

Kent State University

Financial Report

June 30, 2012

KENT STATE UNIVERSITY
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June 30, 2012 and 2011

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KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited) As of June 30, 2012 and 2011

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, 2012 and 2011. 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, experienced a slight increase over the prior year. The University's total assets increased over the prior year by \$191.7 million to \$1,308 million while total liabilities increased \$184.6 million to \$620.7 million. Highlights of significant events are as follows:

- Fall 2011 enrollment increased 1.98% over the prior year to a total of 42,185 students.
- In June 2012, the University issued \$170 million in General Receipts bonds. The proceeds of the bonds are included in restricted cash and will be used to finance the construction, renovation, and furnishing of various academic and administrative buildings on the Kent campus.
- The University's investments decreased by \$2.8 million to \$329 million due to decreases in market values.
- The University recognized \$14.5 million in investment loss due to the restructuring of the University's interest rate swap which resulted in a termination of hedge accounting. (See Note 6 for further information)

KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited)

As of June 30, 2012 and 2011

Statement of Net Assets

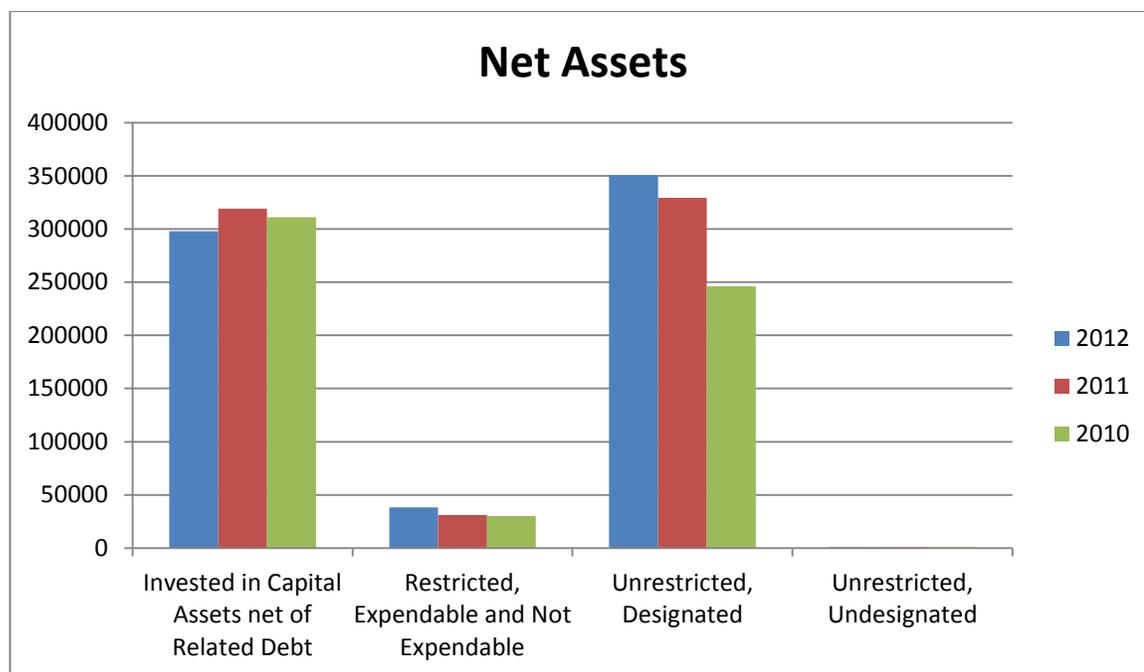
The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment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

Kent State University Condensed Statement of Net Assets as of June 30, 2012, 2011 and 2010 (in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Current and other assets	\$ 697,274	\$ 515,425	\$ 417,391
Capital assets	610,879	600,990	579,676
Total assets	<u>\$ 1,308,153</u>	<u>\$ 1,116,415</u>	<u>\$ 997,067</u>
LIABILITIES			
Long-term debt	\$ 498,744	\$ 326,014	\$ 296,569
Other	121,921	110,074	112,197
Total liabilities	<u>\$ 620,665</u>	<u>\$ 436,088</u>	<u>\$ 408,766</u>
NET ASSETS			
Invested in capital assets net of related debt	\$ 297,862	\$ 319,033	\$ 311,041
Restricted, expendable and not expendable	38,334	31,084	30,201
Unrestricted:			
Designated	350,403	329,387	246,264
Undesignated (unallocated)	889	823	795
Total net assets	<u>\$ 687,488</u>	<u>\$ 680,327</u>	<u>\$ 588,301</u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited) As of June 30, 2012 and 2011



2012 Versus 2011

At June 30, 2012, the University's current assets of \$297.8 million were sufficient to cover current liabilities of \$117.1 million (current ratio of 2.5). At June 30, 2011, current assets of \$281.4 million were sufficient to cover current liabilities of \$102.3 million (current ratio of 2.8).

At June 30, 2012, total University assets were \$1,308.2 million, compared to \$1,116.4 million at June 30, 2011. The increase of \$191.8 million is mainly attributed to an increase in cash, specifically restricted cash. This is due to the issuance of general receipts bonds in fiscal 2012 in the amount of \$170 million. The proceeds from this bond are recorded as restricted cash. See the statement of cash flows for more detail related to changes in cash.

University liabilities total \$620.7 million at June 30, 2012 compared to \$436.1 million at June 30, 2011. This increase is primarily due to an increase of \$186.2 million in long-term debt. During 2012, the University issued \$170 million in general receipts bonds to fund various construction projects for both academic and administrative buildings on the Kent campus.

Total net assets increased by \$7.2 million to \$687.5 million. Unrestricted net assets total \$351.3 million, 99.7% of which (\$350.4 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

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).

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Management's Discussion and Analysis (unaudited)

As of June 30, 2012 and 2011

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 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.

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.

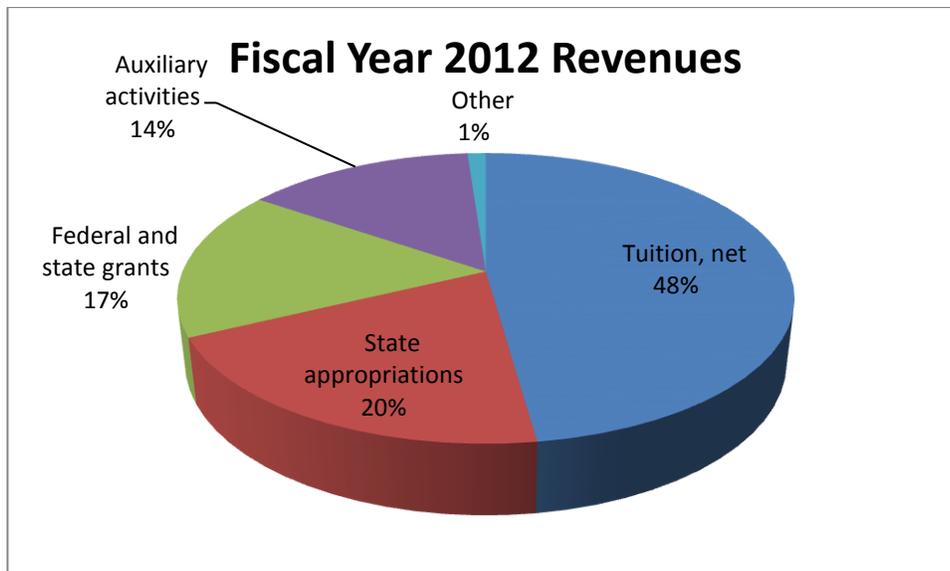
KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited) As of June 30, 2012 and 2011

Kent State University
Condensed Statement of Revenues, Expenses and Changes in Net Assets
for the years ended June 30, 2012, 2011 and 2010
(in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues			
Tuition, net	\$ 295,399	\$ 274,994	\$ 249,107
State appropriations and Federal Fiscal Stabilization Funds	124,108	140,254	137,646
Federal and state grants	103,184	110,724	94,114
Auxiliary activities	88,432	83,164	78,702
Other	7,088	81,411	77,442
Total revenues	<u><u>\$ 618,211</u></u>	<u><u>\$ 690,547</u></u>	<u><u>\$ 637,011</u></u>
Expenses			
Instruction	\$ 203,436	\$ 202,592	\$ 197,230
Research	19,872	20,532	18,993
Institutional support	64,603	55,067	53,276
Scholarships and fellowships	46,826	43,600	37,642
Other	276,313	276,730	289,225
Total expenses	<u><u>\$ 611,050</u></u>	<u><u>\$ 598,521</u></u>	<u><u>\$ 596,366</u></u>

The following chart shows the breakdown of total revenues. Tuition is the largest source of revenue at 47.8% followed by State appropriations at 20%.



KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited) As of June 30, 2012 and 2011

2012 Versus 2011 During the year ended June 30, 2012:

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 1-2% in the Fall and spring semesters but was lower than the prior year during the summer semester.

State appropriations were the most significant non-operating revenue. During 2012, state appropriations totaled \$124.1 million. Federal fiscal stabilization funds were eliminated in 2012, resulting in a \$16.1 million reduction in funding.

Operating expenses, including depreciation of \$36.5 million, totaled \$599.9 million. Of the operating expenses, institutional support expense had the most significant increase. This increase is primarily due to an increase in expenses associated with the University's telecommunication project, as well as an increase in the University's allowance for bad debt in fiscal year 2012. Based on the University's method of estimating the allowance, an increase was expected due to the increases in tuition revenue over the past two years.

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 \$37.2 million, totaled \$588.1 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, 2012, 2011 and 2010 (in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash (used in)/provided by:			
Operating activities	\$ (123,933)	\$ (137,438)	\$ (133,950)
Investing activities	(4,008)	(23,547)	11,608
Capital and related financing activities	121,657	(31,818)	(54,604)
Non-capital financing activities	<u>199,217</u>	<u>219,786</u>	<u>204,057</u>
Net increase in cash	192,933	26,983	27,111
Cash and cash equivalents, beginning of year	<u>108,259</u>	<u>81,276</u>	<u>54,165</u>
Cash and cash equivalents, end of year	<u>\$ 301,192</u>	<u>\$ 108,259</u>	<u>\$ 81,276</u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited) As of June 30, 2012 and 2011

2012 Versus 2011 During the year ended June 30, 2012:

Major sources of cash included student tuition and fees (\$236.1 million), state appropriations (\$124.1 million), auxiliary activities (\$85 million), Federal Pell grants (\$69.1 million) and net proceeds from bond issuance (\$186.2 million). The largest payments were for suppliers (\$234.4 million) and employees (\$273.1 million).

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).

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the University had invested \$610.9 million in a broad range of capital assets, including equipment, buildings, building improvements and land. This amount represents a net increase (including additions and deductions) of \$9.9 million, or 1.6 percent, over last year.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 15.6	\$ 13.6	\$ 11.7
Equipment	41.2	41.7	45.1
Buildings and improvements	519.8	519.6	499.9
Construction in progress	34.3	26.1	23.0
Total	<u>\$ 610.9</u>	<u>\$ 601.0</u>	<u>\$ 579.7</u>

In fiscal year 2012, several significant projects including the new student green and residence halls energy project were started. In addition, the renovations of Harbour Hall and Heer Hall (administrative buildings on the Kent campus) as well as the Salem campus classroom building were completed.

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, 2012 and 2011

Long-term Debt

At year end, the University had \$498.8 million in bonds and notes outstanding—an increase of \$172.8 million over last year. The increase is primarily due to the University issuing \$170.0 million in bonds during fiscal year 2012. The proceeds from the bond sale will be used for constructing, renovating, equipping, and furnishing various academic and administrative buildings on the Kent campus. 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>2012</u>	<u>2011</u>	<u>2010</u>
General receipts bonds (backed by the University)	\$ 456.4	\$ 280.9	\$ 287.9
Tax Revenue Energy Bonds	25.2	26.6	1.3
Capital leases	<u>17.2</u>	<u>18.5</u>	<u>7.4</u>
Total	<u>\$ 498.8</u>	<u>\$ 326.0</u>	<u>\$ 296.6</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. The University has experienced enrollment increases in the past several years but the trend is beginning to stabilize. Due to the continued challenges in the State of Ohio, the amount of state funding has remained the same while costs have continued to increase. The University continues to identify and enact efficiencies and cost savings in a number of areas but despite these cost savings, the University had to enact a 3.5% tuition increase. The University continues to focus on student recruiting and retention as well as fund 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 to exceed \$353 million. The University issued \$170 million in General Receipts bonds to begin to address the deferred maintenance and will continue to look for options to address the remaining deferred maintenance.

Independent Auditor's Report

To the Board of Trustees
Kent State University

We have audited the accompanying financial statements of Kent State University and its discretely presented component unit (which together are a component unit of the State of Ohio), as of and for the years ended June 30, 2012 and 2011. The University and the discretely presented component unit collectively comprise the basic financial statements. 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, Inc. (the "Foundation"), which present all of the balances and activity reported in 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, are based on the report of the 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Kent State University and its discretely presented component unit as of June 30, 2012 and 2011 and the respective changes in financial position and cash flows, if applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 3, the financial statements include investments valued at approximately \$117,000,000 (17 percent of net assets) and \$118,000,000 (17 percent of net assets) as of June 30, 2012 and 2011, 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.

To the Board of Trustees
Kent State University

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 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, and grant agreements. 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.

The accompanying other supplemental information and schedule of expenditures of federal awards are 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 are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified on pages 1 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2012

KENT STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2012 and 2011
(in thousands)

	University		University Related Foundation	
	2012	2011	2012	2011
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 101,850	\$ 83,792	\$ 613	\$ 864
Short-term investments	152,938	146,366	117,248	122,811
Accounts and pledges receivable, net	35,777	44,350	4,996	2,586
Inventories	2,070	1,923	-	-
Deposits and prepaid expenses	4,425	4,153	-	-
Accrued interest receivable	746	807	-	-
Total current assets	<u>297,806</u>	<u>281,391</u>	<u>122,857</u>	<u>126,261</u>
Noncurrent assets:				
Restricted cash	199,342	24,467	-	-
Student loans receivable, net	18,779	20,762	-	-
Note receivable	-	-	4,055	-
Long-term investments	176,152	185,524	6,665	7,322
Long-term pledges receivable, net	-	-	1,189	4,921
Capital assets, net	610,879	600,990	1,491	1,464
Other assets	3,314	2,988	425	481
Deferred outflow of resources	1,881	293	-	-
Total noncurrent assets	<u>1,010,347</u>	<u>835,024</u>	<u>13,825</u>	<u>14,188</u>
Total assets	<u>\$ 1,308,153</u>	<u>\$ 1,116,415</u>	<u>\$ 136,682</u>	<u>\$ 140,449</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 46,566	\$ 30,437	\$ 668	\$ 620
Accrued payroll	10,536	12,350	-	-
Payroll taxes and accrued fringe benefits	13,632	14,769	-	-
Deferred revenue and deposits	28,742	30,980	-	-
Derivative instrument - swap liability	1,881	293	-	-
Short-term borrowings	-	-	4,055	-
Current portion of long-term debt	15,696	13,455	-	-
Total current liabilities	<u>117,053</u>	<u>102,284</u>	<u>4,723</u>	<u>620</u>
Noncurrent liabilities:				
Accrued compensated absences	19,583	19,363	-	-
Accrued liabilities	-	-	4,242	3,669
Long-term unearned fees and deposits	981	1,882	6,842	7,089
Long-term debt	483,048	312,559	-	-
Total noncurrent liabilities	<u>503,612</u>	<u>333,804</u>	<u>11,084</u>	<u>10,758</u>
Total liabilities	<u>620,665</u>	<u>436,088</u>	<u>15,807</u>	<u>11,378</u>
NET ASSETS				
Invested in capital assets, net of related debt	297,862	319,033	1,491	1,464
Restricted, nonexpendable	5,883	5,883	31,675	31,367
Restricted, expendable	32,451	25,201	82,497	90,585
Unrestricted	351,292	330,210	5,212	5,655
Total net assets	<u>687,488</u>	<u>680,327</u>	<u>120,875</u>	<u>129,071</u>
Total liabilities and net assets	<u>\$ 1,308,153</u>	<u>\$ 1,116,415</u>	<u>\$ 136,682</u>	<u>\$ 140,449</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, 2012 and 2011
(in thousands)

