

# **Cleveland State University**

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**Financial Report  
Including Supplemental Information  
June 30, 2011**

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## Independent Auditor's Report

To the Board of Trustees  
Cleveland State University

We have audited the basic financial statements of Cleveland State University, a component unit of the State of Ohio, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 14, 2011. Those basic financial statements are the responsibility of the management of Cleveland State University. Our responsibility is to express an opinion on these basic financial statements based on our audits. We did not audit the financial statements of Cleveland State University Foundation, Inc. and Euclid Avenue Housing Corporation, which represent all of the assets and revenue of the presented component units ("component units"). Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland State University and its presented component units as of June 30, 2011 and 2010 and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated October 28, 2011 on our consideration of Cleveland State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the years ended June 30, 2011 and 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control 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 audits.

To the Board of Trustees  
Cleveland State University

The management's discussion and analysis presented on pages 3 through 10 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Morse, PLLC*

Toledo, Ohio  
October 28, 2011

# 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, 2011. 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 revenue, 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 revenue 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 the management's discussion and analysis. Financial statements for the Foundation can be obtained from the Office of the Executive Director at 2121 Euclid Avenue, Keith Building Room 300, 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, 2011, 2010 and 2009 is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 49,912,965	\$ 51,420,926	\$ 48,233,371
Noncurrent assets:			
Capital assets, net	481,088,738	460,153,549	379,904,921
Other	<u>89,488,453</u>	<u>99,693,462</u>	<u>150,479,231</u>
Total assets	620,490,156	611,267,937	578,617,523
Current liabilities	43,914,067	42,131,497	42,170,066
Noncurrent liabilities	<u>229,838,876</u>	<u>232,077,323</u>	<u>223,189,761</u>
Total liabilities	<u>273,752,943</u>	<u>274,208,820</u>	<u>265,359,827</u>
Net assets	\$ <u>346,737,213</u>	\$ <u>337,059,117</u>	\$ <u>313,257,696</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 decreased in 2011 from 2010 primarily due to a decrease in investments, which was partially offset by an increase in cash.

Current assets increased in 2010 from 2009 primarily due to an increase in cash and cash equivalents, which was partially offset by a decrease in investments. In 2010, the University kept most of its cash on deposit with the bank, because the rate of interest paid by the bank was greater than other short-term investment vehicles.

Net capital assets increased in 2011 from 2010 by \$20.9 million, or 4.5%, and in 2010 from 2009 by \$80.2 million, or 21.1%. Both increases were due to construction on the University's campus. Projects under construction during these years include a new student center building and a new building to house the College of Education and Human Services.

Other assets decreased in 2011 from 2010 by \$10.2 million or 10.2%. The decrease was due primarily to the spending of bond proceeds on construction.

Other assets decreased in 2010 from 2009 by \$50.8 million, or 33.7%. The decrease was due primarily to the spending of bond proceeds on construction.

Liabilities decreased in 2011 from 2010 by .5 million or .02%. Liabilities increased in 2010 from 2009 by \$8.8 million, or 3.3%, due primarily to a \$14.5 million capital lease for a new parking garage that was entered into in 2010.

### **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 \$45.7 million in 2011, \$100.4 million in 2010, and \$57.1 million in 2009. Capital retirements totaled \$5.9 million in 2011, \$6.0 million in 2010, and \$25.7 million in 2009. Capital additions and retirements for 2011, 2010 and 2009 exclude transfers from construction in progress to buildings in the amounts of \$87.0 million, \$31.3 million and \$0.7 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 \$4.6 million in 2011, \$20.0 million in 2010, and \$15.1 million in 2009.

In August 2009, the University entered into a capital lease with the Corporation in the amount of \$14.5 million. The lease covers a parking garage that was constructed by the Corporation on the University's campus. The lease requires the University to operate and maintain the garage, and to make periodic payments to the Corporation equal to its required debt service payments.

In March 2009, the University entered into a capital lease in the amount of \$42.8 million. Proceeds will be used to fund a variety of energy conservation projects on the University's campus. When the projects are complete, energy savings will be sufficient to fund the lease payments.

### **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, 2011, 2010 and 2009 are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Invested in capital assets, net of related debt	\$ 249,745,249	\$ 254,199,231	\$ 246,794,695
Restricted - expendable	17,002,312	15,128,293	17,078,592
Restricted - nonexpendable	1,256,241	1,100,356	917,117
Unrestricted	<u>78,733,411</u>	<u>66,631,237</u>	<u>48,467,292</u>
Total net assets	<u>\$ 346,737,213</u>	<u>\$ 337,059,117</u>	<u>\$ 313,257,696</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 both 2011 and 2010, 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 revenue 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 both 2011 and 2010.

Unrestricted net assets are not subject to externally imposed stipulations. This category includes funds functioning as endowment (quasi-endowment) of \$5.3 million at June 30, 2011, \$4.5 million at June 30, 2010, and \$4.0 million at June 30, 2009. The changes in value from year to year are due to gains or losses on investments.

For the year ended June 30, 2011, the University had an increase in total net assets of \$9.6 million, or 2.9%. Net assets invested in capital assets, net of related debt, decreased by \$4.4 million, or -1.7%, because deductions and depreciation expense exceeded capital asset additions. Unrestricted net assets increased by \$12.1 million or 18.2%, due primarily to increases in net tuition income (which went from \$126.2 million in 2010 to \$140.7 million in 2011) and in investment income (which went from \$7.7 million in 2010 to \$13.2 million in 2011), and increased operating expenses (which went from \$269.7 million in 2010 to \$292.2 million in 2011). Expenses for salaries and wages, and depreciation were higher in 2011 than 2010.

For the year ended June 30, 2010, the University had an increase in total net assets of \$23.8 million, or 7.6%. Net assets invested in capital assets, net of related debt, increased by \$7.4 million, or 3.0%, because capital asset additions exceeded deductions and depreciation expense. Unrestricted net assets increased by \$18.2 million, or 37.5%, due primarily to increases in net tuition income (which went from \$115.3 million in 2009 to \$126.2 million in 2010) and in investment income (which went from \$6.5 million in 2009 to \$7.7 million in 2010), along with a decrease in operating expenses in 2010 from 2009 of \$0.2 million. The decrease in operating expenses was the result of a freeze on salaries and wages and energy conservation efforts.

