Kent State University
(a component unit of the State of Ohio)

Financial Report

June 30, 2013

Dave Yost • Auditor of State

Board of Trustees
Kent State University
224 Michael Schwartz Center
P.O. Box 5190
Kent, Ohio 44242

We have reviewed the *Independent Auditor's Report* of the Kent State University, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2012 through June 30, 2013. 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.

Dave Yost

Dave Yost
Auditor of State

January 28, 2014

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KENT STATE UNIVERSITY

Management's Discussion and Analysis (unaudited)
As of June 30, 2013 and 2012

This section of Kent State University's ("University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2013 and 2012. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of University management.

Using the Annual Financial Report

This annual report consists of financial statements prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* In fiscal year 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement supersedes paragraphs 10 and 12 of GASB Statement No. 35. GASB Statement No. 63 establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position. The financial statements prescribed by GASB Statement No. 63 (Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows) 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. Amounts required to be reported as deferred outflows of resources are reported separately after assets and amounts required to be reported as deferred inflows of resources are reported separately after liabilities. See Note 2 for further discussion of these financial statement categories.

The financial statements have been prepared in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. This standard requires examination of significant operational or financial relationships with the University and establishes criteria for identifying and presenting component units of the organization. Based on this examination and application of the criteria, the University has identified two component units: The Kent State University Foundation and the KSU Foot and Ankle Clinic. The Kent State University Foundation is discretely presented in the University's financial statements; however, they are excluded from Management's Discussion and Analysis. The KSU Foot and Ankle Clinic is a blended component unit, and therefore indirectly included in Management's Discussion and Analysis. See Note 10 for further discussion on component units.

Noteworthy Financial Activity

The University's financial position, as a whole, experienced an increase over the prior year. The University's total assets and deferred outflows of resources increased over the prior year by $122.5 million to $1,430.7 million while total liabilities and deferred inflows of resources increased $55.6 million to $676.3 million. Highlights of significant events are as follows:

- On July 1, 2012, the University merged with the Ohio College of Podiatric Medicine (OCPM). Under this merger, the University acquired substantially all of the OCPM assets and deferred outflows of resources related to the podiatric medicine program in exchange for the assumption of OCPM debt and other liabilities. This transaction was entered into in order to provide expanded academic options for students in areas such as public health, biomedical sciences, medical ethics, and sports medicine. All financial transactions for OCPM are included in the University's financial statements. Included in the merger with OCPM is the KSU Foot and Ankle Clinic dba the Cleveland Foot and Ankle Clinic. The Cleveland Foot and Ankle Clinic is a separate 501(c)(3) organization that is included as a blended component of the University.

As a result of this merger, the University's total assets and deferred outflows of resources increased by $37.3 million and its total liabilities increased by $6.2 million, resulting in an overall increase of $31.1 million to its net position. See Note 1 for additional information regarding this merger.

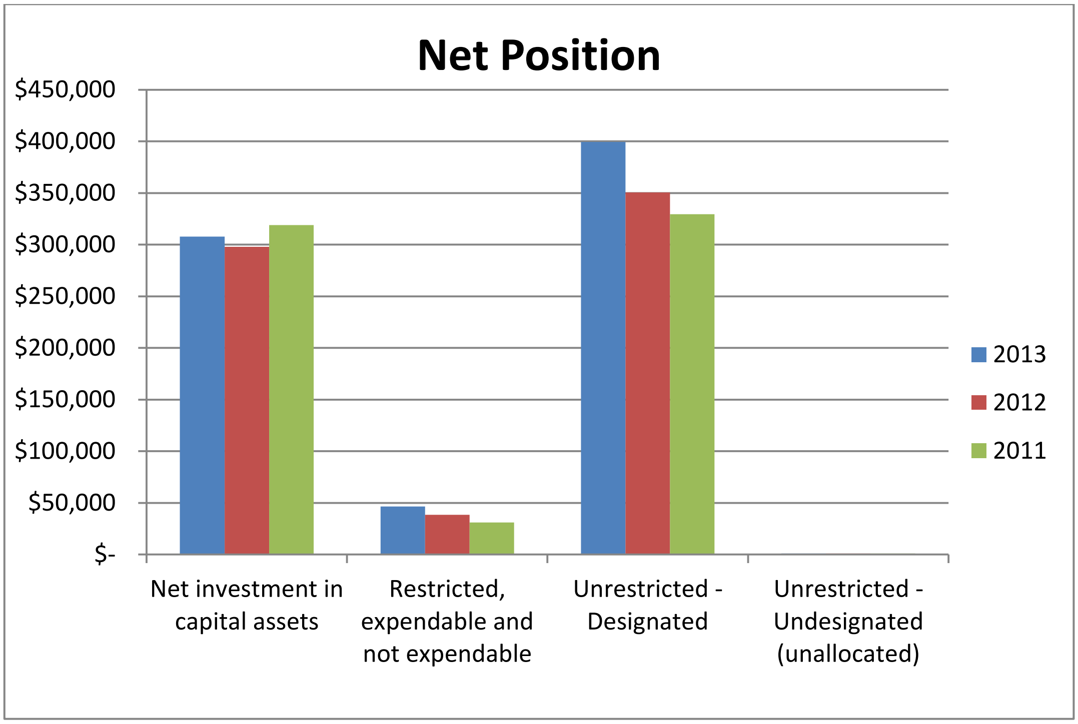
- Fall 2012 enrollment increased 1.05% over the prior year to a total of 47,725 students.
- In October, 2012, the University issued $24.9 million in Air Quality Development Authority bonds. The proceeds of the bonds are included in restricted cash and will be used to finance the various energy efficiency and conservation projects on the Kent campus.
- The University's investments increased by $32.4 million to $361.5 million due to increases in market values.

Statement of Net Position

The Statement of Net Position includes all assets and deferred outflows of resources and all liabilities and deferred inflows of resources. Over time, increases or decreases in Net Position (the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) are 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.

Kent State University
Condensed Statement of Net Position
as of June 30, 2013, 2012 and 2011
(in thousands)

ASSETS	**2013**	**2012**	**2011**
Current and other assets	$ 746,539	$ 695,393	$ 515,132
Capital assets	684,118	610,879	600,990
Total assets	$ 1,430,657	$ 1,306,272	$ 1,116,122
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	$ -	$ 1,881	$ 293
LIABILITIES			
Long-term debt	$ 517,301	$ 498,744	$ 326,014
Other	155,477	121,921	110,074
Total liabilities	$ 672,778	$ 620,665	$ 436,088
DEFERRED INFLOWS OF RESOURCES			
Accumulated increase in fair value of hedging derivatives	$ 3,507	$ -	$ -
NET POSITION			
Net investment in capital assets	$ 307,620	$ 297,862	$ 319,033
Restricted, expendable and not expendable	46,546	38,334	31,084
Unrestricted:			
Designated	399,343	350,403	329,387
Undesignated (unallocated)	863	889	823
Total net position	$ 754,372	$ 687,488	$ 680,327



2013 Versus 2012

At June 30, 2013, the University's current assets of $315.7 million were sufficient to cover current liabilities of $138.4 million (current ratio of 2.3). At June 30, 2012, current assets of $297.8 million were sufficient to cover current liabilities of $117.1 million (current ratio of 2.5).

At June 30, 2013, total University assets and deferred outflows of resources were $1,430.7 million, compared to $1,308.2 million at June 30, 2012. The increase of $122.5 million is mainly attributed to an increase in capital assets due to the OCPM merger as well as additional construction in progress due to increased building and renovation projects mostly related to the Foundation of Excellence initiative. The University issued $170.0 million in general receipts bonds in fiscal year 2012 to fund these projects.

University liabilities and deferred inflows of resources total $676.3 million at June 30, 2013 compared to $620.7 million at June 30, 2012. This increase is due primarily to an increase in long-term debt. During 2013, the University issued $24.9 million in Air Quality Development Authority bonds to fund various energy efficiency and conservation projects at its Kent campus. In addition, the University recognized an increase in its accrued liabilities related to the accrual for construction in progress. In fiscal year 2013, there was a significant amount of construction activity related to the Foundation of Excellence initiative.

Total Net Position increased by $66.9 million to $754.4 million, of which $31.1 million is due to the OCPM merger. Unrestricted Net Position totaled $400.2 million, 99.8% of which ($399.3 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

2012 Versus 2011

At June 30, 2012, the University's current assets of $297.8 million were sufficient to cover current liabilities of $117.1 million (current ratio of 2.5). At June 30, 2011, current assets of $281.4 million were sufficient to cover current liabilities of $102.3 million (current ratio of 2.8).

At June 30, 2012, total University assets and deferred outflows of resources were $1,308.2 million, compared to $1,116.4 million at June 30, 2011. The increase of $191.8 million is attributed to an increase in cash, specifically restricted cash. This is due to the issuance of general receipts bonds in fiscal 2012 in the amount of $170 million. The proceeds from this bond are recorded as restricted cash. See the statement of cash flows for more detail related to changes in cash.

University liabilities total $620.7 million at June 30, 2012 compared to $436.1 million at June 30, 2011. This increase is primarily due to an increase of $186.2 million in long-term debt. During 2012, the University issued $170 million in general receipts bonds to fund various construction projects for both academic and administrative buildings on the Kent campus.

Total Net Position increased by $7.2 million to $687.5 million. Unrestricted Net Position total $351.3 million, 99.7% of which ($350.4 million) is designated for ongoing academic and research programs, capital projects and other initiatives.

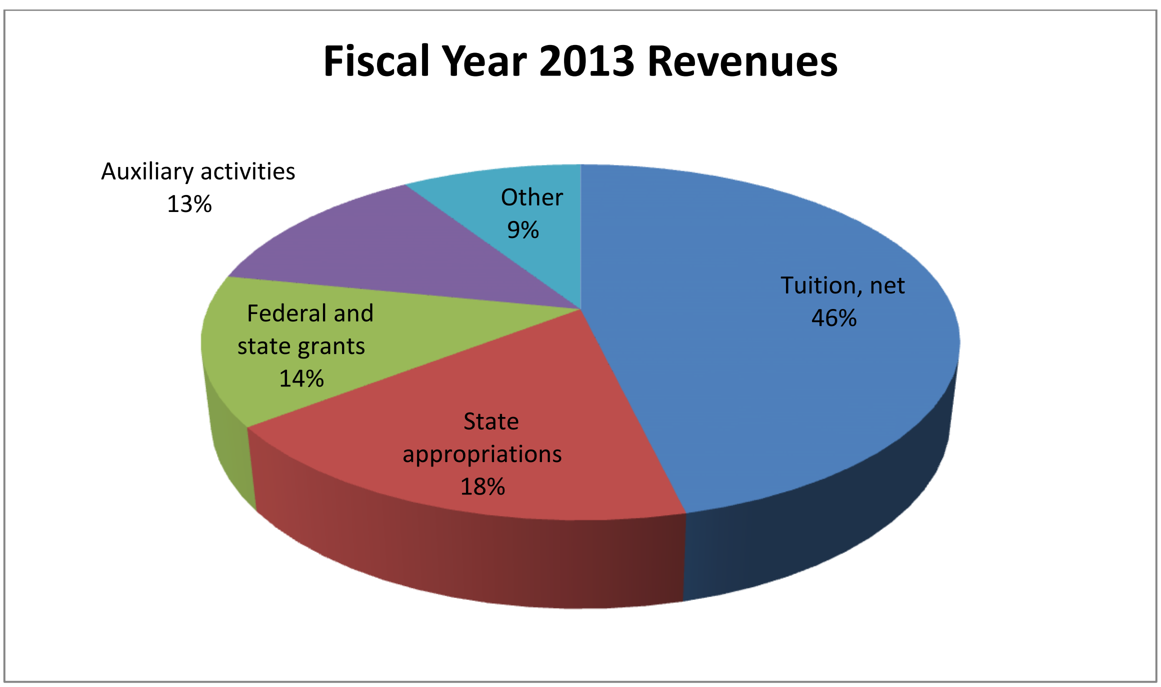
Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position 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.

Kent State University
Condensed Statement of Revenues, Expenses and Changes in Net Position
for the years ended June 30, 2013, 2012 and 2011
(in thousands)

	2013	2012	2011
Revenues			
Tuition, net	$ 322,210	$ 295,399	$ 274,994
State appropriations and Federal Fiscal Stabilization Funds	127,275	124,108	140,254
Federal and state grants	94,797	103,184	110,724
Auxiliary activities	88,335	88,432	83,164
Other	63,783	7,088	81,411
Total revenues	$ 696,400	$ 618,211	$ 690,547
Expenses			
Instruction	$ 222,318	$ 203,436	$ 202,592
Research	18,553	19,872	20,532
Institutional support	76,554	64,603	55,067
Scholarships and fellowships	45,714	46,826	43,600
Other	297,455	276,313	276,730
Total expenses	$ 660,594	$ 611,050	$ 598,521

The following chart shows the breakdown of total revenues. Tuition is the largest source of revenue at 46.3% followed by State appropriations at 18.3%.



2013 Versus 2012 During the year ended June 30, 2013:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts. Revenue from tuition and fees increased during the current year due to increased enrollment and a 3.5% increase in tuition. Enrollment was higher than the prior year by 1-2% in the fall and spring semesters but was lower than the prior year during the summer semester.

State appropriations were the most significant non-operating revenue. During 2013, state appropriations totaled $127.3 million.

Operating expenses, including depreciation of $40.0 million, totaled $642.2 million. Of the operating expenses, instruction expense had the most significant increase.

2012 Versus 2011 During the year ended June 30, 2012:

The most significant sources of operating revenues for the University are tuition and fees, auxiliary services, and grants and contracts. Revenue from tuition and fees increased during the current year due to increased enrollment and a 3.5% increase in tuition. Enrollment was higher than the prior year by 1-2% in the fall and spring semesters but was lower than the prior year during the summer semester.

State appropriations were the most significant non-operating revenue. During 2012, state appropriations totaled $124.1 million. Federal fiscal stabilization funds were eliminated in 2012, resulting in a $16.1 million reduction in funding.

Operating expenses, including depreciation of $36.5 million, totaled $599.9 million. Of the operating expenses, institutional support expense had the most significant increase. This increase is primarily due to an increase in expenses associated with the University's telecommunication project, as well as an increase in the University's allowance for bad debt in fiscal year 2012. Based on the University's method of estimating the allowance, an increase was expected due to the increases in tuition revenue over the past two years.

