



# **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, 2003**





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Kent State University

We have reviewed the Independent Auditor's Report of the Kent State University, Portage County, prepared by Pricewaterhouse Coopers LLP for the audit period July 1, 2002 through June 30, 2003. 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

February 5, 2004

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**KENT STATE UNIVERSITY**  
**Report On Federal Awards**  
**In Accordance With OMB Circular A-133**  
**For the Year Ended June 30, 2003**

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# KENT STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 year ended June 30, 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, 2003 the University expended \$45.7 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 (Unaudited) -- Continued

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2003 as compared to the previous year as evidenced by:

- The University's total assets increased over the prior year by \$45.5 million, of which, \$51.9 million is attributed to an increase in capital assets. Current assets decreased by \$13.3 million, due to the spend down of bond proceeds as discussed previously.
- Total liabilities increased by \$5.5 million which is primarily due to the \$8.0 million in liability recognized for the early retirement incentive program.
- The University's net assets increased by \$40.0 million to \$394.8 million, of which \$249.4 is either invested in capital assets or restricted. Of the remaining \$145.4 million in unrestricted assets, all but \$1.7 million is designated for specific purposes.
- Operating revenues increased by \$30.6 million compared to the prior year, of which \$28.2 million is directly related to increased student tuition and fees.
- The University's operating expenses increased by \$27.1 million, with expected increases in all functional expense categories due primarily to inflationary factors.
- Non-operating revenue increased by \$20.6 million, the majority of which is related to a \$10.3 million increase in investment income from changes in the overall investment market.
- The operating loss and principal debt payments totaled \$122.3 million, of which 97.8% was funded by State appropriations.



# KENT STATE UNIVERSITY

## Management's Discussion and Analysis (Unaudited) -- Continued

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

	<u>2003</u>	<u>2002</u>	<b>Total Percentage Change 2002 - 2003</b>
<b>ASSETS</b>			
Current and other assets	\$ 350,207	\$ 356,626	(1.8)%
Capital assets	<u>411,265</u>	<u>359,328</u>	14.5%
<b>Total assets</b>	<u><u>\$ 761,472</u></u>	<u><u>\$ 715,954</u></u>	6.4%
<b>LIABILITIES</b>			
Long-term debt outstanding	\$ 282,267	\$ 285,166	(1.0)%
Other	<u>84,397</u>	<u>76,004</u>	11.0%
<b>Total liabilities</b>	<u><u>\$ 366,664</u></u>	<u><u>\$ 361,170</u></u>	1.5%
<b>NET ASSETS</b>			
Invested in capital assets net of related debt	\$ 225,257	\$ 231,650	(2.8)%
Restricted, expendable and not expendable	24,135	22,838	5.7%
Unrestricted:			
designated	143,763	98,981	45.2%
undesignated	<u>1,653</u>	<u>1,315</u>	25.7%
<b>Total net assets</b>	<u><u>\$ 394,808</u></u>	<u><u>\$ 354,784</u></u>	11.3%

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 \$761.5 million, compared to \$716.0 million in fiscal 2002. The University's largest asset is its investment in physical plant of \$411.3 million at June 30, 2003 compared to \$359.3 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 \$394.8 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

## Management's Discussion and Analysis (Unaudited) -- Continued

**Kent State University**  
**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**for the years ended June 30, 2003 and 2002**  
**(in thousands)**

	<u>2003</u>	<u>2002</u>	<u>Total Percentage</u> <u>Change</u>
<b>Revenues</b>			
Tuition	\$ 151,784	\$ 123,545	22.9%
State appropriations	119,622	120,163	(.5)%
Federal and state grants	54,716	48,969	11.7%
Auxiliary activities	64,140	67,250	(4.6)%
Other	61,623	51,408	19.9%
<b>Total revenue</b>	<u>\$ 451,885</u>	<u>\$ 411,335</u>	9.9%
<b>Expenses</b>			
Instruction	\$ 150,220	\$ 137,769	9.0%
Research	14,566	12,765	14.1%
Institutional support	28,549	26,919	6.1%
Scholarships and fellowships	13,521	12,649	6.9%
Other	205,005	196,385	4.4%
<b>Total expenses</b>	<u>\$ 411,861</u>	<u>\$ 386,487</u>	6.6%

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

## Management's Discussion and Analysis (Unaudited) -- Continued

**Kent State University**  
**Condensed Statements of Cash Flows**  
**for the years ended June 30, 2003 and 2002**  
**(in thousands)**

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

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 2003, the University had invested \$411.3 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 \$51.9 million, or 14.5 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>2003</u>	<u>2002</u>	<u>Total Percentage Change</u> <u>2003- 2002</u>
Land	\$ 9.6	\$ 9.6	0.0%
Equipment	52.0	52.7	(1.3)%
Buildings and improvements	310.5	220.9	40.6%
Construction in progress	39.2	76.1	(48.5)%
<b>Total</b>	<u>\$ 411.3</u>	<u>\$ 359.3</u>	14.5%

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 \$285.8 million in bonds and notes outstanding—a decrease of 1.7 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

## Management's Discussion and Analysis (Unaudited) – Continued

### Kent State University's Outstanding Debt

(in millions of dollars)

	<u>2003</u>	<u>2002</u>	<u>Total Percentage Change 2002-2003</u>
General receipts bonds (backed by the University)	\$ 274.4	\$ 278.4	(1.4)%
Capital Leases	11.4	12.3	(7.3)%
	<u>\$ 285.8</u>	<u>\$ 290.7</u>	(1.7)%

### Factors Affecting Future Periods

Looking toward the future, management is confident that Kent State is well positioned to maintain its strong financial condition and its level of service to students and the public. This outlook is connected to the University's ability to continue its success in recruiting and enrolling quality students, generating grant and contract funding for research, public service and instructional activities and expanding private funding for scholarships and academic programs and services.

Enrollments at Kent State University reached an all-time record of 35,173 for Fall 2002, the sixth consecutive year that enrollments have grown at the University. Kent State University's enrollment is now the second largest in the state. Enrollment growth is expected to continue as record applications and admissions were achieved for Fall 2003. Opportunities for future enrollment growth are present on all eight campuses. New enrollment opportunities for programs delivered through distributed learning modalities continue to be developed creating enrollment growth opportunities beyond the growth in students attending one of the eight campuses.

