

Cleveland State University

Financial Report

June 30, 2008

Cleveland State University

Contents

Report of Independent Auditors	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements	
Statements of Net Assets	10
Statements of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12-13
Statements of Financial Position (Component Units):	
Cleveland State University Foundation, Inc.	14
Euclid Avenue Housing Corporation	15
Statements of Activities (Component Units):	
Cleveland State University Foundation, Inc.	16
Euclid Avenue Housing Corporation	17
Notes to Financial Statements	18-33

Report of Independent Auditors

To the Board of Trustees
Cleveland State University

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Cleveland State University (the "University"), a component unit of the State of Ohio, as of and for the year ended June 30, 2008, which collectively comprises the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Cleveland State University as of June 30, 2007 were audited by other auditors, whose report dated October 10, 2007 expressed an unqualified opinion on those statements. We did not audit the financial statements of The Cleveland State University Foundation, Inc. or the Euclid Avenue Housing Corporation, discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Cleveland State University

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2008 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion that collectively comprised the University's basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2008 is presented for the purpose of additional analysis as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 15, 2008

CLEVELAND STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Cleveland State University (the "University") as of and for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University was established in 1964 by action of the Ohio General Assembly and is part of the State of Ohio's (the State) system of State supported and State assisted institutions of higher education. It is one of the 13 state universities in Ohio. By statute it is a body politic and corporate and an instrumentality of the State. Located in the city of Cleveland, the University is an urban institution. A majority of the University's students commute daily from their homes in the Cleveland metropolitan area.

Using the Annual Financial Report

The University's financial report includes 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*. These principles require that financial statements be presented on a consolidated basis to focus on the financial condition, the changes in financial condition, and the cash flows of the University as a whole. Many other non-financial factors also must be considered in assessing the overall health of the University, such as enrollment trends, student retention, strength of the faculty, condition of the buildings, and the safety of the campus.

The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

Under the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Cleveland State University Foundation, Inc. (the Foundation) and the Euclid Avenue Housing Corporation (the Corporation) are treated as component units of the University. Accordingly, the Foundation and the Corporation are discretely presented in the University's financial statements. The Foundation and the Corporation are excluded from Management's Discussion and Analysis. Financial statements for the Foundation can be obtained from the Office of the Executive Director at 2121 Euclid Avenue, Mather Mansion Room 105, Cleveland, OH 44115-2214; financial statements for the Corporation can be obtained from the Office of the President at 2121 Euclid Avenue, Administration Center Room 210, Cleveland, OH 44115-2214.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. The difference between assets and liabilities— net assets— is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities, and net assets at June 30, 2008, 2007 and 2006 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 42,052,971	\$ 35,149,262	\$ 43,810,861
Noncurrent assets:			
Capital assets, net	340,451,912	321,735,130	294,288,485
Other	<u>159,028,058</u>	<u>187,337,097</u>	<u>141,709,585</u>
Total assets	541,532,941	544,221,489	479,808,931
Current liabilities	39,590,243	40,739,396	38,974,623
Noncurrent liabilities	<u>180,357,268</u>	<u>181,012,582</u>	<u>129,884,147</u>
Total liabilities	<u>219,947,511</u>	<u>221,751,978</u>	<u>168,858,770</u>
Net assets	\$ <u><u>321,585,430</u></u>	\$ <u><u>322,469,511</u></u>	\$ <u><u>310,950,161</u></u>

Current assets consist primarily of cash, operating investments, accounts and notes receivable, prepaid expenses, deferred charges and inventories. Current liabilities consist primarily of accounts payable, accrued payroll and other liabilities, deferred revenue and the current portion of long-term debt.

Current assets increased in 2008 from 2007 by \$6.9 million, or 19.6%, due primarily to an increase in short-term investments of \$5.5 million. During 2008, the University increased its investment in short-term certificates of deposit, because they offered a superior rate of return compared to other investments, such as US agency securities.

Current assets decreased in 2007 from 2006 by \$8.7 million, or 19.8%, due primarily to a decrease in short-term investments. The University had more of its investments in STAR Ohio in 2007 than in 2006 (\$16.4 million versus \$10.6 million), and STAR Ohio is classified as a long-term investment.

Net capital assets increased in 2008 from 2007 by \$18.7 million, or 5.8%, and in 2007 from 2006 by \$27.4 million, or 9.3%. Both increases were due to construction on the University's campus. Projects under construction during these years include a new recreation center, a new administration building, a new parking garage, a new student union, and a new building to house the College of Education and Human Services.

Other assets decreased in 2008 from 2007 by \$28.3 million, or 15.1%. The decrease was the result of two factors: the increased use of short-term certificates of deposit as investments, and the spending of bond proceeds on construction.

In 2007, other assets increased by \$45.6 million, or 32.2%, due primarily to an increase in investments of bond proceeds. During 2007, the University sold Series 2007A and 2007B general receipts bonds in the total amount of \$51.3 million, which are included in restricted investments.

Changes in liabilities in 2008 from 2007 were not significant. Noncurrent liabilities increased in 2007 from 2006 by \$51.1 million, or 39.4%, due to the sale of the Series 2007A and 2007B bonds.

Capital and Debt Activities

One critical factor affecting the quality of the University's programs is the development and renewal of its capital assets. Capital additions totaled \$37.4 million in 2008, \$44.3 million in 2007, and \$48.5 million in 2006. Capital retirements totaled \$2.7 million in 2008, \$4.9 million in 2007, and \$2.5 million in 2006. Capital additions and retirements for 2008 and 2007 exclude transfers from construction in progress to buildings in the amounts of \$6.2 million and \$46.0 million, respectively. Capital additions include construction of new facilities, repair and renovation of existing facilities, and acquisition of equipment and library books. Capital asset additions are funded, in part, by capital appropriations from the State. These appropriations amounted to \$3.4 million in 2008, \$6.8 million in 2007, and \$6.5 million in 2006.

In May 2008, the University issued Series 2008 general receipts bonds in the amount of \$20.9 million. Proceeds were used to refund the Series 2003B and Series 2007B general receipts bonds, thereby converting variable rate debt to fixed rate debt.

In 2007, long-term debt, which consists primarily of bonds payable, increased from 2006 by \$49.6 million, or 44.1%. On April 23, 2007, the University issued Series 2007A general receipts bonds in the amount of \$42.1 million, and on May 1, 2007, the University issued Series 2007B general receipts bonds in the amount of \$9.2 million. The proceeds of the Series 2007A and 2007B bonds will be used to pay construction costs for a new Student Union building and a new building to house the College of Education and Human Services. These projects are important pieces of the University's Campus Master Plan, which was adopted by the Board of Trustees in 2003.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2008, 2007 and 2006 are summarized as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Invested in capital assets, net of related debt	\$ 241,694,315	\$ 242,380,365	\$ 236,602,952
Restricted - expendable	16,875,687	14,158,336	14,586,482
Restricted - nonexpendable	1,308,413	1,525,717	1,374,845
Unrestricted	<u>61,707,015</u>	<u>64,405,093</u>	<u>58,385,882</u>
Total net assets	<u>\$ 321,585,430</u>	<u>\$ 322,469,511</u>	<u>\$ 310,950,161</u>

Net assets invested in capital assets, net of related debt represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Changes in this category of net assets are due to the net effect of additions to, disposals of, and depreciation on capital assets. In 2008, disposals and depreciation exceeded additions, while in 2007, additions exceeded disposals and depreciation.