### **Statement of Revenue, Expenses and Changes in Net Assets**

The statement of revenue, expenses and changes in net assets presents the revenue 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 assistance. 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 revenue, expenses, and changes in net assets for the years ended June 30, 2011, June 30, 2010 and June 30, 2009 are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue:			
Net student tuition and fees	\$ 140,713,140	\$ 126,182,341	\$ 115,263,410
Grants and contracts	19,208,702	20,480,512	18,788,895
Other	<u>25,643,144</u>	<u>21,103,594</u>	<u>20,712,482</u>
Total operating revenue	185,564,986	167,766,447	154,764,787
Operating expenses:			
Educational and general	236,226,386	226,629,451	226,598,855
Auxiliary enterprises	31,200,532	23,386,092	25,553,858
Depreciation and amortization	<u>24,818,443</u>	<u>19,722,338</u>	<u>17,742,326</u>
Total operating expenses	<u>292,245,361</u>	<u>269,737,881</u>	<u>269,895,039</u>
Operating loss	(106,680,375)	(101,971,434)	(115,130,252)
Nonoperating revenue, net:			
State appropriations	63,544,555	63,692,313	79,056,333
Other	<u>48,198,477</u>	<u>42,102,246</u>	<u>12,664,624</u>
Gain (loss) before other changes	5,062,657	3,823,125	(23,409,295)
Other changes	<u>4,615,439</u>	<u>19,978,296</u>	<u>15,081,561</u>
Increase (decrease) in net assets	9,678,096	23,801,421	(8,327,734)
Net assets at beginning of year	<u>337,059,117</u>	<u>313,257,696</u>	<u>321,585,430</u>
Net assets at end of year	<u>\$ 346,737,213</u>	<u>\$ 337,059,117</u>	<u>\$ 313,257,696</u>

Total revenue and other changes in fiscal 2011, 2010 and 2009 were \$311.4 million, \$298.8 million, and \$264.9 million, respectively. The most significant sources of 2011 operating revenue for the University were student tuition and fees of \$140.7 million, grants and contracts of \$19.2 million, and auxiliary services of \$20.8 million.

Revenue from tuition and fees (net of scholarship allowances) increased in 2011 from 2010 by \$14.5 million, or 11.5% due to an increase in enrollment and an increase in tuition rates. Headcount enrollment increased by 5.3% from the prior year, while full-time equivalent enrollment increased by 6.1% from the prior year. A tuition increase of 3.3% was implemented in the Fall 2011 semester.

Revenue from tuition and fees (net of scholarship allowances) increased in 2010 from 2009 by \$10.9 million, or 9.5%, due to an increase in enrollment and an increase in tuition rates. Headcount enrollment increased by 6.9% from the prior year, while full-time equivalent enrollment increased by 7.4% from the prior year. A tuition increase of 3.5% was implemented in the Spring 2010 semester.

Revenue from grants and contracts increased in 2011 by \$3.4 million or 7.5%, and increased in 2010 by \$8.5 million or 23.2%. The increases are due to higher revenue from federal grants and contracts.

Total expenses in fiscal 2011, 2010 and 2009 were \$301.7 million, \$275.0 million, and \$273.3 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. The increase in total expenses of \$26.7 million (10.0%) in 2011 was due primarily to increased interest on debt and depreciation expense. The increase in total expenses of \$1.7 million (0.6%) in 2010 was due primarily to increased interest on debt.

Sources of nonoperating revenue include State appropriations of \$63.5 million in 2011, \$63.7 million in 2010, and \$79.1 million in 2009; grants and contracts of \$29.5 million in 2011, \$24.8 million in 2010, and \$18.0 million in 2009; gifts of \$4.4 million in 2011, \$4.5 million in 2010, and \$4.6 million in 2009; and investment income (loss) of \$13.2 million in 2011, \$7.7 million in 2010, and (\$6.5 million) in 2009. State funding decreased in 2011 by \$.1 million or .23% and by \$15.4 million in 2010, or 19.4%, as the State used federal stimulus dollars to replace State funds. Such federal stimulus funds passed-through the State and received by the University as subsidy amounted to \$10.6 million in 2011 and \$10.4 million in 2010.

Net nonoperating revenue increased in 2011 from 2010 by \$5.9 million, or 5.62%, due primarily to increases in funding for the federal Pell Grants program and an increase in investment income. Net nonoperating revenue increased in 2010 from 2009 by \$14.1 million, or 15.3%, due primarily to increases in funding for the federal Pell Grants program and federal stimulus funds, offset by a decrease in State support.

Other changes consist primarily of State capital appropriations of \$4.6 million in 2011, \$20.0 million in 2010, and \$15.1 million in 2009.

### **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, 2011, June 30, 2010 and June 30, 2009 is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net cash provided (used) by:			
Operating activities	\$ (86,218,223)	\$ (83,066,244)	\$ (91,764,282)
Noncapital financing activities	108,664,963	103,454,861	101,999,581
Capital financing activities	(46,791,000)	(73,968,302)	(4,261,211)
Investing activities	<u>27,460,659</u>	<u>66,793,739</u>	<u>1,006,976</u>
Net increase in cash	3,116,399	13,214,054	6,981,064
Cash at beginning of year	<u>24,270,510</u>	<u>11,056,456</u>	<u>4,075,392</u>
Cash at end of year	<u>\$ 27,386,909</u>	<u>\$ 24,270,510</u>	<u>\$ 11,056,456</u>

Major sources of cash included student tuition and fees of \$138.2 million in 2011, \$125.2 million in 2010, and \$116.1 million in 2009; State appropriations of \$74.1 million in 2011, \$74.1 million in 2010, and \$79.1 million in 2009; grants and contracts (operating and nonoperating) of \$47.0 million in 2011, \$46.0 million in 2010, and \$38.4 million in 2009; and auxiliary activities of \$20.8 million in 2011, \$15.9 million in 2010, and \$16.7 million in 2009.

The largest payments were for employee compensation and benefits totaling \$165.6 million in 2011, \$163.9 million in 2010, and \$163.8 million in 2009; suppliers of goods and services totaling \$103.0 million in 2011, \$88.8 million in 2010, and \$86.8 million in 2009; and purchases of capital assets totaling \$42.6 million in 2011, \$99.4 million in 2010, and \$60.1 million in 2009.

The change in cash flows from 2011 to 2010 and 2009 to 2010 in the investing category is due primarily to the University electing to leave most of its cash in the bank (because the rate of return was higher than other short-term investment vehicles), which resulted in a decrease in investments purchased.

### **Credit Rating**

The University's bonds are rated "A" by Standard & Poor's, with the most recent rating published on April 14, 2008. An "A" rating indicates a strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. This rating is consistent with the years ended June 30, 2010 and 2009. The highest achievable rating is "AAA." The University's capacity to meet its financial obligations is considered strong.