The greatest challenge to maintaining strong enrollments is the increasing cost of tuition given recent cuts in state support. The operating appropriation from the State of Ohio was cut by 6% at the beginning of fiscal year 2003, continuing the cut in state support from fiscal year 2002, and an additional cut of 2.5% occurred during the year. In June, the Legislature appropriated funding for fiscal years 2004 and 2005 at about the same level as provided in fiscal year 2003. The growth in future state appropriations is expected to be below the level historically provided and further reductions in state support are possible.

Tuition increases at Kent State University continue to be greater than historical levels, but less than at other competing public universities. For Fall 2003, Kent State University's percentage increase in its tuition was from 1.9% to 8.9% below competing public universities in Ohio. The Kent State University system also includes seven regional campuses where tuition costs are 42% less than on the Kent Campus. By improving its price relative to other public universities and offering a lower cost alternative at its regional campuses, the Kent State University's administration expects that demand for its academic programs will remain strong and enrollments will continue at the present historical levels enabling existing revenues to be maintained or increased in the future.

## KENT STATE UNIVERSITY

### Management's Discussion and Analysis (Unaudited) – Continued

In fiscal year 2003, cost reduction efforts at the University were continued with the reductions from the last two years cumulatively totaling over \$11 million. These reductions and the relatively high student share of the cost of their education in Ohio are enabling the University to address the financial issues associated with the reduction in state support and growing enrollments without reducing the quality of the University's academic programs or negatively impacting its financial position. The administration expects that the financial position of the University will continue to be maintained or even improved for these reasons and the optimistic enrollment trends.

Kent State University has completed a large portion of its \$150 million dollar residence hall renewal program. The program is intended to renew or replace older residential and dining facilities. This is enabling Kent State's student facilities to remain competitive while avoiding future cost implications from excessive deferred maintenance.

In fiscal year 2003, Kent State continued to experience growth in its grant and contract funding. Opportunities for future growth are good as Ohio has established the Third Frontier initiative that is expected to appropriate \$1.5 billion for research and technology transfer activities over the next ten years.

In 1997, Kent State undertook its first ever capital gift campaign with a \$100 million goal. Kent State University successfully completed the 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 support for the University. The successful completion of the capital gift campaign should improve the opportunity for raising future funds and increasing the amount of endowed funds at the University which is below other public universities in Ohio.

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## **FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT AUDITORS**

To the Board of Trustees of  
Kent State University:

In our opinion, the accompanying statement of net assets and the related statements of revenues, expenses and changes in net assets and cash flows, present fairly, in all material respects, the financial position of Kent State University (the "University"), a component unit of the State of Ohio, at June 30, 2003 and 2002, and its revenues, expenses and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, which 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 the opinion expressed above.

The Management's Discussion and Analysis ("MD&A") on pages 1 to 7 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board ("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 10, 2003 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

October 10, 2003

**KENT STATE UNIVERSITY**  
**STATEMENT OF NET ASSETS**  
**as of June 30, 2003 and 2002**  
**(in thousands)**

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 177,151	\$ 201,596
Short-term investments	8,714	2,715
Accounts receivable, net	18,952	14,102
Inventories	1,675	1,887
Deposits and prepaid expenses	3,540	3,071
Accrued interest receivable	1,553	1,558
Total current assets	<u>211,585</u>	<u>\$224,929</u>
Noncurrent assets:		
Student loans receivable, net	21,463	20,806
Long-term investments	113,162	106,727
Capital assets, net	411,265	359,328
Other assets	3,997	4,164
Total noncurrent assets	<u>549,887</u>	<u>491,025</u>
Total assets	<u>\$ 761,472</u>	<u>\$ 715,954</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 22,700	\$ 14,451
Accrued payroll	6,862	6,587
Payroll taxes and accrued fringe benefits	8,601	5,254
Unearned fees and deposits	28,950	27,659
Current portion of long-term debt	3,506	5,569
Total current liabilities	<u>70,619</u>	<u>59,520</u>
Noncurrent liabilities:		
Accrued compensated absences	12,081	10,296
Accrued fringe benefits	-	4,662
Long-term unearned fees and deposits	1,697	1,526
Long-term debt	282,267	285,166
Total noncurrent liabilities	<u>296,045</u>	<u>301,650</u>
Total liabilities	<u>366,664</u>	<u>361,170</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	225,257	231,650
Restricted, nonexpendable	879	132
Restricted, expendable	23,256	22,706
Unrestricted	145,416	100,296
Total net assets	<u>394,808</u>	<u>354,784</u>
Total liabilities and net assets	<u>\$ 761,472</u>	<u>\$ 715,954</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, 2003 and 2002**  
**(in thousands)**

	<u>2003</u>	<u>2002</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 182,398	\$ 148,883
Less scholarship allowances	(30,614)	(25,338)
Net student tuition and fees	<u>151,784</u>	<u>123,545</u>
Federal grants and contracts	45,723	39,933
State grants and contracts	8,993	9,036
Local grants and contracts	603	308
Nongovernmental grants and contracts	3,642	4,052
Sales and services of educational departments	6,291	6,649
Auxiliary activities	64,140	67,250
Other operating revenues	2,965	2,810
Total operating revenues	<u>284,141</u>	<u>253,583</u>
<b>OPERATING EXPENSES</b>		
Instruction	150,220	137,769
Research	14,566	12,765
Public service	14,601	13,924
Academic support	33,964	29,920
Student services	26,380	25,659
Institutional support	28,549	26,919
Scholarships and fellowships	13,521	12,649
Operation and maintenance of plant	27,216	25,352
Auxiliary activities	64,898	60,371
Depreciation	26,904	28,440
Total operating expenses	<u>400,819</u>	<u>373,768</u>
Operating loss	<u>(116,678)</u>	<u>(120,185)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	119,622	120,163
Gifts	7,597	3,284
Investment income	23,633	13,338
Transfer of workers' compensation liability to the State of Ohio	4,883	-
Interest on capital asset-related debt	(10,590)	(12,097)
Other nonoperating expenses	(452)	(622)
Net nonoperating revenues	<u>144,693</u>	<u>124,066</u>
Income before other revenues, expenses, gains, or losses	28,015	3,881
Capital appropriation	<u>12,009</u>	<u>20,967</u>
Increase in net assets	<u>40,024</u>	<u>24,848</u>
<b>NET ASSETS</b>		
Net assets, beginning of year	354,784	329,936
Net assets, end of year	<u>\$ 394,808</u>	<u>\$ 354,784</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, 2003 and 2002  
(in thousands)

