Kent State University

Financial Report

June 30, 2009

KENT STATE UNIVERSITY
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KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited)
As of June 30, 2009 and 2008

This section of Kent State University's ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2009 and 2008. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of University management.

Using the Annual Financial Report

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

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

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

The University was again negatively impacted in fiscal year 2009 by the disruptions in the investment markets. Investment loss increased $39,649 from fiscal year 2008.

The University's financial position, as a whole, was consistent during the fiscal year ended June 30, 2009 as compared to the previous year. Highlights from the financial statements are as follows:

- The University's total assets decreased over the prior year by $36.4 million, of which $57.8 million is attributed to a decrease in investments. This decrease is offset by increases in cash and cash equivalents of $10.8 million and net capital assets of $8.5 million.

- Total liabilities increased by $27.1 million mainly due to a $19.3 million increase in accounts payable and accrued liabilities. Of this increase, $8.6 million is due to the liability associated with the University Employee Separation Plan that was implemented in fiscal year 2009. The remaining increase is associated with increased accruals in the plant funds.

- The University's net assets decreased by $63.5 million to $547.6 million, of which $345 million is either invested in capital assets or restricted. Of the remaining $202.6 million in unrestricted assets, all but $795 thousand is designated for specific purposes.

- Operating revenues increased by $12.0 million compared to the prior year, primarily due to significant increases in both state and non-governmental grants.

- The University's operating expenses increased by $44.0 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, 2009, 2008 and 2007
(in thousands)

ASSETS	2009	2008	2007
Current and other assets	$ 364,688	$ 409,594	$ 417,298
Capital assets	574,484	565,972	547,880
Total assets	$ 939,172	$ 975,566	$ 965,178
LIABILITIES			
Long-term debt	$ 270,172	$ 271,887	$ 268,846
Other	121,344	92,524	83,694
Total liabilities	$ 391,516	$ 364,411	$ 352,540
NET ASSETS			
Invested in capital assets net of related debt	$ 312,422	$ 299,576	$ 278,926
Restricted, expendable and not expendable	32,596	27,262	25,224
Unrestricted:			
Designated	201,843	283,522	306,623
Undesignated (unallocated)	795	795	1,865
Total net assets	$ 547,656	$ 611,155	$ 612,638

2009 Versus 2008 During the year ended June 30, 2009:

In fiscal 2009, the University's current assets of $196.9 million were sufficient to cover current liabilities of $102.3 million (current ratio of 1.9). In fiscal 2008, current assets of $169.7 million were sufficient to cover current liabilities of $73.7 million (current ratio of 2.3).

At June 30, 2009, total University assets were $939.1 million, compared to $975.6 million in fiscal 2008. The decrease of $36.5 million is attributed to a decrease in the market value of investments of $57.8 million, offset by increases in both cash and net capital assets.

Current and other assets decreased $45 million to $364.7 million, compared to $409.6 million in fiscal year 2008, primarily due to the decrease in the market value of investments of $57.8 million.

University liabilities total $391.5 million at June 30, 2009 compared to $364.4 million in fiscal 2008. This increase is primarily due to additional accruals recorded in the plant funds associated with the additional interest incurred as a result of the University's swap counterparty filing for bankruptcy. As a result of this, the debt issue was restructured resulting in increased debt. In addition, the University recorded an $8.6 million liability associated with the University Employee Separation Plan implemented in fiscal year 2009.

Total net assets decreased by $63.5 million to $547.6 million. Unrestricted net assets total $202.6 million, 99.6% of which ($201.8 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

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).

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 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.