Restricted-expendable net assets are subject to externally imposed restrictions governing their use. Changes in this category are due to the timing of revenues and expenses in funds provided by donors and grantors. Restricted-nonexpendable net assets consist primarily of endowment funds held by the University. Changes in this category are driven primarily by investment performance, which was positive in 2007 and negative in 2008.

Unrestricted net assets are not subject to externally imposed stipulations. This category includes funds functioning as endowment (quasi-endowment) of \$4.7 million at June 30, 2008, \$4.9 million at June 30, 2007, and \$4.8 million at June 30, 2006.

For the year ended June 30, 2008, the University had a decrease in total net assets of \$884,000, or 0.3%. Net assets invested in capital assets, net of related debt, decreased by \$686,000, or 0.3%, because depreciation expense exceeded capital asset additions. Unrestricted net assets decreased by \$2.7 million, or 4.2%, due primarily to decreased investment income (which went from \$10.4 million in 2007 to (\$553,000) in 2008), which was partially offset by increased revenues from other sources, particularly student fees (which grew from \$111.4 million in 2007 to \$116.7 million in 2008).

For the year ended June 30, 2007, the University had an increase in total net assets of \$11.5 million, or 3.7%. Net assets invested in capital assets, net of related debt, increased by \$5.8 million, or 2.4%, due to construction activity. Unrestricted net assets increased by \$6.0 million, or 10.3%, due primarily to increased revenues from student fees (which grew from \$105.4 million in 2006 to \$111.4 million in 2007) and to increased investment income (which grew from \$3.5 million in 2006 to \$10.4 million in 2007).

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. As a public institution, the University is dependent on State aid. This dependency contributed toward an operating deficit because the financial reporting model classifies State appropriations as nonoperating revenue. 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. Summarized revenues, expenses, and changes in net assets for the years ended June 30, 2008, June 30, 2007 and June 30, 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:			
Net student tuition and fees	\$ 116,662,514	\$ 111,443,432	\$ 105,435,745
Grants and contracts	23,506,162	22,396,749	25,969,516
Other	<u>20,310,456</u>	<u>17,263,760</u>	<u>16,523,306</u>
Total operating revenue	160,479,132	151,103,941	147,928,567
Operating expenses:			
Educational and general	215,684,519	209,136,093	210,895,877
Auxiliary enterprises	23,215,882	20,267,901	15,581,267
Depreciation and amortization	<u>18,363,172</u>	<u>16,888,402</u>	<u>15,102,608</u>
Total operating expenses	<u>257,263,573</u>	<u>246,292,396</u>	<u>241,579,752</u>
Operating loss	(96,784,441)	(95,188,455)	(93,651,185)
Nonoperating revenues, net:			
State appropriations	72,934,809	69,739,627	69,978,333
Other	<u>19,348,092</u>	<u>30,077,495</u>	<u>21,265,588</u>
Gain (loss) before other changes	(4,501,540)	4,628,667	(2,407,264)
Other changes			
	<u>3,617,459</u>	<u>6,890,683</u>	<u>6,563,869</u>
Increase (decrease) in net assets	(884,081)	11,519,350	4,156,605
Net assets at beginning of year	<u>322,469,511</u>	<u>310,950,161</u>	<u>306,793,556</u>
Net assets at end of year	<u>\$ 321,585,430</u>	<u>\$ 322,469,511</u>	<u>\$ 310,950,161</u>

Total revenue and other changes in fiscal 2008, 2007 and 2006 were \$259.3 million, \$259.7 million, and \$246.1 million, respectively. The most significant sources of 2008 operating revenues for the University were student tuition and fees of \$116.7 million, grants and contracts of \$23.5 million, and auxiliary services of \$15.3 million.

Revenues from tuition and fees (net of scholarship allowances) increased in 2008 from 2007 by \$5.2 million, or 4.7%, due to an increase in enrollment and an increase in tuition rates. Headcount enrollment increased by 1.6% from the prior year, while full-time equivalent enrollment increased by 3.5% from the prior year. For the 2007 Fall semester, tuition rates for undergraduate students were not changed, but tuition rates were increased for graduate and law students by 6% and 10%, respectively.

Revenues from tuition and fees (net of scholarship allowances) increased in 2007 from 2006 by \$6.0 million, or 5.7%, due to a drop in enrollment offset by an increase in tuition rates. Headcount enrollment decreased by 2.6% from the prior year, while full-time equivalent enrollment decreased by 0.5% from the prior year. Tuition rates increased by 7.84% effective for the 2006 Fall semester, in part to offset the continued decline in support from the State.

Total expenses in fiscal 2008, 2007 and 2006 were \$260.2 million, \$248.2 million, and \$241.9 million, respectively. Operating expenses include the costs of instruction, research, public service, general administration, utilities, libraries, and auxiliary services. Operating expenses also include depreciation and amortization. Increases in operating expenses of \$11.0 million (4.5%) in 2008 and \$4.7 million (1.9%) in 2007 were due primarily to salary increases granted to University employees, increases in the cost of medical insurance and other fringe benefits, rising costs for energy, and increased depreciation expense.

Sources of nonoperating revenue include State appropriations of \$72.9 million in 2008, \$69.8 million in 2007, and \$70.0 million in 2006; grants and contracts of \$16.4 million in 2008, \$14.9 million in 2007, and \$14.4 million in 2006; gifts of \$6.4 million in 2008, \$6.7 million in 2007, and \$3.8 million in 2006; and investment (loss) income of (\$553,000) in 2008, \$10.4 million in 2007, and \$3.5 million in 2006. Fiscal year 2008 was the first year during which the State's funding of the University increased since fiscal year 2001.

Net nonoperating revenue decreased in 2008 from 2007 by \$7.5 million, or 7.5%, due primarily to the decline in investment income. Net nonoperating revenue increased in 2007 from 2006 by \$8.6 million, or 9.4%, due primarily to increased investment income (which grew from \$3.5 million in 2006 to \$10.4 million in 2007).

Other changes consist primarily of State capital appropriations of \$3.4 million in 2008, \$6.8 million in 2007, and \$6.5 million in 2006.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing and investing activities, and helps measure the ability to meet financial obligations as they mature. A summary of the statement of cash flows for the years ended June 30, 2008, June 30, 2007 and June 30, 2006 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net cash provided (used) by:			
Operating activities	\$ (81,468,909)	\$ (76,698,136)	\$ (75,815,747)
Noncapital financing activities	95,514,168	91,533,498	88,291,673
Capital financing activities	(39,231,358)	4,252,940	(50,621,263)
Investing activities	<u>27,699,391</u>	<u>(18,589,397)</u>	<u>36,465,524</u>
Net increase (decrease) in cash	2,513,292	498,905	(1,679,813)
Cash at beginning of year	<u>3,477,087</u>	<u>2,978,182</u>	<u>4,657,995</u>
Cash at end of year	<u>\$ 5,990,379</u>	<u>\$ 3,477,087</u>	<u>\$ 2,978,182</u>

Major sources of cash included student tuition and fees of \$116.1 million in 2008, \$111.6 million in 2007, and \$106.0 million in 2006; State appropriations of \$72.9 million in 2008, \$69.8 million in 2007, and \$70.0 million in 2006; grants and contracts (operating and nonoperating) of \$41.4 million in 2008, \$36.9 million in 2007, and \$37.2 million in 2006; and auxiliary activities of \$14.4 million in 2008, \$11.7 million in 2007, and \$11.4 million in 2006.