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from students for tuition and fees	\$ 122,131	\$ 95,947
Cash received from auxiliary activities	64,545	67,089
Cash received from other sources	5,499	10,714
Grants and contracts	58,035	53,368
Federal student loan funds received	322	443
Student loans granted, net of repayments	(669)	(1,410)
Cash paid to employees	(193,046)	(187,963)
Cash paid to suppliers	(136,552)	(126,297)
Net cash used in operating activities	<u>(79,735)</u>	<u>(88,109)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for investments, net	(8,343)	(16,405)
Interest received	19,547	15,938
Net cash provided by (used in) investing activities	<u>11,204</u>	<u>(467)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of bonds, net	-	59,253
Principal payments under debt obligations	(5,599)	(4,153)
Interest paid	(10,590)	(11,774)
Capital appropriations	728	723
Purchases of capital assets	(68,079)	(59,169)
Other payments	(452)	(622)
Net cash used in capital and related financing activities	<u>(83,992)</u>	<u>(15,742)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from State appropriations	119,622	120,163
Gifts received from KSU Foundation	8,456	2,511
Net cash provided by noncapital financing activities	<u>128,078</u>	<u>122,674</u>
Net (decrease) increase in cash and cash equivalents	(24,445)	18,356
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>201,596</u>	<u>183,240</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 177,151</u>	<u>\$ 201,596</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, 2003 and 2002**  
**(in thousands)**

	<b>2003</b>	<b>2002</b>
Reconciliation of net operating revenues (expenses) to net cash provided (used) in operating activities:		
Operating loss	\$ <u>(116,678)</u>	\$ <u>(120,185)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) in operating activities:		
Depreciation expense	26,904	28,440
Change in assets and liabilities:		
Accounts receivable, net	(4,552)	854
Inventories	212	289
Deposits and prepaid expenses	(303)	(471)
Student loans receivable, net	(657)	(1,116)
Accounts payable and accrued liabilities	8,249	1,890
Accrued payroll	275	292
Payroll taxes and accrued fringe benefits	3,568	(333)
Unearned fees and deposits	1,462	2,254
Accrued compensated absences	1,785	(23)
Total change in assets and liabilities	<u>10,039</u>	<u>3,636</u>
Net cash used in operating activities	<u>\$ (79,735)</u>	<u>\$ (88,109)</u>

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

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2003 and 2002 (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.

#### (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 (“GASB”). Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, statements and interpretations issued after November 30, 1989, which do not conflict or contradict GASB pronouncements.

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

- Invested in capital assets, net of related debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted, nonexpendable - Net assets subject to externally-imposed stipulations that they 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.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2003 and 2002 (in thousands)

### (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 that are financed in whole or in part by fees charged 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 as net on the Statement of Cash Flows.

#### (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.

#### (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 streams 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 since the current portion cannot be closely estimated.

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2003 and 2002 (in thousands)

(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.

Cash and cash equivalents consist of the following as of June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Cash and repurchase agreements	\$ 117,907	\$ 177,520
Mutual funds	59,244	24,076
	<u>\$ 177,151</u>	<u>\$ 201,596</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, 2003 and 2002, the carrying amounts of the University's cash for all funds were \$4,172 and \$1,860, respectively (including certificates of deposit aggregating \$657 and \$666 in 2003 and 2002, respectively) as compared to bank balances of \$3,091 and \$2,361, respectively. The differences in carrying amounts and bank balances were caused by outstanding checks and deposits in-transit. Of the bank balances, \$289 and \$374 for 2003 and 2002, respectively, were covered by federal deposit insurance, and \$2,619 and \$1,893, 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 2003 and 2002 balances of \$183 and \$94, respectively, were not collateralized and uninsured.



**KENT STATE UNIVERSITY**

**Notes to Financial Statements**  
**June 30, 2003 and 2002**  
**(in thousands)**

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, 2003 and 2002 (in thousands):

	<u>2003</u>		<u>2002</u>	
	Market	Cost	Market	Cost
Category 1:				
Corporate Bonds	\$ 46,327	\$ 44,253	\$ 44,929	\$ 46,692
Stock	<u>126</u>	<u>112</u>	<u>97</u>	<u>90</u>
	46,453	44,365	45,026	46,782
Category 2:				
U.S. Government Securities	<u>75,346</u>	<u>74,325</u>	<u>63,847</u>	<u>63,074</u>
Uncategorized				
State Treasury Asset Reserve ("Star Ohio")	<u>77</u>	<u>77</u>	<u>569</u>	<u>569</u>
Total Investments	<u><u>\$ 121,876</u></u>	<u><u>\$ 118,767</u></u>	<u><u>\$ 109,442</u></u>	<u><u>\$ 110,425</u></u>

STAR Ohio is an investment pool created pursuant to Ohio 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, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Sponsor accounts	\$ 3,850	\$ 4,161
Student accounts	8,514	6,994
Other	<u>7,338</u>	<u>3,572</u>
	\$ 19,702	\$ 14,727
Less allowances for loss on accounts receivable	<u>(750)</u>	<u>(625)</u>
Accounts receivable, net	<u><u>\$ 18,952</u></u>	<u><u>\$ 14,102</u></u>

**KENT STATE UNIVERSITY**

**Notes to Financial Statements  
June 30, 2003 and 2002  
(in thousands)**

In addition, the University has student loans receivable of \$25,067 and \$24,397 as of June 30, 2003 and 2002, respectively. The related allowances as of June 30, 2003 and 2002 are \$3,604 and \$3,591, 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, 2002 and 2003:

	<u>2002</u>	Additions/ <u>Transfers</u>	Net <u>Retirements</u>	<u>2003</u>
Land	\$ 9,625	\$ -	\$ -	\$ 9,625
Infrastructure	46,255	15,664	-	61,919
Buildings	332,050	85,938	482	417,506
Equipment	149,614	14,208	3,036	160,786
Construction-in-progress	76,148	(36,969)	-	39,179
	<u>613,692</u>	<u>78,841</u>	<u>3,518</u>	<u>\$ 689,015</u>
Less accumulated depreciation	254,364	26,319	2,933	277,750
Capital assets, net	<u><u>\$ 359,328</u></u>	<u><u>\$ 52,522</u></u>	<u><u>\$ 585</u></u>	<u><u>\$ 411,265</u></u>

**(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, 2003 and 2002, \$4,027 and \$5,057 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

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2003 and 2002 (in thousands)

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.