### **Looking Ahead**

The primary challenge facing Ohio public institutions of higher learning, including Cleveland State University (CSU), is remaining true to their missions in the face of shrinking public assistance. In the State of Ohio's FY12- FY13 budget, CSU lost approximately \$11 million, or 15%, of its State Share of Instruction (SSI) allocation, the major state funding source for state colleges and universities. In order to help offset this significant decline in operating revenue, the University implemented plans for certain revenue enhancements and expense reductions as part of its FY12 Operating Budget plan. Revenue from student instructional fee tuition increased 10.2% in FY11 over FY10 due to a 5% increase in student credit hour enrollment and an increase in undergraduate and graduate tuition rates of 3.3% and an increase in the law tuition rate of 6.75%. Anticipated FY12 tuition revenue should benefit from improved retention of students from FY11 plus an expected increase of approximately 2% in student credit hour enrollment in FY12, along with a tuition rate increase of approximately 5% for undergraduates and graduate courses and a 9% increase in the tuition rate for law courses. However, the FY12 ratio of state funding as a percentage of total operating revenue continued to fall to approximately 29%, giving rise to a heavier reliance on student tuition as the primary source of revenue. The ability of the University to fulfill its mission and execute its strategic plan is even more dependent upon student enrollment and tuition than it was just a year ago.

The University is also affected by decisions at the state level regarding capital funding through the biennial capital appropriations bill. The funds pay for campus renovation and maintenance of existing facilities, as well as refunding debt for state-approved projects that the University has assumed on its own. The State is not expected to provide any capital funding for the capital cycle FY11-FY12. As a result of missing an entire capital funding cycle, the University has begun to reserve operating funds for undertaking necessary capital maintenance and renovation projects on campus. The outlook for the State's FY13-FY14 capital appropriations bill is uncertain at this time. While the State anticipates some level of appropriation, it remains to be seen whether it will be funded at historical levels.

Cleveland State University received continuing accreditation by the North Central Association of Colleges and Schools (NCA), for an additional 10-year period (2011-2020) without any conditions or qualifications. A team from the NCA visited the University in Fall 2010 as part of the standard reaccreditation process.

The University continues to face significant cost pressures in the future. These relate to attracting and retaining high quality faculty and staff, increased costs of employee benefits, most notably medical care and prescription drug coverage, and the cost of energy. The University recently reached labor contract agreements with its three major bargaining units - AAUP (faculty union), SEIU and CWA (clerical and service employees.) These contracts are for a term of three years.

In the summer of 2010, the University's president appointed a budget task force and charged it to make recommendations as to how the University would maintain a balanced budget, pending state reductions in subsidy (SSI) for FY12. Various recommendations to the president were accepted and implemented, resulting in both labor and other expense reductions to the University's FY12 budget. All areas of the University were directed to provide operating plans at reduced budget levels and reductions were made strategically by the president, the senior management team, and with assistance of the Budget Task Force. The core missions of student instruction and student services were essentially preserved with some moderate reductions. Other University support functions contributed more significantly to the budget targets. The University traditionally monitors its revenue sources and the operating budgets of its units very closely. While operating at a lower level of state subsidy in FY12, it appears that, barring unforeseen events, CSU should receive its expected FY12 allocation of subsidy from the State. Instructional fee tuition revenue for the Fall 2011 semester was essentially at the plan level - \$250,000 short of the revenue budget of \$64.6 million, .4% below plan.

**Cleveland State University**  
**Statement of Net Assets**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 27,386,909	\$ 24,270,510
Investments (Note 2)	9,741	5,018,111
Accounts Receivable, Net (Note 3)	19,897,366	19,417,920
Notes Receivable, Net (Note 3)	1,158,498	1,276,989
Accrued Interest Receivable	2,028	12,491
Prepaid Expenses, Deferred Charges and Inventories	1,458,423	1,424,905
Total Current Assets	49,912,965	51,420,926
Noncurrent Assets:		
Restricted Investments (Note 2)	2,116,457	17,187,619
Long-Term and Endowment Investments (Note 2)	75,302,992	69,840,834
Notes Receivable, Net (Note 3)	9,831,992	10,334,360
Deferred Bond Premium and Issuance Costs	2,237,012	2,330,649
Capital Assets, Net (Note 5)	481,088,738	460,153,549
Total Noncurrent Assets	570,577,191	559,847,011
Total Assets	620,490,156	611,267,937
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	9,202,832	8,994,419
Construction Accounts Payable	1,029,689	3,933,523
Accrued Liabilities	8,932,323	8,394,846
Accrued Interest Payable	2,893,488	1,439,785
Deferred Revenue	9,558,669	10,279,623
Compensated Absences - Current Portion (Note 6)	902,939	636,708
Obligations Under Capital Leases - Current Portion (Note 6)	6,933,194	3,826,660
Long-Term Debt - Current Portion (Note 6)	4,460,933	4,625,933
Total Current Liabilities	43,914,067	42,131,497
Noncurrent Liabilities:		
Accrued Liabilities (Note 6)	12,387,423	11,199,569
Compensated Absences (Note 6)	8,726,234	8,556,310
Obligations Under Capital Leases (Note 6)	69,096,076	68,231,368
Long-Term Debt (Note 6)	139,629,143	144,090,076
Total Noncurrent Liabilities	229,838,876	232,077,323
Total Liabilities	273,752,943	274,208,820
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	249,745,249	254,199,231
Restricted, Expendable	17,002,312	15,128,293
Restricted, Nonexpendable	1,256,241	1,100,356
Unrestricted	78,733,411	66,631,237
Total Net Assets	\$ 346,737,213	\$ 337,059,117

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

**Cleveland State University**  
**Statement of Revenue, Expenses, and Changes in Net Assets**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Revenue</b>		
Operating Revenue:		
Student Tuition and Fees	\$ 159,331,825	\$ 143,288,911
Less Scholarship Allowances	18,618,685	17,106,570
Net Student Tuition and Fees	140,713,140	126,182,341
Federal Grants and Contracts	9,944,701	11,992,099
State Grants and Contracts	5,726,269	6,296,917
Local Grants and Contracts	765,192	490,186
Private Grants and Contracts	2,772,540	1,701,310
Sales and Services	4,297,708	4,773,836
Auxiliary Enterprises	20,845,190	15,912,209
Other Sources	500,246	417,549
Total Operating Revenue	185,564,986	167,766,447
<b>Expenses</b>		
Operating Expenses:		
Instruction	94,507,110	92,025,220
Research	12,295,867	9,688,834
Public Service	8,193,701	11,186,289
Academic Support	23,531,908	22,934,405
Student Services	20,953,129	20,105,695
Institutional Support	30,856,817	28,300,239
Operation and Maintenance of Plant	26,045,710	24,816,384
Scholarships and Fellowships	19,842,144	17,572,385
Auxiliary Enterprises	31,200,532	23,386,092
Depreciation and Amortization	24,818,443	19,722,338
Total Operating Expenses	292,245,361	269,737,881
Operating Loss	(106,680,375)	(101,971,434)
<b>Nonoperating Revenue (Expenses)</b>		
State Appropriations	63,544,555	63,692,313
Federal Appropriations	10,567,874	10,367,388
Federal Grants and Contracts	26,129,061	21,555,446
State Grants and Contracts	3,392,498	3,279,699
Gifts	4,390,082	4,477,080
Investment Income	13,179,158	7,698,092
Interest on Debt	(9,460,196)	(5,275,459)
Net Nonoperating Revenue	111,743,032	105,794,559
Gain Before Other Changes	5,062,657	3,823,125
<b>Other Changes</b>		
State Capital Appropriations	4,615,439	19,978,296
Increase in Net Assets	9,678,096	23,801,421
<b>Net Assets</b>		
Net Assets at Beginning of Year	337,059,117	313,257,696
Net Assets at End of Year	\$ 346,737,213	\$ 337,059,117