The largest payments were for employee compensation and benefits totaling \$163.3 million in 2008, \$152.6 million in 2007, and \$150.4 million in 2006; suppliers of goods and services totaling \$78.9 million in 2008, \$74.2 million in 2007, and \$70.4 million in 2006; and purchases of capital assets totaling \$37.8 million in 2008, \$44.6 million in 2007, and \$49.7 million in 2006.

The changes in cash flows from 2007 to 2008 and from 2006 to 2007 in the capital financing and investing categories are attributable primarily to the sale of the Series 2007A and 2007B bonds in 2007.

Credit Rating

The University's bonds are rated "A" by Standard & Poor's, with the most recent rating published on April 14, 2008. This rating is consistent with the years ended June 30, 2007 and 2006. The highest achievable rating is "AAA." The University's capacity to meet its financial obligations is considered strong considering this rating.

Looking Ahead

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support, and the cost of health care, utilities, employee compensation and unfunded State and Federal mandates.

Paramount to the University's continuing success is its accreditation by the North Central Association of Colleges and Schools, which in 2000 awarded the University a ten-year renewal with enthusiasm and without condition.

The University faces significant cost pressures in the future. These relate to attracting and retaining high quality faculty and staff, increasing costs of medical care and prescription drugs, volatile energy prices, and others.

A critical element to the University's future is its relationship with the State. There is a direct relationship between the level of State support and the University's ability to control tuition growth, as declines in State appropriations generally result in increased tuition levels. The State's capital appropriations continue to support construction and renovation of the University's facilities. Economic pressures affecting the State may affect the State's future support of the University.

Cleveland State University
Statement of Net Assets
June 30, 2008 and 2007

	2008	2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 5,990,379	\$ 3,477,087
Investments (Note 2)	14,483,130	8,935,224
Accounts Receivable, Net (Note 3)	17,889,421	18,452,864
Notes Receivable, Net (Note 3)	1,236,153	2,116,747
Accrued Interest Receivable	632,036	85,000
Prepaid Expenses, Deferred Charges and Inventories	1,821,852	2,082,340
Total Current Assets	42,052,971	35,149,262
Noncurrent Assets:		
Restricted Investments (Note 2)	69,725,474	86,482,295
Long-Term and Endowment Investments (Note 2)	74,567,031	87,880,564
Notes Receivable, Net (Note 3)	12,217,627	11,197,654
Deferred Bond Premium and Issuance Costs	2,517,926	1,776,584
Capital Assets, Net (Note 5)	340,451,912	321,735,130
Total Noncurrent Assets	499,479,970	509,072,227
Total Assets	541,532,941	544,221,489
LIABILITIES		
Current Liabilities:		
Accounts Payable	10,676,405	12,447,002
Construction Accounts Payable	5,163,066	4,724,747
Accrued Liabilities	9,464,598	9,496,654
Accrued Interest Payable	608,152	614,130
Deferred Revenue	7,946,437	8,421,300
Compensated Absences - Current Portion (Note 6)	1,247,930	734,693
Obligations Under Capital Leases - Current Portion (Note 6)	952,722	689,937
Long-Term Debt - Current Portion (Note 6)	3,530,933	3,610,933
Total Current Liabilities	39,590,243	40,739,396
Noncurrent Liabilities:		
Accrued Liabilities (Note 6)	10,729,378	11,225,507
Compensated Absences (Note 6)	7,407,162	9,760,941
Obligations Under Capital Leases (Note 6)	9,038,786	1,513,259
Long-Term Debt (Note 6)	153,181,942	158,512,875
Total Noncurrent Liabilities	180,357,268	181,012,582
Total Liabilities	219,947,511	221,751,978
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	241,694,315	242,380,365
Restricted:		
Expendable	16,875,687	14,158,336
Nonexpendable	1,308,413	1,525,717
Unrestricted	61,707,015	64,405,093
Total Net Assets	\$ 321,585,430	\$ 322,469,511

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

Cleveland State University
Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
Revenues		
Operating Revenues:		
Student Tuition and Fees	\$ 130,867,361	\$ 124,820,488
Less Scholarship Allowances	14,204,847	13,377,056
Net Student Tuition and Fees	116,662,514	111,443,432
Federal Grants and Contracts	15,876,339	15,397,584
State Grants and Contracts	4,713,781	3,844,052
Local Grants and Contracts	655,670	710,880
Private Grants and Contracts	2,260,372	2,444,233
Sales and Services	4,567,254	4,343,482
Auxiliary Enterprises	15,289,171	12,459,588
Other Sources	454,031	460,690
Total Operating Revenues	160,479,132	151,103,941
Expenses		
Operating Expenses:		
Instruction	92,620,024	89,712,836
Research	13,768,194	13,848,298
Public Service	12,505,036	11,879,739
Academic Support	22,213,611	21,731,234
Student Services	18,225,802	18,574,001
Institutional Support	25,885,712	24,548,102
Operation and Maintenance of Plant	18,331,523	17,411,061
Scholarships and Fellowships	12,134,617	11,430,822
Auxiliary Enterprises	23,215,882	20,267,901
Depreciation and Amortization	18,363,172	16,888,402
Total Operating Expenses	257,263,573	246,292,396
Operating Loss	(96,784,441)	(95,188,455)
Nonoperating Revenues (Expenses)		
State Appropriations	72,934,809	69,739,627
Federal Grants and Contracts	12,551,220	11,076,772
State Grants and Contracts	3,886,127	3,784,350
Gifts	6,371,709	6,728,117
Investment Income	(552,911)	10,369,966
Interest on Debt	(2,908,053)	(1,881,710)
Net Nonoperating Revenues	92,282,901	99,817,122
(Loss) Gain Before Other Changes	(4,501,540)	4,628,667
Other Changes		
State Capital Appropriations	3,384,009	6,847,883
Capital Gifts	233,450	42,800
(Decrease) Increase in Net Assets	(884,081)	11,519,350
Net Assets		
Net Assets at Beginning of Year	322,469,511	310,950,161
Net Assets at End of Year	\$ 321,585,430	\$ 322,469,511

