Kent State University

Financial Report

June 30, 2008

KENT STATE UNIVERSITY
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KENT STATE UNIVERSITY

Management's Discussion and Analysis
As of June 30, 2008 and 2007

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, 2008 and 2007. 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.

<u>Using the Annual Financial Report</u>

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.

<u>Noteworthy Financial Activity</u>

The University was negatively impacted in fiscal year 2008 by the recent disruptions in the investment markets. Investment income declined $62,512 from fiscal year 2007.

Depreciation expense significantly increased in fiscal year 2008, mostly as a result of the implementation of an enterprise resource planning system which became fully functional during the fiscal year.

The University's financial position, as a whole, was consistent during the fiscal year ended June 30, 2008 as compared to the previous year. Highlights from the financial statements are as follows:

- The University's total assets increased over the prior year by $10.4 million, of which $18.1 million is attributed to an increase in capital assets, net of retirements of capital assets. Current assets decreased by $8.2 million, due to the longer duration of the University's investment portfolio.

- Total liabilities increased by $11.9 million.

- The University's net assets decreased by $1.5 million to $611.2 million, of which $326.9 is either invested in capital assets or restricted. Of the remaining $284.3 million in unrestricted assets, all but $795 thousand is designated for specific purposes.

- Operating revenues increased by $14.5 million compared to the prior year.

- The University's operating expenses increased by $44.8 million, with expected increases in most functional expense categories due primarily to inflationary factors.

Kent State University
Condensed Statement of Net Assets
as of June 30, 2008, 2007 and 2006
(in thousands)

ASSETS	**2008**	**2007**	**2006**
Current and other assets	$ 409,594	$ 417,298	$ 379,601
Capital assets	565,972	547,880	509,932
Total assets	$ 975,566	$ 965,178	$ 889,533
LIABILITIES			
Long-term debt	$ 277,532	$ 268,846	$ 272,222
Other	86,879	83,694	84,222
Total liabilities	$ 364,411	$ 352,540	$ 356,444
NET ASSETS			
Invested in capital assets net of related debt	$ 299,576	$ 278,926	$ 243,127
Restricted, expendable and not expendable	27,262	25,224	24,982
Unrestricted:			
Designated	$ 283,522	306,623	263,172
Undesignated (unallocated)	795	1,865	1,808
Total net assets	$ 611,155	$ 612,638	$ 533,089

2008 Versus 2007 During the year ended June 30, 2008:

In fiscal 2008, the University's current assets of $169.7 million were sufficient to cover current liabilities of $73.7 million (current ratio of 2.3). In fiscal 2007, current assets of $177.9 million were sufficient to cover current liabilities of $66.9 million (current ratio of 2.7).

KENT STATE UNIVERSITY

Management's Discussion and Analysis
As of June 30, 2008 and 2007

At June 30, 2008, total University assets were $975.6 million, compared to $965.2 million in fiscal 2007. The University's largest asset is its investment in physical plant of $566 million at June 30, 2008 compared to $547.9 million in fiscal 2007.

Current and other assets decreased $7.7 million to $409.6 million, compared to $417.3 million in fiscal year 2007. Cash and cash equivalents of $123.1 million is the largest non-capital asset.

University liabilities total $364.4 million at June 30, 2008 compared to $352.5 million in fiscal 2007. Long-term debt of $277.5 million, consisting of bonds payable, is the largest liability.

Total net assets decreased by $1.5 million to $611.2 million. Unrestricted net assets total $284.3 million, 99.7% of which ($283.5 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

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.

Kent State University
Condensed Statement of Revenues, Expenses and Changes in Net Assets
as of June 30, 2008, 2007 and 2006
(in thousands)

	2008	2007	2006
Revenues			
Tuition, net	$ 205,035	$ 203,544	$ 194,589
State appropriations	128,504	121,317	119,017
Federal and state grants	65,171	58,967	56,593
Auxiliary activities	82,831	79,877	78,203
Other	35,705	87,450	50,645
Total revenues	$ 517,246	$ 551,155	$ 499,047
Expenses			
Instruction	$ 180,911	$ 170,509	$ 167,275
Research	15,456	14,726	14,315
Institutional support	47,090	32,245	39,352
Scholarships and fellowships	24,149	20,555	14,065
Other	251,123	233,571	225,264
Total expenses	$ 518,729	$ 471,606	$ 460,271

2008 Versus 2007 During the year ended June 30, 2008:

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 $40.3 million, totaled $501.6 million.