	University		University Related Foundation	
	2012	2011	2012	2011
OPERATING REVENUES				
Student tuition and fees	\$ 362,908	\$ 340,274	\$ -	\$ -
Less scholarship allowances	(67,509)	(65,280)	-	-
Net student tuition and fees	<u>295,399</u>	<u>274,994</u>	<u>-</u>	<u>-</u>
Federal grants and contracts	27,176	31,115	-	-
State grants and contracts	6,946	9,119	-	-
Local grants and contracts	372	394	-	-
Nongovernmental grants and contracts	5,854	11,873	-	-
Sales and services of educational departments	9,561	9,658	-	-
Auxiliary activities - Net	88,432	83,164	-	-
Other operating revenues	-	-	36	28
Total operating revenues	<u>433,740</u>	<u>420,317</u>	<u>36</u>	<u>28</u>
OPERATING EXPENSES				
Instruction	203,436	202,592	-	-
Research	19,872	20,532	-	-
Public service	16,084	16,733	-	-
Academic support	54,743	53,678	-	-
Student services	28,310	28,375	-	-
Institutional support	64,603	55,067	10,832	14,725
Scholarships and fellowships	46,826	43,600	3,139	2,792
Operation and maintenance of plant	44,683	43,556	-	-
Auxiliary activities	84,809	86,651	-	-
Depreciation	36,530	37,304	1	1
Total operating expenses	<u>599,896</u>	<u>588,088</u>	<u>13,972</u>	<u>17,518</u>
Operating loss	<u>(166,156)</u>	<u>(167,771)</u>	<u>(13,936)</u>	<u>(17,490)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	124,108	120,067	-	-
Federal Fiscal Stabilization funds	-	20,187	-	-
Federal Pell Grant revenue	69,062	70,490	-	-
Gifts	6,032	9,080	10,264	12,368
Investment income	(21,383)	42,795	(3,167)	21,176
Interest on capital asset-related debt	(11,154)	(10,433)	-	-
Other nonoperating revenues/expenses	4,310	3,194	(1,357)	(766)
Net nonoperating revenues	<u>170,975</u>	<u>255,380</u>	<u>5,740</u>	<u>32,778</u>
Income before other revenues, expenses, gains or losses	<u>4,819</u>	<u>87,609</u>	<u>(8,196)</u>	<u>15,288</u>
Capital appropriation	<u>2,342</u>	<u>4,417</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>7,161</u>	<u>92,026</u>	<u>(8,196)</u>	<u>15,288</u>
NET ASSETS				
Net assets, beginning of year	<u>680,327</u>	<u>588,301</u>	<u>129,071</u>	<u>113,783</u>
Net assets, end of year	<u>\$ 687,488</u>	<u>\$ 680,327</u>	<u>\$ 120,875</u>	<u>\$ 129,071</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, 2012 and 2011
(in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 236,066	\$ 215,300
Cash received from auxiliary activities	87,966	83,174
Cash received from other sources	15,553	8,930
Grants and contracts	12,372	50,799
Federal student loan funds received	29,884	-
Student loans granted, net of repayments	1,723	1,956
Cash paid to employees	(273,079)	(268,783)
Cash paid to suppliers	(234,418)	(228,814)
Net cash used in operating activities	(123,933)	(137,438)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	77,886	84,873
Purchases of investments	(98,846)	(121,584)
Interest received	16,952	13,164
Net cash used in investing activities	(4,008)	(23,547)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net proceeds from bond issuance	186,185	25,388
Principal payments under debt obligations, net	(11,084)	(7,522)
Interest and swap termination fee paid	(13,351)	(12,863)
Capital appropriations	1,563	1,787
Purchases of capital assets	(47,310)	(41,779)
Other payments	5,654	3,171
Net cash provided by (used in) capital and related financing activities	121,657	(31,818)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations and Federal Fiscal Stabilization Funds	124,108	140,254
Gifts received from KSU Foundation	6,047	9,042
Cash received from Federal Pell grants	69,062	70,490
Net cash provided by noncapital financing activities	199,217	219,786
Net increase in cash and cash equivalents	192,933	26,983
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 108,259	 81,276
 CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED CASH), END OF YEAR	 \$ 301,192	 \$ 108,259

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, 2012 and 2011
(in thousands)

	2012	2011
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (166,156)	\$ (167,771)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	36,530	37,304
Change in assets and liabilities:		
Accounts receivable, net	8,558	(8,225)
Inventories	(147)	66
Deposits and prepaid expenses	(273)	(446)
Student loans receivable, net	1,983	1,800
Accounts payable and accrued liabilities	1,442	(1,910)
Accrued payroll	(1,814)	163
Payroll taxes and accrued fringe benefits	(1,137)	1,243
Unearned fees and deposits	(3,139)	(803)
Accrued compensated absences	220	1,141
Total change in assets and liabilities	5,693	(6,971)
Net cash used in operating activities	\$ (123,933)	\$ (137,438)

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

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2012 and 2011

(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 investments 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, 2012 and 2011 (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.

(b) Upcoming Accounting Pronouncements

GASB 60 – Accounting and Financial Reporting for Service Concession Arrangements

GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (SCAs), in November 2010. This Statement addresses financial reporting related to service concession arrangements which are a type of public private or public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's fiscal year ending June 30, 2013.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2012 and 2011

(in thousands)

GASB 61 – The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the Statement also clarifies the reporting of equity interests in legally separate organizations. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's fiscal year ending June 30, 2013.

GASB 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's fiscal year ending June 30, 2013.

GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued in June 2011. This Statement 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. 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 University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's fiscal year ending June 30, 2013.

GASB 65 – Items Previously Reported as Assets and Liabilities

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Statement No. 65 will be implemented for the University as of June 30, 2014.

KENT STATE UNIVERSITY

Notes to Financial Statements
June 30, 2012 and 2011
(in thousands)

GASB 68 – Accounting and Financial Reporting for Pensions

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The total pension liability will be computed on a different basis than the current actuarial accrued liability and the method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. The provisions of this Statement are effective for financial statements for the year ending June 30, 2015.

(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 various campus enhancements and 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, 2012 and 2011

(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, Federal Pell grant revenue, investment income, and state capital grants.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2012 and 2011

(in thousands)

(k) Reclassification

Certain amounts from the prior year have been reclassified to conform with the current year's presentation. Net asset balances related to construction projects were reclassified from unrestricted net assets to invested in capital assets, net of related debt.

(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

U.S. 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, 2012 and 2011, the bank amount of the University's deposits was \$256,172 and \$64,930, respectively. Of that amount, \$44,621 and \$31,862, respectively, was insured. The remaining \$211,551 and \$33,068 at June 30, 2012 and 2011, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2012 and 2011 (in thousands)

The values of investments at June 30, 2012 and 2011 are as follows:

	2012	
	Market Value	Cost
Common stock	\$ 165,026	\$ 153,237
US government agency obligations	4,302	4,811
US government obligations	9,435	9,086
Corporate bonds and notes	2,876	2,110
Mutual funds	111,356	110,111
State Treasury Asset Reserve of Ohio	36,095	36,095
Total	\$ 329,090	\$ 315,450

	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
Mutual funds	106,198	88,738
State Treasury Asset Reserve of Ohio	36,079	36,079
Total	\$ 331,890	\$ 294,487

Included in common stock above are alternative investments of approximately \$117 million and \$118 million as of June 30, 2012 and June 30, 2011, 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, 2012, the University realized a net loss of (\$26,914). During the year ended June 30, 2011, the University realized a net loss of \$(608). 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 depreciation in the fair value of investments during the year ended June 30, 2012 was (\$13,273). In fiscal year 2011, the net appreciation was \$36,795. 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, 2012 and 2011 (in thousands)

The unrealized appreciation on investments for the year ended June 30, 2012 was \$13,641. The unrealized appreciation on investments for the year ended June 30, 2011 was \$37,403.

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 2012	\$6,404	(\$13,273)	(\$6,869)
Total 2011	\$6,000	\$36,795	\$42,795

Also included in investment income is (\$14,514) related to the termination of hedge accounting on the University's swap. See Note 6 for further disclosure.