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

Cleveland State University
Statement of Cash Flows

	Years Ended June 30	
	2008	2007
Cash Flows from Operating Activities		
Tuition and Fees	\$ 116,116,258	\$ 111,548,728
Grants and Contracts	24,959,332	21,998,268
Payments to or On Behalf of Employees	(163,274,098)	(152,567,115)
Payments to Vendors	(78,866,013)	(74,237,818)
Loans Issued to Students	(1,863,981)	(3,579,160)
Collection of Loans to Students	2,006,797	3,623,562
Auxiliary Enterprises Charges	14,431,511	11,711,227
Other Receipts	5,021,285	4,804,172
Net Cash Used by Operating Activities	<u>(81,468,909)</u>	<u>(76,698,136)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	72,934,809	69,739,627
Grants and Contracts	16,437,347	14,861,122
Gifts	6,371,709	6,728,117
Cash Provided by Stafford and PLUS Loans	84,296,141	77,080,028
Cash Used by Stafford and PLUS Loans	(84,532,531)	(76,852,901)
Cash Provided by Agency Fund Activities	572,102	620,427
Cash Used by Agency Fund Activities	(565,409)	(642,922)
Net Cash Provided by Noncapital Financing Activities	<u>95,514,168</u>	<u>91,533,498</u>
Cash Flows from Capital Financing Activities		
Proceeds from Capital Debt and Leases	29,233,791	52,678,807
Capital Appropriations	3,384,009	6,847,883
Capital Gifts and Grants	233,450	42,800
Purchases of Capital Assets	(37,753,080)	(44,589,214)
Principal Paid on Capital Debt and Leases	(26,856,412)	(3,846,911)
Interest Paid on Capital Debt and Leases	(7,473,116)	(6,880,425)
Net Cash Provided (Used) by Capital Financing Activities	<u>(39,231,358)</u>	<u>4,252,940</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	356,076,388	323,259,535
Purchase of Investments	(331,553,940)	(357,417,287)
Interest on Investments	3,176,943	15,568,355
Net Cash Provided (Used) by Investing Activities	<u>27,699,391</u>	<u>(18,589,397)</u>
Net Increase in Cash	2,513,292	498,905
Cash and Cash Equivalents at Beginning of Year	<u>3,477,087</u>	<u>2,978,182</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,990,379</u>	<u>\$ 3,477,087</u>

Cleveland State University
Statement of Cash Flows (continued)

	Years Ended June 30	
	2008	2007
Reconciliation of Operating Loss to Cash Used by Operating Activities		
Operating Loss	\$ (96,784,441)	\$ (95,188,455)
Adjustments:		
Depreciation and Amortization	18,363,172	16,888,402
Changes in Assets and Liabilities:		
Accounts Receivable, Net	495,227	(1,559,375)
Notes Receivable, Net	142,816	44,402
Inventories	(18,367)	(81,091)
Prepaid Expenses and Deferred Charges	278,855	(470,599)
Accounts Payable	(1,303,388)	(399,999)
Accrued Liabilities	(2,167,920)	3,620,094
Deferred Revenue	(474,863)	448,485
Cash Used by Operating Activities	\$ (81,468,909)	\$ (76,698,136)

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

The Cleveland State University Foundation, Inc.
Statement of Financial Position
June 30, 2008 and 2007

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,128,858	\$ 9,198,419
Accounts receivable	26,771	152,042
Contributions receivable, net of allowance for uncollectible contributions	924,383	773,630
Total Current Assets	8,080,012	10,124,091
Other assets:		
Contributions receivable, net of allowance for uncollectible accounts	5,865,879	5,326,034
Long-term investments (Note 2)	32,675,020	35,189,396
Funds held on behalf of others:		
Cleveland State University (Note 11)	2,004,172	2,638,750
Cleveland State University Alumni Association (Note 11)	436,489	485,328
Total Other assets	40,981,560	43,639,508
Total Assets	\$ 49,061,572	\$ 53,763,599
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 33,696	\$ 14,520
Payable to Cleveland State University	138,544	2,655,297
Annuities payable	34,498	25,430
Total Current Liabilities	206,738	2,695,247
Noncurrent Liabilities:		
Payable to Cleveland State University	59,762	84,731
Annuities payable	189,648	116,730
Funds held on behalf of others:		
Cleveland State University (Note 11)	2,004,172	2,638,750
Cleveland State University Alumni Association (Note 11)	436,489	485,328
Total Liabilities	2,896,809	6,020,786
NET ASSETS:		
Unrestricted	320,485	246,009
Board designated - Scholarships	170,472	198,942
Total unrestricted	490,957	444,951
Temporarily restricted (Note 10)	16,219,353	21,490,888
Permanently restricted (Note 10)	29,454,453	25,806,974
Total Net Assets	46,164,763	47,742,813
Total Liabilities and Net Assets	\$ 49,061,572	\$ 53,763,599

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

Euclid Avenue Housing Corporation
Statement of Financial Position
June 30, 2008 and 2007

	2008	2007
ASSETS		
Current assets:		
Cash and Cash Equivalents	\$ 1,056,315	\$ 581,003
Cash held by the University	172,281	104,085
Total Cash	1,228,596	685,088
Bond proceeds / Investments	3,700,835	4,283,505
Student accounts receivable, net of allowance for uncollectible accounts of \$4,000 in 2008 and 2007	35,744	16,002
Other receivable	-	10,385
Accrued interest receivable	12,541	17,500
Prepaid Expenses	5,920	3,000
Total Current Assets	4,983,636	5,015,480
Other assets:		
Deferred bond issuance costs, net of accumulated amortization of \$220,998 in 2008 and \$154,626 in 2007	1,863,968	1,930,340
Property:		
Building	27,792,453	27,792,453
Building improvements	1,300	-
Furniture, fixtures and equipment	1,196,797	1,192,468
	28,990,550	28,984,921
Less: Accumulated depreciation	(1,730,862)	(863,435)
	27,259,688	28,121,486
Total Other assets	29,123,656	30,051,826
Total Assets	\$ 34,107,292	\$ 35,067,306
LIABILITIES		
Current Liabilities:		
Current portion of bonds payable (Note 11)	515,000	455,000
Accounts payable	376,532	242,546
Accrued interest	651,761	657,448
Accrued payroll	12,011	9,610
Deferred revenue	34,501	25,437
Security deposits	56,700	64,800
Total Current Liabilities	1,646,505	1,454,841
Noncurrent Liabilities:		
Bonds payable, less current portion (Note 11)	33,415,000	33,930,000
Total Liabilities	35,061,505	35,384,841
NET ASSETS (DEFICIT)		
Unrestricted	(954,213)	(317,535)
Total Net Assets	\$ 34,107,292	\$ 35,067,306

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

The Cleveland State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2008 (with comparative totals for the year ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Total 2007
Revenues					
Contributions	\$ 148,425	\$ 4,550,870	\$ 3,700,822	\$ 8,400,117	\$ 9,723,249
Endowment management fee	29,439	-	-	29,439	28,170
Investment income, including realized and unrealized gains, net	315,389	(3,862,706)	-	(3,547,317)	5,200,482
Net assets released from restrictions:					
Change in donor restrictions	-	53,343	(53,343)	-	-
Released from donor restrictions	6,013,042	(6,013,042)	-	-	-
Total revenues	6,506,295	(5,271,535)	3,647,479	4,882,239	14,951,901
Expenses					
Program services:					
Instructions	742,811	-	-	742,811	610,408
Research	213,019	-	-	213,019	424,145
Public service	1,468,290	-	-	1,468,290	671,377
Academic support	163,462	-	-	163,462	130,998
Financial aid	1,003,811	-	-	1,003,811	1,089,174
Institutional support	118,317	-	-	118,317	238,121
Auxiliary enterprises	2,270,496	-	-	2,270,496	3,274,457
Total program services	5,980,206	-	-	5,980,206	6,438,680
Supporting services:					
Management and general	420,344	-	-	420,344	422,045
Fund raising	59,739	-	-	59,739	85,197
Total supporting services	480,083	-	-	480,083	507,242
Total expenses	6,460,289	-	-	6,460,289	6,945,922
Change in Net Assets	46,006	(5,271,535)	3,647,479	(1,578,050)	8,005,979
Net Assets - Beginning of Year	444,951	21,490,888	25,806,974	47,742,813	39,736,834
Net Assets - End of Year	\$ 490,957	\$ 16,219,353	\$ 29,454,453	\$ 46,164,763	\$ 47,742,813

