>Pass-through Programs</b>			
Ohio Department of Public Safety - Incentive Grant Program to Increase Motorcyclist Safety	20.612	MOP1-2001-15-00-00-00822-00	2,453
Ohio Department of Public Safety - Incentive Grant Program to Increase Motorcyclist Safety	20.612	MOP1-2001-78-00-00-00832-00	404
<b>Total Highway Safety Cluster</b>			<u>2,857</u>
<b>TRIO PROGRAMS CLUSTER</b>			
<b>Department of Education</b>			
<b>Direct Programs</b>			
TRIO Student Support Services	84.042		376,973
TRIO Upward Bound	84.047		874,400
TRIO McNair Post-Baccalaureate Achievement	84.217	P217A070027	296,762
<b>Total TRIO Programs Cluster</b>			<u>1,548,135</u>
<b>VOCATIONAL REHABILITATION CLUSTER</b>			
<b>Department of Education</b>			
<b>Pass-through Programs</b>			
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	RSC01-0000005451	39,467
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	VRP3	61,329
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	KSU 446451	77,230
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	RSC01-0000005325	151,831
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	KSU 446453	66,591
Total			<u>396,448</u>
ARRA - Ohio Department of Development - Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390	ECDD11-295	1,888
<b>Total Vocational Rehabilitation Cluster</b>			<u>398,336</u>

See Notes to Schedule of Expenditures  
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# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>STATE FISCAL STABILIZATION FUND (SFSF) CLUSTER</b>			
<b>Department of Education</b>			
<b>Pass-through Program</b>			
ARRA - State Fiscal Stabilization Fund - Education State Grants Recovery Act	84.394		\$20,187,196
<b>Total State Fiscal Stabilization Fund Cluster</b>			<u>20,187,196</u>
<b>TANF CLUSTER</b>			
<b>Department of Health and Human Services</b>			
<b>Pass-through Program</b>			
Licking County Children and Family First Council - Temporary Assistance for Needy Families	93.558	KSU 440514	433
<b>Total TANF Cluster</b>			<u>433</u>
<b>SUBTOTAL OF CLUSTERS</b>			
			384,600,485
<b>Department of Agriculture</b>			
<b>Direct Programs</b>			
Rural Cooperative Development Grants	10.771		265,292
<b>Total Department of Agriculture</b>			<u>265,292</u>
<b>Department of Commerce</b>			
<b>Direct Programs</b>			
Public Telecommunications Facilities Planning and Construction	11.550		143,095
<b>Total Department of Commerce</b>			<u>143,095</u>
<b>Department of Defense</b>			
<b>Direct Programs</b>			
Flood Plain Management Services	12.104	DACW59-99-M-0072	149
Language Grant Program	12.900		77,223
Mathematical Sciences Grants Program	12.901		89,237
<b>Total Department of Defense</b>			<u>166,609</u>
<b>Department of Justice</b>			
<b>Direct Program</b>			
Bulletproof Vest Partnership Program	16.607	none	(2,438)
<b>Pass-through Program</b>			
Ohio Department of Youth Services - Second Chance Act Prisoner Reentry Initiative	16.812	1AS2140	10,471
<b>Total Department of Justice</b>			<u>8,033</u>
<b>Department of Labor</b>			
<b>Direct Program</b>			
WIA Pilots, Demonstrations, and Research Projects	17.261		65,777
<b>Pass-through Programs</b>			
Community Action Organization - WIA Pilots, Demonstrations, and Research Projects	17.261	WIRED H1 B FUNDS	76,178
Ohio Board of Regents- Incentive Grants - WIA Section 503	17.267	062976-AB-WIA-2010	2,438
Ohio Department of Education - Incentive Grants - WIA Section 503	17.267	062976-LR-S1-93	109
Ohio Board of Regents - Incentive Grants - WIA Section 503 Total	17.267	KSU 446629	50,000
<b>Total Department of Labor</b>			<u>52,547</u>
<b>Total Department of Labor</b>			<u>194,502</u>