Long-term debt consists of the following as of June 30, 2002 and 2003:

	Interest Rates	Maturity	2002	Outstanding Additions	Principal Retirements	2003
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	2003-2024	9,775	-	245	9,530
General Receipts Bonds of 1998	4.1-5.0	2003-2023	20,245	-	2,005	18,240
General Receipts Bonds of 1996	4.1-5.5	2003-2028	32,140	-	1,020	31,120
General Receipts Bonds of 1994	2.9-4.95	2003	710	-	710	-
Other	various	various	12,365	644	1,626	11,383
			<u>290,735</u>	<u>\$ 644</u>	<u>\$ 5,606</u>	<u>285,773</u>
Less current portion long-term debt			<u>5,569</u>			<u>3,506</u>
			<u>\$285,166</u>			<u>\$282,267</u>

Principal and interest on long-term debt are payable from operating revenues, allocated student fees and the excess of revenues over expenditures of specific auxiliary activities. The obligations are generally callable. The future amounts of principal and interest payments required by the debt agreements are as follows:

# KENT STATE UNIVERSITY

## Notes to Financial Statements June 30, 2003 and 2002 (in thousands)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 3,506	\$ 12,475	\$ 15,981
2005	3,322	12,311	15,633
2006	3,167	12,149	15,316
2007	4,096	12,000	16,096
2008	4,082	11,789	15,871
2009-2013	26,400	55,711	82,111
2014-2018	40,515	47,432	87,947
2019-2023	52,290	35,857	88,147
2024-2028	67,495	22,018	89,513
2029-2033	80,900	7,395	88,295
Total	<u>\$ 285,773</u>	<u>\$ 229,137</u>	<u>\$ 514,910</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 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, 2003 and 2002 were \$389 and \$363, respectively.

The Ohio Public Employees Retirement System's Comprehensive Annual Financial Report may be obtained by writing to Ohio Public Employees Retirement System, 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, 2003, 2002 and 2001 were \$9,794, \$9,464 and \$7,577, 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, 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 9.3% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to STRS Ohio for the years ending June 30, 2003, 2002, and 2001 were \$11,091, \$10,961 and \$10,789, respectively, equal to the required contributions for each year.

**KENT STATE UNIVERSITY**

**Notes to Financial Statements**  
**June 30, 2003 and 2002**  
**(in thousands)**

(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 Ohio 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 2002 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 \$16.4 billion and \$4.8 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, 2001, the actuarial value of the Retirement System's net assets available for other post employment benefits was \$11.6 billion. The number of active contributing participants was 402,041.

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 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 Ohio 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 \$3.011 billion at June 30, 2002.

For the year ended June 30, 2002, the net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 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

## Notes to Financial Statements June 30, 2003 and 2002 (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, 2003 and 2002, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were \$2,407 and \$1,883, 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 or PERS.

On May 9, 2002, the University authorized an early retirement plan for employees who are members of STRS effective June 1, 2003 and continuing through May 31, 2004. The University will purchase service credit for eligible employees. The amount of service credit purchased will not exceed three years of retirement service credit. The maximum number of employees to participate will be limited to 5 percent of the STRS members of the University as of January 1, 2003.

The cost to the current funds for the retirement incentive programs for the year ended June 30, 2003 was \$8,196. Included in accrued liabilities as June 30, 2003 was approximately \$8,027, 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, 2003 and 2002 were \$22,767 and \$20,985. A liability for unpaid claims (including incurred but not reported claims) in the amount of \$4,297 and \$331 have been accrued as of June 30, 2003 and 2002. This estimate is based on an analysis of historical claims paid.

Under the State of Ohio'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 of Ohio's implementation of GASB Statements No. 34 and 35, the State

**KENT STATE UNIVERSITY**

**Notes to Financial Statements**  
**June 30, 2003 and 2002**  
**(in thousands)**

allocated the unfunded workers' compensation liabilities for Public Employer State Agencies 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 of Ohio's General Revenue Fund would assume the entire liability for future workers' compensation claims for the state, including the universities. Accordingly, the University's 2003 financial statements reflect a transfer of unfunded workers' compensation liabilities to the State of Ohio 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 2003 and 2002 for operating leases amounted to approximately \$907 and \$1,471, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2003 are as follows:

	Operating Leases
2004	\$ 822
2005	773
2006	746
2007	745
2008	745
2009-2013	3,339
2014-2018	3,150
2019-2023	3,150
2024-2028	3,150
2029-2033	1,197
Total future minimum payments	<u>\$ 17,817</u>

**(9) Related Party Transactions**

The University is the sole beneficiary of the Kent State University Foundation (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 has determined that the Foundation is 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 will be included as a component unit of the University in the fiscal year ending June 30, 2004. Assets totaling approximately \$86,650 and \$77,501 at June 30, 2003 and 2002, respectively, most of which have been restricted by donors for specific purposes, are held by the Foundation and are not recorded in the accompanying financial statements.