Statement of Cash Flows

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.

Kent State University
Condensed Statement of Cash Flows
for the years ended June 30, 2013, 2012 and 2011
(in thousands)

	2013	2012	2011
Cash (used in)/provided by:			
Operating activities	$ (106,659)	$ (123,933)	$ (137,438)
Investing activities	116	(4,008)	(23,547)
Capital and related financing activities	(88,143)	121,657	(31,818)
Non-capital financing activities	197,903	199,217	219,786
Net increase in cash	3,217	192,933	26,983
Cash and cash equivalents, beginning of year	301,192	108,259	81,276
Cash and cash equivalents, end of year	$ 304,409	$ 301,192	$ 108,259

2013 Versus 2012 During the year ended June 30, 2013:

Major sources of cash included student tuition and fees ($264.5 million), state appropriations ($127.3 million), auxiliary activities ($88.7 million), and Federal Pell grants ($62.3 million). The largest payments were for suppliers ($218.4 million) and employees ($291.9 million).

2012 Versus 2011 During the year ended June 30, 2012:

Major sources of cash included student tuition and fees ($236.1 million), state appropriations ($124.1 million), auxiliary activities ($85.9 million), Federal Pell grants ($69.1 million) and net proceeds from bond issuance ($186.2 million). The largest payments were for suppliers ($234.4 million) and employees ($273.1 million).

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the University had invested $684.1 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 $73.2 million, or 12 percent, over last year.

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

	2013	2012	2011
Land	$ 29.1	$ 15.6	$ 13.6
Equipment	41.0	41.2	41.7
Buildings and improvements	545.1	519.8	519.6
Construction in progress	68.9	34.3	26.1
Total	$ 684.1	$ 610.9	$ 601.0

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 $517.3 million in bonds and notes outstanding—an increase of $18.5 million over last year. The increase is primarily due to the University issuing $24.9 million in bonds during fiscal year 2013. The proceeds from the bond sale will be used for various energy and conservation projects on its Kent campus. More detailed information about the University's long-term liabilities is presented in Note 6 to the financial statements.

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

	2013	2012	2011
General receipts bonds (backed by the University)	$ 444.1	$ 456.4	$ 280.9
Tax Revenue Energy Bonds	47.7	25.2	26.6
Capital leases	25.5	17.2	18.5
	$ 517.3	$ 498.8	$ 326.0

Factors Affecting Future Periods

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, legislative restrictions on tuition, changes in state support, and the ability to manage rising costs. The University has experienced enrollment increases in the past several years but the trend is beginning to stabilize. Due to the continued challenges in the State of Ohio, the amount of state funding has remained similar while costs have continued to increase. The University continues to identify and enact efficiencies and cost savings in a number of areas but despite these cost savings in a number of areas. The University continues to focus on student recruiting and retention as well as fundraising and additional research to improve the position of the University. During the Fall 2013 semester, the University set a new enrollment record, attracting the biggest and highest-achieving freshman class at the Kent Campus in the University's 103-year history. The total number of first-time, full-time freshman enrolled at the Kent Campus is 4,314, which exceeds last year's freshman class by 5.8 percent. It also surpasses the record set in 2011 of 4,284. In addition, retention of Kent Campus freshman has increased to 77.6 percent, up from 77.1 percent last year.

One significant area of focus continuing into future years is deferred capital maintenance. Due to the age of the buildings and the decline in capital funding, many of the buildings throughout the campus are in critical need of repair. The deferred maintenance has been estimated to exceed $353 million. In fiscal year 2012, the University issued $170 million in General Receipts bonds to begin to address the deferred maintenance. The University also allocated $16 million in capital appropriations from the State to be used in renovations to facilities for the science programs. Many of the projects are underway and the construction will continue into the next few years. The University will continue to look for options to address the remaining deferred maintenance.

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Independent Auditor's Report

To the Board of Trustees
Kent State University

Report on the Financial Statements

We have audited the accompanying financial statements of Kent State University and its discretely presented component unit, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Kent State University's basic financial statements as listed in the table of contents. These financial statements are reported as a component unit of the State of Ohio.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Kent State University Foundation (the "Foundation") which represents all of the balances and activity reported in the Foundation. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Kent State University

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Kent State University and its discretely presented component unit as of June 30, 2013 and 2012, and the changes in its financial position and, where applicable, cash flows thereof, for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements to the financial statements, effective July 1, 2012, the University adopted new accounting guidance under GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. Our opinion is not modified in respect to this matter.

As explained in Note 3, the financial statements include investments valued at $125,000,000 (16.5 percent of net assets) at June 30, 2013 and at $117,000,000 (17 percent of net assets) at June 30, 2012, whose fair values have been estimated by management in the absence of readily determinable market values. Management’s estimates are based on information provided by the fund managers or the general partners.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees
Kent State University

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kent State University's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the 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.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013 on our consideration of Kent State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kent State University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 15, 2013

KENT STATE UNIVERSITY
STATEMENT OF NET POSITION
as of June 30, 2013 and 2012
(in thousands)

	University		University Related Foundation	
	2013	**2012**	**2013**	**2012**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 114,853	$ 101,850	$ 1,309	$ 613
Short-term investments	154,568	152,938	129,425	117,248
Accounts and pledges receivable, net	35,226	35,777	5,747	4,996
Inventories	1,994	2,070	-	-
Deposits and prepaid expenses	8,372	4,425	-	-
Accrued interest receivable	646	746	-	-
Total current assets	315,659	297,806	136,481	122,857
Noncurrent assets:				
Restricted cash	189,556	199,342	-	-
Student loans receivable, net	25,788	18,779	-	-
Note receivable	-	-	14,077	4,055
Long-term investments	206,964	176,152	5,538	6,665
Long-term pledges receivable, net	-	-	5,358	1,189
Capital assets, net	684,118	610,879	1,681	1,491
Derivative instrument - swap asset	3,507	-	-	-
Other assets	5,065	3,314	384	425
Total noncurrent assets	1,114,998	1,008,466	27,038	13,825
Total assets	$ 1,430,657	$ 1,306,272	$ 163,519	$ 136,682
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	$ -	$ 1,881	$ -	$ -
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	$ 55,655	$ 46,566	$ 686	$ 668
Accrued payroll	10,920	10,536	-	-
Payroll taxes and accrued fringe benefits	16,421	13,632	-	-
Unearned revenue and deposits	34,594	28,742	-	-
Derivative instrument - swap liability	-	1,881	-	-
Short-term borrowings	-	-	10,000	4,055
Current portion of long-term debt	20,788	15,696	-	-
Total current liabilities	138,378	117,053	10,686	4,723
Noncurrent liabilities:				
Accrued compensated absences	20,970	19,583	-	-
Accrued liabilities	15,912	-	4,261	4,242
Long-term unearned fees and deposits	1,005	981	8,601	6,842
Long-term debt	496,513	483,048	-	-
Total noncurrent liabilities	534,400	503,612	12,862	11,084
Total liabilities	$ 672,778	$ 620,665	$ 23,548	$ 15,807
DEFERRED INFLOWS OF RESOURCES				
Accumulated increase in fair value of hedging derivatives	$ 3,507	$ -	$ -	$ -
NET POSITION				
Net investment in capital assets	$ 307,620	$ 297,862	$ 1,681	$ 1,491
Restricted, nonexpendable	5,883	5,883	33,509	31,675
Restricted, expendable	40,663	32,451	97,903	82,497
Unrestricted	400,206	351,292	6,878	5,212
Total net position	$ 754,372	$ 687,488	$ 139,971	$ 120,875

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

KENT STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended June 30, 2013 and 2012
(in thousands)

	University		University Related Foundation	
	2013	**2012**	**2013**	**2012**
OPERATING REVENUES				
Student tuition and fees	$ 391,177	$ 362,908	$ -	$ -
Less scholarship allowances	(68,967)	(67,509)	-	-
Net student tuition and fees	322,210	295,399		
Federal grants and contracts	24,133	27,176	-	-
State grants and contracts	8,394	6,946	-	-
Local grants and contracts	191	372	-	-
Nongovernmental grants and contracts	5,152	5,854	-	-
Sales and services of educational departments	11,672	9,561	-	-
Auxiliary activities - Net	88,335	88,432	-	-
Other operating revenues	-	-	-	36
Total operating revenues	$ 460,087	$ 433,740	$ -	$ 36
OPERATING EXPENSES				
Instruction	222,318	203,436	-	-
Research	18,553	19,872	-	-
Public service	15,827	16,084	-	-
Academic support	57,189	54,743	-	-
Student services	31,798	28,310	-	-
Institutional support	76,554	64,603	11,505	10,832
Scholarships and fellowships	45,714	46,826	3,103	3,139
Operation and maintenance of plant	48,710	44,683	-	-
Auxiliary activities	85,532	84,809	-	-
Depreciation	39,989	36,530	9	1
Total operating expenses	642,184	599,896	14,617	13,972
Operating loss	$ (182,097)	$ (166,156)	$ (14,617)	$ (13,936)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	127,275	124,108	-	-
Federal Pell Grant revenue	62,270	69,062	-	-
Gifts	8,368	6,032	18,554	10,264
Investment income	32,458	(21,383)	15,810	(3,167)
Interest on capital asset-related debt	(18,410)	(11,154)	-	-
Other nonoperating revenues/expenses	2,828	4,310	(651)	(1,357)
Net nonoperating revenues	214,789	170,975	33,713	5,740
Income before other revenues, expenses, gains or losses	32,692	4,819	19,096	(8,196)
Capital appropriation	3,114	2,342	-	-
Increase/(decrease) in net position	$ 35,806	$ 7,161	$ 19,096	$ (8,196)
NET POSITION				
Net position, beginning of year	687,488	680,327	120,875	129,071
Adjustment to beginning net position	31,078	-	-	
Adjusted net position, beginning of year	718,566	680,327	120,875	
Net position, end of year	$ 754,372	$ 687,488	$ 139,971	$ 120,875

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

KENT STATE UNIVERSITY

STATEMENT OF CASH FLOWS

for the years ended June 30, 2013 and 2012

(in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from students for tuition and fees	$ 264,547	$ 236,066
Cash received from auxiliary activities	88,696	87,966
Cash received from other sources	12,194	15,553
Grants and contracts	35,975	12,372
Federal student loan funds received	-	29,884
Student loans granted, net of repayments	2,249	1,723
Cash paid to employees	(291,969)	(273,079)
Cash paid to suppliers	(218,351)	(234,418)
Net cash used in operating activities	(106,659)	(123,933)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	82,446	77,886
Purchases of investments	(97,510)	(98,846)
Interest received	15,180	16,952
Net cash used in investing activities	116	(4,008)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net proceeds from bond issuance	24,947	186,185
Principal payments under debt obligations, net	(13,009)	(11,084)
Interest paid	(20,877)	(13,351)
Capital appropriations	3,114	1,563
Loss on disposal of capital assets	1,399	-
Purchases of capital assets	(86,342)	(47,310)
Other payments	2,625	5,654
Net cash (used in) provided by capital and related financing activities	(88,143)	121,657
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from State appropriations	127,275	124,108
Gifts received from KSU Foundation	8,358	6,047
Cash received from Federal Pell grants	62,270	69,062
Net cash provided by noncapital financing activities	197,903	199,217
Net increase in cash and cash equivalents	3,217	192,933
CASH AND CASH EQUIVALENTS, (INCLUDING RESTRICTED CASH), BEGINNING OF YEAR	301,192	108,259
CASH AND CASH EQUIVALENTS, (INCLUDING RESTRICTED CASH), END OF YEAR	$ 304,409	$ 301,192

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, 2013 and 2012
(in thousands)

	2013	2012
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	$ (182,097)	$ (166,156)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	39,989	36,530
Change in assets and liabilities:		
Accounts receivable, net	2,894	8,558
Inventories	76	(147)
Deposits and prepaid expenses	(3,947)	(273)
Student loans receivable, net	3,651	1,983
Accounts payable and accrued liabilities	22,339	1,442
Accrued payroll	384	(1,814)
Payroll taxes and accrued fringe benefits	2,789	(1,137)
Unearned fees and deposits	5,876	(3,139)
Accrued compensated absences	1,387	220
Total change in assets and liabilities	35,449	5,693
Net cash used in operating activities	$ (106,659)	$ (123,933)

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

(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.

On July 1, 2012, the University merged with the Ohio College of Podiatric Medicine (OCPM). Under this merger, the University acquired substantially all of the OCPM assets related to the podiatric medicine program in exchange for the assumption of OCPM debt and other liabilities. This transaction was entered into in order to provide expanded academic options for students in areas such as public health, biomedical sciences, medical ethics, and sports medicine. All financial transactions for OCPM are included in the University's financial statements. Included in the merger with OCPM is the KSU Foot and Ankle Clinic dba the Cleveland Foot and Ankle Clinic. The Cleveland Foot and Ankle Clinic is a separate 501(c)(3) organization that is included as a blended component unit of the University. See Note 10 for further discussion on component units.

The merger was recorded as of July 1, 2012 with the assets and deferred outflows of resources and liabilities recorded at the amounts presented in the OCPM June 30, 2012 audited financial statements.

Assets	
Capital assets, net	$ 23,340
Other assets	13,117
Total assets	$ 36,457
Deferred outflows of resources	$ 809
Liabilities	
Long-term liabilities	$ 6,188
Net Position	$ 31,078

The University adjusted its beginning net position balance for the difference between the assets and deferred outflows of resources acquired and the debt and other liabilities assumed.

The accompanying financial statements consist of the accounts of the University and the accounts of the Kent State University Foundation ("Foundation"). The Foundation, which is a component unit of the University as determined in accordance with the provisions of the Governmental Accounting Standards Board ("GASB") Statement 61, is described more fully in Note 10. The Foundation is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to the Foundation's financial information included in the University's financial report to account for these differences.

Furthermore, in accordance with GASB Statement No. 61, the Foundation is reported in a separate column on the University's financial statements to emphasize that it is legally separate from the University. The Foundation is a not-for-profit organization supporting the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which it holds and investments are restricted to support the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, it is considered a component unit of the University. Financial statements for the Foundation may be obtained by writing to Kent State University Foundation, Kent, Ohio 44242.