State appropriations were the most significant non-operating revenue totaling $128.5 million.

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.

Kent State University
Condensed Statement of Cash Flows
as of June 30, 2008, 2007 and 2006
(in thousands)

	2008	2007	2006
Cash (used in)/provided by:			
Operating activities	$ (121,604)	$ (99,863)	$ (86,277)
Investing activities	(17,895)	(12,473)	(78,889)
Capital and related financing activities	(49,647)	(67,995)	(67,384)
Non-capital financing activities	162,563	152,763	147,413
Net increase/(decrease) in cash	$ (26,583)	(27,568)	(85,137)
Cash and cash equivalents, beginning of year	149,718	177,286	262,423
Cash and cash equivalents, end of year	$ 123,135	$ 149,718	$ 177,286

2008 Versus 2007 During the year ended June 30, 2008:

Major sources of cash included student tuition and fees ($157.4 million), state appropriations ($128.5 million), auxiliary activities ($82.6 million), and grants and contracts ($43.8 million). The largest payments were for suppliers ($178.2 million) and employees ($231.7 million).

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 ($36.2 million). The largest payments were for suppliers ($170.7 million) and employees ($218.5 million).

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the University had invested $566 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 $18.1 million, or 3.3 percent, over last year.

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

	2008	2007	2006
Land	$ 11.0	$ 10.0	$ 10.0
Equipment	59.9	60.5	49.0
Buildings and improvements	483.2	450.9	428.7
Construction in progress	11.9	26.5	22.2
Total	$ 566.0	$ 547.9	$ 509.9

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 $277.5 million in bonds and notes outstanding—an increase of 1.6 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)

	2008	2007	2006
General receipts bonds (backed by the University)	$ 264.8	$ 267.1	$ 269.0
Capital leases	12.7	6.1	7.4
	$ 277.5	$ 273.2	$ 276.4

Factors Affecting Future Periods

The financial outlook for the University is very different today than it was twelve months ago. As stated previously, disruptions in the investment markets caused investment income to decrease substantially in fiscal year 2008. This situation has worsened in the first few months of fiscal year 2009. Furthermore, the negative impacts of the worsening economy are also likely to be felt by the University as general revenues to Ohio decline, likely causing reductions in state appropriations in future fiscal years.

However, as the Statement of Net Assets shows, the financial position of the University is still relatively strong. Furthermore, investments in several strategic initiatives such as fund raising, student retention, research and freshmen selectively, should help mitigate these negative impacts of the economy.

Plante & Moran, PLLC
3434 Granite Circle
Toledo, OH 43617
Tel: 419.843.6000
Fax: 419.843.6099
plantemoran.com

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, 2008 and the related statements of revenue, expenses, and changes in net assets and cash flows for the year 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. The financial statements of Kent State University as of June 30, 2007 were audited by other auditors, whose report dated October 12, 2007 expressed an unqualified opinion on those statements. We did not audit the financial statements of the 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 audit 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 audit provides a reasonable basis for our opinion.

As explained in Note 3, the financial statements include investments valued at approximately $140,000,000 (23 percent of net assets), 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, 2008 and the results of its operations and cash flows for the year 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 15, 2008 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, 2008. 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 6 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 purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2008

KENT STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2008 and 2007
(in thousands)

