

Kent State University

**Federal Entity Identification Number 31-
6402079**

**Report on Federal Awards In Accordance
With OMB Circular A-133
For the Year Ended June 30, 2004**



**Auditor of State
Betty Montgomery**

Board of Trustees
Kent State University
P.O. Box 5190
Kent, Ohio 44242-0001

We have reviewed the Independent Auditor's Report of the Kent State University, Portage County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Kent State University is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 16, 2004

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Kent State University
Report on Federal Awards in Accordance With OMB Circular A-133
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KENT STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004 and 2003. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

Using the Annual Financial Report

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

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

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

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

Noteworthy Financial Activity

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

In connection with this renovation, in February 2001, the University issued \$155.5 million in Series 2001 General Receipts bonds to finance various capital additions and improvements to dormitory facilities. During the fiscal year ended June 30, 2004 the University expended \$28.8 million from the proceeds of these bonds resulting in corresponding increases in capital assets and total assets.

KENT STATE UNIVERSITY

Management's Discussion and Analysis

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2004 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$51.7 million, of which, \$49.3 million is attributed to an increase in capital assets. Current assets increased by \$44.6 million, due to the shorter duration of the University's investment portfolio.
- Total liabilities increased by \$4.3 million, which is primarily due to timing of accounts payable and accrued liabilities and inflationary factors.
- The University's net assets increased by \$47.5 million to \$435.2 million, of which \$245.5 is either invested in capital assets or restricted. Of the remaining \$189.7 million in unrestricted assets, all but \$1.7 million is designated for specific purposes.
- Operating revenues increased by \$27.3 million compared to the prior year, of which \$15.6 million is directly related to a net increase in student tuition and fees.
- The University's operating expenses increased by \$5.5 million, with expected increases in all functional expense categories due primarily to inflationary factors.
- Net non-operating revenue decreased by \$17.9 million, the majority of which is related to a \$13.2 million decrease in investment income from changes in the overall investment market. The rate of return on the University's overall investment portfolio decreased from 9.7% in fiscal 2003 to 2.6% in fiscal 2004.
- The operating loss and principal debt payments totaled \$98.3 million, which was fully funded by State appropriations.

KENT STATE UNIVERSITY

Management's Discussion and Analysis

Kent State University Condensed Statements of Net Assets as of June 30, 2004, 2003 and 2002 (in thousands)

ASSETS	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 352,590	\$ 350,207	\$ 356,626
Capital assets	<u>453,534</u>	<u>404,187</u>	<u>352,250</u>
Total assets	<u>\$ 806,124</u>	<u>\$ 754,394</u>	<u>\$ 708,876</u>
LIABILITIES			
Long-term debt outstanding	\$ 279,351	\$ 282,267	\$ 285,166
Other	<u>91,572</u>	<u>84,397</u>	<u>76,004</u>
Total liabilities	<u>\$ 370,923</u>	<u>\$ 366,664</u>	<u>\$ 361,170</u>
NET ASSETS			
Invested in capital assets net of related debt	\$ 221,254	\$ 218,179	\$ 224,572
Restricted, expendable and not expendable	24,199	24,135	22,838
Unrestricted:			
Designated	188,064	143,763	98,981
Undesignated	<u>1,684</u>	<u>1,653</u>	<u>1,315</u>
Total net assets	<u>\$ 435,201</u>	<u>\$ 387,730</u>	<u>\$ 347,706</u>

2004 Versus 2003 During the year ended June 30, 2004:

In fiscal 2004, the University's current assets of \$256.2 million were sufficient to cover current liabilities of \$76.6 million (current ratio of 3.3). In fiscal 2003, current assets of \$211.6 million were sufficient to cover current liabilities of \$70.6 million (current ratio of 3.0).

At June 30, 2004, total University assets were \$806.1 million, compared to \$754.4 million in fiscal 2003. The University's largest asset is its investment in physical plant of \$453.5 million at June 30, 2004 compared to \$404.2 million in fiscal 2003 (see dormitory project discussion above in Noteworthy Financial Activity).

Current and other assets increased \$2.4 million to \$352.6 million, compared to \$350.2 million in fiscal year 2003. Cash and cash equivalents of \$213.6 million is the largest non-capital asset.

University liabilities total \$370.9 million at June 30, 2004 compared to \$366.7 million in fiscal 2003. Long-term debt of \$279.4 million, consisting of bonds payable, is the largest liability.

Total net assets increased by \$47.5 million to \$435.2 million. Unrestricted net assets total \$189.8 million, 99.1% of which (\$188.1 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

KENT STATE UNIVERSITY

Management's Discussion and Analysis

2003 Versus 2002 During the year ended June 30, 2003:

In fiscal 2003, the University's current assets of \$211.6 million were sufficient to cover current liabilities of \$70.6 million (current ratio of 3.0). In fiscal 2002, current assets of \$224.9 million were sufficient to cover current liabilities of \$59.5 million (current ratio of 3.8).

At June 30, 2003, total University assets were \$754.4 million, compared to \$708.9 million in fiscal 2002. The University's largest asset is its investment in physical plant of \$404.2 million at June 30, 2003 compared to \$352.3 million in fiscal 2002 (see dormitory project discussion above in Noteworthy Financial Activity).

Current and other assets decreased \$6.4 million to \$350.2 million, compared to \$356.6 in fiscal year 2002. The decrease is related to cash and cash equivalents, which decreased by \$24.4 million or 12.1%, primarily due to spent bond proceeds (see dormitory project discussion above in Noteworthy Financial Activity).

University liabilities total \$366.7 million at June 30, 2003 compared to \$361.2 million in fiscal 2002. Long-term debt of \$282.3 million, consisting of bonds payable, is the largest liability.

Total net assets increased by \$40.0 million to \$387.7 million. Unrestricted net assets total \$145.4 million, 98.9% of which (\$143.8 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

Kent State University

Condensed Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2004, 2003 and 2002 (in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues			
Tuition	\$ 167,351	\$ 151,784	\$ 123,545
State appropriations	121,349	119,622	120,163
Federal and state grants	57,965	54,716	48,969
Auxiliary activities	71,259	64,679	67,772
Other	44,956	61,084	50,886
Total revenues	<u>\$ 462,880</u>	<u>\$ 451,885</u>	<u>\$ 411,335</u>
Expenses			
Instruction	\$ 151,453	\$ 150,220	\$ 137,769
Research	14,936	14,566	12,765
Institutional support	28,320	28,549	26,919
Scholarships and fellowships	12,384	13,521	12,649
Other	208,316	205,005	196,385
Total expenses	<u>\$ 415,409</u>	<u>\$ 411,861</u>	<u>\$ 386,487</u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis

2004 Versus 2003 During the year ended June 30, 2004:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during fiscal year 2004 as compared to 2003 by 10.3%.

These increases were a result of a combination of enrollment growth and increases in rates for tuition and other student charges. The 5.9% increase in Federal and state grants was primarily a result of increases in federal and state student aid support.

Operating expenditures, including depreciation of \$27.2 million, totaled \$406.3 million.

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

2003 Versus 2002 During the year ended June 30, 2003:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts. Tuition revenues grew during fiscal year 2003 as compared to 2002 by 22.9%. These increases were a result of a combination of enrollment growth and increases in rates for tuition and other student charges. The 11.7% increase in Federal and state grants was primarily a result of increases in federal and state student aid support.

Operating expenditures, including depreciation of \$26.9 million, totaled \$400.8 million. The scholarship and fellowship functional expense category grew by 6.9%, primarily related to an increase in University funded scholarships.

State appropriations were the most significant non-operating revenue totaling \$119.6 million.