Kent State University
Condensed Statement of Revenues, Expenses and Changes in Net Assets
as of June 30, 2009, 2008 and 2007
(in thousands)

	2009	2008	2007
Revenues			
Tuition, net	$ 205,682	$ 205,035	$ 203,544
State appropriations	138,552	128,504	121,317
Federal and state grants	78,761	65,171	58,967
Auxiliary activities	84,404	82,831	79,877
Other	(2,683)	35,705	87,450
Total revenues	$ 504,716	$ 517,246	$ 551,155
Expenses			
Instruction	$ 190,587	$ 180,911	$ 170,509
Research	20,798	15,456	14,726
Institutional support	52,606	47,090	32,245
Scholarships and fellowships	27,062	24,149	20,555
Other	277,162	251,123	233,571
Total expenses	$ 568,215	$ 518,729	$ 471,606

2009 Versus 2008 During the year ended June 30, 2009:

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 $40.1 million, totaled $545.5 million.

State appropriations were the most significant non-operating revenue totaling $138.6 million.

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.

Kent State University
Condensed Statement of Cash Flows
as of June 30, 2009, 2008 and 2007
(in thousands)

	2009	2008	2007
Cash (used in)/provided by:			
Operating activities	$ (126,114)	$ (121,604)	$ (99,863)
Investing activities	5,750	(17,895)	(12,473)
Capital and related financing activities	(53,873)	(49,647)	(67,995)
Non-capital financing activities	185,015	162,563	152,763
Net increase/(decrease) in cash	10,778	(26,583)	(27,568)
Cash and cash equivalents, beginning of year	123,135	149,718	177,286
Cash and cash equivalents, end of year	$ 133,913	$ 123,135	$ 149,718

2009 Versus 2008 During the year ended June 30, 2009:

Major sources of cash included student tuition and fees ($160.3 million), state appropriations ($138.5 million), auxiliary activities ($84.1 million), and grants and contracts ($51.5 million). The largest payments were for suppliers ($197.2 million) and employees ($245.5 million).

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).

Capital Asset and Debt Administration

Capital Assets

At the end of 2009, the University had invested $574.5 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 $8.5 million, or 1.5 percent, over last year.

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

	2009	2008	2007
Land	$ 11.3	$ 11.0	$ 10.0
Equipment	52.0	59.9	60.5
Buildings and improvements	481.1	483.2	450.9
Construction in progress	30.1	11.9	26.5
Total	$ 574.5	$ 566.0	$ 547.9

In fiscal year 2010, the University is anticipating significant construction projects, including the renovation of the Risman Plaza estimated to cost $3.3 million.

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 $276.0 million in bonds and notes outstanding—a decrease of .5 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)

	2009	2008	2007
General receipts bonds (backed by the University)	$ 265.9	$ 264.8	$ 267.1
Capital leases	10.1	12.7	6.1
	$ 276.0	$ 277.5	$ 273.2

Factors Affecting Future Periods

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, legislative restrictions on tuition, changes in state support, and the ability to manage rising costs. The University is focusing on several strategic initiatives such as student retention, freshman selectivity, fund raising, and increased research to improve the position of the University.

The State appropriations act for the biennium ending June 30, 2011 was passed allowing a 3.5% maximum annual increase in instructional and general fees for in-state undergraduate students at the state public institutions. The Board of Trustees of the University authorized a 3.5% increase in such fees for the 2009-2010 academic year.

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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, 2009 and June 30, 2008 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 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 audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 3, the financial statements include investments valued at approximately $94,000,000 (17 percent of net assets) and $140,000,000 (23 percent of net assets) as of June 30, 2009 and 2008, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kent State University as of June 30, 2009 and 2008 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2009 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.

