

**KENT STATE UNIVERSITY**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**KENT STATE UNIVERSITY**  
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**June 30, 2007 and 2006**

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# KENT STATE UNIVERSITY

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

This section of the Kent State University ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2007 and 2006. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of University management.

### **Using the Annual Financial Report**

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

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

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

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

### **Noteworthy Financial Activity**

To respond to steadily increasing enrollment and to provide a state-of-the-art living environment for residential students, the University is building six residence halls and removing or replacing all existing residence halls on its Kent Campus. The project, which is currently ongoing, is being funded by a debt issuance.

In connection with this renovation, in February 2001, the University issued \$155.5 million in Series 2001 General Receipts bonds to finance various capital additions and improvements to dormitory facilities. During the fiscal year ended June 30, 2007 the University expended \$5.4 million from the proceeds of these bonds resulting in corresponding increases in capital assets and total assets.

## KENT STATE UNIVERSITY

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

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

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

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

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

## KENT STATE UNIVERSITY

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

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

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

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

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

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

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

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

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

At June 30, 2006, total University assets were \$889.5 million, compared to \$846.2 million in fiscal 2005. The University's largest asset is its investment in physical plant of \$509.9 million at June 30, 2006 compared to \$479.5 million in fiscal 2005.

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

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

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

## KENT STATE UNIVERSITY

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

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

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

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

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

Operating expenditures, including depreciation of \$29.3 million, totaled \$456.8 million.

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

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

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

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

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

## KENT STATE UNIVERSITY

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

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

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

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

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

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

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

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of 2007, the University had invested \$547.9 million in a broad range of capital assets, including equipment, buildings, building improvements and land. This amount represents a net increase (including additions and deductions) of \$37.9 million, or 7.4 percent, over last year (see dormitory project discussion in Noteworthy Financial Activity).

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 10.0	\$ 10.0	\$ 10.0
Equipment	60.5	49.0	50.7
Buildings and improvements	450.9	428.7	395.8
Construction in progress	<u>26.5</u>	<u>22.2</u>	<u>23.0</u>
<b>Total</b>	<u>\$ 547.9</u>	<u>\$ 509.9</u>	<u>\$ 479.5</u>

# KENT STATE UNIVERSITY

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

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

### Long-term Debt

At year-end the University had \$273.2 million in bonds and notes outstanding—a decrease of 1.2 percent over last year. More detailed information about the University's long-term liabilities is presented in Note 6 to the financial statements.

#### Kent State University's Outstanding Debt (in millions of dollars)

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

### Factors Affecting Future Periods

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

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

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

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

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



# **KENT STATE UNIVERSITY**

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

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

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

**Report of Independent Auditors**

To the Board of Trustees of  
Kent State University:

In our opinion, the accompanying statement of net assets and the related statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of Kent State University ("The University") (a component unit of the State of Ohio) at June 30, 2007 and 2006, and the revenues, expenses and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis ("MD&A") on pages 1 to 7 is not a required part of the financial statements but is supplemental information required by GASB. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007 on our consideration of The University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2007. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*PricewaterhouseCoopers LLP*

October 12, 2007  
Cleveland, Ohio

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

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

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

**KENT STATE UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
for the years ended June 30, 2007 and 2006  
(in thousands)

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

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

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

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

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

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

# KENT STATE UNIVERSITY

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

### (1) Reporting Entity and Basis of Presentation

#### (a) Reporting Entity

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

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

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

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

#### (b) Basis of Presentation

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

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

- Invested in capital assets, net of related debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

# KENT STATE UNIVERSITY

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

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

### (2) Summary of Significant Accounting Policies

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

#### (a) Cash and Cash Equivalents

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

#### (b) Investments

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

#### (c) Inventories

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

#### (d) Estimates

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

#### (e) Revenue Recognition

State appropriations are recognized when received or made available. Restricted funds are recognized as revenue only to the extent expended. Gifts and interest on student loans are



# KENT STATE UNIVERSITY

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

recognized when received. The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions.

(f) Accrued Liabilities

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

(g) Capital Assets

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

(3) Investments

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

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

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

# KENT STATE UNIVERSITY

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

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

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

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2007 the University realized a net gain of \$11,823 from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation in the fair value of investments held at year-end. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net appreciation in the fair value of investments during the year ended June 30, 2007, was \$40,526. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year. The unrealized appreciation during the year on investments was \$28,703.

The components of the net investment income are as follows:

	Interest and dividends, net	Net appreciation in market value of investments	Net investment income
Total 2007	\$9,676	\$40,526	\$50,202
Total 2006	\$8,595	\$9,495	\$18,090

### Additional Disclosures Related to Interest-Bearing Investments

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

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

# KENT STATE UNIVERSITY

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

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

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

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

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

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

**Foreign currency risk** – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2007, the University had no exposure to foreign currency risk.

#### (4) Accounts Receivable

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

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

## KENT STATE UNIVERSITY

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

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

#### (5) Capital Assets

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

Capital assets consists of the following, as of June 30, 2006 and 2007:

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

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

#### (6) Long-term Debt

In accordance with the General Receipts bonds Trust Agreement, the Series 1998, Series 2000, Series 2001, Series 2002, and Series 2006 General Receipts bonds are subject to mandatory or optional redemption. The Series 1994 General Receipts bonds are not subject to mandatory or optional redemption.