	University		University Related Foundation	
	2008	**2007**	**2008**	**2007**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 123,135	$ 149,718	$ 2,510	$ 923
Short-term investments	10,597	2,794	113,024	119,069
Accounts and pledges receivable, net	29,947	19,977	7,999	7,805
Inventories	1,814	1,721	-	-
Deposits and prepaid expenses	3,502	3,200	-	-
Accrued interest receivable	675	460	-	68
Total current assets	169,670	177,870	123,533	127,865
Noncurrent assets:				
Student loans receivable, net	25,032	21,972	-	-
Long-term investments	212,203	214,636	7,606	7,489
Long-term pledges receivable, net	-	-	7,617	7,290
Capital assets, net	565,972	547,880	9,370	9,337
Other assets	2,689	2,820	602	465
Total noncurrent assets	805,896	787,308	25,195	24,581
Total assets	975,566	965,178	148,728	152,446
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	24,296	18,827	743	822
Accrued payroll	10,944	9,181	-	-
Payroll taxes and accrued fringe benefits	10,974	11,099	-	-
Unearned fees and deposits	21,899	23,463	-	-
Current portion of long-term debt	5,645	4,307	-	-
Total current liabilities	73,758	66,877	743	822
Noncurrent liabilities:				
Accrued compensated absences	16,816	14,884	-	-
Accrued liabilities	-	-	4,105	4,894
Long-term unearned fees and deposits	1,950	1,933	5,351	5,461
Long-term debt	271,887	268,846	-	-
Total noncurrent liabilities	290,653	285,663	9,456	10,355
Total liabilities	364,411	352,540	10,199	11,177
NET ASSETS				
Invested in capital assets, net of related debt	299,576	278,926	9,370	9,337
Restricted, nonexpendable	883	883	64,424	60,443
Restricted, expendable	26,379	24,341	64,051	70,193
Unrestricted	284,317	308,488	684	1,296
Total net assets	611,155	612,638	138,529	141,269
Total liabilities and net assets	$ 975,566	$ 965,178	$ 148,728	$ 152,446

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, 2008 and 2007
(in thousands)

	University		University Related Foundation	
	2008	**2007**	**2008**	**2007**
OPERATING REVENUES				
Student tuition and fees	$ 242,114	$ 237,736	$ -	$ -
Less scholarship allowances	(37,079)	(34,192)	-	-
Net student tuition and fees	205,035	203,544		-
Federal grants and contracts	25,757	24,018	-	-
State grants and contracts	12,160	10,772	-	-
Local grants and contracts	621	320	-	-
Nongovernmental grants and contracts	3,595	3,072	-	-
Sales and services of educational departments	7,806	6,325	-	-
Auxiliary activities	82,831	79,877	-	-
Other operating revenues	8,960	4,312	1,925	1,380
Total operating revenues	346,765	332,240	1,925	1,380
OPERATING EXPENSES				
Instruction	180,911	170,509	-	-
Research	15,456	14,726	-	-
Public service	15,969	15,184	-	-
Academic support	41,947	40,429	-	-
Student services	24,418	25,402	-	-
Institutional support	47,090	32,245	14,322	15,077
Scholarships and fellowships	24,149	20,555	2,677	2,209
Operation and maintenance of plant	32,470	32,432	-	-
Auxiliary activities	78,827	76,056	-	-
Depreciation	40,315	29,263	2	8
Total operating expenses	501,552	456,801	17,001	17,294
Operating loss	(154,787)	(124,561)	(15,076)	(15,914)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	128,504	121,317	-	-
Federal Pell Grant revenue	27,254	24,177		
Gifts	6,668	6,268	18,159	21,012
Investment income (loss)	(12,310)	50,202	(5,154)	15,844
Interest on capital asset-related debt	(15,447)	(13,006)	-	-
Other nonoperating (expenses)	(1,730)	(1,799)	(669)	(423)
Net nonoperating revenues	132,939	187,159	12,336	36,433
Income (loss) before other revenues, expenses, gains or losses	(21,848)	62,598	(2,740)	20,519
Capital appropriation	20,365	16,951	-	-
Increase (decrease) in net assets	(1,483)	79,549	(2,740)	20,519
NET ASSETS				
Net assets, beginning of year	612,638	533,089	141,269	120,750
Net assets, end of year	$ 611,155	$ 612,638	$ 138,529	$ 141,269