Kent State University Condensed Statements of Cash Flows as of June 30, 2004, 2003 and 2002 (in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash provided by/(used in):			
Operating activities	\$ (59,848)	\$ (79,735)	\$ (88,109)
Investing activities	42,900	11,204	(467)
Capital and related financing activities	(72,978)	(83,992)	(15,742)
Non-capital financing activities	<u>126,339</u>	<u>128,078</u>	<u>122,674</u>
Net increase/(decrease) in cash	36,413	(24,445)	18,356
Cash and cash equivalents, beginning of year	<u>177,151</u>	<u>201,596</u>	<u>183,240</u>
Cash and cash equivalents, end of year	<u>\$ 213,564</u>	<u>\$ 177,151</u>	<u>\$ 201,596</u>

2004 Versus 2003 During the year ended June 30, 2004:

Major sources of cash included student tuition and fees (\$136.1 million), state appropriations (\$122.4 million), auxiliary activities (\$71.3 million), and grants and contracts (\$61.1 million). The largest payments were for suppliers (\$141.4 million) and employees (\$198.8 million).

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Management's Discussion and Analysis

2003 Versus 2002 During the year ended June 30, 2003:

Major sources of cash included student tuition and fees (\$122.1 million), state appropriations (\$119.6 million), auxiliary activities (\$64.5 million), and grants and contracts (\$58.0 million). The largest payments were for suppliers (\$136.6 million) and employees (\$193.0 million).

Capital Asset and Debt Administration

Capital Assets

At the end of 2004, the University had invested \$453.5 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 \$49.3 million, or 12.2 percent, over last year (see dormitory project discussion above in Noteworthy Financial Activity).

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land	\$ 9.6	\$ 9.6	\$ 9.6
Equipment	51.8	52.0	52.7
Buildings and improvements	361.1	303.4	213.8
Construction in progress	31.0	39.2	76.1
Total	<u>\$ 453.5</u>	<u>\$ 404.2</u>	<u>\$ 352.2</u>

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 \$282.8 million in bonds and notes outstanding—a decrease of 1.0 percent over last year. More detailed information about the University's long-term liabilities is presented in Note 6 to the financial statements.

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
General receipts bonds (backed by the University)	\$ 272.5	\$ 274.4	\$ 278.4
Capital Leases	10.3	11.4	12.3
	<u>\$ 282.8</u>	<u>\$ 285.8</u>	<u>\$ 290.7</u>

KENT STATE UNIVERSITY

Management's Discussion and Analysis

Factors Affecting Future Periods

The most significant factor affecting future periods is the amount of funding appropriated for Kent State University by the State of Ohio. Changes in state support are important both for its direct impact on university revenues and its indirect impact on the cost of tuition.

The state operating appropriation for Kent State rose for the first time since 2001 by 1.4% in fiscal year 2004, although another mid-year cut of .38% did occur. Statewide funding per student in fiscal year 2004 was down 15.8% from fiscal year 2001. It is expected that state appropriations per student are unlikely to increase much and may decline further during the next three years. Increases in tuition and increased productivity will be used to offset the reductions in state support.

Enrollments at Kent State University reached an all-time record of 35,433 for Fall 2003, the seventh consecutive year that enrollments have grown at the University. Kent State University's headcount enrollment is the second largest in the state. Future enrollments are expected to be level or grow much more slowly than in recent years. Opportunities for future enrollment growth are greater at the seven regional campuses, other regional locations and through distributed learning modalities than on the main campus. This reflects the capacity limitations of the main campus and expected changes in student demographics and consumer demands.

The biggest obstacle to maintaining or growing future enrollments is the rising cost of tuition. Recent reductions in state appropriations have triggered much larger tuition increases in the last few years. While increases in tuition are not new, tuition is now rising much faster than the growth in grant, scholarship, and loan funds. The higher cost of tuition is expected to have a greater impact on student retention than on freshmen enrollment and may result in more stop-outs and longer periods to graduation in the future. While enrollment patterns may change somewhat in the future, the importance of education in today's society makes any large, permanent enrollment decline at Kent State unlikely.

In addition to declines in state operating support, the capital appropriation for the current legislative session has been delayed, and it is expected that the appropriation will be smaller than in prior years. New funding for targeted research objectives under the Third Frontier program will be available on a competitive basis at least partially offsetting the reduction in campus specific appropriations. Deferred maintenance issues are not an immediate problem because of the consistent nature of past capital appropriations. The level of future appropriations and its possible implications are difficult to project at this time.

In fiscal year 2004, Kent State University's grant and contract awards grew to \$31.5 million from \$30.8 million in the prior year. The State of Ohio has established the Third Frontier initiative that is expected to increase the amount appropriated for research and technology transfer activities. The University's recent early retirement program for faculty will also provide improved opportunities for aligning faculty expertise in existing and developing research strengths.

In 1997, Kent State undertook its first ever capital gift campaign with a \$100 million goal. The University successfully completed its campaign on June 30, 2003, by raising gifts and pledges totaling \$121.9 million. The success of the campaign has increased the funds available for student scholarships and other university priorities. While the successful completion of a capital gift campaign normally results in a reduction in gifts and pledges immediately following the campaign, gift and pledge revenues in fiscal year 2004 were \$19.8 million up from \$16.5 million in the prior year, the last year of the capital gift campaign. Management is

KENT STATE UNIVERSITY

Management's Discussion and Analysis

confident that the larger gift and pledge revenues can be sustained and will help the University at least partially to fund priorities no longer funded through state appropriations.

The role of the State of Ohio in funding its public colleges and universities is changing and the prospect for improvements in state support, at least in the near-term, is not optimistic. Although the loss of state support has affected the last three reporting periods, the financial condition of Kent State University has continued to improve. Further improvements will be more difficult if state support continues to decline, but management believes the University will maintain the current financial condition, absent large decline in state support.

Report of Independent Auditors

To the Board of Trustees of
Kent State University:

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of Kent State University (the “University”) at June 30, 2004 and 2003, and the revenues, expenses and changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the University adopted the provision of Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organization Are Component Units* as of July 1, 2003.

The Management’s Discussion and Analysis (“MD&A”) on pages 1 to 8 is not a required part of the financial statements but is supplemental information required by GASB. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the MD&A information.



In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2004. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 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 financial statements taken as a whole.

PriceWaterhouseCoopers LLP

October 8, 2004
Cleveland, Ohio

KENT STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2004 and 2003
(in thousands)

	<u>University</u>		<u>University Related Foundation</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 213,564	\$ 177,151	\$ 1,745	\$ 526
Short-term investments	19,094	8,714	74,946	61,148
Accounts and pledges receivable, net	17,208	18,952	1,943	2,334
Inventories	1,494	1,675	-	-
Deposits and prepaid expenses	3,588	3,540	-	-
Accrued interest receivable	1,246	1,553	13	13
Total current assets	<u>256,194</u>	<u>211,585</u>	<u>78,647</u>	<u>64,021</u>
Noncurrent assets:				
Student loans receivable, net	21,885	21,463	-	-
Long-term investments	70,670	113,162	10,081	7,061
Long-term pledges receivable, net	-	-	3,880	6,879
Capital assets, net	453,534	404,187	9,166	8,689
Other assets	3,841	3,997	-	-
Total noncurrent assets	<u>549,930</u>	<u>542,809</u>	<u>23,127</u>	<u>22,629</u>
Total assets	<u>806,124</u>	<u>754,394</u>	<u>101,774</u>	<u>86,650</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	28,530	22,700	1,264	1,058
Accrued payroll	7,470	6,862	-	-
Payroll taxes and accrued fringe benefits	6,657	8,601	-	-
Unearned fees and deposits	30,464	28,950	-	-
Current portion of long-term debt	3,481	3,506	-	-
Total current liabilities	<u>76,602</u>	<u>70,619</u>	<u>1,264</u>	<u>1,058</u>
Noncurrent liabilities:				
Accrued compensated absences	12,855	12,081	-	-
Accrued liabilities	-	-	3,992	2,680
Long-term unearned fees and deposits	2,115	1,697	-	-
Long-term debt	279,351	282,267	-	-
Total noncurrent liabilities	<u>294,321</u>	<u>296,045</u>	<u>3,992</u>	<u>2,680</u>
Total liabilities	<u>370,923</u>	<u>366,664</u>	<u>5,256</u>	<u>3,738</u>
NET ASSETS				
Invested in capital assets, net of related debt	221,254	218,179	8,671	8,689
Restricted, nonexpendable	882	879	48,077	42,782
Restricted, expendable	23,317	23,256	38,917	30,604
Unrestricted	189,748	145,416	853	837
Total net assets	<u>435,201</u>	<u>387,730</u>	<u>96,518</u>	<u>82,912</u>
Total liabilities and net assets	<u>\$ 806,124</u>	<u>\$ 754,394</u>	<u>\$ 101,774</u>	<u>\$ 86,650</u>