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

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

In fiscal year 1997, the University defeased Dormitory Revenue bonds by creating separate irrevocable trust funds. University resources were used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been legally defeased and therefore removed as a liability from the University's net investment in plant fund. At June 30, 2007 and 2006, \$820 and \$1,180 respectively, of this defeased debt was outstanding.

## KENT STATE UNIVERSITY

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

The University has entered into a thirty-year interest rate swap agreement for \$155,500 of the variable rate 2001 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 5.02% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counter-party. The \$155,500 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. The University will be exposed to variable rates only if the counter-party to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the University paying or receiving a termination payment. No mark to market adjustment for this swap is required under government accounting standards. The fair value of the swap agreement was (\$15,446) and (\$15,748) at June 30, 2007 and 2006, respectively.

The University has entered into a thirty-year interest rate swap agreement for \$60,000 of the variable rate 2002 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.72% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counter-party. The \$60,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. The University will be exposed to variable rates only if the counter-party to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the University paying or receiving a termination payment. No mark to market adjustment for this swap is required under government accounting standards. The fair value of the swap agreement was \$1,176 and (\$1,229) at June 30, 2007 and 2006, respectively.

The University has entered into a twenty-two year interest rate swap agreement for \$29,310 of the variable rate 2006 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 4.18% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counter-party. The \$29,310 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. The University will be exposed to variable rates only if the counter-party to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the University paying or receiving a termination payment. No mark to market adjustment for this swap is required under government accounting standards. The fair value of the swap agreement was (\$950) at June 30, 2007.

**KENT STATE UNIVERSITY**

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

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

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

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

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

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

(7) **Retirement Benefits**

(a) **Basic Retirement Benefits**

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System (“OPERS”) and the State Teachers Retirement System of Ohio (“STRS Ohio”). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members. The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS Ohio 3.5% of earned compensation for those

# KENT STATE UNIVERSITY

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

employees participating in the alternative retirement program. The University's contribution to the alternative retirement fund for the years ending June 30, 2007 and 2006 were \$655 and \$637, respectively.

The Ohio Public Employees Retirement System's Comprehensive Annual Financial Report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 9.5% of covered payroll and the University is required to contribute 13.77% of covered payroll. The University's contributions to OPERS for the years ending June 30, 2007, 2006 and 2005 were \$10,965, \$10,273 and \$9,986, respectively, equal to the required contributions for each year.

The State Teachers Retirement System of Ohio's Comprehensive Annual Financial Report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to STRS Ohio for the years ending June 30, 2007, 2006, and 2005 were \$11,423, \$11,529 and \$11,068, respectively, equal to the required contributions for each year.

(b) Post-Retirement Health Care Benefits (in whole numbers)

OPERS provide post-retirement health care coverage to age and service retirees with 10 or more years of qualifying State service credit. Health care coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. The 2006 employer contribution rate for health care was 4.5% of covered payroll.

OPERS benefits are advance-funded on an actuarially determined basis. OPERS actuarially accrued liability and the unfunded actuarial accrued liability, based on an entry age normal actuarial cost method of valuation, were \$31.3 billion and \$20.2 billion, respectively. Significant actuarial assumptions include an 6.5% investment return, 4% individual pay increases, and a 4.5 to 10% increase in health care costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. As of December 31, 2005, the actuarial value of the retirement system's net assets available for other post employment benefits was \$11.1 billion. The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006.

STRS Ohio provides access to health care coverage to retirees who participated in the defined benefit or combined plans. Coverage includes hospitalization, physician's fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

# KENT STATE UNIVERSITY

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

The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By State law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The State Teachers Retirement Board currently allocates employer contributions, which equals 1% of covered payroll, to a health care stabilization fund from which health care benefits are paid. The balance in the health care stabilization fund was \$3.5 billion at June 30, 2006.

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

(c) Ohio Public Employees Deferred Compensation Program

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

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

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

At June 30, 2007 and 2006, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$6,174 and \$5,039, respectively, which represents the fair market value at such dates.

(8) Contingencies and Commitments

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

The University is also self-insured for workers' compensation, unemployment compensation and substantially all employee health benefits. The University's risk exposure is limited to claims incurred. Total claims paid during the years ended June 30, 2007 and 2006 were \$30,681 and \$30,804. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$5,041 and \$4,936 has been accrued as of June 30, 2007 and 2006. This estimate is based on an analysis of historical claims paid.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2007 and 2006 for operating leases amounted to approximately \$941 and \$997, respectively.



# KENT STATE UNIVERSITY

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

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

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

### (9) Related Party Transactions

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

### (10) Component Unit

The University is the sole beneficiary of the Foundation; a separate not-for-profit entity organized for the purpose of promoting educational and research activities. The Foundation is a legally separate entity from the University and maintains a self-appointing Board of Trustees. The Foundation reimburses the University for substantially all operating expenses paid by the University on behalf of the Foundation. Accordingly, management historically concluded that the Foundation was not a component unit of the University as defined by GASB Statement No. 14, *The Financial Reporting Entity*. However, under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation now meets the revised definition as a component unit. Assets totaling approximately \$152,446 and \$130,675 at June 30, 2007 and 2006, respectively, most of which have been restricted by donors for specific purposes, are presented separately. Amounts received by the University from the Foundation are included in the accompanying financial statements. The University received approximately \$6,268 and \$5,362 of financial support during the years ended June 30, 2007 and 2006, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2007 and 2006, the University had outstanding receivables from the Foundation of approximately \$377 and \$1,301 respectively.