Plante & Moran, PLLC

Toledo, Ohio
October 15, 2009

KENT STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2009 and 2008
(in thousands)

	University		University Related Foundation	
	2009	**2008**	**2009**	**2008**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 133,913	$ 123,135	$ 1,588	$ 2,510
Short-term investments	24,699	10,597	95,755	113,024
Accounts and pledges receivable, net	32,045	29,947	8,059	7,999
Inventories	1,862	1,814	-	-
Deposits and prepaid expenses	3,629	3,502	-	-
Accrued interest receivable	777	675	-	-
Total current assets	196,925	169,670	105,402	123,533
Noncurrent assets:				
Student loans receivable, net	24,636	25,032		-
Long-term investments	140,290	212,203	4,628	7,606
Long-term pledges receivable, net	-	-	5,864	7,617
Capital assets, net	574,484	565,972	961	1,052
Other assets	2,837	2,689	522	602
Total noncurrent assets	742,247	805,896	11,975	16,877
Total assets	$ 939,172	$ 975,566	$ 117,377	$ 140,410
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	43,557	24,296	701	743
Accrued payroll	11,525	10,944	-	-
Payroll taxes and accrued fringe benefits	12,923	10,974	-	-
Unearned fees and deposits	28,450	21,899	-	-
Current portion of long-term debt	5,847	5,645	-	-
Total current liabilities	102,302	73,758	701	743
Noncurrent liabilities:				
Accrued compensated absences	17,357	16,816	-	-
Accrued liabilities	-	-	4,114	4,105
Long-term unearned fees and deposits	1,685	1,950	4,379	5,351
Long-term debt	270,172	271,887	-	-
Total noncurrent liabilities	289,214	290,653	8,493	9,456
Total liabilities	391,516	364,411	9,194	10,199
NET ASSETS				
Invested in capital assets, net of related debt	312,422	299,576	961	1,052
Restricted, nonexpendable	5,883	883	28,672	64,424
Restricted, expendable	26,713	26,379	78,208	64,051
Unrestricted	202,638	284,317	342	684
Total net assets	547,656	611,155	108,183	130,211
Total liabilities and net assets	$ 939,172	$ 975,566	$ 117,377	$ 140,410

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, 2009 and 2008
(in thousands)

	University		University Related Foundation	
	2009	2008	2009	2008
OPERATING REVENUES				
Student tuition and fees	$ 247,285	$ 242,114	$ -	$ -
Less scholarship allowances	(41,603)	(37,079)	-	-
Net student tuition and fees	205,682	205,035	-	-
Federal grants and contracts	25,280	25,757	-	-
State grants and contracts	20,806	12,160	-	-
Local grants and contracts	654	621	-	-
Nongovernmental grants and contracts	6,266	3,595	-	-
Sales and services of educational departments	8,127	7,806	-	-
Auxiliary activities	84,404	82,831	-	-
Other operating revenues	7,547	8,960	113	207
Total operating revenues	358,766	346,765	113	207
OPERATING EXPENSES				
Instruction	190,587	180,911	-	-
Research	20,798	15,456	-	-
Public service	18,192	15,969	-	-
Academic support	45,116	41,947	-	-
Student services	25,731	24,418	-	-
Institutional support	52,606	47,090	20,443	14,322
Scholarships and fellowships	27,062	24,149	2,763	2,677
Operation and maintenance of plant	46,471	32,470	-	-
Auxiliary activities	78,763	78,827	-	-
Depreciation	40,190	40,315	2	781
Total operating expenses	545,516	501,552	23,208	17,780
Operating loss	(186,750)	(154,787)	(23,095)	(17,573)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	138,552	128,504	-	-
Federal Pell Grant revenue	32,675	27,254	-	-
Gifts	13,556	6,668	16,902	19,804
Investment loss	(51,959)	(12,310)	(16,807)	(5,143)
Interest on capital asset-related debt	(20,738)	(15,447)	-	-
Other nonoperating revenues/expenses	(1,961)	(1,730)	972	110
Net nonoperating revenues	110,125	132,939	1,067	14,771
Income (loss) before other revenues, expenses, gains or losses	(76,625)	(21,848)	(22,028)	(2,802)
Capital appropriation	13,126	20,365	-	-
Decrease in net assets	(63,499)	(1,483)	(22,028)	(2,802)
NET ASSETS				
Net assets, beginning of year	611,155	612,638	130,211	133,013
Net assets, end of year	$ 547,656	$ 611,155	$ 108,183	$ 130,211