Included in the accounts of the University is the KSU Foot and Ankle Clinic dba The Cleveland Foot and Ankle Clinic ("Clinic"). This entity was included in the July 1, 2012 merger with the Ohio College of Podiatric Medicine. The Clinic is a separate 501(c)(3) organization whose main purpose is to provide clinical experience for students of the KSU College of Podiatric Medicine. The Clinic almost exclusively benefits the University even though services are provided to the public. According to the provisions of GASB Statement No. 61, the Clinic is considered a blended component unit of the University. See Note 10 for further discussion and presentation of condensed financial information for the Clinic.

(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.

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

- Net investment in capital assets - 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 Position subject to externally imposed stipulations that the University maintains such assets permanently.

- Restricted, expendable - Net Position 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 Position that is not subject to externally imposed stipulations. Unrestricted Net Position 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 Position is designated for academic and research programs, capital projects and other initiatives.

(c) Upcoming Accounting Pronouncements

GASB 65 – *Items Previously Reported as Assets and Liabilities*

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Statement No. 65 will be implemented for the University as of June 30, 2014.

GASB 68 – *Accounting and Financial Reporting for Pensions*

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The total pension liability will be computed on a different basis than the current actuarial accrued liability and the method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. The provisions of this Statement are effective for financial statements for the year ended June 30, 2015.

GASB 69 – *Government Combinations and Disposals of Government Operations*

The provisions of this Statement are effective for financial statements for the year ended June 30, 2015.

GASB 70 – *Accounting and Financial Reporting for Nonexchange Guarantees*

Guidance on University extending financial guarantees for the obligations of another government, NFP, private entity, or individual without receiving equal value in exchange and requires the University to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the University will be required to make a payment. The provisions of this Statement are effective for financial statements for the year ended June 30, 2014.

(2) Summary of Significant Accounting Policies

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

(a) Cash and Cash Equivalents

The University considers cash, time deposits and all other highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash is the unspent bond proceeds held in trust related to various campus enhancements and energy conservation projects.

(b) Investments

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

(c) Accounts Receivable

Accounts receivable are for transactions relating to tuition and fees, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services. Accounts receivable are recorded net of contractual allowances and allowances for uncollectible accounts.

(d) Inventories

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

(e) 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.

(f) 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 position 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.

(g) 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 Position because the current portion cannot be closely estimated. Also included in non-current accrued liabilities is a liability related to the re-identification of the SWAP agreement noted in Note 6.

(h) Unearned Revenue

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

(i) Deferred Outflows of Resources and Deferred Inflows of Resources

Effective with the fiscal year ended June 30, 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard renames "net assets" as "net position" and provides financial reporting guidance for deferred inflows and outflows of resources and defines those elements as consumption of net position by the University that is applicable to a future reporting period, and an acquisition of net position by the University that is applicable to a future reporting period, respectively. The University has recorded a deferred inflows of resources related to its two interest rate swaps. See Note 6 for further discussion.

(j) Capital Assets

Capital assets are stated at cost at the time of purchase or fair value at date of gift. Depreciation of plant physical properties is provided on a straight-line basis over the estimated useful lives (3 to 40 years) of the respective assets.

(k) Operating Versus Nonoperating Revenues and Expenses

The University defines operating activities as reported on the statement of revenues, expenses, and changes in net position as those that generally result from exchange transactions such as payments received for providing goods or services. All of the University's expenses are from exchange transactions. Certain significant revenue streams relied on for operations are reported as non-operating revenues as required by GASB Statement No. 35, including state appropriations, Federal Pell grant revenue, investment income, and state capital grants.

(3) **Investments**

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

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

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

(in thousands)

Custodial credit risk on deposits with banks is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial credit risk. At June 30, 2013 and 2012, the bank amount of the University's deposits was $258,268 and $256,172, respectively. Of that amount, $87,957 and $44,621, respectively, was insured. The remaining $170,311 and $211,551 at June 30, 2013 and 2012, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized.

The values of investments at June 30, 2013 and 2012 are as follows:

	2013	
	Market Value	**Cost**
Common stock	$ 185,220	$ 158,187
U.S. government agency obligations	9,613	9,614
U.S. government obligations	9,306	9,332
Corporate bonds and notes	11,007	11,116
Mutual funds	125,245	121,124
State Treasury Asset Reserve of Ohio	21,141	21,141
Total	$ 361,532	$ 330,514

	2012	
	Market Value	**Cost**
Common stock	$ 165,026	$ 153,237
U.S. government agency obligations	4,302	4,811
U.S. government obligations	9,435	9,086
Corporate bonds and notes	2,876	2,110
Mutual funds	111,356	110,111
State Treasury Asset Reserve of Ohio	36,095	36,095
Total	$ 329,090	$ 315,450

Included in common stock above are alternative investments of approximately $125 million and $117 million as of June 30, 2013 and June 30, 2012, respectively. The alternative investments are primarily private equity and hedge funds. Alternative investments do not have readily available market prices. These investments are carried at estimated fair value provided by the fund's management. The University believes that the carrying amounts are reasonable estimates of fair value as of the year end. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Such differences could be material.

(in thousands)

Net appreciation/depreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2013 the University realized a net loss of $(5,684). During the year ended June 30, 2012 the University realized a net loss of $(26,914). The calculation of realized gains and losses is independent of the net depreciation in the fair value of investments held at year end. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. The net depreciation in the fair value of investments during the year ended June 30, 2013 was $25,334. In fiscal year 2012, the net depreciation was ($13,273). This amount includes all changes in fair value, both realized and unrealized, that occurred during the year.

The unrealized appreciation on investments for the year ended June 30, 2013 was $31,018. The unrealized appreciation on investments for the year ended June 30, 2012 was $13,641.

The components of the net investment income are as follows:

	Interest and dividends, net	Net appreciation (depreciation) in market value of investments	Net investment income (loss)
Total 2013	$7,124	$25,334	$32,458
Total 2012	$6,404	($13,273)	($6,869)

Also included in investment income in 2012 is $14,514 related to the termination of hedge accounting on the University's swap. See Note 6 for further disclosure.

Additional Disclosures Related to Interest-bearing Investments

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

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

The maturities of the University's interest-bearing investments at June 30, 2013 are as follows:

		Investment Maturities (in years)			
	Fair Value	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
U.S. government obligations	$ 9,306	$ 4,585	$ 4,721	$ -	$ -
U.S. government agency obligations	9,613	323	4,713	979	3,598
Corporate bonds and notes	11,007	3,274	7,394	264	75
Bond mutual funds	88,747	5,116	33,171	36,254	14,206
Total	$ 118,673	$ 13,298	$ 49,999	$ 37,497	$ 17,879

Notes to Financial Statements
June 30, 2013 and 2012
(in thousands)

The maturities of the University's interest-bearing investments at June 30, 2012 are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
US government obligations	$ 9,435	$ 3,707	$ 5,101	$ 627	$ -
US government agency obligations	4,302	11	1,752	918	1,621
Corporate bonds and notes	2,876	1,202	1,105	-	569
Bond mutual funds	65,406	9,746	28,477	21,476	5,707
Total	$ 82,019	$ 14,666	$ 36,435	$ 23,021	$ 7,897

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

The credit ratings of the University's interest-bearing investments at June 30, 2013 are as follows:

Credit Rating (Moody's)	Total	Government Obligations	U.S. Agency Obligations	Corporate Bonds	Bond Mutual Funds
AAA	$ 60,365	$ 9,306	$ 9,613	$ -	$ 41,446
AA+	2,150	-	-	-	2,150
AA	3,494	-	-	1,140	2,354
AA-	7,604	-	-	1,023	6,581
A+	3,488	-	-	1,024	2,464
A	8,711	-	-	4,059	4,652
OTHER	32,861	-	-	3,761	29,100
Total	$ 118,673	$ 9,306	$ 9,613	$ 11,007	$ 88,747

The credit ratings of the University's interest-bearing investments at June 30, 2012 are as follows:

Credit Rating (Moody's)	Total	Government Obligations	U.S. Agency Obligations	Corporate Bonds	Bond Mutual Funds
AAA	$ 41,905	$ 9,435	$ 4,302	$ 791	$ 27,377
AA+	1,369	-	-	-	1,369
AA	4,248	-	-	50	4,198
AA-	1,550	-	-	292	1,258
A+	2,620	-	-	17	2,603
A	6,377	-	-	352	6,025
OTHER	23,950	-	-	1,374	22,576
Total	$ 82,019	$ 9,435	$ 4,302	$ 2,876	$ 65,406

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2013 and 2012, the University had no exposure to foreign currency risk.

(in thousands)

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University held the following investments that had fair values of 5 percent or more of total investments as of June 30, 2013 and 2012:

	June 30, 2013		June 20, 2012	
PIMCO Total Return	$	16,043	$	20,188
Met West Total return Fund	$	16,674	$	20,165
Cantillon Global	$	18,393	$	15,660
PIMCO All Asset	$	18,436	$	17,433

(4) Accounts Receivable

Accounts receivable consist of the following, as of June 30, 2013 and 2012:

	2013	2012
Sponsor accounts	$ 6,968	$ 6,124
Student accounts	28,568	27,761
Other	8,212	6,752
	43,748	40,637
Less allowances for loss on accounts receivable	(8,522)	(4,860)
Accounts receivable, net	$ 35,226	$ 35,777

In addition, the University has student loans receivable of $32,249 and $23,838 as of June 30, 2013 and 2012, respectively. The related allowances as of June 30, 2013 and 2012 are $6,461 and $5,059 respectively.

(5) Capital Assets

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

Capital assets consist of the following as of June 30, 2013:

	2012	Additions/ Transfers	Net Retirements	2013
Land	$ 15,612	$ 13,514	$ -	$ 29,126
Infrastructure	104,330	5,399	-	109,729
Buildings	764,798	53,238	(3,836)	814,200
Equipment	207,513	13,741	(4,871)	216,383
Construction-in-progress	34,391	34,698	(207)	68,882
	1,126,644	120,590	(8,914)	1,238,320
Less accumulated depreciation				
Infrastructure	(55,426)	(4,711)	(322)	(60,459)
Buildings	(293,899)	(23,826)	(631)	(318,356)
Equipment	(166,440)	(10,054)	1,107	(175,387)
	(515,765)	(38,591)	154	(554,202)
Capital assets, net	$ 610,879	$ 81,999	$ (8,760)	$ 684,118

(in thousands)

Included in depreciation expense of $39,989 for the year ended June 30, 2013 is a loss of $1,399 from the disposal of obsolete capital assets.

Capital assets consist of the following as of June 30, 2012:

	2011	Additions/ Transfers	Net Retirements	2012
Land	$ 13,617	$ 1,995	$ -	$ 15,612
Infrastructure	100,973	4,389	1,032	104,330
Buildings	741,656	23,940	798	764,798
Equipment	202,822	9,406	4,715	207,513
CIP	26,112	8,359	80	34,391
	1,085,180	48,089	6,625	1,126,644
Less accumulated depreciation				
Infrastructure	(52,022)	(4,412)	1,008	(55,426)
Buildings	(271,047)	(21,987)	(865)	(293,899)
Equipment	(161,121)	(9,568)	4,249	(166,440)
	(484,190)	(35,967)	4,392	(515,765)
Capital assets, net	$ 600,990	$ 12,122	$ 2,233	$ 610,879

Included in depreciation expense of $36,530 for the year ended June 30, 2012 is a loss of $563 from the disposal of obsolete capital assets.

(6) Long-term Liabilities

Long-term Debt

In April 2013, the University issued $60,000 in Series 2013A General Receipts bonds. The proceeds from the bond sale were used for the early redemption of Series 2008B General Receipts bond with an outstanding principal balance of $60,000. As of June 30, 2013, the outstanding principal of the 2013A General Receipts bonds was $60,000.

In September, 2009, the University issued $214,910 in Series 2009B General Receipts bonds. The proceeds from the bond sale were used for a current refunding of the Series 2009A General Receipts bonds and the Series 2008A General Receipts bonds, as well as an advance refunding of the Series 2000 General Receipts bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the University’s long-term obligations. The total refunding was undertaken to achieve debt service savings, as well as allowing the University to convert the synthetic fixed rate bonds to natural fixed rates, thereby eliminating risk associated with interest rate hedge arrangements and stabilizing the interest expenses incurred by the University. The total refunding transaction reduced debt service payments by $34,210 and resulted in an economic gain of $22,092. Of the total refunding, debt service was reduced by $1,271 and resulted in an economic gain of $887 from the advance refunding. For the advance refunding of the Series 2000 General Receipts bonds, the reacquisition price exceeded the net carrying amount of the old debt by $520. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. As of June 30, 2013, the outstanding principal of the 2009B General Receipts bond was $188,855.

In fiscal year 2010, the University terminated the interest rate swap agreements associated with the Series 2009A General Receipts bonds and the Series 2008A General Receipts bonds. This resulted in a termination payment totaling $23,864. In connection with the issuance of the Series 2009B General

Receipts bonds, the University also recognized a net bond premium totaling $19,456 which will be amortized against interest expense over the life of the bond. As of June 30, 2013, the unamortized net bond premium was $10,955.

In June 2012, the University issued $170,000 in Series 2012 General Receipts bonds. The proceeds from the bond sale will be used for constructing, renovating, equipping and furnishing various University academic, administrative and other campus buildings. As of June 30, 2013, the outstanding principal of the 2012A bonds was $170,000. In connection with the bond issuance, the University also recognized a net bond premium totaling $16,185 which will be amortized against interest expense over the life of the bond. As of June 30, 2013, the unamortized net bond premium was $14,703.

In accordance with the General Receipts bonds Trust Agreement, the Series 2009B, Series 2012 and Series 2013A General Receipts bonds are subject to mandatory or optional redemption.

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

During fiscal year 2010, the University entered into a loan agreement with the Ohio Air Quality Development Authority for a total of $1,344. The Ohio Air Quality Authority has issued $672 in 2010 Series A bonds and $672 in 2010 Series B bonds; the proceeds of which will be used to fund the University's energy efficiency and conservation project at its Stark campus. As of June 30, 2013, the outstanding principal of the Series A and Series B bonds was $312 and $672, respectively.

During fiscal year 2011, the University entered into two additional loan agreements with the Ohio Air Quality Development Authority. The first loan agreement totals $5,388; $2,694 in Series A bonds and $2,694 in Series B bonds. The proceeds will be used to fund the University's energy efficiency and conservation projects at its Ashtabula, East Liverpool, Geauga, Salem and Trumbull campuses. As of June 30, 2013, the outstanding principal of the Series A and Series B bonds was $2,036 and $2,694, respectively. The second loan agreement totals $20,000: $13,000 in Series A bonds, and $7,000 in Series B bonds. The proceeds will be used to fund the University's energy efficiency and conservation projects for its Residence Hall and Dining Services auxiliary units. As of June 30, 2013, the outstanding principal of Series A and Series B bonds was $10,826 and $7,000, respectively.