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, 2012 are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
US government obligations	\$ 9,435	\$ 3,707	\$ 5,101	\$ 627	\$ -
US government agency obligations	4,302	11	1,752	918	1,621
Corporate bonds and notes	2,876	1,202	1,105	-	569
Bond mutual funds	65,406	9,746	28,477	21,476	5,707
Total	\$ 82,019	\$ 14,666	\$ 36,435	\$ 23,021	\$ 7,897

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

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
US government obligations	\$ 7,735	\$ 3,054	\$ 4,681	\$ -	\$ -
US government agency obligations	4,225	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	\$ 93,293	\$ 16,537	\$ 38,615	\$ 23,942	\$ 14,199

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2012 and 2011 (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, 2012 are as follows:

Credit Rating (Moody's)	US				
	Total	Government Obligations	US Agency Obligations	Corporate Bonds	Bond Mutual Funds
AAA	\$ 41,905	\$ 9,435	\$ 4,302	\$ 791	\$ 27,377
AA+	1,369	-	-	-	1,369
AA	4,248	-	-	50	4,198
AA-	1,550	-	-	292	1,258
A+	2,620	-	-	17	2,603
A	6,377	-	-	352	6,025
OTHER	23,950	-	-	1,374	22,576
Total	\$ 82,019	\$ 9,435	\$ 4,302	\$ 2,876	\$ 65,406

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
Total	\$ 93,293	\$ 8,322	\$ 3,638	\$ 2,242	\$ 79,091

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, 2012 and June 30, 2011, 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, 2012 and 2011:

	June 30, 2012	June 30, 2011
PIMCO Total Return	\$ 20,188	\$ 20,031
Met West Total return Fund	\$ 20,165	\$ 20,222
Western Asset Institutional Government Reserve	\$ 15,975	\$ 21,134

KENT STATE UNIVERSITY

Notes to Financial Statements
June 30, 2012 and 2011
(in thousands)

(4) Accounts Receivable

Accounts receivable consist of the following, as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Sponsor accounts	\$ 6,124	\$ 9,041
Student accounts	27,761	25,916
Other	6,752	12,293
	40,637	47,250
Less allowances for loss on accounts receivable	(4,860)	(2,900)
Accounts receivable, net	\$ 35,777	\$ 44,350

In addition, the University has student loans receivable of \$23,838 and \$25,561 as of June 30, 2012 and 2011, respectively. The related allowances as of June 30, 2012 and 2011 are \$5,059 and \$4,799, 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, 2012:

	<u>2011</u>	<u>Additions/ Transfers</u>	<u>Net Retirements</u>	<u>2012</u>
Land	\$ 13,617	\$ 1,995	\$ -	\$ 15,612
Infrastructure	100,973	4,389	1,032	104,330
Buildings	741,656	23,940	798	764,798
Equipment	202,822	9,406	4,715	207,513
CIP	26,112	8,359	80	34,391
	1,085,180	48,089	6,625	1,126,644
Less accumulated depreciation				
Infrastructure	(52,022)	(4,412)	1,008	(55,426)
Buildings	(271,047)	(21,987)	(865)	(293,899)
Equipment	(161,121)	(9,568)	4,249	(166,440)
	(484,190)	(35,967)	4,392	(515,765)
Capital assets, net	\$ 600,990	\$ 12,122	\$ 2,233	\$ 610,879

Included in depreciation expense of \$36,530 for the year ended June 30, 2012 is a loss of \$563 from the disposal of obsolete capital assets.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2012 and 2011 (in thousands)

Capital assets consist of the following as of June 30, 2011:

	<u>2010</u>	<u>Additions/ Transfers</u>	<u>Net 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
Construction-in-progress	22,956	3,729	573	26,112
	1,030,505	59,466	4,791	1,085,180
Less accumulated depreciation				
Infrastructure	(47,872)	(4,150)	-	(52,022)
Buildings	(250,697)	(20,543)	193	(271,047)
Equipment	(152,260)	(12,096)	3,235	(161,121)
	(450,829)	(36,789)	3,428	(484,190)
Capital assets, net	\$ 579,676	\$ 22,677	\$ 1,363	\$ 600,990

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.

(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, 2012, 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, 2012, the outstanding principal of the 2009B General Receipts bond was \$197,420.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2012 and 2011

(in thousands)

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. 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, 2012, the unamortized net bond premium was \$13,212.

In June 2012, the University issued \$170,000 in Series 2012 General Receipts bonds. The proceeds from the bond sale will be used for constructing, renovating, equipping and furnishing various University academic, administrative and other campus buildings. As of June 30, 2012, the outstanding principal of the 2012 bonds was \$170,000. In connection with the bond issuance, the University also recognized a net bond premium totaling \$16,185 which will be amortized against interest expense over the life of the bond.

In accordance with the General Receipts bonds Trust Agreement, the Series 2008B, Series 2009B and Series 2012 General Receipts bonds are subject to mandatory or optional redemption.

The indebtedness created through the issuance of General Receipts 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, 2012, the outstanding principal of the Series A and Series B bonds was \$440 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. As of June 30, 2012, the outstanding principal of the Series A and Series B bonds was \$2,374 and \$2,694, respectively. 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. As of June 30, 2012, the outstanding principal of Series A and Series B bonds was \$11,972 and \$7,000, respectively.

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, 2012 and 2011 (in thousands)

Long-term debt consists of the following as of June 30, 2012:

	<u>Rates</u>	<u>Maturity</u>	<u>2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>2012</u>
General Receipts Bonds of 2009B	2.0 - 5.0	2009-2032	\$ 205,700	\$ -	\$ 8,280	\$ 197,420
General Receipts Bonds of 2002/now 2008B	3.79	2028-2032	60,000	-	-	60,000
General Receipts Bonds of 2012	3.0 - 5.0	2014-2042	-	170,000	-	170,000
Air Quality Dev. Tax Exempt Rev. Bond - Stark (A)	2.99	2010-2016	565	-	125	440
Air Quality Dev. Tax Credit Rev. Bond - Stark (B)	5.63	2010-2020	672	-	-	672
Air Quality Dev. Tax Exempt Rev. Bond - Regional Campuses (A)	2.75	2012-2019	2,694	-	320	2,374
Air Quality Dev. Tax Credit Rev. Bond - Regional Campuses (B)	4.86	2012-2019	2,694	-	-	2,694
Air Quality Dev. Tax Exempt Rev Bond Residence Halls & Dining Svcs (A)	2.62	2019-2025	13,000	-	1,028	11,972
Air Quality Dev. Tax Credit Rev Bond Residence Halls & Dining Svcs (B)	5.32	2019-2025	7,000	-	-	7,000
Other	various	various	18,530	-	1,331	17,199
			<u>310,855</u>	<u>170,000</u>	<u>11,084</u>	<u>469,771</u>
Plus unamortized discount and premium			15,618	16,185	2,406	29,397
Less unamortized call premium on Series 2000 bonds			(459)		35	(424)
Subtotal			<u>326,014</u>	<u>\$ 186,185</u>	<u>\$ 13,525</u>	<u>498,744</u>
Less current portion of long-term debt			<u>13,455</u>			<u>15,696</u>
			<u>\$ 312,559</u>			<u>\$ 483,048</u>

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2012 and 2011 (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 of long-term debt			<u>7,522</u>			<u>13,455</u>
			<u>\$ 289,047</u>			<u>\$ 312,559</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, 2012, 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, 2012 and 2011 (in thousands)

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

	Principal	Interest	Hedging Derivatives, Net	Total
2013	\$ 11,993	\$ 18,497	\$ 1,824	\$ 32,314
2014	14,826	19,286	1,824	35,936
2015	14,073	18,754	1,824	34,651
2016	14,348	18,118	1,824	34,290
2017	14,862	17,491	1,824	34,177
2018-2022	83,780	76,637	9,120	169,537
2023-2027	88,599	55,587	9,120	153,306
2028-2032	135,459	33,353	4,256	173,068
2033-2037	40,499	18,798	-	59,297
2038-2042	51,225	7,771	-	58,996
2043	107	-	-	107
Total	\$ 469,771	\$ 284,292	\$ 31,616	\$ 785,679

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 to the counterparty to the swap. In return, the counterparty 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, the University has recorded a deferred outflow of resources and a related swap liability in the amount of \$293, which represents the accumulated changes in fair value of the interest rate swaps.

During fiscal year 2012, the swap was restructured to simplify the floating rate calculation and to reduce the fixed rate from 3.72% to 3.34%. This modification changed the critical terms of the original transaction causing a termination of hedge accounting. The termination of the hedge resulted in \$14,514 being recorded as investment loss, and an imputed borrowing.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2012 and 2011 (in thousands)

The revised 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. As of June 30, 2012, the University has recorded a deferred outflow of resources and a related swap liability in the amount of \$1,881.

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 decreases, the University's net payment on the swap increases.

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, 2012, the interest rate on the University's hedged variable rate debt is 0.30 percent, while 67 percent of LIBOR is 0.16 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, 2012 and 2011 is \$14,405 and \$14,399, 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, 2012 and 2011 is \$5,178 and \$4,964, respectively.