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

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS
for the years ended June 30, 2009 and 2008
(in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	$ 160,294	$ 157,370
Cash received from auxiliary activities	84,084	82,575
Cash received from other sources	20,322	7,640
Grants and contracts	51,532	43,849
Federal student loan funds received	10	18
Student loans granted, net of repayments	315	(3,152)
Cash paid to employees	(245,518)	(231,712)
Cash paid to suppliers	(197,153)	(178,192)
Net cash used in operating activities	(126,114)	(121,604)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	79,265	118,072
Purchases of investments	(50,993)	(146,344)
Interest received	(22,522)	10,377
Net cash provided/(used) in investing activities	5,750	(17,895)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net proceeds from bond issuance	217,635	43,170
Early extinguishment of bonds	(213,500)	(42,695)
Principal payments under debt obligations, net	(5,654)	(5,132)
Proceeds from master lease agreement	-	9,036
Interest paid	(14,675)	(14,384)
Capital appropriations	9,488	8,274
Purchases of capital assets	(45,206)	(46,186)
Other payments	(1,961)	(1,730)
Net cash used in capital and related financing activities	(53,873)	(49,647)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	138,552	128,504
Gifts received from KSU Foundation	13,788	6,805
Cash received from Federal Pell grants	32,675	27,254
Net cash provided by noncapital financing activities	185,015	162,563
Net increase/(decrease) in cash and cash equivalents	10,778	(26,583)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	123,135	149,718
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 133,913	$ 123,135

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, 2009 and 2008
(in thousands)

	2009	2008
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (186,750)	$ (154,787)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	40,190	40,315
Change in assets and liabilities:		
Accounts receivable, net	(2,330)	(10,106)
Inventories	(48)	(93)
Deposits and prepaid expenses	(127)	(302)
Student loans receivable, net	396	(3,060)
Accounts payable and accrued liabilities	13,198	4,406
Accrued payroll	581	1,763
Payroll taxes and accrued fringe benefits	1,949	(125)
Unearned fees and deposits	6,286	(1,547)
Accrued compensated absences	541	1,932
Total change in assets and liabilities	20,446	(7,132)
Net cash used in operating activities	$ (126,114)	$ (121,604)

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.

(c) Upcoming Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the University's 2010 fiscal year end. This Statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. This Statement also establishes specific conditions upon which internally generated intangible assets should be recognized and amortized, including internally generated computer software. The University is currently evaluating the impact this standard will have on the financial statements when adopted.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the University's 2010 fiscal year end. This Statement requires derivative instruments (such as interest rate swap agreements) to be reported at fair value. In addition, for derivative instruments that qualify as effective hedges, changes in fair value will be reported as deferrals in the statement of net assets, while changes in the fair value of the derivative instruments that do not qualify as effective hedges, including investment derivative instruments, will be reported as investment income. The University is currently evaluating the impact this standard will have on the financial statements when adopted.

(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) Deferred Revenue

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

(h) 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 (3 to 40 years) of the respective assets. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

(i) 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.

(j) 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.

(3) Investments

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

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

(in thousands)

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

Custodial credit risk on deposits with banks is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial credit risk. At June 30, 2009 and 2008, the bank amount of the University's deposits was $38,839 and $9,322, respectively. Of that amount, $9,426 and $4,450, respectively, was insured. The remaining $29,413 and $4,872 at June 30, 2009 and 2008, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized.

The values of investments at June 30, 2009 and 2008 are as follows:

	2009	2008
Common stock	$ 130,915	$ 200,395
Equity mutual funds	13,107	21,402
US government obligations	4,440	2,857
US government agency obligations	9,151	11,645
Corporate bonds and notes	1,813	1,350
Bond mutual funds	66,641	72,083
Other	34,698	27,703
Total	$ 260,765	$ 337,435

Included in common stock above are approximately $94 million of alternative investments and $140 million as of June 30, 2009 and June 30, 2008, respectively, primarily private equity and hedge funds. Alternative investments do not have readily available market prices. These investments are carried at estimated fair value provided by the fund's management. The University believes that the carrying amounts are reasonable estimates of fair value as of the year end. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material.