During fiscal year 2013, the University entered into a loan agreement with the Ohio Air Quality Development Authority for a total of $24,947; $17,447 in Series A bonds and $7,500 in Series B bonds. The proceeds will be used to fund the University's energy efficiency and conservation projects at its Kent campus. As of June 30, 2013, the outstanding principal of Series A and Series B bonds was $16,645 and $7,500, respectively.

In fiscal year 2011, the University entered into an agreement with Fairmount Properties, LLC to construct a building for its Twinsburg location (programs are operated out of the University's Geauga campus) which the University will lease for a period of 30 years. The total capital lease is $13,992 and lease payments will begin in September 2012. As of June 30, 2013, the total outstanding principal on the capital lease was $13,563.

(in thousands)

In fiscal year 2013, the University entered into several capital lease agreements; the most significant ones are as follows.

As part of the merger with OCPM, the University assumed the debt from a pooled financing program for State of Ohio Higher Educational Facility Rate Demand Revenue Bonds. The proceeds were recorded as an obligation under capital lease by OCPM for the construction relating to the improvement of the new main campus building. The University recorded this debt as a capital lease in the amount of $5,380. As of June 30, 2013, the principal balance for this lease was $5,200.

The University also entered into a lease agreement with the Portage County Port Authority for 3.75 acres of property near the northwest edge of the Kent campus for 15 years. The capital lease totaled $3,680 and remains the principal balance on the lease as of June 30, 2013.

Long-term debt consists of the following as of June 30, 2013:

	Rates	Maturity	2012	Additions	Retirements	2013
General Receipts Bonds of 2009B	2.0 - 5.0	2009-2032	$ 197,420	$ -	$ 8,565	$ 188,855
General Receipts Bonds of 2013A	3.79	2028-2032	60,000	-	-	60,000
General Receipts Bonds of 2012A	3.0 - 5.0	2014-2042	170,000	-	-	170,000
Air Quality Dev. Tax Exempt Rev. Bond - Stark (A)	2.99	2010-2016	440	-	128	312
Air Quality Dev. Tax Credit Rev. Bond - Stark (B)	5.63	2010-2020	672	-	-	672
Air Quality Dev. Tax Exempt Rev. Bond - Regional Campuses (A)	2.75	2012-2019	2,374	-	338	2,036
Air Quality Dev. Tax Credit Rev. Bond - Regional Campuses (B)	4.86	2012-2019	2,694	-	-	2,694
Air Quality Dev. Tax Exempt Rev Bond Residence Halls & Dining Svcs (A)	2.62	2012-2025	11,972	-	1,146	10,826
Air Quality Dev. Tax Credit Rev Bond Residence Halls & Dining Svcs (B)	5.32	2019-2025	7,000	-	-	7,000
Air Quality Dev. Tax Exempt Rev Bond Kent Campus (A)	1.38	2013-2023	-	17,447	802	16,645
Air Quality Dev. Tax Exempt Rev Bond Kent Campus (B)	3.65	2024-2027	-	7,500	-	7,500
Other	various	various	17,199	10,323	2,030	25,492
			469,771	35,270	13,009	492,032
Plus unamortized discount and premium			29,397	-	3,739	25,658
Less unamortized call premium on Series 2000 bonds			(424)	-	35	(389)
Subtotal			498,744	$ 35,270	$ 16,783	517,301
Less current portion long-term debt			15,696			20,788
			$ 483,048			$ 496,513

(in thousands)

Long-term debt consists of the following as of June 30, 2012:

	Rates	Maturity	2011	Additions	Retirements	2012
General Receipts Bonds of 2009B	2.0-5.0	2009-2032	$ 205,700	$ -	$ 8,280	$ 197,420
General Receipts Bonds of 2002/now 2008B	3.79	2028-2032	60,000	-	-	60,000
General Receipts Bonds of 2012	3.0 - 5.0	2014-2042	-	170,000	-	170,000
Air Quality Dev. Tax Exempt Rev. Bond - Stark (A)	2.99	2011-2016	565	-	125	440
Air Quality Dev. Tax Credit Rev. Bond - Stark (B)	5.63	2011-2020	672	-	-	672
Air Quality Dev. Tax Exempt Rev. Bond - Reg. Campuses (A)	2.75	2012-2019	2,694	-	320	2,374
Air Quality Dev. Tax Credit Rev. Bond - Reg. Campuses (B)	4.86	2012-2019	2,694	-	-	2,694
Air Quality Dev. Tax Exempt Rev. Residence Halls & Dining Svcs (A)	2.62	2019-2025	13,000	-	1,028	11,972
Air Quality Dev. Tax Credit Rev. Bond - Res. Halls & Din. Svcs. (B)	5.32	2012-2025	7,000	-	-	7,000
Other	various	various	18,530	-	1,331	17,199
			310,855	170,000	11,084	469,771
Plus unamortized discount and premium			15,618	16,185	2,406	29,397
Less unamortized call premium on Series 2000 bonds			(459)		35	(424)
Subtotal			326,014	$ 186,185	$ 13,525	498,744
Less current portion long-term debt			13,455			15,696
			$ 312,559			$ 483,048

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.

Hedging derivative instrument payments and hedged debt

As of June 30, 2013, aggregate debt service requirements of the University's debt (fixed-rate and variable-rate) and net receipts/payments on associated hedging derivative instruments are shown below. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer below for information on derivative instruments (interest rate swap).

(in thousands)

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

Year	Principal	Interest	Hedging Derivatives, Net	Total
2014	$ 16,900	$ 18,902	$ 2,144	$ 37,946
2015	16,176	18,399	2,135	36,710
2016	16,485	17,747	2,128	36,360
2017	17,033	17,103	2,118	36,254
2018	18,112	16,410	2,109	36,631
2019-2023	98,116	70,483	10,394	178,993
2024-2028	110,262	48,652	10,089	169,003
2029-2033	114,766	26,150	4,593	145,509
2034-2038	42,445	15,944	-	58,389
2039-2043	41,737	5,034	-	46,771
Total	$ 492,032	$ 254,824	$ 35,710	$ 782,566

Interest Rate Swap

The University has entered into a 30-year interest rate swap agreement for $60,000 of the variable rate 2002 Series General Receipts bonds. The University entered into this agreement at the same time and for the same amount of the variable rate debt, with the intent of creating a synthetic fixed rate debt, at an interest rate that was lower than if fixed rate debt would have been issued directly. During 2009, the interest rate swap agreement was re-identified in connection with refunding of the 2002 Series General Receipt bonds through the issuance of 2008B Series General Receipt bonds. During fiscal year 2010, the counterparty on the agreement was changed from Woodlands Commercial Bank (formerly known as Lehman Brothers Commercial Bank) to Loop Financial Products LLP. Based on the swap agreement, the University owes interest calculated at a fixed rate to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate. The $60,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The University continues to pay interest to the bondholders at the variable rate provided by the bonds. The debt service requirements to maturity for these bonds, as presented in this note, are based on that fixed rate.

During fiscal year 2012, the swap was restructured to simplify the floating rate calculation and to reduce the fixed rate from 3.72% to 3.34%. This modification changed the critical terms of the original transaction causing a termination of hedge accounting. The termination of the hedge resulted in $14,514 being recorded as investment loss, and an accrued liability.

During 2013, the interest rate swap was re-identified in connection with the refunding of the 2008B Series General Receipt bonds through the issuance of the 2013A Series General Receipt bond. As a result of the re-identification, an imputed borrowing of $15,912 was recorded as a non-current accrued liability and a new synthetic, at the market swap was created as of the refinance date.

The revised interest rate swap has been determined to be an effective hedge and the fair value was estimated using the regression analysis method. The regression analysis method evaluates effectiveness by considering the statistical relationship between the cash flows or fair values of the potential hedging derivative instrument and the hedgeable item.

As a result of the July 1, 2012 merger with the Ohio College of Podiatric Medicine (OCPM), the University assumed the OCPM capital lease and the associated swap. Based on the swap agreement, the University owes interest calculated at a fixed rate to the counter-party to the swap. In return, the counter-party owes the University interest based on a variable rate. The debt service requirements for the term of the capital lease, as presented in this note, are based on that fixed rate. The notional amount on the swap is $5,200 as of June 30, 2013.

As of June 30, 2013, the University has recorded a deferred inflow of resources and a related swap asset in the amount of $3,507, accounting for the at-the-market swap and the former OCPM swap. Due to the termination of hedge accounting from the refunding of the 2008B General Receipts bonds, the University recognized $1,398 as a deferred cost of refunding (included in other assets) and increased its accrued liability from $14,514 to $15,912.

The interest rate swaps are subject to the following risks:

> Interest rate risk – The University is exposed to interest rate risk. On the pay-fixed, receive-variable interest rate swaps, as LIBOR or the BMA Municipal Swap Index decreases, the University's net payment on the swap increases.
>
> Basis risk – The University is exposed to basis risk due to variable rate payments received being based on a rate or index other than interest rates that the University pays on its variable rate debt. As of June 30, 2013, the interest rate on the University's Series 2013A hedged variable rate debt is 0.589 percent, while 67 percent of LIBOR is 0.13 percent and the interest rate on the University's hedged variable rate capital lease is 0.18 percent, while the weekly BMA Municipal Swap Index was 0.079 percent.
>
> Termination risk – The swap agreements may be terminated prior to their stated termination dates under certain circumstances. Upon termination, a payment may be owed depending on the prevailing economic circumstances at the time of the termination.

Accrued Compensated Absences

Per University policy, faculty and staff earn vacation up to a maximum of 25 days per year with a maximum accrual of 75 days. Upon termination, they are entitled to a payout of their accumulated balance. The maximum accrual is equal to the amount earned in three years, which is subject to payout upon termination. The liability for accrued vacation at June 30, 2013 and 2012 is $15,445 and $14,405, respectively.

All University employees are entitled to a sick leave credit equal to 15 days per year (earned on a pro rata monthly basis for salaried employees and on a pro rata hourly basis for classified hourly employees). Employees with 10 or more years of service are eligible to receive a payout upon retirement of up to 25% of unused days (maximum of 30 days). The liability for accrued sick leave at June 30, 2013 and 2012 is $5,525 and $5,178, respectively.

(in thousands)

A summary of accrued compensated absences at June 30, 2013 and 2012 is as follows:

For the year ended	Balance	Additions	Reductions	Balance
June 30, 2013	$ 19,583	$ 3,930	$ 2,543	$ 20,970
June 30, 2012	$ 19,363	$ 1,895	$ 1,675	$ 19,583

(7) Retirement Benefits

(a) Basic Retirement Benefits

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement System ("OPERS") and the State Teachers Retirement System of Ohio ("STRS Ohio"). These retirement programs are statewide, cost-sharing, multiple-employer defined benefit plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members. The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS Ohio 3.5% of earned compensation for those employees participating in the alternative retirement program. The University's contribution to the alternative retirement fund for the years ended June 30, 2013, 2012 and 2011 were $1,092, $975, and $945, respectively.

The Ohio Public Employees Retirement System's Comprehensive Annual Financial Report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to OPERS for the years ended June 30, 2013, 2012 and 2011 were $14,951, $14,379 and $14,005, respectively, equal to the required contributions for each year.

The State Teachers Retirement System of Ohio's Comprehensive Annual Financial Report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% of covered payroll and the University is required to contribute 14% of covered payroll. The University's contributions to STRS Ohio for the years ended June 30, 2013, 2012, and 2011 were $15,189, $14,393 and $14,270, respectively, equal to the required contributions for each year.

(b) Post-Retirement Health Care Benefits

OPERS - Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and combined Plan must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

OPERS - Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 10% of covered payroll and public safety and law enforcement employers contributed at 12.1%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employers units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4% during the calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during the calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The University's contributions allocated to post retirement health care for the years ended June 30, 2013, 2012, and 2011 were $4,248, $4,086, and $4,476, respectively.

STRS - Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medical Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strs.oh.org or by requesting a copy by calling toll-free 1-888-227-7877.

STRS - Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2013, 2012 and 2011. The 14% employer contribution rate is the maximum rate established under Ohio law. The University's contribution to post-employment health care for the years ended June 30, 2013, 2012, and 2011 was $1,084, $1,028, and $928, respectively.

(c) Ohio Public Employees Deferred Compensation Program

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

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

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

At June 30, 2013 and 2012, the amounts on deposit with the Ohio Public Employees Deferred Compensation Board were $11,555 and $10,447, respectively, which represents the fair market value at such dates.

(in thousands)

(8) Contingencies and Commitments

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

The University is a defendant in a lawsuit filed by one of its construction contractors for alleged construction delays and inefficiencies. In July, 2009, a judgment in favor of the plaintiff was rendered in the amount of $4,080. The University recorded this amount as a liability at June 30, 2009 and accrues interest each month. During fiscal year 2013, the University made a final payment to settle this liability in the amount of $2,346.

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, 2013 and 2012 were $47,165 and $45,107, respectively. A liability for unpaid claims (including incurred but not reported claims) in the amount of $8,088 and $6,511 has been accrued as of June 30, 2013 and 2012, respectively. This estimate is based on an analysis of historical claims paid.

The University has operating leases for the use of real property and moveable equipment. Total expenditures during 2013 and 2012 for operating leases amounted to approximately $1,717 and $1,442, respectively.

Future minimum payments on non-cancelable operating leases subsequent to June 30, 2013 are as follows:

Year	Operating Leases
2014	$ 1,727
2015	878
2016	622
2017	647
2018	109
Total future minimum payments	$ 3,983

As of June 30, 2013, the University had commitments related to construction projects totaling $73,813. Of this amount, $49,925 or 68% will be funded from bond proceeds.

(9) Related Party Transactions

The University, together with The University of Akron and Youngstown State University, created a consortium to establish and govern The Northeastern Education Television of Ohio, Inc. ("NETO"), Channels 45 and 49, Kent, Ohio. This organization is legally separate from the University; accordingly, its financial activity is not included within the accompanying financial statements. The University has no contractual financial obligations to this consortium.