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

KENT STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
for the years ended June 30, 2004 and 2003
(in thousands)

	<u>University</u>		<u>University Related Foundation</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
OPERATING REVENUES				
Student tuition and fees	\$ 202,939	\$ 182,398	\$ -	\$ -
Less scholarship allowances	(35,588)	(30,614)	-	-
Net student tuition and fees	<u>167,351</u>	<u>151,784</u>	-	-
Federal grants and contracts	48,101	45,723	-	-
State grants and contracts	9,864	8,993	-	-
Local grants and contracts	272	603	-	-
Nongovernmental grants and contracts	3,496	3,642	-	-
Sales and services of educational departments	5,777	5,752	-	-
Auxiliary activities	71,259	64,679	-	-
Other operating revenues	<u>5,336</u>	<u>2,965</u>	<u>1,865</u>	<u>1,138</u>
Total operating revenues	<u>311,456</u>	<u>284,141</u>	<u>1,865</u>	<u>1,138</u>
OPERATING EXPENSES				
Instruction	151,453	150,220	-	-
Research	14,936	14,566	-	-
Public service	14,144	14,601	-	-
Academic support	33,524	33,964	-	-
Student services	23,346	23,123	-	-
Institutional support	28,320	28,549	9,630	10,770
Scholarships and fellowships	12,384	13,521	1,604	1,299
Operation and maintenance of plant	30,401	27,216	-	-
Auxiliary activities	70,559	68,155	-	-
Depreciation	<u>27,249</u>	<u>26,904</u>	<u>20</u>	<u>20</u>
Total operating expenses	<u>406,316</u>	<u>400,819</u>	<u>11,254</u>	<u>12,089</u>
Operating loss	<u>(94,860)</u>	<u>(116,678)</u>	<u>(9,389)</u>	<u>(10,951)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	121,349	119,622	-	-
Gifts	4,047	7,597	15,373	19,121
Investment income	10,483	23,633	8,398	2,370
Transfer of workers' compensation liability to the State of Ohio	-	4,883	-	-
Interest on capital asset-related debt	(8,166)	(10,590)	-	-
Other nonoperating revenues (expenses)	<u>(927)</u>	<u>(452)</u>	<u>(776)</u>	<u>222</u>
Net nonoperating revenues	<u>126,786</u>	<u>144,693</u>	<u>22,995</u>	<u>21,713</u>
Income before other revenues, expenses, gains, or losses	<u>31,926</u>	<u>28,015</u>	<u>13,606</u>	<u>10,762</u>
Capital appropriation	<u>15,545</u>	<u>12,009</u>	-	-
Increase in net assets	<u>47,471</u>	<u>40,024</u>	<u>13,606</u>	<u>10,762</u>
NET ASSETS				
Net assets, beginning of year	<u>387,730</u>	<u>347,706</u>	<u>82,912</u>	<u>72,150</u>
Net assets, end of year	<u>\$ 435,201</u>	<u>\$ 387,730</u>	<u>\$ 96,518</u>	<u>\$ 82,912</u>

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

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS
for the years ended June 30, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	\$ 136,111	\$ 122,131
Cash received from auxiliary activities	71,281	64,545
Cash received from other sources	12,424	5,499
Grants and contracts	61,114	58,035
Federal student loan funds received	273	322
Student loans granted, net of repayments	(816)	(669)
Cash paid to employees	(198,791)	(193,046)
Cash paid to suppliers	<u>(141,444)</u>	<u>(136,552)</u>
Net cash used in operating activities	<u>(59,848)</u>	<u>(79,735)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for investments, net	27,661	(8,343)
Interest received	<u>15,239</u>	<u>19,547</u>
Net cash provided by (used in) investing activities	<u>42,900</u>	<u>11,204</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments under debt obligations	(3,470)	(5,599)
Interest paid	(12,100)	(10,590)
Capital appropriations	711	728
Purchases of capital assets	(57,192)	(68,079)
Other payments	<u>(927)</u>	<u>(452)</u>
Net cash used in capital and related financing activities	<u>(72,978)</u>	<u>(83,992)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	122,428	119,622
Gifts received from KSU Foundation	<u>3,911</u>	<u>8,456</u>
Net cash provided by noncapital financing activities	<u>126,339</u>	<u>128,078</u>
Net (decrease) increase in cash and cash equivalents	36,413	(24,445)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>177,151</u>	<u>201,596</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 213,564</u>	<u>\$ 177,151</u>

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

KENT STATE UNIVERSITY
STATEMENT OF CASH FLOWS--CONTINUED
for the years ended June 30, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
Reconciliation of net operating revenues (expenses) to net cash provided (used) in operating activities:		
Operating loss	\$ <u>(94,860)</u>	\$ <u>(116,678)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) in operating activities:		
Depreciation expense	27,249	26,904
Change in assets and liabilities:		
Accounts receivable, net	801	(4,552)
Inventories	181	212
Deposits and prepaid expenses	(49)	(303)
Student loans receivable, net	(422)	(657)
Accounts payable and accrued liabilities	5,882	8,249
Accrued payroll	608	275
Payroll taxes and accrued fringe benefits	(1,944)	3,568
Unearned fees and deposits	1,932	1,462
Accrued compensated absences	<u>774</u>	<u>1,785</u>
Total change in assets and liabilities	<u>7,763</u>	<u>10,039</u>
Net cash used in operating activities	\$ <u><u>(59,848)</u></u>	\$ <u><u>(79,735)</u></u>

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

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

(1) Reporting Entity and Basis of Presentation

(a) Reporting Entity

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

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

The accompanying financial statements consist of the accounts of the University and the accounts of the Kent State University Foundation ("Foundation"). The Foundation, which is a component unit of the University as determined in accordance with the provisions of the Governmental Accounting Standards Board ("GASB") Statement 39, is described more fully in Note 9. 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, one discretely presented component unit is reported in a separate column on the University's financial statements to emphasize that they are legally separate from the University. The Kent State University 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, they are considered component units 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.

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

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 such assets be maintained permanently by the University.
- 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) 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. Payments for and proceeds from investment activity are shown net on the Statement of Cash Flows because detail relating to the payments and proceeds was not available.

(b) Inventories

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

(c) 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.

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

(d) 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. Certain significant revenue sources relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

(e) 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.

(f) Revenues and Expenditures

Revenues and expenditures related to academic terms conducted over two fiscal years, such as summer sessions, are recognized in the fiscal year in which the program is predominately conducted.

(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) Reclassifications

Certain amounts in the prior year statements have been reclassified to conform to the current year presentation.

(3) Cash, Cash Equivalents, and Investments

In accordance with the *Policies of the Board of Trustees of The University*, the only types of investments that may not be purchased by the University are derivative instruments.