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

**Cleveland State University  
Statement of Cash Flows**

	<b>Years Ended June 30</b>	
	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Cash Flows from Operating Activities</b>		
Tuition and Fees	\$ 138,258,310	\$ 125,222,415
Grants and Contracts	17,524,694	21,194,066
Payments to or on Behalf of Employees	(165,623,922)	(163,937,678)
Payments to Vendors	(103,059,287)	(88,802,575)
Loans Issued to Students	(482,271)	(1,160,506)
Collection of Loans to Students	1,552,483	3,299,546
Auxiliary Enterprises Charges	20,813,816	15,927,103
Other Receipts	4,797,954	5,191,385
Net Cash Used in Operating Activities	<u>(86,218,223)</u>	<u>(83,066,244)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State Appropriations	74,112,429	74,059,701
Grants and Contracts	29,521,559	24,835,145
Gifts	4,390,082	4,477,080
Cash Provided by Stafford and PLUS Loans	111,891,358	107,184,246
Cash Used by Stafford and PLUS Loans	(112,000,000)	(107,163,728)
Cash Provided by Agency Fund Activities	(972,680)	(426,322)
Cash Used by Agency Fund Activities	1,722,215	488,739
Net Cash Provided by Noncapital Financing Activities	<u>108,664,963</u>	<u>103,454,861</u>
<b>Cash Flows from Capital Financing Activities</b>		
Proceeds from Capital Debt and Leases	7,459,451	17,680,920
Capital Appropriations	4,615,439	19,978,296
Capital Gifts and Grants	0	0
Purchases of Capital Assets	(42,642,238)	(99,417,276)
Principal Paid on Capital Debt and Leases	(8,114,143)	(6,970,835)
Interest Paid on Capital Debt and Leases	(8,109,509)	(5,239,407)
Net Cash Used in Capital Financing Activities	<u>(46,791,000)</u>	<u>(73,968,302)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sales and Maturities of Investments	16,579,507	62,563,273
Purchase of Investments	(1,962,133)	(3,353,487)
Interest on Investments	12,843,285	7,583,953
Net Cash Provided by Investing Activities	<u>27,460,659</u>	<u>66,793,739</u>
Net Increase in Cash	3,116,399	13,214,054
Cash and Cash Equivalents at Beginning of Year	24,270,510	11,056,456
Cash and Cash Equivalents at End of Year	<u>\$ 27,386,909</u>	<u>\$ 24,270,510</u>

**Cleveland State University**  
**Statement of Cash Flows (continued)**

	<b>Years Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Operating Loss to Cash Used by Operating Activities</b>		
Operating Loss	\$ (106,680,375)	\$ (101,971,434)
Adjustments:		
Depreciation and Amortization	24,818,443	19,722,338
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(3,497,203)	(841,231)
Notes Receivable, Net	1,070,212	2,139,040
Inventories	121,900	(29,884)
Prepaid Expenses and Deferred Charges	(155,418)	(104,994)
Accounts Payable	(2,647,476)	(1,919,637)
Accrued Liabilities	1,472,648	(650,335)
Deferred Revenue	(720,954)	589,893
Cash Used by Operating Activities	\$ (86,218,223)	\$ (83,066,244)

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

**The Cleveland State University Foundation, Inc.**  
**Statement of Financial Position**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,603,609	\$ 5,051,468
Accounts receivable	387,869	220,221
Contributions receivable, net of allowance for uncollectible contributions	1,034,821	912,225
Total Current Assets	7,026,299	6,183,914
Other assets:		
Contributions receivable, net of allowance for uncollectible accounts	6,880,023	4,706,404
Long-term investments	50,974,702	38,383,659
Funds held on behalf of others:		
Cleveland State University (Note 11)	2,590,934	1,993,632
Cleveland State University Alumni Association	366,939	313,317
Total Other Assets	60,812,598	45,397,012
Total Assets	\$ 67,838,897	\$ 51,580,926
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 19,243	\$ 45,814
Payable to Cleveland State University (Note 11)	1,051,798	626,547
Notes Payable	39,996	39,996
Annuities payable	32,517	29,847
Total Current Liabilities	1,143,554	742,204
Noncurrent Liabilities:		
Payable to Cleveland State University (Note 11)	-	36,115
Notes Payable	684,743	724,739
Annuities payable	108,186	101,028
Funds held on behalf of others:		
Cleveland State University (Note 11)	2,590,934	1,993,632
Cleveland State University Alumni Association	366,939	313,317
Total Liabilities	4,894,356	3,911,035
<b>NET ASSETS:</b>		
Unrestricted	(184,387)	(566,725)
Board designated - Scholarships	164,169	140,597
Total unrestricted	(20,218)	(426,128)
Temporarily restricted (Note 10)	22,395,040	14,086,876
Permanently restricted (Note 10)	40,569,719	34,009,143
Total Net Assets	62,944,541	47,669,891
Total Liabilities and Net Assets	\$ 67,838,897	\$ 51,580,926

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

**Euclid Avenue Housing Corporation**  
**Statement of Financial Position**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and Cash Equivalents	\$ 2,021,827	\$ 1,856,782
Cash held by the University	119,444	49,695
Total Cash	2,141,271	1,906,477
Bond proceeds / Investments	19,951,814	39,745,205
Student accounts receivable, net of allowance for uncollectible accounts of \$40,000 in 2011 and \$15,000 in 2010	89,027	95,330
Other receivable	118,145	96,028
Prepaid Expenses	12,935	13,847
Total Current Assets	22,313,192	41,856,887
Other assets:		
Deferred bond issuance costs, net of accumulated amortization of \$498,372 in 2011 and \$364,838 in 2010	3,073,211	3,206,745
Note receivable	14,500,000	14,500,000
Property:		
Land	1,146,460	1,146,460
Building	54,671,438	28,280,753
Building improvements	98,836	27,446
Furniture, fixtures and equipment	2,217,545	1,230,908
Construction in progress	18,071,217	26,313,263
	76,205,496	56,998,830
Less: Accumulated depreciation	(5,071,764)	(3,482,140)
	71,133,732	53,516,690
Other assets	-	-
Total Other assets	88,706,943	71,223,435
Total Assets	\$ 111,020,135	\$ 113,080,322
<b>LIABILITIES</b>		
Current Liabilities:		
Current portion of bonds payable (Note 11)	\$ 660,000	\$ 735,000
Current portion of notes payable	60,000	60,000
Accounts payable	2,694,757	3,962,015
Accrued interest	1,001,229	642,930
Accrued payroll	50,037	26,517
Deferred revenue	120,679	79,510
Security deposits	147,610	55,680
Total Current Liabilities	4,734,312	5,561,652
Noncurrent Liabilities:		
Deferred revenue	1,351,385	1,388,924
Bonds payable, less current portion (Note 11)	105,050,000	105,610,000
Notes payable, less current portion	1,621,180	1,681,180
Total Liabilities	112,756,877	114,241,756
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	(1,736,742)	(1,161,434)
Total Liabilities and Net Assets (Deficit)	\$ 111,020,135	\$ 113,080,322