## **KENT STATE UNIVERSITY**

### **Notes to Financial Statements**

**June 30, 2003 and 2002**

**(in thousands)**

Amounts received by the University from the Foundation are included in private support in the accompanying financial statements. The University received approximately \$4,164 and \$2,751 of financial support during the years ended June 30, 2003 and 2002, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2003 and 2002, the University had outstanding receivables from the Foundation of approximately \$452 and \$1,311, 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, 2003**

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
<b>STUDENT FINANCIAL AID</b>			
<b>Department of Education</b>			
<b>Direct programs</b>			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 1,351,501
Federal Work-Study Program	84.033		1,779,162
Federal Perkins Loan Program	84.038		13,769
Federal Pell Grant Program	84.063		23,509,716
<b>Total Department of Education</b>			<u>26,654,148</u>
<b>Department of Health and Human Services</b>			
<b>Direct program</b>			
Nursing Student Loans	93.364		<u>18,664</u>
<b>Total Student Financial Aid</b>			<u><b>26,672,812</b></u>
<b>RESEARCH AND DEVELOPMENT</b>			
<b>Department of Agriculture</b>			
<b>Direct program</b>			
Forestry Research	10.652		10,646
<b>Department of Commerce</b>			
<b>Direct program</b>			
Measurement and Engineering Research and Standards	11.609		18,487
<b>Pass-through program</b>			
University of Delaware - Environmental Sciences, Applications, Data, and Education	11.440	4-33-42-2541-01	<u>26,402</u>
<b>Total Department of Commerce</b>			44,889
<b>Department of Defense</b>			
<b>Direct programs</b>			
ONR - Basic and Applied Scientific Research	12.300		3,584
Mathematical Sciences Grants Program	12.901		1,433
Research and Technology Development	12.910		1,386,528
<b>Pass-through programs</b>			
University of Mississippi - Basic and Applied Scientific Research	12.300	02-04-083	20,570
Basic Scientific Research	12.431	IPA056-030GLIC5177	8,718
Anteon Corp - Basic, Applied, and Advanced Research in Science and Engineering	12.630	S1214	25,007
Stanford - Basic, Applied, and Advanced Research in Science and Engineering	12.630	PY-0129	35,817
Kent Display Systems - Basic, Applied, and Advanced Research in Science and Engineering	12.630	**	26,016
Total			<u>86,840</u>
University of Central Florida - Air Force Defense Research Sciences Program	12.800	F33615-00-C-1679	68,711
Boulder Nonlinear Systems - Air Force Defense Research Sciences Program	12.800	**	61,707
Technical Management Concepts - Air Force Defense Research Sciences Program	12.800	**	109
Total			<u>130,527</u>

# Kent State University

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2003

Dayton Area Graduate Studies Institute - Research and Technology Development	12.910	ML-UD-01-13	17,417
Molecular Optic Electronics Corporation - Research and Technology Development	12.910	**	(1,757)
Ohio State University Research Foundation - Research and Technology Development	12.910	741323/869064	37,744
Rockwell - Research and Technology Development	12.910	BOU431588	123,416
Total			<u>176,820</u>
<b>Total Department of Defense</b>			<u>1,815,020</u>
<b>Department of Housing and Urban Development</b>			
<b>Pass-through program</b>			
City of Kent - Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	14.227	**	6,922
<b>Department of the Interior</b>			
<b>Direct program</b>			
U.S. Geological Survey - Research and Data Acquisition	15.808		379
<b>Pass-through programs</b>			
Ohio Department of Natural Resources - State Wildlife Grants	15.634	NGSCW-02-22	8,633
Ohio University - U.S. Geological Survey - Research and Data Acquisition	15.808	01CRAG0025	5,173
<b>Total Department of the Interior</b>			<u>14,185</u>
<b>Department of Justice</b>			
<b>Direct programs</b>			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		496,768
Violence Against Women Formula Grants	16.588		56
Community Prosecution and Project Safe Neighborhoods	16.609		32,739
<b>Pass-through programs</b>			
SAIC - National Institute of Justice - Research, Evaluation, and Development Project Grants	16.560	4400029604	62,586
State of Ohio - Byrne Formula Grant Program	16.579	2001-DG-B01-7063	70,876
State of Ohio - Byrne Formula Grant Program	16.579	2002-DG-F01-7068	12,444
Total			<u>83,320</u>
Cuyahoga County - National Institute of Justice - Research, Evaluation, and Development Project Grants	16.580	CE11363-01	(678)
<b>Total Department of Justice</b>			<u>674,791</u>
<b>Department of Transportation</b>			
<b>Pass-through programs</b>			
Ohio Department of Transportation - Highway Planning and Construction	20.205	10318	16,421
Ohio Department of Public Safety - Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	GR-1 1901.0	10,222
<b>Total Department of Transportation</b>			<u>26,643</u>
<b>National Aeronautics and Space Administration</b>			
<b>Direct program</b>			
Technology Transfer	43.002		621,515
<b>Pass-through program</b>			
Ohio Aeronautics Institute - Technology Transfer	43.002	R-300-100172-40023	94,815
<b>Total National Aeronautics and Space Administration</b>			<u>716,330</u>

# Kent State University

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2003

<b>National Foundation on the Arts and the Humanities</b>			
<b>Direct program</b>			
Institute of Museum and Library Services - National Leadership Grants	45.312		30,052
<b>National Science Foundation</b>			
<b>Direct programs</b>			
Engineering Grants	47.041		64,859
Mathematical and Physical Sciences	47.049		1,638,768
Geosciences	47.050		341,238
Computer and Information Science and Engineering	47.070		190,322
Biological Sciences	47.074		50,572
Social, Behavioral, and Economic Sciences	47.075		193,651
Education and Human Resources	47.076		547,163
Polar Programs	47.078		44,802
<b>Pass-through programs</b>			
Kent Display Systems - Engineering Grants	47.041	**	39,999
Kent Display Systems - Engineering Grants	47.041	DMI-0091522	62,489
Santec - Engineering Grants	47.041	**	4,017
Moxtek - Engineering Grants	47.041	DMI-9902946	32,450
Total			<u>138,955</u>
University of Akron - Biological Sciences	47.074	IBN-0077602	3,913
Brown University - Social, Behavioral, and Economic Sciences	47.075	910-26033	4,598
U.S. Civilian Research & Development Foundation - Social, Behavioral, and Economic Sciences	47.075	NG1-2284	2,186
Total			<u>6,784</u>
<b>Total National Science Foundation</b>			<u>3,221,027</u>
<b>Environmental Protection Agency</b>			
<b>Pass-through programs</b>			
Trumbull County Health Department - Nonpoint Source Implementation Grants	66.460	CWA-SECTION 319	21,968
Great Lakes Commission - Great Lakes Program	66.469	**	26,666
NALMS - Surveys, Studies, Investigations, and Special Purpose Grants	66.606	**	16,290
<b>Total Environmental Protection Agency</b>			<u>64,924</u>
<b>Department of Energy</b>			
<b>Direct program</b>			
Office of Science Financial Assistance Program	81.049		495,483
<b>Pass-through programs</b>			
SURA - Office of Science Financial Assistance Program	81.049	02-P1881	22,175
SURA - Office of Science Financial Assistance Program	81.049	00-C1736	1,739
Total			<u>23,914</u>
<b>Total Department of Energy</b>			<u>519,397</u>
<b>Department of Education</b>			
<b>Direct programs</b>			
Fund for the Improvement of Postsecondary Education	84.116		591,718
Safe and Drug-Free Schools and Communities: National Programs	84.184		87,456