See Notes to Schedule of Expenditures  
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# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Department of State</b>			
<b>Pass-through Programs</b>			
International Research & Exchange Board - Academic Exchange Programs - Teachers	19.408	FY09-ILEP-KENT-01	\$219
International Research & Exchange Board - Academic Exchange Programs - Teachers	19.408	FY10 ILEP-KENT-01	156,115
International Research & Exchange Board - Academic Exchange Programs - Teachers	19.408	FY08-ILEP-KENT-01	0
<b>Total Department of State</b>			<u>156,334</u>
<b>Department of Transportation</b>			
<b>Pass-through Program</b>			
The University of Akron - University Transportation Centers Program	20.701	ODOT DTRT06-G-0037 MOD NO. 5	10,106
<b>Total Department of Transportation</b>			<u>10,106</u>
<b>Appalachian Regional Commission</b>			
<b>Direct Program</b>			
Appalachian Area Development	23.002		85,688
<b>Total Appalachian Regional Commission</b>			<u>85,688</u>
<b>National Endowment for the Arts</b>			
<b>Pass-through Program</b>			
Arts Midw est - Promotion of the Arts - Partnership Agreements	45.025	KSU 447036	4,100
<b>Total National Endowment for the Arts</b>			<u>4,100</u>
<b>National Endowment for the Humanities</b>			
<b>Pass-through Programs</b>			
Ohio Humanities Council - Promotion of the Humanities - Challenge Grants	45.130	OHC #09-122	7,116
Eastern Illinois University - Promotion of the Humanities - Professional Development	45.163	10-04	14,810
<b>Total National Endowment for the Humanities</b>			<u>21,926</u>
<b>Institute of Museum and Library Services</b>			
<b>Direct Programs</b>			
Laura Bush 21st Century Librarian Program	45.313		154,446
<b>Pass-through Program</b>			
State Library of Ohio - Grants to States	45.310	VIII-10-09	15,218
<b>Total Institute of Museum and Library Services</b>			<u>169,664</u>
<b>National Science Foundation</b>			
<b>Direct Programs</b>			
Education and Human Resources	47.076		144,472
<b>Pass-through Programs</b>			
Missouri State University - Education and Human Resources	47.076	SRP 08050	21,132
Capital University - Education and Human Resources	47.076	NSF-CCLI AWARD #0618252	38
Total			<u>21,170</u>
<b>Total National Science Foundation</b>			<u>165,642</u>

# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Small Business Administration</b>			
<b>Pass-through Programs</b>			
Ohio Department of Development - Small Business Development Center	59.037		\$200
Kent Regional Business Alliance - Small Business Development Center	59.037	PROGRAM INCOME KSU 445039 FY 10	25,982
Ohio Department of Development - Small Business Development Center	59.037	SBDC FY 11	45,980
Ohio Department of Development - Small Business Development Center	59.037	ECDD10-210	24,541
Ohio Department of Development - Small Business Development Center	59.037		334
Ohio Department of Development - Small Business Development Center	59.037	PROGRAM INCOME ECDD 11-287	45,894
Ohio Department of Development - Small Business Development Center	59.037	KSU 447049 FY 10	74,232
Ohio Department of Development - Small Business Development Center	59.037	FY 11	106,658
Total			323,821
NorTech - FlexMatters Regional Innovation Cluster	NONE	NOR-SBA-10C0030	2,029
<b>Total Small Business Administration</b>			325,850
<b>Department of Education</b>			
<b>Direct Programs</b>			
Rehabilitation Long-Term Training	84.129	H129Q080005	94,033
National Institute for Literacy	84.257	X257S060001	287,039
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325		889,504
<b>Pass-through Programs</b>			
Ohio Department of Education - Adult Education - Basic Grants to States	84.002	062976-AB-SL-2010	43,783
Ohio Department of Education - Adult Education - Basic Grants to States	84.002	062976-AB-SL-2009C	8,931
Ohio Board of Regents - Adult Education - Basic Grants to States	84.002	062976-AB-SL-2011	532,814
Ohio Department of Education - Adult Education - Basic Grants to States	84.002	062976-AB-SL-2010C	37,421
Total			622,949
Ohio Department of Education - Career and Technical Education - Basic Grants to States	84.048	VEPD-CB-10-062976	8,606
Ohio Department of Education - Career and Technical Education - Basic Grants to States	84.048	VEPD-CB-11-062976	104,212
Total			112,818
Ohio Rehabilitation Services Commission - Rehabilitation Services Demonstration and Training Programs	84.235	H235U070024	35,757
Ohio Department of Education - Tech-Prep Education	84.243	KSU 446754	156,750
World Education - National Institute for Literacy	84.257	X257T060001	117,300
Pennsylvania State University - National Institute for Literacy	84.257	3322-KSU-DOE-0004	30,197
Total			147,497

See Notes to Schedule of Expenditures  
of Federal Awards.

# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Department of Education (Continued)</b>			
<b>Pass-through Programs</b>			
Summit County Educational Service Center - Foreign Language Assistance	84.293	FLAP GRANT	\$47,091
University of Akron - Special Education-Personnel Development to Improve Services and Results for Children with Disabilities (B)	84.325	5-32471-KSU	61,385
Ohio Department of Education - Mathematics and Science Partnerships	84.366	C1667-MSP-10-415	5,169
Ohio Department of Education - Mathematics and Science Partnerships	84.366	C1667-MSP-10-415	149,775
Total			154,944
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	08-18	748
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	09-21	98,413
Ohio Department of Education - Improving Teacher Quality State Grants	84.367	062976-OFEA	19,725
Ohio Department of Development - Improving Teacher Quality State Grants	84.367	EDU01-0000006825	19,000
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	08-15	4,951
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	09-20	73,228
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	09-17	101,278
Miami University - Improving Teacher Quality State Grants (A)	84.367	HERSHBERGER-OBOR-KENT-G	9,085
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	10-22	2,524
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	10-18	14,159
Ohio Board of Regents - Improving Teacher Quality State Grants (A)	84.367	10-19	15,032
Total			358,143
National Writing Project Corp - National Writing Project	84.928	97-OH03	19,765
National Writing Project Corp - National Writing Project	84.928	97-OH03 AMEND 17	19,821
National Writing Project Corp - National Writing Project	84.928	97-OH03 AMEND 18	7,000
Total			46,586
<b>Total Department of Education</b>			<b>3,014,496</b>
<b>Department of Health and Human Services</b>			
<b>Direct Programs</b>			
Advanced Nursing Education Traineeships	93.358	A10HP18230-01-00	76,129
Health Care and Other Facilities	93.887		138,468