A summary of accrued compensated absences at June 30, 2012 and 2011 is as follows:

<u>For the year ended</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
June 30, 2012	\$ 19,363	\$ 1,895	\$ 1,675	\$ 19,583
June 30, 2011	18,222	2,830	1,689	19,363

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2012 and 2011 (in thousands)

(7) Retirement Benefits

(a) Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees' Retirement System ("OPERS") and the State Teachers Retirement System of Ohio ("STRS Ohio"). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members. The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS Ohio 3.5% of earned compensation for those employees participating in the alternative retirement program. The University's contribution to the alternative retirement fund for the years ended June 30, 2012, 2011 and 2010 were \$975, \$945, and \$919, respectively.

The Ohio Public Employees' Retirement System's Comprehensive Annual Financial Report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 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, 2012, 2011 and 2010 were \$14,379, \$14,005 and \$13,312, 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, 2012, 2011, and 2010 were \$14,393, \$14,270 and \$13,821, 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.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2012 and 2011

(in thousands)

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 No. 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.

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 2011, state and local employers contributed at a rate of 10% of covered payroll and public safety and law enforcement employers contributed at 12.1%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% 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 4% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. 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, 2012, 2011, and 2010 were \$4,086, \$4,975, and \$5,052, 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.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2012 and 2011

(in thousands)

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 or by requesting a copy by calling toll-free 1-888-227-7877.

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, 2011, 2010 and 2009. 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, 2012, 2011, and 2010 was \$1,028, \$928, and \$987, 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, 2012 and 2011, the amounts on deposit with the Ohio Public Employees' Deferred Compensation Board were \$10,447 and \$9,638, respectively, which represents the fair market value at such dates.

(8) Contingencies and Commitments

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

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2012 and 2011 (in thousands)

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 judgment 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 and accrues interest each month. At June 30, 2012, the liability is \$2,372, due to the University making a payment to the defendant for \$2,090. The balance as of June 30, 2011 was \$4,374.

The University is also self-insured for workers' compensation, unemployment compensation and substantially all employee health benefits. The University's risk exposure is limited to claims incurred. Total claims paid during the years ended June 30, 2012 and 2011 were \$45,107 and \$40,133, respectively. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$6,511 and \$6,175 has been accrued as of June 30, 2012 and 2011, respectively. This estimate is based on an analysis of historical claims paid.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2012 and 2011 for operating leases amounted to approximately \$1,442 and \$1,345, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2012 are as follows:

	<u>Operating Leases</u>
2013	\$ 1,453
2014	1,376
2015	597
2016	361
Total future minimum payments	<u>\$ 3,787</u>

As of June 30, 2012, the University had commitments related to construction projects totaling \$16,143. Of this amount, \$146 or 0.90% will be 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.

(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.

KENT STATE UNIVERSITY

Notes to Financial Statements June 30, 2012 and 2011 (in thousands)

Assets totaling approximately \$136,682 and \$140,449 at June 30, 2012 and 2011, respectively, most of which have been restricted by donors for specific purposes, are presented separately. Amounts received by the University from the Foundation are included in the accompanying financial statements. The University received approximately \$6,032 and \$9,080 of financial support during the years ended June 30, 2012 and 2011, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2012 and 2011, the University had outstanding receivables from the Foundation of approximately \$53 and \$68, respectively.

The value of investments for the Foundation at June 30, 2012 and 2011 are as follows:

	<u>Market Value</u> <u>2012</u>	<u>Market Value</u> <u>2011</u>
Corporate stocks	\$ 6,662	\$ 7,319
Government bonds	3	4
Limited partnership hedge fund	10,279	10,917
Mutual funds:		
Large capitalization equity funds	26,937	31,319
Small / middle capitalization equity funds	5,707	5,635
International equity funds	21,902	25,280
Other mutual funds	16,469	18,148
Fixed-income funds	35,954	31,511
	<u>\$ 123,913</u>	<u>\$ 130,133</u>

(11) Subsequent Events

On July 1, 2012, the University acquired the Ohio College of Podiatric Medicine which was renamed the Kent State University College of Podiatric Medicine (KSUCPM). The Ohio College of Podiatric Medicine (OCPM), one of the largest and most respected podiatric medical education institutions in the country, was established in 1916 and is the only accredited podiatry school in Ohio. KSUCPM continues to operate at the former OCPM campus in Independence, Ohio. As part of this acquisition, the University assumed \$5.5 million in debt and acquired all of the physical assets of OCPM.

In October 2012, the University received notice that the judgment related to the lawsuit with a construction contractor has been upheld by the Court of Appeals. The University will be making a payment in the amount of \$2.3 million during the month of October. The amount was previously recorded as a liability. (See Note 8)

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*

Independent Auditor's Report

To the Board of Trustees
Kent State University

We have audited the financial statements of Kent State University (the "University") and its discretely presented component unit as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 15, 2012. Our report was modified to include reference to other auditors. We have 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.

Internal Control Over Financial Reporting

Management of Kent State University is responsible for establishing and maintaining an effective 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 opinions 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 & Morse, PLLC

October 15, 2012

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

Independent Auditor's Report

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, 2012. 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.

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, 2012.

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.

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 15, 2012

Kent State University

Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Student Financial Aid			
Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 921,134
Federal Work-Study Program	84.033		1,659,719
Federal Pell Grant Program	84.063		69,061,745
Federal Perkins Loan Program	84.038		21,542,296
Fund for the Improvement of Postsecondary Education	84.116		20,000
Federal Direct Loans	84.268		258,916,285
Academic Competitiveness Grants	84.375		(2,107)
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376		(4,000)
Teacher Education Assistance for College and Higher Education Grants (TEACH GRANTS)	84.379		
			<u>2,052,644</u>
Total Department of Education			<u>354,167,716</u>
Department of Health and Human Services			
Direct Program			
Nursing Student Loans	93.364		<u>1,978,205</u>
Total Student Financial Aid Cluster			356,145,921
Research and Development Cluster			
Department of Agriculture			
Direct Program			
Agricultural Research Basic and Applied Research	10.001		1,207
Agricultural and Rural Economic Research	10.250		5,543
Pass-through Programs			
University of Wisconsin - Milwaukee - Research Innovation and Development Grants in Economic (RIDGE)	10.255	317K800	31,300
Miami University - Grants for Agricultural Research Competitive Research	10.206	USDA-2007-35320-18349	17,269
Total Department of Agriculture			<u>55,319</u>
Department of Commerce			
Direct Programs			
Climate and Atmospheric Research	11.431		14,686
Measurement and Engineering Research and Standards	11.609		<u>337,605</u>
Total Department of Commerce			352,291
Department of Defense			
Direct Programs			
Military Medical Research and Development	12.420		55,538
Air Force Defense Research Sciences Program	12.800		1,111,468
Research and Technology Development	12.910		112,831
Pass-through Programs			
Worcester Polytechnic Institute - Military Medical Research and Development	12.420	12-215570-01	36,845
University of Utah - Military Medical Research and Development	12.420	10018797-KENT	74,449
Total			<u>111,294</u>

See Notes to Schedule of Expenditures
of Federal Awards.