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

**The Cleveland State University Foundation, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2011 (with comparative totals for the year ended June 30, 2010)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total 2011</b>	<b>Total 2010</b>
<b>Revenue</b>					
Contributions	\$ 281,424	\$ 4,642,732	\$ 6,771,394	\$ 11,695,550	\$ 6,718,879
Endowment management fee	22,073	-	-	22,073	24,796
Net assets released from restrictions	4,476,279	(4,476,279)	-	-	-
Total revenue	4,779,776	166,453	6,771,394	11,717,623	6,743,675
<b>Expenses</b>					
Program services:					
Instructions	1,205,368	-	-	1,205,368	1,104,264
Research	277,630	-	-	277,630	238,381
Public service	604,623	-	-	604,623	1,147,565
Academic support	72,434	-	-	72,434	98,608
Financial aid	1,374,347	-	-	1,374,347	1,128,229
Institutional support	118,664	-	-	118,664	99,265
Auxiliary enterprises	786,456	-	-	786,456	668,776
Total program services	4,439,522	-	-	4,439,522	4,485,088
Support services:					
Management and general	523,869	-	-	523,869	497,510
Fundraising	100,671	-	-	100,671	155,970
Total support services	624,540	-	-	624,540	653,480
Gains/(Losses):					
Investment income, including realized and unrealized losses, net	690,196	8,133,747	-	8,823,943	5,497,847
Provision for uncollectible contributions	-	7,964	(210,818)	(202,854)	(187,752)
Total expenses and losses	4,373,866	(8,141,711)	210,818	(3,557,027)	(171,527)
<b>Change in Net Assets</b>	405,910	8,308,164	6,560,576	15,274,650	6,915,202
<b>Net Assets - Beginning of Year</b>	(426,128)	14,086,876	34,009,143	47,669,891	40,754,689
<b>Net Assets - End of Year</b>	\$ (20,218)	\$ 22,395,040	\$ 40,569,719	\$ 62,944,541	\$ 47,669,891

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

**Euclid Avenue Housing Corporation**  
**Statement of Activities**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Revenue</b>		
Rental Income:		
Students	\$ 5,703,723	\$ 3,180,061
University	697,988	469,896
Other	176,949	133,094
Maintenance fee - University	234,426	154,305
Interest income	107,827	71,085
Gain on sale of assets	-	1,552,038
Other	210,751	145,664
Total revenue	7,131,664	5,706,143
<b>Expenses</b>		
Interest	3,187,371	1,706,509
Depreciation and Amortization	1,697,200	960,888
Utilities	633,204	432,644
Payroll	1,092,582	611,917
Management fees	238,096	132,066
Maintenance	347,319	221,797
General and administrative	159,900	117,471
Other operating	248,398	32,840
Marketing	41,006	15,450
Accounting	28,820	26,708
Reserve allowance	31,241	8,417
Insurance	1,835	2,205
Total expenses	7,706,972	4,268,912
<b>Change in Net Assets</b>	(575,308)	1,437,231
<b>Net Assets (Deficit) - Beginning of Year</b>	(1,161,434)	(2,598,665)
<b>Net Assets (Deficit) - End of Year</b>	\$ (1,736,742)	\$ (1,161,434)

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

**CLEVELAND STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2011 and 2010**

**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.
- **Restricted, 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 revenue, 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 revenue, 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 revenue is 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 a quasi-endowment at any time.

**Accounts Receivable Allowance.** The allowance for bad debt is determined based on historical average and a reasonableness ratio of A/R to bad debt. The objective is to increase the collectibility of current receivables to assist the University's objectives regarding enrollment and retention. As such, we enforce policies that prohibit registration with an unpaid balance over \$1,000 and limit registration for those students with a current unpaid balance between \$200 - \$1,000. The new federal regulations regarding Title IV returns have unfortunately, increased our outstanding of A/R; the ratio between the bad debt allowance and the A/R, however, is still within a reasonable parameter.

**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 (5 to 40 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 12-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 basis 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 is 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 statement of net assets.

**Auxiliary Enterprises.** Auxiliary enterprise revenue primarily represents revenue 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 revenue, 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 revenue. 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, *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.

### **Accounting Pronouncements**

**Service Concession Arrangements:** In December 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA)*. An SCA is an agreement between a College/University and another legally separate College/University or private sector entity in which two things happen. First, the College/University transfers to the other entity the right and related obligation to provide public services through the use of a public asset (such as using a part of a university facility as a bookstore) in exchange for significant consideration from the other entity. In the context of these agreements, the College/University that transfers rights and obligations is referred to as the transferor. The entity to which these rights and obligations are transferred is referred to as the operator. Second, this operator - whether it is in the public or private sector - collects fees from the users or customers of the public asset (for example, students at the university/college). Finally, the transferor maintains control over the services provided. For example, the College/University has the ability to modify or approve the rates that can be charged for the services and the type of services that are provided.

For an SCA that involves an existing facility, the transferor should continue to report the capital asset. For a new facility or an improvement to an existing facility, the transferor should report the new facility or the improvement as a capital asset at fair value when the facility is placed in operation. The transferor should also report any related contractual obligations as liabilities. Finally, the transferor should report the difference between those two amounts as a deferred inflow of resources. This pronouncement must be applied for years that begin after December 15, 2011.

**Reporting Entity Standards:** In December 2010, the GASB issued Statement No. 61, *Financial Reporting Entity: Omnibus*. This standard is intended to improve the information presented about the financial reporting entity, which is made up of the College/University financial reporting entity and related entities (component units). The statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criteria, a financial benefit or burden relationship is also needed between the College/University and that organization for it to be included in the reporting entity as a component unit. The statement also modifies the criteria for reporting component units as if they were part of the College/University (i.e., blending). Blending should be used when the College/University and the component unit have a financial benefit or burden relationship, or management has operational responsibility for the component units. Additionally, for equity interests in legally separate organizations, the entity is required to report its interest as “restricted net assets – nonspendable.” This standard is effective for financial statements for reporting periods beginning after June 15, 2012; however, earlier application is encouraged.