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

Cash and cash equivalents consist of the following as of June 30, 2004 and 2003:

	2004	2003
Cash and repurchase agreements	\$ 61,716	\$ 117,907
Mutual funds	<u>151,848</u>	<u>59,244</u>
	<u>\$ 213,564</u>	<u>\$ 177,151</u>

Cash and cash equivalents include mutual and pooled investment funds that allow for daily withdrawals. The mutual and pooled investment funds have short-term to intermediate-term durations and are stated at quoted market value.

At June 30, 2004 and 2003, the carrying amounts of the University's cash for all funds were \$3,541 and \$4,172, respectively (including certificates of deposit aggregating \$703 and \$657 in 2004 and 2003, respectively) as compared to bank balances of \$2,858 and \$3,091, respectively. The differences in carrying amounts and bank balances were caused by outstanding checks and deposits in-transit. Of the bank balances, \$465 and \$289 for 2004 and 2003, respectively, were covered by federal deposit insurance, and \$1,911 and \$2,619, respectively, were uninsured but collateralized by pools of U. S. government and other securities pledged by the depository banks and held by the Federal Reserve Bank of Cleveland in the member bank's name. The remaining 2004 and 2003 balances of \$482 and \$183, respectively, were not collateralized and uninsured.

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of risk assumed by the entity. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the name of the University. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the University's name.

Fair value is based on the quoted market price. The University held the following types of investments at June 30, 2004 and 2003 (in thousands):

	2004		2003	
	Market	Cost	Market	Cost
Category 1:				
Corporate Bonds	\$ 23,776	\$ 23,591	\$ 46,327	\$ 44,253
Stock	<u>348</u>	<u>1,473</u>	<u>126</u>	<u>112</u>
	<u>\$ 24,124</u>	<u>\$ 25,064</u>	<u>\$ 46,453</u>	<u>\$ 44,365</u>
Category 2:				
U.S. Government Securities	<u>\$ 65,562</u>	<u>\$ 65,963</u>	<u>\$ 75,346</u>	<u>\$ 74,325</u>
Uncategorized				
State Treasury Asset Reserve ("Star Ohio")	<u>\$ 78</u>	<u>\$ 78</u>	<u>\$ 77</u>	<u>\$ 77</u>
Total Investments	<u>\$ 89,764</u>	<u>\$ 91,105</u>	<u>\$ 121,876</u>	<u>\$ 118,767</u>

KENT STATE UNIVERSITY
Notes to Financial Statements
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STAR Ohio is an investment pool created pursuant to state statutes and managed by the Treasurer of the State of Ohio. Amounts invested with STAR Ohio are not classifiable as to risk category because the University does not own identifiable securities of the pool. STAR Ohio is not registered with the Security and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Act of 1940.

(4) Accounts Receivable

Accounts receivable consist of the following, as of June 30, 2004 and 2003:

	2004	2003
Sponsor accounts	\$ 4,217	\$ 3,850
Student accounts	10,029	8,514
Other	4,972	7,338
	<u>\$ 19,218</u>	<u>\$ 19,702</u>
Less allowances for loss on accounts receivable	<u>(2,010)</u>	<u>(750)</u>
Accounts receivable, net	<u>\$ 17,208</u>	<u>\$ 18,952</u>

In addition, the University has student loans receivable of \$25,883 and \$25,067 as of June 30, 2004 and 2003, respectively. The related allowances as of June 30, 2004 and 2003 are \$3,998 and \$3,604, respectively.

(5) Capital Assets

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

Capital assets consists of the following, as of June 30, 2003 and 2004:

	2003	Additions/ Transfers	Net Retirements	2004
Land	\$ 9,625	\$ -	\$ -	\$ 9,625
Infrastructure	61,919	8,574	-	70,493
Buildings	417,506	62,677	-	480,183
Equipment	160,786	13,570	5,284	169,072
Construction-in-progress	39,179	(8,225)	-	30,954
	<u>\$ 689,015</u>	<u>\$ 76,596</u>	<u>\$ 5,284</u>	<u>\$ 760,327</u>
Less accumulated depreciation	<u>284,828</u>	<u>26,790</u>	<u>4,825</u>	<u>306,793</u>
Capital assets, net	<u>\$ 404,187</u>	<u>\$ 49,806</u>	<u>\$ 459</u>	<u>\$ 453,534</u>

Included in depreciation expense of \$27,249 for the year ended June 30, 2004, is a loss of \$459 from the disposal of obsolete capital assets.

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

(6) Long-term Debt

In accordance with the General Receipts bonds Trust Agreement, the Series 1996, Series 1998, Series 2000, Series 2001 and Series 2002 General Receipts bonds are subject to mandatory or optional redemption. The Series 1994 General Receipts bonds are not subject to mandatory or optional redemption.

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

In fiscal year 1997, the University defeased Dormitory Revenue bonds by creating separate irrevocable trust funds. University resources were used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been legally defeased and therefore removed as a liability from the University's Net investment in Plant Fund. At June 30, 2004 and 2003, \$3,017 and \$4,027 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 (\$21,323) and (\$35,763) at June 30, 2004 and 2003, respectively.

Long-term debt consists of the following as of June 30, 2003 and 2004:

	<u>Interest Rates</u>	<u>Maturity</u>	<u>2003</u>	<u>Outstanding Additions</u>	<u>Principal Retirements</u>	<u>2004</u>
General Receipts Bonds of 2002	variable (SAVRS)	2028-2032	\$ 60,000	\$ -	\$ -	\$ 60,000
General Receipts Bonds of 2001	5.02	2007-2031	155,500	-	-	155,500
General Receipts Bonds of 2000	5.0-6.0	2004-2024	9,530	-	255	9,275
General Receipts Bonds of 1998	4.1-5.0	2004-2023	18,240	-	570	17,670
General Receipts Bonds of 1996	4.1-5.5	2004-2028	31,120		990	30,130
Other	various	various	11,383	546	1,672	10,257
			\$285,773	\$ 546	\$ 3,487	\$282,832
Less current portion long-term debt			3,506			3,481
			<u>\$282,267</u>			<u>\$279,351</u>

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 3,481	\$ 12,349	\$ 15,830
2006	3,258	12,181	15,439
2007	4,193	12,027	16,220
2008	4,184	11,811	15,995
2009	4,254	11,603	15,857
2010-2014	29,582	54,308	83,890
2015-2019	42,610	45,351	87,961
2020-2024	53,535	33,167	86,702
2025-2029	79,235	19,176	98,411
2030-2033	58,500	4,733	63,233
Total	<u>\$ 282,832</u>	<u>\$ 216,706</u>	<u>\$ 499,538</u>

(7) Retirement Benefits

(a) Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System ("OPERS") and the State Teachers Retirement System of Ohio ("STRS Ohio"). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members. The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS Ohio 3.5% of earned compensation for those employees participating in the alternative retirement program. The University's contribution to the alternative retirement fund for the years ending June 30, 2004 and 2003 were \$475 and \$389, 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 8.5% of covered payroll and the University is required to contribute 13.31% of covered payroll. The University's contributions to OPERS for the years ending June 30, 2004, 2003 and 2002 were \$9,748, \$9,794 and \$9,464, respectively, equal to the required contributions for each year.

The State Teachers Retirement System of Ohio's Comprehensive Annual Financial Report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to STRS Ohio for the years ending

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

June 30, 2004, 2003, and 2002 were \$11,352, \$11,091 and \$10,961, 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 2003 employer contribution rate for health care was 5% of covered payroll.