# Kent State University

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2011

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>Department of Health and Human Services (Continued)</b>			
<b>Pass-through Programs</b>			
Tuscarawas County General Health District - Public Health Emergency Preparedness	93.069	KSU 444503	\$29,707
Canton Regional Area Health Education Center - Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	32-C-2	18,686
Center for Research to Practice - Mental Health Research Grants	93.242	KSU 440403	23,374
Center for Research to Practice - Mental Health Research Grants	93.242	1 R01 MH076158	4,084
Total			27,458
Ohio Department of Mental Health - Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	TSG1-10-013-02-001	26,264
Ohio Department of Mental Health - Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	TSG10-10-017-02	18,000
Total			44,264
Ohio Department of Mental Health - Block Grants for Community Mental Health Services	93.958	BG-10-411-02-001	1,263
Ohio Department of Mental Health - Block Grants for Community Mental Health Services	93.958	BG-11-411-02-001	352,769
Total			354,032
<b>Total Department of Health and Human Services</b>			688,744
<b>Corporation for National and Community Service</b>			
<b>Pass-through Programs</b>			
Ohio Campus Compact - Learn and Serve America Higher Education	94.005	KSU 444807	9,000
Ohio Campus Compact - Learn and Serve America Higher Education	94.005	KSU 444808	5,094
Total Corporation for National and Community Service			14,094
<b>Social Security Administration</b>			
<b>Pass-through Program</b>			
Boston College - Social Security - Research and Demonstration	96.007	5001251-13 (BC10-S3)	29,603
Total Social Security Administration			29,603
Total Other Programs			5,463,778
Total Federal Awards			\$390,064,263

# Kent State University

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

### Note 1 - Significant Accounting Policies

**Basis of Presentation** - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Kent State University under programs of the federal government for the year ended June 30, 2011. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-21, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of Kent State University, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of Kent State University. Pass-through entity identifying numbers are presented where available.

**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.

**Facilities and Administrative Costs** - The University has approved predetermined facilities and administrative cost rates, which are 47.2 percent from July 1, 2010 to June 30, 2014 for on-campus research and instruction and 26 percent from July 1, 2009 to June 30, 2014 for off-campus research.

### Note 2 - Loans Outstanding

The University had the following loan balances outstanding at June 30, 2011:

<u>Cluster/Program Title</u>	<u>CFDA Number</u>	<u>Advances</u>	<u>Amount Outstanding</u>
Perkins Loan Program	84.038	\$ 1,277,076	\$ 23,243,604
Nursing Student Loan Program	93.364	273,231	2,088,236

# Kent State University

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## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

### Note 3 - Federal Direct Loan Program

During the year ended June 30, 2011, 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	\$ 242,939,574

# Kent State University

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

### Note 4 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Air Force Defense Research Sciences Program	12.800	\$ 854,770
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	8,418
Highway Planning and Construction	20.205	12,954
Biological Sciences	47.074	23,382
Social, Behavioral, and Economic Sciences	47.075	13,185
Education and Human Resources	47.076	220,330
ARRA - Trans-NSF Recovery Act Research Support	47.082	271,005
Small Business Development Center	59.037	35,176
Assessment and Watershed Protection Program Grants	66.480	12,161
Office of Science Financial Assistance Program	81.049	212,895
Tech-Prep Education	84.243	29,000
National Institute for Literacy	84.257	181,080
Research in Special Education	84.324	157,628
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	72,580
Improving Teacher Quality State Grants (A)	84.367	13,492
Oral Diseases and Disorders Research	93.121	49,021
Injury Prevention and Control Research and State and Community Based Programs	93.136	153,601
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	6,000
Nursing Research	93.361	49,973
ARRA - Trans-NIH Recovery Act Research Support	93.701	3,101
Heart and Vascular Diseases Research	93.837	634,209
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	56,359
Digestive Diseases and Nutrition Research	93.848	23,620
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	71,713
Child Health and Human Development Extramural Research	93.865	2,119
Aging Research	93.866	146,979
Total		<u>\$ 3,314,751</u>

# Kent State University

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2011

### Note 5 - Federal Expenditure 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 revenue, expenses, and changes in net assets (the "Statement"), which is included as part of the University's financial statements:

Expenditures per the Schedule	\$ 390,064,263
Perkins loan funds excluded from federal grants on the Statement	(23,243,604)
Nursing student loan funds excluded from the federal grants on the Statement	(2,088,236)
State share of instruction excluded from federal grants on the Statement	(20,187,196)
Federal Pell Grant funds shown separately on the Statement	(70,489,502)
Federal Direct Loans excluded from the federal grants on the Statement	<u>(242,939,574)</u>
Total	<u>\$ 31,116,151</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.

