

Kent State University

Financial Report

June 30, 2011

KENT STATE UNIVERSITY
Table of Contents
June 30, 2011 and 2010

| | Page(s) |
|--|---------|
| Management’s Discussion and Analysis (unaudited)..... | 1-8 |
| Financial Statements | |
| Report of Independent Auditors | 9-10 |
| Statement of Net Assets..... | 11 |
| Statement of Revenues, Expenses and Changes in Net Assets..... | 12 |
| Statement of Cash Flows | 13-14 |
| Notes to Financial Statements | 15-35 |
| 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..... | 36-37 |
| Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A133 | 38-39 |
| Schedule of Expenditures of Federal Awards | 40-51 |
| Notes to Schedule of Expenditures of Federal Awards..... | 52-55 |
| Schedule of Findings and Questioned Costs | 56-59 |

KENT STATE UNIVERSITY

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

This section of Kent State University's ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2011 and 2010. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of University management.

Using the Annual Financial Report

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

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

Noteworthy Financial Activity

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

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

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

KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited)

As of June 30, 2011 and 2010

Statement of Net Assets

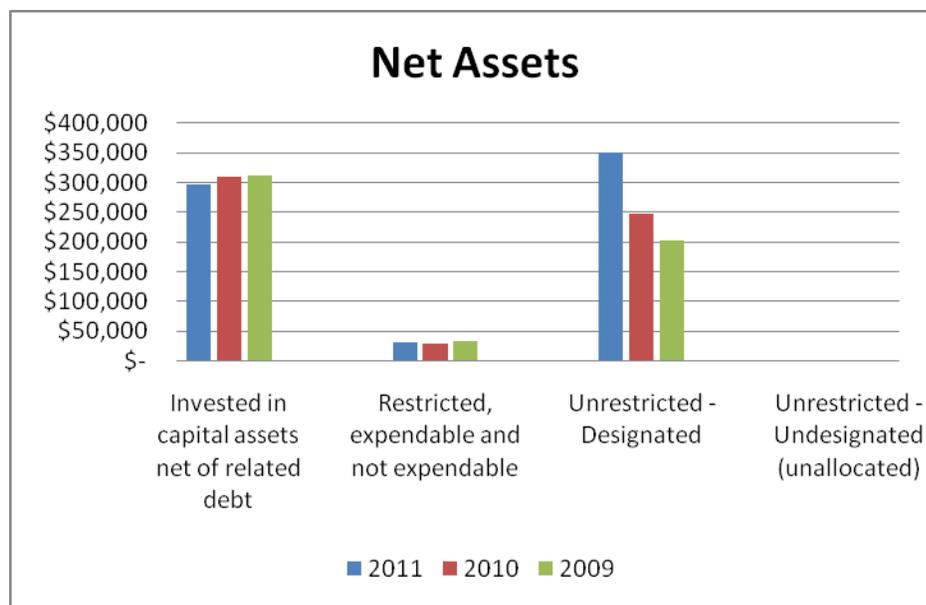
The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment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

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

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

KENT STATE UNIVERSITY

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



2011 Versus 2010

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

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

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

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

2010 Versus 2009

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

KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited)