# Kent State University

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2003

Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324		22,027
Special Education: Parent Information Centers	84.328		28,749
<b>Pass-through programs</b>			
Emporia State University - Fund for the Improvement of Postsecondary Education	84.116	P116B011069	2,559
Embry Riddle - Fund for the Improvement of Postsecondary Education	84.116	P116D990161	12,361
Miami University - Fund for the Improvement of Postsecondary Education	84.116	P116B010714	22,440
Total			<u>37,360</u>
Cleveland Municipal School District - Safe and Drug-Free Schools and Communities: National Programs	84.184	**	(2,244)
Ohio Schoolnet - Education Technology State Grants	84.318	**	110,522
University of Kentucky - Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	H324M010033	58,796
Ohio State University - Preparing Tomorrow's Teachers to Use Technology	84.342	#739425	66,919
University of Colorado - Preparing Tomorrow's Teachers to Use Technology	84.342	S18819 153-2876	8,434
University of Cincinnati - Preparing Tomorrow's Teachers to Use Technology	84.342	OSP-01142	2,538
University of Dayton - Preparing Tomorrow's Teachers to Use Technology	84.342	RSC02009	29,764
University of Akron - Preparing Tomorrow's Teachers to Use Technology	84.342	P342A010052	68,000
Total			<u>175,655</u>
<b>Total Department of Education</b>			<u>1,110,039</u>
<b>National Archives and Records Administration</b>			
<b>Direct program</b>			
National Historical Publications and Records Grants	89.003		9,307
<b>Department of Health and Human Services</b>			
<b>Direct programs</b>			
Mental Health Research Grants	93.242		1,514,445
Alcohol National Research Service Awards for Research Training	93.272		11,340
Alcohol Research Programs	93.273		228,860
Mental Health Research Career/Scientist Development Award	93.281		105,478
Nursing Research	93.361		284,799
Academic Research Enhancement Award	93.390		6,278
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		1,536
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		261,564
Genetics and Developmental Biology Research and Research Training	93.862		254,862
Population Research	93.864		257,951
Aging Research	93.866		15,234
Assistance Programs for Chronic Disease Prevention and Control	93.945		53,094
<b>Pass-through programs</b>			
Pennsylvania State University - Mental Health Research Grants	93.242	1613-KSU-DHHS-59027	16,636
Biotraces - Mental Health Research Grants	93.242	5 K01 MH063213-04	1,912
Total			<u>18,548</u>
National Youths Sport Program - Community Service Block Grant-Discretionary Awards	93.570	**	1,727
University of Pennsylvania - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	539181	93,506
Oregon Health Sciences University - Population Research	93.864	P0158A-A	43,080
NICHHD/NIH - Center for Research for Mothers and Children	93.865	1 R03 HD41017-01	64,403
Pennsylvania State University - Aging Research	93.866	AG16822-02	2,080
NEOUCOM - Block Grants for Community Mental Health Services	93.958	45MHCJCCOE-BG-01-03	24,606
<b>Total Department of Health and Human Services</b>			<u>3,243,391</u>

# Kent State University

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2003

<b>Department of Homeland Security</b>			
<b>Pass-through program</b>			
Michel Baker Inc. - Cooperating Technical Partners	97.045	**	42,625
<b>Total Research and Development</b>			<u>11,550,188</u>
<b>Total Major Programs</b>			<u>38,223,000</u>
<b>TRIO PROGRAMS</b>			
<b>Department of Education</b>			
<b>Direct programs</b>			
TRIO - Student Support Services	84.042		355,979
TRIO - Upward Bound	84.047		978,887
TRIO - McNair Post-Baccalaureate Achievement	84.217		233,510
<b>Total TRIO Programs</b>			<u>1,568,376</u>
<b>OTHER PROGRAMS</b>			
<b>Department of Defense</b>			
<b>Direct program</b>			
Air Force Defense Research Sciences Program	12.800		25,185
<b>Department of Housing and Urban Development</b>			
<b>Pass-through programs</b>			
Stark County Regional Planning Board - Community Development Block Grants/Entitlement Grants	14.218	**	17,220
Trumbull Metropolitan Housing Authority - Community Development Block Grants/Economic Development Initiative	14.246	**	(2,544)
<b>Total Department of Housing and Urban Development</b>			<u>14,676</u>
<b>Department of Justice</b>			
<b>Direct program</b>			
Public Safety Partnership and Community Policing Grants	16.710		21,818
<b>Department of Labor</b>			
<b>Direct program</b>			
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		157,960
<b>Pass-through programs</b>			
Ohio Department of Education - WIA Adult Program	17.258	062976-WF-HS-2003	1,268
Ohio Department of Education - WIA Adult Program	17.258	IRN-WF-HS-2003	24,992
Total			<u>26,260</u>
Mahoning and Columbiana Training Association - WIA Youth Activities	17.259	20633	66,783
Ohio Department of Jobs & Family Services - Employment and Training Administration Evaluations	17.262	C-01-15-395	(9)
Ohio Department of Jobs & Family Services - Employment and Training Administration Evaluations	17.262	C-02-15-0044	103,909
Total			<u>103,900</u>
<b>Total Department of Labor</b>			<u>354,903</u>