### Note 6 - Adjustments and Transfers

As allowable and in accordance with federal regulations issued by the U.S. Department of Education, The University can transfer Federal Supplemental Education Opportunity Grant (SEOG) Program (84.007) award funds to the Federal Work Study (FWS) Program (84.003). The University transferred \$4,080 for the 2010-2011 award year.

In addition, the University carried forward \$24,080 of the 2010-2011 SEOG award to the 2011-2012 award year. The University spent \$118,469 of carried forward SEOG funds from the 2009-2010 award year during the 2010-2011 award year. The University spent \$163,470 of carried forward FWS funds from the 2009-2010 award year during the 2010-2011 award year.

# Kent State University

## Schedule of Findings and Questioned Costs Year Ended June 30, 2011

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.038, 84.063, 84.116, 84.375, 84.376, 84.379, 93.364	Student Financial Aid Cluster
84.394	State Fiscal Stabilization Fund Cluster

Dollar threshold used to distinguish between type A and type B programs: \$1,299,888

Auditee qualified as low-risk auditee?  Yes  No

# **Kent State University**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011**

### **Section II - Financial Statement Audit Findings**

None

# Kent State University

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

### Section III - Federal Program Audit Findings

Reference

Number

Finding

2011-1 **Program Name** - Student Financial Aid Cluster - CFDA # 84.007, 84.033, 84.038, 84.063, 84.116, 84.375, 84.376, 84.379, 93.364

**Pass-through Entity** - N/A

**Finding Type** - Significant deficiency

**Criteria** - The University has 45 days from the date the University determines a student's withdrawal date to calculate a return of Title IV funds for the student and return the funds. Withdrawal dates are defined as the time when the student officially withdraws or expresses notification to withdraw or, if the student does not officially withdraw, the date that the University determines the student is no longer in attendance (34 CFR Section 668.173(b)).

**Condition** - Of the 40 students selected for return to Title IV testing, the University used the correct withdrawal date for all samples selected and reviewed. However, The University used the incorrect date of one student in the original calculation when determining the percentage of Title IV aid earned. During the University's normal review process, the error in the percentage calculation of Title IV aid earned was found. The original calculated amount (based on the correct official withdrawal date) of funds to return was returned within the 45 day deadline; however, the additional returned Title IV funds (based on the corrected calculation) was not returned within 45 days of official withdrawal, as required.

**Questioned Costs** - None

**Context** - Out of the sample of 40 students, one student's return resulted in a return of additional funds outside the 45 day deadline. A total of approximately 2,142 returns were prepared during the school year.

**Cause and Effect** - The University performs the original return to Title IV calculations and returns funds within the 45 day window. In addition, the University reviews 100 percent of its Title IV calculations for accuracy and compliance. As a result of its 100 percent review, the University found the error identified in the noncompliance instance and made the necessary correction by returning additional funds to the Federal Aid program. However, the additional return of funds back to the Federal Aid program was done after the 45 day deadline to return funds had passed. Therefore, the additional funds that were returned as a result of the review were not in compliance with the 45 day requirement.

**Recommendation** - The University should change its procedures to ensure the review process always occurs before the the 45-day deadline.

# Kent State University

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## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2011

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2011-1	<b>Views of Responsible Officials and Planned Corrective Actions</b> - The University will change the review process to ensure that a review performed on a completed R2T4 (return to Title IV) calculation will be done before the 45 day deadline.

**Kent State University  
National Collegiate Athletics Association**

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**Agreed-upon Procedures Report  
June 30, 2011**

# **Kent State University National Collegiate Athletics Association Report**

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Independent Accountant's Report on  
the Application of Agreed-upon Procedures

Dr. Lester A. Lefton  
President  
Kent State University  
Kent, OH 44242

We have performed the procedures enumerated below, which were agreed to by Kent State University (the "University"), solely to assist you in evaluating whether the accompanying Intercollegiate Athletics Program statement of revenue and expenditures of Kent State University is in compliance with the National Collegiate Athletics Association (NCAA), Constitution 3.2.4.16 for the year ended June 30, 2011. Kent State University's management is responsible for the statement of revenue and expenditures (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 and National Collegiate Athletic Association Financial Audit Guidelines. 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.

**Agreed-upon Procedures Related to the Statement of Revenue and Expenditures**

The procedures that we performed and our results are as follows:

**Internal Control Structure**

A. In preparation for our procedures related to the University's internal control structure, we met with the director of intercollegiate athletics and inquired about the general control environment over intercollegiate athletic finances, the level of control consciousness in the University, the competence of personnel, and the protection of records and equipment; we obtained and inspected the draft audited financial statements for the year ended June 30, 2011 and any additional reports regarding internal controls and any corrective action taken in response to comments concerning the internal control structure; we obtained and inspected any documentation of the accounting systems and procedures unique to the intercollegiate athletics department; and we then performed the following procedures relating to accounting systems and procedures unique to the intercollegiate athletics departments or that were not addressed in connection with the audit of the University's financial statements. The following procedures were performed:

Dr. Lester A. Lefton  
President  
Kent State University

- 1) **Procedure** - We selected three games and tested the ticket collection receipting process by comparing the total receipts for such games to the reconciliation and documenting the related cash deposit amount with the bank.