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Defense(Continued)			
Pass-through Programs (Continued)			
Air Force Defense Research Sciences Program	12.800	RE5506637	\$ 32,036
Azimuth Corp - Cholesteric Liquid Crystal Polymers	NONE	FA8650-D-09-5434	27,508
Cornerstone Research Group Inc. - STTR Phase II	NONE	FA9550-05-C-0036	694
Pixel Optics Inc - Super Vision Project	NONE	1FA7014-07-C-0013	2,409
Lincoln Lab-MIT - LC Based LWIR Optical Transducer	NONE	7000111657	66
Battelle Memorial Institute - Alternative Energy Fuel Cell Power Generator	NONE	SUBCONTRACT #220300	8,806
Battelle Memorial Institute - Alternative Energy Fuel Cell Power Generator	NONE	233632	18,819
Total			<u>58,302</u>
Total Department of Defense			<u>1,481,469</u>
Department of Housing and Urban Development			
Pass-through Programs			
City of Cleveland - Community Development Block Grants/Entitlement Grants	14.218	69883	(10,983)
City of Cleveland - Community Development Block Grants/Entitlement Grants	14.218	CT-5005-56-2012-065	5,047
City of Cleveland - Community Development Block Grants/Entitlement Grants	14.218	KSU416300	17,130
Total Department of Housing and Urban Development			<u>11,194</u>
Department of the Interior			
Pass-through Programs			
Central Michigan University - Fish and Wildlife Management Assistance	15.608	444594KSU	9,312
Minnesota Department of Natural Resources - State Wildlife Grants	15.634	A89365	(149)
The Ohio State University - Assistance to State Water Resources Research Institutes	15.805	GRT00023315	1,757
Total Department of the Interior			<u>10,920</u>
Department of Justice			
Pass-through Programs			
Stan Hywet Hall & Gardens - Developing, Testing, and Demonstrating Promising New Programs	16.541	415106	3,232
Research Triangle Institute - Part D - Research, Evaluation, Technical Assistance and Training	16.542	9-312-0209835	69,005
Ohio Criminal Justice Studies - Project Safe Neighborhoods	16.609	2010-PS-PSN-366	50,646
Ohio Criminal Justice Studies - Project Safe Neighborhoods	16.609	2009-PS-PSN-366	24,694
Ohio Criminal Justice Studies - Project Safe Neighborhoods	16.609	2008-PS-PSN-366	65,647
Total			<u>140,987</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, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Justice (Continued)			
Pass-through Programs (Continued)			
Cuyahoga County Department of Justice Affairs - Congressionally Recommended Awards	16.753	KSU 445575	\$ 23,383
ARRA - City of Cleveland- Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	KSU 448023	20,442
Total Department of Justice			<u>257,049</u>
Department of Transportation			
Pass-through Program			
ARRA - The Ohio State University - Highway Planning and Construction	20.205	GRT00021239	1,176
Total Department of Transportation			<u>1,176</u>
National Aeronautics and Space Administration			
Pass-through Program			
ATK Space Systems - Development of Particle-Based Flow Diagnostic Techniques	NONE	0023531	24,643
Total National Aeronautics and Space Administration			<u>24,643</u>
National Endowment for the Humanities			
Direct Program			
Promotion of the Humanities - Office of Digital Humanities	45.169		38,229
Total National Endowment for the Humanities			<u>38,229</u>
Institute of Museum and Library Services			
Direct Program			
National Leadership Grants	45.312		29,325
Total Institute of Museum and Library Services			<u>29,325</u>
National Science Foundation			
Direct Programs			
Engineering Grants	47.041		244,226
Mathematical and Physical Sciences	47.049		1,933,917
Geosciences	47.050		375,863
Computer and Information Science and Engineering	47.070		305,538
Biological Sciences	47.074		405,791
Social Behavioral and Economic Sciences	47.075		136,972
Education and Human Resources	47.076		127,128
Polar Programs	47.078		144,731
International Science and Engineering (OISE) (B)	47.079		152,700
Office of Cyberinfrastructure	47.080		85,503
TRANS-NSF RECOVERY ACT RESEARCH SUPPORT	47.082		244,714
Pass-through Programs			
LXD Inc. - Engineering Grants	47.041	1046893	13,439
LXD Inc. - Engineering Grants	47.041	LXD 1010368	26,003
Total			<u>39,442</u>
Worcester Polytechnic Institute - Mathematical and Physical Sciences	47.049	12-202850-01-00	16,013
University of Wisconsin System - Mathematical and Physical Sciences	47.049	364K291	3,573

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
National Science Foundation (Continued)			
Pass-through Programs (Continued)			
Case Western Reserve University - Mathematical and Physical Sciences	47.049	DMR-0423914	\$ 47,292
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	KSU-440660	37,072
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	KSU-444321	(480)
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	FLC-2011	7,500
Institute for Complex Adaptive Matter - Mathematical and Physical Sciences	47.049	KSU444580	21,678
Case Western Reserve University - Mathematical and Physical Sciences	47.049	DMR-0423914	50,000
Total			<u>182,648</u>
Illinois State Museum Society - Geosciences	47.050	KSU440504	9,173
University of Florida - Computer and Information Science and Engineering	47.070	UF-EIES-0914033-KSU	40,239
Indiana University - Biological Sciences	47.074	PO # 419481	58,939
American Sociological Association - Social Behavioral and Economic Sciences	47.075	FAD AWARD	4,545
The State University of New York at Albany - Social Behavioral and Economic Sciences	47.075	11-22	6,000
Total			<u>10,545</u>
University of Florida - Education and Human Resources	47.076	UF1009	7,725
Cleveland State University - Education and Human Resources	47.076	DELAT37L	36,780
Stark State College of Technology - Education and Human Resources	47.076	NSFFC-0802536-10-10	114
Total			<u>44,619</u>
ARRA - DePaul University - Trans-NSF Recovery Act Research Support	47.082	500733SG069	162,787
Total National Science Foundation			<u>4,705,475</u>
Environmental Protection Agency			
Pass-through Program			
SUNY - Great Lakes Program	66.469	GL-00E00503-KSU	19,393
Total Environmental Protection Agency			<u>19,393</u>
Department of Energy			
Direct Programs			
Basic Energy Sciences University and Science Education	81.049		1,203,709
Pass-through Programs			
Brookhaven National Laboratory - Basic Energy Sciences University and Science Education	81.049	199552	27,621
U Chicago Argonne National Lab – Theoretical Hadron Physics	NONE	IF-31881	8,260
UT-Battelle, LLC - Electron Beam Grafting	NONE	4000095139	12,350
Total Department of Energy			<u>1,251,940</u>

See Notes to Schedule of Expenditures
of Federal Awards.

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Education			
Direct Programs			
National Institute on Disability and Rehabilitation	84.133		\$ 66,749
Education Research, Development and Dissemination	84.305		218,856
Research in Special Education	84.324		177,530
Transition Programs for Students with Intellectual Disabilities into	84.407		387,861
Pass-through Programs			
Ohio Department of Education - Special Education Grants to States	84.027	EDU01-0000007585	256,946
Ohio Department of Education - Special Education Grants to States	84.027	EDU01-0000006008	74,067
Ohio Department of Education - Special Education Grants to States	84.027	EDU01-0000003002	222
Total			331,235
Ohio Department of Education - Career and Technical Education -- Basic Grants to States	84.048	EDU01-0000007585	42,468
Virginia Commonwealth University - National Institute on Disability and Rehabilitation	84.133	PT101165-SC100174	50,960
Akron Public Schools - 21st Century Community Learning Centers Program	84.287	000876	3,048
ARRA - Springfield Local Schools - Education Technology State Grants, Recovery Act	84.386	ARRA TITLE II-D	(399)
ARRA - Ravenna School District - Education Technology State Grants, Recovery Act	84.386	TITLE II-D	(435)
ARRA - Ravenna School District - Education Technology State Grants, Recovery Act	84.386	ARRA TITLE II-D	(435)
ARRA - Kent City School District - Education Technology State Grants, Recovery Act	84.386	TITLE II-D	2,562
ARRA - Newcomerstown Exempted Village Schools - Education Technology State Grants, Recovery Act	84.386	KSU448028	15,000
Total			16,293
ARRA - Akron Public Schools - State Fiscal Stabilization Fund (Sfsf) - Race-To-The-Top Incentive Grants, Recovery Act	84.395	12010724-00033	18,035
Total Department of Education			1,313,035
National Archives and Records Administration			
Pass-through Program			
University of Nebraska - National Historical Publications and Records Grants	89.003	25-0512-0024-003	1,330
Total National Archives and Records Administration			1,330
Department of Health and Human Services			
Direct Programs			
Oral Diseases and Disorders Research	93.121		187,164
Injury Prevention and Control Research and State Grants	93.136		154,214
Research and Training in Alternative Medicine	93.213		160,363

See Notes to Schedule of Expenditures
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Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Health and Human Services (Continued)			
Direct Programs (Continued)			
Health Services Research and Development Grants	93.226		\$ 36,168
Mental Health Research Grants	93.242		155,688
Alcohol Research Programs	93.273		3,015
Drug Abuse and Addiction Research Programs	93.279		43,219
Nursing Research	93.361		929,568
Cancer Detection and Diagnosis Research	93.394		110,504
TRANS-NIH RECOVERY ACT RESEARCH SUPPORT	93.701		188,147
Cardiovascular Diseases Research	93.837		1,459,250
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		352,654
Clinical Research Related to Neurological Disorders	93.853		213,438
Pharmacology Physiology and Biological Chemistry	93.859		161,196
Child Health and Human Development Extramural Research	93.865		440,301
Aging Research	93.866		69,727
Pass-through Programs			
Health Research Inc - Environmental Public Health and Emergency Response	93.070	3792-02	3,747
Health Research Inc - Environmental Public Health and Emergency Response	93.070	3792-03	24,017
Total			27,764
Canton City Health Department - Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	KSU415103	25,548
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU 440880	919
Cuyahoga County Board of Commissioners - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	CD0400252-03	16,940
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU416402	14,380
Catholic Charities Services - Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	KSU 445573	41,757
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU 440522	51,670
Total			125,666
St. John's University - Occupational Safety and Health Program	93.262	35496SC1	11,357
Ohio State Research Foundation - Alcohol Research Programs	93.273	RF01219228	10,087
University of Tennessee - Alcohol Research Programs	93.273	OR14350-001.01 / 1R01AA017898	138,037
Total			148,124