Net depreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the years ended June 30, 2009 and June 30, 2008, the University realized a net loss of ($28,390) and ($25,973), respectively, 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 years ended June 30, 2009 and June 30, 2008 was ($58,128) and ($20,172), respectively. This amount includes all changes in fair value, both realized and unrealized, that occurred during the year. The unrealized depreciation during fiscal year 2009 on investments was ($23,738). In fiscal year 2008, the unrealized appreciation 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 2009	$6,169	($58,128)	($51,959)
Total 2008	$7,862	($20,172)	($12,310)

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, 2009 are as follows:

		Investment Maturities (in years)			
	Fair Value	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
US government obligations	$ 4,440	$ 3,192	$ 1,248	$ -	$ -
US government agency obligations	9,151	1,819	6,710	622	-
Corporate bonds and notes	1,813	1,018	795	-	-
Bond mutual funds	66,641	2,312	30,891	23,985	9,453
Total	$ 82,045	$ 8,341	$ 39,644	$ 24,607	$ 9,453

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
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.

(in thousands)

The credit ratings of the University's interest-bearing investments at June 30, 2009 are as follows:

Credit Rating (Moody's)	Total	Government Obligations	US Agency Obligations	Corporate Bonds	Bond Mutual Funds
AAA	$ 35,541	$ 4,440	$ 9,151	$ 431	$ 21,519
AA+	15,713	-	-	30	15,683
AA	5,858	-	-	161	5,697
AA-	4,765	-	-	-	4,765
A+	-	-	-	-	-
A	3,155	-	-	623	2,532
OTHER	17,013	-	-	568	16,445
Total	$ 82,045	$ 4,440	$ 9,151	$ 1,813	$ 66,641

The credit ratings of the University's interest-bearing investments at June 30, 2008 are as follows:

Credit Rating (Moody's)	Total	Government Obligations	US Agency Obligations	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, 2009, the University had no exposure to foreign currency risk.

(4) <u>Accounts Receivable</u>

Accounts receivable consist of the following as of June 30, 2009 and 2008:

	2009	2008
Sponsor accounts	$ 7,167	$ 5,923
Student accounts	17,609	12,165
Other	9,570	14,130
	$ 34,346	$ 32,218
Less allowances for loss on accounts receivable	(2,301)	(2,271)
Accounts receivable, net	$ 32,045	$ 29,947

In addition, the University has student loans receivable of $29,108 and $29,423 as of June 30, 2009 and 2008, respectively. The related allowances as of June 30, 2009 and 2008 are $4,472 and $4,391, respectively.

(in thousands)

(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, 2009:

	2008	Additions/ Transfers	Net Retirements	2009
Land	$ 10,990	$ 332	$ -	$ 11,322
Infrastructure	93,775	(1,219)	564	91,992
Buildings	649,341	21,481	5,940	664,882
Equipment	195,308	9,932	7,972	197,268
Construction-in-progress	11,904	18,176	-	30,080
	961,318	48,702	14,476	995,544
Less accumulated depreciation	395,346	38,745	13,031	421,060
Capital assets, net	$ 565,972	$ 9,957	$ 1,445	$ 574,484

Included in depreciation expense of $40,190 for the year ended June 30, 2009 is a loss of $1,445 from the disposal of obsolete capital assets.

Capital assets consist of the following as of June 30, 2008:

	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.

(6) Long-term Liabilities

Long-term Debt

In accordance with the General Receipts bonds Trust Agreement, the Series 1998, Series 2000, Series 2009, Series 2008B and Series 2008A General Receipts bonds are subject to mandatory or optional redemption.