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

KENT STATE UNIVERSITY

STATEMENT OF CASH FLOWS

for the years ended June 30, 2008 and 2007

(in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	$ 157,370	$ 162,815
Cash received from auxiliary activities	82,575	79,878
Cash received from other sources	7,640	11,176
Grants and contracts	43,849	36,273
Federal student loan funds received	18	-
Student loans granted, net of repayments	(3,152)	(743)
Cash paid to employees	(231,712)	(218,541)
Cash paid to suppliers	(178,192)	(170,721)
Net cash used in operating activities	(121,604)	(99,863)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	118,072	79,287
Purchases of investments	(146,344)	(118,700)
Interest received	10,377	26,940
Net cash used in investing activities	(17,895)	(12,473)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net proceeds from bond issuance	43,170	28,919
Early extinguishment of bonds	(42,695)	(28,886)
Principal payments under debt obligations, net	(5,132)	(4,270)
Proceeds from master lease agreement	(14,384)	
Interest paid	9,036	(13,355)
Capital appropriations	8,274	3,337
Purchases of capital assets	(46,186)	(53,313)
Other payments	(1,730)	(427)
Net cash used in capital and related financing activities	(49,647)	(67,995)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	128,504	121,394
Gifts received from KSU Foundation	6,805	7,192
Cash received from Federal Pell grants	27,254	24,177
Net cash provided by noncapital financing activities	162,563	152,763
Net decrease in cash and cash equivalents	(26,583)	(27,568)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	149,718	177,286
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 123,135	$ 149,718

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, 2008 and 2007

(in thousands)

	2008	2007
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (154,787)	$ (124,561)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	40,315	29,263
Change in assets and liabilities:		
Accounts receivable, net	(10,106)	(3,322)
Inventories	(93)	(36)
Deposits and prepaid expenses	(302)	(284)
Student loans receivable, net	(3,060)	(656)
Accounts payable and accrued liabilities	4,406	(4,229)
Accrued payroll	1,763	573
Payroll taxes and accrued fringe benefits	(125)	1,467
Unearned fees and deposits	(1,547)	986
Accrued compensated absences	1,932	936
Total change in assets and liabilities	(7,132)	(4,565)
Net cash used in operating activities	$ (121,604)	$ (99,863)

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

(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.

- 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 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.

(h) 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. Recent guidance on GASB Statement No. 24 has resulted in reclassification of Federal Pell Grant revenue from operating to non-operating revenues.

(i) Risks and Uncertainties

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

(in thousands)

(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 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 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.

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, 2008 and 2007, the carrying amount of the University's deposits was $8,407 and $3,484, respectively. Of that amount, $4,450 and $5,376, respectively, was insured. The remaining $4,872 and $726 at June 30, 2008 and 2007, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. The University is precluded by state law from collateralizing its deposits.

The values of investments at June 30, 2008 and 2007 are as follows:

	2008	2007
Common stock	$ 200,395	$ 202,926
Equity mutual funds	21,402	44,299
US government obligations	2,857	5,100
US government agency obligations	11,645	8,706
Repurchase agreements	-	1
Corporate bonds and notes	1,350	612
Bond mutual funds	72,083	62,175
Other	27,703	39,755
Total	$ 337,435	$ 363,574

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2008 the University realized a net loss of ($25,973) from the sale of investments. The calculation of realized gains and losses is independent of the net depreciation in the fair value of investments held at year-end. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net depreciation in the fair value of investments during the year ended June 30, 2008, was ($20,172). 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 $5,801.