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Health and Human Services (Continued)			
Pass-through Programs (Continued)			
Miami University - National Center for Research Resources	93.389	415602	\$ 3,240
Wayne State University - Cancer Treatment Research	93.395	WSU10005	11,714
Butler Hospital - Cardiovascular Diseases Research	93.837	9279-8344	11,026
University of Minnesota - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	H412621306	38,762
California State University San Marcos Foundation - Pharmacology Physiology and Biological Chemistry	93.859	F-77330	36,669
Stanford University - Pharmacology Physiology and Biological Chemistry	93.859	22747060-41598-A	172,207
Total			208,876
University of Wisconsin-Madison - Aging Research	93.866	254K306	4,993
Ohio Department of Alcohol and Drug Abuse Services - Block Grants for Prevention and Treatment of Substance	93.959	99-3402-HEDUC-P-11-0007	844
Ohio Department of Alcohol and Drug Abuse Services - Block Grants for Prevention and Treatment of Substance	93.959	KSU416301	12,648
Total			13,492
Carroll County General Health District - Maternal and Child Health Services Block Grant to the States	93.994	KSU 444505	1,876
Carroll County General Health District - Maternal and Child Health Services Block Grant to the States	93.994	KSU416203	5,888
Total			7,764
University of Minnesota - Developmental Construction	NONE	S2986113101	25,661
Total Department of Health and Human Services			5,328,603
Total Research and Development Cluster			14,881,391
Child Nutrition Cluster			
Department of Agriculture			
Pass-through Programs			
Ohio Department of Education - Summer Food Service Program for Children	10.559	416900	4,639
Ohio Department of Education - Summer Food Service Program for Children	10.559	416901	4,182
Ohio Department of Education - Summer Food Service Program for Children	10.559	416902	9,222
Total Child Nutrition Cluster			18,043
Economic Development Cluster			
Department of Commerce			
Direct Program			
Investments for Public Works and Economic Development Facilities	11.300		135,136
Total Economic Development Cluster			135,136

See Notes to Schedule of Expenditures
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Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
CDBG - Entitlement Grants Cluster			
Department of Housing and Urban Development			
Pass-through Program			
Stark County Regional Planning Commission - Community Development Block Grants/Entitlement Grants	14.218	KSU467900	\$ 27,967
Total CDBG - Entitlement Grants Cluster			27,967
Highway Safety Cluster			
Department of Transportation			
Pass-through Programs			
Ohio Department of Public Safety - Incentive Grant Program to Increase Motorcyclist Safety	20.612	MOPI-2001-15-00-00-00822-00	392
Ohio Department of Public Safety - Incentive Grant Program to Increase Motorcyclist Safety	20.612	MOPI-2001-78-00-00-00832-00	(219)
Total Highway Safety Cluster			173
Special Education Cluster (IDEA)			
Department of Education			
Pass-through Programs			
Ohio Department of Education - Special Education Grants to States	84.027	H027A090111A	52,136
Ohio Department of Education - Special Education Grants to States	84.027	H027A090111A	50,687
Total Special Education Cluster (IDEA)			102,823
TRIO Programs Cluster			
Department of Education			
Direct Programs			
TRIO Student Support Services	84.042		472,724
TRIO Upward Bound	84.047		938,843
McNair Post-Baccalaureate Achievement	84.217		236,593
Total TRIO Programs Cluster			1,648,160
Vocational Rehabilitation Cluster			
Department of Education			
Pass-through Programs			
Hattie Larlham Foundation - Rehabilitation Services Vocational Rehabilitation Grants	84.126	415302	53,724
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	RSC01-0000005451	45,800
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	VRP3	113,461
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	RSC01-000005325	27,887
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	KSU 446453	(8,020)
Ohio Rehabilitation Services Commission - Vocational Rehabilitation Grants to States	84.126	KSU467905	1,728
Ohio Department of Development - Rehabilitation Services Vocational Rehabilitation Grants	84.126	ECDD 12-131	9,428
Total			244,008

See Notes to Schedule of Expenditures
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Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Education (Continued)			
Pass-through Programs (Continued)			
ARRA - Ohio Department of Development - Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390	ECDD11-295	\$ 48,113
Total Vocational Rehabilitation Cluster			<u>292,121</u>
Medicaid Cluster			
Department of Health and Human Services			
Pass-through Program			
The Ohio State University - Medical Assistance Program	93.778	PO RF01284646	5,708
Total Medicaid Cluster			<u>5,708</u>
Subtotal of Clusters			<u>373,257,443</u>
Department of Agriculture			
Direct Program			
Rural Technology Development Grants	10.771		251,815
Total Department of Agriculture			<u>251,815</u>
Department of Defense			
Direct Programs			
Language Grant Program	12.900		161,130
Total Department of Defense			<u>161,130</u>
Department of Justice			
Direct Program			
Bulletproof Vest Partnership Program	16.607		871
Pass-through Program			
Ohio Department of Youth Services - Second Chance Act Prisoner Reentry Initiative	16.812	1AS2140	804
Total Department of Justice			<u>1,675</u>
Department of State			
Direct Program			
Educational Exchange-Teachers from Secondary and Postsecondary Levels and School Administrators (B)	19.408		136,971
Pass-through Programs			
International Research & Exchange Board - Academic Exchange Programs - Teachers	19.011	414907	42,516
Institute of International Education - Academic Exchange Programs - Teachers	19.401	SIZ-100-11-GR070	532
Total Department of State			<u>180,019</u>
Department of Transportation			
Pass-through Program			
The University of Akron - University Transportation Centers Program	20.701	ODOT DTRT06-G-0037 MOD NO. 5	8,707
Total Department of Transportation			<u>8,707</u>
Appalachian Regional Commission			
Direct Program			
Appalachian Supplements to Federal Grant-in-Aid (Community)	23.002		55,173
Pass-through Program			
Ohio Department of Development - Appalachian Supplements to Federal Grant-in-Aid (Community)	23.002	S-Z-10-021-1	36,000
Total Appalachian Regional Commission			<u>91,173</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, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
National Endowment for the Arts			
Direct Program			
Promotion of the Arts - Grants to Organizations and Individuals	45.024		\$ 12,500
Pass-through Programs			
Ohio Arts Council - Promotion of the Arts - Partnership Agreements	45.025	120061	11,945
Arts Midwest - Promotion of the Arts - Partnership Agreements	45.025	FY12-136237	2,700
Total			14,645
Total National Endowment for the Arts			27,145
National Endowment for the Humanities			
Direct Program			
Promotion of the Humanities - Public Programs	45.164		192,631
Pass-through Programs			
Ohio Arts Council - Promotion of the Humanities - Challenge Grants	45.129	GR 11-012	3,800
Ohio Humanities Council - Promotion of the Humanities - Challenge Grants	45.129	KSU 447900	1,560
Total			5,360
Eastern Illinois University - Promotion of the Humanities - Professional Development	45.163	12-09	17,017
Total National Endowment for the Humanities			215,008
Institute of Museum and Library Services			
Direct Program			
Librarians for the 21st Century	45.313		168,358
Total Institute of Museum and Library Services			168,358
National Science Foundation			
Direct Programs			
Social Behavioral and Economic Sciences	47.075		(27,305)
Education and Human Resources	47.076		76,595
ARRA - TRANS-NSF RECOVERY ACT RESEARCH SUPPORT	47.082		550,887
Pass-through Programs			
Missouri State University - Education and Human Resources	47.076	11052-011	34,881
Missouri State University - Education and Human Resources	47.076	SRP 08050	8,355
Capital University - Education and Human Resources	47.076	NSF-CCLI AWARD #0618252	433
Total			43,669
Total National Science Foundation			643,846
Small Business Administration			
Pass-through Programs			
Ohio Department of Development - Small Business Development Center	59.037	KSU445004	15,143
Ohio Department of Development - Small Business Development Center	59.037	ECDD 11-285	16,100
Ohio Department of Development - Small Business Development Center	59.037	SBDC FY11	23,420
Ohio Department of Development - Small Business Development Center	59.037	FY11	7,032
Ohio Department of Development - Small Business Development Center	59.037	ECDD 11-287	121,849