# Kent State University

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2003

<b>Department of State</b>			
<b>Direct program</b>			
College and University Partnerships Program	19.405		90,766
<b>Federal Aviation Administration</b>			
<b>Direct program</b>			
Airport Improvement Program	20.106		108,531
<b>National Foundation on the Arts and the Humanities</b>			
<b>Direct programs</b>			
Promotion of the Arts: Grants to Organizations and Individuals	45.024		13,340
Institute of Museum and Library Services	45.301		31
<b>Pass-through program</b>			
Ohio Humanities Council - Promotion of the Humanities: Federal/State Partnership	45.129	**	4,088
<b>Total National Foundation on the Arts and the Humanities</b>			<u>17,459</u>
<b>National Science Foundation</b>			
<b>Direct program</b>			
Graduate Research Fellowship - Education and Human Resources	47.076		24,683
<b>Small Business Administration</b>			
<b>Pass-through programs</b>			
Ohio Department of Development - Small Business Development Center	59.037	**	206,271
Ohio Business Development Organization - Small Business Development Center	59.037	OMDT 23-09063	75,373
Ohio Business Development Organization - Small Business Development Center	59.037	OBC 203-09063	16,953
Total			<u>298,597</u>
<b>Total Small Business Administration</b>			<u>298,597</u>
<b>Department of Education</b>			
<b>Direct programs</b>			
Rehabilitation Long-Term Training	84.129		219,947
Javits Fellowships	84.170		32,611
Fund for the Improvement of Education	84.215		214,837
National Institute for Literacy	84.257		289,487
Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	84.324		390,404
Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325		923,454
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333		254,990
Preparing Tomorrow's Teachers to Use Technology	84.342		936,136
<b>Pass-through programs</b>			
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2003	692,363
State of Ohio - Adult Education: State Grant Program	84.002	062976-AB-SL-2002C	28,849
Total			<u>721,212</u>
State of Ohio - Vocational Education: Basic Grants to States	84.048	GR-1 1901.0	171,522
State of Ohio - Vocational Education: Basic Grants to States	84.048	VEPD-02-07	8,088
Total			<u>179,610</u>

State of Ohio - Tech-Prep Education	84.243	VETP-2003-10-FB	158,014
State of Ohio - Tech-Prep Education	84.243	VETP-2002-10-TG	(1,404)
Total			<u>156,610</u>
Sacramento County Office of Education - National Institute for Literacy	84.257	23149	2,997
National Writing Project Corp - Innovative Education Program Strategies	84.298	97-OH03	28,866
National Writing Project Corp - Innovative Education Program Strategies	84.298	**	2,443
Total			<u>31,309</u>
State of Ohio - Special Education: State Program Improvement Grants for Children with Disabilities	84.323	062976-ST-S1-01	2,111
State of Ohio - Special Education: State Program Improvement Grants for Children with Disabilities	84.323	062976-ST-SQ-02	72,872
Total			<u>74,983</u>
Canton City Schools - Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	**	13,138
State of Ohio - Teacher Quality Enhancement Grants	84.336	00-26	(15)
State of Ohio - Teacher Quality Enhancement Grants	84.336	00-27	(213)
State of Ohio - Teacher Quality Enhancement Grants	84.336	01-28	30,034
State of Ohio - Teacher Quality Enhancement Grants	84.336	01-29	8,485
State of Ohio - Teacher Quality Enhancement Grants	84.336	01-30	5,948
Total			<u>44,239</u>
State of Ohio - Improving Teacher Quality State Grants	84.367	02-22	16,995
State of Ohio - Improving Teacher Quality State Grants	84.367	02-23	1,172
Total			<u>18,167</u>
<b>Total Department of Education</b>			<u>4,504,131</u>
<b>Department of Health and Human Services</b>			
<b>Direct programs</b>			
Advanced Education Nursing Traineeships	93.358		67,269
Nurse Education, Practice and Retention Grants	93.359		22,940
<b>Pass-through programs</b>			
CARHEN - Model State-Supported Area Health Education Centers	93.107	24-C-2	15,845
CARHEN - Model State-Supported Area Health Education Centers	93.107	24-C-3	56
CARHEN - Model State-Supported Area Health Education Centers	93.107	25-C-2	9,380
CARHEN - Model State-Supported Area Health Education Centers	93.107	25-C-3	5,244
Total			<u>30,525</u>
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	**	4,025
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	00-578	40
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSP 03-168	12,227
National Youth Sports Program - Community Services Block Grant: Discretionary Awards	93.570	NYSPF 02-168	43,493
Total			<u>59,785</u>
ODADAS - Block Grants for Prevention and Treatment of Substance Abuse	93.959	670340200HEDUCP020007	24,952
<b>Total Department of Health and Human Services</b>			<u>205,471</u>



**Kent State University**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2003**

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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	<u>24,885</u>
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<b>Total Other Programs</b>			<b><u>5,691,105</u></b>
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<b>Total Federal Awards</b>			<b><u>\$ 45,482,481</u></b>
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\*\* Pass through identifying number not available.

## Kent State University

### Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2003

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#### (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, 2003, the University disbursed funds to subrecipients in the amount of \$1,679,719.

(c) Facilities and Administrative Costs

The University has approved, predetermined, facilities and administrative cost rates, which are 44.5% from July 1, 2002 to June 30, 2003 for on campus research and 24.0% from July 1, 2001 to June 30, 2003 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, 2003:

	<b>CFDA Numbers</b>	<b>Advances</b>	<b>Outstanding Balances</b>
Perkins Loan Program	84.038	\$ 4,665,109	\$ 23,392,103
Nursing Student Loan Program	93.364	\$ 290,756	\$ 1,474,957

**Kent State University**

**Notes to Schedule of Expenditures of Federal Awards, Continued  
For the Year Ended June 30, 2003**

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**(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.

	<b>CFDA Numbers</b>	<b>Advances</b>
Federal Direct Loan Program	84.268	\$99,310,521

**(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	\$45,482,481
Perkins Loan Funds excluded from federal grants on the Statement	(13,769)
Nursing Student Loan Funds excluded from federal grants on the Statement	(18,664)
Indirect costs excluded from federal grants on the Statement	<u>(2,538,805)</u>
Restricted	42,911,243
Unrestricted	2,489,855
Loan Fund	<u>322,057</u>
Federal grants and contracts as shown on the Statement	<u>\$45,723,155</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.