(in thousands)

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 2008	$7,862	($20,172)	($12,310)
Total 2007	$9,676	$40,526	$50,202

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, 2008 are as follows:

		Investment Maturities (in years)			
	Fair Value	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
US government obligations	$ 2,857	$ 744	$ 2,113	$ -	$ -
US government agency obligations	11,645	2,275	4,757	4,287	326
Repurchase agreements	-	-	-	-	-
Corporate bonds and notes	1,350	1,025	325	-	-
Bond mutual funds	72,165	7,727	27,790	29,143	7,505
Total	$ 88,017	$ 11,771	$ 34,985	$ 33,430	$ 7,831

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, 2008 are as follows:

(in thousands)

Credit Rating (Moody's)	Total	Government Obligations	US Agency Obligations	Repurchase Agreements	Corporate Bonds	Bond Mutual Funds
AAA	$ 44,399	$ 2,857	$ 11,229	$ -	$ -	$ 30,313
AA+	-	-	-	-	-	-
AA	26,630	-	416	-	-	26,214
AA-	627	-	-	-	625	2
A+	15,624	-	-	-	-	15,624
A	303	-	-	-	298	5
OTHER	434	-	-	-	427	7
Total	$ 88,017	$ 2,857	$ 11,645	$ -	$ 1,350	$ 72,165

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, 2008, the University had no exposure to foreign currency risk.

(4) Accounts Receivable

Accounts receivable consist of the following as of June 30, 2008 and 2007:

	2008	2007
Sponsor accounts	$ 5,923	$ 6,831
Student accounts	12,165	10,477
Other	14,130	4,884
	$ 32,218	$ 22,192
Less allowances for loss on accounts receivable	(2,271)	(2,215)
Accounts receivable, net	$ 29,947	$ 19,977

In addition, the University has student loans receivable of $29,423 and $26,271 as of June 30, 2008 and 2007, respectively. The related allowances as of June 30, 2008 and 2007 are $4,391 and $4,299, 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, 2008:

(in thousands)

	2007	Additions/ Transfers	Net Retirements	2008
Land	$ 9,974	$ 1,034	$ 18	$ 10,990
Infrastructure	91,988	1,787	-	93,775
Buildings	598,725	50,616	-	649,341
Equipment	176,541	19,533	766	195,308
Construction-in-progress	26,468	(14,564)	-	11,904
	$ 903,696	$ 58,406	$ 784	$ 961,318
Less accumulated depreciation	355,816	39,753	223	395,346
Capital assets, net	$ 547,880	$ 18,653	$ 561	$ 565,972

Included in depreciation expense of $40,315 for the year ended June 30, 2008, is a loss of $561 from the disposal of obsolete capital assets.

Capital assets consist of the following as of June 30, 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 Liabilities

Long-term Debt

In accordance with the General Receipts bonds Trust Agreement, the Series 1998, Series 2000, Series 2001, Series 2002, Series 2007, and Series 2008A General Receipts bonds are subject to mandatory or optional redemption.

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

In April 2008, the University issued $43,170 in Series 2008A General Receipts bonds. The proceeds from the bond sale were used for the early redemption of Series 1998 and Series 2006 General Receipts bonds with outstanding principal balances of $15,135 and $27,560, respectively.

In fiscal year 1998, 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, 2008 and 2007, $410 and $820 respectively, of this defeased debt was outstanding.

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 ($24,798) and ($15,446) at June 30, 2008 and 2007, 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. 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. 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 ($2,901) and $1,176 at June 30, 2008 and 2007, 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. 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. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate. 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 ($2,328) and ($950) at June 30, 2008 and 2007, respectively.

(in thousands)

The University has entered into a fifteen year interest rate swap agreement for $15,610 of the variable rate 2008 Series General Receipts bonds. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.76% to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate. The $15,610 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. 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 ($709) at June 30, 2008.

The University has entered into several interest rate swap agreements as a means of lowering its borrowing costs to protect against the potential of rising interest rates. In entering into these swaps, the overall borrowing cost is anticipated to be less than what the University would have paid for natural fixed interest rate debt.