(in thousands)

(10) Component Unit

The University is the sole beneficiary of the Foundation: a separate not-for-profit entity organized for the purpose of promoting educational and research activities. The Foundation is a legally separate entity from the University and maintains a self-appointing Board of Trustees. The Foundation reimburses the University for substantially all operating expenses paid by the University on behalf of the Foundation. Under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Foundation meets the definition of a discretely presented component unit.

Assets totaling approximately $163,519 and $136,682 at June 30, 2013 and 2012, respectively, most of which have been restricted by donors for specific purposes, are presented separately. Amounts received by the University from the Foundation are included in the accompanying financial statements. The University received approximately $8,215 and $6,032 of financial support during the years ended June 30, 2013 and 2012, respectively, from gifts to the Foundation specifically restricted by donors for University use and from private grants. Additionally, at June 30, 2013 and 2012, the University had outstanding receivables from the Foundation of approximately $63 and $53, respectively.

The value of investments for the Foundation at June 30, 2013 and 2012 are as follows:

	2013	2012
Corporate stocks	$ 5,537	$ 6,662
Government bonds	1	3
Limited partnership hedge fund	8,978	10,279
ETFS	5,547	-
Mutual funds:		
Large capitalization equity funds	30,080	26,937
Small/middle capitalization equity funds	7,127	5,707
International equity funds	25,838	21,902
Other mutual funds	17,985	16,469
Fixed-income funds	33,870	35,954
	$ 134,963	$ 123,913

The KSU Foot and Ankle Clinic dba The Cleveland Foot and Ankle Clinic provides services to the public but does so to provide clinical experience for students of the KSU College of Podiatric Medicine. The Cleveland Foot and Ankle Clinic is a separate not-for-profit entity organized by the University for the benefit of the KSU College of Podiatric Medicine. The University is the sole member of the organization and appoints the directors. Under the provisions of GASB 61, the Clinic has been determined to be a blended component of the University. The University is obligated to deposit sufficient amounts to cover necessary expenses deemed to be core components to the continuous operation of the Clinic. The University also reviews and approves the annual budget. Condensed financial statement information for the Cleveland Foot and Ankle Clinic is presented below.

Statement of Net Position (condensed):

Total assets	$ 87
Total liabilities	$ 16
Net position	$ 71

Assets primarily consist of patient receivables offset by an allowance for uncollectible patient receivables. Liabilities primarily consist of accounts payable and accrued vacation.

Statement of Revenues, Expenses, and Changes in Net Position (condensed):

Operating revenues	$ 1,067
Operating expenses	(1,374)
Operating income (loss)	(307)
Transfers	378
Change in net position	$ 71

Patient revenues are the major source of operating revenues for the Clinic. Operating expenses consist primarily of salaries and benefits for Clinic personnel and expenses related to the Clinic building (i.e., rental expense and insurance).

(11) Subsequent Events

In July 2013, a Portage County Common Pleas judge found in favor of the University and awarded it a $1.2 million judgment related to a breach of contract lawsuit against its former head basketball coach.

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

Independent Auditor's Report

To Management and the Board of Trustees
Kent State University

We have audited, in accordance with the 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, the financial statements of Kent State University and its discretely presented component unit as of and for the year ended June 30, 2013 and related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 15, 2013. Our report includes a reference to other auditors who audited the financial statements of Kent State University Foundation, as described in our report on Kent State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kent State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management and the Board of Trustees
Kent State University

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 15, 2013

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Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Trustees
Kent State University

Report on Compliance for Each Major Federal Program

We have audited Kent State University's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Kent State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Kent State University's major federal programs based on our audit of the types of compliance requirements referred to above.

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 Kent State 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Kent State University's compliance.

To the Board of Trustees
Kent State University

Opinion on Each Major Federal Program

In our opinion, Kent State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Kent State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kent State University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2013-001, that we consider to be a significant deficiency.

Kent State University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Kent State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Board of Trustees
Kent State University

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

October 15, 2013

Kent State University

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Student Financial Aid			
Department of Education			
Direct Programs			
Federal Supplemental Educational Opportunity Grants	84.007		$ 939,282
Federal Work-Study Program	84.033		1,767,302
Federal Perkins Loan Program	84.038		27,528,065
Federal Pell Grant Program	84.063		62,267,907
Federal Direct Loans	84.268		247,064,123
Teacher Education Assistance for College and Higher Education Grants (TEACH GRANTS)	84.379		2,037,584
Total Department of Education			341,604,263
Department of Health and Human Services			
Direct Program			
Health Professions Student Loans	93.342		1,603,499
Loans for Disadvantaged Students	93.342		202,848
Nursing Student Loans	93.364		1,929,299
Total Department of Health and Human Services			3,735,646
Total Student Financial Aid Cluster			345,339,909
Research and Development Cluster			
Department of Agriculture			
Direct Program			
Agricultural Research Basic and Applied Research	10.001		6,419
Pass-through Program			
University of Wisconsin-Milwaukee - Research Innovation and Development Grants in Economic (RIDGE)	10.255	317K800	874
Total Department of Agriculture			7,293
Department of Commerce			
Direct Programs			
Climate and Atmospheric Research	11.431		(25)
Measurement and Engineering Research and Standards	11.609		234,816
Pass-through Programs			
Ohio State Research Foundation - Sea Grant Support	11.417	60025701	7,967
Goodrich Corp. - Advanced Technology Program	11.612	OASIS-NIST ATP	5,403
Total Department of Commerce			248,161
Department of Defense			
Direct Programs			
Military Medical Research and Development	12.420		36,350
Air Force Defense Research Sciences Program	12.800		332,091
Research and Technology Development	12.910		11,777
Pass-through Programs			
University of Central Florida - Basic and Applied Scientific Research	12.300	65016248	31,443
Tulane University - Military Medical Research and Development	12.420	TUL-654-12/13	9,453
University of Utah - Military Medical Research and Development	12.420	10018797-KENT	84,897
Worcester Polytechnic Institute - Military Medical Research and Development	12.420	12-215570-01	219,640
Total			313,990
Case Western Reserve University - Air Force Defense Research Sciences Program	12.800	RE5506637	88,255

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Defense (Continued)			
Pass-through Programs (Continued)			
Dynamic Eye, Inc. - Dual Mode Eye Shields	NONE	W911QY-08-C-0049	$ 824
Azimuth Corp - Cholesteric Liquid Crystal Polymers	NONE	FA8650-D-09-5434	34,319
Lincoln Lab-MIT - New Technology Initiative Program	NONE	MIT PO 7000205259	53,897
Total			89,040
Total Department of Defense			902,946
Department of Housing and Urban Development			
Pass-through Programs			
City of Cleveland - Community Development Block Grants/Entitlement Grants	14.218	CT-5005-56-2012-065	6,585
City of Cleveland - Community Development Block Grants/Entitlement Grants	14.218	CT-5005-SG-2012-342	8,138
Total Department of Housing and Urban Development			14,723
Department of the Interior			
Pass-through Programs			
Central Michigan University - Fish and Wildlife Management Assistance	15.608	444594KSU	9,083
Arkansas Game and Fish Commission - Cooperative Endangered Species Conservation Fund	15.615	KSU444587	773
The Ohio State University - Assistance to State Water Resources Research Institutes	15.805	GRT00023315	18,901
Total Department of the Interior			28,757
Department of Justice			
Pass-through Programs			
Stan Hywet Hall & Gardens - Developing, Testing and Demonstrating Promising New Programs	16.541	415106	1,812
Research Triangle Institute - Part D - Research, Evaluation, Technical Assistance, and Training	16.542	9-312-0209835	15
Ohio Criminal Justice Studies - Community Prosecution and Project Safe Neighborhoods	16.609	2010-PS-PSN-366	59,354
Ohio Criminal Justice Studies - Community Prosecution and Project Safe Neighborhoods	16.609	2011-PS-PSN-366	69,366
Total			128,720
Total Department of Justice			130,547
Department of Transportation			
Pass-through Program			
ARRA - The Ohio State University - Highway Planning and Construction	20.205	GRT00021239	39,104
Total Department of Transportation			39,104
National Aeronautics and Space Administration			
Pass-through Program			
ATK Space Systems - Development of Particle-Based Flow Diagnostic Techniques	NONE	0023531	(50)
Total National Aeronautics and Space Administration			(50)
Institute of Museum and Library Services			
Direct Program			
National Leadership Grants	45.312		84,435
Total Institute of Museum and Library Services			84,435

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
National Science Foundation			
Direct Programs			
Engineering Grants	47.041		$ 374,161
Mathematical and Physical Sciences	47.049		1,662,543
Geosciences	47.050		324,351
Computer and Information Science and Engineering	47.070		149,386
Biological Sciences	47.074		242,245
Social Behavioral and Economic Sciences	47.075		88,777
Education and Human Resources	47.076		291,588
Polar Programs	47.078		23,276
International Science and Engineering (OISE) (B)	47.079		126,960
Office of Cyberinfrastructure	47.080		33,491
ARRA - TRANS-NSF RECOVERY ACT RESEARCH SUPPORT	47.082		1,123,196
Pass-through Programs			
Hitron Technologies, Inc. - Engineering Grants	47.041	HTI-NSF2-2012	2,686
LXD Inc. - Engineering Grants	47.041	1046893	2,819
Sterionics, Inc. - Engineering Grants	47.041	IIP-1248148	8,397
LXD Inc. - Engineering Grants	47.041	1010368	9,541
Total			23,443
Case Western Reserve University - Mathematical and Physical Sciences	47.049	DMR-0423914	44,589
Case Western Reserve University - Mathematical and Physical Sciences	47.049	RES504079	79,209
Worcester Polytechnic Institute - Mathematical and Physical Sciences	47.049	12-202850-01-00	61,606
University of Wisconsin-Madison - Mathematical and Physical Sciences	47.049	364K291	69,442
Total			254,846
Georgia State University Research Foundation - Computer and Information Science and Engineering	47.070	CONTACTED RASP FOR DMR#	2,500
University of Florida - Computer and Information Science and Engineering	47.070	UF-EIES-0914033-KSU	16,841
Total			19,341
Indiana University - Biological Sciences	47.074	PO # 419481	10,075
American Sociological Association - Social Behavioral and Economic Sciences	47.075	KSU413605	1,519
American Sociological Association - Social Behavioral and Economic Sciences	47.075	FAD AWARD	1,654
Total			3,173
Cleveland State University - Education and Human Resources	47.076	DELAT37L	281
Stark State College of Technology - Education and Human Resources	47.076	NSFFC-0802536-10-10	487
National Center For Science And Civic Engagement - Education and Human Resources	47.076		200
Cuyahoga Community College - Education and Human Resources	47.076		8,403
Missouri State University - Education and Human Resources	47.076		62,646
ARRA - DePaul University - Trans-NSF Recovery Act Research Support	47.082	500733SG069	124,925
Total National Science Foundation			4,947,794

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Environmental Protection Agency			
Pass-through Programs			
The University of Oklahoma - Nonpoint Source Implementation Grants	66.460	CA061009	$ 2,046
SUNY - Great Lakes Program	66.469	GL-00E00503-KSU	22,057
Total Environmental Protection Agency			24,103
Department of Energy			
Direct Programs			
Basic Energy Sciences University and Science Education	81.049		1,248,907
Pass-through Programs			
Regents of The University of Michigan - Basic Energy Sciences University and Science Education	81.049	KSU411206	68,822
B&W Y-12 LLC - PERIL Research Design	NONE	4300085439	5,883
UT-Battelle, LLC - Electron Beam Grafting	NONE	4000095139	19,132
Lawrence Berkeley National Laboratory - Tools for the JET Collaboration	NONE	KSU412705	440
U Chicago Argonne National Lab - Theoretical Hadron Physics	NONE	IF-31881	5,660
Total			31,115
Total Department of Energy			1,348,844
Department of Education			
Direct Programs			
National Institute on Disability and Rehabilitation	84.133		39,011
Education Research, Development, and Dissemination	84.305		17,715
Research in Special Education	84.324		172,162
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407		336,042
Pass-through Programs			
Ohio Department of Education - Special Education Grants to States	84.027	EDU01-0000003002	13
Ohio Department of Education - Special Education Grants to States	84.027	EDU-01-0000004703	4,102
Ohio Department of Education - Special Education Grants to States	84.027	EDU01-0000006008	25,054
Ohio Department of Education - Special Education Grants to States	84.027	EDU01-0000007585	259,821
Total			288,990
Ohio Department of Education - Career and Technical Education - Basic Grants to States	84.048	EDU01-0000007585	122,328
City of Akron - 21st Century Community Learning Centers Program	84.287	000876	22,231
The University of Akron - English Language Acquisition Grants	84.365	00773-KSU ED-T365Z120262	25,983
Akron Public Schools - School Improvement Grants	84.377	PO 12013162-00033 SPECIAL SVCS	43,799
ARRA - Akron Public Schools - State Fiscal Stabilization Fund (Sfsf) - Race-To-The-Top Incentive Grants, Recovery Act	84.395	12010724-00033	(18,035)
ARRA - Akron Public Schools - State Fiscal Stabilization Fund (Sfsf) - Race-To-The-Top Incentive Grants, Recovery Act	84.395	KSU448034	3,363
ARRA - Akron Public Schools - State Fiscal Stabilization Fund (Sfsf) - Race-To-The-Top Incentive Grants, Recovery Act	84.395	KSU448035	46,163
Total			31,491
Total Department of Education			1,099,752

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
National Archives and Records Administration			
Pass-through Program			
University of Nebraska - National Historical Publications and Records Grants	89.003	25-0512-0024-003	$ 3,395
Total National Archives and Records Administration			3,395
Department of Health and Human Services			
Direct Programs			
Oral Diseases and Disorders Research	93.121		44,582
Injury Prevention and Control Research and State Grants	93.136		28,863
Research and Training in Alternative Medicine	93.213		212,952
Health Services Research and Development Grants	93.226		28,872
Mental Health Research Grants	93.242		95,887
Drug Abuse and Addiction Research Programs	93.279		28,724
Nursing Research	93.361		647,396
Cancer Detection and Diagnosis Research	93.394		130,281
ARRA - TRANS-NIH RECOVERY ACT RESEARCH SUPPORT	93.701		125,627
Cardiovascular Diseases Research	93.837		1,078,030
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		156,139
Clinical Research Related to Neurological Disorders	93.853		141,117
Pharmacology, Physiology, and Biological Chemistry	93.859		192,494
Child Health and Human Development Extramural Research	93.865		464,374
Pass-through Programs			
Health Research, Inc. - Environmental Public Health and Emergency Response	93.070	3792-03	38,592
Canton City Health Department - Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	KSU415103	21,832
Canton City Health Department - Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	KSU415114	44,894
Total			66,726
University of Iowa - Injury Prevention and Control Research and State Grants	93.136	1001103524	30,793
University of Akron - Mental Health Research Grants	93.242	KSU413307	7,856
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU 440880	1,343
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU416402	7,295
Cuyahoga County Board of Commissioners - Substance Abuse and Mental Health Services-Projects of Regional and National Significance (B)	93.243	CD0400252-03	16,010
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU 416404	21,916
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU 440522	29,577
Stark County Mental Health & Recovery Service Bd - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	KSU 416405	30,452
Northeastern Ohio Universities College of Medicine - Substance Abuse and Mental Health Services-Projects of Regional and National Significance (B)	93.243	34343-B	602
Total			107,195