As of June 30, 2011 and 2010

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

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

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

Statement of Revenues, Expenses and Changes in Net Assets

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

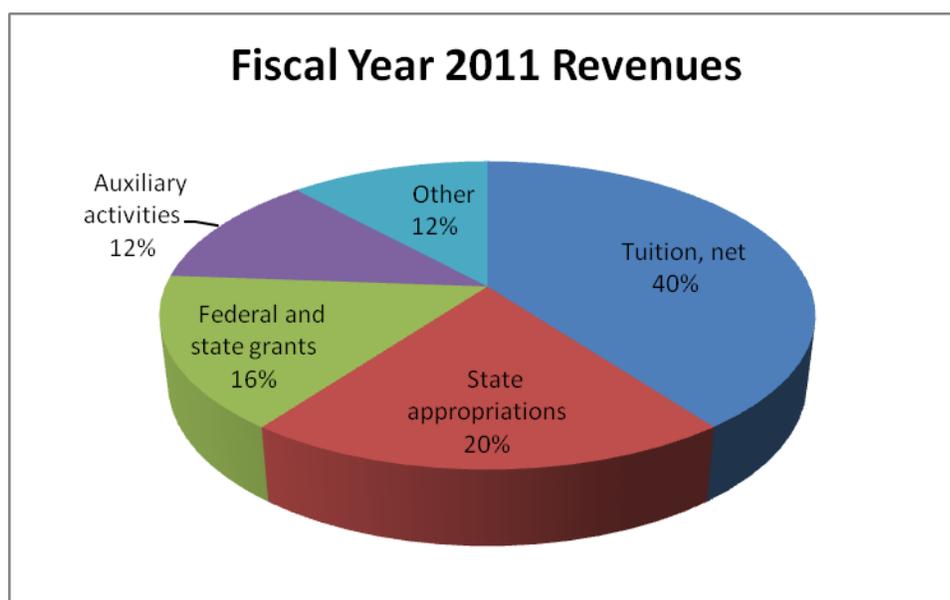
KENT STATE UNIVERSITY

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

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

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

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



KENT STATE UNIVERSITY

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

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

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

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

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

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

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

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

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

Statement of Cash Flows

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

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

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

KENT STATE UNIVERSITY

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

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

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

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

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

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the University had invested \$601.0 million in a broad range of capital assets, including equipment, buildings, building improvements and land. This amount represents a net increase (including additions and deductions) of \$21.3 million, or 3.7 percent, over last year.

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

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

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

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

KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited)

As of June 30, 2011 and 2010

Long-term Debt

At year end, the University had \$326.0 million in bonds and notes outstanding—an increase of \$29.4 million over last year. This increase is primarily due to the University entering into several loan agreements with the Ohio Air Quality Development Authority totaling \$25.4 million to fund various energy efficiency and conservation projects at the Kent and regional campuses. More detailed information about the University's long-term liabilities is presented in Note 6 to the financial statements

Kent State University's Outstanding Debt

(in millions of dollars)

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|-----------------|-----------------|-----------------|
| General receipts bonds (backed by the University) | \$ 280.9 | \$ 287.9 | \$ 265.9 |
| Tax Revenue Energy Bonds | 26.6 | 1.3 | - |
| Capital leases | 18.5 | 7.4 | 10.1 |
| | <u>\$ 326.0</u> | <u>\$ 296.6</u> | <u>\$ 276.0</u> |

Factors Affecting Future Periods

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

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

Independent Auditor's Report

To the Board of Trustees
Kent State University

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2011 on our consideration of Kent State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Kent State University

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

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

Plante & Moran, PLLC

Toledo, Ohio
October 14, 2011

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

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

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

KENT STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
for the years ended June 30, 2011 and 2010
(in thousands)

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

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

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

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

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

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

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

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

KENT STATE UNIVERSITY

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

(1) Reporting Entity and Basis of Presentation

(a) Reporting Entity

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

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

The accompanying financial statements consist of the accounts of the University and the accounts of the Kent State University Foundation ("Foundation"). The Foundation, which is a component unit of the University as determined in accordance with the provisions of the Governmental Accounting Standards Board ("GASB") Statement 39, is described more fully in Note 10. The Foundation is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

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

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

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

(b) Basis of Presentation

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

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

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

(c) Upcoming Accounting Pronouncements

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

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

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

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

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

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

KENT STATE UNIVERSITY

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

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

(2) Summary of Significant Accounting Policies

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

(a) Cash and Cash Equivalents

The University considers cash, time deposits and all other highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash is the unspent bond proceeds held in trust related to the energy conservation projects.

(b) Investments

Investments in marketable securities are carried at fair market value as established by the major securities markets. Investment income includes realized and unrealized gains and losses on investments, interest income and dividends.

(c) Accounts Receivable

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

(d) Inventories

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

KENT STATE UNIVERSITY

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

(e) Estimates

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

(f) Revenue Recognition

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

(g) Accrued Liabilities

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

(h) Deferred Revenue

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

(i) Capital Assets

Capital assets are stated at cost at the time of purchase or fair value at date of gift. Depreciation of plant physical properties is provided on a straight-line basis over the estimated useful lives (3 to 40 years) of the respective assets. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

(j) Operating Versus Nonoperating Revenues and Expenses

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

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

(k) Reclassification

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

(3) Investments

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

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

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

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

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

KENT STATE UNIVERSITY

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

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

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

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

Net appreciation/depreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2011 the University realized a net loss of (\$608). During the year ended June 30, 2010 the University realized a net gain of \$18,862. The calculation of realized gains and losses is independent of the net depreciation in the fair value of investments held at year end. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net appreciation in the fair value of investments during the year ended June 30, 2011 was \$36,795. In fiscal year 2010, the net appreciation was \$37,403. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year.

KENT STATE UNIVERSITY

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

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

The components of the net investment income are as follows:

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

Additional Disclosures Related to Interest-bearing Investments

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

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

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

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

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

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

KENT STATE UNIVERSITY

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

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

The credit ratings of the University’s interest-bearing investments at June 30, 2011 are as follows:

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

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

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

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2011 and June 30, 2010, the University had no exposure to foreign currency risk.