See Notes to Schedule of Expenditures
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Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Small Business Administration (Continued)			
Pass-through Programs (Continued)			
Ohio Department of Development - Small Business Development Center	59.037	FY11	\$ 34,904
Ohio Department of Development - Small Business Development Center	59.037	KSU467901	45,858
Ohio Department of Development - Small Business Development Center	59.037	12-263	1,656
Ohio Department of Development - Small Business Development Center	59.037		114,375
Ohio Department of Development - Small Business Development Center	59.037	12-263	500
Total			<u>380,837</u>
Ohio Department of Development - State Trade and Export Promotion Pilot Grant Program	59.061	EC12-182	13,946
Ohio Department of Development - State Trade and Export Promotion Pilot Grant Program	59.061	ECDD12-174	27,019
Total			<u>40,965</u>
NorTech - FlexMatters Regional Innovation Cluster	None	NOR-SBA-10C0030	48,246
Total Small Business Administration			<u>470,048</u>
Department of Education			
Direct Programs			
Rehabilitation Long-Term Training	84.129		121,617
Adult Education National Programs	84.191		116,672
National Institute for Literacy	84.257		235,031
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities (B)	84.325		656,388
Pass-through Programs			
Ohio Board of Regent - Adult Education - Basic Grants to States	84.002	062976 AB-SL-12	552,992
Ohio Board of Regent - Adult Education - Basic Grants to States	84.002	MOU 415604	29,091
Ohio Board of Regent - Adult Education - Basic Grants to States	84.002	062976-AB-SL-2011	41,831
Ohio Department of Education - Adult Education - Basic Grants to States	84.002	062976-AB-SL-2010C	3,135
Total			<u>627,049</u>
Ohio Department of Education - Career and Technical Education - Basic Grants to States	84.048	VEPD-TPR-12-062976	106,592
Ohio Board of Regent - Career and Technical Education - Basic Grants to States	84.048	KSU418604	2,320
Ohio Board of Regent - Career and Technical Education - Basic Grants to States	84.048	CAREER TECH ED	12,383
Ohio Department of Education - Career and Technical Education - Basic Grants to States	84.048	VEPD-CB-11-062976	3,788
Total			<u>125,083</u>
Ohio Rehabilitation Services Commission - Special Projects and Demonstrations for Providing	84.235	H235U070024	6,535
Ohio Department of Education - Tech-Prep Education	84.243	KSU 446754	492
World Education - National Institute for Literacy	84.257	X257T060001	161,479

Kent State University

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Education (Continued)			
Pass-through Programs (Continued)			
Summit County Educational Service Center - Foreign Language Assistance	84.293	KSU411704	\$ 12,775
Summit County Educational Service Center - Foreign Language Assistance	84.293	FLAP GRANT	50,614
Total			<u>63,389</u>
Ohio Department of Education - Mathematics and Science Partnerships	84.366	EDU01-00007094	143,152
Ohio Department of Education - Mathematics and Science Partnerships	84.366	CI667-MSP-10-415	158
Total			<u>143,310</u>
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	11-21	45,399
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	09-21	(11,275)
Ohio Department of Development - Improving Teacher Quality State Grants	84.367	EDU01-0000006825	999
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	09-20	3,575
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	09-17	(3,401)
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	10-22	79,061
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	10-18	86,746
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	11-18	8,832
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	10-19	97,237
Ohio Board of Regents - Improving Teacher Quality State Grants	84.367	11-18	24,180
Total			<u>331,353</u>
Northeast Ohio Council on Higher Education - College Access Challenge Grant Program	84.378	418300	23,721
Ohio Department of Education - State Fiscal Stabilization Fund (Sfsf) - Race-To-The-Top Incentive Grants, Recovery Act	84.395	8602	7,404
National Writing Project Corp - National Writing Project	84.928	97-OH03	(285)
National Writing Project Corp - National Writing Project	84.928	97-OH03 AMEND 17	26,179
National Writing Project Corp - National Writing Project	84.928	97-OH03 AMEND 18	16,414
Total			<u>42,308</u>
Penn State University - National Institute for Literacy	84.257	3322-KSU-DOE-0004	27,170
The University of Akron - Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities (B)	84.325	5-32471-KSU	39,071
Total Department of Education			<u>2,728,072</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, 2012

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Health and Human Services			
Direct Programs			
Professional Nurse Traineeships	93.358		\$ 70,351
Project Grants for Renovation or Construction of Non-Acute	93.887		334,684
Pass-through Programs			
Tuscarawas County General Health District - Public Health Emergency Preparedness	93.069	KSU 444503	33,135
Ohio Department of Mental Health - Block Grants for Community Mental Health Services	93.958	BG-11-411-02-001	3,322
Total Department of Health and Human Services			441,492
Corporation for National and Community Service			
Pass-through Programs			
Ohio Campus Compact - Learn and Serve America Higher Education	94.005	KSU416801	2,000
Ohio Campus Compact - Learn and Serve America Higher Education	94.005	KSU 444808	4,954
Total			6,954
Compass Family and Community Services - Social Innovation Fund	94.019	KSU477900	6,639
Total Corporation for National and Community Service			13,593
Social Security Administration			
Pass-through Program			
Boston College - Social Security Research and Demonstration	96.007	5001251-13 (BC10-S3)	15,365
Total Social Security Administration			15,365
Total other programs			5,417,446
Total federal awards			\$ 378,674,889

Kent State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

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, 2012. 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, 2012:

<u>Cluster/Program Title</u>	<u>CFDA Number</u>	<u>Advances</u>	<u>Amount Outstanding</u>
Perkins Loan Program	84.038	\$ 1,447,309	\$ 21,542,296
Nursing Student Loan Program	93.364	284,500	1,978,205

Kent State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Note 3 - Federal Direct Loan Program

During the year ended June 30, 2012, 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	\$ 258,916,285

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	\$ 166,112
Community Prosecution and Project Safe Neighborhoods	16.609	5,877
Congressionally Recommended Awards	16.753	13,500
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	8,142
Engineering Grants	47.041	44,495
Biological Sciences	47.074	2,949
Social, Behavioral, and Economic Sciences	47.075	1,497
ARRA - Trans-NSF Recovery Act Research Support	47.082	190,471
Basic Energy Sciences University and Science Education	81.049	179,638
Adult Education - Basic Grants to States	84.002	20,181
Rehabilitation Services Vocational Rehabilitation Grants	84.126	65,121
National Institute for Literacy	84.257	154,974
Research in Special Education	84.324	114,910
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities (B)	84.325	39,499
Improving Teacher Quality State Grants (A)	84.367	5,705
ARRA - State Fiscal Stabilization Fund (Sfsf) - Race-To-The-Top Incentive Grants, Recovery Act	84.395	882
Oral Diseases and Disorders Research	93.121	42,402
Injury Prevention and Control Research and State Grants	93.136	65,122
Research and Training in Alternative Medicine	93.213	46,264
Health Services Research and Development Grants	93.226	12,706
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	34,100
Nursing Research	93.361	380,273
Cancer Detection and Diagnosis Research	93.394	34,363
ARRA - Trans-NIH Recovery Act Research Support	93.701	1,062
Cardiovascular Diseases Research	93.837	877,096
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	235,342
Clinical Research Related to Neurological Disorders	93.853	4,533
Aging Research	93.866	56,619
Total		<u>\$ 2,803,835</u>

Kent State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

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	\$ 378,674,889
Perkins loan funds excluded from federal grants on the Statement	(21,542,296)
Nursing student loan funds excluded from the federal grants on the Statement	(1,978,205)
Federal Pell Grant funds shown separately on the Statement	(69,061,745)
Federal Direct Loans excluded from the federal grants on the Statement	<u>(258,916,285)</u>
Total	<u>\$ 27,176,358</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 and spent \$170,738 for the 2011-2012 award year.

In addition, the University spent \$24,748 of carried forward SEOG funds from the 2010-2011 award year during the 2011-2012 award year.

Kent State University

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

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, 84.268, 84.375, 84.376, 84.379, 93.364 84.126, 84.390 84.325	Student Financial Aid Cluster Vocational Rehabilitation Cluster Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities

Dollar threshold used to distinguish between type A and type B programs: \$675,869

Auditee qualified as low-risk auditee? Yes No

Kent State University

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

Summary Schedule of Prior Audit Findings Year Ended June 30, 2012

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2011-1	Student Financial Aid Cluster - CFDA # 84.007, 84.033, 84.038, 84.063, 84.116, 84.268, 84.375, 84.376, 84.379, 93.364	Title IV refunds were not returned within the EEFL required 45 days after a student withdrawal date.	Corrective action has been taken	Reports are run on a weekly basis to identify possible R2T4 calculations. Reports are reviewed and R2T4 calculations are performed if necessary.