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Health and Human Services (Continued)			
Pass-through Programs (Continued)			
St John's University - Occupational Safety and Health Program	93.262	35496SC1	$ 12,245
Ohio State Research Foundation - Alcohol Research Programs	93.273	RF01219228	17,613
University of Tennessee - Alcohol Research Programs	93.273	OR14350-001.01 / 1R01AA017898	141,037
Total			158,650
West Virginia University - Nurse Education, Practice Quality and Retention Grants	93.359	08-340-KSU	9,950
Case Western Reserve University - Nursing Research	93.361	KSU411103	65,468
Miami University - National Center for Research Resources	93.389	415602	1,223
Wayne State University - Cancer Treatment Research	93.395	WSU10005	3,761
ARRA - West Virginia University - TRANS-NIH RECOVERY ACT RESEARCH SUPPORT	93.701	PO 50075417	7,000
Butler - Hospital - Cardiovascular Diseases Research	93.837	9279-8344	1,744
California State University San Marcos Foundation - Pharmacology, Physiology, and Biological Chemistry	93.859	F-77330	37,793
Stanford University - Pharmacology, Physiology, and Biological Chemistry	93.859	22747060-41598-A	42,996
Total			80,789
Creative Action LLC - Aging Research	93.866	NGA 1R43AG043112	15,906
Northeastern Ohio Universities College of Medicine - Block Grants for Community Mental Health Services	93.958	34331-B	6,000
University of Southern California - Preventive Health Services Sexually Transmitted Diseases	93.978	35567912	16,155
University of Minnesota - Developmental Construction	NONE	S2986113101	22,500
Total Department of Health and Human Services			4,027,891
Total Research and Development Cluster			12,907,695
Child Nutrition Cluster			
Department of Agriculture			
Pass-through Programs			
Ohio Department of Education - Summer Food Service Program for Children	10.559	416901	1,498
Ohio Department of Education - Summer Food Service Program for Children	10.559	416900	1,940
Ohio Department of Education - Summer Food Service Program for Children	10.559	416902	3,318
Total Child Nutrition Cluster			6,756
Economic Development Cluster			
Department of Commerce			
Direct Program			
Investments for Public Works and Economic Development Facilities	11.300		41,094
Total Economic Development Cluster			41,094
CDBG - Entitlement Grants Cluster			
Department of Housing and Urban Development			
Pass-through Program			
Stark County Regional Planning Commission - Community Development Block Grants/Entitlement Grants	14.218	CDBG B-12-UC-39-0005	30,251
Total CDBG - Entitlement Grants Cluster			30,251

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Education			
Pass-through Programs			
Ohio Department of Education - Special Education Grants to States	84.027	H027A090111A	$ 1,505
Ohio Department of Education - Special Education Grants to States	84.027	062976-9440-6530S-13	33,090
Total Special Education Cluster (IDEA)			34,595
TRIO Programs Cluster			
Department of Education			
Direct Programs			
TRIO Student Support Services	84.042		456,252
TRIO Upward Bound	84.047		983,788
McNair Post-Baccalaureate Achievement	84.217		182,636
Total TRIO Programs Cluster			1,622,676
Medicaid Cluster			
Department of Health and Human Services			
Pass-through Program			
The Ohio State University - Medical Assistance Program	93.778	Project #60036810	66,336
Total Medicaid Cluster			66,336
Subtotal of Clusters			360,049,312
Department of Agriculture			
Direct Program			
Rural Technology Development Grants	10.771		168,970
Total Department of Agriculture			168,970
Department of Defense			
Direct Programs			
Language Grant Program	12.900		291,714
Total Department of Defense			291,714
Department of Justice			
Direct Program			
Bulletproof Vest Partnership Program (C)	16.607		5,540
Pass-through Program			
Drug Free Action Alliance - Enforcing Underage Drinking Laws Program (B)	16.727	KSU 417200	1,271
Total Department of Justice			6,811
Department of State			
Direct Program			
Educational Exchange-Teachers from Secondary and Postsecondary Levels and School Administrators (B)	19.408		1,458
Pass-through Programs			
International Research & Exchange Board - Academic Exchange Programs - Undergraduate Programs	19.009	418602	30,335
International Research & Exchange Board - Academic Exchange Programs - Teachers	19.011	414907	12,644
International Research & Exchange Board - Academic Exchange Programs - Teachers	19.011	KSU418605	16,948
Total			29,592
Institute of International Education - Academic Exchange Programs - Scholars	19.401	S-IZ-100-11-GR-070	310
Institute of International Education - Academic Exchange Programs - Scholars	19.401	SIZ-100-11-GR070	80,965
Total			81,275

See Notes to Schedule of Expenditures of Federal Awards.

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of State (Continued)			
Pass-through Programs (Continued)			
International Research & Exchange Board - Academic Exchange Programs - Teachers	19.408	FY10 ILEP-KENT-01	$ (17)
International Research & Exchange Board - Academic Exchange Programs - Teachers	19.408	KSU414908	154,074
Total			154,057
Total Department of State			296,717
Department of Transportation			
Direct Program			
Airport Improvement Program	20.106		138,392
Pass-through Program			
University of Akron - University Transportation Centers Program	20.701	ODOT DTRT06-G-0037 MOD NO. 5	9,408
Total Department of Transportation			147,800
Appalachian Regional Commission			
Direct Program			
Appalachian Supplements to Federal Grant-in-Aid (Community)	23.002		35,000
Total Appalachian Regional Commission			35,000
National Endowment for the Arts			
Direct Program			
Promotion of the Arts-Grants to Organizations and Individuals	45.024		23,095
Pass-through Programs			
University of Akron - Promotion of the Arts-Grants to Organizations and Individuals	45.024	00932-KSU	2,816
Ohio Arts Council - Promotion of the Arts-Partnership Agreements	45.025	120061	9
Ohio Arts Council - Promotion of the Arts-Partnership Agreements	45.025	130007	13,063
Ohio Arts Council - Promotion of the Arts-Partnership Agreements	45.025	130026	15,775
Ohio Arts Council - Promotion of the Arts-Partnership Agreements	45.025	KSU416704	15,784
Ohio Arts Council - Promotion of the Arts-Partnership Agreements	45.025	130141	20,477
Total			65,108
Total National Endowment for the Arts			91,019
National Endowment for the Humanities			
Direct Program			
Promotion of the Humanities Public Programs	45.164		107,369
Pass-through Programs			
Ohio Arts Council - Promotion of the Humanities Federal-State Partnership	45.129	GR 11-012	(122)
Ohio Humanities Council - Promotion of the Humanities Federal-State Partnership	45.129	OHC-R12-098	4,800
Total			4,678
Eastern Illinois University - Promotion of the Humanities-Professional Development	45.163	12-09	10,717
Total National Endowment for the Humanities			122,764
Institute of Museum and Library Services			
Direct Program			
Librarians for the 21st Century	45.313		190,177
Total Institute of Museum and Library Services			190,177

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Small Business Administration			
Pass-through Programs			
Ohio Development Services Agency - Small Business Development Centers	59.037	12-263	$ 9,544
Ohio Development Services Agency - Small Business Development Centers	59.037	ECDD 11-285	13,886
Ohio Development Services Agency - Small Business Development Centers	59.037	KSU467901	23,542
Ohio Development Services Agency - Small Business Development Centers	59.037	KSU445004	32,590
Ohio Development Services Agency - Small Business Development Centers	59.037	OSB-128	52,137
Ohio Development Services Agency - Small Business Development Centers	59.037	KSU487908	10,707
Ohio Development Services Agency - Small Business Development Centers	59.037	ECDD-12088	27,186
Ohio Development Services Agency - Small Business Development Centers	59.037	12-263	39,600
Ohio Development Services Agency - Small Business Development Centers	59.037	KSU487908	111,169
Ohio Development Services Agency - Small Business Development Centers	59.037	ECDD 11-287	174,585
Total			494,946
Western Reserve Resource Conservation & Development - Congressional Grants	59.059	KSU410807	4,140
Western Reserve Resource Conservation & Development - Congressional Grants	59.059	KSU415613	7,000
Total			11,140
Ohio Development Services Agency - Small Business Development Centers	59.061	ECDD12-174	(2,019)
Ohio Development Services Agency - Small Business Development Centers	59.061	EC12-182	4,427
Total			2,408
NorTech - Flex Matters Regional Innovation Cluster	NONE	NOR-SBA-10C0030	28,480
Total Small Business Administration			536,974
Department of Education			
Direct Programs			
Rehabilitation Long-Term Training	84.129		106,365
Adult Education National Programs	84.191		291,349
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities (B)	84.325		713,149
Pass-through Programs			
Ohio Board of Regent - Adult Education - Basic Grants to States	84.002	062976 AB-SL-12	3,984
Ohio Board of Regent - Adult Education - Basic Grants to States	84.002	MOU 415604	13,738
Ohio Board of Regent - Adult Education - Basic Grants to States	84.002	062976-AB-SL-2013	621,884
Total			639,606

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Education (Continued)			
Pass-through Programs (Continued)			
Ohio Department of Education - Career and Technical Education - Basic Grants to States	84.048	VEPD-TPE-062976-12/13	$ 107,585
Ohio Board of Regent - Career and Technical Education - Basic Grants to States	84.048	CAREER TECH ED	455
Ohio Board of Regent - Career and Technical Education - Basic Grants to States	84.048	KSU418604	1,680
Ohio Board of Regent - Career and Technical Education - Basic Grants to States	84.048	PO BOR01-0000002953	4,861
Ohio Board of Regent - Career and Technical Education - Basic Grants to States	84.048	PO BOR01-0000002891	6,490
Total			121,071
Ohio Rehabilitation Services Commission - Rehabilitation Services Vocational Rehabilitation Grants	84.126	VRP3	(30)
Hattie Larlham Foundation - Rehabilitation Services Vocational Rehabilitation Grants	84.126	415302	22,213
Ohio Rehabilitation Services Commission - Rehabilitation Services Vocational Rehabilitation Grants	84.126	KSU467905	1,715
Ohio Rehabilitation Services Commission - Rehabilitation Services Vocational Rehabilitation Grants	84.126	TN: 12S649VR-12	38,044
Ohio Development Services Agency - Rehabilitation Services Vocational Rehabilitation Grants	84.126	ECDD 12-131	21,666
Ohio Development Services Agency - Rehabilitation Services Vocational Rehabilitation Grants	84.126	OSB-164	28,546
Total			112,154
Ohio Department of Developmental Disabilities - Special Education-Grants for Infants and Families	84.181	PO DMR01-0000013628	56,432
Ohio Rehabilitation Services Commission - Special Projects and Demonstrations for Providing	84.235	H235U070024	35,152
Summit County Educational Service Center - Foreign Languages Assistance	84.293	FLAP GRANT	(4,121)
Summit County Educational Service Center - Foreign Languages Assistance	84.293	KSU411704	42,374
Total			38,253
Ohio Department of Education - Mathematics and Science Partnerships	84.366	EDU01-00007094	15,590
Ohio Department of Education - Mathematics and Science Partnerships	84.366	EDU01-0000009643	162,421
Total			178,011
Ohio Board of Regent - Improving Teacher Quality State Grants	84.367	10-18	(3,657)
National Writing Project - Improving Teacher Quality State Grants	84.367	97-OH03-SEED2012	19,032
Ohio Board of Regent - Improving Teacher Quality State Grants	84.367	11-21	57,447
Ohio Board of Regent - Improving Teacher Quality State Grants	84.367	#11-18	5,075
Ohio Board of Regent - Improving Teacher Quality State Grants	84.367	11-18	97,511
Ohio Board of Regent - Improving Teacher Quality State Grants	84.367	11-18	(3,057)
Ohio Board of Regent - Improving Teacher Quality State Grants	84.367	12-18	4,638
Ohio Board of Regent - Improving Teacher Quality State Grants	84.367	10-19	6,066
Ohio Board of Regent - Improving Teacher Quality State Grants	84.367	12-18	17,111
Miami University - Improving Teacher Quality State Grants	84.367	HERSHBERGER OBR KENT G02105	12,242
Total			212,408

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013

Federal Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Identifying Number	Expenditures
Department of Education (Continued)			
Pass-through Programs (Continued)			
Northeast Ohio Council on Higher Education - College Access Challenge Grant Program	84.378	418300	$ 1,279
Cleveland State University - College Access Challenge Grant Program	84.378	1002670669	24,758
Total			26,037
ARRA - Ohio Department of Education - State Fiscal Stabilization Fund (Sfsf) - Race-To-The-Top Incentive Grants, Recovery Act	84.395	PO EDU01-0000009338	19,203
ARRA - Ohio Department of Education - State Fiscal Stabilization Fund (Sfsf) - Race-To-The-Top Incentive Grants, Recovery Act	84.395	8602	20,305
Total			39,508
National Writing Project - National Writing Project	84.928	97-OH03 AMEND 18	11,586
Total Department of Education			2,581,081
Department of Health and Human Services			
Direct Programs			
Project Grants for Renovation or Construction of Non-Acute	93.887		148,447
Pass-through Programs			
Summit County Health District - Public Health Emergency Preparedness	93.069	KSU 416407	6,549
Tuscarawas County General Health District - Public Health Emergency Preparedness	93.069	KSU 444503	11,421
Total			17,970
Summit County Health District - Childhood Immunization Grants	93.268	KSU416407	7,859
Summit County Health District - PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	KSU416408	26,198
Summit County Health District - Maternal and Child Health Services Block Grant to the States	93.994	KSU416409	11,789
Total Department of Health and Human Services			212,263
Corporation for National and Community Service			
Pass-through Program			
Compass Family and Community Services - Social Innovation Fund	94.019	KSU477900	(14)
Total Corporation for National and Community Service			(14)
Total Other Programs			4,681,276
Total Federal Awards			**$ 364,730,588**

See Notes to Schedule of Expenditures of Federal Awards.