**Private Sector Accounting Rules:** In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This changes the requirement for the College/University to apply any private sector accounting guidance that existed as of November 30, 1989 and instead incorporates all such guidance in this statement. The College/University will no longer have the ability to choose to continue to follow FASB statements written after that date, although such guidance still qualifies as “other accounting literature” in the GAAP hierarchy. This pronouncement must be applied for years that begin after December 15, 2011.

**Deferred Inflows/Outflows and Net Position:** In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard provides financial reporting guidance for deferred inflows and outflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the College/University that is applicable to a future reporting period, and an acquisition of net assets by the College/University that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The standard also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions for this standard are effective for financial statements for periods beginning after December 15, 2011.

**Derivative Instruments – Termination Provisions:** In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - An Amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider and sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

## **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, 2011, the cash and cash equivalents balance of \$27,386,909 is after the University recorded an overdraft consisting of items in transit of \$4,622,342 in accounts payable. The bank balance at June 30, 2011 was \$27,280,702, of which \$1,005,778 was covered by federal depository insurance, and \$26,274,924 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, 2010, the cash and cash equivalents balance of \$24,270,510 is after the University recorded an overdraft consisting of items in transit of \$5,035,527 in accounts payable. The bank balance at June 30, 2010 was \$24,177,001, of which \$1,255,662 was covered by federal depository insurance, and \$22,921,339 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, 2011 and 2010.

Restricted investments consist of unspent debt proceeds.

As of June 30, 2011, 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. obligation mutual fund	\$ 2,116,457	\$ 2,116,457	\$ -
Certificates of Deposit	800,112	-	800,112
STAR Ohio	9,741	-	-
Bond mutual funds	29,707,623	-	29,707,623
Stock mutual funds	44,795,257	-	-
Total	\$ <u>77,429,190</u>	\$ <u>2,116,457</u>	\$ <u>30,507,735</u>

As of June 30, 2010, 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. obligation mutual fund	\$ 15,139,667	\$ 15,139,667	\$ -
Certificates of Deposit	8,559,294	1,520,021	7,039,273
STAR Ohio	26,791	-	-
Bond mutual funds	30,201,692	-	30,201,692
Stock mutual funds	38,119,120	-	-
Total	\$ <u>92,046,564</u>	\$ <u>16,659,688</u>	\$ <u>37,240,965</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, 2011 and 2010, 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.

**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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, investments include approximately \$5.6 million and \$5.2 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.

### **NOTE 3 - RECEIVABLES**

The composition of accounts receivable at June 30, 2011 and 2010 is summarized as follows:

	<b><u>2011</u></b>	<b><u>2010</u></b>
Student accounts	\$ 14,271,525	\$ 11,279,473
Grants	7,977,108	6,293,100
State Capital	398,110	3,415,867
Other	1,890,992	2,379,961
Total Accounts Receivable	<u>24,537,735</u>	<u>23,368,401</u>
Less allowance for uncollectible accounts	<u>4,640,369</u>	<u>3,950,481</u>
Accounts Receivable - Net	<u><u>\$19,897,366</u></u>	<u><u>\$19,417,920</u></u>

Notes receivable consist primarily of loans to students under the federal Perkins Loan Program. The composition of notes receivable at June 30, 2011 and 2010 is summarized as follows:

	<b><u>2011</u></b>	<b><u>2010</u></b>
Perkins Loan Program	\$ 11,185,610	\$ 11,932,914
Foundation Capital Campaign	-	36,115
Other	647,828	655,241
Total Notes Receivable	<u>11,833,438</u>	<u>12,624,270</u>
Less allowance for uncollectible accounts	<u>842,948</u>	<u>1,012,921</u>
Notes Receivable - Net	<u>10,990,490</u>	<u>11,611,349</u>
Less Current Portion	<u>1,158,498</u>	<u>1,276,989</u>
Total Noncurrent Notes Receivable	<u><u>\$ 9,831,992</u></u>	<u><u>\$ 10,334,360</u></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 5 - CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2011 and 2010 is summarized as follows:

	2011 Beginning Balance	Additions/ Transfers	Retirements/ Transfers	2011 Ending Balance
Capital Assets:				
Non-depreciable:				
Land	\$ 55,597,969	\$ 194,404	\$ 0	\$ 55,792,373
Construction in Progress	87,014,476	0	87,014,476	0
Capitalized Collections	7,102,155	0	0	7,102,155
Depreciable:				
Land Improvements	16,816,867	7,084,700	0	23,901,567
Buildings	502,641,988	120,271,930	0	622,913,918
Equipment	52,508,545	2,508,323	5,322,771	49,694,097
Library Books	67,177,405	2,605,734	579,667	69,203,472
Intangible Assets	483,059	0	0	483,059
Total Capital Assets	<u>789,342,464</u>	<u>132,665,091</u>	<u>92,916,914</u>	<u>829,090,641</u>
Less Accumulated Depreciation:				
Land Improvements	11,234,468	1,066,478	0	12,300,946
Buildings	221,804,941	16,747,642	0	238,552,583
Equipment	42,708,793	3,699,281	5,322,771	41,085,303
Library Books	53,319,948	3,153,719	579,667	55,894,000
Intangible Assets	120,765	48,306	0	169,071
Total Accumulated Depreciation	<u>329,188,915</u>	<u>24,715,426</u>	<u>5,902,438</u>	<u>348,001,903</u>
Capital Assets, Net	<u>\$ 460,153,549</u>	<u>\$ 107,949,665</u>	<u>\$ 87,014,476</u>	<u>\$ 481,088,738</u>

	<b>2010 Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Retirements/ Transfers</b>	<b>2010 Ending Balance</b>
Capital Assets:				
Non-depreciable:				
Land	\$ 54,783,526	\$ 814,443	\$ -	\$ 55,597,969
Construction in Progress	65,932,640	52,351,979	31,270,143	87,014,476
Capitalized Collections	7,102,155	-	-	7,102,155
Depreciable:				
Land Improvements	17,679,724	-	862,857	16,816,867
Buildings	433,406,782	71,892,144	2,656,938	502,641,988
Equipment	50,725,018	4,080,576	2,297,049	52,508,545
Library Books	64,811,013	2,543,367	176,975	67,177,405
Intangible Assets	483,059	-	-	483,059
<b>Total Capital Assets</b>	<b>694,923,917</b>	<b>131,682,509</b>	<b>37,263,962</b>	<b>789,342,464</b>
Less Accumulated Depreciation:				
Land Improvements	10,788,372	769,667	323,571	11,234,468
Buildings	210,966,012	13,495,867	2,656,938	221,804,941
Equipment	42,362,137	2,643,705	2,297,049	42,708,793
Library Books	50,830,016	2,666,907	176,975	53,319,948
Intangible Assets	72,459	48,306	-	120,765
<b>Total Accumulated Depreciation</b>	<b>315,018,996</b>	<b>19,624,452</b>	<b>5,454,533</b>	<b>329,188,915</b>
<b>Capital Assets, Net</b>	<b>\$ 379,904,921</b>	<b>\$ 112,058,057</b>	<b>\$ 31,809,429</b>	<b>\$ 460,153,549</b>