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

Euclid Avenue Housing Corporation
Statement of Activities
Years Ended June 30, 2008 and 2007

	2008	2007
Revenues		
Rental Income:		
Students	\$ 2,232,310	\$ 1,964,606
University	469,896	430,738
Maintenance fee - University	154,305	141,446
Interest income	146,289	263,409
Other	147,654	57,315
Total revenues	3,150,454	2,857,514
Expenses		
Interest	1,565,363	1,510,009
Depreciation and Amortization	933,800	929,808
Utilities	326,147	274,141
Payroll	391,260	254,695
Management fees	103,686	78,925
Maintenance	133,191	61,611
General and administrative	82,114	41,126
Other operating	26,523	10,808
Marketing	13,303	9,248
Accounting	7,500	-
Reserve allowance	500	4,000
Insurance	-	678
Transfer to University	203,745	-
Total expenses	3,787,132	3,175,049
Change in Net Assets	(636,678)	(317,535)
Net Assets (Deficit) - Beginning of Year	(317,535)	-
Net Assets (Deficit) - End of Year	\$ (954,213)	\$ (317,535)

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

CLEVELAND STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Cleveland State University (the University) was established by the General Assembly of the State of Ohio (the State) in 1964 by statutory act under Chapter 3344 of the Ohio Revised Code. As such, the University is a component unit of the State. The University is exempt from federal income taxes under Section 115 of the Internal Revenue Code, except for unrelated business income.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, the University's financial statements are included, as a discretely presented component unit, in the State's Comprehensive Annual Financial Report.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
 - Expendable:** Net assets whose use by the University 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. Income generated from these funds may be designated for student scholarships, loans, instruction, research, and other specific University needs.
 - Nonexpendable:** Net assets subject to externally-imposed stipulations that they be maintained permanently by the University. Income generated from these funds may be designated for student scholarships, loans, instruction, research, and other specific University needs.
- **Unrestricted:** Net assets that are not subject to externally-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or may otherwise be limited by contractual agreements with outside parties.

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

FASB Pronouncements

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

Operating Activities

The University's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that result from exchange transactions such as payments received for providing services and payments made for goods or services received. The University also classifies as operating revenue grants classified as exchange transactions and auxiliary activities. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including State appropriations and investment income. Operating expenses include educational resources, administrative expenses and depreciation on capital assets. Under the University's decentralized management structure, it is the responsibility of individual departments to determine whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The principal operating revenue is student tuition and fees. Student tuition and fees revenues are presented net of scholarships and fellowships applied to student accounts.

Summary of Significant Accounting Policies

Cash and Cash Equivalents. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments. Investments are recorded at fair value, as established by the major securities markets. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported as investment income. The University classifies all investments that mature in less than one year as current investments.

Endowment investments are subject to the restrictions of gift instruments, requiring principal to be maintained in perpetuity with only the income from the investments available for expenditure. The University may set aside other assets for the same purposes as endowment investments (quasi-endowment); the University may expend the principal of quasi-endowment at any time.

Inventories. Inventories are reported at cost. Cost is determined on the average cost basis.

Capital Assets. Capital assets are stated at historical cost or at an appraised value at date of donation, if acquired by gift. It is the University's policy to capitalize equipment costing \$2,500 or more and buildings and improvements costing \$100,000 or more. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets and is not allocated to the functional expenditure categories. Amortization of the capitalized cost of assets held under capital leases is generally computed using the straight-line method over the estimated useful lives of the underlying assets or the term of the lease, whichever is shorter. The University capitalizes but does not depreciate works of art or historical treasures that are held for exhibition, education, research and public service. Deferred bond issuance costs are capitalized and amortized over the life of the bonds using the straight-line method.

Compensated Absences. Classified employees earn vacation at rates specified under State law. Full-time administrators and twelve-month faculty earn vacation at a rate of 22 days per year. The maximum amount of vacation that an employee can carry over from one fiscal year to the next is 30 days.

All University employees are entitled to a sick leave credit equal to 10 hours for each month of service (earned on a pro-rata bases for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury, or within certain limitations, be paid to the employee upon retirement. The amount paid to an employee, with 10 or more years of service upon retirement, is limited to one-quarter of the accumulated sick leave up to a maximum of 240 hours.

The University has an accrued liability for all accumulated vacation hours, plus an estimate of the amount of sick leave that will be paid upon retirement. Salary-related fringe benefits have also been accrued.

Deferred Revenue. Deferred revenue consists primarily of amounts received in advance of an event, such as student tuition and fees, and advance ticket sales related to the next fiscal year.

Summer term tuition and fees and corresponding expenses relating to the portion of the term that is within the current fiscal year are recognized as tuition revenue and operating expense. The portion of sessions falling into the next fiscal year are recorded as deferred revenue and prepaid expense in the statement of net assets and will be recognized in the following fiscal year.

Perkins Loan Program. Funds provided by the United States government under the Federal Perkins Loan program are loaned to qualified students and re-loaned after collection. These funds are ultimately refundable to the government and, therefore, are recorded as a liability in the accompanying financial statement of net assets.

Auxiliary Enterprises. Auxiliary enterprise revenues primarily represent revenues generated by parking, residence hall, Wolstein Center, food service, bookstore, recreation center, child care center and intercollegiate athletics.

Scholarship Allowances and Student Aid. Financial aid to students is reported in the statement of revenues, expenses, and changes in net assets under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method followed by the University, scholarship allowances are computed by allocating the cash payments to students, excluding payments for services, to the ratio of aid not considered to be third-party aid to total aid.

Component Units. The Cleveland State University Foundation, Inc. (the Foundation) and the Euclid Avenue Housing Corporation (the Corporation) are private nonprofit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's or the Corporation's financial information included in the University's financial report for these differences.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Protection of University cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Under State law, financial institutions must collateralize all public deposits. The value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third-party trustees of the financial institution.

At June 30, 2008, the cash and cash equivalents balance of \$5,990,379 is after the University recorded an overdraft consisting of items in transit of \$4,533,442 in accounts payable. The bank balance at June 30, 2008 was \$3,688,657, of which \$310,624 was covered by federal depository insurance, and \$3,378,033 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

At June 30, 2007, the cash and cash equivalents balance of \$3,477,087 is after the University recorded an overdraft consisting of items in transit of \$7,960,085 in accounts payable. The bank balance at June 30, 2007 was \$2,612,839, of which \$379,113 was covered by federal depository insurance, and \$2,233,726 was covered by collateral held by the trust department of a bank other than the pledging bank in the name of the pledging bank.

Investments

In accordance with the Board of Trustees' resolution, the types of investments that may be purchased by the University include United States treasury securities, federal government agency securities, certificates of deposit, bank repurchase agreements, commercial paper, bonds and other obligations of the State of Ohio or any of its political subdivisions, the State Treasurer's Asset Reserve (STAR Ohio), bankers acceptances, money market funds, common stocks, and corporate bonds. The endowment investments are managed by the Foundation, which can also invest in real estate and alternative investments.