Long-term debt consists of the following as of June 30, 2008:

	Rates	Maturity	2007	Additions	Retirements	2008
General Receipts Bonds of 2008B	3.76-4.18	2009-2028		$43,170	-	$43,170
General Receipts Bonds of 2006	4.18	2007-2028	$28,400	-	28,400	-
General Receipts Bonds of 2002	3.72	2028-2032	60,000	-	-	60,000
General Receipts Bonds of 2001	5.02	2007-2031	154,500		1,000	153,500
General Receipts Bonds of 2000	5.0-6.0	2004-2024	8,430	-	310	8,120
General Receipts Bonds of 1998	4.1-5.0	2004-2023	15,810	-	15,810	
Other	various	various	6,013	9,036	2,307	12,742
			$273,153	$52,206	$47,827	$277,532
Less current portion long-term debt			4,307			5,645
			$268,846			$271,887

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

(in thousands)

	Rates	Maturity	2006	Additions	Retirements	2007
General Receipts Bonds of 2006	4.18	2007-2028	-	$29,310	$910.00	$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
			$276,441	$29,310	$32,598	$273,153
Less current portion long-term debt			4,219			4,307
			$272,222			$268,846

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:

	Principal	Interest	Total
2009	$ 5,645	$ 12,553	$ 18,198
2010	5,799	12,431	18,230
2011	5,998	12,166	18,164
2012	8,092	11,926	20,018
2013	8,554	11,543	20,097
2014-2018	42,924	51,759	94,683
2019-2023	52,380	40,799	93,179
2024-2028	67,240	27,739	94,979
2029-2032	80,900	12,291	93,191
Total	$277,532	$ 193,207	$ 470,739

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, 2008 and 2007 is $12,156 and $10,878, respectively.

(in thousands)

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, 2008 and 2007 is $4,660 and $4,006, respectively.

A summary of accrued compensated absences at June 30, 2008 and 2007 is as follows:

For the year ended	Beginning Balance	Additions	Reductions	Ending Balance
June 30, 2008	$14,884	$3,811	$1,879	$16,816
June 30, 2007	13,948	1,373	437	14,884

(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 contributions to the alternative retirement fund for the years ended June 30, 2008 and 2007 were $742 and $655, respectively.

The Ohio Public Employees Retirement System's Comprehensive Annual Financial Report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to OPERS for the years ended June 30, 2008, 2007 and 2006 were $11,843, $10,965 and $10,273, 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, 2008, 2007, and 2006 were $12,345, $11,423 and $11,529, respectively, equal to the required contributions for each year.

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

OPERS provides 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 2007 employer contribution rate for health care was 5.00% of covered payroll, from January 1 through June 30 and 6.00% from July l through December 31.

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 $30.7 billion and $18.7 billion, respectively. Significant actuarial assumptions include a 6.50% investment return, 4.00% individual pay increases, and a 4.5% to 9% 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, 2006, the actuarial value of the retirement system's net assets available for other post employment benefits was $12 billion. The number of active contributing participants in the traditional and combined plans was 374,979 as of December 31, 2007.

STRS Ohio provides access to health care coverage to retirees who participated in the defined benefit or combined plans. Coverage includes hospitalization, physicians' 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.

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 $4.1 billion at June 30, 2007.

For the year ended June 30, 2007, the net health care costs paid by STRS Ohio were $265,558. There were 122,934 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 thousands)

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, 2008 and 2007, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were $6,392 and $6,174, 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, 2008 and 2007 were $32,929 and $30,681, respectively. A liability for unpaid claims (including incurred but not reported claims) in the amount of $5,097 and $5,041 has been accrued as of June 30, 2008 and 2007, respectively. This estimate is based on an analysis of historical claims paid.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2008 and 2007 for operating leases amounted to approximately $1,023 and $941, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2008 are as follows:

	Operating Leases
2009	$ 898
2010	900
2011	902
2012	904
2013	893
2014-2018	3,066
2019-2023	2,163
2024-2028	2,163
2029-2033	865
Total future minimum payments	$ 12,754

(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 $148,728 and $152,446 at June 30, 2008 and 2007, 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 $6,668 and $6,268 of financial support during the years ended June 30, 2008 and 2007, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2008 and 2007, the University had outstanding receivables from the Foundation of approximately $241 and $377, respectively.

(11) Subsequent Events

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

In September 2008, Lehman Brothers, the counterparty to the interest rate swap agreements as discussed in Note 6, filed for bankruptcy. As a result, all payments under the swap were terminated and the University is only paying the variable rate of interest on the bonds.

Subsequent to year-end, the University's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.