OPERS benefits are advance-funded on an actuarially determined basis. OPERS actuarially accrued liability and the unfunded actuarial accrued liability, based on an entry age normal actuarial cost method of valuation, were \$18.7 billion and \$8.7 billion, respectively. Significant actuarial assumptions include an 8% investment return, a 4% individual pay increases, and a 4% 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, 2002, the actuarial value of the retirement system's net assets available for other post employment benefits was \$10 billion. The number of active contributing participants in the traditional and combined plans was 364,881.

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. STRS Ohio is funded on a pay-as-you-go basis. 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 payments for health care benefits are paid. The balance in the health care reserve fund was \$2.8 billion at June 30, 2003.

For the year ended June 30, 2003, the net health care costs paid by STRS Ohio were \$352,301. There were 108,294 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.

KENT STATE UNIVERSITY
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(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 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, 2004 and 2003, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$3,233 and \$2,407, respectively, which represents the fair market value at such dates.

(d) Retirement Incentive Programs

The Ohio General Assembly legislation gives public employers in Ohio the option of establishing an early retirement incentive plan for members of STRS Ohio or OPERS.

On May 9, 2002, the University authorized an early retirement plan for employees who are members of STRS Ohio effective June 1, 2003 and continuing through May 31, 2004. The University purchased service credit for eligible employees. The amount of service credit purchased was three years of retirement service credit. The number of employees to participate was limited to 5% of the STRS Ohio members of the University as of January 1, 2003.

The benefit for the retirement incentive programs for the year ended June 30, 2004 was \$259. This benefit resulted from actual liabilities being less than the accrued liability recorded for the program at June 30, 2003. Included in accrued liabilities as June 30, 2004 was approximately \$5,629, which represents the outstanding principal payments required to be made for enrolled applicants.

(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, 2004 and 2003 were \$26,383 and \$22,767. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$3,942 and \$4,297 has been accrued as of June 30, 2004 and 2003. This estimate is based on an analysis of historical claims paid.

Under the State's workers' compensation program, Public Employer State Agencies, including state universities and university hospitals, pay workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis. The Actuarial Section of the Bureau of Workers Compensation determines a rate for each governmental agency that will generate premium collections equal to the losses anticipated to be paid in the coming year. In 2002, as part of the State's implementation of GASB Statements No. 34 and 35, the State allocated the unfunded workers' compensation liabilities for Public Employer State Agencies

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

to the individual agencies. The Auditor of State instructed state-assisted colleges and universities to incorporate these allocated liabilities in their financial reports at June 30, 2002.

In 2003, the Auditor of State and the Office of Budget and Management agreed to re-examine this accounting treatment. Based on their review and consultation with representatives of the state-assisted universities, the agencies determined that the State's General Revenue Fund would assume the entire liability for future workers' compensation claims for the state, including the University's. Accordingly, the University's 2003 financial statements reflect a transfer of unfunded workers' compensation liabilities to the State of \$4,883, which reduces this liability to \$-0- at June 30, 2003.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2004 and 2003 for operating leases amounted to approximately \$724 and \$907, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2004 are as follows:

	Operating Leases
2005	\$ 790
2006	764
2007	756
2008	757
2009	642
2010-2014	3,202
2015-2019	3,150
2020-2024	3,150
2025-2029	3,150
2030-2034	1,198
Total future minimum payments	\$ 17,559

(9) Related Party Transactions

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 the recently issued 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 \$101,774 and \$86,650 at June 30, 2004 and 2003, 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

KENT STATE UNIVERSITY
Notes to Financial Statements
June 30, 2004 and 2003
(in thousands)

\$3,434 and \$4,164 of financial support during the years ended June 30, 2004 and 2003, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2004 and 2003, the University had outstanding receivables from the Foundation of approximately \$588 and \$452, respectively.

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.

SUPPLEMENTAL FINANCIAL INFORMATION

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
STUDENT FINANCIAL AID			
Department of Education			
Direct programs			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 1,244,771
Federal Work-Study Program	84.033		1,688,487
Federal Perkins Loan Program	84.038		137,831
Federal Pell Grant Program	84.063		<u>25,331,350</u>
Total Department of Education			<u>28,402,439</u>
Department of Health and Human Services			
Direct program			
Nursing Student Loans	93.364		<u>22,816</u>
Total Student Financial Aid			<u>28,425,255</u>
RESEARCH AND DEVELOPMENT			
Department of Agriculture			
Direct program			
Forestry Research	10.652		(134)
Department of Commerce			
Direct program			
Measurement and Engineering Research and Standards	11.609		49,694
Pass-through program			
University of Delaware - Environmental Sciences, Applications, Data, and Education	11.440	4-33-42-2541-01	<u>23,115</u>
Total Department of Commerce			<u>72,809</u>
Department of Defense			
Direct programs			
Basic Scientific Research	12.431		26,605
Mathematical Sciences Grants Program	12.901		12,622
Research and Technology Development	12.910		1,083,309
Pass-through programs			
Anteon Corp - Basic, Applied, and Advanced Research in Science and Engineering	12.630	S1214	26,025
Cornerstone Research Group - Basic, Applied, and Advanced Research in Science and Engineering	12.630	F49620-03-C-0050	<u>39,610</u>
Total			<u>65,635</u>

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
University of Central Florida - Air Force Defense Research Sciences Program	12.800	F33615-00-C-1679	13,412
Wright State University - Air Force Defense Research Sciences Program	12.800	WBSC9008WS	<u>15,122</u>
Total			28,534
Dayton Area Graduate Studies Institute - Research and Technology Development	12.910	ML-UD-01-13	18,713
Ohio State University Research Foundation - Research and Technology Development	12.910	741323/869064	37,822
Rockwell - Research and Technology Development	12.910	BOU431588	212,095
Science Applications International Corp. - Research and Technology Development	12.910	BOU431588	<u>38,719</u>
Total			307,349
Wright State University - Department of Defense	None	F33615-97-D-1138	111,929
University of Maryland - Translation Skill Hub	None	Z972502	<u>23,931</u>
Total			<u>135,860</u>
Total Department of Defense			<u>1,659,914</u>
Department of Housing and Urban Development			
Direct program			
General Research and Technology Activity	14.506		18,583
Pass-through program			
City of Kent - Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	14.227	**	<u>(130)</u>
Total Department of Housing and Urban Development			18,453
Department of the Interior			
Direct program			
U.S. Geological Survey - Research and Data Acquisition	15.808		157
Pass-through programs			
Ohio Department of Natural Resources - State Wildlife Grants	15.634	NGSCW-02-22	2,367
Ohio Department of Natural Resources - State Wildlife Grants	15.634	NGSCW-03-11	<u>2,326</u>
Total			4,693
Ohio University - U.S. Geological Survey - Research and Data Acquisition	15.808	01CRAG0025	<u>(2,777)</u>
Total Department of the Interior			2,073

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Department of Justice			
Direct programs			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		385,582
Community Prosecution and Project Safe Neighborhoods	16.609		51,651
Pass-through programs			
State of Ohio - Community Prosecution and Project Safe Neighborhoods	16.609	2003-PS-PSN-308	37,237
SAIC - National Institute of Justice - Research, Evaluation, and Development Project Grants	16.560	4400029604	55,755
State of Ohio - Byrne Formula Grant Program	16.579	2003-DG-B0R-7080	39,767
State of Ohio - Byrne Formula Grant Program	16.579	2002-DG-F01-7068	79,023
State of Ohio - Byrne Formula Grant Program	16.579	2003-DG-C01-7068	46,394
Total			<u>258,176</u>
Total Department of Justice			<u>695,409</u>
Department of Transportation			
Pass-through programs			
Ohio Department of Transportation - Highway Planning and Construction	20.205	10318	<u>37,852</u>
Total Department of Transportation			<u>37,852</u>
National Aeronautics and Space Administration			
Direct program			
Technology Transfer	43.002		470,759
Pass-through program			
Ohio Aeronautics Institute - Technology Transfer	43.002	R-300-100275-40023	<u>41,963</u>
Total National Aeronautics and Space Administration			<u>512,722</u>
National Foundation on the Arts and the Humanities			
Direct program			
Institute of Museum and Library Services - National Leadership Grants	45.312		<u>643,927</u>
Total National Foundation on the Arts and the Humanities			<u>643,927</u>