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Kent State University (the "University") under programs of the federal government for the year ended June 30, 2013. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-21, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of Kent State University, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows, if applicable, of Kent State University. Pass-through entity identifying numbers are presented where available.

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.

Facilities and Administrative Costs - The University has approved predetermined facilities and administrative cost rates, which are 47.2 percent from July 1, 2010 to June 30, 2014 for on-campus research and instruction and 26 percent from July 1, 2009 to June 30, 2014 for off-campus research.

Note 2 - Loans Outstanding

The institution had the following loan balances outstanding at June 30, 2013:

Cluster/Program Title	CFDA Number	Advances	Amount Outstanding
Perkins Loan Program	84.038	$ 2,225,816	$27,528,065
Nursing Student Loan Program	93.364	314,250	1,929,299
Health Professional Student Loans	93.342	-	1,603,499
Loans for Disadvantaged Students	93.342	-	202,848
	Total	$ 2,540,066	$31,263,711

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the Schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Prosecution and Project Safe Neighborhoods (B)	16.609	$ 1,124
Engineering Grants	47.041	235,779
Social Behavioral and Economic Sciences	47.075	18,076
ARRA - Trans-NSF Recovery Act Research Support	47.082	353,128
Basic Energy Sciences University and Science Education	81.049	60,754
Adult Education - Basic Grants to States	84.002	5,883
Rehabilitation Services Vocational Rehabilitation Grants	84.126	(30)
Adult Education National Programs	84.191	7,098
Research in Special Education	84.324	100,736
Special Education - Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	10,482
Improving Teacher Quality State Grants (A)	84.367	5,435
State Fiscal Stabilization Fund (Sfsf) - Race -To-The-Top Incentive Grants, Recovery Act	84.395	1,006
Oral Diseases and Disorders Research	93.121	10,109
Injury Prevention and Control Research and State Grants	93.136	13,362
Research and Training in Alternative Medicine	93.213	120,756
Health Services Research and Development Grants	93.226	5,448
Nursing Research	93.361	336,968
Cancer Detection and Diagnosis Research	93.394	18,795
Cardiovascular Diseases Research	93.837	584,408
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	78,644
Child Health and Human Development Extramural Research	93.865	46,302
	Total	$ 2,014,263

Note 4 - Federal Expenditure 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 revenue, expenses, and changes in net assets (the "Statement"), which is included as part of the University's financial statements:

Expenditures per the Schedule	$ 364,730,588
Perkins loan funds excluded from federal grants on the Statement	(27,528,065)
Nursing student loan funds excluded from the federal grants on the Statement	(1,929,299)
Health Professional student loans excluded from federal grants on the Statement	(1,603,499)
Loans for disadvantaged students excluded from federal grants on the Statement	(202,848)
Federal Pell Grant funds shown separately on the Statement	(62,267,907)
Federal Direct Loans excluded from the federal grants on the Statement	(247,064,123)
Total	$ 24,134,847

Note 5 - Adjustments and Transfers

As allowable and in accordance with federal regulations issued by the U.S. Department of Education, the University can transfer Federal Supplemental Education Opportunity Grant (SEOG) Program (84.007) award funds to the Federal Work Study (FWS) Program (84.003). The University transferred and spent $137,231 for the 2012-2013 award year.

In addition, the University spent $7,570 of carried forward FWS funds from the 2011-2012 award year during the 2012-2013 award year. The University carried forward $18,826 of FWS funds from the 2012-2013 award year to be spent in the 2013-2014 award year. The University also carried back and spent $19,415 of FWS funds from the 2012-2013 to the 2011-2012 award year.

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	X No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X 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 Section 510(a) of Circular A-133?	X Yes	____ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.033, 84.038, 84.268, 84.063, 84.379, 93.342, 93.364	Student Financial Aid Cluster
84.042, 84.047, 84.217	TRIO Cluster
Multiple	R&D
84.002	Adult Education - Basic Grants to States

Dollar threshold used to distinguish between type A and type B programs: $581,720

Auditee qualified as low-risk auditee?	X Yes	____ No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Finding
2013-001	**Program Name** - Student Financial Aid Cluster- 84.007, 84.038, 84.063, 84.268, 84.379

Pass-through Entity - N/A

Finding Type - Significant deficiency

Criteria - Special tests and provisions compliance requirement - Returns of Title IV funds are required to be deposited or transferred to the Department of Education accurately as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew (34CFR Section 668.173(b)). The withdrawal date is the date that the student began the withdrawal process, provided official notification to the school in writing or orally, or ceases attendance (34 CFR Section 668.22(c) and (d)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the University's determination that the student withdrew, the difference must be returned to the Title IV programs (34 CFR Sections 668.22(a)(1) through (a)(4)).

Condition - The University did not perform the calculation to return Title IV refunds within the 45-day requirement.

Questioned Costs - A total of $735 of refunds not returned in a timely manner was identified during testing. The University was able to identify the specific population of students that the error in the report writing logic missed. Based on this analysis, the total questioned costs were $311,523. Of that amount, $166,085 related to the 2013 fiscal year and $145,438 related to the 2012 fiscal year.

Context - Of the 40 students tested for return of Title IV funds, there was one instance in which the refund was not calculated and returned within 45 days.

Cause and Effect - The parameters used to run the weekly withdrawal report were changed within the IT system in January 2012. The parameters to run the report were not properly set; therefore, the report that was relied on to perform the calculations did not include certain withdrawn students.

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2013-001 (Con't)	**Recommendation** - As of the date of this report, the funds related to fiscal year 2013 have been returned and the University is working with the Department of Education to return the remaining funds related to fiscal year 2012. Going forward, we recommend that the Bursar's office review past semesters, starting in January 2012, to determine the magnitude of the funds to be returned. Additionally, we recommend that the report parameters are changed to properly include all withdrawn students. **Views of Responsible Officials and Planned Corrective Actions** - Kent State University appreciates the professional and thorough manner of the audit and has responded with appropriate urgency. The Bursar's office reviewed past semesters to include all terms since January 2012 and determined the magnitude of the funds to be returned. This determination was completed on July, 31, 2013. The actual return of funds for the current year was also completed by July 31, 2013. The return of funds for the previous year (2011-2012) was completed by September 16, 2013. The previous year required more time to complete because the year was closed and had to be reopened, but this could not be done until the Financial Aid Office was finished with aid disbursements for fall 2013. The report parameters were changed to properly include all withdrawn students and an ongoing process has been instituted to compare the report to an independently created query in order to assess the accuracy of the report.

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Kent State University
National Collegiate Athletics Association

Agreed-upon Procedures Report

June 30, 2013

Kent State University
National Collegiate Athletics Association

Contents

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Independent Accountant's Report on the Application of Agreed-upon Procedures

Dr. Lester A. Lefton, President
Kent State University
Kent, OH 44242

We have performed the procedures enumerated below, which were agreed to by Kent State University (the "University"), solely to assist you in evaluating whether the accompanying Intercollegiate Athletics Program statement of revenue and expenditures of Kent State University is in compliance with the National Collegiate Athletics Association (NCAA) Constitution 3.2.4.16 for the year ended June 30, 2013. The University's management is responsible for the statement of revenue and expenditures (the "statement") and the statement's compliance with those requirements. 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.

Agreed-upon Procedures Related to the Statement of Revenue and Expenditures

The procedures that we performed and our results are as follows:

Internal Control Structure

A. In preparation for our procedures related to the University's internal control structure:

   1) We met with the director of intercollegiate athletics and inquired about the general control environment over intercollegiate athletic finances, the level of control consciousness in the University, the competence of personnel, and the protection of records and equipment.

   2) We obtained the audited financial statements for the year ended June 30, 2013 and any additional reports regarding internal controls and any corrective action taken in response to comments concerning the internal control structure.

   3) We obtained any documentation of the accounting systems and procedures unique to the intercollegiate athletics department or that were not addressed in connection with the audit of the University's financial statements. We then performed the following procedure:

Procedure: We selected three games and traced ticket collections per the receipting process for such games to the reconciliation and documentation of the related cash deposit amount with the bank.

Result: We concluded that the internal control structure was the same as the University's internal control structure for the cash disbursement, cash receipt, and employee pay processes. Therefore, the only procedure listed that is unique to intercollegiate athletics is the ticket collection receipt process. We selected two football games and one men's basketball game during the year and agreed the gate sales for such events, as documented by the University's ticket reconciliation procedures, to deposit slips of the related cash deposit amount with the bank. The games selected for testing were football against Ball State University on September 29, 2012, football against Ohio University on November 23, 2012, and men's basketball against Eastern Michigan on February 29, 2013. We noted a variance for two of the football games selected, showing ticket collection as being higher by $863 and $14, respectively, than total revenue as indicated on the Ticketmaster report.

Capital Expenditure Survey and Related Debt

B. We performed the following procedures related to capital assets and long-term debt:

1) **Procedure:** As of August 15, 2013, the capital expenditure survey has been removed from the submission to the NCAA, and instead fields for athletics and institutional debt service and debt balance have been added to the miscellaneous information screen. We agreed the data provided for athletics and institutional debt service and debt balance fields in the miscellaneous information screen for the submission to the NCAA to the University's general ledger, including additions, deletions, and book values as disclosed in the report in Notes 1 and 2.

   Result: See Note 1 for additions, deletions, and book values. Per inquiry with management, there is no debt related to intercollegiate athletics. Outstanding debt of the University was agreed to the maturity schedule obtained from management and to the audited financial statements. See Note 2. We noted no exceptions.

Intercollegiate Athletics Restricted and Endowment and Plant Funds

C. **Procedure:** We obtained a summary of additions to restricted funds related to intercollegiate athletics exceeding 10 percent and $50,000, as well as changes exceeding 10 percent and $50,000 to endowment and plant funds related to intercollegiate athletics, prepared by management. These additions are disclosed in the report.

   Result: We noted five additions that exceeded the thresholds outlined above. See Note 3 for significant additions and changes.

Dr. Lester A. Lefton, President
Kent State University

Statement of Revenue and Expenditures

D. **Procedure:** We obtained the Intercollegiate Athletics Program statement of revenue and expenditures for the reporting period, prepared by the senior fiscal manager of intercollegiate athletics ("management") and agreed all amounts back to the University's general ledger.

   Result: We noted no exceptions.

E. **Procedure:** We compared each revenue and expenditure amount from the statement to prior year amounts and budget estimates. We obtained and documented any variations exceeding 10 percent and $50,000.

   Result: See Appendix A for variations between actual revenue and expenses in 2013 and actual revenue and expenses in 2012, as well as variations between actual revenue and expenses in 2013 and budgeted revenue and expenses in 2013 that were identified.

Revenue

F. **Procedure:** We agreed each revenue category reported in the statement during the reporting period to supporting schedules provided by the University.

   Result: The supporting schedules provided by the University agreed to the statement without exception.

   We performed the following procedures for the indicated revenue category:

   1) Ticket Sales

      Procedure: We agreed tickets sold during the reporting period, complimentary tickets provided during the reporting period, and unsold tickets to the related revenue reported by the University in the statement and related attendance figures and recalculated totals. We agreed a sample of three revenue receipts obtained from the above revenue supporting schedules to supporting documentation. The games selected for this testing were: football against Ball State University on September 29, 2012, football against Ohio University on November 23, 2012, and men's basketball against Eastern Michigan University on February 29, 2013.

      Result: We completed the procedure steps, including agreeing revenue receipts for the sample of the three games listed to bank deposit slips. During the reconciliation performed for football ticket sales, we identified a difference of approximately $900 between the schedule provided and the amount of ticket sales revenue recorded in the general ledger.

2) Student Fees

Procedure: We agreed student fees reported by the University in the statement for the reporting period to student enrollments during the same reporting period. We obtained the University's methodology for allocating student fees to intercollegiate athletics programs, and recalculated totals.

Result: We obtained the calculation, agreed it to the report, and recalculated totals. We noted no exceptions.

3) Guarantees

Procedure: We selected a sample of three contractual agreements pertaining to revenue derived from guaranteed contests during the reporting period and agreed each selection to the University's general ledger. We also recalculated totals. We agreed a sample of three revenue receipts obtained from the above revenue supporting schedules to supporting documentation. For the three aforementioned samples, we selected the following games: football against Rutgers University on September 15, 2012, men's basketball against Xavier University on December 9, 2012, and baseball against the University of San Diego for February 22, 2013 through February 24, 2013.

Result: We completed the procedure steps without exception, including agreeing the sample of three contractual agreements to deposit slips and copies of checks received.

4) Contributions

Procedure: We inquired about contributions of monies, goods, or services received directly by an intercollegiate athletics program from any affiliated or outside organization, agency, or group of individuals that constitute 10 percent or more of all contributions received for intercollegiate athletics during the reporting periods. We agreed a sample of three revenue receipts obtained from the above revenue supporting schedules to supporting documentation. The revenue receipts selected for this testing were: $100,000 received on December 20, 2012, $100,000 received on February 26, 2013, and $75,000 received on March 20, 2013.

Result: We completed the procedure steps without exception, including agreeing the sample of three contributions to deposit slips and copies of checks received. There were no contributions from any affiliated or outside organization, agency, or group of individuals that constituted 10 percent or more of all contributions received for intercollegiate athletics during the reporting periods. We noted no exceptions in the testing performed.

Dr. Lester A. Lefton, President
Kent State University

5) NCAA/Conference Distributions Including All Tournament Revenues

Procedure: We obtained and inspected a sample of three agreements related to the University's participation in revenue from tournaments during the reporting period. We agreed the related revenue to the University's general ledger. We also recalculated totals. We agreed a sample of three revenue receipts obtained from the above revenue supporting schedules to supporting documentation. The distributions selected for this testing were: $168,896 with a distribution date of June 21, 2013, $514,339 with a distribution date of August 17, 2012, and $164,764 with a distribution date of July 26, 2012.

Result: We completed the procedure steps without exception, including agreeing the sample of three revenue receipts to deposit slips for checks received or to bank statements for direct deposits received.

Expenditures

G. **Procedure:** We compared each expenditure category reported in the statement during the reporting period to supporting schedules provided by the University.