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

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

KENT STATE UNIVERSITY

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

(4) Accounts Receivable

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

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

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

(5) Capital Assets

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

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

| | <u>2010</u> | <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 |
| CIP | 22,956 | 3,729 | 573 | 26,112 |
| | <u>\$ 1,030,505</u> | <u>\$ 59,466</u> | <u>\$ 4,791</u> | <u>\$1,085,180</u> |
| Less accumulated depreciation | 450,829 | 36,789 | 3,428 | 484,190 |
| Capital assets, net | <u><u>\$ 579,676</u></u> | <u><u>\$ 22,677</u></u> | <u><u>\$ 1,363</u></u> | <u><u>\$ 600,990</u></u> |

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

KENT STATE UNIVERSITY

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

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

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

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

(6) Long-term Liabilities

Long-term Debt

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

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

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

KENT STATE UNIVERSITY

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

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

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

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

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

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

KENT STATE UNIVERSITY

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

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

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

KENT STATE UNIVERSITY

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

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

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

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

Hedging derivative instrument payments and hedged debt

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

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

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

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

Interest Rate Swap

The University has entered into a 30-year interest rate swap agreement for \$60,000 of the variable rate 2002 Series General Receipts bonds. The University entered into this agreement at the same time and for the same amount of the variable rate debt, with the intent of creating a synthetic fixed rate debt, at an interest rate that was lower than if fixed rate debt would have been issued directly. During 2009, the interest rate swap agreement was re-identified in connection with refunding of the 2002 Series General Receipt bonds through the issuance of 2008B Series General Receipt bonds. During fiscal year 2010, the counterparty on the agreement was changed from Woodlands Commercial Bank (formerly known as Lehman Brothers Commercial Bank) to Loop Financial Products LLP. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.72% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate. The \$60,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate.

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

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

The interest rate swap is subject to the following risks:

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

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

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

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

Accrued Compensated Absences

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

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

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

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

(7) Retirement Benefits

(a) Basic Retirement Benefits

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

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

The Ohio Public Employees Retirement System's Comprehensive Annual Financial Report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to OPERS for the years ended June 30, 2011, 2010 and 2009 were \$14,005, \$13,312 and \$12,906, respectively, equal to the required contributions for each year.

The State Teachers Retirement System of Ohio's Comprehensive Annual Financial Report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to STRS Ohio for the years ended June 30, 2011, 2010, and 2009 were \$14,270, \$13,821 and \$12,987, respectively, equal to the required contributions for each year.

(b) Post-Retirement Health Care Benefits

OPERS - Plan Description

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

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

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

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

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

KENT STATE UNIVERSITY

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

OPERS - Funding Policy

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

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

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

STRS - Plan Description

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

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

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

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

KENT STATE UNIVERSITY

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

STRS - Funding Policy

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

(c) Ohio Public Employees Deferred Compensation Program

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

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

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

At June 30, 2011 and 2010, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$9,638 and \$7,666, respectively, which represents the fair market value at such dates.

(8) Contingencies and Commitments

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

The University is a defendant in a lawsuit filed by one of its construction contractors for alleged construction delays and inefficiencies. In July, 2009, a judgement in favor of the plaintiff was rendered in the amount of \$4,080. The University recorded this amount as a liability at June 30, 2009. At June 30, 2011, the liability is \$4,374, due to the University accruing interest. The balance as of June 30, 2010 was \$4,223.

The University is also self-insured for workers' compensation, unemployment compensation and substantially all employee health benefits. The University's risk exposure is limited to claims incurred.

KENT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

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

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

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

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

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

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

(9) Related Party Transactions

The University, together with The University of Akron and Youngstown State University, created a consortium to establish and govern Northeastern Education Television of Ohio, Inc. ("NETO"), Channels 45 and 49, Kent, Ohio. This organization is legally separate from the University; accordingly, its financial activity is not included within the accompanying financial statements. The University has no contractual financial obligations to this consortium.

KENT STATE UNIVERSITY

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

(10) Component Unit

The University is the sole beneficiary of the Foundation; a separate not-for-profit entity organized for the purpose of promoting educational and research activities. The Foundation is a legally separate entity from the University and maintains a self-appointing Board of Trustees. The Foundation reimburses the University for substantially all operating expenses paid by the University on behalf of the Foundation. Accordingly, management historically concluded that the Foundation was not a component unit of the University as defined by GASB Statement No. 14, *The Financial Reporting Entity*. However, under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation now meets the revised definition as a component unit.

Assets totaling approximately \$140,449 and \$124,577 at June 30, 2011 and 2010, respectively, most of which have been restricted by donors for specific purposes, are presented separately. Amounts received by the University from the Foundation are included in the accompanying financial statements. The University received approximately \$9,080 and \$10,617 of financial support during the years ended June 30, 2011 and 2010, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2011 and 2010, the University had outstanding receivables from the Foundation of approximately \$68 and \$30, respectively.