## **NOTE 6 - NONCURRENT LIABILITIES**

Noncurrent liabilities consist of the following as of June 30, 2011 and June 30, 2010:

	<b>Due Dates</b>	<b>Interest Rate-%</b>	<b>2011 Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2011 Ending Balance</b>	<b>Current</b>
1996 Bonds Payable	1997-11	5.25-5.25	\$ 315,000	\$ -	315,000	\$ -	\$ -
2003A Bonds Payable	2007-33	2.5-5.25	28,270,000	-	1,360,000	26,910,000	1,415,000
2003A Bond Premium			580,653	-	25,338	555,315	25,338
2004 Bonds Payable	2005-34	2.25-5.25	55,685,000	-	1,645,000	54,040,000	1,700,000
2004 Bonds Premium			1,106,468	-	46,103	1,060,365	46,103
2007A Bonds Payable	2010-36	4.00-5.75	41,320,000	-	820,000	40,500,000	850,000
2007A Bond Premium			1,193,888	-	44,492	1,149,396	44,492
2008 Bonds Payable	2008-36	3.00-4.75	20,245,000	-	370,000	19,875,000	380,000
Capital Leases	2010-40	2.33-5.08	72,058,028	7,459,451	3,488,209	76,029,270	6,933,194
<b>Total Debt</b>			<b>220,774,037</b>	<b>7,459,451</b>	<b>8,114,142</b>	<b>220,119,346</b>	<b>11,394,127</b>
Perkins Student Loans			10,306,132	413,345	22,971	10,696,506	-
Deposits			893,437	4,314,186	3,516,706	1,690,917	-
Compensated Absences			9,193,018	436,155	-	9,629,173	902,939
			<b>241,166,624</b>	<b>\$ 12,623,137</b>	<b>\$ 11,653,819</b>	<b>242,135,942</b>	<b>\$ 12,297,066</b>
Less Current Portion long-term liabilities			(9,059,301)			(12,297,066)	
<b>Long-Term Liabilities</b>			<b>\$ 232,107,323</b>			<b>\$ 229,838,876</b>	

	<b>Due Dates</b>	<b>Interest Rate-%</b>	<b>2010 Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2010 Ending Balance</b>	<b>Current</b>
1996 Bonds Payable	1997-11	5.25-5.25	\$ 615,000	\$ -	300,000	\$ 315,000	\$ 315,000
2003A Bonds Payable	2007-33	2.5-5.25	29,580,000	-	1,310,000	28,270,000	1,360,000
2003A Bond Premium			605,991	-	25,338	580,653	25,338
2004 Bonds Payable	2005-34	2.25-5.25	57,275,000	-	1,590,000	55,685,000	1,645,000
2004 Bonds Premium			1,152,571	-	46,103	1,106,468	46,103
2007A Bonds Payable	2010-36	4.00-5.75	42,110,000	-	790,000	41,320,000	820,000
2007A Bond Premium			1,238,380	-	44,492	1,193,888	44,492
2008 Bonds Payable	2008-36	3.00-4.75	20,605,000	-	360,000	20,245,000	370,000
Capital Leases	2010-40	2.33-5.08	56,882,009	17,680,921	2,504,902	72,058,028	3,826,660
Total Debt			210,063,951	17,680,921	6,970,835	220,774,037	8,452,593
Perkins Student Loans			10,333,758	-	27,626	10,306,132	-
Deposits			811,160	3,519,536	3,437,259	893,437	-
Compensated Absences			9,353,995	-	160,977	9,193,018	636,708
			230,562,864	\$ 21,200,457	\$ 10,596,697	241,166,624	\$ 9,089,301
Less Current Portion long-term liabilities			(7,373,103)			(9,089,301)	
Long-Term Liabilities			\$ 223,189,761			\$ 232,077,323	

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 general receipts bonds. The Series 2007A general receipts bonds were issued for \$42,110,000, bear interest rates between 4% and 5.75%, and mature in 2036. Proceeds were 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. Proceeds were 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 in May 2008, 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. The Series 2003A general receipts bonds were issued for \$35,745,000, bear interest rates between 2.5% and 5.25%, and mature in 2033. Proceeds were used to refund outstanding Series 1993 general receipts bonds, rehabilitate the Howe Mansion and construct an Administrative Center.

Interest expense on indebtedness was \$9,460,196 in fiscal 2011 and \$5,275,459 in fiscal 2010. On construction-related debt, interest cost of \$0 was capitalized in fiscal 2011, and \$4,420,254, net of \$626,222 of interest earned on invested proceeds, was capitalized in fiscal 2010.

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 \$37,909,684 at June 30, 2011 and \$46,764,994 at June 30, 2010. The capital leases have varying maturity dates through 2041.

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

	<b>Bonds Payable</b>		<b>Capital Leases</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2012	\$ 4,345,000	\$ 6,806,085	\$ 6,933,194	\$ 3,082,806
2013	9,635,000	6,629,935	7,224,243	2,618,342
2014	3,935,000	6,230,760	6,280,418	2,319,360
2015	4,135,000	6,033,579	6,064,002	2,057,673
2016	4,355,000	5,820,904	6,215,588	1,798,438
2017-2021	23,620,000	49,271,125	27,226,825	5,099,785
2022-2026	27,360,000	46,914,687	3,295,000	2,021,982
2027-2031	34,715,000	46,934,750	3,785,000	1,547,654
2032-2036	29,225,000	32,660,450	4,385,000	990,043
2037-2041	-	-	4,620,000	321,313
	<b>\$ 141,325,000</b>	<b>\$ 207,302,275</b>	<b>\$ 76,029,270</b>	<b>\$ 21,857,396</b>

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, 2011 and 2010 amounted to \$2,581,938 and \$1,679,523, respectively. The operating leases have varying maturity dates through 2042.

Future minimum operating lease payments as of June 30, 2011 are as follows:

<b>Year Ending June 30</b>	<b>Operating Leases</b>
2012	\$ 1,991,250
2013	1,747,861
2014	1,403,024
2015	1,397,024
2016	860,900
2017-2021	4,304,500
2022-2026	4,304,500
2027-2031	4,304,500
2032-2036	4,304,500
2037-2041	2,150,791
2042	430,158
	<b>\$ 27,199,008</b>

## **NOTE 7 - EMPLOYMENT BENEFIT PLANS**

### **Retirement Plans**

Substantially all non-student University employees are covered by one of three retirement plans. The university faculty are covered by the State Teachers Retirement System of Ohio (STRS). Non-faculty employees are covered by the Ohio Public Employees Retirement System (OPERS). Employees may opt out of STRS and OPERS and participate in the Alternative Retirement Plan (ARP).