STAR Ohio is an investment pool managed by the Ohio state treasurer's office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. The investment is valued at STAR Ohio's share price, which represents fair market value, on June 30, 2008 and 2007.

As of June 30, 2008, the University had the following types of investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
U.S. agencies	\$ 3,019,464	\$ -	\$ 3,019,464
U.S. obligation mutual fund	5,347,571	5,347,571	-
Commercial Paper	16,921,231	16,921,231	-
Certificates of Deposit	55,500,000	55,500,000	-
STAR Ohio	9,213,228	-	-
Bond mutual funds	35,434,423	-	35,434,423
Stock mutual funds	33,339,718	-	-
Total	<u>\$ 158,775,635</u>	<u>\$ 77,768,802</u>	<u>\$ 38,453,887</u>

As of June 30, 2007, the University had the following types of investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
U.S. agencies	\$ 76,555,321	\$ 76,555,321	\$ -
U.S. obligation mutual fund	218,553	218,553	-
STAR Ohio	35,010,246	-	-
Bond mutual funds	32,292,504	-	32,292,504
Stock mutual funds	39,221,459	-	-
Total	<u>\$ 183,298,083</u>	<u>\$ 76,773,874</u>	<u>\$ 32,292,504</u>

Some of the U.S. agency securities are callable at various dates. The University believes that no securities will be called.

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.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2008 and 2007, the University's investment in STAR Ohio is rated AAA by Standard & Poor's and Moody's. While the University's bond mutual fund investment itself is not rated, the credit quality of the fund's holdings is AA or better, as rated by Standard & Poor's and Moody's. As of June 30, 2008, the University's investment in commercial paper had a rating of A.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the University will not be able to recover the value of investment securities that are in the possession of an outside party. At June 30, 2008 and 2007, the University had no exposure to custodial credit risk.

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's investment policy places no limitation on the amount that may be invested in a single issuer. At June 30, 2008 and 2007, the University did not have more than 5% of its fixed income investments in any single issuer.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At June 30, 2008 and 2007, investments include approximately \$11 million and \$13.1 million, respectively, managed by international equity managers that are subject to foreign currency risk. Although the University's investment policy does not specifically address foreign currency risk, it does limit foreign investments to no more than 20% of the portfolio.

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

At June 30, 2008 and 2007, the Foundation's investments consisted of the following:

	June 30, 2008		June 30, 2007	
	Cost	Market	Cost	Market
Stocks - domestic	\$ 3,068,920	\$ 3,780,092	\$ 2,306,657	\$ 3,620,004
Mutual funds - domestic	15,111,360	16,557,714	14,257,015	18,438,908
Mutual funds - international	2,851,993	3,718,786	2,276,338	4,211,391
Fixed income securities	9,616,560	8,618,428	9,102,094	8,919,093
Total	<u>\$ 30,648,833</u>	<u>\$ 32,675,020</u>	<u>\$ 27,942,104</u>	<u>\$ 35,189,396</u>

NOTE 3 – RECEIVABLES

The composition of accounts receivable at June 30, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Student accounts	\$ 9,485,894	\$ 10,199,231
Grants	8,594,370	10,047,540
State Capital	839,909	908,125
Other	2,399,760	1,568,218
Total Accounts Receivable	<u>21,319,933</u>	<u>22,723,114</u>
Less allowance for uncollectible accounts	<u>3,430,512</u>	<u>4,270,250</u>
Accounts Receivable - Net	<u>\$17,889,421</u>	<u>\$18,452,864</u>

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program. The composition of notes receivable at June 30, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Perkins Loan Program	\$ 13,564,834	\$ 13,375,777
Foundation Capital Campaign	59,762	84,731
Other	<u>644,284</u>	<u>647,924</u>
Total Notes Receivable	14,268,880	14,108,432
Less allowance for uncollectible accounts	<u>815,100</u>	<u>794,031</u>
Notes Receivable - Net	13,453,780	13,314,401
Less Current Portion	<u>1,236,153</u>	<u>2,116,747</u>
Total Noncurrent Notes Receivable	<u>\$ 12,217,627</u>	<u>\$ 11,197,654</u>

NOTE 4 – STATE SUPPORT

The University is a State-assisted institution of higher education, which receives a student-based subsidy from the State. This subsidy is determined annually, based upon a formula devised by the Ohio Board of Regents.

In addition, the State provides the funding and constructs major plant facilities on the University's campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn causes the construction and subsequent lease of the facility, by the Ohio Board of Regents. Upon completion, the Board of Regents turns over control of the facility to the University. Neither the obligation for the revenue bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the University's financial statements. The OPFC revenue bonds are currently being funded through appropriations to the Board of Regents by the General Assembly.

The facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the State.

NOTE 6 – NONCURRENT LIABILITIES

Noncurrent liabilities consist of the following as of June 30, 2008 and June 30, 2007:

	Due Dates	Interest Rate-%	2008 Beginning Balance	Additions	Reductions	2008 Ending Balance	Current
1996 Bonds Payable	1997-2011	5.25-5.25	\$ 1,175,000	\$ -	\$ 275,000	\$ 900,000	\$ 285,000
2003A Bonds Payable	2007-2033	2.5-5.25	32,220,000	-	1,365,000	30,855,000	1,275,000
2003B Bonds Payable	2006-2033	Variable	13,855,000	-	13,855,000	-	-
2003A Bond Premium			656,665	-	25,336	631,329	25,338
2004 Bonds Payable	2005-2034	2.25-5.25	60,325,000	-	1,500,000	58,825,000	1,550,000
2004 Bonds Premium			1,244,777	-	46,103	1,198,674	46,103
2007A Bonds Payable	2010-2036	4.00-5.75	42,110,000	-	-	42,110,000	-
2007B Bonds Payable	2011-2036	Variable	9,210,000	-	9,210,000	-	-
2007A Bond Premium			1,327,366	-	44,494	1,282,872	44,492
2008 Bonds Payable	2008-2036	3.00-4.75	-	20,910,000	-	20,910,000	305,000
Capital Leases	2008-2018	3.21-7.27	2,203,196	8,323,791	535,479	9,991,508	952,722
Total Debt			164,327,004	29,233,791	26,856,412	166,704,383	4,483,655
Perkins Student Loans			10,698,663	1,293,774	1,825,486	10,166,951	-
Deposits			526,844	2,907,597	2,872,014	562,427	-
Compensated Absences			10,495,634	-	1,840,542	8,655,092	1,247,930
			186,048,145	\$ 33,435,162	\$ 33,394,454	186,088,853	\$ 5,731,585
Less Current Portion long-term liabilities			(5,035,563)			(5,731,585)	
Long-Term Liabilities			\$ 181,012,582			\$ 180,357,268	