**Result** - We concluded that the internal control structure was the same as the University's internal control structure for the cash disbursement, cash receipt, and employee pay processes. Therefore, the only procedure listed that is unique to intercollegiate athletics is the ticket collection receipt process. We selected one football game, one men's basketball game, and one women's basketball game during the year and agreed the gate sales for such events, as documented by the University's ticket reconciliation procedures, to deposit slips of the related cash deposit amount with the bank. The reconciliations agreed to actual ticket sales per the Ticketmaster report and to the revenue reported on the statement of revenue and expenditures. We noted no exceptions.

### **Capital Expenditure Survey and Related Debt**

- B. In preparation for our procedures related to the capital expenditure survey, we obtained the capital expenditure survey for the reporting period, prepared by management; we obtained the University's policies and procedures for acquiring, approving, depreciating, and disposing of intercollegiate athletics-related assets; and we obtained repayment schedules for all outstanding intercollegiate athletics debt maintained by the University during the reporting period. We then performed the following procedures:

- 1) **Procedure** - We agreed the data provided on the capital expenditure survey to the University's general ledger and disclosed additions, deletions, and book values in the report.

**Result** - No exceptions were noted. See Note I for additions, deletions, and book values.

- 2) **Procedure** - We recalculated the annual maturities (consisting of principal and interest) provided in the obtained schedules. We then agreed the total annual maturities to supporting documentation and the University's general ledger, as applicable and disclosed in the report.

**Result** - Per inquiry with management, there is no debt related to intercollegiate athletics. Outstanding debt of the University was agreed to the maturity schedule obtained from management and to the audited financial statements. We noted no exceptions.

Dr. Lester A. Lefton  
President  
Kent State University

### **Intercollegiate Athletics Restricted and Endowment and Plant Funds**

C. **Procedure** - We obtained a summary of significant additions exceeding 10 percent and \$50,000 of restricted funds related to intercollegiate athletics, as well as significant changes exceeding 10 percent and \$50,000 of endowment and plant funds related to intercollegiate athletics, prepared by management. We disclosed the significant additions in the report.

**Result** - See Note 3 for these significant additions and changes.

### **Statement of Revenue and Expenditures**

D. **Procedure** - We obtained the Intercollegiate Athletics Program statement of revenue and expenditures for the reporting period, prepared by management, and agreed all amounts back to the University's general ledger. We also agreed the current year amounts to prior year amounts and to current year budgeted amounts, noting reasons for variances exceeding 10 percent and \$50,000.

**Result** - No exceptions were noted upon performing the above procedures. Explanations for variances in excess of 10 percent and \$50,000 can be found in appendix A. Explanations for variances in excess of 10 percent and \$50,000 can be found in appendix B.

### **Revenue**

E. **Revenue Procedures** - We agreed each revenue category reported in the statement during the reporting period to supporting schedules provided by the University. We performed the following procedures for the indicated revenue category:

I) Ticket Sales

**Procedure** - We agreed tickets sold during the reporting period, complimentary tickets provided during the reporting period, and unsold tickets to the related revenue reported by the University in the statement and related attendance figures and recalculated totals. We agreed a sample of three revenue receipts obtained from the above revenue supporting schedules to supporting documentation.

**Result** - We completed the procedure steps without exception, including agreeing tickets sold per the summary report totals to the revenue reported on the statement of revenue and expenditures and agreeing revenue receipts for the sample of three games to bank deposit slips.

Dr. Lester A. Lefton  
President  
Kent State University

2) Student Fees

**Procedure** - We agreed student fees reported by the University in the statement for the reporting to student enrollments during the same reporting period. We obtained and documented the University's methodology for allocating student fees to intercollegiate athletics programs and recalculated totals.

**Result** - We agreed the student fees revenue to the University's allocation calculation, without exception. We obtained the calculation and noted it was consistently applied compared to the prior year.

3) Guarantees

**Procedure** - We selected a sample of three contractual agreements pertaining to revenue derived from guaranteed contests during the reporting period and agreed each selection to the University's general ledger and/or the statement, and recalculated totals. We agreed a sample of three revenue receipts obtained from the above revenue supporting schedules to supporting documentation.

**Result** - We completed the procedure steps without exception, including agreeing the sample of three contractual agreements to deposit slips and copies of checks received.

4) Contributions

**Procedure** - We obtained supporting documentation for each contribution of monies, goods, or services received directly by an intercollegiate athletics program for any affiliated or outside organization, agency, or group of individuals that constitutes more than 10 percent of all contributions received for intercollegiate athletics during the reporting periods. We disclosed the source and dollar value of these contributions in the report. We agreed a sample of three revenue receipts obtained from the above revenue supporting schedules to supporting documentation.