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
National Science Foundation			
Direct programs			
Engineering Grants	47.041		3,496
Mathematical and Physical Sciences	47.049		1,677,945
Geosciences	47.050		458,281
Computer and Information Science and Engineering	47.070		204,577
Biological Sciences	47.074		435,109
Social, Behavioral, and Economic Sciences	47.075		126,901
Education and Human Resources	47.076		546,691
Polar Programs	47.078		16,929
Pass-through programs			
Moxtek - Engineering Grants	47.041	DMI-9902946	3,022
University of Akron - Biological Sciences	47.074	DEB-0235301	60,551
University of New Mexico - Mathematical and Physical Sciences	47.049	3-27711-7810	58,081
University of Minnesota Applied Psychology - Mathematical and Physical Sciences	47.049	V5286049901	18,707
Total			<u>76,788</u>
University of Akron - Biological Sciences	47.074	IBN-0077602	(3,913)
Brown University - Social, Behavioral, and Economic Sciences	47.075	1379-26321	8,994
OSURF - Education and Human Resources	47.076	745925/RF00982477	12,039
American Association of Colleges and Universities - Education and Human Resources	47.076	88753	2,411
SRI International - Education and Human Resources	47.076	NG1-2284	28,998
Total			<u>43,448</u>
Total National Science Foundation			<u>3,658,819</u>
Environmental Protection Agency			
Direct program			
Surveys Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	XA-831050001-0	1,607
Pass-through programs			
Trumbull County Health Department - Nonpoint Source Implementation Grants	66.460	CWA-SECTION 319	24,979
NALMS - Surveys, Studies, Investigations, and Special Purpose Grants	66.606	Dip-In Project	6,903
Total			<u>31,882</u>
Total Environmental Protection Agency			<u>33,489</u>

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Department of Energy			
Direct program			
Office of Science Financial Assistance Program	81.049		557,448
Pass-through programs			
SURA - Office of Science Financial Assistance Program	81.049	SURA-03-Q148	14,100
University of Stanford - Office of Science Financial Assistance Program	81.049	28910-A	9,133
Total			<u>23,233</u>
Total Department of Energy			<u>580,681</u>
Department of Education			
Direct programs			
Fund for the Improvement of Postsecondary Education	84.116		1,195,878
Safe and Drug-Free Schools and Communities: National Programs	84.184		173,526
Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324		6,032
Pass-through programs			
Emporia State University - Fund for the Improvement of Postsecondary Education	84.116	#406-09/DE P1116B01 1069	3,625
Embry Riddle - Fund for the Improvement of Postsecondary Education	84.116	P116D990161	211
Miami University - Fund for the Improvement of Postsecondary Education	84.116	P116B010714	16,431
Total			<u>20,267</u>
Cleveland Heights / University Heights School District - Safe and Drug-Free Schools and Communities: National Programs	84.184	184L030137	61,237
Cleveland Municipal School District - Safe and Drug-Free Schools and Communities: National Programs	84.184	74724239	8,982
Total			<u>70,219</u>
Ohio Schoolnet - Education Technology State Grants	84.318	TLCF-KSU446592	678
University of Kentucky - Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	H324M010033	60,197

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
University of Colorado - Preparing Tomorrow's Teachers to Use Technology	84.342	S18819 153-2876	(4,671)
University of Dayton - Preparing Tomorrow's Teachers to Use Technology	84.342	RSC02009	28,879
University of Akron - Preparing Tomorrow's Teachers to Use Technology	84.342	P342A010052	37,349
Total			<u>61,557</u>
Total Department of Education			1,588,354
Department of Health and Human Services			
Direct programs			
Mental Health Research Grants	93.242		1,436,194
Alcohol National Research Service Awards for Research Training	93.272		11,423
Alcohol Research Programs	93.273		31,779
Mental Health Research Career/Scientist Development Award	93.281		128,237
Nursing Research	93.361		51,326
Cancer Cause and Prevention Research	93.393		10,974
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		313,792
Genetics and Developmental Biology Research and Research Training	93.862		69,917
Population Research	93.864		157,519
Child Health and Human Development Extramural Research	93.865		9,720
Aging Research	93.866		53,696
Assistance Programs for Chronic Disease Prevention and Control	93.945		29,572
Pass-through programs			
ADAS of Cuyahoga County - Consolidated Knowledge Development and Application (KD&A) Program	93.230	1U79TI113322-01	100,600
Cuyahoga County Juvenile Court- Consolidated Knowledge Development and Application - (KD&A) Program	93.230	CE0400252-01	28,986
Total			<u>129,586</u>
Abstinence - The Better Choice - Abstinence Education	93.235	776006-4-CS-04	941
Pennsylvania State University - Mental Health Research Grants	93.242	1613-KSU-DHHS-59027	22,928
Biotraces - Mental Health Research Grants	93.242	5 K01 MH063213-04	847
Total			<u>23,775</u>

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
University of Pennsylvania - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	539181	93,979
Oregon Health Sciences University - Population Research	93.864	P0158A-A	1,403
Pennsylvania State University - Aging Research	93.866	AG16822-02	15,824
NEOUCOM - Block Grants for Community Mental Health Services	93.958	45MHCJCCOE-BG-01-03	394
NEOUCOM - Block Grants for Community Mental Health Services	93.958	ADMBD/ODMH	2,500
NEOUCOM - Block Grants for Community Mental Health Services	93.958	34110	20,579
Total			<u>23,473</u>
Total Department of Health and Human Services			<u>2,593,130</u>
Department of Homeland Security			
Pass-through program			
Michel Baker Inc. - Cooperating Technical Partners	97.045	CSA-445410	<u>34,553</u>
Total Research and Development			<u>12,132,051</u>
TRIO PROGRAMS			
Department of Education			
Direct programs			
TRIO - Student Support Services	84.042		448,903
TRIO - Upward Bound	84.047		864,105
TRIO - McNair Post-Baccalaureate Achievement	84.217		<u>234,561</u>
Total TRIO Programs			<u>1,547,569</u>
Total Major Programs			<u>42,104,875</u>
OTHER PROGRAMS			
Department of Commerce			
Direct program			
Public Telecommunications Facilities Planning and Construction	11.550		147,496
Department of Defense			
Direct program			
Air Force Defense Research Sciences Program	12.800		30,590

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Department of Housing and Urban Development			
Pass-through programs			
Stark County Regional Planning Board - Community Development Block Grants/Entitlement Grants	14.218	B-03-UC-39-0005	22,369
City of Cleveland - Empowerment Zones Program	14.244	Program 62955	<u>1,150</u>
Total Department of Housing and Urban Development			<u>23,519</u>
Department of Justice			
Direct program			
Public Safety Partnership and Community Policing Grants	16.710		45,600
Department of Labor			
Direct program			
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		105,481
Pass-through programs			
Columbus State Community College - Welfare to Work Grants to States and Localities	17.253	SFY2000-446082	(9,287)
Ohio Department of Education - WIA Adult Program	17.258	062976-WF-HS-2003	19,237
Ohio Department of Education - WIA Adult Program	17.258	IRN-WF-HS-2003	<u>8</u>
Total			<u>19,245</u>
Mahoning and Columbiana Training Association - WIA Youth Activities	17.259	20633	83,310
Ohio Department of Jobs & Family Services - Employment and Training Administration Evaluations	17.262	C-04-15-0058	66,303
Ohio Department of Jobs & Family Services - Employment and Training Administration Evaluations	17.262	C-02-15-0044	<u>15,531</u>
Total			<u>81,834</u>
Total Department of Labor			<u>280,583</u>
Department of State			
Direct program			
College and University Partnerships Program	19.405		15,176