	Due Dates	Interest Rate-%	2007 Beginning Balance	Additions	Reductions	2007 Beginning Balance	Current
1996 Bonds Payable	1997-2011	5.25-5.25	\$ 1,435,000	\$ -	\$ 260,000	\$ 1,175,000	\$ 275,000
2003A Bonds Payable	2007-2033	2.5-5.25	33,555,000	-	1,335,000	32,220,000	1,365,000
2003B Bonds Payable	2006-2033	Variable	14,200,000	-	345,000	13,855,000	355,000
2003A Bond Premium			682,002	-	25,337	656,665	25,338
2004 Bonds Payable	2005-2034	2.25-5.25	61,335,000	-	1,010,000	60,325,000	1,500,000
2004 Bonds Premium			1,290,880	-	46,103	1,244,777	46,103
2007A Bonds Payable	2010-2036	4.00-5.75	-	42,110,000	-	42,110,000	-
2007B Bonds Payable	2011-2036	Variable	-	9,210,000	-	9,210,000	-
2007A Bond Premium			-	1,334,782	7,416	1,327,366	44,492
Capital Leases	2008-2018	1.68-7.74	2,997,226	24,025	818,055	2,203,196	689,937
Total Debt			115,495,108	52,678,807	3,846,911	164,327,004	4,300,870
Perkins Student Loans			10,422,023	2,683,448	2,406,808	10,698,663	-
Deposits			479,995	3,549,632	3,502,783	526,844	-
Compensated Absences			7,959,981	3,270,346	734,693	10,495,634	734,693
			134,357,107	\$ 62,182,233	\$ 10,491,195	186,048,145	\$ 5,035,563
Less Current Portion long-term liabilities			(4,472,960)			(5,035,563)	
Long-Term Liabilities			\$ 129,884,147			\$ 181,012,582	

In May 2008, the University issued general receipts bonds in the amount of \$20,910,000. The General Receipts Series 2008 Bonds were issued as fixed rate bonds maturing in 2013, 2033 and 2036. The proceeds of the bonds were used to refinance the 2003B and 2007B Bonds. The bonds have various call provisions.

During the year ended June 30, 2007, the University issued Series 2007A and 2007B general receipts bonds. The 2007A general receipts bonds were issued for \$42,110,000, bear interest rates between 4% and 5.75%, and mature in 2036. Proceeds will be used to fund the construction of a new Student Center.

The Series 2007B general receipts bonds were issued for \$9,210,000. They bear variable interest rates that reset weekly and mature in 2036. The interest rate is set at rates based upon yield evaluations at par of comparable securities. The interest rate was 4.51% at April 24, 2008 and 3.73% at June 30, 2007. Proceeds were to be used to fund the construction of a new building on the University's campus to house the College of Education and Human Services. This bond was called and refinanced during the year, using the proceeds of the General Receipts Series 2008 Bonds.

In August 2004, the University issued general receipts bonds in the amount of \$62,000,000. The General Receipts Series 2004 Bonds were issued as fixed rate bonds with serial maturities through 2008 and term bonds maturing in 2014, 2019, 2024, 2029 and 2034. The proceeds of the bonds were used to pay the cost of a variety of projects, including construction of a student center, parking facilities and a bookstore, renovations to a portion of Fenn Tower, and landscaping and other permanent site improvements to the main plaza.

In June 2003, the University issued Series 2003A and 2003B (Series 2003) general receipts bonds in the total amount of \$50,280,000, and mature in 2033. The bonds were used to refund outstanding Series 1993 general receipts bonds, rehabilitate the Howe Mansion, construct an Administrative Center and construct a Recreation and Fitness Center. The variable interest rate is set weekly at rates based upon yield evaluations at par of comparable securities, and was 4.51% at April 24, 2008, and 3.73% at June 30, 2007.

The University issued \$3,430,000 of general receipts bonds on November 1, 1996 (Series 1996). The proceeds were used to refinance existing debt and to renovate existing buildings. The bonds have various call provisions, and mature through 2011.

Interest expense on indebtedness was \$2,908,053 in fiscal 2008 and \$1,881,710 in fiscal 2007. On construction-related debt, interest cost of \$4,447,044, net of \$3,208,696 of interest earned on invested proceeds, was capitalized in fiscal 2008 and \$5,107,959, net of \$2,673,160 of interest earned on invested proceeds, was capitalized in fiscal 2007.

The University leases various pieces of equipment which have been recorded under various capital leases in amounts representing the present value of future minimum lease payments. Capital lease obligations are collateralized by equipment with an aggregate net book value of \$7,138,178 at June 30, 2008 and \$951,738 at June 30, 2007. The capital leases have varying maturity dates through 2018.

Principal and interest payable for the next five years and in subsequent five-year increments are as follows:

	Bonds Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2009	\$ 3,415,000	\$ 7,297,825	\$ 952,722	\$ 414,145
2010	4,350,000	7,131,775	968,321	372,936
2011	4,510,000	6,975,200	993,009	330,828
2012	4,345,000	6,806,085	1,030,270	287,551
2013	9,635,000	6,629,935	1,074,327	242,500
2014-2018	21,770,000	29,064,463	4,972,859	563,257
2019-2023	24,430,000	23,279,130	-	-
2024-2028	30,110,000	16,821,088	-	-
2029-2033	38,180,000	8,742,437	-	-
2034-2036	12,855,000	1,039,137	-	-
	<u>\$ 153,600,000</u>	<u>\$ 113,787,075</u>	<u>\$ 9,991,508</u>	<u>\$ 2,211,217</u>

The University has entered into various lease agreements for office equipment, and office and classroom space, which are considered operating leases. The University has leased space in the Fenn Tower building from the Corporation, which it uses for classrooms and meeting rooms. Total rental expense under operating leases during the years ended June 30, 2008 and 2007 amounted to \$1,018,935 and \$1,448,187, respectively. The operating leases have varying maturity dates through 2037.

Future minimum operating lease payments as of June 30, 2008 are as follows:

Year Ending June 30	Operating Leases
2009	\$ 1,026,437
2010	1,030,628
2011	1,051,217
2012	1,055,936
2013	1,070,707
2014-2018	2,699,446
2019-2023	2,349,500
2024-2028	2,349,500
2029-2033	2,349,500
2034-2037	1,448,858
	<u>\$ 16,431,729</u>

NOTE 7 – EMPLOYMENT BENEFIT PLANS

Retirement Plans

Substantially all non-student University employees are covered by either the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS). Both systems are cost-sharing, multiple-employer, defined benefit plans.

STRS is a statewide retirement plan for certified teachers. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statute. Contribution rates are established by the State Teachers Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Currently, employees contribute 10% of covered payroll and employers contribute 14% of covered payroll. The University's contributions to STRS for the years ending June 30, 2008, 2007, and 2006 were \$7,408,781, \$7,323,571, and \$7,199,927, respectively, equal to the required contributions for each year. STRS issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3771, by calling 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

OPERS is a statewide retirement plan, which covers non-teaching University employees. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by State statute. Contribution rates are established by the Ohio Public Employee Retirement Board, not to exceed the statutory maximum rates of 10% for employees and 14% for employers. Effective January 1, 2008, employees contribute 10% of covered payroll and employers contribute 14% of covered payroll. Prior to January 1, 2008, employees contributed 9.5% of covered payroll and employers contributed 13.77% of covered payroll. The University's contributions to OPERS for the years ending June 30, 2008, 2007, and 2006 were \$7,161,846, \$6,628,311, and \$6,380,259, respectively, equal to the required contributions for each year. OPERS issues a stand-alone financial report. The report may be obtained by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Alternative Retirement Plans

The University also offers eligible employees an alternative retirement program. The University is required to contribute to STRS 3.50% of earned compensation for those employees participating in the alternative retirement program. The University's contributions for the years ended June 30, 2008, 2007 and 2006 were \$319,559, \$309,874 and \$274,505, respectively, which equal 3.50% of earned compensation.