**Result** - We obtained copies of checks and the related gift form for each contribution over the threshold listed above and agreed to the amount recorded in the GL, without exception (see Note 3).

5) NCAA/Conference Distributions Including All Tournament Revenue

**Procedure** - We obtained and inspected a sample of three agreements related to the University's participation in revenue from tournaments during the reporting period. We agreed the related revenue to the University's general ledger and/or the statement, and recalculated totals. We agreed a sample of three revenue receipts obtained from the above revenue supporting schedules to supporting documentation.

**Result** - We completed the procedure steps without exception, including agreeing the sample of three revenue receipts to bank deposit slips.

Dr. Lester A. Lefton  
President  
Kent State University

## **Expenditures**

F. **Expenditure Procedures** - We compared each expenditure category reported in the statement during the reporting period to supporting schedules provided by the University. We performed the following procedures for the indicated expenditure category:

1) **Athletic Student Aid**

**Procedure** - We selected a sample of 30 student athletes from the listing of University student aid recipients during the reporting period. We obtained individual student-account detail for each selection and agreed total aid allocated from the related aid award letter to the student's account and recalculated totals. We agreed a sample of 30 expenses obtained from the above expense supporting schedules to supporting documentation.

**Result** - For the sample of 30 students selected, each student's account detail agreed to the student's award letter and was recalculated except for the book voucher, which is offered but not disbursed to the student's account. We agreed a sample of 30 expenses and agreed expense amount to the offered and accepted award summary by student. No exceptions were noted.

2) **Guarantees**

**Procedure** - We obtained and inspected three contractual agreements pertaining to expenses recorded by the University from guaranteed contests during the reporting period. We agreed related amounts expensed by the University during the reporting period to the University's general ledger and/or the statement and recalculated totals. We agreed a sample of three expenses obtained from the above expense supporting schedules to supporting documentation.

**Result** - We agreed the sample of three contractual agreements to copies of checks paid out, without exception.

3) **Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities**

**Procedure** - We obtained and inspected a listing of coaches employed by the University and related entities during the reporting period. We selected a sample of five coaches' contracts, which included football and men's and women's basketball, from the above listing. We agreed the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the University and related entities in the statement during the reporting period. We obtained and inspected W-2s or 1099s for each selection. We agreed related W-2s or 1099s to the related coaching salaries, benefits, and bonuses paid by the University and related entities expense recorded by the University in the statement during the reporting period, and recalculated totals. We agreed a sample of five expenses obtained from the above expense supporting schedules to supporting documentation.

Dr. Lester A. Lefton  
President  
Kent State University

**Result** - We agreed a sample of five expenses to the coach's contract, W-2, and payroll personal action forms. There were no 1099s issued to the coaches by the University for the sample selected.

### **Affiliated and Outside Organizations**

G. **Procedure** - We inquired of management as to whether they have identified any affiliated and outside organizations that meet any of the following criteria:

- 1) Booster organizations established by or on behalf of an intercollegiate athletics program
- 2) Independent or affiliated foundations or other organizations that have as a principal purpose, generating or maintaining of grants-in-aid or scholarships funds, gifts, endowments or other monies, goods, or services to be used entirely or in part by the intercollegiate athletics program
- 3) Alumni organizations that have as one of its principal purposes the generating of monies, goods, or services for or on behalf of an intercollegiate athletics program and that contribute monies, goods, or services directly to an intercollegiate athletics program, booster group, or independent or affiliated foundation as previously noted

We obtained documentation of the University's practices and procedures for monitoring the internal controls in place and financial activities of these organizations. We inquired of management regarding the procedures for gathering information on the nature and extent of affiliated and outside organization activity for or on behalf of the University's Intercollegiate Athletics Program.

We noted there were no audited financial statements for any affiliated or outside organization.

**Result** - We inquired and obtained documentation for the University's practices and procedures for monitoring affiliated and outside organizations, which include the Blue and Gold Fund, the Varsity "K" Club, and the National Athletic Development Council. We agreed each organization's activity for the reporting period to the general ledger of the University. No exceptions were noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Intercollegiate Athletics Program statement of revenue and expenditures. 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.

Dr. Lester A. Lefton  
President  
Kent State University

This report is intended solely for the information and use of Kent State University management and the National Collegiate Athletics Association and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 10, 2011