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Federal Aviation Administration			
Direct program			
Airport Improvement Program	20.106		70,957
National Foundation on the Arts and the Humanities			
Direct programs			
Promotion of the Arts: Grants to Organizations and Individuals	45.024		20,659
Institute of Museum and Library Services	45.301		28
Librarians for the 21st Century	45.313		2,453
Total National Foundation on the Arts and the Humanities			23,140
National Science Foundation			
Direct program			
Biological Sciences	47.074		46,039
Pass-through programs			
The Mathematical Association of America	47.076		72,971
Total National Science Foundation			119,010
Small Business Administration			
Pass-through programs			
Ohio Department of Development - Small Business Development Center	59.037	9031	59,097
Ohio Business Development Organization - Small Business Development Center	59.037	OMDT 23-09063	93,759
Ohio Business Development Organization - Small Business Development Center	59.037	OBC 203-09063	17,505
Ohio Business Development Organization - Small Business Development Center	59.037	ECDD 04-100	168,514
Total			338,875
Total Small Business Administration			338,875
Department of Education			
Direct programs			
Fund for the Improvement of Post-secondary Education	84.116		207
Rehabilitation Long-Term Training	84.129		294,308
Javits Fellowships	84.170		32,979
Fund for the Improvement of Education	84.215		225,363
National Institute for Literacy	84.257		221,219
Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324		361,034
Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325		1,242,369
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333		280,520
Preparing Tomorrow's Teachers to Use Technology	84.342		560,646

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Pass-through programs			
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2004	548,425
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2003	137,178
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2002C	<u>13,298</u>
Total			698,901
State of Ohio - Vocational Education: Basic Grants to States	84.048	VEPD-2003-03	3,478
State of Ohio - Vocational Education: Basic Grants to States	84.048	VEPD-2004-KSCB	<u>131,078</u>
Total			134,556
State of Ohio - Tech-Prep Education	84.243	VETP-2003-10-FB	3,805
State of Ohio - Tech-Prep Education	84.243	VETP-2002-10-FB	<u>124,181</u>
Total			127,986
Sacramento County Office of Education - National Institute for Literacy	84.257	23149	3,253
National Writing Project Corp - Innovative Education Program Strategies	84.298	97-OH03	66,295
State of Ohio - Special Education: State Program Improvement Grants for Children with Disabilities	84.323	062976-ST-SQ-02	79,217
Canton City Schools - Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Gear Up 440836	13,010
State of Ohio - Teacher Quality Enhancement Grants	84.336	P336A990014-01	20,000
State of Ohio - Teacher Quality Enhancement Grants	84.336	01-28	<u>372</u>
Total			20,372
State of Ohio - Improving Teacher Quality State Grants	84.367	02-22	154,377
State of Ohio - Improving Teacher Quality State Grants	84.367	02-23	81,575
State of Ohio - Improving Teacher Quality State Grants	84.367	03-21	<u>14,907</u>
Total			<u>250,859</u>
Total Department of Education			<u>4,613,094</u>
National Archives and Records Administration			
Direct programs			
National Historical Publications and Records Grants	89.003		9,338

Kent State University

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures</u>
Department of Health and Human Services			
Direct programs			
Advanced Education Nursing Traineeships	93.358		62,034
Nurse Education, Practice and Retention Grants	93.359		21,056
Pass-through programs			
CARHEN - Model State-Supported Area Health Education Centers	93.107	25-C-2	29,158
CARHEN - Model State-Supported Area Health Education Centers	93.107	25-C-3	4,765
CARHEN - Model State-Supported Area Health Education Centers	93.107	26-C-3	4,836
CARHEN - Model State-Supported Area Health Education Centers	93.107	26-C-2	13,650
Total			<u>52,409</u>
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	00-578	132
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSP 03-168	40,392
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSPF 02-168	(132)
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSPF 04-1073	65
Total			<u>40,457</u>
ODADAS - Block Grants for Prevention and Treatment of Substance Abuse	93.959	670340200HEDUCP020007	24,996
Total Department of Health and Human Services			<u>200,952</u>
Corporation for National and Community Service			
Pass-through program			
Ohio Community Service Council - Learn and Serve America: School and Community Based Programs	94.004	00LSHM1022-CH03	9,718
Total Other Programs			<u>5,928,048</u>
Total Federal Awards			<u><u>\$ 48,032,923</u></u>

** Pass through identifying number not available.

Kent State University

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2004

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant transactions of Kent State University (the "University") recorded on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the University has expended the funds in accordance with the grant agreement.

(b) Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the Schedule. The University is also the subrecipient of federal funds which have been subject to testing and are reported as expenditures and listed separately as pass-through programs. During the year ended June 30, 2004, the University disbursed funds to subrecipients in the amount of \$1,201,612.

(c) Facilities and Administrative Costs

The University has approved, predetermined, facilities and administrative cost rates, which are 44.5% from July 1, 2003 to June 30, 2004 for on campus research and 24.0% from July 1, 2003 to June 30, 2004 for off campus research.

(2) Loan Advances

The following schedule represents total loans advanced to students by the University and balances outstanding for the Perkins and Nursing Student Loan Programs for the year ended June 30, 2004:

	CFDA Numbers	Advances	Outstanding Balances
Perkins Loan Program	84.038	\$ 4,836,665	\$ 24,171,311
Nursing Student Loan Program	93.364	\$ 480,700	\$ 1,612,782

(3) Federal Direct Loan Program

During the year ended June 30, 2003, the University processed applications for the following loan amounts under the Federal Direct Loan Program which includes Stafford Loans, unsubsidized Stafford Loans and Parent Plus Loans for Undergraduate Students.

	CFDA Numbers	Advances
Federal Direct Loan Program	84.268	\$115,417,721

Kent State University

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004**

(4) Reconciliation

The following schedule is a reconciliation of total expenditures as shown on the Schedule to the revenue shown as federal grants and contracts on the Statement of Revenues, Expenses and Changes in Net Assets (the "Statement"), which is included as part of the University's financial statements:

Expenditures per the Schedule	\$48,032,923
Perkins Loan Funds excluded from federal grants on the Statement	(137,831)
Nursing Student Loan Funds excluded from federal grants on the Statement	(22,816)
Indirect costs excluded from federal grants on the Statement	<u>(2,699,448)</u>
Federal grants and contracts as shown on the Statement	<u>\$45,172,828</u>

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

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

To the Board of Trustees of
Kent State University:

We have audited the financial statements of Kent State University (the "University"), a component unit of the State of Ohio, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004 in which The University adopted the provisions of Governmental Accounting Standards Board Statement No. 39. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Compliance and Other Matters

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

This report is intended solely for the information and use of the University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PriceWaterhouseCoopers LLP

October 8, 2004
Cleveland, Ohio

**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

To the Board of Trustees of
Kent State University:

Compliance

We have audited the compliance of Kent State University (the "University"), a component unit of the State of Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.



Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PriceWaterhouseCoopers LLP

October 8, 2004
Cleveland, Ohio

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Kent State University

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004**

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no	

Federal Awards :

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported	

Type of auditor's report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<u> </u> yes	<u> X </u> no	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Aid
Various	Research and Development
Various	TRIO Programs

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,440,988
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Auditee qualified as low-risk auditee?	<u> X </u> yes	<u> </u> no
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Kent State University

**Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2004**

Section II - Financial Statement Findings

No matters were reported.

Section III - Summary of Current Year Findings and Questioned Costs

No current year findings.