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**REPORTS ON COMPLIANCE AND ON THE  
INTERNAL CONTROL STRUCTURE**

**Report of Independent Auditors on Compliance and on Internal Control  
Over Financial Reporting 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, 2003, and have issued our report thereon dated October 10, 2003. 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.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

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 assurance 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 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 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.

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 10, 2003

**Report of Independent Auditors on Compliance with  
Requirements Applicable to Each Major Program and 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, 2003. 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 on 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, 2003.



Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered 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 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 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 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 structure 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 10, 2003

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## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Kent State University**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003**

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**Section I - Summary of Auditor's Results**

**Financial Statements:**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Reportable condition(s) identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards:**

Internal control over major programs:

Material weakness(es) identified?  yes  no

Reportable condition(s) identified that are not considered to be material weaknesses?  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?  yes  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

Dollar threshold used to distinguish between Type A and Type B programs: \$1,364,474

Auditee qualified as low-risk auditee?  yes  no

**Kent State University**

**Schedule of Findings and Questioned Costs, Continued  
For the Year Ended June 30, 2003**

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**Section II - Financial Statement Findings**

No matters were reported.

**Kent State University**

**Schedule of Findings and Questioned Costs, Continued  
For the Year Ended June 30, 2003**

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**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, 2003**

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**Section I - Summary of Prior Year Findings and Questioned Costs**

No prior year findings.



**Kent State University**  
**Report on the Application of Agreed-Upon**  
**Procedures to the Accounting Records**  
**And Internal Control Structure of the**  
**Intercollegiate Athletics Programs**  
**June 30, 2003**

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

Dr. Carol Cartwright  
President  
Kent State University

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, 2003. 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, 2003 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.

Dr. Carol Cartwright

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- 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, prepared by KSUF. We verified with management that all activities of the Blue & Gold Club and the Athletics-Income Funds 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

Dr. Carol Cartwright

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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, 2003. 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, 2003. 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 10, 2003

**Kent State University**  
**Statement of Revenues and Expenditures-For The Intercollegiate Athletics**  
**For the year ended June 30, 2003**

	<b>Football</b>	<b>Men's Basketball</b>	<b>Women's Basketball</b>	<b>Other Sports Total</b>	<b>Non-Sports Total</b>	<b>Grand Total</b>
<b>Revenues:</b>						
Sponsorship sales	\$ -	\$ -	\$ -	\$ -	\$ 239,968	\$ 239,968
Camp revenue	-	-	-	38,834	82,579	121,413
Commissions	-	-	-	-	16,820	16,820
Contest guarantees	337,724	22,500	5,000	11,000	-	376,224
Facility rentals	-	-	-	-	45,760	45,760
NCAA distributions	-	-	-	-	622,593	622,593
Other income	1,031	-	20	34,855	87,096	123,002
Royalties	-	-	-	-	57,372	57,372
Service charges on sales	-	-	-	-	8,723	8,723
Student activity fees	-	-	-	-	7,463,800	7,463,800
Ticket sales	151,704	226,101	26,602	12,516	166,302	583,225
Foundation gifts	168,897	25,813	18,517	126,167	81,152	420,546
<b>Total revenues</b>	<b>659,356</b>	<b>274,414</b>	<b>50,139</b>	<b>223,372</b>	<b>8,872,165</b>	<b>10,079,446</b>
<b>Expenditures:</b>						
Payroll personal service	717,786	345,605	284,372	934,702	1,634,351	3,916,816
Non-payroll personal	87,454	56,333	32,770	46,954	213,807	437,318
Staff benefits	221,056	78,972	85,638	333,478	670,228	1,389,372
Travel	224,188	99,645	65,821	543,580	181,545	1,114,779
Recruiting	85,431	51,923	31,147	70,279	-	238,780
Entertainment	12,620	3,892	162	4,519	65,926	87,119
Supplies	147,152	27,741	20,453	181,310	178,052	554,708
Duplicating & printing	12,666	5,830	2,889	9,770	149,394	180,549
Telephone	17,297	13,989	6,718	27,432	51,342	116,778
Postage	7,828	9,798	8,194	9,730	24,350	59,900
Other information & communication	3,174	4,826	1,814	11,264	286,870	307,948
Maintenance & repairs	3,196	2,028	1,307	1,231	90,947	98,709
Rentals	2,719	1,441	1,137	6,261	153,312	164,870
Utilities	1,175	-	-	-	1,375	2,550
Student aid	1,495,269	264,383	251,730	1,824,442	7,806	3,843,630
Miscellaneous	362,697	27,321	13,845	68,723	455,560	928,146
Capital expenditures	-	6,255	-	4,965	63,225	74,445
<b>Total expenditures</b>	<b>3,401,708</b>	<b>999,982</b>	<b>807,997</b>	<b>4,078,640</b>	<b>4,228,090</b>	<b>13,516,417</b>
(Deficiency) excess of revenues over expenditures	\$ (2,742,352)	\$ (725,568)	\$ (757,858)	\$ (3,855,268)	\$ 4,644,075	\$ (3,436,971)

**Kent State University**  
**Summary Schedule of Financial Activities-Blue & Gold Club Operating Accounts**  
**For the year ended June 30, 2003**

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Fund balance at July 1, 2002	<u>\$ 1,289,660</u>
Total receipts/revenues	305,401
Total disbursements/expenses	<u>(1,358,750)</u>
Excess of disbursements/expenses over receipts/revenues	<u>(1,053,349)</u>
Fund balance at June 30, 2003	<u>\$ 236,311</u>

**Kent State University**  
**Summary Schedule of Financial Activities-Athletics-Income Funds**  
**For the year ended June 30, 2003**

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Fund balance at July 1, 2002	<u>\$ 260,277</u>
Total receipts/revenues	189,244
Total disbursements/expenses	<u>(341,527)</u>
Excess of disbursements/expenses over receipts/revenues	<u>(152,283)</u>
Fund balance at June 30, 2003	<u>\$ 107,994</u>







**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**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  
MARCH 4, 2004**