# Kent State University

## National Collegiate Athletics Association Report

### Intercollegiate Athletics Program Statement of Revenue and Expenditures Year Ended June 30, 2011

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
<b>Operating Revenue</b>						
Ticket sales	\$ 426,468	\$ 161,366	\$ 10,594	\$ 26,681	\$ (3,528)	\$ 621,581
Student fees	-	-	-	-	12,151,130	12,151,130
Guarantees	725,000	80,000	-	17,050	-	822,050
Contributions	194,109	30,429	12,007	175,386	23,406	435,337
Facility rentals and memberships	-	-	-	-	110,058	110,058
Sponsorship sales	-	-	-	-	302,226	302,226
NCAA/Conference distributions - Including all tournament revenue	-	-	-	-	1,147,776	1,147,776
Royalties, adv., sponsorships	-	-	-	-	122,097	122,097
Sports camp revenue	-	-	-	-	63,929	63,929
Other	-	-	-	28,300	111,677	139,977
<b>Total operating revenue</b>	<b>1,345,577</b>	<b>271,795</b>	<b>22,601</b>	<b>247,417</b>	<b>14,028,771</b>	<b>15,916,161</b>
<b>Operating Expenditures</b>						
Athletic student aid	(1,873,009)	(341,340)	(299,354)	(2,631,688)	(142,405)	(5,287,796)
Personnel services	(1,122,012)	(523,851)	(414,429)	(1,506,694)	(2,615,449)	(6,182,435)
Staff benefits	(316,709)	(114,847)	(33,319)	(496,753)	(1,172,571)	(2,134,199)
Recruiting	(75,953)	(61,770)	(46,450)	(100,194)	(672)	(285,039)
Team travel	(326,732)	(205,331)	(82,542)	(707,482)	(484,011)	(1,806,098)
Equipment, uniforms, and supplies	(297,215)	(64,462)	(28,606)	(245,162)	(895,139)	(1,530,584)
Printing and postage	(35,372)	(6,438)	(2,388)	(20,521)	(113,479)	(178,198)
Direct facilities, maintenance, and rental	(57,732)	(9,367)	(7,373)	(57,501)	(1,129,107)	(1,261,080)
Other operating expenses	(675,774)	(275,024)	(44,891)	(132,148)	(963,479)	(2,091,316)
<b>Total operating expenditures</b>	<b>(4,780,508)</b>	<b>(1,602,430)</b>	<b>(959,352)</b>	<b>(5,898,143)</b>	<b>(7,516,312)</b>	<b>(20,756,745)</b>
<b>Excess of Revenue (Under) Over Expenditures</b>	<b>\$ (3,434,931)</b>	<b>\$ (1,330,635)</b>	<b>\$ (936,751)</b>	<b>\$ (5,650,726)</b>	<b>\$ 6,512,459</b>	<b>\$ (4,840,584)</b>

# Kent State University

## National Collegiate Athletics Association Report

### Notes to Intercollegiate Athletics Program Statement of Revenue and Expenditures Year Ended June 30, 2011

#### Note 1 - Intercollegiate Athletics-related Assets

Property and equipment are recorded at cost or, if donated, the fair value at the time of donation. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized. Estimated service lives range from 3 to 40 years depending on class.

The current year capitalized additions and deletions to facilities during the year ended June 30, 2011 are as follows:

	Current Year Additions	Current Year Deletions
Football athletics facilities	\$ -	\$ -
Other University facilities	\$ 44,636,433	\$ 480,000

The total estimated book values of property, plant, and equipment, net of depreciation, of the University as of the year ended June 30, 2011 are as follows:

	Estimated Book Value
Athletically related property, plant, and equipment balance	\$ 16,654,992
University's total property, plant, and equipment balances	\$ 586,986,436

# Kent State University National Collegiate Athletics Association Report

## Notes to Intercollegiate Athletics Program Statement of Revenue and Expenditures Year Ended June 30, 2011

### Note 2 - Intercollegiate Athletics-related Debt

The annual debt service and debt outstanding for the University as of the year ended June 30, 2011 are as follows:

	Annual Debt Service	Debt Outstanding
	<u>                    </u>	<u>                    </u>
Athletically related facilities	\$ -	\$ -
University's total	<u>\$ 17,329,424</u>	<u>\$ 292,324,605</u>

### Note 3 - Restrictive and Endowment Athletic Funds

The University has several restrictive and endowment athletic funds held for the benefit of the athletics program. For the year ended June 30, 2011, the following funds have grown over 10 percent and \$50,000 due to new contributions and earnings during the year:

<u>Restrictive Fund</u>	<u>Source of Funds</u>	<u>Contribution</u>	<u>Value at June 30, 2011</u>
Schoonover Baseball Stadium Project	Schoonover Foundation	\$ 225,000	\$ 135
Football Enhancement Fund	Mr. David J. Bronczek	99,242	60,366

<u>Endowment Fund</u>	<u>Source of Funds</u>	<u>Contribution</u>	<u>Value at June 30, 2011</u>
Bruno Santone Wrestling Scholarship	Bruno Gregory Santone Administrative Trust	\$ 196,331	\$ 1,136,600
William Drypolcher Wrestling Endowment	Schwab Charitable Fund	225,000	219,595