Result: The supporting schedules provided by the University agreed to the statement without exception.

We performed the following procedures for the indicated expenditure category:

1) Athletic Student Aid

Procedure: We selected a sample of 30 students from the listing of University student aid recipients during the reporting period. We obtained the individual student account detail for each selection and agreed total aid allocated from the related aid award letter to the student's account and recalculated totals. We agreed a sample of 30 expenses obtained from the above expense supporting schedules to supporting documentation.

Result: For the sample of 30 students selected, each student's account detail agreed to the student's award letter and was recalculated except for the book award amount, which is offered but not disbursed through the student's account. No exceptions were noted. The student accounts tested are summarized below:

Student	Amount Disbursed
1	$ 11,672
2	32,763
3	29,343
4	32,323
5	29,522
6	30,656
7	30,656
8	29,869
9	26,808
10	35,393
11	11,600
12	26,488
13	4,200
14	5,579
15	19,200
16	18,561
17	1,200
18	12,408
19	12,600
20	27,292
21	34,775
22	16,174
23	26,973
24	19,948
25	18,848
26	20,988
27	16,347
28	9,600
29	17,180
30	22,828

2) Guarantees

Procedure: We obtained and inspected a sample of three contractual agreements pertaining to expenses recorded by the University from guaranteed contests during the reporting period. We agreed related amounts expensed by the University during the reporting period to the University's general ledger. We also recalculated totals. We agreed a sample of three expenses obtained from the above expense supporting schedules to supporting documentation. For the two aforementioned samples, we selected the following games or tournaments: football against Towson University on August 30, 2012, men's basketball participation in the Joe Cipriano Nebraska Classic Basketball Tournament on November 24, 2012, and wrestling participation in the National Wrestling Coaches Association National Duals Meet Championship on February 17, 2013.

Result: We agreed the sample of three contractual agreements to copies of checks paid out, without exception.

3) Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities

Procedure: We obtained and inspected a listing of coaches employed by the University and related entities during the reporting period. We selected a sample of five coaches' contracts, including football and men's and women's basketball, from the above listing. We agreed the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the University and related entities in the statement during the reporting period. We obtained and inspected W-2s for each selection. We agreed related W-2s to the related coaching salaries, benefits, and bonuses paid by the University and related entities expense recorded by the University in the statement during the reporting period, and recalculated totals. We agreed a sample of five expenses obtained from the above expense supporting schedules to supporting documentation.

Result: We noted no exceptions. We agreed a sample of five expenses to the coach's contract, W-2, and payroll personnel action forms. There were no 1099s issued to the coaches by the University for the sample selected. The coaches tested are summarized below:

Coach	Team
1	Women's Basketball
2	Men's Basketball
3	Football
4	Wrestling
5	Gymnastics

Affiliated and Outside Organizations

H. **Procedure:**

1) We inquired of management as to whether they have identified any affiliated and outside organizations that meet any of the following criteria:

   i. Booster organizations established by or on behalf of an intercollegiate athletics program

   ii. Independent or affiliated foundations or other organizations that have as a principal purpose the generating or maintaining of grants-in-aid or scholarship funds, gifts, endowments, or other monies, goods, or services to be used entirely or in part by the intercollegiate athletics program

   iii. Alumni organizations that have as one of their principal purposes the generating of monies, goods, or services for or on behalf of an intercollegiate athletics programs and that contribute monies, goods, or services directly to an intercollegiate athletics program, booster group, or independent or affiliated foundation as previously noted.

2) We obtained documentation on the University's practices and procedures for monitoring the internal controls in place and financial activities of these organizations. We inquired of management the procedures for gathering information on the nature and extent of affiliated and outside organization activity for or on behalf of the University's Intercollegiate Athletics Program.

3) We noted there were no audited financial statements for any affiliated or outside organization.

Result: We inquired and obtained documentation for the University's practices and procedures for monitoring affiliated and outside organizations, which include the Blue and Gold Fund, the Varsity "K" Club, and the National Athletic Development Council. We agreed each organization's activity for the reporting period to the general ledger of the University. No exceptions were noted.

Dr. Lester A. Lefton, President
Kent State University

In addition, we performed the following procedure:

Procedure: We obtained the financial data detailing operating revenue, expenses, and capital related to the University's Intercollegiate Athletics Program that is submitted to the NCAA, referred to as "EADA reporting," and agreed the amounts to the Intercollegiate Athletics Program statement of revenue and expenditures for the reporting period.

Result: We noted differences in the total revenue and total expense amounts from the EADA data provided compared to the total revenue and total expense reported in the statement of revenue and expenditures included in this report. Management indicates that recognized differences are attributed to different allocation methods used for revenue and expenses due to different report disclosure purposes.

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 Intercollegiate Athletics Program statement of revenue and expenditures. 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.

This report is intended solely for the information and use of Kent State University management and the National Collegiate Athletics Association and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 9, 2013

Kent State University
National Collegiate Athletics Association Report

Intercollegiate Athletics Program
Statement of Revenue and Expenditures
Year Ended June 30, 2013

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram-specific	Total
Operating Revenue						
Ticket sales	$ 453,248	$ 176,558	$ 7,875	$ 35,801	$ 69,428	$ 742,910
Student fees	-	-	-	-	13,655,430	13,655,430
Guarantees	1,250,000	90,000	-	23,610	-	1,363,610
Contributions	553,682	138,592	47,239	266,041	24,689	1,030,243
Facility rentals and memberships	-	-	-	-	118,669	118,669
Sponsorship sales	-	-	-	-	293,027	293,027
NCAA/Conference distributions - Including all tournament revenue	-	-	-	-	1,498,916	1,498,916
Royalties, adv., sponsorships	-	-	-	-	13,412	13,412
Sports camp revenue	-	-	-	-	79,879	79,879
Other	2,085	-	-	36,544	132,927	171,556
Total operating revenue	2,259,015	405,150	55,114	361,996	15,886,377	18,967,652
Operating Expenditures						
Athletic student aid	(2,054,680)	(447,069)	(367,851)	(2,864,186)	(6,010)	(5,739,796)
Personnel services	(1,224,360)	(528,970)	(422,075)	(1,818,063)	(2,651,143)	(6,644,611)
Staff benefits	(354,740)	(132,591)	(131,144)	(630,725)	(1,160,394)	(2,409,594)
Recruiting	(83,696)	(59,990)	(53,470)	(102,627)	(2,539)	(302,322)
Team travel	(645,639)	(182,169)	(112,913)	(816,988)	(1,014,533)	(2,772,242)
Equipment, uniforms, and supplies	(274,662)	(98,183)	(67,421)	(339,055)	(1,039,555)	(1,818,876)
Printing and postage	(21,457)	(4,163)	(4,855)	(10,072)	(134,543)	(175,090)
Direct facilities, maintenance, and rental	(49,786)	(8,751)	(7,397)	(49,220)	(977,493)	(1,092,647)
Other operating expenses	(646,837)	(369,909)	(63,826)	(201,925)	(1,915,880)	(3,198,377)
Total operating expenditures	(5,355,857)	(1,831,795)	(1,230,952)	(6,832,861)	(8,902,090)	(24,153,555)
Excess of Revenue (Under) Over Expenditures	**$ (3,096,842)**	**$ (1,426,645)**	**$ (1,175,838)**	**$ (6,470,865)**	**$ 6,984,287**	**$ (5,185,903)**

Note 1 - Intercollegiate Athletics-related Assets

Property and equipment are recorded at cost or, if donated, the fair value at the time of donation. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized. Estimated service lives range from 3 to 40 years depending on class. In previous years, approximately $1,200,000 was expended from the athletic fund for the Golf Training Center. In the current year, this amount is included in the athletically related property, plant, and equipment balance.

The current year capitalized additions and deletions to facilities during the year ended June 30, 2013 are as follows:

	Current Year Additions	Current Year Deletions
Athletics facilities	$ -	$ -
Other University facilities	$ 58,638,522	$ 3,836,213

The total estimated book values of property, plant, and equipment, net of depreciation, of the University as of the year ended June 30, 2013 are as follows:

	Estimated Book Value
Athletically related property, plant, and equipment balance	$ 15,001,057
University's total property, plant, and equipment balances	$ 684,118,000

Note 2 - Intercollegiate Athletics-related Debt

The annual debt service and debt outstanding for the University as of the year ended June 30, 2013 are as follows:

	Annual Debt Service	Debt Outstanding
Athletically related facilities	$ -	$ -
University's total	$ 33,176,842	$ 517,302,396

Note 3 - Restricted and Endowment and Plant Funds

We obtained a summary of additions to restricted funds related to intercollegiate athletics exceeding 10 percent and $50,000, as well as changes exceeding 10 percent and $50,000 to endowment and plant funds related to intercollegiate athletics, prepared by management as follows:

Restrictive Fund	Source of Funds	Contribution
Football Enhancement Fund	Darrell I. Hazell	$ 75,000
Football Enhancement Fund	James B. Phelan	100,000
Football Enhancement Fund	James H. Harrison	100,000
Football Enhancement Fund	David J. Bronczek	102,132

Endowment Fund	Source of Funds	Contribution
Devine Athletic Academic Honors Dinner Endowment	Judith K. Devine	$ 100,000

Kent State University
National Collegiate Athletics Association Report

Appendix A

	2012-2013 Actual	2011-2012 Actual	$ Change	% Change	2012-2013 Budget	$ Change	% Change	Explanation Provided by Intercollegiate Athletics Senior Fiscal Manager
Revenue								
Ticket Sales	$ 742,909	$ 451,836	$ 291,073	64.42%	$ 609,600	$ 133,309	21.87%	There was an increase of approximately $290,000 for actual ticket sales revenue. Actual revenue was also greater than budgeted revenue by approximately $130,000. It was noted by management that these variances are mainly due to higher ticket sales in football ($296,810 higher than the prior year) related partially to the NCAA required ticket quota of 95,000 tickets as well as increased attendance in 2013 and were slightly offset by a decrease in men's basketball ticket sales ($41,976 less than prior year) due to decreased attendance.
NCAA Conference Distribution	$ 1,498,916	$ 1,319,754	$ 179,162	13.58%	$ 999,000	$ 499,916	50.04%	There was an increase of approximately $179,000 for actual NCAA distribution revenue. Actual revenue was also more than budgeted revenue by approximately $500,000. It was noted by management that these distributions are controlled by the NCAA and are based on the performance of the conference. These revenues are also impacted by the number of teams that are participating in tournaments. In 2013, $475,000 was received for the football team participation in the Go Daddy Bowl, but the prior year revenues related to the baseball championship did not reoccur.
Sponsorship Sales	$ 293,027	$ 453,136	$ (160,109)	(35.33%)	$ 411,135	$ (118,108)	(28.73%)	There was a decrease of approximately $160,000 for actual sponsorship sales revenue. Actual revenue was also less than budgeted revenue by approximately $118,000. It was noted by management that the variance is mainly due to the fact that a portion of sponsorship revenue was redirected to purchase tickets. The remaining variance relates to the recording of the Pepsi contract in a different revenue category for 2013.
Contributions	$ 1,030,243	$ 652,209	$ 378,034	57.96%	$ 1,176,335	$ (146,092)	(12.42%)	Contributions increased by approximately $378,000. Actual revenue was less than budgeted revenue by approximately $146,000. It was noted by management that the variances relate to summer tuition costs for student athletes as well as increased support from the Foundation. Support from the Foundation related to football increased $303,661.
Other Revenue	$ 168,450	$ 87,495	$ 80,955	92.53%	$ 88,000	$ 80,450	91.42%	There was an increase of approximately $81,000 for other revenue. Actual revenue was higher than budgeted revenue by approximately $80,000. It was noted by management that this variance is mainly due to higher income related to football resale due to higher attendance.
Royalties	$ 13,412	$ 38,668	$ (25,256)	(65.31%)	$ 107,000	$ (93,588)	(87.47%)	Actual royalty revenue was less than the budgeted amount by approximately $94,000 and was less than prior year actual by approximately $25,000. It was noted by management that this variance related to a change in the internal distribution of trademark royalty payments.

Appendix A (Continued)

	2012-2013 Actual	2011-2012 Actual	$ Change	% Change	2012-2013 Budget	$ Change	% Change	Explanation Provided by Intercollegiate Athletics Senior Fiscal Manager
Expenditures								
Travel	$ 2,772,243	$ 2,362,428	$ 409,815	17.35%	$ 1,996,227	$ 776,016	38.87%	There was an increase of approximately $410,000 for actual travel expenses. Actual expenses were also more than budgeted expenses by approximately $776,000. It was noted by management that this variance is mainly due to increased costs for travel including transportation, food, and attendance at NCAA regional meets.
Recruiting	$ 302,322	$ 341,499	$ (39,177)	(11.47%)	$ 358,589	$ (56,267)	(15.69%)	Actual recruiting costs were less than budgeted costs by approximately $56,000 and were less than prior year actual costs by $39,000. It was noted by management that time spent recruiting was lower as a result of changes in coaching staff and participation in various post season games.
Other Operating Expenses	$ 3,198,377	$ 2,177,550	$ 1,020,827	46.88%	$ 2,758,351	$ 440,026	15.95%	There was an increase of approximately $1,000,000 for actual other operating expenses and an increase of $440,000 over the budget. It was noted by management that this variance is due to increased costs for football preseason, an increase in the amount of marketing materials, higher labor costs, additional security for events, and an increase in service charges.
Direct Facilities, Maintenance and Rental	$ 1,094,044	$ 1,450,485	$ (356,441)	(24.57%)	$ 1,209,054	$(115,010)	(9.51%)	There was a decrease of approximately $356,000 for actual direct facilities, maintenance, and rental expenses. Actual expenses were less than budgeted expenses by approximately $115,000. It was noted by management that this variance is mainly due to decreased advertising costs, repair costs for locker rooms included in the prior year, and smaller auto lease payments.
Equipment, Uniforms, and Supplies	$ 1,818,876	$ 1,702,633	$ 116,243	6.83%	$ 1,463,399	$ 355,477	24.29%	The actual equipment, uniforms, and supplies costs were greater than budgeted costs by approximately $355,000. It was noted by management that this variance was mainly due to the installation of new office and locker room furniture for the men's and women's basketball teams and higher costs related to the Go Daddy Bowl game than expected at the time of budgeting.

Dave Yost • Auditor of State

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
FEBRUARY 11, 2014