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

In August 2008, the University issued $60,000 in Series 2008B General Receipts bonds. The proceeds from the bond sale were used for the early redemption of Series 2002 General Receipts bonds with an outstanding principal balance of $60,000. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the University's long-term obligations.

In April 2009, the University issued $157,635 in Series 2009A General Receipts bonds. The proceeds from the bond sale were used for the early redemption of Series 2001 General Receipts bonds with an outstanding principal balance of $153,500. The additional $4,135 related to capitalized interest and costs of issuance. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the University's long-term obligations.

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, 2009 and 2008, $0 and $410 respectively, of this defeased debt was outstanding.

The University has entered into a 30-year interest rate swap agreement for $155,500 of the variable rate 2001 Series General Receipts bonds. During 2009, the interest rate swap agreement was re-identified in connection with refunding of the 2001 Series General Receipt bonds through the issuance of 2009A Series General Receipt 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 ($24,624) and ($24,798) at June 30, 2009 and 2008, respectively.

The University has entered into a 30-year interest rate swap agreement for $60,000 of the variable rate 2002 Series General Receipts bonds. During 2009, the interest rate swap agreement was re-identified in connection with refunding of the 2002 Series General Receipt bonds through the issuance of 2008B Series General Receipt bonds. 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 ($6,419) and ($2,901) at June 30, 2009 and 2008, respectively.

The University has entered into a 22-year interest rate swap agreement for $29,310 of the variable rate 2006 Series General Receipts bonds. During 2008, the interest rate swap agreement was re-identified in connection with refunding of the 2006 Series General Receipt bonds through the issuance of 2008A Series General Receipt 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 ($3,450) and ($2,328) at June 30, 2009 and 2008, respectively.

The University has entered into a 15-year interest rate swap agreement for $15,610 of the variable rate 2008A 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 ($1,242) and ($709) at June 30, 2009 and 2008, respectively.

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.

KENT STATE UNIVERSITY

Notes to Financial Statements
June 30, 2009 and 2008
(in thousands)

Long-term debt consists of the following as of June 30, 2009:

	Rates	Maturity	2008	Additions	Retirements	2009
General Receipts Bonds of 2009A	6.75	2009-2031	$ -	$157,635	$1,030	$156,605
General Receipts Bonds of 2008A	4.5-4.96	2009-2028	43,170	-	1,655	41,515
General Receipts Bonds of 2008B	4.32	2028-2032	-	60,000	-	60,000
General Receipts Bonds of 2002	3.72	2028-2032	60,000	-	60,000	-
General Receipts Bonds of 2001	5.02	2007-2031	153,500	-	153,500	-
General Receipts Bonds of 2000	5.0-6.0	2004-2024	8,120	-	325	7,795
Other	various	various	12,742	6	2,644	10,104
			$ 277,532	$ 217,641	$ 219,154	$ 276,019
Less current portion long-term debt			5,645			5,847
			$ 271,887			$ 270,172

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

	Rates	Maturity	2007	Additions	Retirements	2008
General Receipts Bonds of 2008A	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

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.

(in thousands)

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

	Principal	Interest	Total
2010	$5,847	$15,772	$21,619
2011	6,024	15,476	21,500
2012	8,214	15,227	23,441
2013	8,685	14,713	23,398
2014	9,049	14,227	23,276
2015-2019	44,280	63,517	107,797
2020-2024	54,550	48,756	103,306
2025-2029	80,265	30,954	111,219
2030-2032	59,105	5,413	64,518
Total	$276,019	$ 224,055	$ 500,074

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, 2009 and 2008 is $12,730 and $12,156, respectively.

All University employees are entitled to a sick leave credit equal to 15 days per year (earned on a pro-rata monthly basis for salaried employees and on a pro-rata hourly basis for classified hourly employees). Employees with 10 or more years of service are eligible to receive a payout upon retirement of up to 25% of unused days (maximum of 30 days). The liability for accrued sick leave at June 30, 2009 and 2008 is $4,627 and $4,660, respectively.