Post-employment Benefits

STRS provides other postemployment benefits (OPEB) to all retirees and their dependents, while OPERS provides postretirement health care coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available under OPERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 1.0% of the total 14.00%, while the OPERS rate was 5.0% from January 1, 2007 through June 30, 2007 and 6.0% from July 1 through December 31, 2007 of the total 13.77% for the year ended June 30, 2007.

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS and OPERS. Postretirement healthcare under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to \$4.1 billion at June 30, 2007 (the latest information available). The number of benefit recipients eligible for OPEB was 122,934 for STRS at June 30, 2007. The amount contributed by the University to STRS to fund these benefits for the years ended June 30, 2008, 2007 and 2006 was \$529,199, \$523,112, and \$2,314,262, respectively.

Postretirement health care under OPERS is advance-funded on an actuarially determined basis. The actuarial value of OPERS net assets available for OPEB at December 31, 2006 (the latest information available) is \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively. Significant actuarial assumptions include a 6.5% investment return, a 4% individual pay increases, and a 4% increase in health care costs. All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. The number of OPERS active contributing participants was 374,979 for the year ended December 31, 2007. The amount contributed by the University to OPERS for OPEB funding for the years ended June 30, 2008, 2007 and 2006 was \$2,579,782, \$2,184,545 and \$2,376,436, respectively.

NOTE 8 – RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On July 1, 1993, the University joined with eleven other state-assisted universities in Ohio to form an insurance-purchasing pool for the acquisition of commercial property and casualty insurance. The University pays annual premiums to the pool for its property and casualty insurance coverage based on its percentage of the total insurable value to the pool. Future contributions will be adjusted based upon each university’s loss history. Each university has a base deductible of \$100,000. The next \$250,000 of any one claim is the responsibility of the pool, which has a total annual aggregate deductible limit of \$700,000. The commercial property insurer is liable for the amount of any claim in excess of \$350,000, or \$100,000 in the event the pool has reached its annual limit. There were no significant reductions in coverage from the prior year.

During the normal course of its operations, the University has become a defendant in various legal actions. It is not possible to estimate the outcome of these legal actions; however, in the opinion of legal counsel and the University administration, the disposition of these pending cases will not have a material adverse effect on the financial condition or operations of the University. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The University maintains a self-insured dental plan for its employees. The University’s risk exposure is limited to claims incurred. The changes in the total liability for actual and estimated dental claims for the years ended June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Liability at beginning of year	\$ 17,809	\$ 143,350
Claims Incurred	1,099,177	966,043
Claims Paid	(1,089,912)	(1,091,584)
Liability at end of year	<u>\$ 27,074</u>	<u>\$ 17,809</u>

The University maintains a self-insured medical plan for its employees. The University's risk exposure is limited to claims incurred. The changes in the total liability for actual and estimated medical claims for the years ended June 30, 2008 and 2007 are summarized below:

	<u>2008</u>	<u>2007</u>
Liability at beginning of year	\$ 1,010,502	\$ 873,682
Claims Incurred	8,456,125	8,053,771
Claims Paid	(8,414,024)	(7,896,187)
IBNR-Increase (Decrease) in estimated claims	146,781	(20,764)
Liability at end of year	<u>\$ 1,199,384</u>	<u>\$ 1,010,502</u>

Medical claims are based upon estimates of the claims liabilities. Estimates are based upon past experience, medical inflation trends, and current claims outstanding, including year-end lag analysis. Differences between the estimated claims payable and actual claims paid are reported as an operating expense in the Statement of Revenues, Expenses and Changes in Net Assets.

The University participates in a State pool of agencies and universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating state agencies and universities in the Plan are accrued by the Ohio Bureau of Workers' Compensation (the Bureau) based on estimates that incorporate past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the Plan annually fund the workers' compensation liability based on rates set by the Bureau to collect cash needed in subsequent fiscal years to pay the workers' compensation claims of participating state agencies and universities.

NOTE 9 – GRANT CONTINGENCIES

The University receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the University. However, in the opinion of the University administration, any such disallowed claims will not have a material effect on any of the financial statements of the University at June 30, 2008.

NOTE 10 – NET ASSETS

The Temporary and permanently restricted net assets of the Foundation are balances whose use by the Foundation has been limited by the donors to a specific time period or purpose. Temporarily restricted net assets are available, and permanently restricted net assets are held in perpetuity, for the following purposes:

	Temporarily Restricted	Permanently Restricted
Instruction/Research	\$ 4,509,174	\$ 7,772,341
Public service	5,374,780	24,500
Academic support	969,039	950,142
Financial aid	4,036,500	19,622,411
Institutional support	1,128,977	1,048,722
Auxiliary enterprises	200,883	36,337
	\$ 16,219,353	\$ 29,454,453

NOTE 11 – COMPONENT UNITS

The Foundation and the Corporation are legally separate not-for-profit entities organized for the purpose of providing support to the University. Both the Foundation and the Corporation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Board of the Foundation is self-perpetuating and consists of business leaders and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Complete financial statements for the Foundation can be obtained from the Office of the Executive Director at 2121 Euclid Avenue, Mather Mansion Room 105, Cleveland, OH 44115-2214.

During the years ended June 30, 2008 and 2007, the Foundation paid \$5,331,260 and \$6,130,698, respectively, to the University. At June 30, 2008 and 2007, the University had receivables from the Foundation totaling \$198,306 and \$2,740,027, respectively.

As authorized by the Board of Trustees, beginning in fiscal year 1998, the University placed Endowment and Quasi-Endowment funds on deposit with the Foundation for investment. At June 30, 2008 and 2007, the amount on deposit with the Foundation totaled \$2,004,172 and \$2,638,750, respectively.

The Corporation was organized primarily to further the educational mission of the University by developing, owning and managing housing for the students, faculty and staff of the University. On March 1, 2005, the Corporation leased the Fenn Tower building, located on the University's campus, from the University. Annual rent is equal to the net available cash flows from the Fenn Tower project. No rent was paid during fiscal year 2008. On March 1, 2005, the Corporation entered into a Development Agreement with American Campus Communities (ACC) to plan, design and construct housing units in Fenn Tower. In addition, the Corporation entered into a Management Agreement with ACC to manage Fenn Tower. The project was completed in August 2006. The facility has the capacity to house 430 residents.

On March 17, 2005, the Corporation issued \$34,385,000 of Cleveland-Cuyahoga County Port Authority bonds (Series 2005 Bonds) to finance the costs of the Fenn Tower project. The Series 2005 Bonds are serial bonds maturing between 2007 and 2036. Interest rates are fixed and vary from 3.0% to 4.5%. Principal and interest payable for the next five years and in subsequent five-year increments are as follows:

	Principal	Interest
2009	\$ 515,000	\$ 1,564,225
2010	575,000	1,547,488
2011	635,000	1,527,362
2012	660,000	1,503,550
2013	685,000	1,478,800
2014-2018	3,860,000	6,949,150
2019-2023	5,015,000	5,916,125
2024-2028	6,270,000	4,543,375
2029-2033	7,955,000	2,859,125
2034-2036	7,760,000	892,125
	<u>\$ 33,930,000</u>	<u>\$ 28,781,325</u>

Complete financial statements for the Corporation can be obtained from the Office of the President at 2121 Euclid Avenue, Cleveland, OH 44115-2214.