STRS and OPERS both offer three separate retirement plans: the defined benefit plan, the defined contribution plan, and a combined plan.

### **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 ended June 30, 2011, 2010, and 2009 were \$7,282,885, \$7,185,855, and \$7,402,446, 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 website at [www.strsoh.org](http://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. Currently, employees contribute 10% of covered payroll and employers contribute 14% of covered payroll. The University's contributions to OPERS for the years ended June 30, 2011, 2010, and 2009 were \$7,437,768, \$7,228,118, and \$7,364,278, 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, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

### **Defined Contribution Plan**

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, 2011, 2010 and 2009 were \$371,702, \$347,415 and \$327,263, respectively, which equal 3.50% of earned compensation.

STRS also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 10.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no postretirement healthcare benefits.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement healthcare benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

## **Combined Plans**

STRS offers a combined plan with features of both a defined contribution plan and a defined benefit plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement healthcare benefits.

OPERS also offers a combined plan. This is a cost-sharing, multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. OPERS also provides retirement, disability, survivor, and postretirement healthcare benefits to qualified members.

## **Postemployment Benefits**

STRS provides other postemployment benefits (OPEB) to all retirees and their dependents, while OPERS provides postretirement healthcare coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit. Healthcare 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% of the total 14.00% for the year ended June 30, 2010.

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. The amount contributed by the University to STRS to fund these benefits for the years ended June 30, 2011, 2010 and 2009 was \$520,206, \$513,275, and \$528,746, respectively.

Postretirement health care under OPERS is advance-funded on an actuarially determined basis. The amount contributed by the University to OPERS for OPEB funding for the years ended June 30, 2011, 2010 and 2009 was \$3,718,884, \$3,614,059 and \$3,682,139, 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 11 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.

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, 2011 and 2010 are summarized below:

	<b>2011</b>	<b>2010</b>
Liability at beginning of year	\$ 9,961	\$ 7,161
Claims Incurred	1,122,459	1,070,420
Claims Paid	(1,117,414)	(1,067,620)
Liability at end of year	<u>\$ 15,006</u>	<u>\$ 9,961</u>

The University maintains a self-insured medical plan for its employees. The University's risk exposure is limited to claims incurred. There is a \$150,000 specific stop loss for any given claim. The changes in the total liability for actual and estimated medical claims for the years ended June 30, 2011 and 2010 are summarized below:

	<b>2011</b>	<b>2010</b>
Liability at beginning of year	\$ 1,094,764	\$ 1,209,483
Claims Incurred	10,094,073	8,870,542
Claims Paid	(9,321,162)	(8,866,997)
IBNR-(Decrease) Increase in estimated claims	(920,282)	(118,264)
Liability at end of year	<u>\$ 947,393</u>	<u>\$ 1,094,764</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 revenue, 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.

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.

## **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, 2011.

## **NOTE 10 - NET ASSETS**

The temporarily 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:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Instruction	\$ 4,897,637	\$ 6,260,536
Research	269,121	\$ 797,032
Public service	4,914,969	50,607
Academic support	1,140,804	2,450,951
Financial aid	8,100,831	29,873,296
Institutional support	2,489,770	1,099,430
Auxiliary enterprises	581,908	37,867
	<u>\$ 22,395,040</u>	<u>\$ 40,569,719</u>

## **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, Keith Building Room 323, Cleveland, OH 44115-2214.

During the years ended June 30, 2011 and 2010, the Foundation paid \$3,802,834 and \$3,880,958, respectively, to the University. At June 30, 2011 and 2010, the University had receivables from the Foundation totaling \$1,051,798 and \$662,662, 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, 2011 and 2010, the amount on deposit with the Foundation totaled \$2,590,934 and \$1,993,632, 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 years 2010 and 2009. 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%.

On June 1, 2008, the Corporation leased land, owned by the University and located on its campus, from the University. On August 22, 2008, the Corporation entered into a design-build agreement with the Apostolos Group to construct a 623-car parking garage on the site. On July 1, 2008, the Corporation entered into a lease agreement with the University to operate the garage once construction is completed. On July 25, 2008, the Corporation issued \$14,500,000 of tax-exempt bonds with the Cleveland-Cuyahoga County Port Authority to finance construction of the garage. The Series 2008 Bonds are serial bonds maturing between 2009 and 2040. They bear variable interest rates that reset weekly. The interest rate is set at rates based upon yield evaluations at par of comparable securities. The interest rate was .09% at June 30, 2011. Construction of the garage was completed in August 2009.

On December 18, 2009, the Corporation leased land, owned by the University and located on its campus, from the University. On August 24, 2009, the Corporation entered into a development agreement with ACC to plan, design and construct 600 beds of student housing and a 300-car parking garage on this land. In addition, the Corporation entered into a management agreement with ACC to manage the student housing. On December 18, 2009, the Corporation issued \$59,005,000 of County of Cuyahoga, Ohio bonds (Series 2009 bonds) to finance the project. The 2009 bonds are serial bonds maturing between 2011 and 2042. They bear variable interest rates that are reset weekly. The interest rate is set at rates based upon yield evaluations at par of comparable securities. The interest rate was .08% at June 30, 2011. Phase 1 opened in August 2010, and Phase 2 is scheduled to open in August 2011.

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

	<b>Principal</b>	<b>Interest</b>
2012	\$ 1,150,000	\$ 3,904,880
2013	1,190,000	3,870,187
2014	1,520,000	3,824,066
2015	1,665,000	3,774,589
2016	1,825,000	3,717,343
2017-2021	11,765,000	17,422,632
2022-2026	15,195,000	14,855,559
2027-2031	19,205,000	11,605,683
2032-2036	24,275,000	7,610,667
2037-2041	20,975,000	3,193,054
2042-2043	6,945,000	367,865
	<u>\$ 105,710,000</u>	<u>\$ 74,146,525</u>

Complete financial statements for the Corporation can be obtained from the Office of the President at 2121 Euclid Avenue, Administration Center Room 209, Cleveland, OH 44115-2214.

**NOTE 12 - SUBSEQUENT EVENT**

On September 23, 2011, the University issued taxable general receipts bonds in the principal amount of \$5,775,000. The General Receipts Series 2011 Bonds were issued as fixed rate bonds with monthly maturities beginning October 1, 2013 through April 1, 2042. Interest is payable monthly at the rate of 5.32%. The proceeds of the bonds will be used to finance a portion of the costs of public improvements identified as the North Campus Neighborhood - Project Phase I. This phase is the subject of a "project development agreement" dated July 14, 2011 by and between Cleveland State University and CSU Housing, LLC, an Ohio limited liability company which serves as the project developer.