A summary of accrued compensated absences at June 30, 2009 and 2008 is as follows:

For the year ended	Balance	Additions	Reductions	Balance
June 30, 2009	$16,816	$2,225	$ 1,684	$ 17,357
June 30, 2008	14,884	3,811	1,879	16,816

(7) Retirement Benefits

(a) Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System ("OPERS") and the State Teachers Retirement System of Ohio ("STRS Ohio"). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members. The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS Ohio 3.5% of earned compensation for those employees participating in the alternative retirement program. The University's contribution to the alternative retirement fund for the years ended June 30, 2009, 2008, and 2007 were $827, $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, 2009, 2008, and 2007 were $12,906, $11,843, and $10,965, 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, 2009, 2008, and 2007 were $12,987, $12,345, and $11,423, 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 2008 employer contribution rate for health care was 7% 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 $29.8 billion and $17 billion, respectively. Significant actuarial assumptions include a 6.5% investment return, 4% individual pay increases, and a 4.5% to 8% 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, 2007, the actuarial value of the retirement system's net assets available for other post-employment benefits was $12.8 billion. The number of active contributing participants in the traditional and combined plans was 363,503 as of December 31, 2008.

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.

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 $3.7 billion at June 30, 2008.

For the year ended June 30, 2008, the net health care costs paid by STRS Ohio were $288,878. There were 126,506 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, 2009 and 2008, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were $6,367 and $6,392, respectively, which represents the fair market value at such dates.

(in thousands)

(8) Contingencies and Commitments

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

The University is a defendant in a lawsuit filed by one of its construction contractors for alleged construction delays and inefficiencies. In July 2009, a judgment in favor of the plaintiff was rendered in the amount of $4,080. The University recorded this amount as a liability at June 30, 2009.

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, 2009 and 2008 were $36,222 and $32,929, respectively. A liability for unpaid claims (including incurred but not reported claims) in the amount of $5,216 and $5,097 has been accrued as of June 30, 2009 and 2008, respectively. This estimate is based on an analysis of historical claims paid.

In March 2009, the University approved a University Employee Separation Plan (UESP) offered to select employees. The UESP is a one-time offer to full-time faculty, unclassified and classified (represented and unrepresented) employees who achieved 15 or more years of service with the University as of June 30, 2009. Part-time employees and employees who had retired and were subsequently re-hired by the University were not eligible to participate in the plan. Eligible employees who chose the UESP left the University on June 30 with a separation package that included a base amount plus an amount equivalent to a portion of the employee's accrued sick leave pay. The University contracted with Educators Preferred Corp. (EPC) to administer the leave plan. Total costs including the base payout, accrued sick leave, and administrative costs associated with the implementation and administration of the plan were recorded as a liability as of June 30, 2009 in the amount of $8,630.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2009 and 2008 for operating leases amounted to approximately $876 and $1,023, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2009 are as follows:

	Operating Leases
2010	$645
2011	494
2012	438
2013	423
2014	425
2015	403
Total future minimum payments	$ 2,828

(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 $117,377 and $140,410 at June 30, 2009 and 2008, 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 $13,556 and $6,668 of financial support during the years ended June 30, 2009 and 2008, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2009 and 2008, the University had outstanding receivables from the Foundation of approximately $9 and $241, respectively.

During the year ended June 30, 2009, the Foundation changed its method of accounting related to collections. This change in accounting principle is reported through retrospective application of the change to all periods presented. Refer to the Foundation's financial statements for further detail.

(11) Subsequent Events

In September 2009, the University issued $234,366 in 2009B General Receipts bonds. The proceeds of the bond sale will be used for the early redemption of the Series 2000 bonds, aggregating $7,795, the Series 2008A bonds aggregating $41,515, and the Series 2009A bonds, aggregating $156,605. In addition, proceeds of the bond sale were used for the termination of three swap agreements associated with the above noted bond series.