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

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

(11) Subsequent Events

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

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

To the Board of Trustees
Kent State University

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kent State University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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

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

To the Board of Trustees
Kent State University

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Plante & Moran, PLLC

October 14, 2011

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

To the Board of Trustees
Kent State University

Compliance

We have audited the compliance of Kent State University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The major federal programs of Kent State University are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kent State University's management. Our responsibility is to express an opinion on Kent State University's compliance based on our audit.

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

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

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

To the Board of Trustees
Kent State University

Internal Control Over Compliance

The management of Kent State University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kent State University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

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

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

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

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

Plante & Moran, PLLC

October 14, 2011

Kent State University

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

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

See Notes to Schedule of Expenditures
of Federal Awards.

Kent State University

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

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

See Notes to Schedule of Expenditures
of Federal Awards.

Kent State University

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

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

Kent State University

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

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

Kent State University

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

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

Kent State University

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

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

Kent State University

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

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

See Notes to Schedule of Expenditures
of Federal Awards.

Kent State University

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

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

See Notes to Schedule of Expenditures
of Federal Awards.

Kent State University

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

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

Kent State University

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

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

See Notes to Schedule of Expenditures
of Federal Awards.

Kent State University

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

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

Kent State University

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

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

Kent State University

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

Note 1 - Significant Accounting Policies

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

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

Subrecipients - Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the schedule. The University is also the subrecipient of federal funds which have been subject to testing and are reported as expenditures and listed separately as pass-through programs.

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

Note 2 - Loans Outstanding

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

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

Kent State University

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

Note 3 - Federal Direct Loan Program

During the year ended June 30, 2011, the University processed applications for the following loan amounts under the federal direct loan program which includes Stafford Loans, Unsubsidized Stafford Loans, and Parent Plus Loans for undergraduate students.

| | CFDA Number | Advances |
|------------------------------|----------------|----------------|
| Federal direct loan advances | 84.268 | \$ 242,939,574 |

Kent State University

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

Note 4 - Subrecipient Awards

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

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

Kent State University

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

Note 5 - Federal Expenditure Reconciliation

The following schedule is a reconciliation of total expenditures as shown on the Schedule to the revenue shown as federal grants and contracts on the statement of revenue, expenses, and changes in net assets (the "Statement"), which is included as part of the University's financial statements:

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

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

Note 6 - Adjustments and Transfers

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

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

Kent State University

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? Yes No

Kent State University

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

Section II - Financial Statement Audit Findings

None

Kent State University

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

Section III - Federal Program Audit Findings

| Reference Number | Finding |
|------------------|---|
| 2011-1 | <p>Program Name - Student Financial Aid Cluster - CFDA # 84.007, 84.033, 84.038, 84.063, 84.116, 84.375, 84.376, 84.379, 93.364</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency</p> <p>Criteria - The University has 45 days from the date the University determines a student's withdrawal date to calculate a return of Title IV funds for the student and return the funds. Withdrawal dates are defined as the time when the student officially withdraws or expresses notification to withdraw or, if the student does not officially withdraw, the date that the University determines the student is no longer in attendance (34 CFR Section 668.173(b)).</p> <p>Condition - Of the 40 students selected for return to Title IV testing, the University used the correct withdrawal date for all samples selected and reviewed. However, The University used the incorrect date of one student in the original calculation when determining the percentage of Title IV aid earned. During the University's normal review process, the error in the percentage calculation of Title IV aid earned was found. The original calculated amount (based on the correct official withdrawal date) of funds to return was returned within the 45 day deadline; however, the additional returned Title IV funds (based on the corrected calculation) was not returned within 45 days of official withdrawal, as required.</p> <p>Questioned Costs - None</p> <p>Context - Out of the sample of 40 students, one student's return resulted in a return of additional funds outside the 45 day deadline. A total of approximately 2,142 returns were prepared during the school year.</p> <p>Cause and Effect - The University performs the original return to Title IV calculations and returns funds within the 45 day window. In addition, the University reviews 100 percent of its Title IV calculations for accuracy and compliance. As a result of its 100 percent review, the University found the error identified in the noncompliance instance and made the necessary correction by returning additional funds to the Federal Aid program. However, the additional return of funds back to the Federal Aid program was done after the 45 day deadline to return funds had passed. Therefore, the additional funds that were returned as a result of the review were not in compliance with the 45 day requirement.</p> <p>Recommendation - The University should change its procedures to ensure the review process always occurs before the the 45-day deadline.</p> |

Kent State University

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

Section III - Federal Program Audit Findings (Continued)

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