PRIOR YEAR FINDINGS

Kent State University

**Prior Year Findings
For the Year Ended June 30, 2004**

Section I - Summary of Prior Year Findings and Questioned Costs

No prior year findings.

Report of Independent Accountants on the Application of Agreed-Upon Procedures

Dr. Carol A. Cartwright
President
Kent State University

Dear Dr. Cartwright:

We have performed the procedures enumerated below, which were agreed to by management of Kent State University (the “University”), solely to assist the University in complying with National Collegiate Athletic Association Constitution 6.2.3.1. Management of the University is responsible for the Statement of Revenues and Expenditures and internal control over the Athletics Department. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

I. Statement of Revenues and Expenditures Agreed-Upon Procedures

- a. We obtained the Statement of Revenues and Expenditures (the “Statement”) for the Intercollegiate Athletics Programs and supporting worksheets for the year ended June 30, 2004. The Statement, as prepared by the management of the University, is included in this report. We recalculated the addition of the amounts on the Statement and compared the amounts on the Statement to management’s worksheets. No exceptions were found as a result of these comparisons. We agreed the amounts on management’s worksheets to the applicable series of accounts in the University’s general ledger. We noted no differences between the amounts in the applicable series of accounts in the general ledger and the amounts on the worksheets. We compared actual revenues and expenditures for the year ended June 30, 2004 to actual amounts recorded for the previous year and budgeted amounts for the current year. We calculated the differences and obtained explanations for significant fluctuations and variances.

- b. We agreed any single contribution from an “outside” organization that constituted more than 10 percent of all contributions donated to the Intercollegiate Athletics Programs to the supporting documentation.

The Athletic Department management represented that Kent State University Foundation (“KSUF”) was the only “outside” organization which had expenditures for or on behalf of the University’s Intercollegiate Athletics Programs.

- c. We obtained a summary schedule of financial activities for the Blue & Gold Club operating accounts and the Athletics-Income Funds operating accounts as well as the Restricted Funds account, prepared by KSUF. We verified with management that all activities of the Blue & Gold Club, Athletics-Income Funds and the Restricted Funds account are recorded on KSUF’s books.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Statement. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

II. Internal control: Policies and Procedures Related to Intercollegiate Athletics Agreed-Upon Procedures

The management of the University is responsible for establishing and maintaining a system of internal control over financial reporting. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

- a. We obtained the organization chart of the Athletics Department and discussed it with representatives of the Athletics Department. We reviewed the extent of documentation of accounting systems and procedures. We also reviewed the general control environment including control consciousness, competence of personnel, and protection of records and equipment.
- b. Management informed us of the University's procedures for gathering information on the nature and extent of booster group activity for or on behalf of the University's Intercollegiate Athletics Programs.

We were not engaged to and did not conduct an examination of the University's system of internal control over financial reporting, the objective of which would be the expression of an opinion on the suitability of design of internal control over financial reporting of the University as of June 30, 2004. Accordingly, we do not express such an opinion. We were also not engaged to and did not conduct an examination and report on the operating effectiveness of the University's internal control over financial reporting as of June 30, 2004. Accordingly, we do not express such an opinion on its operating effectiveness. Had we performed additional procedures, or had we made an examination of the system of internal control over financial reporting, other matters might have come to our attention that would have been reported to you. This report relates only to the procedures specified above and does not extend to the financial statements of the University.

This report is intended solely for the information and use of University management and governing boards, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 8, 2004
Cleveland, Ohio

Kent State University
Statement of Revenues and Expenditures – For the Intercollegiate Athletics
Programs
For the Year Ended June 30, 2004

	Football	Men's Basketball	Women's Basketball	Other Sports Total	Non-Sports Total	Grand Total
Revenues:						
Sponsorship sales	\$ -	\$ -	\$ -	\$ -	\$ 256,840	\$ 256,840
Advertising	-	-	-	-	7,800	7,800
Camp revenue	-	-	-	-	81,997	81,997
Commissions	-	-	-	-	14,332	14,332
Contest guarantees	625,000	15,000	6,000	6,000	-	652,000
Facility rentals	-	-	-	-	52,959	52,959
NCAA distributions	-	-	-	-	838,663	838,663
Other income	1,266	388	2,991	36,304	104,746	145,695
Royalties	-	-	-	-	94,545	94,545
Service charges on sales	-	-	-	-	3,956	3,956
Student activity fees	-	-	-	-	8,275,600	8,275,600
Ticket sales	138,615	268,163	22,016	11,980	77,833	518,607
Foundation gifts	101,361	46,205	27,652	127,095	63,993	366,306
Total revenues	866,242	329,756	58,659	181,379	9,873,264	11,309,300
Expenditures:						
Payroll personal service	707,996	374,525	339,431	980,145	1,710,228	4,112,325
Non-payroll personal	75,866	62,982	30,994	52,275	172,184	394,301
Staff benefits	201,391	93,142	81,165	329,732	706,823	1,412,253
Travel	139,673	108,730	59,691	477,520	226,213	1,011,827
Recruiting	63,824	45,610	26,301	83,112	-	218,847
Entertainment	6,564	5,192	155	2,425	64,381	78,717
Supplies	173,837	36,080	17,945	201,433	178,085	607,380
Duplicating & printing	5,951	2,951	724	4,111	190,553	204,290
Telephone	15,253	11,173	6,799	20,218	70,130	123,573
Postage	5,714	7,325	6,185	12,888	27,938	60,050
Other information & communication	3,469	3,823	1,106	8,032	249,532	265,962
Maintenance & repairs	14,295	1,132	253	3,075	55,659	74,414
Rentals	2,453	2,729	2,280	1,727	195,028	204,217
Utilities	1,200	-	-	-	790	1,990
Student aid	1,518,824	285,064	244,541	1,954,891	93,306	4,096,626
Miscellaneous	291,977	27,482	15,492	94,517	520,630	950,098
Capital expenditures	-	6,254	-	-	80,467	86,721
Total expenditures	3,228,287	1,074,194	833,062	4,226,101	4,541,947	13,903,591
(Deficiency) excess of revenues over expenditures	\$ (2,362,045)	\$ (744,438)	\$ (774,403)	\$ (4,044,722)	\$ 5,331,317	\$ (2,594,291)

Kent State University
Summary Schedule of Financial Activities – Blue & Gold Club Operating Accounts
For the Year Ended June 30, 2004

Fund balance at July 1, 2003	\$	236,311
Total receipts/revenues		311,638
Total disbursements/expenses		<u>(351,064)</u>
Excess of disbursements/expenses over receipts/revenues		(39,426)
Transfer to Athletics Income Funds		<u>(8,377)</u>
Fund balance at June 30, 2004	\$	<u>188,508</u>

Kent State University
Summary Schedule of Financial Activities – Athletics – Income Funds
For the Year Ended June 30, 2004

Fund balance at July 1, 2003	\$ 107,994
Total receipts/revenues	120,497
Total disbursements/expenses	<u>(194,347)</u>
Excess of disbursements/expenses over receipts/revenues	(73,850)
Transfer from Blue & Gold Operating Accounts	8,377
Transfer to Restricted Funds	<u>(14,383)</u>
Fund balance at June 30, 2004	<u>\$ 28,138</u>

Kent State University
Summary Schedule of Financial Activities – Restricted Funds
For the Year Ended June 30, 2004

Fund balance at July 1, 2003	\$ -
Total receipts/revenues	441,737
Total disbursements/expenses	<u>(52,000)</u>
Excess of disbursements/expenses over receipts/revenues	389,737
Transfer from Restricted Funds	<u>14,383</u>
Fund balance at June 30, 2004	<u>\$ 404,120</u>



**Auditor of State
Betty Montgomery**

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KENT STATE UNIVERSITY

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 28, 2004**