# Kent State University National Collegiate Athletics Association Report

## Appendix A Intercollegiate Athletics Program Significant Variations and Explanations - Actual Versus Actual

Year Ended June 30,  
2011

	2010-2011 Total	2009 -2010 Total	\$ Change	% Change	Explanation Provided by Intercollegiate Athletics Senior Fiscal Manager
<b>Revenue</b>					
Student fees	\$ 12,151,130	\$ 10,516,660	\$ 1,634,470	16%	The variance is the result of an increase in both enrollment and fees charged to students in 2011.
Guarantees	822,050	675,325	146,725	22%	The variance is due to a \$225,000 increase in football for better paying guarantee games in 2011 and an \$80,000 decrease in men's basketball due to the fact that men's basketball was paid more to play in nonconference games in 2010.
Sponsorship sales	302,226	383,279	(81,053)	(21%)	The variance is a result of there being less money spent to buy football tickets to meet NCAA attendance requirements in 2011 than in 2010. Football ticket sales in 2010 were around 46,000 and in 2011, football ticket sales increased to over 90,000. These dollars are used to purchase those tickets.
NCAA reimbursement	121,928	38,640	83,288	216%	The variance is due to NCAA increasing its funding in 2011 from 2010. The amount NCAA reimburses universities is dependent upon team travel to NCAA championships, which is determined by the number of teams that advance in competition beyond the regular season. Men's basketball saw an increase of \$63,396 in travel expenses due to increases in regular travel and air travel costs.
Other	117,717	186,154	(68,437)	(37%)	The variance is related mainly to three events. First, activity related to football pre-games, tailgating activity, is included in this classification. The revenue related to this is dependent on attendance and what the University is selling. There was a decrease in revenue of approximately \$8,000 in 2011. Also, the golf training center offered a class in 2010 that was highly attended and brought in \$18,000 of revenue that was included in this account. In 2011, the golf training class only brought in \$9,200 of revenue. Finally, revenue of \$45,000 from the Coca-Cola advertising campaign was recorded in this account in 2010, which was the last year for this contract.
<b>Expenditures</b>					
Salaries and wages	6,182,435	5,551,965	630,470	11%	This variance is due to numerous increases in salaries and wages and employee benefits. There was a \$150,605 increase in salaries and wages resulting from hiring a new athletic director and associate AD. Benefits also increased by \$132,416 due to new staff and the University having to pay the retired AD unused sick time. Football salaries increased by \$299,771 due to hiring new coaching staff and having to pay the old coaching staff 90 days of severance pay. There was also an increase to staff benefits of \$68,430, which is associated with the increased salaries of the new football coaching staff. There was a decrease in salaries and wages relating to men's basketball as the new head basketball coach is being paid less than the former head coach and men's basketball was without an operations position for a couple months during 2011. Staff benefits for women's basketball decreased by \$85,831 due to there being a vacation accrual and other benefits pool adjustment booked for \$135,919 in 2011.
Travel	1,806,098	1,563,526	242,572	16%	The variance is a result of increased travel by the newly hired AD of \$68,340 to raise new funds for the University, as well as the increased travel that the men's basketball team incurred of \$63,396. Also in 2011, the entertainment expenses, which totaled \$114,573, were included in the travel expenses instead of entertainment expenses.
Entertainment	-	91,185	(91,185)	(100%)	The variance is a result of all of the entertainment expenses for 2011, which total \$114,573, being included in travel expenses.

# Kent State University National Collegiate Athletics Association Report

## Appendix B Intercollegiate Athletics Program Significant Variations and Explanations - Budget Versus Actual Year Ended June 30, 2011

	2010-2011		2010-2011		% Change	Explanation
	Budget	Actual	\$ Change	% Change		
<b>Revenue</b>						
Ticket sales	\$ 307,600	\$ 621,581	\$ 313,981	51%	The variance is due to an increase in football ticket sales in 2011. Over 90,000 tickets were bought, which is a significant increase from 2010.	
NCAA revenue distribution	890,205	1,025,848	135,643	13%	The variance is caused by an increase in NCAA revenue. NCAA revenue increases are controlled by the NCAA and will fluctuate from year to year.	
Sponsorship sales	367,450	302,225	(65,225)	(22%)	The variance is due to the use of sales revenue to cover tickets sold to meet NCAA attendance requirements. This revenue is recorded in ticket sales revenue for 2011.	
NCAA reimbursement	-	121,928	121,928	100%	The variance is due to the fact that there was no original budget for NCAA reimbursement because the amount is based on team travel to NCAA championships, which is not easily predicted.	
Foundation gift transfers	525,000	435,337	(89,663)	(21%)	The variance is due to less amounts being received by donors than anticipated.	
<b>Expenditures</b>						
Travel	1,570,369	1,806,098	235,729	13%	The variance is the result of an unanticipated increase in the amount of travel that the new athletic director would have related to soliciting donations. Also, the men's basketball team participated in the NCAA tournament, for which there is no expense budgeted.	
Recruiting	390,376	285,038	(105,338)	(37%)	The variance due to lower expenses than expected for most sports teams and other operations.	
Student athletic aid	4,666,887	5,287,796	620,909	12%	The variance is due to an error in the budget. The budgeted amount should have been higher based on 2010 expenses.	
Printing and postage	239,570	178,198	(61,372)	(34%)	This variance is due to intercollegiate athletics no longer printing media guides for each sport.	



# Dave Yost • 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  
MAY 1, 2012**